Seed Weekly

16 October 2019

The Importance of Income Protection

When looking at financial planning most people have three basic questions which need to be answered.

What happens if I die too early?

A person needs Life Cover to cover their debts and to cover the income stream that they generate for their dependents. If you have no debts and no dependents as a general rule you don’t really need Life Cover.

The second question is a lot more difficult to answer due to the time frame and number of variables involved.

What happens if I die too late?

Outliving your money is a common problem in South Africa mostly caused by saving too little and starting too late.

Most people focus most of their attention on the first two questions however I feel that the third question is just as, if not more important than the first two.

What happens if I can’t work anymore?

Protecting your ability to earn an income (this ability is usually your biggest asset) is vitally important for everybody except the lucky few whose income is not dependant on them being able to work (Trust Fund Babies and People with enough investment income to cover their capital and income needs).

For reasons that I cannot fathom the amount of income protection sold is miniscule when compared to the amount of Life Cover and Capital Disability sold. Capital Disability is a great product to cover your debts, should you become permanently disabled it should, however, be borne in mind that given the advances in modern medicine, disabilities are seldom deemed to be permanent. Statistics between companies vary but a very high portion of income protection claims made are for periods less than three months.

There are a number of different products available when looking at income protection and it is important to understand the implications of the different options:

- **Waiting period** is the length of time that you need to be disabled before you can lodge a claim. Waiting periods vary from 7 days to 2 years, each person has different circumstances and needs and these need to be evaluated. For instance, your present employer could have a temporary disability cover in place which covers you from 3 months to 2 years. Because you would get paid within the first three months of disability, you would only need income protection with a waiting period of 2 years. If, however, you are running your own practice with high overheads and you are the sole income generator, you would need the waiting period to be as short as possible i.e. 7 days.
- **Benefit escalation** is vital for permanent incapacity, the effects of inflation could be deadly if you do not have a benefit escalation or it is less than inflation.
- **Proof of Loss of Income** is a contentious issue with income protection claims, different insurers have different policies and it is important to understand where the onus of proof lies and how onerous the company’s definitions are.
- **Expected Retirement Age** influences how long a permanent incapacity benefit will pay out for, you need to ensure that this links up to your expected Retirement date.

Seed Weekly

16 October 2019

The Importance of Income Protection

Protecting your ability to earn an income is a vital component of any financial plan and it is pointless having your retirement planning and "death" planning in place and you can't afford to pay the premiums on those because you have fallen off your bicycle and can't work for three months. Ensuring your ability to earn an income should be your first priority.

Kind regards,

Barry Hugo *CFP® CA(SA)*

Wealth Manager – Hampshire Independent Advisors

The Importance of Income Protection

DISCLAIMER