Make a dash for cover

As unemployment rises, you should look at income-protection plans as soon as possible. **Lorna Bourke** picks through the small print

It has been estimated that 370,000 people in London will lose their jobs by the end of 2010

Cavan Pawson

WITH high unemployment on the horizon can you prepare for the worst-case scenario and prevent your mortgage lender from repossessing your home, or the credit card companies taking you to court. Yes, if you take out income- and/or payment-protection insurance as soon as possible. With unemployment rising fast, Income Protection (IP) is likely to go up in price. As people are made redundant, insurers will put up prices and introduce tougher underwriting criteria, banning certain categories of employment altogether, such as people in finance and estate agency.

IP can provide income to cover household bills if you find yourself unemployed or unable to work because of sickness — not just for mortgage or loan repayments. "IP cover will certainly become more expensive and difficult to obtain," warns broker Simon Burgess of British Insurance (www.britishinsurance.com). "Insurers have started to 'cherry-pick' and some are refusing cover to certain categories of employees — City workers, estate agents and those working in the construction industry. But we still offer stand-alone unemployment cover. By making people take out sickness insurance as well, insurers are effectively making unemployment cover more expensive."

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Broker Peter Chadborn of CBK Colchester agrees. "Anything related to financial services, retail and the services industry in general is bound to be hit. Insurers are not going to want to take on that risk at all," he says.

Research from moneysupermarket.com found that recent enquiries for payment-protection insurance policies were dominated by people employed in the finance and business sectors, accounting for 39 per cent of all applications. The second-highest was from people in the construction industry at 16 per cent.

"More concerning is that a tenth of people would only buy a policy if they felt their job was under threat," says Emma Walker, head of protection at moneysupermarket.com. "The best time to buy a policy is when you least expect to need it. The small print will usually reveal insurance of this kind is void if the policyholder is aware of impending unemployment."

She points out that even if you have not been threatened with redundancy, if the sector you are employed in has seen mass redundancies, you could be tarnished as high risk and possibly turned down.

Burgess adds that for the self-employed, unemployment insurance is a waste of money because you have to be declared bankrupt to be eligible to claim.

What your money buys

Income Protection provides monthly income to cover household expenses such as mortgage, loan and credit card repayments, heating and lighting and general living expenses. Most policies pay benefits for between one and two years and you can make a claim if you are unable to meet your outgoings because of sickness or redundancy.

Until recently, policies offering sickness-only or redundancy-only were widely available but as Burgess explains, most insurers now will not offer stand-alone unemployment cover. Norwich Union, for example, has just pulled out because it fears a flood of claims.

Burgess specialises in Income Protection as well as Mortgage Payment Protection (MPPI) and Payment Protection (PPI) cover and makes the distinction between the different types of policies. "With MPPI and PPI the benefits are paid directly to the mortgage lender or to the bank that made the loan, and the benefits are not treated as income when people are assessed for means-tested state benefits such as income support or mortgage-interest payments. But IP is treated as income and will affect entitlement to state benefits."

With help for the unemployed who cannot meet their mortgage payments now improved, it is important to take this into account. The Department for Work and Pensions has announced that the ISMI (Income Support for Mortgage Interest) waiting period before benefit is paid will be shortened from 39 weeks to 13 weeks for new claims from April 2009 for those of working age.

The capital limit for new claims will be increased from £100,000 to £175,000. Mortgage-interest payments (not repayment of capital) will be paid for mortgages up to £175,000 but any excess over that level will not be covered. With mortgages of £200,000 to £300,000 commonplace for those buying a home in London and the South-East, clearly it will pay to take out some form of insurance protection.

Note that IP, MPPI and PPI should not be confused with Permanent Health cover, which provides income — potentially for the rest of your working life — if you are too ill to work. Permanent Health cover is much more expensive because of the long-term nature of the benefits.

There are limitations on Income Protection cover, too. Generally speaking, you cannot insure for more than half of your gross earnings and there is often an absolute ceiling of about £1,500 a month of benefit. The Charcol policy probably offers the highest cover available.

Where to get them

Buy Income Protection (and PPI and MPPI) online through comparison websites such as moneysupermarket.com and moneyfacts.co.uk but be aware that cheapest may not be the best.

For example, do you want "back to day one" cover, where benefits are paid after a month but backdated to the first day of sickness or unemployment? Is it better to have MPPI, which makes your mortgage payments directly to the lender, rather than IP, if you think you will qualify for state benefits such as mortgage-interest payments under ISMI?

To find a broker

Visit www.biba.org.uk, the British Insurance Brokers Association website, or www.unbiased.co.uk, which represents more than 90 per cent of independent financial advisers.

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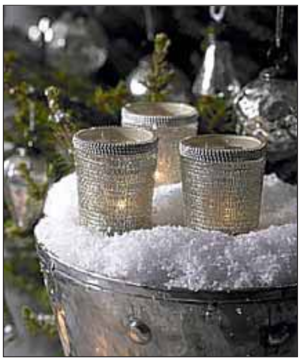


Find unusual Christmas gifts at Lombok

HOMES & Property has teamed up with Lombok to offer the chance for one lucky reader to win a £1,000 shopping spree to celebrate the launch of the company's new winter 2008 collection.

With this fantastic prize you can furnish your home with beautiful Eastern-inspired furniture, lighting and accessories.

Lombok is a great place for gifts this Christmas, offering unusual items sourced from around the world that are perfect for home, family and friends. Recycled and natural materials are used wherever possible, to create stylish pieces with that comfortable, lived-in feel.

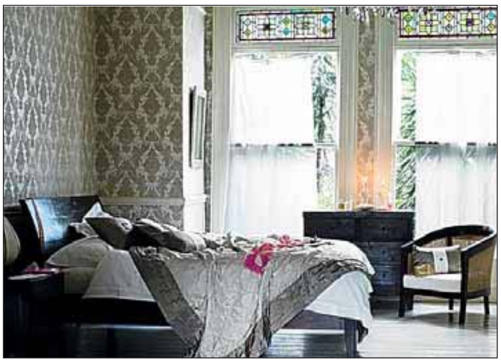
The new collection includes a range of wooden beds and dining-room furniture, as well as Christmas gifts, including lighting, cushions, textiles and basketry.

HOW TO ENTER

For your chance to win: text LOMBOK, followed by a space and then your email address, to 65600. Or call 0901 010 0428 and follow the instructions, or visit www.homesandproperty.co.uk/offers.

Terms and conditions: texts cost 50p plus your standard network charge. Calls cost 50p from a BT landline. Other networks and mobiles may vary. The competition closes at 23:59 on 15 December. If you call or text after the closing date, you will not be entered but you may still be charged. The winner will be contacted by Lombok to arrange delivery. Further standard terms and conditions apply. Delivery in UK mainland only.

To view the full range, visit www.lombok.co.uk, or for information on this and other exciting companies, visit www.homesandpropertydirectory.com.



Lombok is best known for its Eastern-influenced furniture and accessories