What Is Income Protection and How Does It Work?

Posted on 14 October 2025

If you suddenly couldn't work – because of illness, injury, or stress – how long could you keep paying the bills? A month? Maybe two? For most people, that question alone is enough to make them wince. That's where *income protection insurance* comes in. It's one of those things you hope you'll never need, but if life throws you a curveball, you'll be glad you've got it.

A Simple Definition (No Jargon)

Income protection is an insurance policy that pays you a **monthly income if you're unable to work** due to illness or injury. Think of it as a financial safety net that kicks in when your regular paycheque stops. It's not about replacing every penny you earn – typically it covers between **50% and 70% of your gross income** – but it's enough to help you keep a roof over your head, pay your mortgage, and maintain some normality while you recover.

Unlike a one-off payout like **critical illness cover**, income protection pays a *regular income* for as long as you're off work – or until your policy runs out, whichever comes first.

And crucially, it covers a broad range of health issues. That includes both physical and mental conditions, from back problems to burnout.

How Income Protection Works (Step by Step)

Let's break it down.

1. **You buy a policy** – ideally one tailored to your occupation, age, income, and health.
2. **You pick a deferred period** – this is how long you wait before payments start (commonly 4, 8, 13, or 26 weeks). The longer you wait, the cheaper your

premium.
3. **If you become unable to work** – after your deferred period, the insurer starts paying you your agreed monthly benefit.
4. **Payments continue** – until you're fit to return to work, retire, or reach the policy's maximum payout period.

Here's a quick comparison of how it stacks up against other types of protection:

Cover Type	Payout Type	Covers What?	Duration of Payments	Example Use
Income Protection	Monthly income	Illness or injury preventing work	Short or long-term	Replace lost income
Critical Illness	Lump sum	Specific serious illnesses (e.g. cancer, heart attack)	One-off	Pay off mortgage or major debts
Life Insurance	Lump sum	Death	One-off	Support family financially
Statutory Sick Pay (SSP)	Weekly income (£116.75/week)	Short-term illness	28 weeks	Basic safety net only

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Short-Term vs Long-Term Income Protection

Not all income protection policies are the same. In fact, they vary quite a bit.

Short-term cover usually pays out for a set period – often 1 or 2 years. It's cheaper, and good for covering temporary issues or providing stopgap protection until other benefits kick in.

Long-term cover, on the other hand, pays out until you either return to work, retire, or the policy term ends (sometimes age 60 or 65). It's more expensive, but it offers genuine peace of mind for long-term or permanent health problems.

So which is better? That depends.

If you're self-employed, or your employer doesn't offer generous sick pay, long-term protection is usually worth the extra cost. But if you've already got savings, an emergency fund, or other safety nets in place, a shorter policy might be enough to fill the gap.

Why Income Protection Matters (Especially for Homeowners)

Let’s be blunt: the bills don’t stop when you do.

Your mortgage lender still expects payment every month. So do your utility companies, your broadband provider, and anyone else you owe money to. Income protection can keep you financially afloat – without dipping into savings, maxing out credit cards, or remortgaging under pressure.

That’s why it’s often discussed alongside **mortgage protection**. Many people take it out specifically to ensure they can keep up with repayments if they’re unable to work. It’s not the same as *mortgage life insurance* (which clears the balance if you die), but it works hand in hand with it. You might even see it referred to as **mortgage income protection insurance** – same idea, just a different focus.

If you want to understand how it links with mortgage planning and overall financial protection, it’s worth exploring our main income protection insurance page, where we break down the main policy types and benefits in more depth.

What Income Protection Covers – and What It Doesn’t

Income protection doesn’t pay out for every situation. It’s designed to cover illness or injury that genuinely stops you from doing your job – not redundancy or choosing to take time off.

Here’s what’s generally included (and not):

Covered	Not Covered
Physical illness (e.g. cancer, heart disease, arthritis)	Voluntary unemployment
Mental health conditions (stress, anxiety, depression)	Redundancy or dismissal
Accidents and injuries	Self-inflicted injuries
Chronic or degenerative conditions	Drug or alcohol misuse
Complications from pregnancy (depending on policy)	Normal pregnancy or childbirth

That said, policies vary – some cover partial return to work or “proportionate benefits” (where you get part of your income if you can only return part-time). Always check the fine print.

How Much Does Income Protection Cost?

There’s no single answer. Costs vary based on:

- Your age
- Your job type (manual jobs often cost more)
- Your health and lifestyle (smoking, BMI, existing conditions)
- The percentage of income you insure
- The deferred period (waiting time before payout)
- Whether it’s short or long-term cover

Here’s a rough example to give you a sense:

Example	Details
Age	35
Occupation	Office-based (low risk)
Income	£35,000 per year
Cover	60% of income (£1,750/month)
Deferred period	8 weeks
Policy type	Long-term

Example	Details
Monthly cost	Around £30–£45

You can bring premiums down by extending the deferred period or opting for short-term cover. But the trade-off is less comprehensive protection.

What Happens When You Make a Claim?

Let’s say you’ve got a long-term policy. You fall ill, can’t work, and hit your deferred period. Here’s what usually happens next:

1. **You submit a claim** with your GP’s note or consultant’s report.
2. **The insurer reviews your case** – they may request more medical evidence or talk to your doctor.
3. **Once approved**, your monthly benefit starts hitting your bank account.
4. **Regular reviews** – the insurer checks in periodically to see if your condition’s changed.

You’re typically paid until you’re able to return to work (or until the policy ends). Some insurers even offer rehabilitation support, counselling, or phased return-to-work plans.

In my experience, insurers are generally fair when the paperwork’s clear. Delays often happen when medical details are incomplete, so keeping records organised makes life easier when you need to claim.

Income Protection vs Statutory Sick Pay (SSP)

This one’s worth spelling out because people often assume SSP is enough. It’s really not.

In the UK, Statutory Sick Pay is **£116.75 per week** (as of 2025) and lasts a maximum of 28 weeks. It’s something, yes – but it barely scratches the surface if you’ve got a mortgage, kids, or even just normal living costs.

Income protection, by contrast, replaces a proper share of your income and continues for as long as your policy allows. You can also line it up to start after SSP finishes, which keeps costs sensible but maintains full coverage.

Income Protection vs Critical Illness Cover

Another common mix-up.

Critical illness cover pays a **lump sum** if you're diagnosed with a specified serious illness – usually conditions like cancer, stroke, or heart attack. You can spend that payout however you like: pay off your mortgage, clear debts, or adapt your home.

Income protection, on the other hand, pays a **monthly income** for any condition that prevents you from working – not just a shortlist of "critical" ones. The two products can complement each other. Critical illness gives you an instant cash injection; income protection gives you ongoing stability.

Feature	Income Protection	Critical Illness Cover
Payout	Monthly income	Lump sum
Trigger	Illness/injury preventing work	Specific diagnosed illness
Duration	Ongoing (until recovery or term ends)	One-off payment
Covers	Broad range of health conditions	Limited list of illnesses
Example Use	Replace lost income	Pay off mortgage or debt

Do You Really Need It?

Good question. If you've got an employer who offers **full sick pay** for six months or more, you might feel less urgency. But very few people have that luxury.

And if you're self-employed? Income protection isn't just sensible – it's vital. There's no SSP for the self-employed, and savings don't last forever.

I've seen too many people underestimate how long recovery can take. A back injury, long COVID, depression – these aren't things you bounce back from in a few weeks. A policy like this can mean the difference between financial chaos and quiet stability.

How Much Should You Cover?

You don't need to insure your full income. Most people cover **50–70% of their gross pay**, since benefits aren't taxed. The idea is to make sure you can handle essential expenses – mortgage, utilities, food, transport – without relying on credit.

Work out what you'd realistically need to live on if your income stopped tomorrow. That's your benchmark.

And yes, your **mortgage repayments** should be front and centre. Many people align their benefit amount directly with their monthly mortgage cost – it's a good way to ensure housing security while keeping premiums affordable.

Common Misconceptions (And Why They're Wrong)

"I'll rely on savings."
Fair enough, if you've got six months or more tucked away. Most people don't. According to the Money and Pensions Service, **1 in 4 UK adults have less than £100 in savings**. Sobering, isn't it?

"I'm healthy – I don't need it."
You might be now. But illness and injury don't discriminate. It's not just big, dramatic events either – stress, fatigue, repetitive strain injuries, even burnout can knock you out of work for months.

"It's too expensive."
Compared to what? Losing your income entirely? Policies can start at less than the price of a takeaway each month. Cost depends on the details, but it's usually less than people imagine.

Wrapping Up

Income protection isn’t flashy. It’s not something you’ll ever show off about at a dinner party. But when you strip it back, it’s one of the most practical, quietly powerful financial tools available.

If your income supports your home, your family, or your peace of mind – protect it. You insure your car, your phone, even your pet. Why not your paycheque?

Note: The information in this guide was correct at the time of publication but is subject to change.