



EXECUTIVE INCOME PROTECTION

Under an Executive Income Protection plan an income benefit is paid to the employer if any of the individuals insured under the arrangement (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, leaves service or the policy term expires. The policy term is often linked to the member's normal retirement age but can sometimes be for a shorter fixed term depending on requirements.

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/she is 'totally unable by reason of sickness or accident to follow his/her own occupation' or 'his/her own and any other for which he/she 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 (employer's and/or employees)
- Cover for employer national insurance contributions
- Benefit escalation, for example 3%, 5%, RPI, etc.

Depending on the particular plan recommended, the cover may include some exclusions. For example, some plans will not allow a claim if disability results directly or indirectly from:

- Infection by or undergoing any treatment for HIV and /or acquired AIDS.
- Alcohol or drug abuse.

Eligibility

The main objective of the plan is to replace earnings lost through illness or disability without reducing the member's financial incentive to return to work. Otherwise the member 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 50% - 70% of the average monthly earnings of the member 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.

Taxation

The payment of premiums by the business may be treated as a business expense in which case the amount of the premiums can be deducted from profits for tax purposes. However, where the members of the Executive Income Protection plan are shareholding directors or partners it is likely

that premiums will not be deductible as a business expense. The situation should be checked with the local Inspector of Taxes. The premiums 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 thereby cancelling out the effect of the receipt.

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
- If a claim is made, the benefits payable may be impacted by any other payments i.e. sick pay
- Receiving an income may prevent a member from receiving some state benefits
- 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, you should not cancel any existing policy until the new policy is in force