Income Protection

What is it?

Under an income protection plan or permanent health insurance (PHI) policy, as it is sometimes known, an income benefit would be paid to you if you were unable to work because of disability caused by sickness or accident. The benefit is paid, basically, as compensation for loss of earnings. Benefit will normally start at the end of an initial waiting period, which is normally 4, 13, 26 or 52 weeks long and is payable until you either return to work, die or the policy term expires. The policy term is normally linked to your expected retirement age.

The level of premium for the required amount of cover will depend on the type of plan and the company chosen. Some companies offer guaranteed or fixed premiums, whilst other plans reserve the right to review premium levels or offer the potential to build up a surrender value.

For a slightly higher premium the option is normally available to have the level of cover automatically increased each year in order to potentially provide some protection against the effects of inflation.

The definitions of disability vary considerably. Generally, in order to make a valid claim, the member must demonstrate that he is “totally unable by reason of sickness or accident to follow his **own** occupation” or “his own and any other for which he is suited by reason of experience and/or qualifications” (known as ‘**any suited**’) or, indeed, “**any** occupation whatsoever”. The definition of disability, i.e. whether “own occupation”, “any suited occupation” or “any occupation”, is obviously crucial for underwriting and claim purposes and will affect premium rates. Clearly **own** occupation offers greatest protection.

Eligibility

The main objective of an income protection policy is to replace earnings lost through illness or disability without reducing the insured’s financial incentive to return to work. Otherwise the policyholder would simply be content to draw benefits for the rest of the term. All income protection policies therefore stipulate a maximum income benefit limit. Typically, this is in the region of 50% - 60% of the average monthly earnings of the insured in the year prior to disablement. Benefits from other income protection policies will usually be taken into account, and it is common for State incapacity benefit to be taken into account in calculating the benefit limit.

Taxation

The benefit payable is tax free under current tax rules.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs’ practice. Levels and bases of tax relief are subject to change.

Risk Considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- You should review the level of cover required on a regular basis to ensure that it keeps in line with your earnings, otherwise, cover may be less than you need.
- If for any reason you stop paying premiums, cover will cease.
- The payment of any benefits may affect any claim to means tested state benefits.
- The present tax free treatment of the policy benefits may change.
- Benefits may be reduced if you receive other regular income, such as salary or pension.
- The payment of any other payments i.e. sick pay, may have an impact on the benefits payable.
- If any relevant information provided, when applying, is not disclosed accurately and honestly, this could result in any cover offered becoming invalid and/or may result in the non-payment of any future claims.
- Failing to disclose any requested or relevant information may adversely affect any future claims.
- This type of policy does not acquire a surrender value at any time.
- If this policy is to replace any existing policy offering the same type / level of cover, it must not be cancelled until the new policy is in force.