

Selling Income Protection

As we all know Income Protection (IP) really should be a 'must have' for most clients, especially since the Welfare Reform Act in 2008. Here we look at a few examples of client scenarios, sales tips and how IP might help in planning for the future.

Some of you will be new to IP, others may just need reminding of the many client situations, existing within your client banks, that could benefit from IP.

Client Scenarios

Dave

Single, aged 30, employed and entitled to 3 months sick pay from his employer. Has a 25-year mortgage. He saved for a long time to get his deposit and is very happy to be on the 'property ladder' and to have moved out of his parents' home. Has minimal savings since purchasing his property.

Why IP

- Could he maintain his mortgage payments after 3 months if he was off work due to ill health or accidental injury?
- If he could not afford to keep his property, could he sell in the current market? If the property was repossessed, how would that impact on his future plans to be a homeowner?
- Moving back in with his parents may be an option but would he really want to? And would they want or be able to take him in?

What may be suitable

His most pressing concern is his mortgage and associated costs. Advising IP as a 'mortgage plan' would help make sure his main financial concern is addressed. The term could match his outstanding mortgage and a deferred period of 13 weeks would tie-in with his 3 months employee benefits – all this will keep the premium lower and more affordable. Did he take any payment cover out with his mortgage? What is the cost? Is it appropriate? And does it offer as much as an IP contract?

Phil & Karen

Both in their early forties. Each has a right to sick pay from their employer, Karen for 12 months and Phil for 6 months. They have one child, aged 11, who is just about to go into private schooling at a cost of £10,000 a year. The mortgage is not excessive and only has 13 years to go. They have a large outstanding balance on credit cards and also a car loan along with interest-free credit for a new TV and three piece suite, which were too good to miss in the January sales!

Why IP

- Could they maintain the mortgage payments after benefits from work cease? Do they have savings to repay the outstanding balance on their credit cards?
- What would be the impact of taking the child out of private education? What was the reason for educating privately in the first place?
- What would be the impact if they had to sell their home? If they moved would the school still be accessible?
- Depreciation probably means the car loan is greater than its value and could not be sold.
- Recent purchases are interest-free but will still need paying and probably have very punitive interest charges if payments are missed.
- Also, there is the risk that their credit rating is downgraded which means future loans and mortgages could be affected.

Friends Life is a business name of Friends Provident Life Assurance Limited

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What may be suitable?

With a mortgage, car loan, school fees and a large credit card balance, advising IP at the maximum level of cover should help ensure that they maintain their current standard of living if they are unable to work following an accident or ill health. If the cost of two plans was prohibitive, you could look at longer deferred periods and a shorter term that matches the outstanding mortgage term and gives 'school fees' protection.

Does any existing payment cover exist on the mortgage, car loans or even on the credit card balance? Was payment protection added to purchases in the January sales? What are the separate costs? Are the policies appropriate? And do they offer as much cover as an IP contract?

Sales tips

1. One tip would be to add a 52 week deferred Income Protection plan to an ASU plan (Accident, Sickness and Unemployment). ASU is currently being sold more often due to the current market conditions. So rather than simply sell ASU, IP would sit very nicely alongside ASU and because of the long deferred period the premium could be kept to a minimum.

2. One reason for declining IP sales may be cost versus perceived benefit. Seeing a premium of £20 for £100,000 of critical illness cover, compared with £25 for £2,000 a month of income protection, certainly looks more attractive to the average man on the street. Also people don't believe they could be ill for more than a few months. The lump sum could pay off the mortgage, but it won't pay the bills month after month, and that £2,000 a month could be paid for 5, 10, 20 or more years.

After 5 years that comes to £120,000, so they would potentially be in a more comfortable position than if they had chosen a £100,000 lump sum. At Friends Life, as at February 2009 over 58% of Income Protection claims in payment have been made for more than 5 years, showing how likely ongoing claims like this are. And with Income Protection the customer can claim as many times as required, unlike CIC which only pays out once.

Summary

These examples and sales tips do not of course, cover every situation and Income Protection is a valuable benefit to most clients. Hopefully, they provide you with some ideas to consider when you next look at your existing client bank or new clients.

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