# Insurance Buyers Guide to:

- **Short-term Income Protection**
- **Lifestyle Protection**
- **Mortgage Payment Protection**

**@iprotectinsure initiative**

**Sponsor i:protect Insurance**

This buyer’s guide has been produced to cover:

- Short-term Income Protection
- Lifestyle Protection Insurance
- Mortgage Payment Protection Insurance

That include:

- Redundancy / Unemployment cover
- Accident and Sickness cover
- Carer Cover
- Back to Work assistance

The buyer’s guide explains how low cost financial protection products work and offers an insight into:

- What these products are
- How to decide if they are suitable for you
- What you need to consider when buying
- Where and how to buy them
- Money saving tips
- Things to look out for
- How much it costs

**Author’s Note regarding the @iprotectinsure initiative**

The original Buyers Guide publication was produced in December 2008 exclusively for customers of iprotectinsurance.co.uk. Now, in support of the @iprotectinsure initiative, this Buyers Guide has been completely revised to address the wider market offering this type of cover. It now extends beyond the products available from any single supplier or method of distribution.

The aim of the @iprotectinsure initiative is educate the wider public to the availability of these financial protection products. This has special importance for people who may be out of work in the future. Insurance of this type is one of the most cost effective ways to bridge the gap between what State Benefits provide and the bills paid by the average family each month. For the wage earner who is unable to work due to accident, sickness or unemployment, this low cost cover offers an alternative to debt and potentially losing their home.

# Financial Protection Insurance a Buyers Guide

**If you were suddenly out of work due to accident, sickness or unemployment, could you cope financially? How long would your savings cover your essential outgoings before you ran into serious trouble? These are the questions this type of insurance is designed to help you address.**

State benefits are frighteningly inadequate when compared to the true cost of living with the bills and expenses we all have to pay[1]. Short-term Income Protection[2], also called Lifestyle Protection Insurance, offer an alternative to people who do not have substantial savings to fall back on.

These policies have been designed to address the impact of lost earnings in times of unemployment resulting from involuntary redundancy, accident or sickness. This guide also includes Mortgage Payment Protection Insurance that covers the same risks, but is restricted to paying out the amount of your monthly mortgage repayment and usually up to 25% more for other household expenses.

You can use these policies cover the bills that are the most important to you. They provide the security to maintain your lifestyle whilst you are looking for work or recovering from an accident or illness. The benefits are paid to you each month for a selected period (most commonly 12 months[3]) until you go back to work.

## Who should take out this Insurance Cover?

**If you have little saved but lots of financial commitments, you probably need this insurance**. The average claim for unemployment benefit increased during the recession from 6 to 8 months[4]. Therefore anyone who does not have savings equivalent to at least 6 to 8 months earnings should be seriously considering this type of Insurance. It can be bought by employees, contract workers and the self employed. For those running their own business, substitute the word 'redundancy' for the phrase 'your business being wound up.'

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[1] Centre for Economics and Business Research (CEBR) data Feb 2010 In February the average household had a net income of £552 a week, once taxes had been taken into account. Cost of living was £403, leaving discretionary income at £149. More recent stats indicate inflation has further eroded discretionary spend.

[2] Short Term Income Protection is used to differentiate this product from the (long term) Income Protection Insurance policies sold by Life Insurance companies that do NOT include cover for unemployment. Long Term Income Protection is also far more costly and complex to buy and includes medical underwriting, however the up-side is that it continues to pay out until (typically) age 65 – hence the name 'long term'

[3] Policies are available with a maximum benefit period of between 3 and 24 months, with 6 or 12 month benefit periods being the most widely offered – more details in this guide - source Money Supermarket

[4] Industry data Financial Services Forum October 2010

The risks people in work need to consider insuring against are more than just redundancy. "People are 26 times more likely to be incapacitated and off work more than 6 months than die before the age of 65."[5] This draws attention to the fact that most people protect their families with life insurance should they die. However few realise it is just as important to insure their family against financial hardship when they are alive. The greatest financial challenge to any individual or their dependents is being unable to work due to unemployment or serious injury/illness.

## *Are you in full time employment where there are no issues with redundancy at the moment?*

This is the ideal time to buy this cover. You will then have the security of knowing you can call upon this insurance if things change for the worse. **If your employer has made an announcement regarding major layoffs, you are probably too late to buy unemployment cover**. These financial protection products allow you the option to buy cover for just accident and sickness benefits if you are not eligible for (or do not require) unemployment benefits. However the main risk remains unemployment and over 80% buy full accident, sickness and unemployment insurance.[6]

If you already have a policy that covers your mortgage payments or payments for a loan, you should check how much you pay. If you meet their criteria, consider switching to an on-line provider as you are almost guaranteed to make a significant saving, often well over 50% of your current premium[7]. This is explained in greater detail in a separate section below called ‘Switching to save money’.

## How much cover do you need? Consider your monthly bills

All you need to do is to add up the average amount you spend on each of the items listed below every month. This will help to establish the minimum amount you require to cover your essential outgoings[8].

- Payment of your mortgage or rent
- Home improvement and/or car loans
- Important insurance premiums
- minimum credit card repayments
- Utility bills
- Food bills
- Subscription services including broadband

Once you have decided upon the amount you need to insure, consider if you require accident and sickness cover, or the more popular accident sickness and unemployment cover. Buyers who are only worried about redundancy will often look for just

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[5] Source IAD Information Centre (DWP) 5% sample, 2005, ONS Annual Abstract of Statistics 2005
[6] Stats from industry sources and iprotectinsurance.co.uk 2011
[7] Money Saving Expert Guide to MPPI Insurance (see link the @iprotectinsure on-line pack)
[8] A separate comprehensive calculator will be issued as part of the @iprotectinsure initiative

unemployment cover. However this is not so widely available. As a consequence, buying unemployment cover alone frequently does not offer a saving over competitors offering full accident, sickness and unemployment cover. It is also hard to recommend, as a serious injury or illness can have just the same devastating effect on personal finances as redundancy.

## When do you want to be paid and for how long?

Virtually all short term Income Protection, Lifestyle Protection and Mortgage Payment Protection Policies start paying out once you have been off work for an unbroken period of between one and 180 days. **The longer you can do without the payment of benefits, the cheaper the cover**. This is called the deferment or excess period.

For example, people who have a company sick pay scheme with 6 months on full pay if they are off sick; it may suit them to opt for a premium saving 180 day excess period, so their benefit period starts when their sick pay runs out. Regarding the unemployment excess an excess period could be chosen to reflect any redundancy payment**. Select the excess period(s) to suit your circumstances**, you are also likely to save money this way.

Most short term Income Protection, Lifestyle Protection and Mortgage Payment protection policies will pay out for a period of 12 or 24 months**. Think very carefully if considering anything less than 12 months cover, especially in the current economic climate**. By far the majority of providers offer 12 months as standard. Cheaper 3 month and 6 month benefit period policies are available. However you must be very confident you could get back into work within this short period.

**You will always be limited to receiving benefits that do not exceed your take home pay**. Some policies are more restricted than others. Many only offer up to £1000 per month. Several more are restricted to 50% of your gross salary. However, there are policies that offer 60% or more of gross earnings and a maximum monthly benefit of £1,500 to £2,000. Benefits of up to £3,000 per month are available. Most insurers encourage you to revise your benefits up over time.

**Claim payments are not subject to tax or national insurance**. Therefore it makes sense to select benefits that take into account any State Benefits you might receive whilst unemployed. One of the key reasons to buy this cover is the need to top up State Benefits to avoid falling into serious debt.

State benefits 2011:

- For a single person over 25 their entitlement is just £67.50 per week Jobseekers Allowance[9]
- The standard rate of Statutory Sick Pay in £81.60 per week for a maximum of 28 weeks
- Employment and Support Allowance benefit starts at £67.50 per week

[9] This is subject to the recipient having savings of less than £16,000, entitlement is less under age 25

## What is included

In addition to the monthly benefits that are paid if you cannot work due to accident, sickness or unemployment. There are some aspects of cover that is most commonly included in Mortgage Payment Protection Insurance and short term Income Protection Insurance/Lifestyle Protection that are worth knowing about as they are rarely promoted. Some older policies or fringe products may not include all of them, however with this caveat, most do these days and can be extremely useful.

1. **Carer Cover** – if you have to give up work to look after a relative most policies will pay you a full year of your selected monthly benefit as a lump sum.

   This is widely available and worth consideration as the close relative who may potentially require full time care could be a child, spouse or parent.

Carer Cover is an often overlooked benefit that is included in most Income and Lifestyle Protection policies

2. **Back to Work support** – this is offered free and is most often outsourced to independent re-employment specialists. They offer support to anyone claiming for unemployment benefits providing assistance with::
   - CV Preparation
   - Letters of application
   - Sourcing Vacancies
   - Interview Techniques
   - Self-Employment Advice


The providers terms vary to some degree, some offer personal one to one interviews in addition to the more usual combination or internet, correspondence and telephone help. Some also include help with redundancy matters and tax information.

It is worth noting that these services are delivered by specialists and not by generally by insurance company claims departments. The insurers are very pleased to pay for these services due to their track record for shortening the average time claimants are out of work.[10]

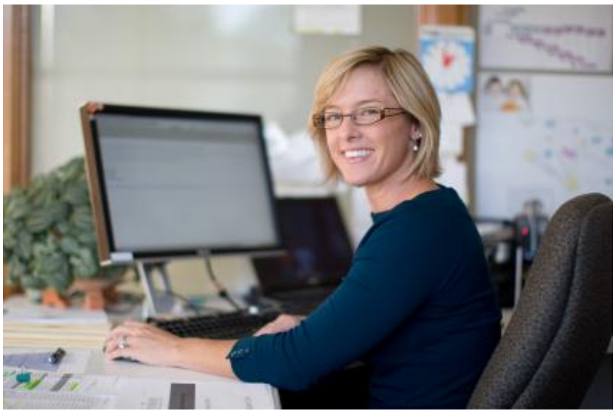
[10] Websites of leading companies offering these services is included in the @iprotectinsure on-line pack

## Where to buy

**Premium rates vary widely and it pays to shop around.** The leading price comparison websites like Money Supermarket are very useful to gauge prices. Unfortunately many leading insurers and specialist on-line providers are not on the price comparison websites, where you will see a proliferation of little known brands. Consequently it is worth spending time to investigate the full range of products and the direct prices offered by the leading providers.

Moneysavingexpert.co.uk is also a very useful guide to finding the best value[11]. Generally speaking, the lowest premium rates are charged by the internet providers simply because their costs are lower[12]. They are able to handle the majority of applications without complex underwriting or interviewing the customer. Telephone sales brokers rarely match their prices as they need to employ people to handle the sales process. If you prefer the personal touch you may be happier with a broker and pay a premium for their service.

Similarly, for anyone who applies for this cover on-line and finds their application declined, they should seek the advice of a specialist independent broker. To get you on cover a broker may need to tailor your policy, for example, by applying one or two restrictions because of a pre-existing medical condition. If price is your main criteria, try on-line first. You may be pleasantly surprised just how low the cost of this cover can be.



Specialist brokers can cover risks that on-line providers have declined by addressing individual client requirements

The independent Government sponsored 'The Money Advice Service' offers information and price comparison tables for all types of Mortgage Payment Protection and Payment Protection Insurance that includes short term Income Protection. However, it is complex to use and does require a good level of financial understanding to find and compare these products. They also underline that there are a great number of providers not on price comparison web sites[13].

## How to get a quote

Quotes are very easy to get on line, especially if you are just looking for an indicative price. A word of caution however, if you do not wish to speak to a salesperson, beware those sites that purport to offer to compare prices but sell your contact details as a 'hot lead' to a telesales operator. There has been a proliferation of these 'lead generator' sites. Some give every impression they will supply an immediate on-line quote but, when you press enter, simply return a message that you will be contacted by telephone.

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[11] A link to the Money Saving Expert MPPI Buyers Guide in included in the @iprotectinsure on-line pack
[12] See the independent and unbiased 'The Money Advice Centre' comparison tables to confirm
[13] A guide to using The Money Advice Centre comparison tables is included in the @iprotectinsure on-line pack

This created a consumer backlash, with far greater use of fictitious telephone numbers and email addresses being used. Unfortunately this in turn can cause problems for the person seeking a genuine on-line price comparison, because not using their correct details on-line will cause any email confirming their quote etc to be lost.

Rather than engaging in this consumer v high pressure sales game of cat and mouse. You may wish to follow the example of others who refuse to get a quote from any website where they insist a telephone number is entered before they will give you a figure.

**Specialist on-line providers offer good value and freedom from high pressure telephone sales**

## Information you will need to get a quote

This is the typical information you will need to have at your fingertips when you get a quote as almost all providers either on-line or by telephone will ask for the following:

- Your name, age and contact details
- If you are employed or self employed
- The company you work for - sometimes details about any redundancies
- Your role within that company (job title) and often how long you have worked there
- How much benefit you want to receive each month[14]
- Would you want Accident, Sickness and Unemployment cover or only an element of this cover if you are self-employed or a contractor? Note the number of providers offering unemployment only cover is quite limited.
- Confirm your benefit period i.e. If you want the insurance to pay out for 3, 6, 12 or 24 months (most people select 12 months and it is the most widely available)
- Preferred excess period (also called a deferment period) i.e. how long do you want to wait until payments to commence. You will usually be offered a choice of zero excess called 'back to day one cover', 30 day, 60 day or 90 day excess periods. Some providers offer 120 or 180 days as well.

***Note regarding excess periods*** - When obtaining quotes, please bear in mind most benefits are paid 30 days in arrears. This means that if you chose a 30 day excess you would be paid your first month of benefit 60 days after you stopped work. Thereafter benefits would continue to be paid monthly (for up to a year) until you went back to work.

[14] Use the @iprotectinsure benefit calculator to assist – to be included with the @iprotectinsure on-line pack

## How premiums are paid

Policies are usually only payable by monthly direct debit. This is ideal as you can keep the cover for as long as you need it. Say you have a change of circumstances; you can always contact the provider to increase your benefits or indeed cancel your direct debit if you come into money. Rarely will you be asked to pay a full year's premium in advance.

## Switching to save money

Many people pay far too much for Payment Protection Insurance and Mortgage Payment Protection cover. This is because it was sold to them as part of the process of arranging the finance they were seeking at that time. Whether or not this was miss-sold, the opportunity for the customer to compare prices was usually zero and premiums were high. Unless you bought single premium insurance and paid for all of your cover up front (since withdrawn from the market and the FSA have imposed a sales ban), it is well worth comparing what you are paying each month with alternative providers.

For Mortgage Payment Protection for example, it is possible to pay £18.90 per month for a policy from a specialist on-line provider or £62.20 per month from a Bank for the same cover.[15] This is by no means an isolated example – there are well over 400 comparative quotes on the independent and unbiased Money Advice Centre website for this type of policy.[16]

There is one critical issue for those thinking of switching providers. Only switch if this is free of risk, i.e. with no break in your cover. To explain, all new policies have an initial exclusion period (typically 90 days) after taking out the policy during which you are not allowed to claim for unemployment related benefits. However, providers that offer a switching service will waive this initial exclusion period.

So provided you meet their acceptance criteria, **you can switch without a break in your unemployment cover and immediately enjoy substantial premium savings**. Not all offer this service and some have tighter acceptance criteria than others. Neither is this something you can investigate using price comparison sites. You must look to the individual providers; the specialists offer the richest rewards.

[15] Applicant age 30 accident sickness and unemployment cover, for benefits of £1,000 per month paid for a year The Money Advice Service price comparison tables 17 June 2011
[16] Use the @iprotectinsure benefit calculator to assist – to be included with the @iprotectinsure on-line pack

## What to look out for

The Competition Commission rules regarding how Mortgage Payment Protection and short-term Income Protection /Lifestyle Protection Insurance is sold, can now give the consumer rock solid confidence when buying these financial protection products. The strict regulation overseen by the FSA and its successor authority (the FCA) is the single most important change that has firmly put the miss-selling of Payment Protection Insurance in the past. Nevertheless, there are certain things to know when applying for the products that might affect how you go about buying them and from whom.

### Policies underwritten at inception or when you claim

One of the principle complaints about these products in the recent past, related to how many suppliers waited until a policyholder claimed on their insurance before they checked their cover was valid. Although legal, it meant someone might pay premium for years and still not be paid out. In contrast, modern policies from **most** leading suppliers are now, what is called "underwritten at inception." In other words, the provider must ask all of the questions at the outset to decide if the applicant will be eligible to buy the policy.

When applying, if you are asked just a few questions and then told you can go on cover, it is very likely the policy offered is "underwritten at claim." This does not mean your claim will not be paid, but you must appreciate that the provider is relying upon going back to check your application and potentially asking for more information, before paying you out.

In contrast, a provider of a policy "underwritten at inception" will ask more questions at the outset. Typically they will ask for details of **your employer and employment history**. With this approach customers who are then placed on cover will have more certainty when they submit a claim.

**Policies that are not underwritten until a claim occurs have led to complaints and compensation claims**

### Applications with Declarations

There is an alternative method used to shorten an on-line application or telephone sales process. This is a policy underwritten on a "declaration basis". These are widely used and easy to spot. Policies offered on a "declaration basis" will have a long list of statements that you must confirm you agree with. Many look like the list of terms and conditions we are now accustomed to often just tick automatically when downloading something on line.

However, for these products YOU MUST read and understand AND accept them. **If there is just one thing that you cannot readily confirm or accept, do not proceed** as it could invalidate your claim. Because some use catch-all statements such as 'I declare to the best of my knowledge and belief I have not withheld any material fact that may influence the Insurers decision to provide insurance cover.' Should you feel uncomfortable about this and prefer instead to answer a list of specific questions that check your eligibility to be offered the policy, you might want to look elsewhere.

## How much will it cost?

Most policies offered today are priced to reflect the age of the applicant. Generally speaking, with age comes higher premiums that reflect the regrettable truth that, as you get older, it is harder to get back into work and takes longer to recover from an accident or medical condition.

Further variations can depend upon your occupation, how long you have been in your job as well as the nature of the work you do. Pricing models are becoming increasingly sophisticated to reflect the changing British economy. As previously explained, you can reduce your premium depending upon the excess you choose and the length of the benefit period selected.

If you are in a relatively low risk occupation and are one of the majority who can be insured without any query, you will be in a position to take advantage of internet rates. If so, your premiums will be very competitive indeed. It is likely you will receive a good level of benefits for a premium of about £40 per month[17]. If you have an existing policy, switching provider could mean paying less than half of your existing premium[18].

Alternatively an Independent Financial Adviser or Specialist Broker can offer you a personal quotation. For free unbiased independent information seek out The Money Advice Service.[19]

### Can the insurer change the premium?

Insurers reserve the right to do so and premiums increased substantially after 2008, following the massive increase in unemployment related claims since that time. UK unemployment stabilised in 2010/11 and so have rates. Insurers are obliged to give (typically) 60 days written notice of any rate increase. In 2011 rate reductions were recorded among the on-line specialist providers.[20]

***"If you have little saved but lots of financial commitments, you should look very seriously at buying this insurance. To protect a typical young family from financial problems in the event of a wage earner being unable to work for up to a year, the cost can be as little as £5 to £10 per week"***

***Dennis Haggerty Income Protection Insurance Expert***

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[17] For accurate indicative premiums please see the links to i:protect products; Mortgage Payment Protection Insurance, short term Income Protection/Lifestyle Protection Insurance are in the @iprotectinsure on-line pack

[18] Money Saving Expert Guide to MPPI Insurance

[19] A guide to using The Money Advice Centre comparison tables is included in the @iprotectinsure on-line pack

[20] Money Supermarket January to May price comparison

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**produced for the @iprotectinsure initiative by www.i:protectinsurance.co.uk**

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