

Case study

Annie is 27 years old and single. She earns £25,000 a year in her job as a sales manager in a small shop in central London. Annie still lives at home, however, she is looking at renting her own flat within the next few months. She is considering paying £550 a month in rent. When she moves she wants to take out protection insurance to ensure she would not need to move back home should she become unable to work. Annie is a non-smoker. She is healthy apart from suffering a bout of depression in the past. What recommendations would you make?



Peter Chadborn, CBK



It is probable that Annie's employer does not provide employee benefits and so an income protection (IP) plan would meet her needs of protecting her income.

As a young non-smoker the premium should not be prohibitive, however,

I would resist the instinct to recommend the maximum cover available of around £1,145 a month as she is not yet used to taking responsibility for a household budget. Instead

I would recommend a lower monthly benefit of £800 a month to cover her anticipated rent and basic household expenditure. Once Annie has settled into her own flat and her disposable income can be quantified, consideration should be given to increasing the benefit or considering critical illness.

Own occupation definition is essential for IP and the cover should have a deferred period set to match Annie's ability to manage without an income. Inflation proofing should also be included so the cover retains its real value. Quality and flexibility should take precedence

over cost, so I would recommend Scottish Provident's Self Assurance plan based upon the ability to increase cover and term and alter the deferred period. A monthly benefit of £800, index-linked at retail price index to age 60, with a deferred period of 13 weeks would cost £39.41 a month.

The potential underwriting issues regarding Annie's depression depend on whether it is attributed to a particular event, medication prescribed and how much time has passed. Her expectations should therefore be carefully managed.

Rod McKie, Agon Scottish Equitable, Individual Protection



For Annie to ensure she is able to maintain her rent payments in the event that she is unable to work she must protect her income.

She should take out an income protection policy that will provide her with a monthly income

of £800 on an own occupation basis. This is approximately 50% of her net income, and balances the cost of cover to what she can afford. The £800 a month benefit will cover her rent payments and leave some extra to go

towards bills and living costs. Annie will need to select a deferred period and should take into account any sick pay she would receive from her employer and any savings she has.

With respect to Annie's bout of depression, underwriters would issue a questionnaire to her GP to ascertain the full extent of the episode. This would provide information such as the date and length of the episode, any treatment, any time off work due to the condition, and whether there is any ongoing treatment. Terms would not be available until a year after the episode and, given the information available, we assume that this was

a one-off with no ongoing treatment. After a year, we would offer cover with a +100% morbidity rating, which we would consider reducing if Annie had last suffered acute symptoms over five years ago. Alternatively, we would offer standard premiums with a mental health exclusion applied to the policy.

Standard premium with mental health exclusion would be £34.78 a month, while a +100% rated premium would be £67.01 a month – both based on female non-smoker, £800 monthly benefit, to age 60, own occupation definition of disability and a 26-week deferred period.

Andy Chapman, Pioneer Friendly



Annie's priority should be taking out a comprehensive income protection (IP) plan, which, in the event of illness, would not only cover her rent on a monthly basis, but should protect her other essential living

expenses and lifestyle.

Earning £25,000, typically the maximum monthly benefit Annie could insure would be £1,354 a month – 65% of her gross income. Annie should investigate her sick pay

entitlement with her employer so the IP plan can be organised to kick in when this cover ends – with relevant deferred period.

Historically, females have paid more for IP, with typical loadings according to gender being anything up to 50% of the premium. However, there are a number of providers, including Pioneer, for which rates are the same regardless of gender; these providers should be investigated to keep costs competitive.

To keep prices reasonable, a plan with age-banded premiums and affordable premiums at inception increasing along with salary over the policy term are well worth consideration.

Examples of how competitive premiums could be; Annie would pay £32.98 a month for a Pioneer Pure Protection policy on a 13-week deferred period or £41.66 a month if she required benefits to start earlier – on the basis of a four-week deferred period.

Annie's bout of depression, together with the permanent nature of this type of cover, dictate that full medical details will probably be requested. However, the more details that are captured on application, the less likely she will have a nasty shock when claiming, which is often the case with less comprehensive forms of protection.