

# Technical Guide

Group Income Protection

## Product Overview

- To provide insurance cover for the income protection benefits an employer promises to provide to their employees who are unable to work through long-term illness or injury.
- To allow an employer to decide, when they take out the policy, how soon this benefit is to be paid and for how long. This will take into account how long an employer expects to continue to pay income to employees who become ill or injured in addition to the mandatory period for Statutory Sick Pay.
- To provide optional cover for associated expenses such as employers' National Insurance and pension contributions. Where Capital Option has been selected, these associated expenses are excluded from the calculation of the lump sum benefit.
- To help replace lost income if an employee had to take a part-time or lower paid job because of illness or injury.

## Technical Guide

- Technical Guide for "Commercial customers" and their advisers. This product is only available from appropriately authorised intermediaries who have signed our Terms of Business Agreement.
- This document is a technical guide to the features of our Group Income Protection product and should be read in conjunction with the quotation which accompanies it. If anything stated in the quotation differs from what is in this guide, then what is stated in the quotation overrides the guide.
- In the event of a discrepancy between the policy document, the quotation and the content of this guide, the wording of the policy document will prevail.
- Full details of the insurance cover will be contained in the policy document. The policy is issued subject to the Laws of England and any dispute shall be subject to the exclusive jurisdiction of the English Courts.
- We have classed the customers for this product as "Commercial" within the context of the Financial Services Authority's (FSA) Insurance: New Conduct of Business sourcebook (ICOBS).
- **Inland Revenue rules regarding taxation of benefit may change in the future. Eligibility rules and the amount of benefit available from the Department of Work and Pensions may also change. If State benefits mentioned in this guide are withdrawn we will decide how the replacement benefits will be treated and will advise you accordingly.**

**This document does not provide definitive tax advice that can be relied upon in the specific circumstances of a particular Policyholder or in respect of any member insured under the policy. This includes but is not limited to any potential liability to corporation tax and income tax. Policyholders should take advice from their own professional advisers to ensure that they understand the impact of tax and legislation.**

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## A. Terms explained

**Actively At Work** means that an employee:

- has not received medical advice to refrain from work and is actively following their normal occupation, and
- is working the normal number of hours required by their contract of employment, either at their normal business or at a location to which they are required to travel for business.

An employee will be regarded as actively working if fully capable of so doing were it not for either a leave of absence previously authorised by his or her employer or the requirement for actively working falls on a day the individual is not contracted to work.

An employee must be Actively at Work at commencement of cover and for all increases in benefit.

**A Group Income Protection (GIP) policy** (including Capital Option) is a policy taken out by the employer in respect of his employees with the employer meeting the whole cost of the policy.

**Commencement date** is the date from which we have agreed to provide the quoted cover.

**Conditional Cover** is a procedure by which we agree to provide the quoted cover from the required commencement date for a period of up to 30 days pending receipt of the information detailed in Section F 1.1.5 “When will cover commence?”

**Deferred period** means the period of time from the date that a member becomes incapacitated until the date that benefit becomes payable.

**Discretionary entrants** are employees who are to be included in the policy outside the usual eligibility criteria.

**Early entrants** are employees who are to be included in the policy before completing the service qualification period.

**Free Cover Limit (FCL)** is the threshold of insured benefit we declare in your quotation, below which no evidence of health is required, although Actively At Work requirements may apply. See Section F 2.2 “Evidence of health to be provided before employees are covered” which gives a full explanation of the terms and any conditions that apply to it.

A **late entrant** is an employee who wishes to join the policy after the date of their first opportunity to do so. Where eligibility is linked to membership of the employer’s pension scheme; a late entrant is an employee who wishes to join the pension scheme more than 6 months after their first opportunity to do so.

The **policy accounting date** is the date with effect from which the premium due for the next policy accounting period is calculated.

The **policy accounting period** is defined as the period from commencement date of the policy up to the first policy accounting date and from one policy accounting date to the next policy accounting date.

The **policy review date** is the date when the premium rate and terms of the policy are reviewed and guaranteed for a further period (typically 2 years).

**QAAF** is the acronym for Quotation Acceptance Application Form.

**State Benefits relating to incapacity** refer to Employment and Support Allowance or Incapacity Benefit, dependent on the individual’s entitlement.

The policy **Terminal Age** is the age at which benefit payments under the policy cease. The maximum Terminal Age is 70 for Gross Pay GIP and Capital Option policies. For Net Pay and Fully Integrated GIP policies the maximum Terminal Age is 65. Cover can cease at any pre-agreed point within the month during which the member reaches Terminal Age, such as the last day of the month. Unless otherwise stated cover will cease at 23:59 on the day prior to the member reaching Terminal Age.

## B. Product types

### Group Income Protection – Income Benefit

A Group Income Protection policy provides income benefits that reimburse the employer for all or part of the regular income promised in a contract of employment. In the event of one or more employees being unable to work and suffering loss of earnings through long-term illness or injury.

### Capital Option - Income Benefit and Lump Sum Payment

Capital Option provides two benefits for an employer:

- an income benefit payable for a limited period to reimburse the employer for all or part of the regular income promised in a contract of employment in the event of one or more employees being unable to work and suffering loss of earnings through illness or injury; and
- a lump sum on the expiry of the income benefit payment period if the employee is unfit to return to work.

## C. Your commitment as the policyholder

- You must provide us with all the information we ask for when you apply for a policy, at each policy accounting date or when you make a claim. You must advise us if these details change. If you do not provide this information, we may not be able to pay any claims.
- You agree to pay regular premiums on time.
- You choose at the outset the conditions of eligibility that govern who can be covered by the policy.
- You agree to abide by the conditions of eligibility set out in the policy.
- You agree to notify us in writing if you wish to amend the eligibility criteria, for example by closing the policy to new entrants.
- You agree to notify us in writing if you acquire another company and you wish to cover the employees of the new company under the scheme.
- You agree to notify us in writing if you dispose of a company whose employees are covered under the policy and will no longer be covered under the policy.
- You agree to notify us within the stated time limit (see Section F 5.3 “When should we know about a member for whom you may make a claim?”) of any claim you wish to make.
- You undertake to pass on the income benefits paid under this policy to the claimants as appropriate.
- You undertake to notify us of any change in the employment status of any claimants.
- If you have chosen a Capital Option policy, you agree to facilitate and participate in any vocational rehabilitation initiative proposed for a disabled employee by a medical practitioner.
- You agree to identify any discretionary entrants. (See Section A “Terms Explained”).
- You agree to supply us with all the information we ask for at a policy review date.

#### D. Risk factors

The policy carries the following risks:

- You should take legal advice on the need to outline the benefits provided by the policy in employees' contracts of employment and that the benefits, as promised, are not discriminatory.

The Employment Equality (Age) Regulations 2006 that came into effect on 1st October 2006 made it unlawful for an employer to discriminate directly or indirectly against an employee on any aspect of their employment or benefits, based on their actual age or their apparent age. The Regulations do not directly apply to insurance policies.

- You will not be covered if you fail to comply with the terms and conditions of the policy or if you stop paying premiums. Premiums are not payable for claimants who are receiving benefit under the policy. If you terminate the policy, we will continue to pay benefits for existing valid claims and start to pay benefit for new claims, if valid, that occur during the period of cover for which premiums have been paid.
- Benefits paid under the policy may be reduced if the claimant is receiving other regular income as a result of illness or injury, such as income from an individual income protection policy. (See Section F 5.5 "Does other income the claimant receives affect the benefit from this insurance?").
- Certain types of claim may be excluded. (See Section F 7 "What is not covered?").

- For all policies, the premium rate and policy terms and conditions will usually be guaranteed for 2 years. However, we reserve the right to amend these terms if, in the opinion of Unum, there is a significant change in the risk profile, the factors we take into account for this type of policy are:
  - A variance of 25 per cent or greater in the number of members or benefit insured
  - The inclusion of a new subsidiary
  - The disposal of a participating company or closure of a part of the employer's business
  - The inclusion of a new member category
  - A change in policy design such as an alteration of benefit level, terminal age or terms of eligibility
  - A significant overall change in the occupations of the members or where they work
  - A major change to the level or basis of the social security or income tax systems

In the case of quotes for new or existing policies we reserve the right to review the terms offered if there is a 15 per cent or more change to the data provided to produce the quote.

- If the number of members drops below 5 at any time, we reserve the right to cancel the policy at any subsequent policy accounting date.

#### E. How does a standard GIP policy work?

- We require a minimum of 5 lives for a Gross Pay GIP policy; 20 lives minimum for Capital Option, Fully Integrated and Net Pay policies. (See Section F 1.3 “What types of cover are available?”).
- You decide the level of income benefit and, additionally for Capital Option, the lump sum you wish to receive, the definition of incapacity to be applied, how soon you want payments to start and for how long you want the income benefit to be paid.
- While premiums are being paid, we will provide cover no matter how many claims are made. If you cancel the policy, we will still consider claims arising during the period you were covered by us, provided that there are no premiums outstanding. However, there is premium waiver in respect of claimants, so premiums are not payable for claimants who are receiving benefits under the policy.
- You must pay all of the premiums in sterling and, for tax purposes, the cost is usually treated as a trading expense. Premiums are not normally taxed as a benefit in kind for employees.
- You must include all eligible employees for cover under the policy when they first become eligible.
- You must notify us within the stated time period if an employee is unable to work for a prolonged length of time due to illness or injury. (see Section F 5.3 “When do we need to know about a member for whom you may make a claim?”).
- You must provide us with the information we require when you make a claim.
- Both income benefit, and lump sum benefit in the case of Capital Option, are payable to you as the policyholder.
- We pay the income benefits to you on a monthly basis from the end of the deferred period for the duration of the benefit payment period selected when taking out the policy and for as long as the claim remains valid. You then pay the appropriate amount to your claimant through your payroll system after deducting Income Tax and National Insurance Contributions.
- Under Capital Option, we pay the lump sum benefit directly to you at the end of the income benefit period if the employee remains incapacitated under the terms of the policy. You decide on the most appropriate use for the lump sum benefit (e.g. to enhance early retirement pension or redundancy payment.) The lump sum can be payable either under a contractual or a discretionary arrangement; the tax treatment of the lump sum depends upon the type of arrangement, how the payment is used and the timing of payments. There may be tax consequences for both you and your employees; therefore it is recommended that appropriate professional legal and tax advice is taken in good time before payment of the lump sum is made by Unum. For further details, see our Capital Option Tax Guide UP762.
- Under Capital Option, when the lump sum has been paid the claimant cannot re-enter the scheme to claim again.
- You can choose different levels of cover, or benefits, for different categories of member.
- The guarantee period advised in your quotation applies to both the premium rate and the terms and conditions applicable to the policy. When the guarantee expires at the policy review date, both the premium rate and the terms and conditions of the policy are subject to review.

## F. Product details

### 1. What factors should be considered in deciding what benefits to provide?

The flexibility provided by the range of Group Income Protection products available from Unum allows you to design cover that is compatible with your employment contracts, culture, and your specified budget.

#### 1.1 Who can be covered?

An employee can become a member if they satisfy the conditions of eligibility defined in the policy and meet the definition of being Actively at Work.

##### 1.1.1 Conditions of eligibility

Conditions covering entry to the policy must be selected. For example:

- the minimum and maximum entry ages allowed for new entrants
- if a minimum number of years' service is required
- the categories of employee you wish to be covered, and to what benefits you want each category to be entitled
- the date on which new entrants will be covered - and when existing members will be eligible for increases in insured benefits; this might be:
  - the policy accounting date (annually), or
  - the first day of the month (monthly), or
  - immediately, if all other eligibility requirements of the policy are satisfied (daily).

If cover is dependent on membership of the employer's pension then the current eligibility requirements of the pension scheme must also be provided.

The FCL will usually apply to all eligible employees. Otherwise, evidence of good health will be needed before we can provide cover.

The definition of eligibility must be clearly stated in all cases. Membership is compulsory for all employees within a defined category or categories. Eligibility conditions covering entry ages, entry dates and service qualification periods must be the same for each member within a defined category.

Part-time employees and fixed-term employees may also be included in the policy if they satisfy the above conditions. Fixed-term employees can be covered for the duration of their contract under all Group Income Protection products with the exception of Capital Option.

Cover is subject to evidence that a prospective member is Actively at Work.

##### 1.1.2 Early and discretionary entrants

A Scheme Member's Application Form will be required for these types of entrant in all cases.

##### 1.1.3 Late entrants

A Scheme Member's Application Form will be required for late entrants in all cases.

##### 1.1.4 Switch Terms for a policy with existing members on special terms

We will require details of the previous insurer's FCL and details of those members whose cover has been subject to special terms by the previous insurer, showing for each member:

- name,
- date of birth,
- gender,
- full underwriting decision (including percentage loadings and amount of benefit above which the loading/restriction applied).
- benefit on risk at termination.

Special terms refer to adverse medical underwriting decisions and include premium loadings, restrictions and declinatures.

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Where cover is being transferred from another insurer, Actively at Work means that the employee must be Actively at Work on the last working day of the previous policy. Normally, if cover is transferred on the same basis, no individual will be subject to stricter underwriting terms than those imposed by the previous insurer. We need details of employees who were previously underwritten, including details of employees whose cover has been restricted by the previous insurer due to lack of medical underwriting.

The actual monetary amount charged in respect of a medical loading may differ from that used by the previous insurer because our underlying premium rates may differ from the previous insurer.

#### 1.1.5 When will cover commence?

We will provide Conditional Cover on receipt of:

- written instructions from your intermediary to assume risk from the commencement date, and
- satisfactory written answers to any Risk Relevant and any Price Relevant caveats that were included in our quotation. This is subject to receiving a fully completed QAAF signed by the policyholder and deposit premium or Direct Debit mandate during the period of Conditional Cover. The QAAF incorporates a direct debit mandate to be signed by the policyholder and a customer verification statement that, if requested, should be signed by your intermediary.

In order to continue cover after the period of Conditional Cover, in addition to the fully completed QAAF, we require membership data as at the commencement date and a completed Actively At Work declaration.

## 1.2 When will cover cease?

### 1.2.1 Under normal circumstances

We cannot cancel the policy unless the number of employees insured under the policy is fewer than 5, premiums are overdue or you fail to provide all the information we ask for when applying for the policy, administering the policy or when claiming for benefit in respect of a member.

You can cancel the policy at any time, provided you do so in writing. Cover will then cease and you will not be liable to make payments for any period after this date. Cancellation cannot be back-dated.

If the policy is cancelled, we will still consider and pay claims for long-term illness or injury arising up to the date of cancellation, and continue to pay current, valid claims, provided that there are no premiums outstanding.

A member's cover will cease on leaving service.

### 1.2.2 Ceasing Conditional Cover

All the information and data we require to set up the policy, including the fully completed QAAF and deposit premium or Direct Debit mandate, must be provided as requested within the 30 day period of Conditional Cover. Cover will cease if this has not been provided within this period.

A premium will be charged for the 30 day period of Conditional Cover provided, which will be calculated on a pro-rata basis, based on the time we have provided cover.

## 1.3 What types of cover are available?

The main types of income benefit structure for our Group Income Protection products are:

- Gross Pay
- Net Pay
- Fully Integrated

Benefits under each of the above types will be paid to the Terminal Age or for a limited term of 2 years, 3 years, 4 years or 5 years, as selected by the employer.

- **Capital Option**; this Gross Pay design provides a replacement income for a limited period (2 years, 3 years, 4 years or 5 years) followed by a lump sum payment to the employer at the end of the limited term period if the employee remains incapacitated under the terms of the policy.

#### 1.3.1 Income Protection Benefit

The type of cover you select will determine how benefits are calculated. You can decide how much benefit you want to insure according to your budget. If you choose to insure a higher benefit level, the premiums will increase. The level of benefit is specified as a percentage of gross or net pre-incapacity earnings, as outlined below.

- **Gross Pay Policy** - Benefits are specified as a percentage of gross pre-incapacity earnings. The maximum Terminal Age is 70 and the normal maximum benefit you can insure for each employee is 80 per cent of pre-incapacity earnings, (including any insured employee pension fund contributions). This type of cover is available for 5 or more employees.
- **Net Pay Policy** - Benefits are specified as a percentage of net pre-incapacity earnings. The maximum Terminal Age is 65 and the normal maximum benefit you can insure is 90 per cent of net pre-incapacity earnings after taking into account any State Benefits relating to incapacity actually received. This type of cover is available for 20 or more employees.
- **Fully Integrated Policy** - Benefits are specified as a percentage of gross pre-incapacity earnings. The maximum Terminal Age is 65 and the normal maximum benefit you can insure is 80 per cent of pre-incapacity earnings, less any State Benefits relating to incapacity actually received. This type of cover is available for 20 or more employees.

- **Capital Option** - Income replacement benefits are based on a Gross Pay policy; the maximum income benefits that apply to Gross Pay Policies also apply to Capital Option. This type of cover is available for 20 or more employees. The maximum Terminal Age is 70.

The maximum income replacement benefit we will insure for any member is currently £350,000 per year. This amount will include any employee pension scheme contributions we agree to insure.

#### 1.3.2 What are pre-incapacity earnings for a standard GIP policy?

You will need to select an earnings definition on which the benefit is to be based. There are many acceptable salary definitions available. Pre-incapacity earnings normally means the employee's basic annual salary on the date the long-term illness or injury occurs. However, other definitions of earnings can be agreed, such as total pre-tax earnings subject to PAYE in the 12 months before the long-term illness or injury. Some employers exclude bonus or incentive payments.

Fluctuating earnings in the last 12 months, such as sales commission, can be included in the definition of earnings, but are limited to 20 per cent of the employee's basic salary. Alternatively the average of the fluctuating earnings over the last 3 years can be included without limitation.

Requests to include salary sacrifice, for example in favour of childcare vouchers or pension, within the pre-incapacity earnings definition can be considered on a case by case basis.

#### 1.3.3 Optional additional protection

##### For a standard policy:

- **Employer's Pension Scheme Contributions (psc's)**

In addition to the income protection benefit payable for an employee, you may insure an annual amount to maintain your normal contributions to a pension scheme on their behalf. These contributions must be of a fixed annual amount (for example, a fixed percentage of pre-disability salary) across broad categories of employees.

Most types of occupational and group pension schemes can be covered. Where contribution rates vary, e.g. by age, the amount of contribution we will pay is based on the level applicable at the start of benefit payments and will not increase in the future.

- **Associated Business Costs (ABC cover)**

In addition to the income protection benefit payable for an employee, you may insure an annual amount to cover other costs associated with an employee on long-term sick leave e.g. Holiday pay, Group Life premium, Private Medical Insurance premium, company car allowance. Employer's pension scheme contributions may also be included in this category of cover or insured as a separate item as described above.

The maximum amount of cover we will consider for the total Employer benefits (ABC cover plus Employer psc's) is 60% of salary, with an overall maximum benefit of currently £120,000 per employee per year.

- **Employer's National Insurance Contributions**

In addition to the income benefit payable for an employee, you may also insure your liability to pay National Insurance Contributions. The amount of National Insurance Contributions insurable is based on the basic income benefit payable for a long-term ill or injured employee.

The National Insurance Contributions are not limited, except through the income benefit being limited.

Any changes in the rate of National Insurance Contributions will not affect the amounts paid on existing claims. These will be paid at the rate prevailing at the start of benefit payments.

#### 1.3.4 Lump Sum Benefit (applies to Capital Option only)

The employer can choose the amount of lump sum provided by the policy, after income benefit has been paid for the limited payment period. The lump sum is expressed as a multiple of annualised basic income benefit or salary. There are two options:

##### Option 1:

A simple multiple, for example:

- 3 x annual basic income benefit applied to all scheme members

##### OR

- 3 x annual basic income salary for the category "staff", and  
5 x annual basic income salary for the category "managers"

##### Option 2:

The lump sum for this option is based on a percentage of income benefit or salary multiplied by the number of years until their Terminal Age.

If the employee becomes ill or injured and remains incapacitated under the terms of the policy, the employer will be provided with a percentage of the employee's future benefit or salary in order to enhance early retirement pension or redundancy payment.

For example, Option 2 can be used to approximate the liability should the employer wish to top-up the employee's pension scheme with an approximation of the employee's future pension contributions (see example below).

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#### Example of Option 2:

The current level of annual pension contribution is 10% of salary.

Consider an individual employee aged 44 with Terminal Age 65 and current annual salary of £20,000; hence outstanding duration to terminal age is 20 years.

$$\begin{aligned} & \text{Unum lump sum claim value} \\ = & \text{Factor} \times \text{outstanding term} \times \text{salary} \\ = & 10\% \times 20 \text{ years} \times £20,000 \\ = & £40,000 \text{ lump sum payment} \end{aligned}$$

The lump sum payment is checked against the maximum payment table below

**Note:** Under Options 1 and 2 the overall maximum benefit will be a multiple of the basic income benefit and will vary according to the member's proximity to the policy Terminal Age. Please refer to the table shown below. Where there is a difference between the level of benefit on the chosen basis and that based upon the table the lesser of the two will apply.

Member's outstanding term to Terminal Age	Maximum multiple of basic income benefit
Less than 12 months	0
1 year	1
2 years	2
3 years	3
4 years	4
5 years	5
6 years	6
7 years	7
8 years	8
9 or more years	9

**Note:** That for both Options 1 and 2:

- All members (or all the members in a membership category) must have the same multiple factor.
- In the event of a claim, the lump sum payment will be based on the number of complete whole years left to the terminal age at the end of the payment period.

- The maximum lump sum benefit under Options 1 and 2 is 9 times basic annual income benefit, with an overall maximum lump sum benefit per member of £1 million.

**Note:** Once the lump sum has been paid the claimant cannot re-enter the scheme to claim again.

## 1.4 Employee's Pension Contributions and National Insurance Contributions

Under Gross Pay (including Capital Option) and Fully Integrated schemes, an employee's pension contributions are not normally insured. If we do agree to cover all or part of these, the amount will be treated as part of the basic income benefit. We will not insure employee's National Insurance contributions.

Under Net Pay policies, an employee's pension and National Insurance Contributions are taken into account when the benefit is calculated. The amount of benefit insured is such that, once these items, as well as Income Tax, are deducted, the employee will receive the proportion of net salary promised when combined with their State Benefits relating to incapacity.

## 1.5 How is incapacity defined?

Incapacity, or disability, can be defined in different ways according to the types of illness, injury and circumstance you want the policy to cover. A claim will be paid if the ill or injured employee meets the Definition of Incapacity you have selected for your policy.

The different Definitions of Incapacity are shown below.

### Definitions of Incapacity

#### Definition A: Current Occupation Cover

An employee is considered incapacitated if they are:

"Unable to perform the material and substantial duties required of them in their current occupation. 'Material and substantial duties' are the essential activities for which they are employed, that take up a significant proportion of their time and that cannot be reasonably omitted or modified by them or by you."

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#### **Definition B: Combined Cover (Current Occupation Cover for 24 months; Alternative Occupation Cover thereafter)**

An employee is considered incapacitated if they are:

##### **During the first 24 months of a claim:**

“Unable to perform the material and substantial duties required of them in their current occupation. ‘Material and substantial duties’ are the essential activities for which they are employed, that take up a significant proportion of their time and that cannot be reasonably omitted or modified by them or by you.”

##### **At the end of 24 months, benefit payments will continue if:**

“The employee is still unable to perform their current occupation”

##### **AND**

“There is no reasonable alternative occupation to which they are suited which they can perform with any employer. By this we mean an occupation to which they are suited by their transferable skills at that time. It should provide reasonable, though not necessarily comparable, salary and status in relation to their current occupation.”

#### **Definition C: Alternative Occupation Cover**

An employee is considered incapacitated if they are:

“Unable to perform the material and substantial duties required of them in their current occupation. ‘Material and substantial duties’ are the essential activities for which they are employed, that take up a significant proportion of their time and that cannot be reasonably omitted or modified by them or by you”

##### **AND**

“There is no reasonable alternative occupation to which they are suited which they can perform with any employer. By this we mean an occupation to which they are suited by their transferable skills at that time. It should provide reasonable, though not necessarily comparable, salary and status in relation to their current occupation.”

#### **Definition D: Objective Cover (Current Occupation Cover for 24 months followed by objective medical tests)**

An employee is considered incapacitated if they are:

##### **During the first 24 months of a claim:**

“Unable to perform the material and substantial duties required of them in their current occupation. ‘Material and substantial duties’ are the essential activities for which they are employed, that take up a significant proportion of their time and that cannot be reasonably omitted or modified by them or by you.”

##### **At the end of 24 months**

An employee will continue to be regarded as incapacitated if at that time:

“The employee is still unable to perform their current occupation”

##### **AND**

“Their illness or injury can be identified by objective testing.” (This could take the form of blood tests, x-rays, MRI scans, mental health assessments or other tests. For example, the true cause of someone’s incapacity, initially diagnosed as non-specific back pain, could subsequently be validated as being due to a specific condition following an MRI scan.)

Under Definitions A, B and D we will automatically apply a “reasonable alternative occupation” definition of incapacity to an employee who is required by the terms of their employment to hold a licence or medical certificate which requires them to meet certain medical standards e.g. HGV driver. In these instances, an amended definition will be used which replaces references to “current occupation” with the term “reasonable alternative occupation”, i.e. Definition C.

Under Capital Option, Definition A is only available if the income benefit period is 3 years, 4 years or 5 years; Definition C will apply to any employee who requires a licence or medical certificate to carry out their occupation.

**Please note that the full wordings of each definition are in the policy document. These wordings provide a simplified meaning of each definition for the customer. In the event of a claim the full policy wording will apply.**

#### 1.6 When will income benefit payments start?

You can choose a deferred period of 13, 26, 28, 41, or 52 weeks.

For Capital Option, you can choose a deferred period of either 13 weeks or 26 weeks.

The minimum deferred period for Net Pay and Fully Integrated policies is 26 weeks.

Benefit payments start at the end of the deferred period and are payable monthly in arrears.

#### 1.7 How long will benefit be paid?

You can choose how long you want benefit to be paid. Normally, employers select a Terminal Age to insure benefit until the age that employees normally retire.

For certain occupations such as pilots, we may apply a maximum Terminal Age.

Benefit payments in respect of fixed-term workers will cease at the end of their current contract at the latest. We will not extend the payment period in the event their contract is renewed.

You can specify a limited period of benefit, with payments limited to 2, 3, 4 or 5 years. If you select this option, continuous benefit payment will be limited to the period you have chosen. If a claimant is unable to work for a number of short periods because of an illness or injury, then the combined duration of benefit payments cannot exceed the chosen period except in the circumstances described in Section 5.6.

The benefit will be paid for the limited period selected, except in the circumstances described in Section F 5.2 "When will benefit cease?".

#### 1.8 Extended Cover

If a member works beyond the Terminal Age cover may be continued up to age 70 subject to medical underwriting. An additional premium would be charged based on the Single Premium costing method.

Members with Extended Cover do not benefit from:

- a FCL; the total benefit at the Terminal Age and all subsequent increases in cover must be medically underwritten; and
- Temporary cover pending completion of medical underwriting.

**Note:** Requests for Extended Cover should be made as soon as possible after extended employment has been agreed, to ensure cover is accepted and in place at the extension start date. We will confirm the terms of that cover in writing, if granted.

#### 1.9 Can income benefit be inflation protected?

Yes, you can choose to increase any benefits that are being paid to protect against inflation or to keep benefits payments level. The percentage rate of annual increase which applies to benefits in payment is known as the escalation rate.

You can arrange for benefit in payment to increase as follows:

- **0%, 3% or 5%**  
increase by 3 per cent or 5 per cent per annum compound during the period of payment, or
- **Limited Price Index (2.5%)**  
Change in line with the RPI over the previous 12 months, with a maximum increase in any one year of 2.5 per cent, or
- **Limited Price Index (5%)**  
Change in line with the RPI over the previous 12 months, with a maximum increase in any one year of 5 per cent, or
- **Retail Price Index (12%)**  
Change in line with the RPI over the previous 12 months, with a maximum increase in any one year of 12 per cent.

## 2. Setting up the policy

### 2.1 Process for setting up the policy

We prepare a quotation based upon the risk specification supplied by your intermediary together with the membership data, claims history over the last 6 years (if previously insured), the occupation and location profile of the members to be covered under the policy and details of any members who have had benefits declined or have had adverse underwriting decisions. We require the membership data to be as up-to-date as possible and to show details that relate to a date within the last 12 months of the quotation request date.

Your intermediary must contact us in writing to advise us that you wish us to go on risk for your policy with effect from a specified date in line with our quotation. We will accept risk immediately after midnight. So for example for a 1st January commencement date we go on risk at 00.01 a.m. of 1st January subject to satisfactory answers to any specific caveats shown in our quotation. We will not agree to backdate acceptance of risk.

Once you have accepted our quotation, you will need to provide the following to enable us to set up your policy:

- a fully completed QAAF signed by the policyholder
- membership data at the commencement date
- Actively at Work Declaration
- Deposit premium or Direct Debit mandate.

Where the basis of risk differs from our quotation, we will advise you of any additional requirements and the revised premium.

### 2.2 Evidence of health to be provided before employees are covered

Group policies are designed to cover all employees who satisfy the eligibility conditions of cover (see Section F 1.1.1 "Conditions of eligibility") We will declare a FCL below which evidence of health is not usually required, although Actively at Work requirements will apply (see Section A "Terms Explained").

FCL only applies to employees who join the policy immediately on their first opportunity to do so, or, within 6 months of their first opportunity to do so if eligibility is linked to membership of the employer's pension scheme. Acceptance at any other time will be subject to the provision of satisfactory medical evidence.

If a category of membership includes fewer than 5 members, then a FCL will not apply to these members.

Discretionary entrants have to provide medical evidence for their whole benefit.

Cover for new entrants and increases for existing members will be subject to Actively At Work requirements at the appropriate date.

The basis for calculating the FCL is subject to periodic review.

For a new policy, if eligibility is linked to membership of the employer's pension, we reserve the right to amend the FCL if less than 75 per cent of eligible employees join the pension scheme.

The FCL for the policy is reviewed at each policy accounting date.

Members with benefit exceeding the FCL or, those members to whom the FCL does not apply will be asked to complete a Scheme Member's Application Form, giving details of their health and telling us about any pastimes, which might affect their insurability, or the premium we would charge. Depending on the level of cover required, we may need further medical evidence that could include a medical examination and blood or other tests. If they are accepted, further evidence will currently only be required if their benefits increase at a rate significantly higher than the rise in national average earnings.

## 2.3 Temporary Cover

Where a member's benefit is subject to underwriting because it exceeds the FCL, we provide a maximum period of 2 months temporary cover in respect of the amount being underwritten.

### 2.3.1 Temporary cover pending underwriting is subject to:

- the member not already being subject to any special or restricted terms imposed by us or a former insurer, and
- the member being Actively At Work\*, and
- the member not being a discretionary, early or late entrant, and
- premiums being paid up to date.

During this period, any benefit that exceeds either the FCL or the employee's benefit level as insured immediately before the commencement of the policy will be subject to a pre-existing conditions exclusion. This means benefit will not be paid for any medical condition for which the member received treatment, care or services (including diagnostic measures), or took prescribed drugs or medicines during the 12 months prior to the date they first became eligible or the date of any increase in cover

\*In the case of switched insurance the employees must be Actively At Work on the last working day of the previous insurance cover.

Any previous restrictions relating to evidence of health are maintained during the two month period.

### 2.3.2 Temporary cover starts

Temporary cover starts from

- either the date the member joins the policy with benefits above the FCL, or
- the effective date of an increase in benefit above the FCL.

### 2.3.3 Temporary cover ceases

Temporary cover ceases on the first date either of the two following events occur:

- we issue acceptance terms following completion of medical underwriting, or
- the 2 month period of temporary cover expires.

A new member of a policy that has no FCL is treated as a discretionary entrant for the purpose of underwriting. Once we have agreed full cover, a discretionary entrant is treated the same way as an ordinary member and is granted temporary cover the next time underwriting is required for an increase in cover.

### 2.3.4 What happens if a disability arises before we have agreed full cover?

If a member becomes a claimant after the temporary cover period ends but before we have agreed full cover, benefit is restricted to:

#### In the case of new business

Either our quoted FCL, or, if previously insured, any amount that the member was covered for and which we have agreed to accept without additional medical underwriting.

#### In the case of existing business

The amount on risk with us immediately prior to the effective date of the increase being underwritten.

## 3. What premiums will be charged for cover?

### 3.1 How will premiums be calculated?

#### 3.1.1 What factors determine the rate used to calculate premiums?

The premium charged will depend on a number of factors. These include the nature and level of the benefits to be provided and details of the employees you wish to insure, such as, but not limited to:

- level of income benefits and for Capital Option the level of lump sum benefit
- definition of incapacity selected
- period of income benefit payment selected
- Terminal Age for cover
- eligibility and entry conditions
- rate at which the income benefit increases, if any, while it is being paid
- deferred period
- age and gender of members
- occupation, industry and locations of these members
- annual business mileage, if in excess of 20,000 miles per annum
- claims history, if previously insured
- whether or not the members are covered by an employer sponsored Private Medical Insurance (PMI) policy.
- our then current minimum annual premium.

Premium rates for Unit Rated policies are usually guaranteed for 2 years and are subject to review thereafter. New rates may apply at the end of these periods.

Policies shall have daily entry and daily increases in benefit unless otherwise agreed.

#### 3.1.2 Single Premium policies (between 5 and 19 members):

Premiums will be calculated for each member according to our current premium rates. Premiums are recalculated each year and are dependent on the age of the employees at each policy accounting date. Premium rates increase with age.

The underlying rate table is usually guaranteed for 2 years and is subject to review thereafter. A new rate table may apply at the end of this period.

If the number of lives insured under an existing policy increases to 20 or more, we reserve the right to calculate the cost on the Unit Rated basis outlined below from the following policy accounting date.

#### 3.1.3 Unit Rated or Simplified Administration policies (20 or more members):

The policy accounting is based on a Unit Rate method using simplified administration. This means that an annual rate of premium applicable to all members (referred to as the Unit Rate or Flat Rate) is calculated at the start of the guarantee period.

The first year premium advised as at the commencement date of the policy with Unum is a provisional premium. It is based on the total salary roll or total benefit roll at the commencement date multiplied by the unit rate (which is expressed as a percentage of salary or as a percentage of benefit).

Consequently, details of individual employees who join or leave mid-year are not required; the only information required at a mid-rate guarantee policy accounting date is the total number of members and total salary roll or total benefit roll at that date. Individual details are required only for any members whose benefits exceed the FCL or who are joining outside the normal eligibility conditions of the policy.

Unit rates are usually guaranteed for 2 years and are subject to review thereafter. New rates may apply at the end of this period.

If the number of lives insured under an existing policy falls below 20, we reserve the right to calculate the premium on the Single Premium basis outlined above from the following policy accounting date.

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#### 3.2 Will there be any unexpected additional premiums?

You may be asked to pay additional premiums if:

- you have employees whose cover exceeds the FCL and who have therefore been asked to provide medical evidence, or
- employees who are joining outside the normal eligibility conditions, such as early or late entrants.

These additional premiums may be due to a particular medical condition or some unusually hazardous pursuit the member may undertake. If applicable, these additional premiums will become payable from the date the decision is made.

#### 3.3 Is there a discount for good claims experience?

Past claims experience is a factor in assessing the premium applicable and therefore, for large policies, a good claims history will usually be reflected in the premiums charged.

#### 3.4 What commission is allowed for in the premium?

Any commission paid to your intermediary is a percentage of the gross premium paid; the premium shown in our quotation includes the level of commission payable.

### 4 How does the policy accounting work?

The policy usually operates on a 1 year policy accounting period.

Premiums are normally paid annually or monthly by Direct Debit.

Our quotation states an estimated first year cost assuming an annual premium is paid and that all members can be accepted for their full benefit entitlement at ordinary rates. The annual premium shown in our quotation excludes any additional premiums as a result of medical loadings for members whose cover is subject to special terms due to adverse

medical underwriting and non-medical loadings for members with hazardous pursuits.

Our quotation also states the expected first monthly premium assuming payment is monthly by Direct Debit, and that all members can be accepted for their full benefit entitlement at ordinary rates.

There is a standard adjustment of 3% for all non-annual payments. Our preferred payment method is by Direct Debit.

Adjustments for all non-annual payments:		
Frequency	Payment by Direct Debit	Payment by Standing Order
Monthly	3%	3%
Quarterly	3%	3%
Half-Yearly	3%	3%

#### 4.1 What information is required for policy accounting purposes?

##### 4.1.1 Single Premium Costed policies (between 5 and 19 members):

At commencement date and at each policy accounting date, a list of all employees will be required showing: name, date of birth, gender, salary, benefit entitlement, date of joining or date of leaving (if appropriate).

##### 4.1.2 Unit Rated policies (20 members or more):

This type of policy has been designed so that it is simple for you to manage.

At each policy accounting date (other than a policy review date), we require the following:

- total number of members
- total salary roll, or
- total benefit roll.

Individual details are only required for those members with benefits over the FCL or for employees joining outside the normal eligibility conditions (see Section F 1.1 "Who can be covered?") or for members whose cover is subject to special terms.

More detailed information will be needed at a policy review date.

## 4.2 How are accounts adjusted for employees who join, leave or have benefit increases during the year?

If a member's earnings increase, this will automatically increase the insured income benefit, provided the member's total insured benefit is below the FCL and the member is Actively at Work. Section F 2.2 "Evidence of health to be provided before employees are covered" describes what happens if the FCL is exceeded.

Details of new entrants will be required at the time of joining only if their benefit exceeds the FCL, or if they are joining outside the normal eligibility conditions of the policy.

### 4.2.1 Single Premium Costed policies:

A premium adjustment will be calculated reflecting the level and duration of cover we provided during the policy accounting period. Any premium adjustment for members who join or leave or whose benefit increases is applied at the next policy accounting date.

### 4.2.2 Unit Rated policies:

A premium adjustment will be calculated at the end of the current policy accounting period based on the average total salary roll or total benefit roll for all members covered by the policy during this period. Effectively this means salary and changes in membership are treated as if they occurred at half way through this period. Any premium adjustment for members who leave, join or whose benefit increases is applied at the next policy accounting date.

## 5. Claiming benefits

### 5.1 When can claims be made?

This section answers common questions that arise when an employee suffers long-term illness or injury, which is likely to last beyond the end of the deferred period.

#### **Notification of long-term incapacity:**

Please notify us of a member's likely long-term incapacity promptly by telephoning our Customer Care department on telephone number: **01306 873243**.

We will issue you the appropriate claim forms.

#### **5.1.1 Under what circumstances will income benefit be paid?**

An income benefit payment will be made when a claimant (an insured member who is the subject of a claim) satisfies the Definition of Incapacity chosen for the policy and when their illness or injury lasts beyond the end of the deferred period.

Premiums for the policy must be paid in full for the deferred period for which the claim applies.

#### **5.1.2 Under what circumstances will lump sum benefit under Capital Option be paid?**

A lump sum payment will be made when a claimant completes the income benefit payment period and continues to satisfy the Definition of Incapacity chosen for the policy.

#### **5.1.3 How is the deferred period completed?**

Although the deferred period is normally a period of continuous absence, we will link separate periods of absence of at least two weeks duration through incapacity arising from the same cause. Added together, the absence must be at least equal to the length of the deferred period and must occur within a period of time that is no more than twice the length of the deferred period.

For example, for a deferred period of 13 weeks the total absence must be more than 13 weeks and all absences must occur within a 26 week period.

#### 5.1.4 How ill or injured must the member be?

The claimant must satisfy the Definition of Incapacity chosen for the policy. The policy will make clear which definition is in use.

#### 5.1.5 How will incapacity be assessed?

When assessing a claim, we look for evidence of the claimant's medical condition, its severity, how long it has existed and whether the chosen definition of incapacity has been satisfied. We will need evidence that they are continuing to receive medical advice when appropriate and that treatment options have been investigated and explained to them.

The evidence required to assess a claim will include:

- evidence of membership and earnings
- details of the job requirements for which the claimant is insured
- an original copy of the claimant's birth certificate
- claim forms signed by the employer and the claimant; this form grants us the authority to obtain further information from the claimant's doctors, as required under the Access to Medical Reports Act. On receipt of the form, we will obtain details of their medical history and treatments for their illness or injury.

We may require the claimant to attend an independent medical examination with one or more medical practitioners or consultants at our expense and selected by Unum, in which case we would ask the employer to let them know. We might also need to visit the claimant and/or the employer. If necessary, we will advise them of this in advance.

Under Capital Option, the claimant must undertake any treatment or vocational rehabilitation programme proposed by a doctor unless there is good medical reason not to do so.

#### **Failure to comply will jeopardise payment of benefit.**

#### 5.1.6 Can Vocational Rehabilitation help?

Our Medical Service staff, Vocational Rehabilitation Specialists and Vocational Rehabilitation Service Team work with employers' and claimants' medical advisers to ensure that appropriate claimants receive rehabilitation to enable them to return to work. We can also provide support and assistance to employers when considering their obligations to comply with the requirements of the Disability Discrimination Act.

Vocational rehabilitation has two major advantages. Firstly, it helps minimise the cost of long-term illness or injury to your company, such as the money spent on recruiting and training replacement staff. Secondly, it allows valuable skills and knowledge to be retained within a company and maximises the value that disabled people can bring to an organisation.

The first step towards achieving these goals is to ensure that vocational rehabilitation and reintegration programmes are investigated and implemented wherever appropriate.

Working conditions, physical features and other arrangements can often be adjusted relatively easily so that an ill or injured employee can continue to work.

It is a requirement of the Disability Discrimination Act that employers make reasonable efforts to implement such adjustments. For the purposes of the policy, we assume that these requirements are met.

## 5.2 When will benefit cease?

### 5.2.1 This section shows the events which trigger the income benefit ceasing

Under a standard GIP policy, the income benefit will be paid until the earliest of the following:

- the claimant is no longer suffering loss of earnings;
- the claimant no longer satisfies the definition of incapacity
- the claimant recovers their fitness sufficient for them to be able to return to full time work;
- the claimant reaches the Terminal Age specified in the policy;
- the income benefit period ends under a limited benefit policy;
- under Capital Option, the income benefit period ends and any lump sum benefit is paid as the claimant continues to satisfy the Definition of Incapacity. Once the lump sum has been paid the claimant cannot re-enter the scheme to claim again;
- the claimant undertakes any form of employment without notifying us and obtaining our consent; or
- the claimant dies.

We reserve the right to stop paying benefit if the claimant is dismissed or leaves service or refuses to supply evidence of continued illness or injury. Under Capital Option, we also reserve the right to stop paying benefit if the claimant fails to comply with any treatment or vocational rehabilitation programme recommended by a doctor.

The terms of the policy are not affected by the number of claims.

If the policy has a limitation on the time for which income benefit is paid, then benefits will cease on completion of a continuous period of illness or injury, equal to the selected benefit payment period (2, 3, 4 or 5 years).

If a claimant is dismissed, we may be prepared to deal direct with them if you request that we do so. If payment of the income benefit is continued, we will make the payment direct to the claimant and the Definition of Incapacity will normally change: for

example, it may change to the definition of Alternative Occupational Cover one year after they are dismissed. In these cases, the claimant's entitlement to State Benefits relating to incapacity may be affected. Payment of any additional benefits, such as for pension contributions, will not be maintained.

### 5.2.2 What happens if the claimant's illness or injury means that they can work on a part-time basis or in a reduced capacity?

An income benefit will be payable in proportion to the reduction in their earnings, with an allowance for inflation. This is known as proportionate benefit.

The lump sum benefit under Capital Option will be adjusted in the same manner.

It is not necessary for a full claim to have been paid before we will consider a claim for proportionate benefit.

Where a claimant is receiving proportionate benefit, the full premium for that member will be waived.

## 5.3 When should we know about a member for whom you may make a claim?

The earlier the better so that we can begin to assess the employee's incapacity and employ our vocational rehabilitation services as appropriate. If it appears that the employee's illness or injury will extend beyond the deferred period, you should notify us as follows:

- deferred period of 13 weeks: no more than 4 weeks after incapacity begins
- deferred period longer than 13 weeks: no more than 10 weeks after incapacity begins.

We will not consider claims if we received notification more than 90 days after the end of the deferred period.

## 5.4 Who pays for medical evidence?

When we ask for medical evidence to be provided by UK doctors or specialists, we will pay for it.

#### 5.5 Does other income the claimant receives affect the benefit from this insurance?

Any other income which is paid as a result of a long-term illness or injury is likely to affect the amount of income benefit payable. This is to ensure that claimants do not receive a greater net income than they received when working.

The normal maximum income they can receive from all sources is 80 per cent of pre-incapacity gross earnings.

Examples of other sources of income which may affect the benefit payable include, pensions and payments from other long term insurance policies if these are payable for more than two years. If income from these sources takes the total income over the maximum permitted, then it will generally be offset against the income benefit payable under our policy. Untaxed income such as the benefits from Individual Income Protection policies will be increased by 50 per cent to make it comparable to taxable income.

However, Unum will ignore continuing income above the maximum permitted where:

- Unum has deemed the claimant to be totally and permanently disabled. (Unable to perform their own occupation or any other for the period up to the Terminal Age)
- Employer contractual sick pay takes income over the maximum for a period not exceeding 1 year from the start of the absence.

#### 5.6 After an incapacitated claimant returns to work, can another claim be made in respect of that member?

Yes. If a member who has received income benefit returns to work and within 52 weeks again fulfils the Definition of Incapacity, a new deferred period will not be imposed and payment of income benefit will commence immediately. This is known as a Linked Benefit Claim.

In addition, in respect of limited benefit period policies, each claim (including any Linked Benefit Claim) will be limited to the benefit period selected (2, 3, 4 or 5 years) but there is no limit to the number of claims that can be made, regardless of the cause of incapacity. Once a benefit payment period has been exhausted, the claim would cease. A member must fulfill Actively at Work requirements for a period of at least 4 weeks prior to a subsequent absence which fulfills the Definition of Incapacity and serve the deferred period before a new claim would be paid.

**Note:** Under Capital Option, when the lump sum has been paid the claimant cannot re-enter the scheme to claim again.

##### 5.6.1 Will salary or benefit basis increases be reflected in the benefit payable?

Yes. If the claimant was Actively at Work when the increase was applied, it will be reflected in the benefit paid after further incapacity of a period equivalent to the deferred period.

#### 5.7 What happens if cover is switched (transferred)?

##### **5.7.1 What happens if cover is switched from Unum to another insurer?**

If a claimant for whom we are paying benefit returns to work after cover is switched and fulfils the actively at work conditions of the new insurer, we will cease payment. Any future claims will be the responsibility of the new insurer, except in the following instances:

- If the claimant meets the actively at work criteria of the new insurer but suffers subsequent absence which fulfills the Definition of Incapacity, and if we treat it as a Linked Benefit Claim (see section 5.6) we will reinstate benefit payments for a period equal to the deferred period of the new insurer.
- If the claimant fails to satisfy the actively at work condition of the new insurer, we will remain liable for any future payment of benefit up to the time that the new insurer's actively at work condition is satisfied.

##### **5.7.2 What happens if cover is switched from another insurer to Unum?**

If a member is Actively at Work when a policy switches to Unum, when linking absences (see section 5.1.3 "How is the deferred period completed?"), we will include periods of absence of at least 2 weeks duration which occurred prior to the switch.

#### 5.8 What happens to claims if the cover is discontinued?

All benefits remain payable provided all premiums due have been paid when the employee suffers a long-term illness or injury. Benefit will be paid in the usual way unless this is not possible (for example, if the employer has ceased to trade), in which case we would deal directly with the claimant.

In all cases where the claimant ceases to be employed, optional additional benefits (e.g. employer's National Insurance Contributions) will also cease.

#### 5.9 What happens to claims in respect of overseas-based employees?

Any claim in respect of members based abroad and foreign nationals will be paid in sterling to the UK employer.

#### 5.10 How to complain about a claim decision

In the event of the claim decision not being to the policyholder's satisfaction, the policyholder may refer to matter to the Customer Feedback Department. This is a separate Department, independent of the Claims Department that will review the claim decision afresh and in line with Unum's complaint handling process. The Customer Feedback Department will issue Unum's final decision on the claim. If the policyholder remains dissatisfied The Financial Ombudsman Service provides an independent dispute resolution service for eligible disputes. Where you remain dissatisfied with the outcome of your complaint you can contact the Financial Ombudsman Service at the address below within 6 months of Unum's final decision being made. Your legal rights and those of the member are not affected if this organisation is contacted.

The Financial Ombudsman Service  
South Quay Plaza  
183 Marsh Wall  
London  
E14 9SR

Tel: 0845 080 1800

## 6. HIV/AIDS cover

All quotations automatically have HIV/AIDS cover included.

## 7. What is not covered?

Exclusions for claims arising from certain specified medical conditions or in specified circumstances may be imposed on a specific member's benefits as part of the medical underwriting process.

Normal pregnancy is not regarded as an illness. Unum provides full cover during maternity leave provided the member remains employed by her existing employer. A deferred period and all other policy terms and conditions will need to be satisfied before benefit is payable.

For increases to benefit during absence for maternity (and for adoptive, paternity and unpaid parental leave) salary increases will be accepted under Unum's cover provided that:

- the increase is in line with general pay increases for the employer subject to a maximum of 5 percent per annum compound; and
- the increase is salary related, i.e. we will not cover increases for a flat benefit.

Under Capital Option, fixed term contract workers are not covered.

## 8. Can cover be provided for employees not in the UK?

We are prepared to cover employees travelling or working overseas or seconded to other organisations, provided that:

- they meet the eligibility conditions of cover for the policy, and;
- they have a contract of employment with a UK registered company (which is covered by the policy), and
- they continue to be declared in the membership data and premium continues to be paid in respect of them, and;
- all premiums must be paid in sterling by the employer.

For lives based overseas the nationality and countries worked in need to be declared for each employee at policy commencement and review.

Benefits will be paid to the UK employer in sterling in respect of claimants living abroad provided that we can obtain satisfactory medical evidence in English.

If we require a claimant located overseas to undergo a medical examination, we will contribute an amount towards the cost of the examination in the foreign country, normally the equivalent cost of a similar examination in the UK.

## 9. Taxation

The whole cost of a standard GIP policy is usually met by the employer.

### Income benefit

Income benefit is payable to the employer who passes it on to a claimant as a salary continuance. For tax purposes, premiums are treated as a business expense; income benefit received is a trading receipt and payments passed on as salary are a trading expense, giving a neutral tax situation.

Income benefit received by the employee as salary is taxed as PAYE.

### Premiums

Premiums are not treated as a P11D benefit for employees.

The Inland Revenue does not normally grant tax relief on premiums paid for any employees with a proprietorial interest in the company. However, they may sometimes grant tax relief provided that a substantial number of other employees are entitled to similar benefits. Clarification of the tax position in such cases should be sought from your local Inspector of Taxes. Alternatively, you may wish to refer to your intermediary for advice.

### Lump sum benefit for Capital Option only

The lump sum is payable to the employer.

Unum will not provide specific advice on how the employer should treat the lump sum or any other aspect of taxation.

For further details, see our Group Income Protection Capital Option tax guide UP762.

Clarification of the tax position in specific cases

should be sought from your local Inspector of Taxes. Alternatively, you may wish to refer to your intermediary for advice.

This information is based on our understanding of current UK tax legislation. Employers should refer to their professional advisers for advice on the tax implications for themselves and their employees.

## 10. Continuation Option

The Continuation Option allows portability of cover for employees leaving your service. A Continuation Option is only available on standard GIP policies. The Continuation Option facility will cease when the member attains age 65. A Continuation Option applies to income benefit accepted at ordinary premium rates. The level, type and terms of cover will be subject to the normal terms and conditions of our standard individual income protection insurance policies at the time the option is taken up. An application for a Continuation Option policy must be made within 31 days of the member leaving service.

Employees who wish to take an individual income protection policy using this option should take advice from an appropriately authorised intermediary who may charge a fee.

No Continuation Option is available for fixed term contract workers or members with limited term benefits.

## 11. Profit sharing

Your quotation will be on a non-profit basis unless profit sharing has been specifically requested.

Profit sharing is available to policies with an annual premium in excess of £10,000. The additional premium for profit sharing depends on the number of lives in the policy.

Where profit sharing has been requested, our quotation will state the profit sharing formula which applies. Profit sharing does not result in a cash refund but in an allowance against future premiums.

Profits are calculated on a three year basis and are reckoned to be 65% of all premiums paid during the triennium, plus five times the annual value of claims being paid at the beginning of the three year term, less the following deductions:

- the amount of all claims paid during the three year period.
- five times the annual value of claims being paid at the end of that period.

One half of the sum produced is refunded as a level discount on the following three year's premiums to a maximum annual rebate of 12% of premiums received in the previous three years. Losses are not carried forward.

Profit sharing is not available on policies with a limited payment period including Capital Option or on Shared Liability policies.

## 12. Cover for an employee's partner or spouse

The cover provided by this insurance is for employees only.

## 13. Shared liability

This is only available to larger policies with at least 1,000 members.

Shared Liability refers to the situation where the employer chooses to self-insure the benefits for the first specified period of the claim and up to a specified amount. The initial period and benefit ceiling are agreed at the outset of the policy.

Unum will be in full control of the claims management process for all claims, including those claims for which Unum has no liability.

In order to prepare an initial costing on a Shared Liability basis, we require individual membership data. A risk assessment will be carried out before we can proceed to calculate the final rate and issue our quotation.

Supplementary benefits, such as pension scheme contributions and/or National Insurance contributions can also be insured.

The FCL and maximum benefit formula are unchanged from a standard GIP policy and apply to the full amount of benefit being provided to a member.

No Continuation Option is available for Shared Liability policies.

We do not offer a Shared Liability policy for Equity partners, Barristers or standard GIP policies of a Flexible Benefit design.

## 14. Third Party Rights

In accordance with The Contracts (Rights of Third Parties) Act 1999, Third Party Rights may be provided for employees.

Unum's standard option provides a specific right for employees to enforce a claim under the policy where their employer has:

- submitted a claim on their behalf; and
- pursued that claim through our internal appeal process; and
- referred the dispute to adjudication by the Financial Ombudsman Service and the Financial Ombudsman Service has made a final decision on the matter which has been communicated to Unum.

On request and in accordance with the Act, employers can choose to:

- Exclude all Third Party Rights so that the claimant has no direct right to enforce a claim at any time; or
- Include an additional right of consultation for employees over and above the right provided in the standard option. These additional rights would be agreed in writing between the employer and Unum. However, this does not mean that employees have full Third Party Rights.

## 15. Surrender value

The policy does not acquire a surrender value.

## 16. Group Income Protection for Equity Partners

We are able to provide a Group Income Protection (GIP) policy exclusively for Equity Partners or for Equity Partners and staff.

The terms and conditions of our standard GIP for employers described in detail in this guide generally apply to our policy for Equity Partners (all terms and conditions apply to staff insured under an Equity Partner policy). However, there are some aspects of our GIP policy for Equity Partners that may differ from standard policy terms and conditions and these are noted below.

### 16.1 What factors should be considered in deciding what benefits to provide?

- This policy is available to Equity Partners with an equity share in the firm and whose income from the firm is taxed under Schedule D.
- Capital Option is not available on an Equity Partner policy.
- Equity Partner GIP policies are only provided on a gross pay basis. The maximum income benefit is 50 per cent of the Equity Partners' normal "Net Income" from the firm averaged over the last 3 years (or however long the partnership has been in business if less than 3 years). "Net Income"

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means the taxable earnings after deduction of the business expenses, derived by the member from the Partnership.

- Benefits paid under the policy may be reduced if the claimant is receiving other regular income as a result of illness or injury, such as income from an individual income protection policy. (See Section F 5.5 “Does other income the claimant receives affect the benefit from this insurance?”). Though the maximum is revised to 50 per cent and any taxed income will be reduced by one-third to make it comparable to untaxed income.
- The policy can also provide additional expenses cover in respect of the Equity Partner’s share of the total partnership’s normal costs of running the business for up to 3 years; such costs will be averaged over the previous 3 years. This additional cover is limited to the lower of £50,000 p.a. or one third of earnings. This optional additional cover is available to a minimum of two Equity Partners. We do not provide Additional Expenses cover policies in isolation.
- There is an option to provide cover for any “salaried partners” within the Equity Partners policy, with the terms and conditions that apply to the “salaried partners” cover being the same as under a standard GIP policy.
- You must include all Equity Partners for cover under the policy when they first become eligible.
- Each Equity Partner (taxed under Schedule D) pays for their own cover but all premiums are paid by the partnership together in one payment.
- Evidence of income and expenses may be required from time to time.
- Our standard GIP policy FCL applies to an Equity Partners policy, but the calculation is based on the member’s total earnings.

## 16.2 How does the policy accounting work?

- Benefits for Equity Partners are always costed using Single Premium Costing method (described above) regardless of size.

## 16.3 Claiming benefits

- Claims must be made by the Partnership.
- We pay the income benefits to the incapacitated Equity Partner on a monthly basis, from the end of the deferred period for the duration of the benefit payment period selected when taking out the policy and for as long as the claim remains valid.
- The evidence required to assess a claim will include:
  - evidence of scheme membership and earnings
  - details of the Partnership’s accounts for the last 3 years (or if in business for shorter period, for as long as are available)
  - details of the job requirements for which the claimant is insured
  - an original copy of the claimant’s birth certificate
  - claim forms signed by the Partnership and the claimant; this form grants us the authority to obtain further information from the claimant’s doctors, as required under the Access to Medical Reports Act. On receipt of the form, we will obtain details of their medical history and treatments for their illness or injury.

#### 16.4 Taxation

Currently the taxation under Equity Partners GIP policies is as follows:

##### **Income benefit**

The income benefit is tax free and is paid gross directly to the incapacitated Equity Partner who has a valid claim.

Where additional expenses cover has been chosen, this benefit is paid directly to the Firm and then used to cover each Equity Partner's share of the ongoing business expenses. The additional expenses cover is treated as a trading receipt and used for administration costs which are regarded as a trading expense resulting in a neutral tax situation.

##### **Premiums**

Each Equity Partner (taxed under Schedule D) pays for their own cover. There is no tax relief on the premium paid.

This information is based on our understanding of current UK tax legislation. However, the Partners should refer to their professional advisers for advice on the tax implications for themselves and their employees.

## 17. Group Income Protection For Barristers

We provide a Group Income Protection (GIP) policy exclusively for Barristers in Chambers.

The terms and conditions of our standard GIP for employers described in detail in this guide generally apply to our policy for Barristers. However, there are some aspects of our GIP policy for Barristers that may differ from our standard policy terms and conditions and these are noted below.

#### 17.1 What factors should be considered in deciding what benefits to provide?

- Barristers' GIP policies are only provided on a gross pay basis. The maximum income benefit is 50 per cent of the Barrister's "Net Income" from Chambers averaged over the last 3 years (or however long the partnership has been in force if less than 3 years). "Net Income" means the gross receipts net of VAT less Chambers' expenses derived by the member from practising as a barrister.
- Capital Option is not available on Barristers GIP policies.
- The policy can also provide cover in respect of the Barrister's share of the normal Chambers' expenses for up to 3 years; such expenses will be averaged over the previous 3 years. This additional cover is limited to the lower of £50,000 p.a. or one-third of earnings. We do not provide Additional Expenses cover policies in isolation.
- Benefits paid under the policy may be reduced if the claimant is receiving other regular income as a result of illness or injury, such as income from an individual income protection policy. (See Section F 5.5 "Does other income the claimant receives affect the benefit from this insurance?"). Though the maximum is revised to 50 per cent and any taxed income will be reduced by one-third to make it comparable to untaxed income.
- Our standard GIP policy FCL applies to a Barrister's policy, but the calculation is based on the member's total earnings.
- You must include all Barristers for cover under the policy when they first become eligible.
- Each Barrister (taxed under Schedule D) pays for their own cover but all premiums are paid by the Chambers together in one payment.
- Evidence of income and expenses may be required from time to time.

#### 17.2 How does the policy accounting work?

- Benefits for Barristers are always costed using Single Premium Costing method (described above) regardless of size.

#### 17.3 Claiming benefits

- Claims must be made by the Chambers.
- We pay the income benefits to the incapacitated Barrister on a monthly basis, from the end of the deferred period for the duration of the benefit payment period selected when taking out the policy and for as long as the claim remains valid.
- The evidence required to assess a claim will include:
  - evidence of policy membership and earnings
  - details of the Barrister's last 3 years' income from the clerk of the Chambers (or if less than 3 years in practice, for as long as are available)
  - details of the job requirements for which the claimant is insured
  - an original copy of the claimant's birth certificate
  - claim forms signed by the Employer and the claimant; this form grants us the authority to obtain further information from the claimant's doctors, as required under the Access to Medical Reports Act. On receipt of the form, we will obtain details of their medical history and treatments for their illness or injury.

#### 17.4 Taxation

Currently the taxation under Barristers GIP policies is as follows:

##### **Income benefit**

The income benefit is tax-free and is paid gross to the incapacitated Barrister who has a valid claim.

Where additional expenses cover has been chosen, this benefit is paid directly to Chambers and then used to cover each Barrister's share of the ongoing business expenses. The additional expenses cover is treated as a trading receipt and used for administration costs which are regarded as a trading expense resulting in a neutral tax situation.

##### **Premiums**

Each Barrister (taxed under Schedule D) pays for their own cover. There is no tax relief on the premium paid.

This information is based on our understanding of current UK tax legislation. However, the Chambers should refer to their professional advisers for advice on the tax implications for themselves.

## 18. Complaints handling

We want you to be entirely satisfied with your Group Income Protection policy. If you do have a query or complaint, please contact the intermediary who arranged the policy for you. If there was no intermediary, please contact Unum directly.

If this does not resolve the matter, then please write to:

Head of Customer Feedback

Unum

Milton Court

Dorking

Surrey

RH4 3LZ

Tel: 01306 887766

If the matter remains unresolved, you may be eligible to contact the Financial Ombudsman Service at the address below within 6 months of Unum's final decision being made. Your legal rights are not affected if you contact this organisation.

The Financial Ombudsman Service

South Quay Plaza

183 Marsh Wall

London

E14 9SR

Tel: 0845 080 1800

## 19. Compensation

If we cannot meet our liabilities you may be entitled to compensation under the UK Financial Services and Markets' Act 2000. Information about this is available on request from us.

## 20. Further Information

### About Unum

Unum is one of the UK's leading providers of financial protection, with almost 40 years' experience.

Unum helps employers protect their workers by providing access to financial protection, safeguarding employees from the consequences of serious illness, injury or death.

At the end of 2009, Unum protected more than 1.6 million lives in the UK and paid claims of £268 million, providing security and peace of mind to employees and their families.

In the UK, Unum has a financial strength rating of A- (Strong) from Standard and Poor's and A- (Excellent) by AM Best.

Its US parent company, Unum Group, traces its history back to 1848 and is one of the leading providers of employee benefits products and services, and the largest provider of group and individual disability insurance in the United States. Premium income for Unum Group and its subsidiaries totalled \$7.5 billion in the year ended 31 December 2009, with reported revenues for the group totalling \$10.1 billion. Total assets were \$54.5 billion at 31 December 2009.

For more information please visit

**[www.unum.co.uk](http://www.unum.co.uk)**