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Taxation, Retail Investment and Pensions

Assignment 5 Notes

# (Part 4 – Health and Risk Benefits)

*Recommended Time: 3 Hours*

1. **Describe the difference between Statutory Sick Pay and Employment and Support Allowance.**

**15 marks**

A full answer should cover the features of each, including rates and eligibility.

SSP - When an employee is unable to work due to sickness or disability, employers must make payments for time off sick to at least a minimum level. Therefore, during the first 28 weeks of time off work employers must, as a minimum, make statutory payments.

ESA replaced all incapacity benefits for all new claimants with effect from 27 October 2008. Employees will continue to receive SSP for the first 28 weeks of absence. For those not eligible for SSP (e.g., the self-employed), ESA will commence in place of SSP following four consecutive days of illness. Note that ESA is paid by the Government; SSP is paid by the employer.

Relevant sections of the manual are Part 4 Chapter 1.1.1 and 1.2.3

**15 marks**

1. **Describe the main types of medical expenses schemes.**

**10 marks**

Answers should include detail on individual, affinity, voluntary and company plans as well as the types of cover: fully insured, cost plus and self-insurance.

Relevant section of the manual is Part 4 Chapter 2.6.4

**10 marks**

1. **Write brief notes on:**
2. **Pension Credit**
3. **Income Support; and**
4. **Universal Credit.**

**10 marks**

It can be assumed that broadly equally marks are available for each

Pensions Credit was introduced on 6 October 2003, Income Support for people over 60, including care home residents. Pension Credit is administered by the Pension Service which is part of the Department for Work and Pensions (DWP). People aged 60 and over who were already receiving Income Support in October 2003 were transferred automatically to Pension Credit without having to make a new claim. section, i.e. 3-4 marks.

Therefore, only the most important features of each are required.

Income Support tops up the income of those whose income from all sources is below a minimum threshold level set by Government. It is one of the benefits being replaced by Universal Credit.

Universal Credit (UC) is a new single payment for people who are looking for work or on a low income. It is designed to help claimants and their families to become more independent and will simplify the benefits system by bringing together a range of working-age benefits into a single payment.

Relevant sections of the manual are Part 4 Chapter1.2.1, 1.2.6 and 1.2.8

**10 marks**

1. **Describe the key features of income protection policies.**

**15 marks**

Answer should include detail on short and long-term provision and insurance arrangements: Income protection can be provided in a number of ways. Where the individual is an employee, the employer will provide at least the statutory minimum level of cover and this minimum level may be augmented. Benefits can be provided at various levels, short or long term, by the employer. Where the employer does not provide benefits over and above the statutory minima, individuals can augment their protection. For the self-employed, any income protection above that offered by the State will probably be provided by insurance cover.

Short Term Employer Provision Many employers pay more than the minimum Statutory Sick Pay and may pay an employee his normal earnings for a period, the length of which may be service related. This short-term provision is often non-insured, in effect self-insured. It is designed to fill the gap between the employee first becoming ill and any long-term arrangement coming into payment.

Long Term Employer Provision The provision of long-term benefit in the event of long-term disability may be made by employers through long term sickness and disability arrangements generally known as Permanent Health Insurance (PHI) or as Income Protection (IP). These may or may not be insured through a PHI insurance policy. PHI benefits may be provided for all employees or perhaps just for certain categories of employee, e.g., senior executives or managers.

The design of such arrangements should take account of a number of factors including:

• allowing for the existence of short-term benefit provision from the employer and/or the State, longer term State help also needs to be considered

• any available provision for retirement on the grounds of incapacity under any occupational pension scheme that may be in place

• where there is no prospect of a return to work, expected pension benefits

Relevant section of the manual is Part 4 Chapter 2.1

**15 marks**

1. **Explain the features of critical illness cover, long term care and personal accident insurance and highlight the differences.**

**15 marks**

Approximately 3-4 marks might be expected for each and the balance to cover the differences. Answers should include detail on the benefits, restrictions of cover and taxation aspects.

CRITICAL ILLNESS COVER The term Critical Illness covers a number of defined medical conditions which can be insured against either through an individual policy or through a group policy for employees of an employer or partners within a partnership. The cover provides for a lump sum benefit to be paid to an insured person who suffers one of the Critical Illness claim events listed under the policy. For those claims which arise from medical conditions, the date of the event is the date that formal diagnosis is made; for surgical procedures, the date is the date of actually undergoing the procedure. The individual/employee spouse/registered civil partner or child, as appropriate, must survive a period of time that the insurer stipulates from the Critical Illness event (say, 30 days), after which the claim will be processed.

LONG TERM CARE State benefits can provide some help when a person needs daily assistance, but this may not be enough or may not pay for the full cost of long-term care. The level of State support you receive is different depending on whether you live in England, Wales, Scotland, or Northern Ireland. In England and Wales means-tested state assistance is available but if savings and assets are above £23,250 in England (slightly higher figures for Wales and Scotland) the full cost of long-term care needs to be self-funded. A sliding scale starts at £14,250 where part of capital between £14,250 and £23,250 is regarded as producing income which is considered in assessing needs. The Government are planning to amend the provision of long-term care benefits following the 2011 report of the Dilnot Commission. The original intention to increase the £23,250 means-tested threshold to £123,000 has been trimmed back to £100,000 (and now includes the value of a person’s home) while the planned introduction in 2020 of an overall cap of £72,000 on nursing costs has been abandoned, although “clarifications” made by Theresa May following the unpopular “dementia tax” proposals in the 2017 Tory Manifesto suggest that an overall cap may be back on the agenda.

PERSONAL ACCIDENT INSURANCE Where provision is made by the employer benefits may be either on a fixed scale or salary related. In the latter instance cover will be expressed as a multiple of salary in the event of accidental death or Permanent Total Disability (PTD) with proportionate sums payable in the event of loss of limbs etc

Relevant sections of the manual are Part 4 Chapter 2.3, 2.4 and 2.8

**15 marks**

1. **Outline the tax treatment of medical expenses schemes.**

**5 marks**

Answers should cover:

* Individual plan
* Insurance Premium tax
* Value Added Tax
* Group Plans.

Relevant section of the manual is Part 4 Chapter 2.6.5

**5 marks**

1. **A client has asked you to explain keyperson cover. Prepare an email note to outline the features and taxation position of typical polices.**

**10 marks**

As this question asks for a specific format 1 or 2 marks are available for presenting the answer as requested.

Many businesses fail to protect themselves from the financial consequences of one or more of their most important assets, namely the key people that they employ. Keyperson insurance is designed to protect the company that purchases the cover from losses arising from the loss of the services of key individuals connected with the company due to accident or sickness. Such cover is occasionally known as “Economic Death Insurance”. Another issue that may require protection is where a business has borrowed to support a particular project or tends to rely on a substantial overdraft for the purposes of day-to-day trading. The cover may be in respect of disablement or death and such cover may be purchased individually or as part of a package that covers death, disablement, and critical illness. There are many possible examples of people who may be key: • A shareholder director who might be central to a small business. • A sales director where personal contact with key customers might be central to their ongoing support. • Specialist technical personnel who are for example involved in a key new product development. It is possible to clearly envisage this for example in fast growing information technology or biotechnology companies. • A Project Manager whose control and input may be vital in the successful completion of a civil engineering project for example where any time overruns due to the loss of this key resource may involve crippling financial penalties.

The general practice in dealing with Insurances by employers on the lives of the employees is to treat the premiums as admissible deductions, and any sums received under a policy as trading receipts if:

1. the sole relationship is that of employer and employee
2. the insurance is intended to meet loss of profit resulting from the loss of services of the employee, and
3. it is an annual or short term\* insurance. Cases of premiums paid by Companies to ensure the lives of Directors are dealt with on similar lines”. \* short-term is generally taken to mean no more than five years

Relevant section of the manual is Part 4 Chapter 2.5

**10 marks**

1. **Explain how the following State benefits might be supplemented by insurance products:**
2. **Universal Credit**
3. **Statutory Sick Pay**
4. **Personal Independence Payment.**

**20 marks**

Approximately 6-7 marks are available for each section.

In addition to details on each benefit, it is expected that answers could suggest:

* Universal Credit might be supplemented by income protection policies
* SSP by critical illness cover, personal accident schemes or health care schemes
* P.I.P by critical illness cover

Answers should explain the choice of products.

Relevant sections of the manual are Part 4 Chapter 1.1.1, 1.2.1, 1.2.4, 2.1, 2.3, 2.4 and 2.6

**20 marks**