Top 5 tips when advising clients on Income Protection

This article was written by Tom Conner, Director at advisers Drewberry and a founding member of the Protection Distributors Group (PDG).

Despite it being widely agreed among protection specialists and leading financial planners that Income Protection is the most important protection policy available, Critical Illness cover still outsells Income Protection each year by around 5 to 1.

One reason for this is the ease with which Critical Illness cover can be added as a rider to Life Insurance, but it's often also cited that Income Protection is more complex to advise on. But it doesn't need to be. In this article I provide some adviser tips to help bring Income Protection out of the darkness and into the light.

1. Identify if there's a need

The first step in the Income Protection advice journey is to identify if there's a need for cover. Would your client still be able to meet their monthly outgoings, including mortgage payments and other household bills, if they suffered an illness or injury and had to cease working?

It's actually quite rare that there isn't a need. One reason might be that their employer provides Income Protection as an employee benefit, however, research Drewberry undertook in 2018 found that only 7% of employees received Income Protection.

Alternatively, it may be that one partner earns relatively little compared to the other partner and all the household expenditure could be covered by the other partner. In this case, at the very least, there's a clear need to cover one of the two partners. It's actually hard to think of examples where cover isn't needed!

2. Establish the right level of cover

Depending on the insurer, it's possible to cover from 50% to 70% of gross earnings (which will be checked by the insurer at the point of claim), but how much does the client really need?

We take out products like Income Protection in the hope we never have to claim on them. It's a back up plan just in case something really does go wrong. Given this, it's my view that there's no point in overpaying for a level of cover that might not be needed. If the worst were to happen it's vital to ensure that the mortgage / rent, utility bills, council tax and food can be paid for (and potentially pension contributions). That should be the base level of cover and any extra cover for luxuries should be budget dependent.

I'm yet to come across an adviser that likes completing an income and expenditure assessment with a client, it feels awkward, but it's very useful in helping to determine how much income should be protected. The trick is how you position asking, starting with, 'I assume you want to make sure your mortgage / rent is covered, how much is that each month?'. Then repeat the process for utility bills etc.

3. Set the right deferred period

The deferred period is the length of time that the client would need to have been out of work due to illness or injury before the policy kicks-in and starts to accumulate benefit. The typical range of deferred periods is 4 weeks to 52 weeks, although with some providers, like British Friendly, it's possible to have a deferred period as short as just one day.

Setting the right deferred period usually comes down to the combination of two factors. Firstly, does your client receive any period of full sick pay from their employer? It's important to note that insurers won't start paying out until the client's employer has ceased paying full sick pay, so the deferred period should be at least as long as their full sick pay entitlement.

Secondly, would the client be able to survive for a period by utilising savings? It's never a nice thought having to pay for household bills out of savings, especially if it eats into emergency savings, but with Income Protection the monthly premiums can reduce significantly as the deferred period is extended, so it's worth considering this with your client.

4. Know some useful stats

Insurers provide an array of statistics that can be used to reassure your clients that Income Protection is the right course of action. For example, British Friendly recently published their 2019 Claims Report, which included the following interesting facts:

- In 2018, British Friendly paid out 94.7% of all claims and they also announced that they paid 96.2% of all claims received over the last 13 years which should provide additional reassurance that this valuable cover really does pay out consistently;
- As an industry, protection insurers paid out £14.5 million a day in Life, Critical Illness and Income Protection claims in 2018;
- A surprising 11% of British Friendly claims in 2018 were made by those under the age of 30, so the common, 'I'm young, I don't need this cover' argument really doesn't wash;
- 14.7% of British Friendly members had claimed more than once. It's hard enough for people to think about needing to claim once, but the stats show that unfortunately many people will need to claim more than that.

5. Discuss additional benefits

Most providers now offer some excellent additional benefits with their policies at no extra cost. In some of our clients' minds, the perceived value of the additional benefits is actually higher than that of the core cover! By bringing to life the value of these additional benefits it can help to get clients to understand the value of financial peace of mind, and also help the business to stick.

As an example, British Friendly's Mutual Benefits programme is one of the most extensive out there and can be a big selling point to clients. The discretionary programme is offered to both new and existing members at no extra cost and includes Fitbit Discounts, Health MOTs, Virtual GP Consultations, Physiotherapy, 2nd Medical Opinion Service (which can be a literal lifesaver) and more. The other great aspect of this programme is that the benefits can be used whether the member claims or not, which means that they can still receive significant benefits and value with their cover if they're fortunate enough to never have to claim.