

Protecting you and your family's income

Whether you are in the early part of your career as a hospital doctor or a well-established consultant, protecting your income should be an integral part of your financial plans.

It is almost second nature to insure cars, homes and valuables, but too often people neglect to protect themselves in the event that they are unable to work and earn.

You need to ask yourself, if you did have an accident or fall ill and were unable to work for a period of time, would you still be able to cope with financial commitments such as mortgages, loans and school fees?

You may have benefits from the NHS or alternative sources of income, but these may not last over the long term so it is important to make sure you are protected for as long as needed.

Sick pay

NHS employees are entitled to sick pay benefits that gradually build up 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 will only cover your NHS work, not any private work you may be doing. This means the NHS sick pay may cover less than your regular take-home pay. If you only work in the private sector, the sick pay you receive will be determined by your employer.

Income protection policies

If you do not have an income protection policy, you will have to rely on state benefits once your NHS sick pay stops. This Employment and Support Allowance only pays out a maximum of £106.50 a week.

If you think about how much you and your family might spend a week to maintain your lifestyles, it soon becomes clear that the sick pay that reduces over time, followed by state benefits, may not cover this in the long term.

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

There are other things to consider when taking out a policy, including:

- 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 the policy include an '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 for the time you are incapacitated and unable to work, critical illness policies will provide a tax-free lump sum if you are diagnosed with a pre-defined medical condition, even if you are able to carry on working.

This lump sum can be used for things such as paying off your mortgage or adapting your home if you were to suffer a disability. 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

If you have a partner or family, it is important to consider whether they would be able to keep up with financial commitments if you die.

Life assurance will pay out a lump sum or a regular income if you die during the term of the policy. The payouts are generally tax free and can be used to ease the burden on your loved ones by paying off debts, such as mortgages and other expenses.

However, it is important to realize that this payout, when added to the rest of your estate, which includes your home and contents, as well as any other savings, investments and assets you may have, may carry it over the inheritance tax threshold.

The current inheritance tax threshold, or nil rate band as it is also called, is £325 000 per individual, with the tax payable at 40% on anything above this. For married couples, as well as those in a registered civil partnership, if one partner dies any unused amount in the nil rate band will transfer to the surviving member of the couple. This means that the surviving spouse could potentially leave £650 000 in assets before their estate would be liable for inheritance tax.

Conclusions

While it is easy to think that serious illness and injuries only happen to other people, hospital doctors know better than most that anyone can be struck down at any time.

There are a wide range of income protection, critical illness and life assurance products available so it is important to choose the one that is best suited to you. Talk to a financial adviser who understands the medical profession and the benefits that are available through the NHS to ensure you have the most suitable cover in place for you. **BJHM**

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

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