Bridging the gap: income protection for the self-employed and freelance workers

Close to 332,000 Irish workers are self-employed[1]. This group is extremely diverse and can be found in every corner of the economy. Self-employed workers work in construction, in healthcare, practice law, run pubs, and your favourite local shop. Besides the more traditional self-employed professions, a relatively new group of self-employed workers has emerged - the number of freelancers has been growing steadily and has become a significant force in the Irish economy.

As a result of the ever-evolving demands of the global economy and fed by technological developments, the labour market is more dynamic than ever. Employee turnover has risen – the average duration of employment at a company has dropped from 12.6 years in 2001 to 5.9 years in 2021[2]. Lifelong employees are no longer the norm. Whereas many highly skilled workers used to have the security of a permanent contract, fixed-term contracts or even 'gigs' are on the rise as new generations of workers enter the workforce. Research by McKinsey shows that 72% of millennials would like to eventually become self-employed[3] and now that Zoomers (also known as Generation Z) are entering the workforce the landscape is due to change again. Zoomers are digital natives that learnt to work from home at a young age given the experience that Covid had on them while they were still in school.

The protection gap for freelancers and self-employed

While working for yourself provides freedom and flexibility, it does not provide any financial security. When a self-employed worker gets ill or injured and is unable to do their job, their source of income may dry up. Indeed, provided that they have paid sufficient PRSI contributions, self-employed people are nowadays entitled to State income support in the form of an invalidity pension, but this form of support only covers long-term sick pay. One must be off sick for 12 months before being able to apply and then must prove that they are unable to work for 12 more months, the latter being quite difficult. In other words, self-employed workers cannot rely on the State to protect their income.

On top of the very limited income protection that the State provides, self-employed workers are largely underinsured. They are not covered by employers' insurance and often have not taken out a personal policy, causing a significant insurance and protection gap.

Why advising freelancers to take out Income Protection matters

- **Illness and injury can happen to anyone.** No matter how small the chance of illness or accident seems, the danger is always present. The chance of illness or accident seems so small, the danger is always present. Young people also get sick.
- **State income support for Self-Employed workers is very limited.** Self-employed workers are not covered at all during the first 12 months of their illness, and even when they qualify for an invalidity pension after those 12 months, the maximum personal rate provides a gross weekly benefit of €225.50, potentially topped up with €161.10 if you have an adult dependent and a maximum of €50 for underage children. These benefits will be taxed by Revenue. Full details can be found on www.citizensinformation.ie.

- **Few have enough savings to bridge the gap.** According to research by the Central Bank of Ireland[4], the average household has a savings buffer that would last 7.5 months when their source of income dries out. And around 1 in 6 households have no savings at all. Many income protection claims are paid out over several years – most self-employed people are unlikely to be able live on savings for such a long stretch of time.
- **Income Protection does not need to be expensive.** Many will overestimate the cost of income protection when they may be able to obtain a very good cover for a reasonable price. What's more - most freelance professions belong to low-risk occupational classes where premiums are lowest. Plus, the premium can be deducted from taxes.

It's worth noting that the average age of a freelancer is around 40. As most freelancers are skilled workers, they have often developed these skills over the years while in employment. Most freelancers do not start out as freelancers. By the time they start freelancing, they usually already carry significant financial responsibilities. Many will have families and have to pay off mortgages. These freelancers often previously had access to employee benefits, pensions, income protection insurance and life insurance and may be very interested in restoring the security that they used to have.

Designing an income protection policy

No client is the same, nor are their protection needs - that's why Zurich provides you with several options to build a policy around your client's needs.

Step 1 Choose the required monthly benefits

It is possible to insure up to 75% of your client's gross income, but this is not always required. The amount of income to insure will depend on your clients' personal situation. If, for instance, 50% of their income suffices to cover their cost of living, they can opt to limit their cover to 50%.

When calculating the gross income of a self-employed client, we advise to use their average income of the previous 3 years.

If your client has only recently started out as self-employed, or when their income has fluctuated significantly, please email us at Underwritingsupport@zurich.ie or call us on 01 7992825 for tailored advice.

Step 2 Choose the deferred period

Not everyone needs their income to start as soon as they're out of work. Some clients will need protection as soon as possible, but others will have enough savings to bridge the gap for a few months. We offer the following deferred periods: 4, 8, 13, 26 or 52 weeks.

Step 3 Choose between a level cover or an increasing cover

As prices tend to rise, it may be worth considering having the level of cover adjusted to keep up with rising costs. With a basic level cover, your customer will be covered for the same level of monthly income whether they need it in two years' time or in twenty. At Zurich we provide options to help protect the level of cover from rising costs.

Step 4 Choose how long the cover lasts

Our income protection plan can provide cover up until the retirement age. The earliest age is 55 and the latest is 70.

Some cover is better than no cover

Is your client on a budget? There are ways to design a policy to make it more budget friendly. Some cover will always be better than no cover. Therefore, it is important for clients to know that they have options. To lower the premium, you could extend the deferred period, reduce the monthly benefits, remove indexation, but you could also offer short-term Income Protection by shortening the duration of the contract so that it ends at 60, 55, or even 50. It may be worthwhile to run a few quotes to provide your client with a few options.

You should note however that while a shorter-term contract will give your client a lower premium, the client may have more difficulty renewing their policy at the end of the term if a claim has arisen. Additionally, when the client is in claim at the end of a term, the payment of the benefits will be stopped.

If you have any questions about protection from Zurich Insurance, contact our Broker Consultants or visit zurichbroker.ie.

1 Central Statistics Office, 2023
2 Eurostat, 2022
3 McKinsey Global Institute, "Independent work: Choice, Necessity, and the Gig Economy", 2016
4 Central Bank of Ireland, "Quarterly Bulletin 04", 2022

Zurich Life Assurance plc
Zurich House, Frascati Road, Blackrock, Co. Dublin, A94 X9Y3, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurich.ie

GR: 8071 Print Ref: ZL LSA 8072 0823

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