**Protection Factsheet**

The following list, whilst not exhaustive, sets out the key types of protection available, their definitions and tax treatment and gives an explanation of some of the options that are available. Please refer to your Key Features Document and personal illustration for detail relevant to your plan.

**Level Term Cover**

Term Assurance is the simplest form of life assurance and normally the most cost effective. It provides a sum assured payable on death during the term fixed at outset. There is no investment element, and therefore no surrender value nor maturity value. The life cover lapses at the end of the policy term. There is no tax relief on premiums for new term assurance policies. There is no income tax liability on benefits. Increases in the sum assured can be included, either as an automatic feature, or as an option for the policyholder. Level term policies can be written on a life and/or critical illness basis and on joint or single life. Finally they can be written with an automatic renewal facility where no additional medical evidence is required to renew the plan.

**Decreasing Term Cover**

Decreasing term policies are in effect the same as term policies, although the benefit reduces each year over the term of the cover, typically to match the term of a mortgage. Again, decreasing term policies can be written on a life and/or critical illness basis and on joint or single life.

**Family Income Benefit (FIB)**

Family Income Benefit is a form of decreasing term assurance, specifically aimed at families, and is intended to provide good value, basic cover. Benefits are in the form of regular payments ('income') payable from death until the end of the policy term. Cover is therefore substantial in the early years, but its value gradually reduces as the potential payment period of benefits reduces as the end of the term approaches. Although described as income, the benefits are treated for tax purposes as instalments of sum assured and are not subject to income tax. Most policies allow the benefits to be exchanged for a discounted lump sum, which is calculated at the discretion of the insurer, taking into account economic conditions at the time, in particular, interest rates. It is possible to arrange cover on the basis that the level of 'income' increases to counteract inflation, at least to an extent. There is no investment element, and so no surrender value nor maturity value.

**Income Protection (PHI)**

Income Protection Insurance arrangements (often referred to as PHI or Permanent Health Insurance) are designed to replace income in the event that the insured is incapacitated. Benefit payments begin after a deferred period. Definitions of incapacity can vary, and this is an important factor in comparing contracts from different providers. In principle, the incapacity definition which results in the most expensive premiums is an 'own occupation' definition. In this case, benefits are paid if the individual cannot follow his usual occupation, even if they could follow another occupation. This therefore provides the most comprehensive level of cover. Cover is generally arranged to cease at an agreed termination date, generally chosen to coincide with the expected retirement date of the individual.

For personal PHI policies, there is no tax relief on premiums and benefits are payable free of income tax. Benefits are payable after a fixed period has elapsed following the onset of incapacity, this period is known as the deferred period. The deferred period is agreed at policy inception, and ranges from a few days to 2 years. The level of cover is limited by insurers (there is no legal or taxation requirement for such a limit), so as to provide an incentive to return to work. For personal PHI, the limit is usually to 60% to 65% of pre-disability income. These limits include State Incapacity Benefit, income received from an employer, and benefit under any other PHI policies.

**Critical Illness Cover (CI)**

Modern day lifestyles are resulting in the increased likelihood of individuals suffering a critical illness at some time in their lives. However, medical developments mean that survival rates are improving. Conditions including heart disease, cancer and strokes are now so common that over one third of the population will suffer one of these at some time in their life. CIC can provide the financial peace of mind to help ease the burden of such events. In addition, some plans may also cover against the contingency of not being able to carry out your own occupation due to incapacity.

A Critical Illness policy will provide you with a capital sum if you are diagnosed (and confirmed to the satisfaction of the insurer) as suffering from one of a defined list of critical illnesses or disabilities as per policy conditions. The cover can be provided throughout your life or for a fixed term of years. The illnesses covered vary between policies, but in the main are core conditions, i.e. heart attack, cancer, stroke, kidney failure, major organ transplant, coronary heart bypass and permanent total disability, together with other conditions fully detailed in the Key Features Document. Medical underwriters consider a number of factors, including age, lifestyle, state of health, and employment risk, before cover will be offered. It is important for you to note that benefit payments are based on the strict definitions for the various conditions covered.

**Permanent Total Disability**

The definition of Permanent Total Disability does vary and some insurers define it as the life assured being unable to follow his / her normal occupation as a result of sickness whilst others will define it as the life assured being unable to independently perform three or more Activities of Daily Living as a result of sickness or accident. This cover is often included at no additional cost and removed twelve or twenty four months prior to the end of the agreed term.

**Indexation Option**

This option allows you to increase the cover at each anniversary in line with inflation. Your premium will increase each year to pay for the increase in cover.

**Terminal Illness Benefit**

In the event of you being diagnosed as suffering from a terminal illness i.e. one where the expectation of life is less than twelve months the sum assured under the contract will become payable. This cover is sometimes removed either twelve or twenty four months prior to the end of the agreed term.

**Guaranteed Insurability**

This option enables you to affect a further policy, prior to the expiry of your existing policy up to, either, the original sum assured or a set sum at the then applicable rates without evidence of health. In addition, some policies allow you to increase the level of benefits / cover without further medical underwriting upon certain events, for example, on the birth of a child or increasing your mortgage. Please refer to the Key Features Document for specific detail.

**Whole of Life Cover**

Most often used to provide funds after death to meet Inheritance Tax liabilities and thus enable more of a person's estate to pass to their beneficiaries. A Whole of Life Insurance plan guarantees that the sum assured will be paid upon death of the life(s) assured provided that the premiums have been paid. A joint life policy is usually affected on a joint life, second death basis (payable on the death of both lives assured). This is due to the fact that transfers between spouses are currently exempt from IHT. Therefore, on the understanding that the respective Estates would be left to each other upon death, no IHT would be payable on the first to die.

Historically, there are two basic premium methods, "Maximum cover" where the maximum sum assured is calculated for a set premium, and "Standard cover", where the initial premium is set at a level designed to ensure that there will be no need to raise the premium or will not rise by a big percentage at any review point prior to death. The policies were (and will be for existing plans) reviewed at set periods as established within the providers literature, to determine the premium and cover that will apply to the next review. At the review for a Maximum cover plan, if the sum assured is to be maintained, then the premium would normally rise to reflect that the lie assured will be older and the mortality risk for the period to the next review will have risen. At the review for a Standard cover plan, there should be less of a change in premium, although this is not guaranteed and a review will still be carried out.

These plans were normally set up as unit linked plans where the premiums are invested, and the cost of life cover deducted from the invested amounts. Plans on a Maximum cover basis will rarely acquire a significant investment value, as any early surplus in investment value is clawed back in the later periods of a given review cycle. However plans on a Standard cover basis may well acquire an investment element, or surrender value for many years until the cost of providing the life cover under the plan is greater than the monthly premium.

Within the current market there are few providers offering unit linked policies. The offering is either that of a guaranteed or reviewable plan. None offer surrender values and the premiums are either reviewed periodically and at each review premiums will increase to take account of age and so on, or are guaranteed for life. With the latter being at considerably higher cost.

As this cover is usually arranged to meet Inheritance Tax liabilities the plan should normally be placed into Trust so that the sum assured will not be included in your estate and will be available to the nominated beneficiaries to meet some or all of the expected Inheritance Tax payable following your death.

**Trust**

Discretionary / Flexible Trust:

A discretionary or flexible trust, as implied by the name, is one which offers more flexibility than an absolute trust. This would allow you to change the proportions in which each beneficiary benefits from the sum assured, remove beneficiaries or appoint new beneficiaries, or leave the appointment to the discretion of the trustees.

Premium payments will normally be exempt gifts courtesy of the annual £3,000 annaul gift exemption or the normal expenditure from income exemption.

Every ten years, however, there may be a tax charge on the trust itself. This would apply only if the trust was then valued at more than the nil-rate band. The nil-rate band is, for your information, currently £325,000 and has generally increased each year, however the chancellor has announced that the nil-rate band will be frozen at its current level until 2017/18.

The tax charge is, currently, a maximum of 6% of any value in excess of the nil-rate band.

The value of the trust, where the only trust asset is a term assurance policy, will be the cash value of the policy. This is usually taken as the cash value of the policy which is nil, since the policy cannot be encashed.

If, however, you were in serious ill-health at the time of a periodic charge a value might be assumed for this purpose.

If a periodic charge should ever apply, then a tax charge may also apply when the sum assured is paid, again, at a maximum of 6% of the amount over the nil-rate band.

Absolute trust:

With an absolute trust, there is no facility to alter the shares of any beneficiary. In the event of the death of a beneficiary before payment of the sum assured, for example, their share would pass under their will.

Premium payments would be treated in the same way as if you were to use a flexible trust but there would, under current legislation, be no periodic charge and no risk of an inheritance tax charge on payment of the sum assured.