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Professional Financial Services

**One Life
Live It
Protect It**

Income Protection for Engineers & Engineering Professionals

Your Take-A-Minute Guide



More Than Insurance It's About Love

What is Income Protection?

Many engineers and professionals within the engineering industry take out this type of cover, as it is not uncommon that the engineering firm they work for tend to only offer statutory sick pay or a limited sick pay entitlement. Consequently, this means that they need to make their own arrangements by putting an Income Protection policy in place for themselves on a personal/individual basis.

Income Protection provides you with a monthly income should you be off work through illness or injury. This consistent monthly tax free payment will enable you to look after yourself and your partner/family financially and is very important to have in place, even if it is for a low amount of cover.

How much cover can I have and how long would the policy last?

As a general rule, the maximum amount of cover that you can apply for is approximately 60% of your GROSS annual income. Bear in mind though that the monthly benefit that you receive is tax free. If you are a self-employed consultant engineer, then the maximum amount of cover that you can apply for is approximately 60% of your taxable income. If this applies to you, then we have a separate Income Protection guide for self-employed consultant engineers.

You can set up the policy so it runs until you are certain age (e.g. until age 65), or you can just choose a policy that runs for a specific number of years (e.g. 25 years). This known as the TERM of the policy. For example, you may want it to run until your expected retirement age or until the time when your mortgage is paid off.

When does the policy start to pay out?

When setting up the policy at the outset, you can choose when you would like the policy to start paying out. This is known as the 'deferred period'. Typically, the deferred periods available are 4, 8, 13, 26 and 52 weeks. The longer the deferred period the lower the premium. If you already have a sick pay entitlement at work already then your Income Protection policy will have to dovetail with your firms sick pay scheme.

How long will the policy pay out for?

When setting up the policy from the outset, you can choose how long you would want the policy to pay out for. This is commonly known as the 'benefit

period'. As a rule, you can choose a benefit period of either 12 months, 24 months or for an unlimited/indefinite period of time.

How would a policy work in a real-life scenario?

Example - Imagine that the policyholder, Kate, is a structural engineer who earns a gross income of £100,000 per annum. The maximum level of cover that she can apply for is a policy that would pay out £60,000 per annum i.e. £5,000 per month as this is 60% of her gross annual income. Kate decides to take out a policy for £5,000 per month which runs until age 65 and has been set up on an unlimited benefit period basis. Kate's Income Protection policy has to dovetail with her firms sick pay entitlement. Her sick pay entitlement at work is 3 months full pay, followed by 3 months half pay, followed by nothing after 6 months. If Kate suffers an illness, accident or injury which results in her never being able to do her occupation again, then this is how the policy would pay out:

In the first 3 months Kate would receive her full pay entitlement from her firm. Therefore, the Income Protection policy does not pay out at this point.

In the next 3 months she would receive half pay from the firm. At this point Kate will also start to receive half of her benefit from the Income Protection policy which will be £2,500 per month (tax-free).

After 6 months Kate's company sick pay entitlement ceases completely. It is now at this point that the Income Protection pays her the full £5,000 per month on an ongoing basis up until her 65th birthday. Of course, if her policy was set up on a '24 month limited benefit period' basis, the policy will only pay Kate for 24 months. If Kate has no sick pay entitlement from her firm, then she can just choose whatever deferred period she wants because there is no sick pay entitlement that the policy has to dovetail with.

How much does it cost?

The premiums are based on a number of factors such as your age, occupation, smoker status, the amount of cover and the term of the policy. There are also occasions when your medical history, BMI reading or hobbies/lifestyle can affect the premium. For specific quotations, and accompanying information, contact us at either timfrancis@franciscole.co.uk or 07785 921234.