

Protect yourself as well as your property

Everyone knows to protect their cars, homes and valuables, but many people still fail to protect their most valuable asset – themselves.

When you consider how hard you have worked to get where you are today, taking out income protection and life assurance should be an integral part of any financial plan as it will enable you to maintain the standard of living that you and your family currently enjoy and protect your family should the worst happen to you.

If you have a family that relies on your income, then you need to consider how you would continue to handle financial commitments such as mortgages, loans or school fees if you were to have an accident or if you fell ill and were unable to work for a period of time.

Some questions you need to ask yourself are:

- Do you know what the NHS would pay you and for how long if you were unable to work?
- Do you have sources of income other than your salary?
- Could your partner keep up mortgage payments and other financial commitments if you died?

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 NHS work so any private work you undertake will not be covered. Therefore, the NHS sick pay may cover less than your regular take-home pay. If you work wholly in the private sector, the sick pay cover in place will be specific to what your employer has arranged.

Income protection policies

Without an income protection policy, you would have to rely on state benefits once

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your NHS sick pay stops. This Employment and Support Allowance only pays out a maximum of £105.05 a week.

Income protection policies meanwhile 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. Most plans pay out until you return to work, are no longer suffering from a loss of earnings – such as if you start receiving a pension income – you reach the maximum age for the policy or you die.

Other things to consider when taking out a policy include:

- Is the level of cover specific to your circumstances? You may have other sources of income, such as 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 as a result of sickness or injury. Some policies offer an 'any suited occupation' definition, meaning they will not pay out if you could do other types of work based on your knowledge and experience.
- Does the scheme offer permanent protection? This means 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 payments until any other protection, such as your NHS sick pay, has expired.
- Review your policy regularly. As the length of time you serve in the NHS increases, so too will your ill health retirement pension entitlement. This needs to be taken into consideration when deciding on your level of cover.

Critical illness

While 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 use the lump sum however you wish, such as

paying off your mortgage or adapting your home to assist with your changing requirements, if you were to suffer a disability, for example.

The plans usually 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 double that.

Life assurance

Life assurance will pay out a lump sum or an income 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, which includes your home and its contents, savings and investments and any other assets you own, puts your estate over the inheritance tax threshold.

The current inheritance tax threshold, or nil rate band as it is called, is £325 000 and tax is payable at 40% on anything above this. Married couples and those in civil partnerships can share nil rate bands, which means couples can currently have £650 000 in assets before paying inheritance tax.

Conclusions

There is always a temptation to think 'it will never happen to me', but as a hospital doctor you will know that people can be struck down with illness or injury at any time. If you think about how much you and your family might spend a week to maintain your lifestyles, it soon becomes clear that the amount of sick pay you will receive may not cover this in the long term.

There are a wide range of products available and not all will match your particular needs, so it is important to choose carefully. Talk to a financial adviser who understands the medical profession to ensure you have the right cover for your circumstances in place. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.