MediDent FS

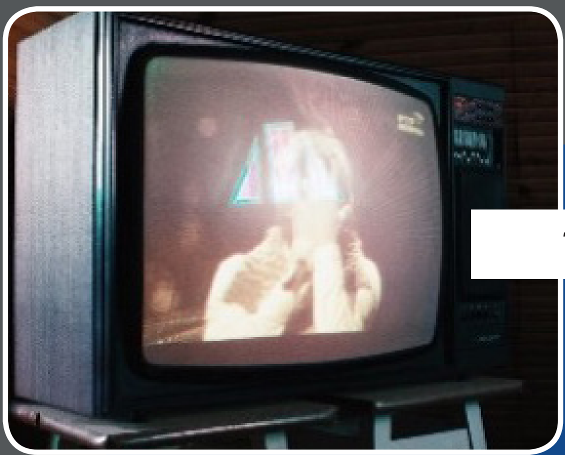
INCOME PROTECTION?

What you really need to know

What you really need to know about Income Protection?

Income protection is basically the most comprehensive sick-pay scheme you can get and you can cover up to 89% of your post-tax income, so a fantastic option but like any insurance policy, it's important to understand the fine print and set up the policy correctly, which is more complex than it appears on the surface, so speak to an income protection expert, when considering taking a policy, or you may get a very expensive surprise. If you don't have it now, ask yourself this question. If the cost of income protection doesn't effect your lifestyle, but guarantees your lifestyle if you can't work, why haven't you taken out cover?

I'm happy with my current policy... Most of our clients said exactly that, but they switched, when they had a better understanding of their existing policy. Reading this guide will give you the ability to make an informed decision about whether you should be happy with your current policy, or not. If nobody knew about 4k LCD and LED TV's, we'd all be happily watching lumpy, low-definition CRT TV's, so if you want to find out if your income protection policy is more



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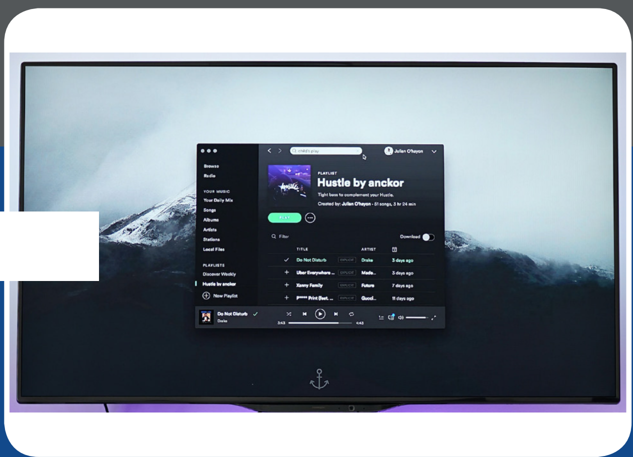


Setting up your income insurance:

How much cover?

Work out what bills you must pay and any optional spending you want to cover.

Do you want to have a comfortable retirement if you can't work? If so, it makes sense to include a contribution towards pension planning, which is often overlooked.

Beware of exceeding the maximum percentage of your income that can be covered. There are numerous examples of individuals obtaining quotes directly from insurers for more cover than is allowed, and as insurers don't offer advice, they have no liability and would only pay the allowable amount upon claim.

To what age?

Your retirement age might seem the sensible choice, but is that retirement age based on contributions made from your full earnings? If you were to suffer a prolonged period of not working, it is unlikely that you would be able to build your retirement funds at the same rate, so extending the term past your planned retirement age would add years of additional contributions if needed, and if all is well, cancel the cover when you retire as planned.

Length of pay-out?

Budget income protection policies have a maximum payment length of 1,2 or 5 years, versus the remaining term for full cover policies. The average income protection claim pays out for around 7 years, across all insurers, so full term pay-out policies are always the sensible option, where affordable.

Waiting or deferred period?

How long from incapacity before the cover kicks in. If you can wait 3 months, for most insurers, there is a big premium drop, compared to a 1 or 2 month deferred period, but don't take a longer period that you can manage financially.

If you carry out NHS work, you will qualify for the NHS Associate Dentist sick pay scheme, at least, so 22 weeks full sick pay from week 4 but a number of dentists are not aware of this benefit. If you're not, ask us for details.

Annual cost of living increases?

This is a very important point. Cost of living increases erode the buying power of cover, by a quarter in just 10 years, historically. Increasing cover is normally recommended but beware of exceeding maximum cover limits over time, if you are looking at taking the maximum allowable cover at the start of your policy.

Guaranteed or Reviewable premiums?

When insurers use phrases such as "Your premiums can increase or decrease by any amount - there Is no limit." (Wesleyan) for reviewable premiums, the benefit of having a guaranteed premium, is obvious. The cost difference between Guaranteed or Reviewable premiums for most insurers averages around 6%, which suggests there may be moderate increases for Reviewable cover. For Dentists Provident however, Guaranteed premiums are around 80% more expensive, which strongly indicates their Reviewable premiums are not sustainable, and will have to increase significantly over time.

Age Costed / Banded premiums or not?

With age-banded premiums, the cost of the full cover increases annually from around age 30, to reflect the increasing risk of claiming as you get older. This type of policy gets very expensive as you mature, so try to avoid them, or literally, pay the price later, as there would be annual base rate increases plus indexation increases.

Key things to beware of

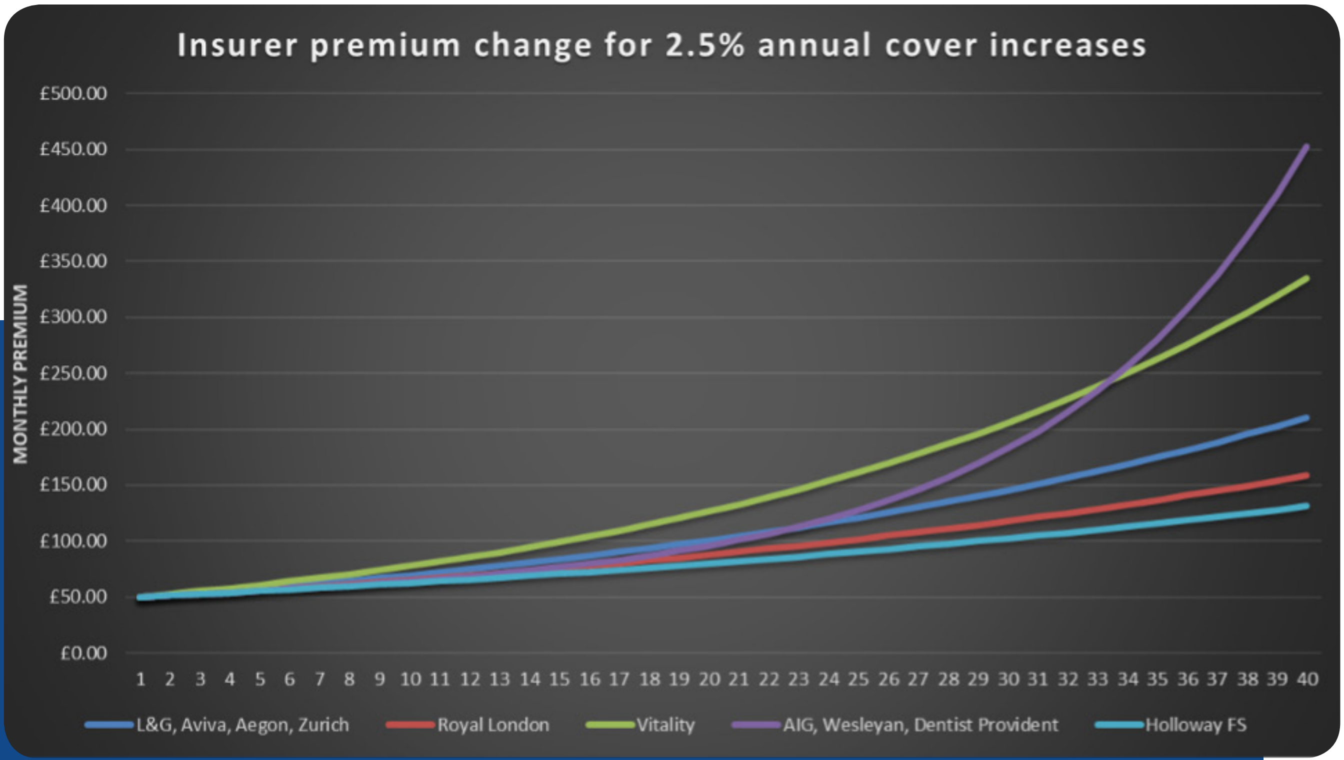
Occupation Type

Slightly technical. Income protection can be 'Own', 'Any',' or Suited' Occupation cover, and even Activities of Daily Work / Activities of Daily Living cover. Only 'Own Occupation' income protection cover is guaranteed to pay-out, if you cannot do the regular duties of your own occupation. It's the one to have.

Beware of the fine print....

As stated above, index linking your policy to maintain the buying power of your chosen cover amount, is basically essential, unless your outgoings are magically never going to increase over time. Most people assume that when the cover amount increases by, say 2.5%, insurers increase the premium by 2.5%. Unfortunately, most people would be very wrong!

Insurers apply a calculation when increasing the cover amount, and they use a range of different methods. Depending on the insurer and the age of the insured, a 2.5% increase in cover could give a premium increase of 3% or 3.75% or 5% or even 9.7%, depending on who your insurer is. So, the lowest premium when you take out a policy, may not be the lowest cost overall, and not by a big margin. The graph below illustrates how premiums typically change for different insurers, for the same cover increase, over time. (In reality, insurers obviously don't all start off at the same premium)

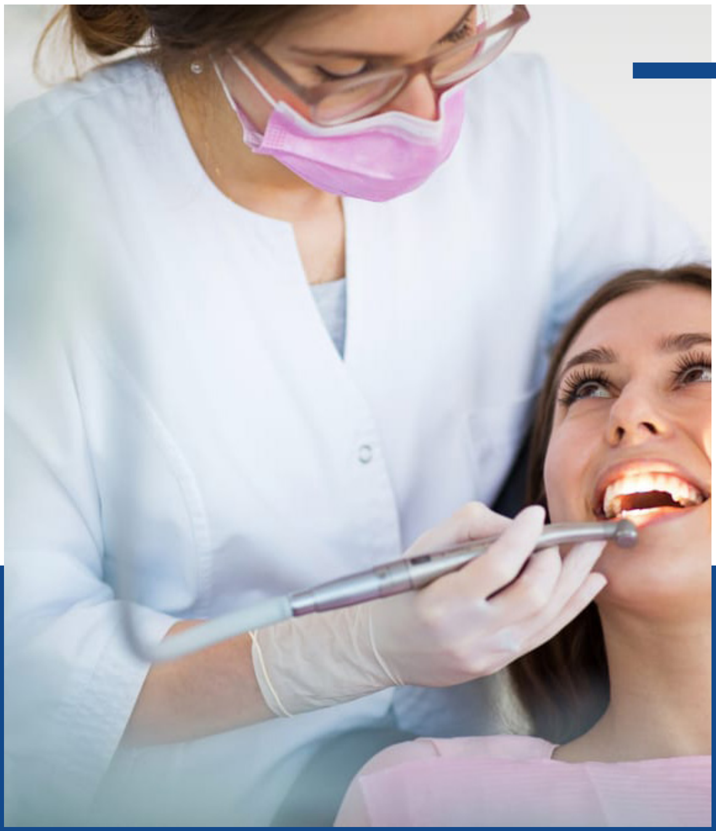


OK you say, I'll compare the total cost shown on the insurer illustrations, to find who offers the lowest cost overall. Unfortunately, that's not going to help you either, and here's why. The total cost shown by most insurers, assumes that the premium never increases, which you can see from the graph above, makes the total cost shown totally misleading. The actual cost, with average cost of living increases, can be 2 or 3 times the cost shown on the illustrations.

If you have an income protection policy, and you'd like to know how much it's really going to cost you, contact MediDent FS.

RPI versus CPI

Most insurers offer annual cover increases based on the Retail Price Index (RPI), a government cost of living measure that includes housing costs. Dentists Provident is unusual in that they offer annual cover increases based on the Consumer Price Index (CPI), which does not include housing costs and is so around 0.7% lower annually. That may sound insignificant BUT after 35 years using CPI rather than RPI, you would have 21% less cover, so worth factoring in.



MediDent FS

We really know about income protection. The founder of MediDent FS worked in Research & Development for 23 years before switching to financial services, and all of those carefully honed research skills were needed to study the insurance policy fine-print, and fully understand how different insurance companies price their income protection policies. This in-depth knowledge means we can find the lowest cost cover bar none, and often by a significant margin.

If that wasn't a good enough reason to find out how much we can save you, we also offer 2 free wills for reviewing your existing policy, with no obligation to take a policy through us, so you win, one way or another!

We hope you found this information of value but get in touch if you have any questions.

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