

## Critical decisions: finding the right cover

*Illness or disability can affect anyone at any time. If it happens, you want to be able to focus on your recovery instead of worrying about how you are going to pay your bills – so it's important to find a financial safety-net that's a perfect fit for your life and commitments.*

### Short-term protection

Mortgage, car loan, credit cards – repayments are a regular part of life for most households. If interest rates rise again, the proportion of income devoted to these types of debt will increase. While that's manageable under normal circumstances, things can change quickly and meeting those monthly repayments might become more of a challenge.

Short-term income protection, known as STIP, is one of the options available which can help tide you over. If you become unable to work, it can provide you with a set monthly income to cover those critical payments, usually for up to a year.

### Income protection

If your employer has a group insurance policy, they can pay your salary if you have to stop work long-term. However, most employees find their wages reduced to statutory sick pay after just two weeks' absence. Since that amounts to £96.35<sup>2</sup> a week – less than a fifth of the average weekly salary – it's unlikely to cover all your financial needs at a difficult time.

Income protection can provide peace of mind. It pays out a tax-free monthly sum – typically 50% to 70% of your usual earnings<sup>3</sup> – while you're unable to work because of illness or injury. You can keep claiming as long as you need to, within the length of the policy.

#### Protection: at a glance



## £15.8m

UK protection insurance policies pay out a daily sum of £15.8 million.<sup>1</sup>



## £96.35

Statutory Sick Pay is only £96.35 per week for a period of up to 28 weeks<sup>2</sup>

## Critical illness protection

Around half of us will experience cancer at some point in our lives.<sup>4</sup> With ever better treatments, survival rates are improving, but while in treatment the costs are high – more than the financial impact of having a child. That's down to extra costs as well as lost income. For instance, there might be travel costs for treatments, while a fifth of cancer patients see their annual fuel costs rise by almost £200.<sup>5</sup>

Critical illness protection can be a useful fall-back. Policies cover specific conditions, usually including cancers, strokes and heart attacks. Unlike most income protection policies, you are paid a single lump sum that could allow you to pay off the mortgage, for example, or to adapt your home if you become disabled.

## Which cover is best?

Income protection and critical illness cover have different features. The right protection for you depends on your earnings, outgoings and family responsibilities.

Many people appreciate the flexibility of the lump sum provided through a critical illness policy. However, income protection is not limited to a defined list of conditions, so it's more likely to cover common reasons for work absence such as accidents, stress or depression.

Protection isn't necessarily an either/or choice. In fact, critical illness and income protection can usefully complement each other.

## Other factors to consider

If there's more than one earner in your household, it's worth putting both contributions under the microscope. Research shows half of women aged 25 to 45 haven't considered protection, though 27% say their households would lose over £25,000 a year if they fell ill.<sup>6</sup>

Think beyond any potential crisis too. Some policies offer rehabilitation to help you regain your fitness, for example. This might reduce your financial pay out but could help you reach your ultimate goal of getting back to work more quickly.

Opting for the cheapest policy or the most familiar brand won't necessarily give you the best product. An expert can help you look at the details so you get the right cover – and make sure it's reviewed regularly and adjusted in line with your income.

For more information or to discuss any of the issues surrounding critical decisions, contact your financial adviser.

<sup>1</sup> [https://www.abi.org.uk/globalassets/files/publications/public/key-facts/abi\\_key\\_facts\\_2021.pdf](https://www.abi.org.uk/globalassets/files/publications/public/key-facts/abi_key_facts_2021.pdf)

<sup>2</sup> <https://www.gov.uk/statutory-sick-pay>

<sup>3</sup> <https://www.unbiased.co.uk/life/family-matters/protecting-your-family/>

<sup>4</sup> <http://www.cancerresearchuk.org/health-professional/cancer-statistics/risk/lifetime-risk>

<sup>5</sup> <https://medium.com/macmillan-press-releases-and-statements/cancer-costs-more-than-child-1e65bdd34149>

<sup>6</sup> <https://www.canadalife.co.uk/news/up-to-25-000-lost-to-uk-households-if-women-fall-ill-or-die>

### Protection: at a glance



# 50%

of the UK population  
will have a cancer diagnosis  
during their lifetime.<sup>4</sup>



# £1,500

Cancer costs nearly  
£1,500 more a year than  
having a child.<sup>5</sup>



# 27%

of women aged 25 to 45 would  
see over £25,000 lost from  
their annual household income  
if they had to stop working.<sup>6</sup>