



Executive Income Protection

A guide to earnings

Executive Income Protection

This document:

- Explains the earnings that can be taken into account when calculating the amount of benefit we can provide under our Executive Income Protection plan

Please read this document along with:

- Any illustration of costs and benefits we have provided; and
- The Executive Income Protection Key Features Document

Introduction

When setting up an Executive Income Protection plan, you will need to decide a level of Income Protection benefit to provide. You can choose a benefit of up to 80% of earnings subject to an overall maximum of £300,000. The optional additional benefits are explained in our Key Features Document.

When setting up the plan you should consider the earnings amount to be used for calculating benefits.

In the event of a claim:

- We will need evidence of earnings
- The benefit will be based on the definition of earnings we've agreed

It is important to regularly review the cover with your financial adviser to make sure the level of benefits still meets your financial needs. You may find that you no longer require all the cover you are paying for or that the existing benefits are not sufficient.

What can be included as earnings?

Pay As You Earn (PAYE)

We define earnings as your employee's pre-tax income from employment for PAYE assessment purposes in the 12 months immediately before the date of incapacity.

Commission, overtime and bonuses:

- Can be included if they form a regular and consistent part of your employee's earnings
- Should be averaged over three years if they vary from year to year. If your employee has been employed for less than three years, we will average over the time they have been employed

Risk factor:

The plan may provide more cover than you can claim if your employee's earnings in the 12 months immediately before the date of incapacity are less than the earnings amount used when selecting the benefit.

If this happens, we will not refund any premiums.

Please remember to take this into account when deciding how much benefit to provide.

Benefits in kind

When setting up the plan, you can choose to include the taxable value of the following benefits in kind in the definition of earnings:

- Living accommodation you provide which is used as the employee's sole residence
- Company car which is also for your employee's private use – if a fuel card is provided this can be covered as well
- Beneficial loans (not those to purchase work-related items such as travel season tickets)
- Premiums you pay for private medical insurance, accident and travel insurance and critical illness cover for your employee

We can include the P11d value of these benefits in the definition of earnings as long as you provide the benefit to your employee and expect to continue to do so.

Risk factor:

The plan may provide more cover than you can claim if your employee's P11d benefits in the 12 months immediately before the date of incapacity are less than the amount you used to calculate earnings when setting up the plan.

This could be because:

- You included benefits in kind which are not on the above list
- You did not tell us that benefits in kind are to be included in the definition of earnings when you set up the plan

If this happens, we will not refund any premiums.

Please remember to take this into account when deciding how much benefit to provide.

Dividends and directors' loans

If the employee covered under the plan is also a shareholding director of your company, the definition of earnings can include dividends and/or directors' loans payments where salary would otherwise be paid.

Please note:

- This only applies if the dividends and loan payments will not be paid during incapacity
- Where dividends and/or directors' loans payments are included in the definition of earnings, we will average all earnings (PAYE, benefits in kind, qualifying dividends and loans) over three years to work out pre-incapacity earnings when calculating the benefit to be paid

Dividends can be included as earnings if the following apply:

- The decision to pay a dividend has been formally declared by the board of directors and the amounts are clearly documented as dividend payments to named shareholders
- The dividend must have been paid to the employee as remuneration in lieu of salary for performing their occupation

Additionally:

- If your business relies solely on the performance of the insured employee (perhaps with admin support from another shareholding employee, such as their spouse or civil partner), dividends paid to both shareholders may be included in the earnings definition

Risk factor:

The plan may provide more cover than you can claim if the dividends meeting the earnings definition at the time of claim are less than the amount you used to calculate earnings when setting up the plan.

If this happens, we will not refund any premiums.

Please remember to take this into account when deciding how much benefit to provide.

Directors' loans can be included as earnings if they are:

- Amounts you have paid to your employee as repayment of capital and/or interest on a loan. These amounts:
 - Must be clearly shown in your company accounts; and
 - Cannot be more than those scheduled in the loan agreement
- Amounts you have paid to your employee through a director's loan account as long as:
 - There is documentary evidence from before the loan was made e.g. board meeting minutes of the decision to pay your employee through a loan account
 - The loan account debit is recorded in the company accounts
 - The loan amounts have not been included in the earnings calculation as PAYE income or a beneficial loan
 - You reported a profit in the tax year when the loan account debit was reported. This profit must have been at least 75% of the profit reported in the previous tax year

Risk factor:

The plan may provide more cover than you can claim if the directors' loans meeting the earnings definition at the time of claim are less than the amount you used to calculate earnings when setting up the plan.

If this happens, we will not refund any premiums.

Please remember to take this into account when deciding how much benefit to provide.

New employees

If your employee has only been with you for a short period of time before they become incapacitated, we will:

- Average their earnings over the period they have worked; and
- Calculate an annual equivalent figure

Risk factor:

The plan may provide more cover than you can claim if your employee's earnings in the time they have worked for you are less than the earnings amount used when selecting the benefit.

If this happens, we will not refund any premiums.

Please remember to take this into account when deciding how much benefit to provide.

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