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INCOME PROTECTION

A Vital Financial Product

Pros of taking out income protection

1. Financial security during illness or injury

The primary benefit of income protection is that it offers a steady income if you're unable to work due to illness or injury. This ensures that your essential expenses—such as mortgage payments, utility bills, groceries, and childcare – are covered, reducing financial stress during difficult times.

2. Replaces a significant portion of your income

Typically, income protection policies pay out around 60–75% of your gross income, less any social welfare entitlements, until your incapacitation ends or your pension kicks in. This level of cover helps maintain your standard of living and prevents financial hardship, especially if your illness or injury is prolonged.

3. Peace of mind

Knowing you have a safety net in place can alleviate anxiety about unexpected health issues. It allows you to focus on recovery rather than financial worries, which can be beneficial for both mental and physical health.

4. Customisable cover options

Many providers in Ireland offer flexible policies that can be tailored to your specific needs. You can select the level of benefit, waiting periods before payouts begin (from one day to six months – the norm being six months), and the length of the benefit period, ensuring the policy aligns with your financial situation.

5. Protection for your family

Income protection can also safeguard your family's financial future by ensuring that household bills and expenses are covered, even if you are temporarily unable to generate income.

6. Potential tax benefits

In most cases, premiums for income protection are tax-deductible at your marginal rate, providing some financial relief in terms of tax planning. Getting a refund of 40% every month of your premium eases the cost burden.

Cons of taking out income protection

1. Cost of premiums

Income protection policies can be expensive, especially for younger individuals or those with pre-existing health conditions. Premiums vary based on age, occupation, health status, and the level of cover chosen, which can make it a significant ongoing expense.

2. Not always fully covering your income

Most policies pay out a percentage of your income rather than the full amount – up to 75% of your annual income, less any social welfare benefits. This might still leave gaps if your expenses exceed the benefit received, especially for high earners or those with substantial financial commitments.

3. Waiting periods and policy exclusions

Policies usually have a waiting period – often one day or four, eight, or 13 weeks – before benefits commence. During this time, you won't receive payments, which could be challenging if your savings are limited. Additionally, certain illnesses or injuries may be excluded from coverage, reducing the policy's effectiveness.

4. Potential for policy complexity

Income protection policies can involve complex terms and conditions. Understanding the fine print – such as definitions of disability, benefit periods, and exclusions – is crucial to ensure the policy provides the coverage you expect.

5. No guarantee of claim approval

Claims are subject to assessment, and not all claims are approved. Factors such as the nature of the illness, compliance with policy terms, and medical evidence can influence the outcome.

6. Alternative options may be adequate for some

If you have substantial savings or other income sources, such as a spouse's income or government support, you might consider whether income protection is a necessary expense. In some cases, self-insuring or relying on savings may be more cost-effective.