

Financial security – the cornerstone to successful financial planning

Mary Goodman, Veterinary Ireland Financial Services, provides this useful guide to check that your loved ones are financially protected



When we look at our finances and engage in a financial planning process, we often focus on areas providing what we consider as ‘financial success’, ie. providing for retirement, savings and investment, etc. However, the foundation of successful financial planning and what provides peace of mind is in fact the areas that provide financial security – protecting what’s most important.

WHAT’S MOST IMPORTANT TO YOU?

There’s no right or wrong answer to this question and we’ll all have different priorities. At Veterinary Ireland Financial Services, we like to break this down into the following:

- What you earn;
- What you own;
- What you owe; and
- Those you love.

Those you love, while most important, purposely come last on the list, as, if you protect what you earn, own and owe, you will be protecting those you love.

Let’s take a look at each one and see what you should be considering.

WHAT YOU EARN

Your income is your biggest asset as it pays for everything, so it is important to protect it. Over 30 years, a person earning €45k per year (average industrial wage Central Statistics Office [CSO] in 2016) will earn just shy of €2m in that period with wage increases of 2.5% built in.

As a predominantly self-employed profession, not entitled to the State Disability Benefit, many vets have too little income protection to supplement their income if they were unable to work due to illness or injury. In fact, we find many vets have no income protection at all. I have outlined below some points to consider when determining the level of income protection, you need.

YOUR INCOME PROTECTION NEEDS – POINTS TO CONSIDER

1. PARTNERSHIP AGREEMENT

One of the issues which should be addressed in any successful partnership agreement, is ‘leave entitlements’, which incorporates sick leave. In many cases, it is written into the partnership agreement that a partner on sick leave will continue to be paid their normal salary for X number of months. It is imperative that any sick leave benefits through your practice are included in determining your income protection need as most policies will not pay out if you are still being paid.

2. SAVINGS

For many vets, cashflow is an issue, so for many, savings have taken a back seat. We do, however, recommend that you work towards having an ‘emergency fund’ of six months’ income. For income protection calculation purposes, you should ascertain how long your existing savings would last if your income dropped or stopped.

3. SHORT- OR LONG-TERM REQUIREMENTS

There are some income protection policies out there that are short-term solutions and pay out from day or month one. In reality, many vets have some level of savings and would not need immediate cover. It is also important to note that a very small percentage of vets actually go on short-term sick leave. Self-employed people are very likely to work through illnesses and injuries as they are the ones that pay all the bills.

It is very often the case that, when a vet is on sick leave, it is unfortunately due to something serious and long-term. In most cases, we recommend a policy which will provide you with long-term protection.

4. WHEN DO YOU NEED COVER TO START?

As explained above, this is what you call the deferred period. The time between when you go sick and when your claim is paid. The longer you can afford to wait, the more reasonable the cost. For the same reasons as in point three, many vets may not need immediate cover from day or month one, and more importantly, may not be entitled to claim.

We recommend a full overview of personal circumstances and existing cover before determining the most appropriate deferred period and level of cover.

5. HEALTH INSURANCE

Additional medical costs are a factor when considering what level of income protection, you need. Reviewing your health insurance to see what is covered is important when looking at income protection. You may find that your health insurance covers quite a lot already. It is important to remember that health insurance and income protection are very different and most Vets need both. It is, however, a good idea to take a look at both to ensure you have the right blend.

WHAT YOU OWN

What you own tends to be more straight forward as many of these policies you are obliged to have, ie. home/car insurance. Both products are designed to protect what you own. The key question here is are you protecting all the things you own that are important to you and, if so, are they covered at the right level?

WHAT YOU OWE

Interestingly, this is the protection that we're all the most familiar with as we all know that if you have a mortgage you must have mortgage protection. The main driver for this is generally the banks' insistence. Your mortgage is typically your biggest debt but often not your only debt. Many vets have investment properties, whether they are their practice or other.

Banks rarely insist on you having mortgage protection in place on an investment property but it is essential you do. The last thing you want is to depart this world and leave your loved ones with your debts. Any other loans such as credit cards, car loans, etc. should also be protected.

THOSE YOU LOVE

Putting protection in place in relation to what you earn, what you own and what you owe is all for the benefit of those you love. Protecting them is generally what's most important to everyone. It should be the foundation stone of every financial plan. Without this crucial building block, all the other factors would come crashing down.

So, when you think of protection don't think of the myriad of products that are out there. Instead focus on various 'what if' scenarios to identify any gaps in your protection needs. We're all familiar with the concept of 'it will never happen to me' becoming reality for people we know and love. Act now and you can secure your finances, the very cornerstone of successful financial planning.

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