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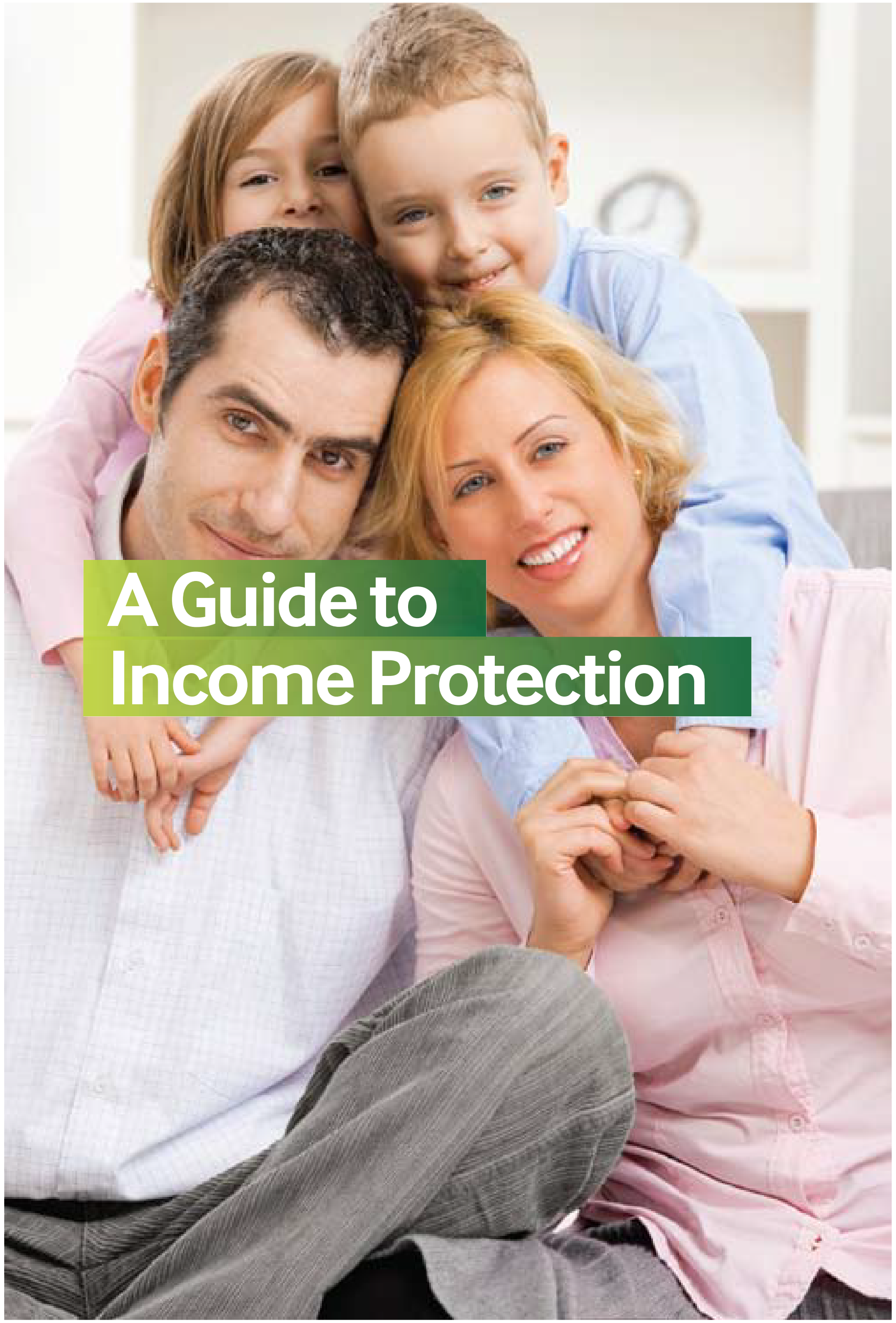
A Guide to Income Protection

Creating your success through Financial Planning



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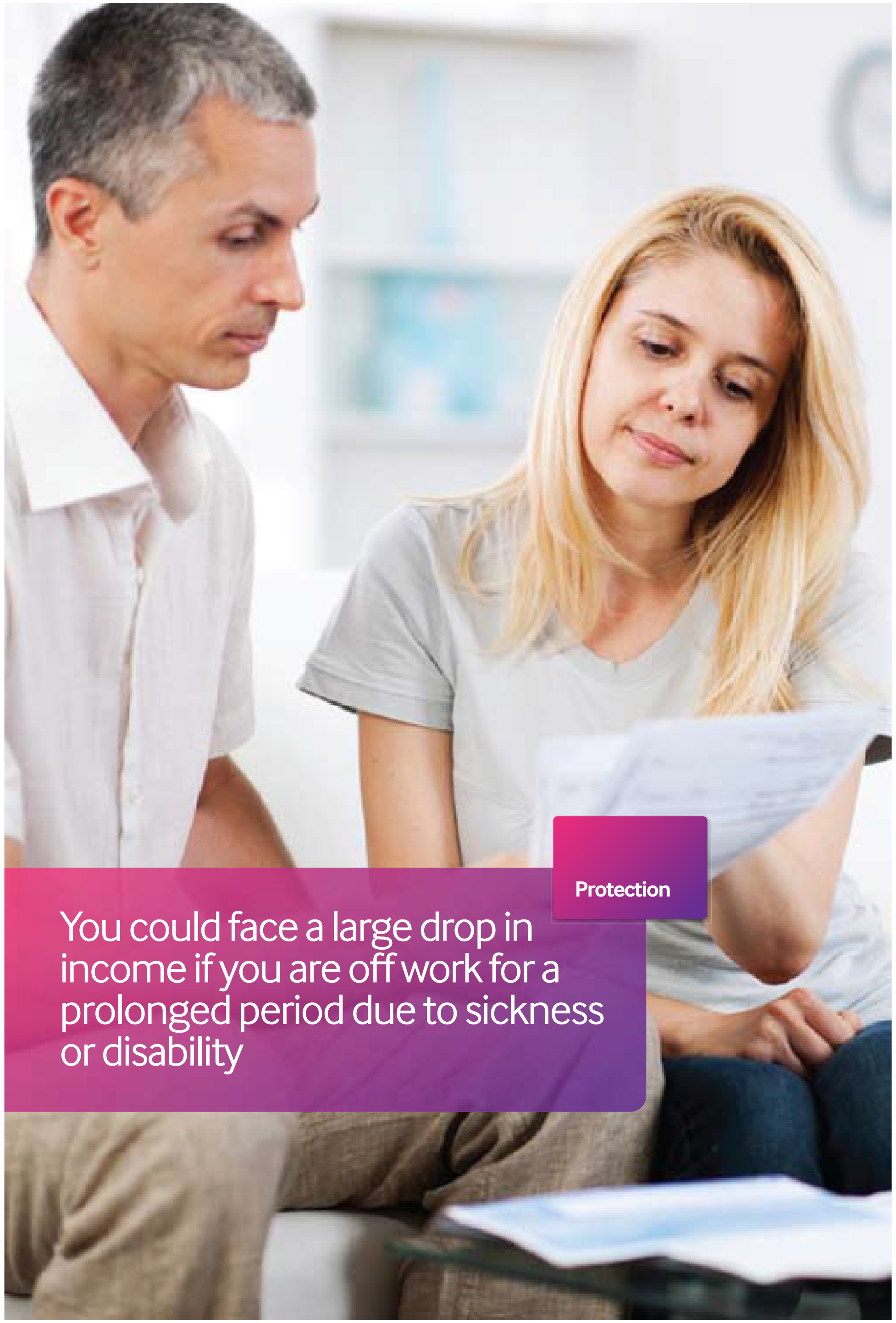


What would happen if I was out of work with illness for a long period?

Your income is your most valuable asset, governing how you and your family live. How would your standard of living be affected if you were in an accident or illness was to strike you and you were unable to work for a long period of time?

You could face a large drop in income if you are off work for a prolonged period due to sickness or disability. This drop in income could in turn place significant pressure on your ability to continue meeting your day to day expenses and overheads, such as mortgage and other loan repayments.

If you are an employee and pay PRSI the social welfare Illness Benefit or Invalidity Pension may replace part of this lost income. However, the benefits are low and if you are self-employed you are not covered for these benefits at all.

By taking out income protection cover you can ensure that if you are out of work because of illness or disability your financial wellbeing is protected.

What is income protection?

Income protection provides you with a regular income, which is paid out if you cannot work due to medium or long-term illness or injury. It is designed to supplement some of your earned income if, due to illness or injury, you cannot earn an income yourself.

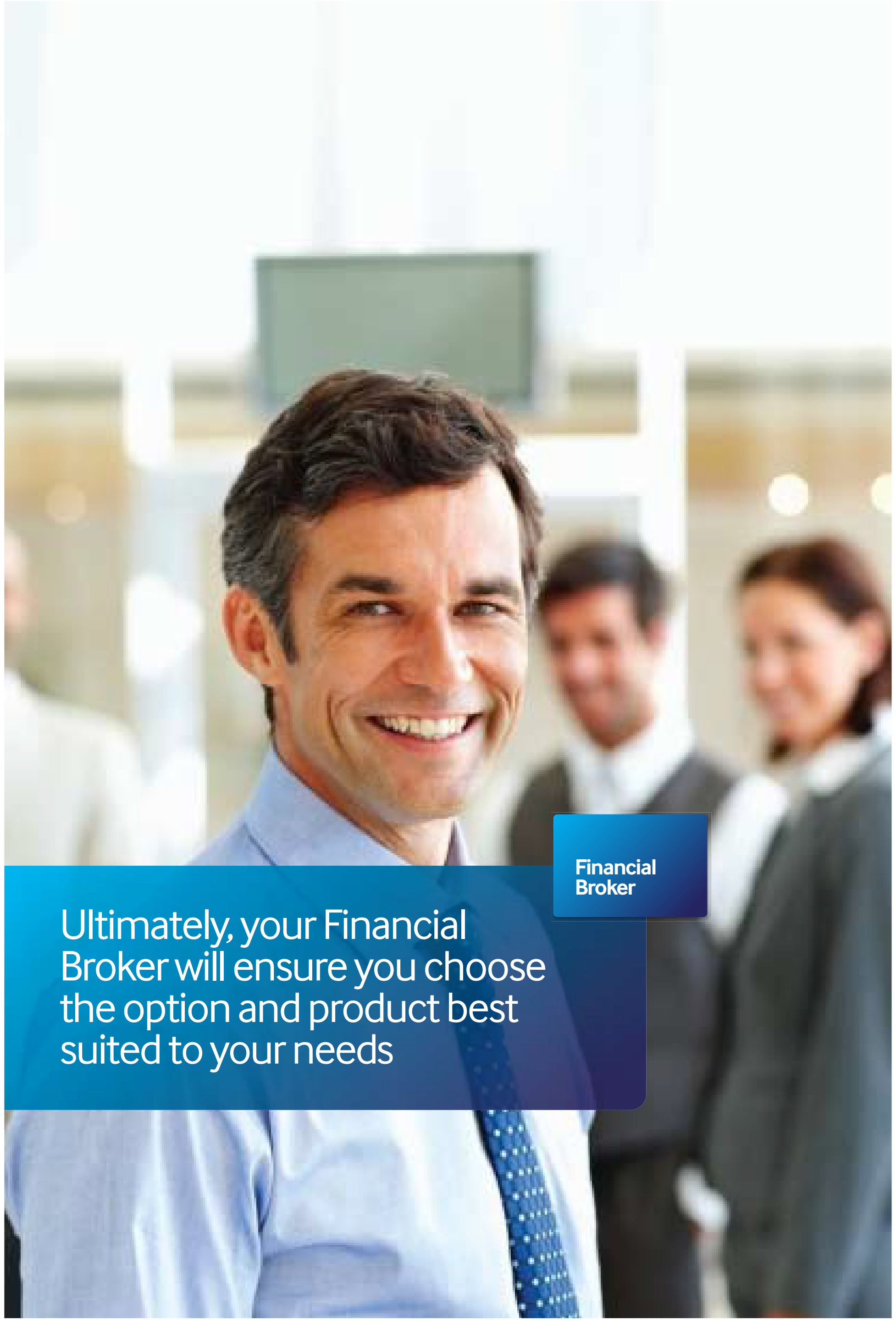
Income protection is available to those in full-time employment or the self-employed. It protects you if you are out of work for long periods due to illness or disability; it does not cover you in the event of being made redundant. To qualify for income protection cover you must typically work at least 16 hours per week. Some occupations are not covered for income protection and if you have a significant medical condition you may not be able to get income protection cover.

In order to ensure you have a financial incentive to return to work, income protection cover is usually limited to 75% of your pre-illness earnings, less the single person's Social Welfare Disability Benefit. You cannot insure 100% of your earned income and high earning restrictions may also apply.

The cover pays out if you are out of work for longer than a period referred to as the "deferred period", which typically ranges from 8 to 52 weeks. The cover normally pays out this benefit after the deferred period while you continue to meet the conditions of payment, until the earlier of:

- The date the insurer determines you are fit to return to work; in some cases the insurer may be willing to continue paying a partial benefit for a period if you return to work part time.
- The date you return to work.
- The benefit termination age of the cover, which is usually 60 or 65. This can be earlier in some cases but can be no later than your planned retirement date.

You should talk to your Financial Broker about income protection cover and whether it is something you should consider.



What is a Financial Broker?

A Financial Broker is an expert in financial matters who works with you to understand your financial goals and helps you create a plan to meet those goals. In helping you to make a decision about protecting you and your dependants from the financial impact of you not being able to work for a long period, your Financial Broker will research your options.

If your Financial Broker recommends income protection cover as the most suitable option for you, they will recommend a plan from the range of life insurance companies they deal with, providing you with a "fair analysis" of the market.

Why would I need to use a Financial Broker?

There are many different forms of protection against the financial impact of long-term sickness and disability. Only some may be suitable for your needs. Choosing the right way to protect yourself can be a daunting task.

Different insurers may charge different premiums for the same income protection cover and the terms and conditions on payment of benefit can vary from one insurer to another. That's why it's so important to shop around when arranging income protection in order to get the best combination of benefits and costs, suited to your needs and circumstances.

Your Financial Broker will be able to explain the choices available to you in simple language allowing you to make an informed decision. They can guide you on the level of cover you need and the best type of cover for you based on your personal and financial circumstances.

They will then help you through the process of setting up your income protection cover, help you to make sense of the cover provided and the restrictions and limitations of such cover.

Ultimately, your Financial Broker will ensure you choose the cover and product best suited to your needs and circumstances

What deferred period should you choose?

The deferred period is the amount of time you have to be out of work due to sickness or disability before a claim becomes payable.

When taking out your policy, you choose the deferred period you think would suit you best; there can be significant differences in premiums based on the choice of deferred period. Cover with a shorter deferred period would typically cost more than a longer deferred period. For example, if you choose a deferred period of 8 weeks it will cost more than if you chose 13, 26 weeks or 52 weeks.

Before you make a decision on the deferred period, check if your employer offers sick pay and if so, how much and for how long. This will help you to avoid over-insurance, which can happen if your employer continues to pay you past the deferred period.

Talk to your Financial Broker and get their advice on which deferred period would be most suitable for you.

How much will income protection cost me?

The monthly cost will depend on a number of factors:

- How old you are when you take out the cover
- How long you want the cover
- The deferred period; the shorter the deferred period, the higher the cost
- Your general health
- Whether you smoke or not; smokers will be charged more than non-smokers for the same cover
- The level of cover you want, and whether you want this cover to increase annually
- Your occupation; typically insurers classify occupations into different groups according to the risk of illness and disability attached to that occupation. Some occupations involving manual work are likely to be charged more for the same cover than someone in a lower risk occupation. Some occupations won't be eligible for income protection.

Check with your Financial Broker if you qualify for this type of cover.

Can I claim tax relief on my income protection contributions?

The contributions you pay to your income protection plan are deductible for income tax against your earnings at your marginal rate, subject to a limit of 10% of your total income. For example, if you pay tax at the 41% rate, for each €1 you pay for income protection you can claim 41 cent back in tax relief. This means an annual premium of €1,000 actually only costs you €590, after tax relief. Income protection cover, when payable, is paid subject to PAYE.

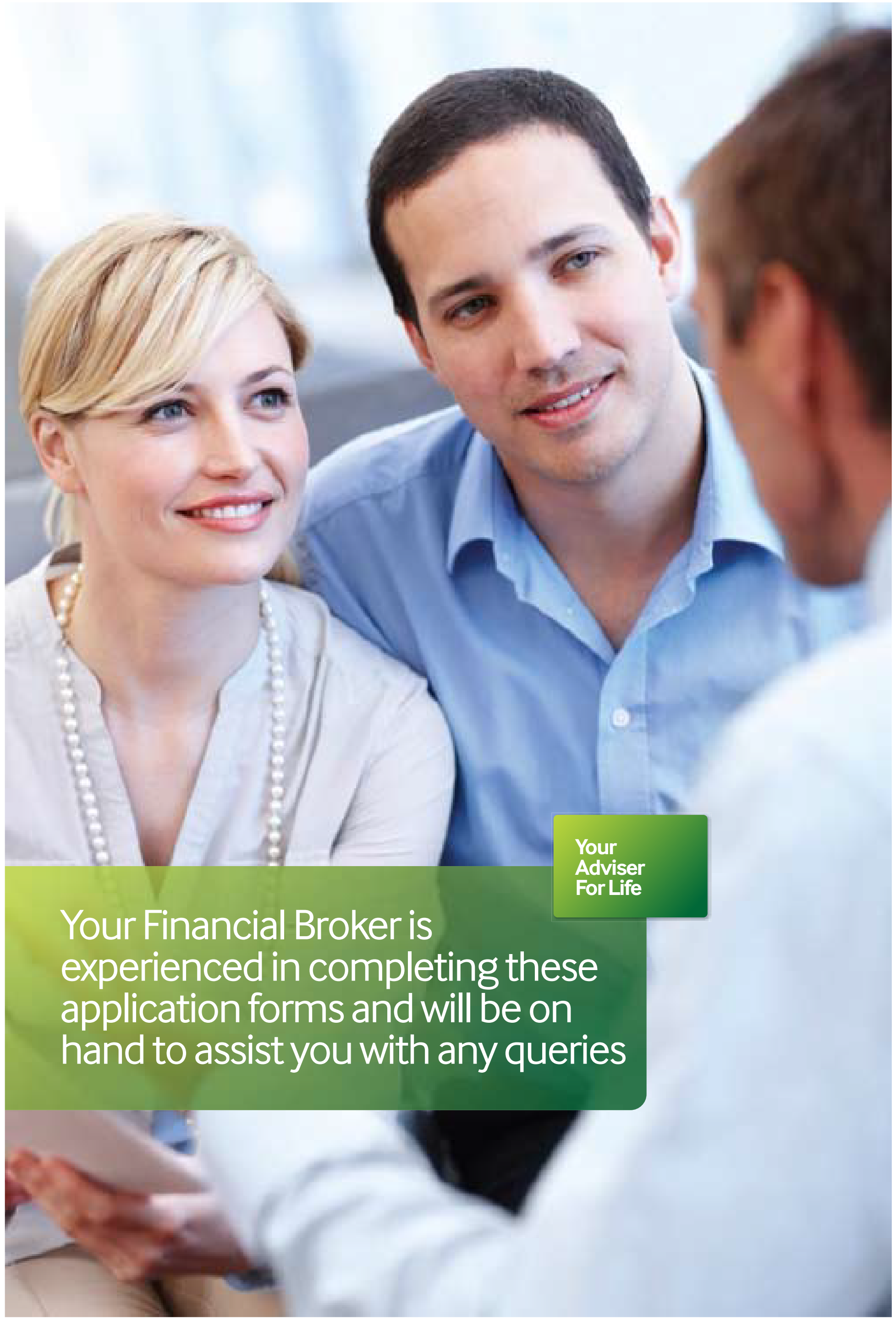
What are the medical obligations of taking out an income protection policy?

Insurance companies may request that you take a medical examination when taking out an income protection policy, depending on the amount of cover and other factors.

Income protection policies will generally not pay out if you have a medical condition that you were aware of when you first applied for cover and did not disclose this to the insurer before your policy started.

You must fill out the application form correctly, disclosing all material facts about your health and circumstances. A material fact is one that is likely to influence the acceptance or pricing of the cover by an underwriter. If you fail to disclose a key fact you could render the policy void and the income protection would not be paid. If in any doubt, disclose the fact.

Your Financial Broker is experienced in completing these application forms and will be on hand to assist you with any queries.



What's the difference between income protection and serious illness cover?

Serious illness cover pays a lump sum on the diagnosis of an illness specified in the policy. Income protection pays a replacement percentage of your income after the deferred period up to your return to work if you are prevented from working due to accident or illness. You may choose either cover or a combination of both.

The factors that may influence your decision are:

- Do you need a lump sum benefit - to clear loans, medical costs or re-model your home - or do you need replacement of earnings?
- Do you have earned income to replace? Income protection can only replace your earnings.
- Serious illness cover pays on diagnosis of the illnesses specified in the policy. Assuming no exclusions, income protection pays for a wider range of reasons that may prevent you from working (e.g. depression, back injury).
- You don't know how long you will be unable to work. Income protection payments last until you are certified fit to work or up to retirement (or cessation age) if necessary.
- You may be eligible for both serious illness and income protection cover, or one or other of these covers may not be an option for you because of your occupation or medical history. This may determine your choice.

- When you make a claim on your serious illness policy, that cover expires. If you claim on an income protection policy and return to work, the cover is still in force until retirement age (or cessation date) provided you resume paying your premiums.
- Income protection premiums attract income tax relief at your marginal rate but benefit payment is subject to PAYE. Serious illness premiums have no tax relief but the benefit is paid tax free.

Talk to your Financial Broker about the key differences between income protection and serious illness cover. They will be able to advise you which product is best suited to your needs.

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Contact your Financial Broker for more information on the following products:

- A guide to Approved Retirement Funds
- A guide to Annuities
- A guide to Buy Out Bonds
- A guide to Personal Savings Plans
- A guide to Executive Pensions
- A guide to Personal Retirement Savings Accounts (PRSAs)
- A guide to Life Assurance
- A guide to Income Protection
- A guide to Serious Illness Cover
- A guide to Savings & Investments

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