Part Three… Living on the Edge

There is no polite or easy way to state that failure to protect income is not clever because a sudden loss of it usually brings very significant financial and personal challenges. What happens is probably best understood by someone who has watched their income, which may have been taken for granted, disappear. The next payday is your last is a sobering message. Especially when all existing direct debits and every other financial commitment, entered into wisely or not, must still be met.

Pressure Triggers.

Loss of income can be a trigger for upset, panic, feelings of failure and loss of self- esteem. A real moment of truth occurs when after losing income, there is the need to calculate how long current funds will last until they are exhausted. Awkward conversations with lenders about what payments can be delayed or postponed is a common cause of sleepless nights. With effective financial planning adding financial hardship to emotional upset can be avoided.

Income Loss Grid & Risk Assessment

What happens to current financial commitments if income stops?

Income Scenario: Loss of income because of death or serious illness.	**Savings:** Are they available and ready to use as income?	**Assets:** Are they flexible, accessible and available as cash?	**Social Spending:** Change, stop family events and social spending?
Bills/Commitments: What can be stopped or reduced?	**Cards /Personal Loans:** Can they be repaid or payments negotiated?	**Financial Plans:** What current financial plans could be postponed or cancelled?	**Holidays:** Postpone or cancel any planned holidays?

These are some of the key financial factors to address when income stops. Financial planning leads to awareness of the financial risks highlighted which can then lead to peace of mind through awareness and having plans in place to confidence in the financial future.

Best Advice Usually Equals Some Disturbance

Tax free cash lump sums payable from policies on death or serious illness of the policy holder are the foundation stones of financial planning. Unless a person is independently wealthy and only works because they want to, not because they have to, protection of income and lifestyle is always a high priority best advice subject following a needs analysis at a financial planning meeting

Cause of Income Loss

Examples of how an income may be lost are redundancy, death or unable to work due to illness for a period of time. Loss due to redundancy can be recovered by finding a new job. Loss due to a specified illness is recoverable with a critical illness plan. Somebody dying means the income loss is permanent but in these tragic circumstances, a tax free lump sum payment from a life insurance policy is designed to fill potential income gaps over a specified period of time.

Saving for Income Protection is Not a Good Option

This savings example is only used to help illustrate that saving monthly, even with significant multiples of the €15, to protect a family income in the event of death, would not be effective. The unfortunate reality is that nobody ever dies on time and it often happens at the most challenging time financially. The best way to protect against a sudden loss of income caused by death is a life insurance plan for a monthly premium which would pay a tax free cash lump sum.

How Much Life Insurance.

Identifying the level of life insurance required depends on the annual of income that needs to be replaced, alongside any additional expenses that may be incurred. There may not be any need for life insurance, or a need for a lower level of insurance if there are no dependents.

The amount of insurance recommended should ensure a family's standard of living won't change in the event of a sudden death. The sum insured should provide enough income for the following:

- Replace the lost income.
- Clear any loans or mortgage.
- Ensure there is money to cover larger costs that may arise in the future, for example, savings for third level education.
- Compensation if the surviving partner / spouse has to reduce working hours.
- Cover the cost of any additional supports that may be required within the home.

Recommendations to bridge the income gap should take into account other potential sources of income or wealth that may become available, for example;

- State Widow's / Widower's Pension.
- Pension from any pension scheme or plan of which the deceased was a member.
- Savings in loan repayments, where they were covered by life insurance.
- Any potential savings in living expenses.
- Assets or Savings available to use as cash.

When the annual income gap is known, the amount of life insurance required to provide income over a specified period time can be calculated. One method to calculate the length of time is to subtract the youngest child's age from 21 as this is the anticipated age for the child to have completed 3rd level education. S/he may now be close to or have achieved financial independence.

Based on the above, calculation for total income replacement in a life insurance policy is as follows;

Youngest Child Age	4
21 – 4 equals length of time income required =	17
Annual Income Gap	€40,000
Income Replacement Required = €40,000 x 17 =	€680,000 life insurance
Minus existing life insurance of €280,000 = total income replacement of	€400,000 life insurance

These are only indicative figures. A financial planning review is the best place to make decisions on unique and personal income protection needs, priorities and affordability.

It Could Be You.

	One in 3 people in Ireland will develop cancer during their lifetime. This will move to one in two people in 2020.	**Source: Irish Cancer Society Nov. 2017**
	9 out of 10 prostate cancer patients In Ireland will survive for five years or more.	**Source:** Irish Cancer Society Nov. 2017
	In Ireland, primary care related costs account for 25% of the total direct cost of Heart Failure.	**Source:** Heartbeat Trust. Cost of Heart Failure Report Nov. 2015.
	1 in six people in Ireland will be affected by a stroke.	**Source:** Irish Heart Foundation. June 2017
	32% of those who returned to work in Ireland after suffering a stroke, were working full-time one year later.	**Source:** Irish Heart Foundation. June 2017
	Approximately 45% of people diagnosed with MS in Ireland need treatment but don't have severe symptoms.	**Source**: MS Ireland Sept. 2014

How Much Critical Illness Insurance.

Advances in treatment for the vast majority of critical illnesses means many people can look forward to a full or partial recovery. A claim on a critical illness insurance policy helps to avoid financial hardship and can help with recovery. On diagnosis of a specified critical illness, a tax free cash lump sum is paid, e.g., sum insured on the policy €100,000. This amount is paid in full.

The amount of critical illness Insurance required depends entirely on the personal situation. A person who is single with no debts or dependents, is likely to need less than someone who is married, has a mortgage, a personal loan, credit card debts, a spouse/partner who may not work outside the home and two children to think about.

The amount also depends on any capital, savings and assets available and what income may be received from other sources, for example, early retirement might be an option, depending on age or how long would a business or an employer be able to or commit to paying an income.

A starting point for most calculations is to insure 2 years of salary, for example, if income is €40,000 per annum, critical illness equals €80,000. The rationale being that from diagnosis to recovery and hopefully back to work is two years. The tax free cash lump sum should replace some or all income and if necessary, help with medical expenses that may be incurred exclusive of hospital care.

Another option, depending on affordability, priorities and needs and often described as the optimum level of critical illness insurance, is calculated as follows:

- 4 x Annual Salary
- Repayment of Outstanding Mortgage
- Personal Loans Repayment
- Payment of any Credit Card Bills
- Potential Home Renovation

These are only indicative options. A financial planning review is the best place to make decisions on unique and personal needs, priorities and affordability.

Life Insurance & Other Needs.

In conclusion, this article has only focused on how life insurance and critical illness policies are used to protect personal financial needs.

Life Insurance is also used for mortgage protection, business protection, revenue approved payment of capital acquisitions tax. In some situations, it helps to ensure people who may be financially dependent after both parents are deceased can look forward to having a lump sum available to fund their future needs.

Advice on how any of these may fit to your overall financial planning is available by calling Robert McOwan on 0868961223.

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