Protection

Learning Outcome 10

By the end of this learning material you will be able to demonstrate an understanding of the needs and priorities for financial protection and the relevant factors in selecting appropriate solutions.

10 Introduction

Protecting themselves, family and home etc. against death or illness is very important to some people and not very important for others. There are many pieces of information and viewpoints to consider when helping a client arrange suitable protection for their needs. We will look at some areas that should be explored as part of the fact-finding process.

10.1 Identifying the Priorities, Risks and Choices

Age

- Protection needs are different depending on the age of the client
  - Younger clients main priority may be to protect themselves, each other and the family - including protecting their income and the family home/mortgage
  - Older clients may want to provide for their partner in the event of death or serious illness. There could also be a need for inheritance tax planning to protect the estate.
  - Older clients may also want to protect themselves in the event of either or both needing long-term care
- Age will affect the premiums payable

Marital Status

- If married or in a civil partnership – then the client may want to make sure both partners are protected. This may also be the case if the client is in a long term relationship.
- Divorce may mean there is a need to re-evaluate the protection situation – to protect financial dependency of a partner or children
- Wills should be checked and amended as necessary

Children and Other Dependents

- If there are dependent children – or indeed other dependents – then this will create a need for financial protection
- Young children may need to be financially supported to the age of independence – and this could go right through school and university years. This could be a responsibility of a parent – but the responsibility can also fall upon another relative e.g. grandparents who assume the care and responsibility for children following on from parental death or other reasons
- Elderly relatives could also be financially dependent

Wills

- It is important that the client draws up a will – and that this is kept updated depending on changing circumstances
- Has an existing will been invalidated by changes e.g. marriage etc.
- This may mean explaining the Rules of Intestacy to a client who has a different idea on what would happen on their death – than what will actually happen
- This may also then lead on the inheritance tax planning to protect the estate

Health

- The client’s state of health could affect the costs and availability of protection products
- The client’s lifestyle could also affect this e.g. smoker

Occupation

- By establishing the clients earnings – and financial commitments – the adviser will have a very good starting point for building a suitable range of protection products
- Loss of earnings – by death or disability or illness would generally have a catastrophic effect on most families/partnerships
- The fact finding process should reveal what protection benefits are provided by the employer – these may be sufficient or they may need to be topped up by personal provision. Discussion also has to happen around stability of employment – all very well relying on employer provided protection benefits but what would happen if they lost or changed jobs?
- Death in Service benefit may form a large part of the client’s protection plans for their family in the event of their death – again the question has to be asked on what would happen on employment change
- The adviser would also establish what dependent’s pension would be available and the terms and conditions attaching to this. Some schemes provide death in retirement benefits for a surviving spouse – some do not. Complications can arise on remarriage – perhaps after retirement following on from the death of the original spouse. All of this detail needs to be checked and confirmed
- In the case of any lump sum death benefits – it would be good practice to establish whether or not the client has completed an expression of wish or has the policy been placed in trust. The details would have to be established on who exactly would be the beneficiary
- Many employers provide their employees with access to inexpensive insurance cover – either group schemes or standalone policies. These are often cheaper for the client – again all details need to be established and confirmed
- Where the client is a partner in a business – there may be a need for a partnership share protection plan
- If the client owns a share of a private company there may be a need for a shareholder/directors’ share protection plan
- If the client is a “keyperson” in a business or company or owns a business or part of a business – there may be a need to find out if there are any key people who should be insured
- If the client is not earning – there may still need to be protection plans put in place to pay for someone to “do the job they were doing” i.e. a parent staying at home to look after young children while the other partner goes out to work – or if the person performed carer duties
- The client may need help in understanding and claiming state benefits
- Occupation risks need to be established – does the client work in an occupation that would make insuring them very difficult
- Travel plans can also affect the protection planning e.g. if the client spends a lot of time working abroad
- Plans for retirement – when and what income is expected needs to be considered

Leisure Activities

- Taking part in hazardous pursuits can increase the need for protection – but also increase the difficulty in arranging this within the client's affordability

Income and Capital

- The adviser needs to establish the budget available to pay for the required protection products – and whether that is coming out of regular income or to be paid by a lump sum
- The adviser also needs to make a judgment on the stability of the income – both in terms of what needs to be replaced if the client was unable to work and in terms of maintaining the payments on the protections products
- Means tested state benefits may or may not be available to assist – depending on the levels of income and capital available

Expenditure

- One of the main aims would be to provide replacement income in the event of earnings stopping on death or sickness so the adviser needs to examine the client's cash flow statement. What exactly comes in every month and what is being spent and on what. What expenditure could increase on illness and what savings could be made
- It would make sense to establish what changes to income and expenditure in the foreseeable future e.g. are more children planned, children going to fee paying schools etc.

Liabilities

- The adviser needs to establish a clear view of the client's existing and planned liabilities e.g. mortgage, other loans, credit cards etc. Any maintenance payments made or received.
- Would these liabilities still be able to be paid and would they still require to be paid in the event of death or sickness or do plans need to be made now to protect the payments due on the liabilities
- If the client is concerned in the running of a business - there may be liabilities with this

State Benefits

- The adviser needs to have a good understanding of the common state benefits in order to advise the client what they can expect and the financial extent of this.

Existing Policies

- The adviser needs to establish exactly what policies are currently in existence. The terms and conditions of these needs to be understood before the adviser can recommend what should stay in place and what needs to be supplemented or even replaced.

10.2 Identifying and quantifying financial protection needs

1. Confirm that there is a need for life assurance – to provide a lump sum or income for a dependent in the event of death.
2. How much capital and how much income are needed. A lump sum may be needed to repay a mortgage, loans, other debts, replace a company car. Income may be needed short or long term. Short term may be to provide for children who will eventually become financially independent. Long term is to perhaps look after a spouse or partner until their death
3. How long is the financial dependency going to exist? This will help determine the term of the policy.
4. What else is there to take into account? Checking all employer provision, private provision and any state benefits that can be taken into account.
5. The adviser is now in a position to make a recommendation – covering the type of policy, the sum assured and term. Trusts should also be considered.

Life cover

- **Immediate capital** – emergency fund, debt/mortgage repayment, funeral costs
- PLUS **Lump sum for long term income** – the ongoing annual income need of the survivor through to retirement or death is identified, then multiplied by a factor* to establish the lump sum shortfall
- PLUS **Short term income** – for example, school fees funding. The annual income amount and term are identified, then multiplied by a factor to establish the lump sum shortfall
- LESS any **existing cover**, investments to be encashed and state benefits
- EQUALS life assurance sum assured

* Life and Critical Illness Cover Multipliers

Period (years)	Factor
5	5
10	10
15	14.5
20	18.5
25	22.5

Other Considerations

Inflation
It would be wise to factor in additional amounts to allow for the effects of inflation

Additional Benefits for the family – some clients may want to leave their family a larger sum of money than one calculated above.

Disability and health

A similar approach is taken to establish the needs for disability cover

1. The adviser should establish how long the family could manage without income. For someone with significant savings could probably cope for 6 or even 12 months - the situation would be quite different for someone with no emergency fund or savings to fall back on
2. The length of time and the amount of benefit available from an employer should be determined
3. The level of income required needs to be established – some expenses may increase and some may decrease
4. Income from all other sources – e.g. state benefits, any existing policies, savings etc. need to be determined
5. Insuring a stay at home partner should also be considered – could the breadwinner continue to work if they were also responsible for child care and domestic duties

As discussed earlier – there is a choice between Income Protection and Critical Illness cover – or a combination of both.

Critical illness
• **Cost of illness** – Medical treatment, emergency fund • PLUS **cost of debts and mortgage** to be repaid • PLUS **Income shortfall and pension contributions** – for example, school fees funding and ongoing income needs to retirement or death. The annual income amount and term are identified, then multiplied by a factor to establish the lump sum shortfall • LESS any **existing cover**, investments to be encashed and state benefits • EQUALS amount of Critical Illness sum assured

Income Protection
• **Current expenditure -** household and living expenses, debt repayment, holidays • PLUS **additional costs of illness –** medical treatment, care support needed, increased domestic bills. The net figure needed may need to be grossed up to cover any income tax that may be incurred • LESS **savings from not working, state benefits and ongoing income -** for example, reduced travel costs, State benefits such as Statutory Sick Pay, and income from investments • LESS any **existing cover** – any ASU or IPI income, employer's ongoing income • EQUALS amount of IPI income per annum to insure

In most cases a compromise between the ideal solution and the affordable solution has to be made

Pension issues and health insurance

It is important to consider the effect of ill health and not earning on all aspects of financial planning. If the individual is not able to work and therefore has no pensionable earnings – the scope for making pension contributions is limited to £3,600 pa gross. The individual could be receiving income protection benefits right up to retirement age – at which point they may only then receive a small pension.

It is important to consider protecting the pension as well as the income by either additional income protection – to cover ongoing future pension contributions or enough critical illness insurance to provide an alternative retirement fund.

Other Protection Products

Other protection products need to be considered as discussed earlier in the text

- Private Medical Insurance
- Protection against Redundancy

An adviser should consider all of the client's protection needs and recommend the most suitable products to meet those needs

These products have all been covered in the text

• Term assurance	• Family income benefit policies	• Whole of life policies
• Critical Illness cover	• Income Protection Insurance	• Terminal Illness cover
• Mortgage Payment Protection Insurance	• Accident, sickness and unemployment insurance	• Personal accident and sickness insurance
• Private medical insurance	• Long term care insurance	• Business Protection Insurance is covered later in this chapter

Reviews

The adviser should review the client's situation regularly – at least annually

- Any changes to the client's family, work or financial situation
- Are the existing policies still needed and are they still the most suitable
- Can any of the plans be swopped on a like-for-like basis cheaper
- Any new needs to be protected e.g. new babies, marriage etc.
- Has the client now got more money available to commit to protection
- Any new products on the market

Summary

The main protection areas are:

- Life cover to cover loss of income
- Life cover to protect the mortgage/debt
- Critical illness cover
- Income protection cover

Other considerations

- Private Medical Insurance (PMI)

The main products	**Other products**
Term assurance • Income replacement (level, decreasing, FIB) • Mortgage cover (level for interest only; DTA for repayment) **Critical illness** • Can be used to cover the mortgage alone or to provide additional income /lump sum **Income Protection** • Can be used to cover income in general or the amount of the monthly mortgage payments	**Whole of life** • Can be used for life cover (more expensive than term, but cover lasts longer) • Most commonly used to cover IHT (set up on 2nd death basis, placed in trust) **PMI** • Annually renewable • Comprehensive cover for whole family available, allowing quicker recovery & return to work and choice of hospital • Can be costly and pre-existing conditions can be excluded **ASU** • Possible alternative to IPI, although limited cover and annually renewable

When making a recommendation – you need to consider

• Name of the product
• Who is covered (single life, joint life 1st death or joint life 2nd death)
• Always explain which life cover is needed on, or if it is both lives
• Recommend placing in trust if appropriate
• For IPI you can look to cover only the main wage earner, but think about second policy for "houseperson"
• How much cover:
  - always cover the outstanding mortgage/debt
  - income cover should never be for less than 5x main wage earner
  - IPI should always be for maximum possible (50% - 75% of income)
• How long is cover for – until retirement / children independent / end of mortgage

Justifications for all products recommended should be based on the client's circumstances and can include (depending on the product):
• Pays out a tax-free lump sum / pays out a tax-free income • Can replace income of the main breadwinner • Can be used to cover mortgage payments • Can provide lump sum / income to fund childcare

Level term / FIB / Decreasing term / W of L	Critical illness
• Waiver of contribution • Can include CIC • Level term because interest only mortgage • Decreasing term because repayment mortgage • Indexed to keep pace with inflation if appropriate • Trusts if appropriate	• Pays out tax-free, lump sum upon diagnosis of a specified critical illness after a survival period • Can include waiver of contribution • Can include buy-back • Can include children's cover • Level cover for interest only mortgage • Indexed to keep pace with inflation if appropriate • TPD if appropriate
Income protection	
• Housepersons cover for a non-earning spouse to cover childcare costs • Shortest deferred period affordable (but link to circumstances, for example if they have cover provided by work, for example, 6 months) • Own occupation definition to provide widest cover possible • Indexed to keep pace with inflation	

10.3 Business Protection

10.3.1 Key Person Insurance

Key person insurance uses standard insurance products to protect against the loss that could arise in the business if a "key person" were to suffer long term illness or die – financial compensation for the effect that the loss of the key person would have on the business.

If this were to happen - it could create a number of issues for the business and these can be helped by having the correct insurance product in place.

Replacing the Key Person

- If the key person was not able to work then a replacement may need to be hired.
- This can involve recruitment fees
- It can take some time for the right person to be found, perhaps have to give notice to their current employers and move into the job
- You have to allow for a settling in period until the replacement is as effective in the role as his predecessor

Effect on the business

The loss of the key person could result in

- Existing contracts may be lost or have to be renegotiated
- Future projects or developments may have to be delayed
- Profits may fall
- There could be effects on the business finances – it may be more difficult to negotiate credit with the bank
- Smaller companies may be even more vulnerable

A term assurance plan is usually used – either with a fairly short term e.g. 5 – 10 years and with a renewable option or until retirement age (or for a period over which they will be 'key' to the Company). The term policy may be combined with a critical illness plan.

Should be written on a Life of Another basis with the company being the owner of the policy and paying the premiums. Because it is written on Life of Another basis – the company then receives the benefit.

How to establish the Sum assured

It can be difficult to establish what the sum assured should be. The most commonly used calculation is the 'profit method'

$$\frac{\text{Key person's salary} \times \text{Company's gross profits}}{\text{Total company payroll}} \times \text{Number of years to recover from loss of key person}$$

Key Person details

- Person crucial to business success – death, disability, retirement
- Loss of business?
- Loss of expertise or knowledge
- Loans and credit facilities – if loss of key person could have detrimental effect on ability to meet any loan repayments – affect credit facilities
- Leadership – vision and direction
- Loss of contacts and Goodwill
- Life Assurance as a solution: Written on the life of the key person with the business as owner and premium payer. Usually term assurance
- Consider – length of cover, is it to be renewable, is cover to extend to retirement, which events are to be covered, what other benefits they may receive, price prepared to pay.
- Loss of key person with disability/illness just as great an impact – could cause even more problems! Income protection/critical illness.
- Retirement – lack of planning for this could have an impact on the profitability of the business
- How is Risk calculated: past profits and projections for the future, the effect that the loss of the individual would have on future profitability, anticipated costs of recruiting and/or training a replacement, expected recovery period, amount of any loans
- Must be insurable interest – the initial sum assured should therefore reflect the loss of profits to the business
- Calculations can be on contribution to profitability, multiple of salary or special circumstances
- Taxation: Business normally pays the premiums and receives the benefits. General rule is where the premiums are treated as tax deductible then the proceeds will be taxable – but if the premiums do not qualify for tax relief then proceeds will be tax free.
- For premiums to be treated as a trading expense and set off against corporation tax, 3 criteria must be satisfied;
    - The relationship of proposer and life assured i.e. the business and the key person is that of employer and employee. If the key person is also a shareholder (unless only a minor shareholder i.e. less than 5-10%) then no tax relief is available on the premiums.
    - Cover must be intended to meet the loss of profits resulting from the loss of service of the employee, so policies to cover loan repayment don't qualify for relief.
    - Term should not extend beyond the period of the key person's usefulness to the employer so WOL wouldn't qualify for relief.
- Proceeds – term assurance – if premiums are allowed as a business expense for tax purposes then the policy proceeds are likely to be taxed in the year of receipt. If no tax relief is available on the premiums, the proceeds are not normally taxed (Note that is not possible to avoid tax on the proceeds by not claiming relief, If premiums are eligible for tax relief then the proceeds are likely to be taxed whether or not relief was claimed)
- WOL- premiums not allowable as an expense for tax purposes – any gain under a life policy will be subject to Corporation Tax
- As well as normal medical underwriting – could be financial information required to justify the sum assured

10.3.2 Business Loan Protection

Loan protection aims to fully or partially repay an outstanding debt upon the death of an individual whose loss could make it financially difficult for the business to repay the loan. It aims to provide the necessary funds to enable the surviving business partners or shareholding directors to pay off the loan. Key person protection aims to enable the business to survive and recover from the death of an individual who is key to the profitability of the business.

- **Life Policies –** life and critical illness – lender may require policy to be assigned

- **Sole Traders -** Can be written on an own life, own benefit which could then be assigned to bank should it be required now or in the future. This ensures the lender receives repayment in the event of the sole trader's death

- Can be written own life, own benefit basis and then put in Trust for specific beneficiaries. No guarantee that the proceeds would be used to repay the loan. Life of another – same problem – no guarantee used to repay loan.

Taxation of Life and Critical Illness Cover

- Company proposing – normally no corporation tax relief on premiums unless considered part of the cost of the loan
- Proceeds – treated as a capital receipt so no corporation tax payable by company
- Partnership with individuals proposing – normally no income tax relief on premiums, proceeds not liable to income tax.

10.3.3 Shareholder and Partnership Protection

Problems can occur on the death, disability, long term illness or retirement of a major shareholder.
- Key Person insurance aims to protect the business to enable the business to recover from the loss of the key person
- Shareholder protection seeks to enable the planned transfer of ownership of the deceased shareholder's shares to the remaining shareholders to meet the needs and wishes of both the beneficiaries of the estate and surviving shareholders

On the death of a partner

- Their share of the partnership passes to their estate.
- The partnership is technically dissolved, unless a formal partnership agreement is in place.
- It may be in the best interests of the remaining partners to buy out the deceased partner's share
- This would mean that the heir would receive a cash sum – rather than an interest in a business that they don't really want

10.3.4 Shareholder / Partnership business purchase agreements:

Buy and Sell Agreement.

- Agreement between the parties to purchase the interest of a fellow shareholder/partner on their death or retirement.
- Binding i.e. inheritor of the shares/share of the business <u>mus</u>t sell and surviving shareholders/partners <u>must</u> buy.
- Value of shares in the business are not eligible for business property relief for IHT

Double Option (Cross Option) Agreements

- Surviving parties have the <u>option</u> to purchase
- The personal reps or the retired person has the <u>option</u> to sell to the surviving parties
- Option generally exercised or not within a relatively short time period e.g. 6 months from death
- Not a binding contract for sale, as the sale/purchase is optional.
- If one side exercises the option, then the other side must comply
- IHT Business property relief may be claimed on qualifying business assets

Single Option – for use with Critical Illness cover

- This allows the ill partner/shareholder to force a sale to the other parties
- The remaining partners/shareholders cannot force a sale of the ill party's share as he might get better and return to the business

Automatic Accrual Agreement

- Normally only used for partnerships, where the main asset of the business is goodwill.
- Interest in the business passes to the surviving partner automatically, with no payment being made.
- Each partner takes out a life policy on their own life, held in trust for their dependents as compensation for the fact that they will not receive anything from the business.

Life Assurance solutions for share purchase arrangements

Shareholder protection

Life of Another

- Each shareholder takes out a life policy on each of the others. Sum assured equals the value of the interest the shareholder is to purchase. Can be best option for business with just 2 shareholders, but can be complex if more people involved at outset or in the future when other partners/shareholders join/leave the business.

Own Life under Trusts –

- More flexible – each party takes out a policy on their own life and writes in trust for fellow shareholders (using a Partnership Share Protection trust). Sum assured equals the shareholder's interest. Keeps claim payment out of deceased's estate. It is a flexible trust which enables beneficiaries (or their shares) to be changed, but changes are restricted to those who the Settlor is/was in business with. HMRC does not treat the policy premiums as gifts for IHT purposes provided arrangements are made on a purely commercial basis.
- No tax relief on premiums
- Business property relief may be applied on qualifying assets if cross option agreement is used
- No income or capital gains tax paid on the sum assured from trust to beneficiaries

10.3.5 Partnership Protection

- Where no formal partnership agreement is in place – partnership would have to be dissolved – with assets distributed in proportion to their share of the partnership
- Needs to have formal partnership agreement in place to make protection arrangements worthwhile. Should include method to be used to value deceased partner's share of the business.
- On death of a partner, the remaining partners will be liable to pay to the deceased partner's estate the value of the invested capital, undrawn profit and any share in goodwill or partnership assets due to the deceased partner
- Survivor may not have the cash – may have to sell assets
- As an alternative to Double Option Agreements, Automatic Accrual is a method of protection applicable to partnerships – where the main asset is goodwill.
- The partners complete an automatic accrual agreement drawn up by their solicitors in accordance with the provisions in the partnership agreement. Under the terms of this agreement the partner's interest automatically passes to the remaining partners on death so this agreement does not involve buying any interest.
- As part of the agreement, each partner must apply for and maintain their own life policy for the value of their partnership interest, the proceeds usually written in trust for the benefit of their dependents.
- So long as each partner maintains their life insurance policy, their obligations to fellow partners are met and their obligations to their dependents are satisfied too.
- Sum Assured**:** Capital value of individual's share in the business, value of their share of any profits remaining to be distributed at date of death, and the value of goodwill unless specifically excluded under the terms of the partnership agreement. Should be reviewed regularly

In the event of one of the partners suffering a serious illness – the remaining partners may have to make similar arrangements. The partnership is not dissolved as he has not died.

In this case – a Single Option could be used. This would allow the ill partner to force a sale to the other partners but not for the other partners to force a sale of the ill partner's share.

10.3.6 Director Share Purchase

In the case of a family run business – with several of the family operating as directors within the business – ill health or death could cause problems for the business. The business is not dissolved on a Director's death but there is the risk of the deceased Director's shares passing to someone with no interest in the business in the case of a shareholding Director's death.

Director Share Purchase works in the same way as Partnership Share Protection plans.

What usually happens is that
- life policies are set up on the life of each Director to retirement age
- The policies are set up for the value of each Director's shareholding
- The policies should be placed in Trust via a Director Share Protection Trust – with the beneficiaries being the other Directors.
- If the retirement age is not yet known – then a whole of life policy can be used
- No tax relief on premiums
- Business property relief may be applied if cross option agreement is used
- No income or capital gains tax paid on the sum assured from trust to beneficiaries

Protection Learning Outcome 10 (PROT10) – End of Module Test

Multiple Choice Questions

Question	Answer	
10.1 - Which form of partnership agreement, if any, binds the deceased partner's estate to sell his/her share of the business to the remaining partners?	A.	Cross Option Agreement
	B.	Buy and Sell Agreement
	C.	Automatic Accrual Method
	D.	No form of agreement can legally bind the estate in this way

10.2 - Which of the following statements about shareholder purchase/partnership solutions is true?	A.	Under a Buy and Sell agreement, the surviving individuals have the option to buy the deceased individual's share of the business from his estate if they so desire
	B.	The cross option agreement is generally preferred to a buy and sell agreement for IHT reasons
	C.	Under an automatic accrual agreement, the deceased individual's share of the business passes automatically to the survivors and no insurance cover is necessary
	D.	A single option arrangement would force an ill shareholder/partner to sell their share of the business to the other shareholders/partners

10.3 - Select the most appropriate arrangement for providing funds under a shareholder protection agreement where there are six shareholders.	A.	Policy on own life in trust for fellow shareholders
	B.	Policy on own life in trust for shareholder's beneficiaries
	C.	Life of another policy in trust for fellow shareholders
	D.	Life of another policy in trust for shareholder's beneficiaries

10.4 - Partnership Protection would be arranged?	A.	To enable the surviving partner to purchase a deceased partners share of the partnership from his family.
	B.	To protect the partnership from the consequences of financial default by a major customer / supplier.
	C.	To protect the partnership from liabilities that may occur due to professional negligence of either or both of the partners.
	D.	To protect the surviving partner from any IHT liability on death of the other partner.

10.5 - If a Term Assurance Policy is used for Key person Insurance, How will it normally be taxed?	A.	Both the premiums and the proceeds are taxable.
	B.	The premiums are taxable but the proceeds are tax free.
	C.	If Tax Relief is allowed on the premiums the proceeds will be tax free.
	D.	If Tax Relief is allowed on the premiums the proceeds will be taxable.

10.6 - The directors of Smith & Co Ltd arrange a cross option agreement as a Director Share Purchase arrangement. Each director should effect a life assurance policy for what period?	A.	10 years.
	B.	5 years.
	C.	To retirement age (if known).
	D.	Always indefinitely.

10.7 - How would a partnership protection arrangement often differ in terms of dealing with critical illness rather than death?	A.	It would be unlikely to ever differ.
	B.	A single option is often used for critical illness because an ill partner might not want to be forced to sell his share of the business.
	C.	A single option is often used for critical illness because the remaining partners might not want to be forced to buy the ill partner's share.
	D.	Option agreements cannot be used to accommodate the event of critical illness.

10.8 - What is a major disadvantage of using a buy and sell agreement when arranging partnership protection?	A.	Loss of inheritance tax business property relief on the partnership share.
	B.	Loss of capital gains taper relief on the partnership share.
	C.	The surviving partner may not exercise their option to purchase the deceased partner's share.
	D.	The deceased partner's estate may not exercise its option to sell the deceased partner's share.

10.9 - ZF Fashions Ltd wishes to effect a key person life assurance policy in respect of their chief designer, Sara. Which of the following would their calculation of the sum assured be LEAST influenced by?	A.	Potential loss of profits.
	B.	The length of time the key person has worked for the company.
	C.	Salary of the key person.
	D.	Time taken to recover from loss of key person.

10.10 - Carla, a key employee with RG Ltd earns £50,000 per annum. The company's wage bill is £2 million and it has profits of £1.5 million. They estimate it would take 3 years to recover financially from Carla's death. Which of the following would be an appropriate sum assured for a key person insurance using the percentage of profits formula?	A.	£112,500
	B.	£37,500
	C.	£50,000
	D.	£200,000

- **End of Questions** -

Answers

Question	Answer	
10.1 - Which form of partnership agreement, if any, binds the deceased partner's estate to sell his/her share of the business to the remaining partners?	B	Buy and Sell Agreement
10.2 - Which of the following statements about shareholder purchase/partnership solutions is true?	B	The cross option agreement is generally preferred to a buy and sell agreement for IHT reasons
10.3 - Select the most appropriate arrangement for providing funds under a shareholder protection agreement where there are six shareholders.	A	Policy on own life in trust for fellow shareholders
10.4 - Partnership Protection would be arranged?	A	To enable the surviving partner to purchase a deceased partners share of the partnership from his family.
10.5 - If a Term Assurance Policy is used for Key person Insurance, How will it normally be taxed?	D	If Tax Relief is allowed on the premiums the proceeds will be taxable.
10.6 - The directors of Smith & Co Ltd arrange a cross option agreement as a Director Share Purchase arrangement. Each director should effect a life assurance policy for what period?	C	To retirement age (if known).
10.7 - How would a partnership protection arrangement often differ in terms of dealing with critical illness rather than death?	B	A single option is often used for critical illness because an ill partner might not want to be forced to sell his share of the business.

10.8 - What is a major disadvantage of using a buy and sell agreement when arranging partnership protection?	A	Loss of inheritance tax business property relief on the partnership share.
10.9 - ZF Fashions Ltd wishes to effect a key person life assurance policy in respect of their chief designer, Sara. Which of the following would their calculation of the sum assured be LEAST influenced by?	B	The length of time the key person has worked for the company.
10.10 - Carla, a key employee with RG Ltd earns £50,000 per annum. The company's wage bill is £2 million and it has profits of £1.5 million. They estimate it would take 3 years to recover financially from Carla's death. Which of the following would be an appropriate sum assured for a key person insurance using the percentage of profits formula?	A	£112,500