Long Term Income Protection

General Guide

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Long Term Income Protection Choices?

If you are in business (small or large) and your business relies on you being in it to make money, you should be protecting what the business provides for you and your family, your income.

Think about what will happen to your business if you or other key individuals aren't able to get to work because of a disabling illness or accident. How long could you keep your income going and pay for someone to do what you do? If you are like many successful people running their own business then the expertise, drive, commitment and hours you put in might not be replaceable with employing just one person.

Running a business as a limited company presents you with lots of choices. Group schemes, Executive Income Replacement, Key Person Income Replacement or individual cover.

Do you know what the State will pay you if you can't work; will you only get Statutory Sick Pay? If your partner has a good job or you have substantial savings the need for cover may not be as high.

Long Term Income Protection

This is sometimes called Permanent Health Insurance (PHI). This is a long term contract which once underwritten will mean you are covered until the end date, even if something goes wrong with your health. Not all policies are the same; some have reviewable premiums so the product provider can increase them depending on their overall claims experience. Others have guaranteed premiums, so you will know what you are going to pay. Not so easy for the price comparison sites to provide you with like for like comparisons, they will probably want to ring you back.

So what does it cover? It doesn't give you a lump sum on death or loss of a limb etc like a Personal Accident policy. It is designed to give you an income over a longer term if you can't work because of a long term illness or disability. **This should be the first insurance we consider, what can be more important than our income, it pays for everything else we do!** The frustration as a Financial Planner and for the product providers is just how few people want to even think about it.

Take it out yourself - If you take out individual cover you can't insure for your whole income, there has to be an incentive to go back to work, so you can normally insure for 50% to 55% of your gross income. You pay for it yourself out of your taxed and NI'd income. The benefit on an individual plan will normally be paid to you tax free and you would still be receiving State benefits. Depending on the cover you take out a policy could pay you an income from the point of you not being able to work right up until the end date of your policy, which you would normally select as your retirement date. Now that the State Retirement Age is going up most providers will let you have cover until you are 70.

Let the company pay for it - With **Executive Cover** the company takes out the policy. In a claim the money is paid to the company which in turn pays you under PAYE. You can normally insure up to 80% of your income, income that can be made up of salary, dividends and repayment of director's loans. You can also insure pension contributions made by the company and employer's NI contributions. With the strain of paying you taken off the company, the company can commit to paying for someone to fill the gap left by your shoes. It isn't a P11D benefit to the person covered and the cost can normally be classed as a business expense.

With **Key Person Cover** the company takes out the policy. In a claim the income is paid to the company and can be used to compensate for loss of revenue, to pay a temporary replacement or to fund sick pay for the key person. The cover is based on the value of the person to the business not the proportion of the business the person owns. The maximum amount of cover for Key Person Income Protection is often higher than available under Executive Cover as it is based on the loss of profit to the company.

With a **Group Scheme** (if you have enough employees, normally 5 or more), you can protect your whole work force, or perhaps just your senior management. Not only can you protect the income of those covered, insurers will help you to be pro-active around early intervention, getting staff back to work more quickly, and rehabilitation, reducing absenteeism in your business.

Options and Costs

The longer the **deferred period is** (the time before you can claim), the lower the cost. This is where **sometimes a little Personal Accident Cover combined with Long Term Income Protection** can provide the best solution. A Personal Accident Policy could provide some short term protection, from say 7 days to a year, and then the Long Term Income Protection can have a long deferred period of 12 months reducing the costs.

I won't sell you the reasons for having cover by bombarding you with statistics, but the chances are if you are off long term then it will be that, longer term. So **inflation** could affect the spending power of the cover (your income) in a claim. For a little extra you can have your cover increasing by the rate of inflation in a claim. It's a sensible option.

What you do for a living has **a big impact on the cost**, an office worker will normally pay the least (lower risk) and some more dangerous occupations may not be insurable at all. It may hurt to pay more if you are in a higher risk occupation, but there is only one reason for this, you are more likely to claim. **Dangerous sports and pastimes** can increase the cost. Your health when you take out the cover will also affect the costs. The older you are the more it will cost as **the risk goes up as we get older**. Not ideal, but often we compromise what we need and want with what we can afford. One option is to limit the benefit when you claim to 5 years; this can reduce the cost considerably.

What should I look out for? Decide what you need. Check if the cover is for your occupation, i.e. it will pay–out if you can't pursue your normal occupation. Some occupations are not insurable. If you pay yourself by salary and dividends make sure the insurance company will take the dividends into account.

Get yourself a Back-Up Plan

When times are hard we focus more on protecting what we have already got. We work hard for the income that provides everything our families need, getting **a back-up plan is a must in financial planning**. If you are confused then **get advice** from someone who can go to the whole of the market and make a recommendation based on your circumstances. We can select the right cover from the right product provider that is right for you.

When one trip to the coffee house can cost you a small fortune (coffee and panini all around as well as hot chocolate for the children) the cost of protection doesn't seem so high. Have a coffee and a bite out four times a month and you have spent a lot of money. Most families spend more on their mobiles than they do on insuring their long term future. At least if you own a business you can soften the cost by letting your business pay for the cover.

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