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Income Protection: 10 top tips for consumers

Here are the top 10 tips that consumers should bear in mind when buying Income Protection, according to Protection Specialists LifeSearch.

- 1. DON'T CONFUSE IP WITH MPPI**
- 2. CHECK THE OCCUPATION CLASS**
- 3. CHECK WHAT OTHER BENEFITS YOU ARE ENTITLED TO**
- 4. GUARANTEED RATES**
- 5. AMOUNT OF COVER**
- 6. DEFERRED PERIOD**
- 7. INDEXATION**
- 8. CONSIDER UNEMPLOYMENT COVER**
- 9. HOUSEPERSONS**
- 10. CONSIDER CRITICAL ILLNESS COVER**

The protection market can be complicated to even the most experienced customer and Income Protection (IP) is one of the more complex products out there. Due to the current financial turmoil more people are becoming concerned about protecting their debts and lifestyle against future money problems, so LifeSearch have put together 10 top tips on how to pick through all the options and choose the best policy for this important but undersold product.

1. DON'T CONFUSE IT WITH MPPI (Mortgage Payment Protection Insurance, also known as ASU).

In comparison with Income Protection policies, MPPI plans can be greatly inferior and may even cost you more. Typically, MPPI plans only pay out for one year, include a number of important exclusions and both the premiums and the conditions of the policy can be changed at short notice.

2. CHECK THE OCCUPATION CLASS

Perhaps bar the premium, the occupation class is the most important part of an income protection policy as this is what the insurer uses to decide whether or not to pay your claim. A range of different definitions are available, however, the most comprehensive are known as 'Own Occupation' or 'Suited Occupation' with 'Any Occupation' being the least advised purchase. Own occupation means you can make a claim if you are unable to perform your own job. Being covered under Any Occupation means that you have to be unable to perform any job, this can include working from home stuffing envelopes, or stacking shelves at the supermarket, equivalent earnings to the job were doing before are not taken into account. If your policy states anything other than 'own' or 'suited' occupation you should seek independent advice.

3. CHECK WHAT OTHER BENEFITS YOU ARE ENTITLED TO

It is vital to know the other benefits you are entitled to, as these will affect the amount that any insurance policy pays out. Do you know how much the state and how much your employer will pay you, and how long for? The longer you are paid for sickness through your employer the longer your deferment period should be, which reduces the cost of your premiums.

4. GUARANTEED RATES

Your premiums might seem cheap today but will they stay that way? A guaranteed rate gives you the peace of mind that no matter what happens throughout the term of your policy the price will remain the same, even if you make a claim and return to work, your policy will carry on at the same price as before. If you choose reviewable rates be aware that even though they start off cheap you have no idea how expensive they could become in the future.

5. AMOUNT OF COVER

Typically you can insure up to 65% of your gross salary free of tax. But how much do you need each month to live on? Make sure you take into account all that is reliant on your salary, mortgage, food, bills and children's school fees for example. So you do need to thoroughly work out how much you essentially pay out and how this tallies with your salary. It is pointless to choose a random figure to insure yourself for as at claim stage it may not pay out if you are insured for too much.

6. DEFERRED PERIOD

Income Protection policies will begin to pay out after you have been unable to work for a set period of time. This time period is up to you and ranges from 4 weeks to 2 years. The longer the waiting period the less expensive insurance policies will be. How long could you survive financially without your income? Again you need to find out when your employer (if relevant) pays sickness for, as your Income Protection policy cannot pay out at the same time you are receiving employee benefits.

7. INDEXATION

Whilst most insurance policies can be linked to inflation it is particularly important to make sure Income Protection increases with inflation as your earnings typically would do also. £1000 a month might seem plenty of cover for now, but in 20 years time it wont pay for the same standard of living.

8. CONSIDER UNEMPLOYMENT COVER

Income Protection policies do not automatically cover unemployment, although with most providers this can be added at an additional cost. However, unless you are particularly concerned about unemployment, it may be worth placing the money that would have been used to pay the additional premiums in a savings account rather than taking out cover.

9. HOUSEPERSONS

Just because you don't work this doesn't mean you cannot insure an income. Think of the costs incurred, for example, if you are not employed but stay at home to care for children, and then are unable to do so through illness or accident. Childcare is costly and many families would be unable to cope with the added expense. House persons can typically be insured for up to £15,000 per year.

10. CONSIDER CRITICAL ILLNESS COVER

Always consider the alternatives. Critical Illness could be more suitable for your specific circumstances. We recommend that you always shop around and seek independent advice to ensure you have been given information on all products suitable for your situation, so you can be sure you are making an informed decision.

Guide to IP premiums

Quotes assume £1000 per month of Income Protection to age 65, good health, non-smoker monthly guaranteed premiums. 6 month deferred period.

Age	Sex	Lawyer	Office Manager	Waiter / Waitress
30	M	LV= £15.47	Pioneer £11.42	Friends Provident £24.83
30	F	Scottish Provident £24.85	Pioneer £12.88	Friends Provident £41.12
40	M	LV= £23.47	Pioneer £16.29	Legal & General £39.33
40	F	Scottish Provident £40.45	Pioneer £22.88	Legal & General £66.94

Source: www.lifesearch.co.uk

Matt Morris, LifeSearch Policy Adviser, says, "Almost everyone needs some form of protection and for many, their income is the most valuable asset they have. State Benefits are a very basic safety net and only really support those on low incomes. Also, the Government intends to make it much harder to claim in the future.

"For most of us, the nightmare scenario must be discovering that not only have we been diagnosed with a long term illness, but the realisation that income is going to dry up in a few weeks as well. Peace of mind is a few pounds a week spent on a good Income Protection policy."

Enquiries

Kevin Carr, Head of Protection Strategy

Tel: 0207 065 1033

kevincarr@lifesearch.co.uk

Matt Morris, Policy Adviser

Tel: 0207 065 1020

mattmorris@lifesearch.co.uk

Consumers can contact LifeSearch on 0800 316 4242 or at www.lifesearch.co.uk

LifeSearch can source case studies where required and can provide tables of typical premiums.

The latest LifeSearch Protection Report (PR9) contains all the latest industry news and statistics, including new Critical Illness paid / declined claims figures and the latest stats on how much further Life Cover premiums have fallen this year. If you need a copy, please contact us.

About LifeSearch

With more than 200,000 customers, more than £13bn of cover arranged and over 40 awards and nominations LifeSearch is the UK's leading independent life insurance and protection specialist offering advice to consumers on life insurance, critical illness, income protection and family income benefit.

Established in 1997 by Tom Baigrie and Arthur Davies of London based Independent Financial Adviser Baigrie Davies, LifeSearch has offices in London, Milton Keynes and Leeds. The company currently employs around 150 people, of which approximately 50 are qualified advisers.

LifeSearch prides itself on the quality of advice and high levels of service it provides - always offering the most competitive quote possible based on a client's personal circumstances.

Through LifeSearchCare, LifeSearch is also the only intermediary to provide its clients with free support and counselling provided by RED ARC.

Recognition of the service the company provides is reflected in the number of positive customer feedback forms LifeSearch receives. Since launch, this figure is in excess of 10,000.

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