

The Telegraph

Too ill to work? You'll lose 66pc of your income

Nine out of 10 Britons who become too sick to work will see their income slashed by two thirds because Britain has some of the lowest levels of state and private protection against ill health in the developed world, a report has found.



Too ill to work? You'll lose 66pc of your income Photo: PHOTOLIBRARY

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Britain came second last in a table by Demos, the think tank, that ranks 12 Western countries on how they protect employees against sickness and incapacity, lagging behind most of Western Europe, Poland, Canada and the United States. Yet despite the low level of state support on offer, only one in 10 Britons has insurance to protect themselves from being unable to work.

"The 'squeezed middle' – those earning between £16,000 and £50,000 per annum – are most at risk should they be unable to work, since state benefits will not maintain their standard of living if they stop earning due to sickness or disability," said Max Wind-Cowie, the report's author.

Britons can expect state support of an average of 38pc of income if they become unable to work through illness. This compares to 66pc and 60pc paid in France and Germany respectively and is barely half the 74pc in Holland.

"It is perhaps no surprise to see our benefit levels below those of European countries, but our focus groups told us people were surprised that the UK gives even less than the United States, which pays 51pc," Mr Wind-Cowie said.

The report also found that people in Britain overestimate the income that people with disabilities receive, believing it to be between £100 and £120 a week, when the real figure is an average of about £70 a

week.

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Britons' financial protection deficit is made worse by the low proportion of people who take out protection for themselves. Only 10pc of people in Britain take out income protection insurance to protect their and their family's financial future, compared with 27pc in the US. The combination of higher state and private cover means Americans end up 36pc better off than Britons if they become incapacitated over the long term, the report found.

Experts believe that a lack of understanding of what financial products are available is partly to blame for the situation.

Peter Chadborn, a financial adviser at Plan Money, said: "There are two big misconceptions about what will happen when you fall sick. First, people think that the welfare state will look after them. Second, they think that their employer will offer them greater benefits than they actually do."

For many people, it is only when they fall seriously ill that they find out exactly what their employer offers. Public sector workers are generally likely to have higher levels of protection. But ill health early-retirement pensions are only available to the dwindling number of people in final-salary schemes and only a very few employers will pay an income all the way through to retirement.

Experts say you should find out exactly what, if anything, your employer offers in the event of you being sick in the long-term. The state will pay an employment support allowance, which replaced the incapacity benefit for new claimants from October 2008, of up to £97 a week. Extra premium rates are paid for certain disabilities and you can also get help with housing costs.

A wide range of financial products is available to protect you if you are unable to meet bills. Some have pitfalls, however, and it is advisable to get professional advice before you buy anything.

Income protection, a form of insurance that pays you an income, is considered by most insurance experts to be one of the most important, yet often overlooked, benefits on the market.

Jack McGarry, the chief executive of insurer Unum UK, said: "As a nation, we are spending too much on life insurance and not enough on income protection. You are three times more likely to be unable to work due to sickness or disability, than you are to die. A million people are sick or disabled each year and half are still disabled a year later."

Income protection is not the cheapest form of insurance, but its cover is relatively comprehensive. The cost for a 40-year-old male nonsmoker on £40,000 wanting to insure half his income, index-linked, until age 65 is £50 a month with Aviva, according to figures from Life Plan. This policy would start paying out

three months after the policyholder became incapacitated. Because the payment is tax-free, the £20,000 a year would replace nearly two thirds of take-home pay.

Cheaper than income protection is accident, sickness and unemployment insurance (ASU), which usually pays out for only a year, which is why the premiums are lower.

"ASU is easy to apply for, but the fun and games start when you try to claim," Mr Chadborn said. "Stress, back and other musculoskeletal problems are among the most common reasons why people go off work long-term, but they are usually excluded from ASU plans, as are any pre-existing medical conditions. With income protection, on the other hand, you can get pre-existing conditions included through underwriting."

Protecting your financial future may seem like another bill you cannot afford, but overlooking it could be a decision you live to regret.

Ways to protect against losing your earning power

Income protection

Pays a tax-free income for as long as you are unable to work, usually as a result of ill health. Payments are usually made until you recover your health, up to retirement age, rather than limited to 12 months, as is the case with some other forms of financial protection products.

Accident, sickness and unemployment (ASU) cover Typically pays out a fixed sum for a year to help you meet your general living expenses if you lose your job. But you will not be covered if your employer has already announced a redundancy programme, and some common conditions are excluded.

Payment protection insurance (PPI)

Will meet repayments on specific contracts you have entered into, such as your mortgage, loans or credit cards, usually for one year.

Life insurance

Pays a single lump sum, usually to a family member, in the event of your death.

Critical illness cover

Pays out a tax-free lump sum in the event you suffer from one of a list of specified conditions, including certain types of cancer, heart attack, stroke or brain tumour.