AUDIT • TAX • ADVISORY

mha
CARPENTER BOX
WEALTH MANAGEMENT

Income Protection

Do you need Income Protection?

We are used to insuring our house, our car and even our boiler whilst accepting the fact we may never make a claim. What we often ignore or decide not to insure is the means to pay for all the other things in our lives: our income.

What is Income Protection?

Income Protection is a way of keeping our finances healthy when we are poorly. It pays out if during the policy term, you can't work and suffer a loss of earnings due to illness or injury.

You decide at the outset how long you would like the cover to run and after how many weeks of illness you wish the benefit to start paying out. The amount of cover available is generally capped to a proportion of gross earnings, typically around 60%*.

The benefits paid from a personal income protection plan are tax free, so the value in a person's hand of the benefit can typically be around 75% of their net earnings. The cap is intentionally set a little below the net pay from the income being replaced to ensure the individual is not dis-incentivised to return to work.

Different plan terms are available to target different ages and as each plan is underwritten, there are various lifestyle and medical conditions that can affect the premium.

Example

For a 40 year old accountant who is a non-smoker with no pre-existing medical issues, £24,000 per annum of cover, payable up to age 68 (presumed State Pension age) after a 13 week deferral period could be bought for as little as £35.30 per month.**

The cover can be linked to the Retail Price Index to better reflect the fact that living expenses generally increase over time. This will mean the premiums also increase, though the policy holder can decide annually whether they wish to accept the increases to premium and cover.

Accounting for the fact that this premium is paid from taxable income, the gross income a basic rate taxpayer would need to receive to pay for this would be around £50 per month or £600 per annum.

Case study

Your friend is 40 years old and applies for a new job at an accountancy firm. She interviews well and is offered her choice of two jobs at the same firm.

The roles are identical, in the same team and have identical pension and bonus opportunities. The difference is in the salary and sick pay packages.

Option one	Option two
£40,000 per annum	£39,400 per annum
3 months sick pay at 75% of salary	Sick pay to age 68 at 75% of salary

Which option should your friend take?

Mathematically, for a basic rate taxpayer; spending £35.30 per month from net pay is broadly similar to reducing their salary by £600 per annum.

If you would have recommended that your friend took the job with the better sick pay arrangement, is it a good time to check your family's cover?

How can we help?

We work with individuals, business owners and professionals throughout the various stages of life.

If you would like to take out Income Protection we can advise on the providers and policies that best suit your particular circumstances.

Want to find out more?

T: 01903 534587

E: wealth@carpenterbox.com

www.carpenterbox.com/wealth

**The income payments end at the earlier of return to work, death or reaching the chosen end date and multiple claims can be made during the term if eligible.*

***Income Protection quotes obtained from IRESS Exchange - 23/08/2019.*