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A GUIDE TO INCOME PAYMENT PROTECTION INSURANCE

Many people go to great lengths to protect their capital, but they don't exercise anything like the same urgency when it comes to safeguarding their income.

This is certainly illogical, because most of us are in fact only a stroke of misfortune away from experiencing severe financial difficulties.

Try asking yourself how well you would cope if you found yourself the victim of an accident or serious illness. Whilst the wonders of modern medicine may well ensure that you eventually make a complete recovery, it may be many months before you can work again. Your financial health could therefore be in serious jeopardy.

The same applies if you are unexpectedly made redundant. Those who have been in the same employment for some time may feel comfortable in the knowledge that they will get a sizeable redundancy cheque to tide them over; but it tends to be exactly these people who have the greatest outgoings to finance. As a result of feeling secure, many of them have taken on huge mortgage and school fee commitments.

When push comes to shove, whatever savings you have available are unlikely to last too long. Indeed in most cases they will be swallowed up by the mortgage payments alone within a few months, not to mention other essential items like utility bills, food and travel expenses.

So deciding to economise by not going out much or by cutting back on luxury items is never going to completely solve the problem.

False Sense Of Security

One of the main reasons that people fail to take sufficient safeguards against the possibility of losing their income is that they incorrectly believe that the State can be relied upon to bail them out in their hour of need. But the so-called "safety net" never allows anyone the privilege of doing anything more than subsisting.

The exact amount you will receive will depend on your individual circumstances but, unless you have a very large number of children to support, it is most unlikely to even approach what you could earn by working.

It is also human nature to think that "these things only happen to other people." But, unfortunately, these "other people" are rather too plentiful for comfort. For example, one in three of us will be diagnosed with cancer during our lifetimes and over a quarter of a million people a year in the UK suffer a heart attack.

Additionally, consider how many people you actually know who are in jobs you can honestly regard as "safe". There is so much corporate restructuring going on at the moment that even the most talented, diligent and seemingly indispensable employees can find themselves being asked to clear their desks.

Income Payment Protection Insurance Can Help

However, it is possible to at least partially protect yourself against such nightmare scenarios by taking out Income Payment Protection Insurance, which pays out a monthly benefit if you are unable to work as a result of sickness, accident or involuntary unemployment.

If you buy the product from the better specialist income payment protection insurance providers it can cost only £5 a month per £100 of monthly cover required. Such specialists are also normally willing to offer the involuntary unemployment and incapacity (e.g.: accident and sickness) components separately at a reduced cost.

All income payment protection insurance policyholders pay the same flat pro-rata rate, regardless of their age, occupation, medical history or smoking habits, and cover can be arranged instantly because insurers do not carry out initial underwriting.

Significant Restrictions

But the income payment protection insurance product, useful though it is, will never actually provide a belt and braces solution because:

- It will usually only pay out for up to one year
- It has a low maximum benefit limit - typically of £1,000 a month or half your salary, whichever is the lower
- There is normally a waiting period between when the claim is made and when the first payment is received, although with the better income payment protection insurance policies this is normally only 30 days.
- If you are self-employed it will usually only pay out for involuntary unemployment if you cease trading altogether; as opposed to merely experience a lean patch.

The Main Income Payment Protection Insurance Exclusions

Income payment protection insurance also has some notable exclusions. Policies will not, for example, pay out :

- For medical conditions that exist prior to coming on cover - normally referred to as "pre-existing conditions"
- For back pain and stress related conditions, unless a consultant actually certifies that they are serious enough to prevent you from working
- If it becomes clear that you knew you were about to make a claim when you came on cover
- If you are notified of involuntary unemployment within 120 days of the policy start date
- If you leave work voluntarily – and this includes taking voluntary redundancy
- If you leave work as a result of misconduct, fraud or dishonesty.

The Claims Process

Details of the claims process will be outlined in your policy document. You will usually need to complete a claim form and send it to your insurer:

Those who have been made redundant will also need to enclose their redundancy notice, and insurers will establish the validity of any injury or illness claims by writing to your GP. If the relevant illness is in fact a pre-existing condition, and is therefore excluded, it will become clear from your doctor's records.

Complaints

Any complaints should in the first instance be raised with the insurer, lender or the income payment protection insurance specialist who sold you the policy. But if you are not satisfied with its complaints procedure, you may be entitled to refer the matter to the Financial Ombudsman Service - the independent body that resolves disputes between consumers and financial organisations. It will not cost you anything to use this service and will not affect your rights to take subsequent legal action.

Is Everyone Eligible for Income Payment Protection Insurance?

Most people who live and work in the UK are eligible, with the exception of :

- Those aged under 18 or over 64
- Those who work less than 16 hours a week
- Temporary, casual and seasonal workers - although contract workers can be covered if they have at least 24 months continuous service with their employer.

Does Everyone Need Income Payment Protection Insurance?

Income payment protection insurance is undoubtedly more attractive to some people than it is to others. Those who are self-employed, for example, may consider it poor value on the grounds that the involuntary unemployment cover only pays out if they cease trading. Similarly those with recurring illnesses that are excluded on the grounds of being pre-existing conditions may decide that they cannot justify the income payment protection insurance premiums.

The fact that involuntary unemployment cover doesn't cover voluntary redundancy can also make income payment protection insurance unattractive to those who work in industries where voluntary redundancy has become the most common method of reducing a workforce.

Furthermore, anyone who already has a high degree of protection against ill-health through the workplace may decide that income payment protection insurance isn't necessary. Someone in a very good job, for example, may get full pay during their first six months of sickness absence and half pay during their second six months. But they may still decide to take out involuntary unemployment cover in isolation.

The majority of healthy employed people, on the other hand, may well conclude that they simply cannot afford to be without income payment protection insurance. After all, finding £30 a month, which can secure you £1,000 a month of cover with a specialist income payment protection insurance provider, only involves sacrificing an evening out for two.

Make Sure You Get The Right Product

But anyone determined to go ahead should make sure that they don't confuse Income Payment Protection Insurance with another product called "Income Protection". The latter can provide much longer-term health insurance cover but doesn't protect against unemployment at all. It also varies its premiums and terms of cover according to factors such as your occupation, age, smoking habits and medical history.