Level Term Insurance

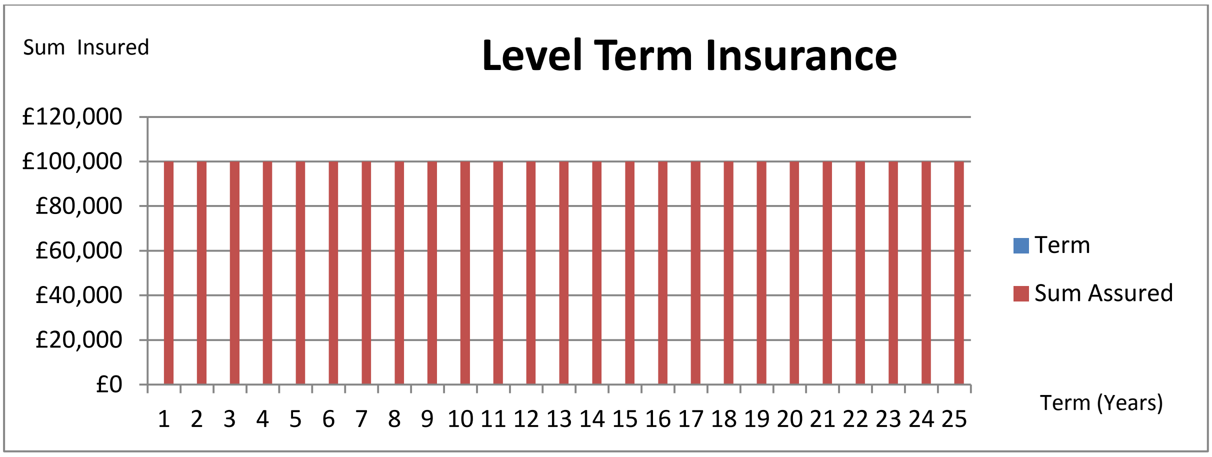
Term Insurance is designed to provide a fixed amount of life insurance for a fixed term of years. The premiums are determined at outset and are usually guaranteed for the full term of the policy, provided premiums are paid when due.

Reviewable premium plans are available, but are not widely used and have therefore been excluded from the Intelligent Protection software.

The graph below shows how the sum insured remains constant over the policy term.

Level Term Insurance has traditionally been used by advisers for family protection needs and/or to cover Interest Only mortgages. The Intelligent Protection software only uses Level Term Insurance as a means to cover Interest Only Mortgages. Family Income Benefit (described later) is used to meet family protection needs.

Sum Insured



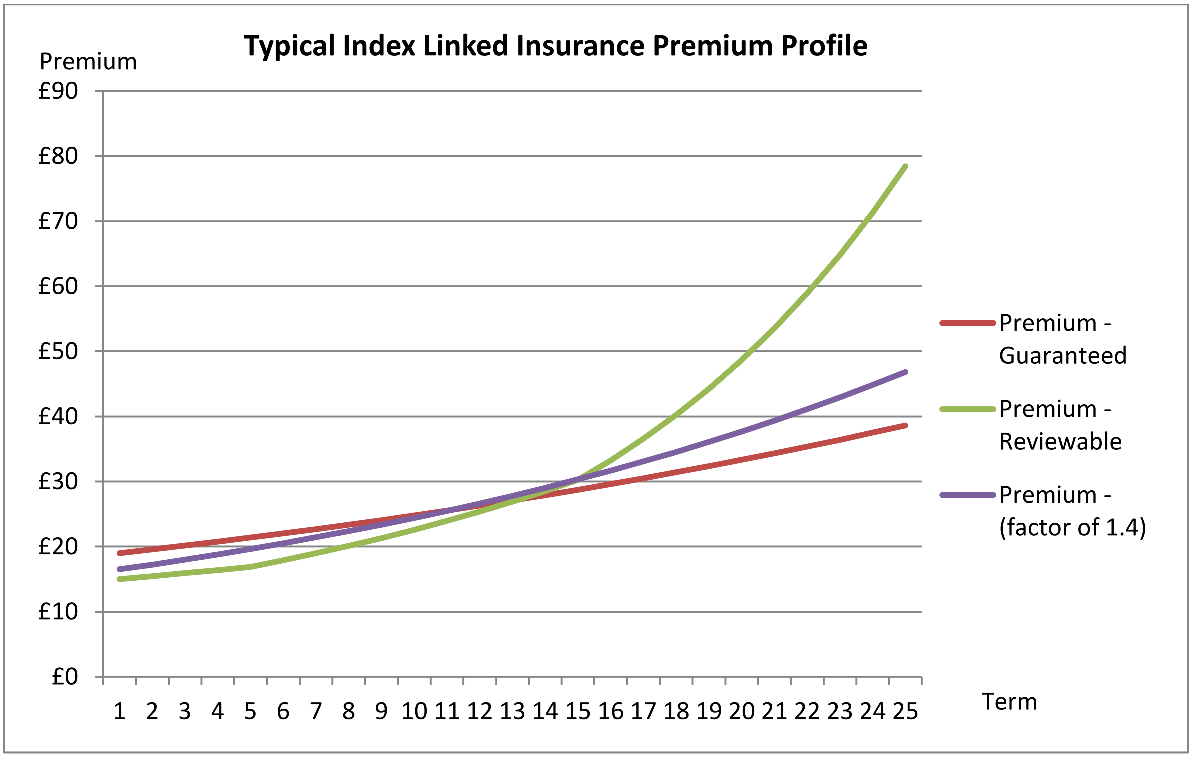
Index Linked Term Insurance

Index Linked Term Insurance is designed to provide an amount of lump sum life insurance where the amount that would be paid out on death (or critical illness) rises each year prior to a claim, usually in line with either National Average Earnings or with the Retail Price Index. Sometimes the insurer will allow the policyholder to choose a fixed percentage increase at outset as an alternative. The initial premium and the method of increase are determined at outset.

This can be guaranteed so the premium increase to pay for the increased cover is proportionate to the increase in the sum insured. (e.g. If the sum insured rises by 5% then the premium rises by 5%.)

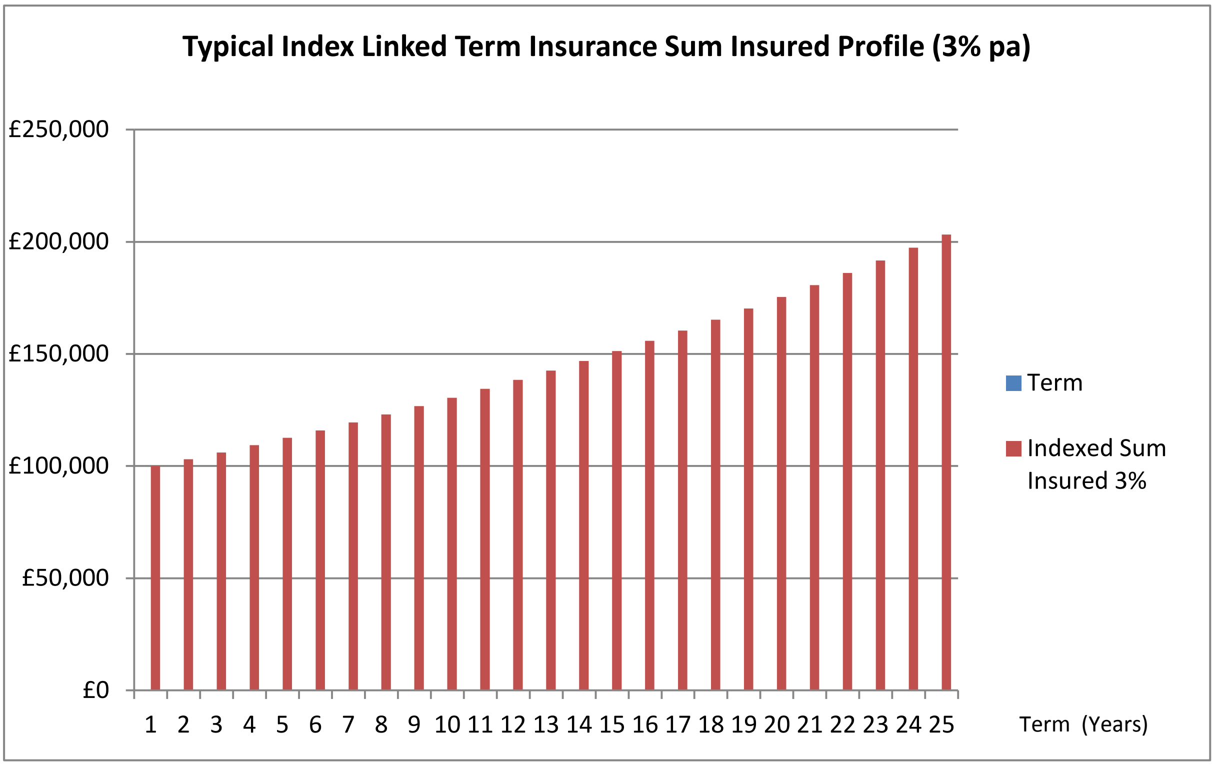
Alternatively the premium increases can be “geared” and guaranteed. (e.g. If the sum insured rises by 5%, the premium rises by 1.4 (the gearing) x 5% = 7%.)

Finally, the annual increases in cover can be charged by the insurer at whatever the increase in cover would cost based on the applicant's age at the increase. This means that the increases steadily cost more each year as the life insured ages.



The method of charge for the increasing cover can have an effect on the initial premium and guaranteed increases where the cover and premium rise pro-rata often have significantly higher premiums in the early years but may work out cheaper over the term.

The graph below shows how the sum insured and premiums can increase over the policy term.



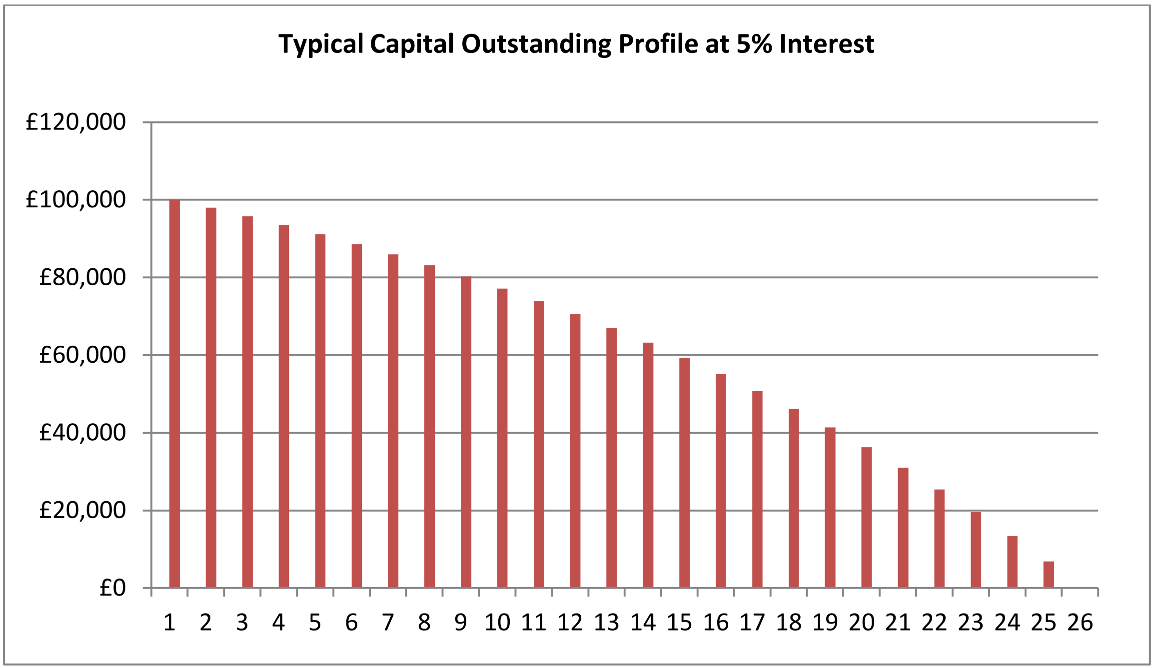
This graph shows how premiums might change over time assuming the same index linked increases in the sum insured. Policies that have the premium increases and sum insured increases directly linked to the index have a higher starting premium but a more gradual rise over the policy term and may be cheaper over the policy term.

Mortgage Protection

Mortgage Protection Insurance is designed to repay the outstanding balance of a repayment mortgage in the event of a claim. A repayment mortgage is a mortgage loan where each month the interest due and some capital is repaid. During the early years relatively little of the loan is repaid each month with larger amounts repaid later in the term.

The Mortgage Protection premiums are due at outset and are usually guaranteed for the term of the policy. Reviewable premium plans are available, but again these are not widely sold and have not been used in the Intelligent Protection software.

The graph below shows how the sum insured falls over the policy term in the same way that the amount of capital outstanding on a repayment mortgage falls over time.



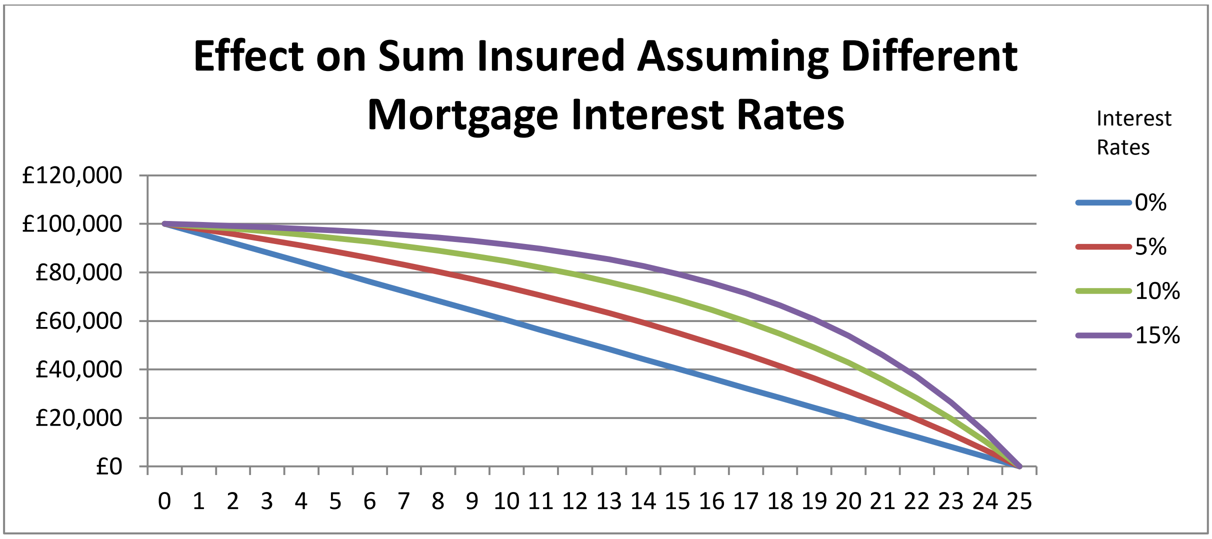
Assumed interest rate

As mortgage protection policies have a reducing sum insured it is important to recognise the method used by the insurer to reduce the sum insured. Generally speaking insurers use one of the following two methods to calculate the sum insured reductions.

1. A repayment mortgage profile at a stated fixed mortgage interest rate e.g. 10%

2. A guarantee that the sum insured will always equal the outstanding capital on the customer's particular repayment mortgage, providing there are no arrears on the account and other conditions are met.

The graph below shows the effect on the sum insured assuming different mortgage interest rates.



The actual assumed interest rate used by the insurer can have a significant effect on the cover provided as the table below demonstrates.

Mortgage Protection Policy

Original Term 25 Years
Starting Sum Insured £100,000
Sum Insured after 15 years at;
5% interest rate £59,262
10% interest rate £72,581
15% interest rate £82,585

This shows that the sum insured difference for a policy set up using a 10% interest rate, versus one set up at 15% is £10,004 after 15 years. In fact the largest difference occurs in year 19 where the difference in this example is £11,638.
Care must be taken when selecting the life office for such cover. Some companies allow the adviser to select the national mortgage interest rate. Other companies use a default rate that the adviser cannot alter. A small number of companies guarantee to meet the outstanding balance, whatever the interest rate has been over the period however such guarantees are usually provided with strict conditions which must be pointed out to the customer before they buy. Make sure you read the insurers' literature carefully.

It is worth remembering that if the policy produces an excess on death, the excess belongs to the estate (or trustees if the plan is written in trust). This is quite likely in today's sustained period of lower interest rates. Conversely if interest rates are higher than that assumed within the policy then a shortfall will exist.

The Intelligent Protection software will document the mortgage protection assumption where these are relevant in the suitability letter.

Family Income Benefit

Family Income Benefit (known as FIB), is a Term Life Insurance product that, as the name suggests, is designed to provide an income to dependants in the event of a claim, rather than a cash lump sum.

The sum insured is specified as an annual income. In the event of a claim the sum insured per annum is then payable from the date of claim to the policy maturity date. Payments can be monthly, quarterly or annually. Income payments are, in fact, simply instalments of a lump sum (sum insured) and as such are not liable to income tax.

Many companies will allow the income to be exchanged for a cash lump sum at claim if required.

From a risk profile perspective the risk to the insurer decreases over time in a similar way to the risk under a Decreasing Term Insurance policy. Insurers often underwrite Family Income Benefit policies as if they were a lump sum plan equal to around two thirds of the total Family Income Benefit payable from outset.

It is possible to arrange the policy on an indexed basis to ensure the sum insured benefits value is maintained over time. The indexes used are the Retail Price Index, Average Earnings Index or a simple fixed annual increase stated by the insurer at outset.

Terminal Illness Cover

This benefit is included almost without exception free of charge on all life insurance and/or critical illness policies.
Terminal Illness Cover pays out the sum insured immediately (instead of on death or critical illness) if the life insured is diagnosed as being terminally ill, with a life expectancy of less than 12 months typically.
This cover does not usually apply during the last 12-18 months of the period of cover.

Income Protection

Income Protection Insurance is designed to replace lost income during periods of incapacity.

Statistically customers are much more likely to suffer a serious illness that prevents them from working than they are to die before they retire. Income Protection is therefore possibly likely to be of greater use to them than death insurance.

Income Protection is designed to pay the policy holder a tax free income until the policyholder either recovers sufficiently to return to work, or the plan matures. This could mean the insurer is paying the customer an income for well over 20 years in a worst case scenario.

Definitions

Deferred Period

This is the time between the life-insured being incapacitated and the benefit starting to be paid. This period is matched to the customer’s circumstances and in particular can be tailored to the customer’s contract of employment or self-employment and taking into account their personal savings.

A **Split Deferred Period** is when you add a second benefit amount with a different deferred period to a plan. This allows you to construct a plan that pays for example, an amount that could be used to cover a mortgage payment for the mortgage term, and an additional amount after a longer deferred period, that could be payable for a longer term after the deferred period.

Definition of Disability

Insurers are usually prepared to offer customers a discount if they are prepared to undertake any paid employment after a period of disability, as opposed to the customer having to be able to carry on the specific occupation they were engaged in immediately prior to the disability. Definitions are usually an “own occupation, but some Insurers offer Suited Occupation, Own for 12 months (with a specific definition after 12 months) or Work Tasks. The full definitions for the Insurers are provided within the quotes section of LifeQuote.

Own Occupation

This means that the life office will pay out the cover if an illness or injury permanently prevents the life insured from doing the essential duties of their occupation.

Any Occupation

This is the definition of disability that means the customer is insured against not being able to carry out any paid work. In practice this means that if you were a driver, became disabled from which you recovered and were able to work, but not drive, then the benefit would cease and you would be expected to change employment.

Maximum Benefit

The "golden rule" for providers of Income Protection Insurance is that the customer should not be better off ill than they were healthy and working, otherwise there is no incentive to return to work and claims become disproportionately high.

The insurers vary in their approach to how much cover can be provided, with some deducting state benefits before making the calculation, which can be a very onerous calculation for the adviser. Many, however, use a straightforward, fixed percentage of pre-disability income calculation usually between 50% and 70% (up to a specific salary, and then 33.33% above this level).

In June 2015 LifeQuote introduced new functionality which enables advisers to select the insurer's maximum benefit where it exceeds 50% of pre disability salary and automatically produces a quote with the provider maximum benefit.

The Intelligent Protection software will calculate a maximum benefit of 50% of pre disability income for you so you don't need to worry about these calculations.

Proportionate Benefit

This means that the insurer would encourage the customer back to work, even if part-time, by allowing them a gradual return to work which would increase the customer's income.

For example:

Customer's pre-disability income:	£30,000
Income Protection Benefit:	£15,000
Customer off sick completely	
Income Protection Benefit	£15,000 (tax free)

Total Income £15,000

Customer returns to part-time work	
Part-time income	£12,000 (taxed as normal)
Income Protection Benefit*	£9,000 (tax free)
Total Income	£21,000

*(£30,000 – £12,000 = £18,000 multiplied by 50% insurance = £9,000)

Index-linked

This means that both the benefits payable and the premiums rise each year to keep in line with inflation. Plans are usually linked to the Retail Price Index, but could also be linked to National Average Earnings or a fixed percentage stated by the insurers. Plans on a maximum benefit basis should be reviewed periodically to ensure they have not increased faster than the customer's actual income making them over insured.

Occupation Disclosure

Policies are underwritten on an occupational basis much more significantly than other life insurance plans. In addition to having to be specific and accurate about occupation disclosure you need to advise customers that should they change occupations they need to notify the insurance company immediately or they may invalidate their cover. This important disclosure to the customer is included within the suitability text provided by the Intelligent Protection software where applicable.

These are all factors that affect the premium charged. Extending the deferred period, for example, would reduce the cost as would accepting an 'any occupation' disability definition. Obviously such changes may render the cover less attractive to clients so that careful discussion of the implications is crucial.

How occupation classes affect premium rates

Insurers have traditionally broken down occupations into classes, where Class 1 represents the lower risk of clerical, office based work, and Class 4 represents heavy manual or blue collar work. Other factors affect the occupation class such as business mileage driven.

The occupational database breaks down roughly as follows:

Occupation Class	Percentage of all occupations listed
Class 1	0.89%
Class 2	7.15%
Class 3	50.76%
Class 4	29.25%
Declined	11.95%

A comparison of monthly premiums for the different occupation classes and definition of disabilities is clearly illustrated on the chart below. The chart is for a male life, 35 next birthday, non-smoker for a benefit of £500 per month over a plan term of 25 years.

Short Term Income Protection Policy

This is a long term product that is written to a defined age that in the event of a claim pays the benefit, under the defined definition, for a maximum specified number of years only. Claims will be typically paid for a maximum of 1, 2 or 5 years, although some providers will allow multiple claims with an aggregate total of the maximum limit.

Payment Protection Insurance and ASU

Payment Protection Insurance and ASU differ significantly from Income Protection as they are specifically designed to protect the monthly repayment costs on a mortgage or loan, as opposed to providing a replacement income for the family. In addition they have some significant limitations regarding the possible benefit payment terms and the underwriting process.

Payment Protection Insurance and ASU generally only pay benefits for a fixed term of usually 12 months or 24 months. The deferred periods are also usually fixed.

For ASU policies underwriting is carried out at claim rather than during the application process, so some customers who thought they had cover may find they don't because it could be described by the insurer as a "pre-existing" condition. This could leave the adviser and the customer in a difficult situation.

Payment Protection Insurance and ASU do have their uses for occupations that are un-insurable at affordable premium rates using Income Protection policies and for providing Unemployment Cover, which is generally a short term insurance need.

This product area is not currently supported on LifeQuote.

Critical Illness Cover

The aim is to provide a guaranteed lump sum (or income if provided within a Family Income Benefit policy) if the life insured, during the period of cover, is diagnosed as having one of a number of specified critical illnesses covered by the policy.

This is an area that has been undergoing continual change over the past few years. Some providers have introduced partial payments recently. It is important to understand the core conditions covered and their definitions. Most insurers now cover in excess of 40 conditions.

The Association of British Insurers (ABI) which represents the UK Insurance industry has set out the standard medical definitions for the main critical illness definitions. These have been introduced to provide advisers and consumers with a clear understanding of what these conditions mean and what they cover and to make it easier when comparing critical illness products from different insurers. If the definition provides greater cover than the standard ABI definition, then this tends to be referred to as an ABI+. This means that insurers are able to pay more claims and pay them quicker.

For a full list of conditions covered, together with which insurers pay partial claims and have other support services are updated regularly on the Provider Critical Illness Comparison Chart on the Links section of the Home Page
https://www.lifequote.co.uk/LQVegas/Provider%20Critical%20Illness%20Comparison.pdf

The following circumstances are commonly excluded from critical illness policies:

- Alcohol or drug abuse. Inappropriate use of alcohol or drugs, including but not limited to the following: Consuming too much alcohol, taking an overdose of drugs, whether lawfully prescribed or otherwise, taking controlled drugs (as defined by the Misuse of Drugs Act 1971) otherwise than in accordance with a lawful prescription.
- Child cover – pre-existing medical conditions. A claim will not be covered for children's critical illness cover if: The child's condition was present at birth; The symptoms first arose before the child was covered; or The child dies within [28 days] of meeting the definition of the critical illness.
- Criminal acts. Taking part in a criminal act.
- Flying. Taking part in any flying activity, other than as a passenger in a commercially licensed aircraft.

- Hazardous sports and pastimes. Taking part in (or practising for) boxing, caving, climbing, horse-racing, jet skiing, martial arts, mountaineering, off-piste skiing, pot-holing, power-boat racing, under-water diving, yacht racing or any race, trial or timed motor sport.
- HIV/AIDS. Infection with Human Immunodeficiency Virus (HIV) or conditions due to any Acquired Immune Deficiency Syndrome (AIDS).
- Living abroad. Living outside of the European Union for more than 13 consecutive weeks in any 12 months.
- Self-inflicted injury. Intentional self-inflicted injury.
- Unreasonable failure to follow medical advice or Unreasonable failure to seek or follow medical advice.
- War and civil commotion. War, invasion, hostilities (whether war is declared or not), civil war, rebellion, revolution or taking part in a riot or civil commotion

Total and Permanent Disability

When a Critical Illness Cover or Life with Critical Illness Cover plan is arranged, this will usually include Total Permanent Disability cover also.

When the life office pays a claim for Total Permanent Disability will depend on the 'definition of disability' on the plan. The life office will decide which definition applies when the plan is underwritten at outset. The definition of disability the life insured receives will depend on the applicant's health, whether they are working and if so, their occupation.

There are several different definitions that can result and it is important to identify which definition is being used.

Insurers can use any one or more definitions of total permanent disability, as described below.

For the total permanent disability definitions based on occupation (set out below), the words 'material and substantial' may be replaced by 'essential'. Either of these may be defined in the policy as insurers wish.

The model total permanent disability definitions

Total permanent disability – *unable before a specified age, to do your **own occupation** ever again.*

Loss of the physical or mental ability through an illness or injury to the extent that the insured person is unable to do the material and substantial duties of their own occupation ever again. The material and substantial duties are those that are normally required for, and/or form a significant and integral part of, the performance of the person's own occupation that cannot reasonably be omitted or modified. Sometimes material and substantial is replaced with "essential".

Own occupation means your trade, profession or type of work you do for profit or pay. It is not a specific job with any particular employer and is irrespective of location and availability.

Relevant specialists must reasonably expect that the disability will last throughout life with no prospect of improvement, irrespective of when the cover ends or the insured person expects to retire.

For the above definition, disabilities for which the relevant specialists cannot give a clear prognosis are not covered.

Total permanent disability – *unable before a specified age, to do a* ***suited occupation*** *ever again.*

Loss of the physical or mental ability through an illness or injury *before a specified age,* to the extent that the insured person is unable to do the material and substantial duties of a suited occupation ever again. The material and substantial duties are those that are normally required for, and/or form a significant and integral part of, the performance of a suited occupation that cannot reasonably be omitted or modified.

A suited occupation means any work the insured person could do for profit or pay taking into account their employment history, knowledge, transferable skills, training, education and experience, and is irrespective of location and availability.

Relevant specialists must reasonably expect that the disability will last throughout life with no prospect of improvement, irrespective of when the cover ends or the insured person expects to retire.

For the above definition, disabilities for which the relevant specialists cannot give a clear prognosis are not covered.

Total permanent disability – *unable before a specified age, to do* ***any occupation*** *at all ever again*

Loss of the physical or mental ability through an illness or injury *before a specified age,* to the extent that the insured person is unable to do the material and substantial duties of any occupation at all ever again. The material and substantial duties are those that are normally required for, and/or form a significant and integral part of, the performance of the occupation that cannot reasonably be omitted or modified.

Any occupation means any type of work at all, irrespective of location and availability.

The relevant specialists must reasonably expect that the disability will last throughout life with no prospect of improvement, irrespective of when the cover ends or the insured person expects to retire.

For the above definition, disabilities for which the relevant specialists cannot give a clear prognosis are not covered.

Total permanent disability – *unable before a specified age, to do 3 specified work tasks ever again*

Loss of the physical ability through an illness or injury to do at least 3 of the 6 work tasks listed below ever again.

The relevant specialists must reasonably expect that the disability will last throughout life with no prospect of improvement, irrespective of when the cover ends or the insured person expects to retire.

The insured person must need the help or supervision of another person and be unable to perform the task on their own, even with the use of special equipment routinely available to help and having taken any appropriate prescribed medication.

The work tasks are:

- **Walking** – the ability to walk more than 200 metres on a level surface.
- **Climbing** – the ability to climb up a flight of 12 stairs and down again, using the handrail if needed.
- **Lifting** – the ability to pick up an object weighing 2kg at table height and hold for 60 seconds before replacing the object on the table.
- **Bending** – the ability to bend or kneel to touch the floor and straighten up again.
- **Getting in and out of a car** – the ability to get into a standard saloon car, and out again.
- **Writing** – the manual dexterity to write legibly using a pen or pencil, or type using a desktop personal computer keyboard.

For the above definition, disabilities for which the relevant specialists cannot give a clear prognosis are not covered.

Total permanent disability – *unable before a specified age, to look after yourself ever again*

Loss of the physical ability through an illness or injury to do at least 3 of the 6 tasks listed below ever again.

The relevant specialists must reasonably expect that the disability will last throughout life with no prospect of improvement, irrespective of when the cover ends or the insured person expects to retire.

The insured person must need the help or supervision of another person and be unable to perform the task on their own, even with the use of special equipment routinely available to help and having taken any appropriate prescribed medication.

The tasks are:

- **Washing** – the ability to wash in the bath or shower (including getting into and out of the bath or shower) or wash satisfactorily by other means.
- **Getting dressed and undressed** – the ability to put on, take off, secure and unfasten all garments and, if needed, any braces, artificial limbs or other surgical appliances.
- **Feeding yourself** – the ability to feed yourself when food has been prepared and made available.
- **Maintaining personal hygiene** – the ability to maintain a satisfactory level of personal hygiene by using the toilet or otherwise managing bowel and bladder function.
- **Getting between rooms** – the ability to get from room to room on a level floor.
- **Getting in and out of bed** – the ability to get out of bed into an upright chair or wheelchair and back again.

In some circumstances, the life office may not be able to offer Total Permanent Disability cover. This will be confirmed during underwriting and can represent a significant compliance issue if the customer believes they are going to be provided with Total Permanent Disability cover at outset which is subsequently removed during underwriting.

The insurer will confirm in their terms whether notification is needed of a change of occupation, and whether they will re-underwrite on the new occupation.

When does Critical Illness Cover pay out? For a successful claim to be paid for Critical Illness Cover the life insured has to live for a survival period following the diagnosis.

Survival periods

Where a policy is arranged on a Life with Critical Illness basis the survival period is not particularly relevant because the plan will still pay out in the event of earlier death. However for Critical Illness Only plans the 'survival period' is a very important feature of the plan. The survival periods can be found on our provider comparison chart.

Children's Benefit

Most critical illness plans include a provision to pay out a proportion of the benefits if the life insured's natural, legally adopted (and sometimes step) children are diagnosed with a critical illness. The child has to be diagnosed with one of the listed conditions and survive the survival period stated by the life office.

The detailed policy wording will confirm that a small number of the critical illnesses will not apply to children (e.g. Parkinson's Disease). In addition conditions that are caused by a familial or congenital defect, or which were present before the child became covered by the plan are excluded. A child is usually only entitled to one payout per plan, however two single life policies (one on each parent), would produce two pay outs. A number of life offices limit the number of payments in respect of children that can be paid under the plan.

Living outside the UK

If the life insured moves away to live outside the UK this could affect the cover and premiums. The life insured (and adviser), should check the policy terms and conditions carefully if the life insured could be affected by this provision.

Waiver of Premium

Waiver of Premium is an additional charge option that protects the monthly life insurance premium in the event that the policyholder is unable to work, and hence unable to keep up the premium payments on their policy.

Practically this means Waiver of Premium is designed to protect the insurance in the period where the policyholder might be most at risk, in the period of a sustained illness.

Waiver of Premium costs are typically around 2.5% to 3.5% of the premium to be covered, and are dependent upon the life insured's health and occupation. Some occupations cannot be covered for waiver of premium, as the insurers regard protecting this income as too risky (e.g. Professional Sportsman).

Reviewable Premiums vs. Guaranteed Premiums

A wide range of life, critical illness and income replacement insurance plans can now be set up on the basis that the premiums are either guaranteed for the term of the plan, or periodically reviewable during the plan term. Guaranteed premiums are almost always more expensive than reviewable plans initially as the guarantee has to be paid for at outset by the plan holder.

Premium terms are confirmed on the client specific illustrations.

If the premium is guaranteed this means that it will not change during the term of the cover. If the premium is reviewable this means that it is likely to change. How and when insurers review premiums differs by provider. Make sure the documentation is read carefully before committing to any plan.

Factors that may change and lead to a change in the amount the policyholder pays are:

- the future level of claims the insurer pays
- the amounts of money the insurer will pay to reinsurance companies with whom they share the costs of claims
- the number of plan owners who give up their plans early
- the insurer's expenses
- inflation
- investment returns
- taxes
- the amount of money the insurer needs to hold as financial reserves.

Payment Protection Plans and ASU type plans usually have premiums that are reviewable every year or sometimes at any time with 30 days' notice. Some of these types of plans can be cancelled unilaterally by the provider simply by providing notice (often 90 days).

Whole of Life Policies

Whole of life plans give you cover for your entire life. It guarantees to remain in force, providing you continue to pay the premiums for the rest of your life, or until the policy states that you have paid the full premiums.

Premiums are typically higher than term assurance plans.

The whole of life policies supported on LifeQuote are non –investment underwritten plans. This means there is no investment element in the plan, and no surrender value.

Some whole of life policies have tradionally offered an investment component which means that the premiums are invested during the lifetime of the policy. This builds up a cash value which you may be able to withdraw or borrow against a withdrawal clause that allows you to cancel the plan and receive a cash surrender value

Whole of life plans are tpically used to provide

- A lump sum when the life insured dies to meet your debts or to leave a lump sum to someone.
- Can be used for Inheritance Tax mitigation

Whole of Life Plans can be written on a single life or joint basis. For joint life plans the policy can be written to pay the sum insured on the first or second death of the lives covered. When quoting we call this basis a First Event or Second Event.

Business Protection

Business Protection, or Key Person Protection is simply a business insuring itself against the financial loss it may suffer as a result of the death (or critical illness if chosen) of a key person.

A key person is an individual whose skill, knowledge, experience contributes to the ongoing financial success of a business. A key person may be one of a number of people within a business, such as the:

- Managing director or Chairman
- Marketing manager or Sales Director
- Computer specialist

In fact you can insure anyone whose death could lead to a financial loss for the business through:

- Loss of profits
- Having to recruit or train a replacement
- Important personal or business contracts lost due to the key person not being there to maintain a contract
- Loss of goodwill which could have a direct effect when it comes to raising capital for the business or attracting new investors
- Customers and suppliers losing confidence in the business.

How do we show that an Employee is a Key Person?

In order for a business to insure one of its employees it must show that it stands to suffer a financial loss of profits as a result of the death, terminal illness or critical illness (if chosen) of that employee. This isn't usually too difficult and that employee is then regarded as a key person.

How do you calculate the Sum Insured?

There are no formal rules for arriving at a sum to be insured. It's not easy to assess accurately the financial impact on the business of a future event, but the adviser can help the company give an estimate which can be underwritten.

When calculating the appropriate amount of cover needed the adviser should consider the impact of the loss of the key person on the business including whether this would directly affect the profits, or is the cost of the replacement a bigger concern. Most insurers use common approaches to help identify an appropriate amount detailed below:

- The cost of replacing a key individual to the business would normally include consideration of the costs involved in finding a suitable person, the expense of required training, and also their earnings whilst they develop in the role. A simple formula for life cover is a multiple of up to 10 times the key persons earnings with a lower figure considered for critical illness contracts.
- Where the need for key person cover is to cover the profits of the business consideration needs to be given to whether their contribution is to gross or net profits of the business. An estimation of their contribution to profit is required and common formulas used are:
    - up to 2 x proportion of gross profit directly attributable to key person;
    - up to 5 x proportion of net profit directly attributable to key person; (key person salary/total payroll for business) x gross profit x recovery period (max five years).

In the above formulas an average of the last two years profit figures would typically be used.

Relevant Life Policies

A Relevant Life Plan is a term assurance plan available to employers to provide an individual death in service benefit for an employee. It is designed to pay a lump sum if the employee dies whilst employed during the length of the policy. Most insurers will also pay out if the employee, whilst employed, is diagnosed with a terminal illness and meets the insurer's definition. A Relevant Life Plan is paid for by the employer.
Relevant Life Plans aim to provide a tax efficient benefit provided by an employer for the specified employee. A Relevant Life Plan is typically designed to be written in a discretionary trust at outset, with the employee's family and dependants as beneficiaries.

Some of the product features you should consider when deciding which insurer you should use include:

- Are the levels of Life Cover large enough?
- Does the insurer offer accidental death benefit ?
- Does the insurer offer continuation cover? Enables the insured to convert their RLP to a personal plan or move it to a new employer without the need for further medical evidence or underwriting,
- Does the insurer offer Guaranteed Insurability Options – enables you to increase the level of cover for salary increases, and often mortgage increases, moving house, getting married and becoming a parent without the requirement of further underwriting.