



LLOYDS

Independent Financial Planning

GUIDE TO

INCOME PROTECTION INSURANCE

How would you pay your bills if you couldn't work?

NOVEMBER 2024





GUIDE TO

INCOME PROTECTION INSURANCE

Cover if you're unable to work due to illness or injury

Welcome to our *Guide to Income Protection Insurance*. Safeguarding your financial stability is more crucial than ever in the unpredictable journey of life. Income protection insurance is pivotal in a comprehensive financial strategy, offering you and your family a safety net during unexpected life events. It's insurance that works while you can't. Knowing that your income is secure should unforeseen circumstances arise provides peace of mind.

Understanding the importance of income protection insurance can transform your approach to financial planning. It ensures that your family's needs are met despite adversity and that you maintain your lifestyle.

Exploring the options available can seem daunting but the benefits are significant. Whether you're employed or self-employed, income protection is a long-term insurance policy designed to ensure you receive a regular income until you either retire or are fit to return to work.

Surprisingly, according to research, only a small fraction of the UK population – less than one in ten, to be precise – has this type of cover in place^[1]. This is despite the alarming statistic that 42% of UK adults are concerned about their household's ability to cope financially if they cannot work^[2].

Gender protection gap

There is also a notable gender protection gap. A significant 29% of women surveyed indicated that they couldn't afford protection, in contrast to 23% of men. Moreover, over a quarter of women admitted they would have to rely on their partner's income if they found themselves unable to work. This reliance underscores the importance of personal financial independence and protection planning.

Replace a portion of your income

Income protection insurance offers regular payments that replace a portion of your earned income. These payments are made until you can return to work, retire, pass away or reach the end of the policy term – whichever happens first. Typically, the policy covers between 50% and 65% of your income, addressing a wide range of illnesses that may prevent you from working, both in the short and long term.

Claim as many times as necessary

A significant advantage of this type of insurance is its flexibility. You can claim as many times as necessary during the policy's lifespan. However, it's important to note that there is often a pre-agreed waiting, or 'deferred', period before payments commence. Typical waiting periods range from four weeks up to a year, with longer waiting times generally resulting in lower monthly premiums.

Is it right for you?

Income protection insurance might only be necessary for some, yet understanding its potential benefits is crucial for financial security.

For some individuals, the safety net provided by sick pay or a comprehensive employee benefits package covering a year or more might suffice. Others might find government benefits ample to cover their essential expenses.

Savings must be sustained

Additionally, those with substantial savings could rely on their financial reserves, though it is wise to remember that savings must be sustained over potentially extended periods. Some might have the option of early retirement or the support of a partner or family whose income can cover all necessary expenses.

Few employers offer extended support

It's crucial to differentiate income protection from critical illness insurance, which provides a one-off lump sum upon diagnosis of a specified serious condition. When unable to work due to illness or an accident, many people assume their employer will continue to provide some income support. The reality is that employees often transition to Statutory Sick Pay within six months, with few employers offering extended support beyond a year.

Evaluating your employer's support

It's essential to verify what support your employer offers if you become incapacitated. The loss of income can quickly erode savings and make it difficult to cover essential household bills, especially if you're self-employed and lack sick pay benefits. This is where income protection insurance becomes invaluable, providing the peace of mind that your financial obligations are met, even in the face of adversity.

Understanding the costs

When considering income protection insurance, the cost is a key factor. Monthly premiums can vary significantly based on several personal factors and the policy's details. These include your age, occupation, smoking status and the portion of income you wish to cover. Further, as mentioned, the waiting period before the policy begins to pay out and the scope of illnesses and injuries covered play a role. Your current health, weight and family medical history are also considered.

Types of premiums

The type of premium chosen affects both cost and predictability. A standard premium may increase over time, introducing potential financial uncertainty. Conversely, a guaranteed

premium remains fixed for the policy's duration, providing peace of mind regarding future costs, though it might be higher initially. Many opt for the guaranteed premium for the stability it offers.

Navigating the purchase

Securing the appropriate income protection insurance involves assessing varied premiums and insurer criteria. As such, professional financial advice becomes invaluable. We can guide you through many available policies, ensuring you select one tailored to your unique needs and circumstances.

DO YOU NEED TO ENSURE YOUR FAMILY'S FINANCIAL SECURITY WITH INCOME PROTECTION INSURANCE?

Don't leave your family's future to chance. If you are concerned or want to explore income protection insurance further, seeking professional advice is essential. Contact us today to discover how income protection insurance can be a cornerstone of your financial resilience.

Source data:

[1] The survey data was collected and analysed by Censuswide Research. The total sample size was 4,043 UK adults, including 1,000 self-employed and 1,000 private renter respondents. Fieldwork was undertaken between 17 – 29 April 2024. The survey was carried out online. The figures have been weighted and represent all UK adults (aged 18+).

[2] The survey data was collected and analysed by YouGov plc. The total sample size was 2,059 adults. Fieldwork was undertaken between 2 – 8 February 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

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HOW WOULD YOU PAY YOUR BILLS IF YOU COULDN'T WORK?

In today's uncertain world, ensuring financial stability for your family is more important than ever. Income protection insurance offers a vital safety net, providing the reassurance you need when facing a potential loss of earnings.

Don't leave your financial future to chance. Contact us today.

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