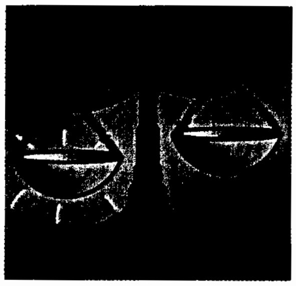
Case study



Oliver, 45, has just started working as a freelance journalist. He previously worked at a large national newspaper and had group income protection as part of the company's benefits package. However, his decision to go freelance has meant that he is no longer covered. Oliver is worried about not being covered as he would not be able to pay his outgoings should he become unable to work. He is particularly concerned about not being able to pay for his £300,000 over 25-year term mortgage, which he only recently took out. He is generally in good health apart from a motorbike accident three years ago where he fractured his ribs and punctured a lung. He is also a non-smoker. What do you recommend for him?

Peter Chadborn, CBK

The first consideration is to assess whether Oliver could maintain the cover previously provided by his former employer as favourable terms may prevail and the cover may have begun prior to his motorbike accident. Assuming this is not a viable option, a new personal IP plan would meet his priority concern. Assuming the mortgage repayments and, therefore, minimum cover requirement is approximately £1,750 a month, plus the fact Oliver has only recently changed jobs, then financial underwriting will be required.

This would entail consideration of previous salary, target income and career continuation. Actual income should then be reviewed each year. An own occupation definition is desirable but will depend upon Oliver's dependence on the ability to drive. If driving is an integral part of the occupation, it is unlikely own occupation is achievable. The deferred period should be set to match Oliver's ability to manage without an income and the term should run until his realistic retirement. The problem is that the mortgage term takes Oliver to age 70 and there are no ideal plans offering an expiry age beyond 65 that will accept his occupation. Combined with the difficulty for anyone who is self employed to predict their retirement age, this is a perfect example of why the flexibility of a plan should take precedence over cost.

I would recommend Bright Grey's Menu Protection Plan with a minimum monthly benefit of £1,750 to age 65. A deferred period of 13 weeks would cost £93.42 a month.

Chris McNab, Friends Provident

Assuming Oliver fully recovered from the accident and there were no recurring problems, then it will not have an impact on the availability of cover.

The primary concern, taking into account the fact that he has no other form of financial protection against a loss of income due to illness or accident, should be income protection on a four-week deferred period. He should include an increase facility, either an inflation-proofing annual increase or exercisable increase option with a term to normal retirement date. If the cost of cover is a barrier to purchase and if he had sufficient savings he could consider extending the deferred period to 13 or 26 weeks. This is not ideal because he will require a high level of savings to cover his debts, even short term.

It would be sensible, as his mortgage continues beyond age 65, to have a pension arrangement in place to support his mortgage payments and other living expenses should he want to retire at 65. Therefore, in order to protect these contributions, it may be advisable for him to take out a pension contribution protection benefit, to ensure he can continue to save for a pension if he becomes ill.

If there is enough money within his budget, he could look at taking out decreasing critical illness cover on a stand-alone or accelerated basis.

Accelerated cover provides a death benefit that could help a future partner. This should cover the full term (although maximum cease ages may impact the term) and the amount of the mortgage.

Andy Chapman, Pioneer Friendly

Under his previous employment, Oliver had a group income protection (IP) policy as part of the benefits package.

He is accustomed to the reassurance that this provides and has rightly stated that his major concern is protecting his outgoings should he be unable to work.

Arranging an IP policy should be a major priority for him.

As a freelance journalist, if Oliver is unable to work then he is unable to earn; this makes obtaining IP cover even more important. It also means that a short-deferred period is likely to be the order of the day, which brings up the cost of premium.

This, together with Oliver's age and a probable benefit level of over £2,000 a month, dictate that premiums will be fairly costly – however, the crucial need for cover in this instance should outweigh the cost.

There are a couple of complicating factors that Oliver should be aware of when arranging IP. The injuries suffered in his recent motorcycle crash are likely to require further medical investigation and potentially a loading or policy exclusion.

Secondly, his recent change in employment status could complicate how he proves earnings in any potential claim. However, the importance of seeking expert advice is highlighted in these incidences, where intermediaries can manage expectation and liaise with the provider to ease both the application process and any potential claim.