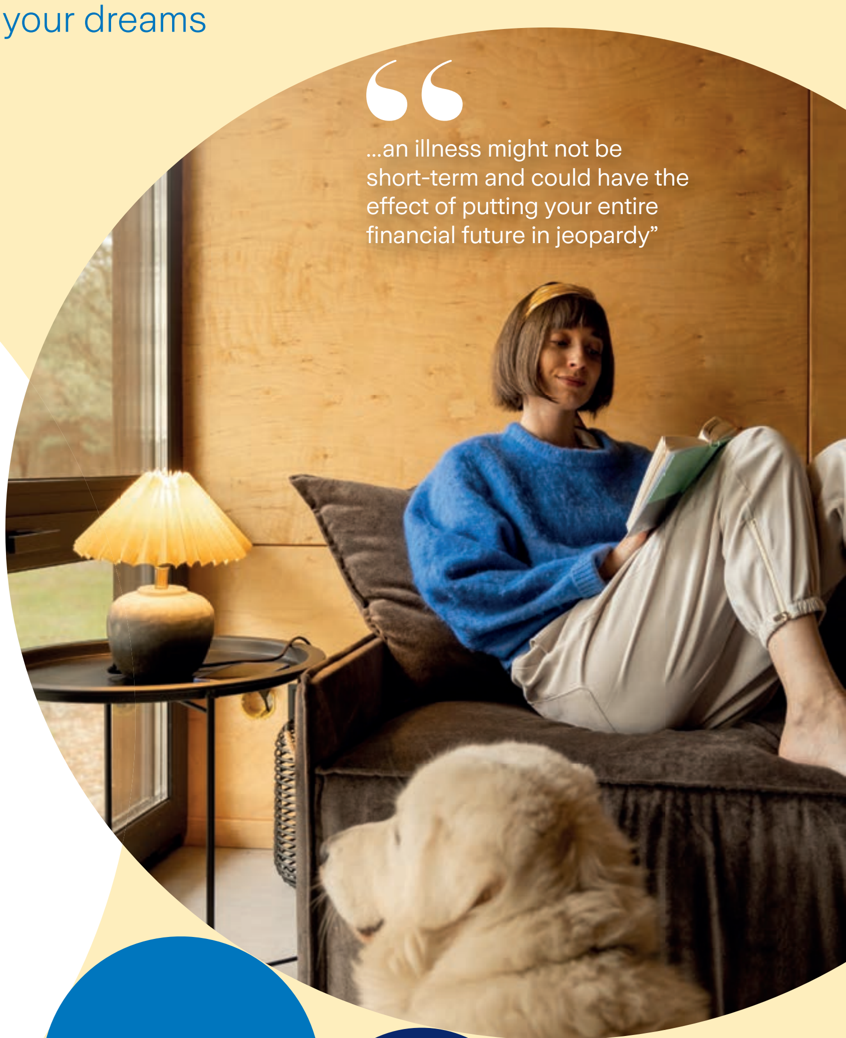
ZURICH

Don’t worry, I’m fine, I don’t need Income Protection...

Protecting your income is probably not the first thing you think about when planning your financial future. It’s more natural to focus on the tangible things in life like buying your first home, saving for college education, or planning for retirement. But interestingly, these all have one thing in common – money! The money you earn through your salary funds everything, from your daily household expenditure, right through to your dreams and passions.



Many of us are aware of the risk to our salary through redundancy – it’s one of those concerns we’ve all grown up with. But most people who lose their job through redundancy reset and find something new – so perhaps their finances are only thrown off kilter for a short-period.

But what happens in scenarios where you get sick or disabled? This can have far more wide reaching consequences – an illness might not be short-term and could have the effect of putting your entire financial future in jeopardy.

That’s why we believe that Income Protection is so important. It’s an insurance policy for your finances and it protects your financial future should you be unable to work due to illness or disability. It’s there not only to protect the big things, but also to make sure that you can continue to enjoy the lifestyle you are used to today and one to look forward to in the future.

So you might think you are fine but have a read of the various scenarios below and see where you fit!

‘Don’t worry, it won’t happen to me’

In modern psychology this is called the “Optimism Bias” which roughly translates to our human tendency to trick ourselves into feeling positive about an outcome that is not in line with the actual odds. The reality is that a car accident or cancer can happen to anyone. Whether you are young or old, man or woman, blue or white collar, circumstances may arise that make you unable to work for a prolonged period of time.

Just like it is never too early to think about retirement, it’s also never too early to hedge against a potential loss of income. There is an old adage that insurance is best bought before you need it. When you are young and healthy, your access to cover will be easier, and it’s likely to cost much less. There are many advantages to buying a policy early instead of later because you will benefit from a more favourable “insurability”.

‘The state will look after me’

When you get sick and are an employee, you may qualify for Illness Benefit[1]. Illness Benefit is paid for a maximum of 1 or 2 years depending on the number of social insurance contributions you paid since you started work. However, if you are self-employed, you have no access to Illness Benefits at all.

If you are still ill when your Illness Benefits are due to stop and you are likely to be permanently incapable of work, you may qualify for an Invalidity Pension[1]. This is granted after an assessment where you must prove that you are unable to work for the next 12 months. This can be hard to prove and easy to challenge.

If you do not qualify for an Invalidity Pension and have a disability that is expected to last for a year or more, you may qualify for a Disability Allowance[1]. As a last resort you may get a Supplementary Welfare Allowance[1].

However, living on public health benefits can be extremely challenging. None of the personal rates in any of these schemes exceed €225.50 a week with limited additional payments available for (adult) dependants[1]. These maximum personal rates roughly translate into less than €1,000 a month which will hardly cover your monthly bills. In reality, one in five persons in Ireland that are unable to work due to long-standing health problems are living in consistent poverty[2]. The state does in most cases simply not provide sufficient Protection.

Tip

Visit Citizens Information to find all up-to-date information about social welfare in Ireland.

‘I have savings’

What if you set aside money on a regular basis to save for a rainy day? Does this provide an alternative solution? While this could be the case for some, building a personal safety net takes time. Often you will find that if you do the sums, the amount that you would have to set aside can turn out to be unrealistically high. It takes discipline and time to build up such a large sum.

Emergency funds or ‘rainy day’ savings pots that Irish households have vary substantially. Economically precarious households have less than a week’s worth of spending on essentials in liquid savings. Even more affluent households only have somewhere between 7 and 10 months’ worth at their disposal and around 1 in 6 households have no savings at all[3].

Losing your income can be costly. What if you become permanently unable to work at the young age of 45? Will you be able to pay your rent, mortgage, and households bills until you start receiving a pension? And will your pension be sufficient when you do not have a regular income to save for it?

A (long-term) disability or illness may also result in additional costs (rise of medical bills, additional spending on childcare or household help).

Tip

A serious illness policy can offer financial relief to deal with the additional costs of a serious illness.

‘My partner has a regular income’

At its core, this argument makes sense. Why would you put money into an insurance policy if your partner’s income could cover the basics, especially when your partner provides the largest part of the family’s income? Indeed, if there is a partner with a (much) high(er) income, this can be true. More often than not, losing one source of income will severely impact a couple’s standard of living. People tend to overestimate their ability to cut costs.

Unfortunately, your partner’s income is not guaranteed either. Your partner may also lose their ability to provide an income. And although Ireland has one of the lowest divorce rates in the E.U. [4], the number of couples filing for divorce has been on the rise![5]

‘It is too expensive’

The most common reason why people do not take out this policy is because they think it is very expensive. More often than not, this is a misconception. For example, for as little as €16 a month, a 40 year old could take out income protection plan that would pay €1,000 a month if they were unable to work due to illness or disability[6]. This is the same as the average monthly premium for pet insurance for a young dog[7].

Income Protection is one of the most flexible protection products in terms of budgeting. To lower the premium, you could extend the deferred period, reduce your monthly benefits, remove indexation, or shorten the duration of the contract. Remember, any Income Protection is better than no Income Protection.

Tip

It may be worthwhile to ask your financial advisor to run a few quotes to get a few options.

‘I’ve got Income Protection at work’

When you have to decide if you need additional Income Protection, it is important to find out what your employer would provide you with if you needed to take time off of work due to illness or injury. It is very well possible that you have sufficient cover but as personal circumstances differ, whether you can get by on the replacement rate provided by your employer is not always guaranteed. Many corporate Income Protection policies do not cover the full amount of 75% of their employee’s income (before tax, minus any state illness benefit).

Tip

Bring along your employee benefits booklet when you visit your financial advisor and verify your cover with them.

1 Citizens Information, August 2023
2 Central Statistics Office, Survey on Income and Living Conditions (SILC) 2022
3 Central Bank of Ireland, Quarterly Bulletin 04 / October 2022
4 Eurostat, How many marriages and divorces took place in 2020?
5 Courts Service Annual Report 2021
6 Cover based on 40 year old non-smoker, office based employee, deferred period of 26 weeks, cover to age 60 (20 years), including government levy (currently 1% as at 1 September 2023 and may change in the future).
7 Switcher, How to get the best value pet insurance in Ireland, 2023

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