



## Group income protection

### What is it?

Under a Group Income Protection plan, an income benefit is paid to the employer, if your employees (the members) are unable to work because of disability caused by sickness or accident. The employer will be responsible for passing the benefits to the member as salary, after deducting Income Tax, National Insurance contributions, Pension contributions etc. The benefit is paid, basically, as compensation for loss of earnings and will normally start at the end of an initial waiting (or deferred) period. This deferred period is typically 4, 13, 26 or 52 weeks long (although other deferred periods may be available depending on which provider is chosen) and is payable until the member either returns to work, dies or the policy term expires. The policy term is normally linked to the members normal retirement age.

The level of premium for the required amount of cover will depend on the type of plan and the company chosen. Some companies offer guaranteed fixed premiums, other plans reserve the right to review premium levels.

The definitions of disability vary considerably. Generally, in order to make a valid claim, the member must demonstrate that he is 'totally unable by reason of sickness or accident to follow his own occupation' or 'his own and any other for which he is suited by reason of experience and / or qualifications' (known as 'any suited') or, indeed, 'any occupation whatsoever'. The definition of disability, i.e. whether 'own occupation', 'any suited occupation' or 'any occupation', is obviously crucial for underwriting and claim purposes and will affect premium rates. Clearly own occupation offers greatest protection.

The following additional benefits can also be included at extra cost:

- Pension contribution cover (employers and / or employees)
- Cover for employer national insurance contributions
- Benefit escalation, for example 3%, 5%, RPI, etc.

### Eligibility

Depending on the numbers of employees involved it is normal for the chosen insurer to offer what is known as a 'free level' of cover. This does not mean that there is no cost but rather the amount of cover they are prepared to grant that is free of medical underwriting.

At commencement, all qualifying employees who are actively at work on that date will join the plan. Those individuals who take up employment with the company after cover commences will automatically qualify if they are actively at work and fall within the categories of employees defined within the terms of cover.

Any employees who are not actively at work on the date that cover commences will not be eligible for cover until they have returned to work and full medical details have been provided.

The main objective of the plan is to replace earnings lost through illness or disability without reducing the employee's financial incentive to return to work. Otherwise the employee may simply be content to draw benefits for the rest of the term. All income protection policies therefore stipulate a maximum income benefit limit. Typically, this is in the region of 60% - 75% of the average monthly earnings of the employee in the year prior to disablement. It is usual for Employment and Support Allowance and / or any other state benefits the member actually receives, to be taken into account in calculating the benefit limit.

Claims will not normally be met if disability results directly or indirectly from:

- Infection by or undergoing any treatment for HIV and / or acquired AIDS
- Pregnancy or childbirth unless the illness or injury continues for at least three months after childbirth or the termination of the pregnancy

### **Taxation**

The payment of premiums by the business is usually treated as a business expense and can be deducted from profits for tax purposes. They are not treated as P11D benefits for the employees.

The receipt of benefit payments by the business is treated as a trading receipt. However, when the benefit is passed on to the member in the form of salary, the payment should be treated as a business expense.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

### **Risk considerations**

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- You should review the level of cover required on a regular basis to ensure that it keeps in line with the members' earnings, otherwise, cover may be less than you wish to provide
- If for any reason you stop paying premiums, cover will lapse
- Benefits may be reduced if the member is receiving other regular income, such as salary or pension
- Receiving an income may prevent a member from receiving some state benefits
- The payment of any other payments i.e. sick pay, may have an impact on the benefits payable
- Tax rules or State benefits may change affecting income protection policies
- If any relevant information provided, when applying, is not disclosed accurately and honestly, this could result in any cover offered becoming invalid and / or may result in the non-payment of any future claims
- Failing to disclose any requested or relevant information may adversely affect any future claims
- This type of policy does not acquire a surrender value at any time
- If this policy is to replace any existing policy offering the same type / level of cover, it must not be cancelled until the new policy is in force