

Get covered

How would you pay the bills if you were too ill to work? Find out if you have the right protection

Millions of us have paid good money for policies such as medical insurance, critical illness cover or payment protection, but do we really need them?

Ironically, the policy that every working adult in the UK needs is the very one most of us don't have – income protection.

Income protection

An income protection policy gives you a monthly tax-free sum if you can't work because of illness or disability. This will be up to a maximum percentage of your earnings – often 50% or 60%.

You start getting the money after you have been off work for a time called the 'deferred period'. You choose how long you want this to be – most common is four, 13, 26 or 52 weeks. Your decision will depend on how long you may be able to survive on savings, a partner's income or how long you get sick pay from your employer.

The longer the deferred period, the less

you pay for the policy. For example, a four-week deferred period could cost more than twice as much a month as a 26-week deferred period.

Once payments start, they continue until you can get back to work or until the end of the policy term, usually retirement.

What will it cost me?

With many policies, how much you pay also depends on your job, general health, whether you smoke, the level of cover you need and gender (women pay more).

However, others, known as age-related policies, don't take these factors into account. Our table on p20 gives more details about this.

What you pay can vary hugely. For example, a non-smoking man aged 30 could pay between £11 and £112 a month, depending on his job. A non-smoking woman aged 30 could pay between £11 and £189 a month, depending on what she does for a living. Both these are



HOW YOUR JOB AFFECTS WHAT YOU PAY

Your job affects how much you pay for a policy (apart from age-related schemes).

Most insurers group jobs into four categories of risk, though some have more.

We asked income protection providers to tell us how they grouped jobs and to give us examples of jobs in each class.

Here are some guidelines, but the same job may be treated differently by different providers.

See 'Which?' says, p20, for more details about this.

Class 1 (lowest risk)

Definition Professional, managers and admin staff. Limited business mileage

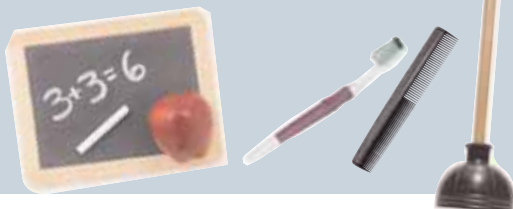
Examples Admin clerk, computer programmer, secretary



Class 3

Definition Skilled manual workers and some semi-skilled workers

Examples Care worker, plumber, teacher



Class 2

Definition Some workers with high business mileage over 20,000 miles a year. Limited light-skilled manual work

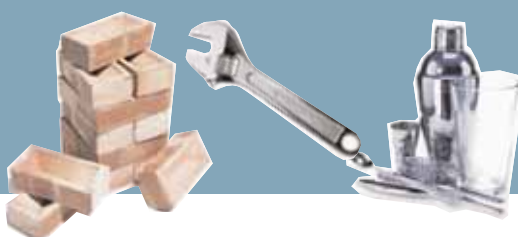
Examples Engineer, florist and shop assistant



Class 4 (highest risk)

Definition Heavy manual workers and some unskilled workers

Examples Bar person, construction worker, mechanic





What your employer pays

How much it must pay you when you are off work sick



If you are employed, the maximum your employer has to pay you is statutory sick pay of £75.40 a week (for 2008-09). However, most are more generous and pay full salary for a period (four weeks is common).

Some employers go further and have a group income protection policy that starts when sick pay stops. If you're lucky enough to be covered by a group scheme you'll get part of your salary until you return to work.

Most current schemes like this will pay benefit up to retirement if necessary, although new schemes

are appearing which pay for a maximum of three or five years. As you don't pay the premiums, money from a group IP policy (unlike a private policy) is taxed like normal income.

An estimated 1.7 million working people have access to a group policy. When this is added to the two million individual income protection policies in the UK, it means that fewer than four million of the 29 million working people in the UK have adequate protection if they can't work because of illness or accident.

for a policy that pays out after 26 weeks.

There is usually a policy within your budget no matter what job you do or how old you are.

Do you need it?

Illness, accident or disability can happen to anyone. Currently, 2.2 million people of working age are off work for at least six months because of sickness and disability, and more than 2.6 million people claim state incapacity benefit.

Unless your employer pays you a percentage of your salary for an indefinite period when you are off sick, or you can pay your bills in some other way, you need income protection.

How much do I need?

This depends on what other money you have coming in. For example, if your employer pays your salary for six months, you'll need cover from the seventh month of sickness. You'll receive some state benefits (see below), so take that into account. If you are self-employed but have savings that last three months, you'll need cover

from the fourth month. With income protection, you decide how much cover you need and when you need it to start.

If you're an unpaid worker

Even if you don't have an income, you may need cover. If you are a carer, ask yourself how your family would cope if you were sick and unable to carry out your caring duties.

If they would have to pay for care, then you need cover. However, not all policies offer cover for carers – see the tables on p21 for details on this.

New rules on benefits

From 27 October 2008, for new claimants, the current state incapacity benefit will be replaced by a new system called Employment and Support Allowance (ESA). Here's what the benefit structure will look like under the new rules:

■ Statutory sick pay

This allowance (£75.40 a week during 2008-09) will still be paid to employees for the first 28 weeks of sickness (this is the same as now).

Fewer than four million of the 29 million employed adults in the UK have adequate protection insurance

■ Assessment

Following the first 28 weeks of sickness, there will be a 13-week assessment period to find out if you are eligible for ESA and, if so, what type. During this 13-week assessment period you'll receive an amount broadly in line with Jobseeker's Allowance – around £60 a week for people 25 or over.

■ Self-employed

People who are self-employed will go straight into the 13-week assessment period. Once you've been assessed you'll receive one of two types of ESA:

■ After assessment

If you are assessed as being capable of doing some form of work, you'll be entitled to claim ESA of currently £84.50 a week until you can get back to work. You'll also need to attend work-focused interviews while you are receiving benefit.

■ If you're not able to work

If you're assessed as not being able to work you will receive ESA of currently at least £89.50 indefinitely. All people claiming ESA will also continue to be eligible for other benefits such as Disability Living Allowance, Housing Benefit and Council Tax Benefit.

Buying income protection What to look for

OWN OCCUPATION

Choose a policy that pays out if you can't carry out your 'own occupation' or a job for which you are 'trained and suited'. All our Best Buys offer one of these definitions. If you aren't working when you take out a policy, or are a carer, it normally pays out if you can't carry out several 'activities of daily living' such as climbing stairs or walking a certain distance.

HOW IT AFFECTS BENEFITS

Income protection is treated as income when you're assessed for state benefits. Your statutory sick pay, the amount your employer has to pay you, shouldn't be affected. But if you get more than £85 a week from pensions or income protection policies and qualify for incapacity benefit (or ESA from October) your benefit will be reduced by 50p for every £1 of income protection policy (or pension) you receive above £85. If you got £250 a week from income protection, incapacity benefit or ESA would be nearly wiped out.



Consider this when deciding how much income protection to buy. Jobseeker's Plus offices have details on how benefits are affected. You can also speak to a financial adviser.

WATCH YOUR EARNINGS

The amount you get in income protection is calculated as a percentage of your earnings. If you're employed, this is often worked out from your earnings in the 12 months before you make a claim. If you're self-employed, it's usually an average of your earnings for the last three years. If your earnings go down after you take the policy out, you could pay for more cover than you'll receive. Review cover at least once a year to ensure you're not over- or underinsured.

DON'T OVERINSURE

The money paid from your IP policy will be reduced if your income (including employer's sick pay and other insurance policies) takes you over the maximum allowed by the policy. So if the policy allows 50% of earnings at most, and your income from all sources comes to 60%, the payout you get under income protection will be cut by 10%. To avoid this, make sure whoever sells you the policy takes all possible income if you were sick into account when looking at how much protection you need.

TAKE ADVICE

This isn't the simplest product, so we suggest you take advice from an independent financial adviser specialising in protection insurance. See 'Contacts', opposite.



Checklist

Getting what you need

■ **The essentials** Life insurance (if you have dependants) and income protection (if you have to work for your living) are the two essential protection products.

■ **Get the right product** Make sure it's pure income protection you're taking out, not payment protection. You can tell because income protection is based on your medical history and details.

■ **Check sick pay** If you are employed, you should find out what your employer will pay and for how long before deciding how much cover you need.

■ **Self-employed** If you're self-employed, consider how long you could live on savings or (if you are part of a couple) your partner's income if you couldn't work.

■ **Effect on benefits** Be aware that state benefits may be reduced if the money you get from an income protection policy is more than £85 a week.

■ **Take advice** Always take advice when buying income protection. Make sure that the adviser you see is independent and specialises in protection insurance.

Which? says Make sure you get the product that you need

IP is the one form of protection most of us need but hardly anyone has. The financial services industry must shoulder most of the responsibility for this.

Financial providers and advisers have taken the soft option for too long and have chosen the easier sales of critical illness and payment protection, rather than take the time and trouble to make sure their customers are properly protected. This must change.

To help, IP products could be simplified. The underwriting

process needs to be simpler and insurers should have a standard set of occupation categories. You should also be able to get more than £85 a week from an IP policy without your benefits being reduced.

If you do buy IP make sure you get the real deal and not an impostor. Products like payment protection and mortgage payment protection sound similar, but these policies only cover a specific debt – like mortgage or loan repayments – and they won't give you any income to pay

other essentials like gas and electricity bills. They also pay out for a limited period – usually 12 months – unlike IP which pays out until you can get back to work or until the end of the policy term whichever is longer. Despite the limited cover, these other policies often cost about the same as IP. For example, you'll pay £47 a month to cover loan repayments of £207 a month with Royal Bank of Scotland. However you can get cover of £1,000 a month with several IP providers for less than this. You can tell the difference



because IP (unlike PPI) will always be based on your personal circumstances – in particular your medical history.

With true income protection, you'll be asked to complete an application form that asks for details about your age, occupation and health.

THE THREE TYPES OF INCOME PROTECTION

The main types of policy you can choose from

Guaranteed policies

What you pay stays the same throughout the policy term. The only reason that the premium will go up is if you increase the cover. Most guaranteed policies cost slightly more to start with (see below), but it's often not that much more. If you can afford the extra cost, they are the best in our view.

Reviewable

These are reviewed by the provider after a set number of years, when the premium may go up. Reviews every five years are

common. Reviewable policies tend to start off cheaper.

Our survey found they cost between £2 and £10 a month less than guaranteed policies for low-risk occupations and between £8 and £39 a month less for high-risk occupations (rates for non-smokers).

We haven't shown reviewable policies here, but there is a table of providers at www.which.co.uk/incomeprotection.

Age-related

These policies are good for people in

higher-risk jobs, women and smokers, because such factors aren't taken into account when deciding how much you pay for the policy.

They also start off much cheaper than guaranteed policies.

The catch is that premiums go up each year as you get older. But you'll know how much the increase will be, so there should be no nasty surprises.



BEST BUY GUARANTEED POLICIES

	PEOPLE ON FIXED-TERM CONTRACTS	CARERS	WOMEN 30		MEN 30		WOMEN 40		MEN 40	
			DEFERRED PERIOD 13 WEEKS	DEFERRED PERIOD 26 WEEKS	DEFERRED PERIOD 13 WEEKS	DEFERRED PERIOD 26 WEEKS	DEFERRED PERIOD 13 WEEKS	DEFERRED PERIOD 26 WEEKS	DEFERRED PERIOD 13 WEEKS	DEFERRED PERIOD 26 WEEKS
LOW-RISK OCCUPATION										
BUPA	✓	✓	46	37	28	22	70	54	41	32
FORESTER LIFE	✓	✓	67	61	40	36	86	77	51	46
FRIENDS PROVIDENT	✓	✓	60	48	36	29	74	61	44	36
NATIONAL DEPOSIT FRIENDLY	X	X	34 ^a	27 ^a	23	18	51	42	34	28
UNUM	X	X	43	31	26	19	63	46	37	28
HIGH-RISK OCCUPATION										
BUPA	✓	✓	93	73	55	43	142	109	83	64
FORESTER LIFE	✓	✓	211	189	125	112	268	242	159	143
FRIENDS PROVIDENT	✓	✓	140	111	81	65	174	143	101	83
NATIONAL DEPOSIT FRIENDLY	X	X	68 ^a	54 ^a	46 ^a	36 ^a	102 ^a	83 ^a	68 ^a	56 ^a
UNUM	X	X	n/a	80	n/a	47	n/a	122	n/a	71

^a Premiums are the same whether policyholder is a smoker or non-smoker

BEST BUY AGE-RELATED POLICIES

	PEOPLE ON FIXED-TERM CONTRACTS	CARERS	WOMEN 30		MEN 30		WOMEN 40		MEN 40	
			DEFERRED PERIOD 13 WEEKS	DEFERRED PERIOD 26 WEEKS	DEFERRED PERIOD 13 WEEKS	DEFERRED PERIOD 26 WEEKS	DEFERRED PERIOD 13 WEEKS	DEFERRED PERIOD 26 WEEKS	DEFERRED PERIOD 13 WEEKS	DEFERRED PERIOD 26 WEEKS
CIRENCESTER FRIENDLY	✓	✓	14 ^a	11 ^a	14 ^a	11 ^a	18 ^a	14 ^a	18 ^a	14 ^a
HOLLOWAY FRIENDLY CLASSIC PLUS	✓	X	38 ^a	32 ^a	38 ^a	32 ^a	46 ^a	38 ^a	46 ^a	38 ^a
PIONEER	✓	✓	24 ^a	22 ^a	24 ^a	22 ^a	38 ^a	33 ^a	38 ^a	33 ^a
PIONEER PROFESSIONAL^b	✓	X	14	13	13	11	23	23	18	16

^a Premiums are the same whether policyholder is male or female or a smoker or non-smoker ^b Available to low-risk and professional occupations only

Table notes

Our tables show the monthly cost of buying £1,000-a-month benefit with Best Buy guaranteed policies and age-related policies. We show rates for men and women of different ages, deferred periods of 13 and 26 weeks and for low- and high-risk jobs. All rates are for non-smokers. A ✓ indicates which policies are available to people on fixed-rate contracts or who are home carers.

All Best Buys include the following benefits at no extra cost:

Waiver of premium Your premiums are paid for you during any claim.

Rehabilitation benefit Part of the cover will continue to be paid if you can only return to your job on reduced hours (and therefore reduced pay). **Proportionate benefit** Part of the cover will continue to be paid if the policyholder is forced to find a job that pays less. Best Buys also pay out if you are unable to carry out your 'own occupation' or a job for which you are 'trained and suited'. Look for these wordings on policies.

Contacts

Specialist protection advisers

Lifesearch 0800 316 3166
www.lifesearch.co.uk

Life Assure Online 0800 458 3525
www.lifeassureonline.co.uk

Find a local adviser:

IFA Promotion 0800 085 3250
www.unbiased.co.uk

Special risks adviser

The Insurance Surgery 0800 083 2829
www.the-insurance-surgery.co.uk