

Protect your most important asset: yourself

You have worked hard to get to where you are today, so it would be foolish to risk it all by not ensuring your income and your assets are protected.

Cars, homes and valuables are among the first things we insure, but many people forget about protecting the most valuable asset we have – our income.

Income protection should be an essential element of financial planning as it will enable you to maintain the standard of living you currently enjoy. Ask yourself:

- Would you or your family cope financially if you suffered an illness or accident which meant that you were unable to work?
- Do you have children who are dependent on you – how long will this be the case?
- Do you have sources of income other than your salary?
- Do you know what the NHS would pay you and for how long if you are unable to work?
- Could your partner keep up mortgage payments and other financial commitments if you died?

If you have loved ones who rely on your income, and assets to protect such as a family home, it is a good idea to consider how you and your family would handle these financial commitments if you were to have an accident or fall ill.

Sick pay

NHS employees are entitled to sick pay benefits, which build up gradually over time. The maximum that can usually be received, after 5 years service with no gaps, is 6 months full pay followed by 6 months half pay.

However, this sick pay will only cover basic salary and will not take account of many of the other elements that can significantly boost your regular take-home pay, such as a salary band uplift. NHS sick pay may therefore cover less than half your regular take-home pay. If you

work in the private sector, the sick pay cover in place will be specific to what your employer or partnership has arranged.

Income protection policies

Income protection policies are generally based on your full earnings and will pay you a regular tax-free income, typically up to 50% of your pre-incapacity level. Without one, you would have to rely on statutory sick pay once your NHS sick pay ceases. After that, you could be entitled to Employment and Support Allowance, which only pays out a maximum of £99.85 a week.

When taking out a policy you should consider:

- Is the level of cover specific to your circumstances? Some people may have alternative ways of covering loss of income, such as through a partner's earnings or investments.
- Does it include 'own occupation' definition? This means benefits will be paid if you are unable to carry out your specific job because of sickness or injury. Some policies offer an 'any suited occupation' definition, which means they will not pay out if you could do other types of work based on your knowledge and experience.
- Choose a scheme that offers permanent protection: this means that the terms on which it is offered will remain unchanged until the policy expires or you retire, whichever comes sooner.
- How long can you wait before the policy starts to pay out? Premiums are normally cheaper if you wait longer before benefits are paid. You might choose to defer benefits if you have protection elsewhere, such as your NHS or private sick pay.
- Review your policy regularly: as your service in the NHS increases, so will your ill health retirement pension entitlement. This needs to be taken into consideration when deciding on your level of cover.

Most income protection plans will typically pay out until you return to work, are no longer suffering from a loss of earnings

– for example if you start receiving a pension income, you reach the maximum age for the policy or you die.

Critical illness

Whereas income protection will pay out if you are incapacitated and unable to work, critical illness policies will pay out a tax-free lump sum if you are diagnosed with a pre-defined medical condition, even if you are able to carry on working. You can then choose to use your lump sum however you wish, for example, to pay off your mortgage or adapt your home to assist with your changing requirements. Plans typically cover a wide range of illnesses such as various forms of cancer, terminal illness, heart attack and stroke. A comprehensive policy would cover at least 25 conditions, although some cover almost 40.

Life assurance

Life assurance will pay out a lump sum or an income benefit if you die during the term of the policy. It can be used to pay off debts such as a mortgage on your death. Payouts from a life policy are generally tax free. Inheritance tax may be payable if the payout, when added to your estate, puts your estate over the inheritance tax threshold.

Conclusions

It might be easy to say 'it will never happen to me' but NHS staff have some of the highest rates of sickness among public sector employees. With the average family spending £455 a week to maintain their lifestyles, if you become ill and are unable to work, the amount of sick pay you receive may not cover this. There are a wide range of products available and not all will match your particular needs, so it is important to choose carefully. If you seek specialist financial advice from someone who understands your career plans and your financial commitments, you will be in a good position to choose the right cover at the right level, leaving you neither over- nor under-insured. **BJHM**

Wesleyan Medical Sickness provides specialist financial advice for doctors
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The above information does not constitute financial advice. For further information please speak to your financial adviser.