

## Why contractors need income protection

[Get life insurance quotation now](#)

Contractors should invest in an [income protection policy](#) so that, in the event they have an accident or become too ill to work, the contractor and their family continue to benefit from an income that maintains their lifestyle.

"When choosing to leave employment and go contracting, contractors no longer have the safety net of sick pay and potentially long-term financial support from an employer," explains [Mark McBurney](#), life and income protection insurance expert at [Contractor Financials](#).

"If a contractor is unable to work as a result of illness or an accident, state benefits won't cover mortgage and household expenses, and a partner or spouse may not have sufficient independent earning capacity to make up the difference. That's why contractors need income protection."

### Income protection policies provide cover for illness

According to McBurney, income protection is an insurance that pays out purely on the basis that the contractor is unable to fulfil their work obligations as a result of illness and has been signed-off by their doctor or medical professional as unfit to work. It does not, for example, provide an income when a contractor is 'on the bench' in between contracts.

"There are two main types of income protection," continues McBurney. "Level income protection pays out a set amount of money for the duration of the policy. Or the payments can be index linked from the point of claim so the income keeps pace with inflation."

When choosing an income protection policy, a contractor normally discusses and agrees their needs with a financial adviser, identifying what sort of income they would require to replace their contracting fees. This includes setting the termination age of the policy.

"The contractor sets the termination age, which is the point when the policy stops paying," says McBurney. "This would typically be at the end of a mortgage term, or perhaps at retirement age. The policy will continue to pay out until the termination age is reached, or the contractor is signed-off by their doctor as fit to return to work."

### Any occupation or own occupation?

One pitfall that contractors who don't take professional advice often fall foul of is not correctly specifying whether when assessed to return to work, the policy applies to 'any occupation' or 'own occupation'.

McBurney explains: "A contractor who signs-up to an 'any occupation' policy could find themselves being signed-off to return to work, even though they may not be fit to return to contracting."

"If a contractor specifies 'own occupation', then they can only be signed-off as fit to return to the contracting role they held before they became too ill to work. That means when they are well enough to work, it will be as a contractor earning the level of income they received before they became ill."

### Income protection does not just cover debilitating illnesses

In McBurney's experience, some contractors choose not to take out income protection insurance because they have unrealistic expectations about what they might be able to achieve if they had an accident or became ill.

"When contractors start talking about what might prevent them from working, many believe that they could continue to work from home earning the same level of fees despite an illness or accident. Whilst this might be true for some contractors, for most it is a false expectation."

McBurney gives an example: "Take, for example, a contractor who has been in an accident and suffered a spinal injury that significantly reduces their mobility. There are some contractors who could undoubtedly forge a fresh career working for clients remotely and continue to be successful."

"But the reality for most contractors is that they are expected to fulfil their duties onsite at their client's offices. How marketable will the contractors be if they don't have full mobility? This example shows that contractors need to consider all eventualities when considering income protection."



[Mark McBurney](#)

Protection Team Manager

ContractorFinancials

Mark McBurney is an experienced financial adviser, with ten years' history in the mortgage market, now specialising in protection for contractors.

Contractor Financials specialise in providing financial advice tailored to the needs of contractors and freelancers. [Read Full Profile...](#)

[View all our experts](#)

McBurney concludes: "Contractors not only require income protection to support them and their family during prolonged and serious illness. They also need expert guidance from a financial adviser to ensure that they make the right choices when choosing a policy."

Published: Wednesday, August 26, 2015

© 2016 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#).



ABCe verified website - last audit confirmed 134,482 monthly unique visitors

© Copyright 2016 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)