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right mix
for you



Protection

Learning Outcome 9

By the end of this learning material you will be able to demonstrate an understanding of the main features of other insurance based protection policies.

This chapter covers protection policies which are short term insurance policies. This means the insurer can decide each year whether to renew and if so - on what terms and at what premium. These general insurance policies are subject to insurance premium tax (IPT) currently at 12%.

9.1 Personal Accident and Sickness Insurance (PAS)

Personal Accident and Sickness Insurance pays out

- if the insured suffers an accident or is off work due to sickness
- Most contacts are annual but they can sometimes be taken out for a shorter period eg for a business trip or holiday
- It can be standalone or added to household, motor or travel insurance.

Features

All PAS policies have different details but will generally pay out a lump sum on:

- Death
- Permanent disablement
- Loss of an eye
- Loss of a leg, foot or toe
- Loss of an arm, hand, finger or thumb
- Other specified injuries or accidents

There will often be a table listing the events covered and lump sums payable - which can be different depending on the seriousness of the event. The policy will also include detailed definitions of each event.

PAS policies will usually have 2 other benefits

- Medical expenses will be refunded up to a specified percentage of the costs incurred when the insured suffers an accident
- Weekly sickness benefit will be paid if the insured is unable to work due to illness or accident. There will usually be a short deferred period eg 4 weeks, during which no benefit will be paid. There will also be a maximum number of weeks benefit is payable eg. 26, 52 or 104 weeks. The benefit will probably be a fixed sum not related to earnings.

Some PAS policies extend cover to a spouse or the insured's children (up to age 16 or 18) although this may well be restricted to accident cover only.

PAS exclusions

Typical exclusions would be

Being under the influence of drugs or alcohol	Willful exposure to needless danger
Suicide or attempted suicide	Physical defects or illnesses existing prior to the start of cover
Hazardous sports and pastimes	Normal pregnancy
War, invasion, hostilities etc	

Group PAS cover

Group PAS policies cover members of a group such as a firm's employees, members of a social club or a sports club or association. In these cases the cover may be restricted to specific activities eg.

- Engaging in the firm's business
- Engaging in the activities of the club
- Participating in a specific sport
- Travelling for and participating in a specific holiday

A group scheme may be contributory where members pay their premiums through the body that arranged the policy (common for sports clubs or holiday schemes) or non-contributory where an employer provides the cover as a benefit of employment. Employer provided policies may well link benefits to salary rather than a fixed sum.

PAS taxation

- There is no tax relief on premiums or taxation on benefits
- If an employer pays premiums under a group policy for employees this is a benefit-in-kind subject to income tax and national insurance under PAYE but allowable as a business expense for the employer
- PAS insurance is aimed at people needing to cover one-off events in activities not covered by other insurances or where legal action might be necessary to obtain redress for injury or occupational illness
- It can be of particular interest to a self-employed person
- As the events covered are limited by precise definitions it is important that the client understands these, as well as the exclusions
- PAS insurance is not a substitute for income protection insurance.

9.2 Private Medical Insurance

Private medical insurance provides cover against the costs of private medical treatment.

The need for PMI

- The NHS can have very long waiting lists for treatment of acute but not life-threatening illnesses and in some cases a long waiting list just to see a specialist for diagnosis
- Many people thus prefer to have operations done privately to avoid a long wait
- Private treatment can also increase the chance of the time and place being suitable to the patient. The patient can effectively choose their hospital and surgeon, which is not really possible with the NHS
- The NHS provides a standard level of provision which may not be to the taste of all patients

In medicine there is a distinction between acute conditions and chronic conditions.

Acute conditions are characterized by their rapid onset and are usually amenable to cure. Treatment is usually of a short duration and will usually resolve the condition more or less completely e.g. hip replacement.

Chronic conditions are long lasting and usually incurable – don't usually respond to treatment eg many forms of cancer or diabetes.

PMI is mainly aimed at acute conditions where the speedy treatment can be provided privately. It is not designed for chronic conditions which are incurable – (long term care insurance might be more appropriate).

PMI allows people to have private medical treatment with their choice of hospital and consultant – with the insurer paying most or all of the costs.

It usually covers costs such as

Accommodation costs	Nursing charges	Theatre fees
Drugs	Dressings	Doctor's fees
Consultant's fees	Anesthetist's fees	Outpatient treatment
Diagnostic tests and investigations	Home nursing during recovery	Costs of a patient staying in hospital with a young child
Minor surgery carried out by a GP	Chemotherapy, radiotherapy etc	Private ambulance

Some insurers have links with hospitals to provide the treatment. All insurers' contracts vary – and are often divided into budget plans, standard plans and comprehensive plans. Most PMI policies are restricted to UK residents and do not provide any cover for treatment abroad.

Budget Plans	Standard Plans	Comprehensive Plans
<ul style="list-style-type: none"> • Usually offered with low costs, no extra benefits and limits on the cover for different types of treatment. Premium often reduced if policyholder pays the first part of each claim. Cover is usually restricted and there may be limits on the cost of treatment in any one year. 	<ul style="list-style-type: none"> • Cost more than budget plans but give wider cover – more items covered with longer claim periods and higher limits. Often a wider choice of hospitals 	<ul style="list-style-type: none"> • More costly but gives wider cover. Claim periods can be longer with higher limits and more choice of hospitals. Extra items are usually covered eg home nursing. May include alternative medicine, dental treatment etc.

Excesses

Many PMI policies have an excess which means that the policyholder has to pay a set amount of the treatment eg. £100. The higher the excess – the lower the premium, Excesses are generally higher on budget plans.

Exclusions

Most policies will have some exclusions – e.g.

Treatment related to alcohol, drug or substance abuse	Chronic long-term illnesses which cannot be cured
Rehabilitation for more than a specified number of days	Cosmetic surgery purely to improve appearance
HIV and AIDS	Kidney Dialysis
Conditions arising through intentional self-inflicted injury or attempted suicide	Normal pregnancy and childbirth
Termination of pregnancy	Organ transplants
Sex change or gender reassignment	Routine check ups
Injuries related to dangerous sports	Injury or illnesses arising out of war, hostilities or warlike operations

Hospital Cash Plans

These are healthcare plans that pay a fixed sum for each day spent in hospital, plus fixed cash sums for specified treatments including optical services and dental treatment.

- Normally a waiting period of up to 6 months before claims can be made
- Pre-existing conditions are usually excluded
- Provide money to help pay for medical care rather than providing a full indemnity against the cost of private medical care

Dental Plans

Similar to Hospital Cash Plans but restricted to dental treatment – so costs less.

Provides cash for

- A way of budgeting for expected dental costs rather than a true insurance against incurring dental costs.
- Will provide for the normal dental costs with the patient's normal dentist eg check –ups
- Any other routine dental treatment needed eg fillings, extractions etc
- Dental accidents and emergencies

Many plans will pay a maximum benefit that may be below the charge made by the dentist.

PMI Administration

Contracts can be arranged individually or by groups. A high percentage of the market is group cover arranged by employers for selected employees eg senior managers.

- Often set up to cover all employees above a certain grade. The employer pays the premiums. The cover is provided as a benefit of employment
- Group premiums are lower than individual premiums to reflect the lower costs of group processing – and the bargaining power of a large group
- There may be reduced underwriting for groups of more than 20 – 50 or no underwriting at all if the cover is automatic for all those at work on a given day in a large group
- If the employer pays the premiums the employees are subject to income tax on them as benefits-in-kind. Such premium payments would also be subject to employer's National Insurance contributions. These would be a deductible business expense for the employer's corporation tax

Individual contracts can be fully underwritten or accepted without medical information subject to a moratorium

- This means that medical conditions present in the 5 years before the start of the policy are excluded from cover typically for the first 2 years of the policy
- This reduces the real value of the cover but makes it simpler and cheaper to obtain
- Where a contract is fully underwritten – the proposal form will have many medical history questions
- Premiums have been rising in recent years because of increased claims
- PMI policies are annually renewable so premiums may increase substantially each year – or the insurer could even decline to renew
- When a claim is made, the insured will need to provide the appropriate evidence of all medical needs and costs.
- Payment is often made direct to the hospitals or doctor
- Claim payments are tax free and there is no tax relief on premiums

PMI Marketing

Private Medical treatment costs have risen rapidly which means that PMI premiums have also risen – to the point that many people find them too expensive.

Some providers now offer contracts where the policyholder agrees to pay much larger excesses – in order to keep the premium costs down. This means that the policyholder pays for straightforward consultations and treatments.

It is usually cheaper to join a group PMI than to arrange individual cover.

Clients should be aware that pre-existing medical conditions may not be covered immediately.

People changing providers - to get cheaper premiums - need to be aware of the issues this could cause around pre-existing conditions and moratorium underwriting.

- Pre-existing conditions may be covered by the existing policy but may be excluded by the new policy for a set period eg up to 2 years
- Moratorium underwriting does not mean that underwriting is ignored – it may just be postponed until a claim is made – and at that point the insured may find that they do not have the cover they expected.

PMI is designed to provide cover for acute and not chronic conditions.

9.3 Mortgage Payment Protection Insurance

This aims to give the individual protection for their mortgage payments if they are unable to pay due to accident, sickness or unemployment.

If a homeowner with a mortgage gets income support, income-based jobseeker's allowance, income-related employment and support allowance or pension credit – then their benefit may include an additional element – **Support for Mortgage Interest**. See module 3 for details of SMI.

MPPI Cover Components and Features

- MPPI pays a monthly benefit if the insured is unable to work due to
 - Sickness
 - Accident or disability
 - Unemployment
- The unemployment and sickness elements may be available separately
- Sickness claims are more costly for the insurer than accident
- Benefits are normally payable for up to 12,18 or 24 months only
- Maximum benefit is usually 100% (or 125%) of the monthly mortgage costs – this usually includes any insurance costs
- Benefits are not taxable
- There will be a deferred period – usually 30 or 60 days – this can differ for accident and sickness and unemployment components
- Take up rates for this insurance are not high
- Prices have been rising – and the take up is reducing
- Usually taken out with a new mortgage – although some providers will allow it to be added to an existing mortgage. In this instance – it may not be possible to include the unemployment part
- The cover is not tied to a specific mortgage and will be portable to a new mortgage
- There is a standard minimum level of cover agreed between the Council of Mortgage Lenders and the ABI

Need for MPPI

Insurance can help provide the cash to maintain the mortgage payments – generally the biggest financial monthly outlay – in the event of illness etc

Reasons why people take out MPPI:

- The mortgage is their most important regular bill
- State welfare benefits will help with living expenses but the support for mortgage costs is limited
- Many people are blinkered and do not see any financial problems lasting more than a month or 2
- Lenders usually promote MPPI as part of the mortgage package
- MPPI covers unemployment as well as sickness or accident – which is not the case with Income Protection or Critical Illness plans
- MPPI has limited underwriting – because in most cases – pre-existing conditions are excluded.

Some MPPI policies allow for a bit extra on top of the mortgage costs – generally up to 125% - which would cover some of the other associated costs.

MPPI is generally available with some or all of the following terms and conditions

- Available from age 18 to 64
- Pre-existing medical conditions excluded
- Claims for stress, mental health problems and back conditions must be documented with clear medical evidence of the diagnosis
- The insured must be currently employed or self-employed for at least 16 hours a week and have been employed/self employed for at least the last 6 months
- The insured must not be aware of any forthcoming redundancies
- They must not currently be away from work for any reason
- Maximum benefit normally 100 – 125% of monthly mortgage costs – subject to an overall limit of 65% of normal gross income or £1,500 per month if lower
- There may be an initial waiting period eg 60 days before any benefit related to unemployment may be claimed
- For unemployment insurance, a self-employed person may only be able to benefit if the business goes into involuntary liquidation. If they simply stop trading – eg if orders have dried up, the policy will not pay out
- Any continuing income or income from other sources eg other insurance policies will affect how much can be claimed.
- The policy may be cancelled or withdrawn by the insurer at a minimum of 90 days notice or amended with at least 30 days notice
- MPPI is usually paid by monthly premium and premium rates are not guaranteed. Some insurers are now offering a guarantee on rates for a stated period or throughout

To be Eligible for MPPI

- Have a mortgage on a main residence in UK, Channel Islands or Isle of Man
- Be permanent residents of UK, Channel Islands or Isle of Man
- Under 65
- Be in paid employment or self employment

Exclusions

- Pre-existing conditions – known or not
- Conditions for which treatment has been received in the 12 months before start date
- Injuries that are self-inflicted or from a criminal act
- Alcohol or drug abuse
- Normal pregnancy
- Unemployment the insured might reasonably have known about at the start date
- Unemployment within eg 60 days of the start date
- Unemployment that is voluntary, due to misconduct or as a result of a labour dispute
- The ending of a fixed term contract

There is no tax relief on MPPI premiums and no tax on benefits.

PPI

Similar insurance to MPPI – but to cover a loan or credit agreement. New rules mean this cannot be sold at same time as a loan/credit agreement – must wait 7 days after the arrangement made. The basic terms and conditions are as for MPPI

Accident, Sickness and Unemployment Insurance (ASU)

Similar to MPPI but not linked to a mortgage

- Pays a monthly or weekly benefit if the insured is unable to work due to accident, sickness or unemployment
- Benefit payable for a maximum of 2 years
- Deferred periods similar to MPPI
- Exclusions similar to MPPI
- Benefit limited to a set percentage of earnings eg 75% and/or a maximum monthly amount eg £2,500
- Maybe some lump sum benefits for events such as loss of sight or a limb

Group ASU

Employers sometimes offer a group ASU scheme for its employees – either free as a benefit of employment or with premiums being deducted from salary.

- Generally can offer preferential premiums and underwriting
- Cover for accident and sickness may be restricted to incidents at work and will cease when an employee leaves

Taxation

- No tax relief on premiums
- Benefits not taxed for individual policies
- Where employer pays under a group scheme – the premium payments are benefits-in-kind subject to income tax under PAYE but allowable as a business expense for the employer. Benefits paid to the individual are not taxable.

Protection Learning Outcome 9 (PROT9) – End of Module Test

Multiple Choice Questions

Question	Answer	
9.1 - Which of the following is a common feature of a MPPI policy?	A.	A maximum limit on benefits.
	B.	Cover excludes mortgage related costs such as insurance.
	C.	Cover limited to the mortgage interest only.
	D.	Benefits to be paid for a maximum of 40 weeks.
9.2 - What is the tax treatment on MPPI Policies?	A.	Tax relief is available on premiums but the benefits are paid at the highest marginal rate.
	B.	Tax relief is available on premiums and the benefits are paid free of any income tax.
	C.	Tax relief is not available on premiums and the benefits are paid at the highest marginal rate.
	D.	Tax relief is not available on premiums and the benefits are paid free of any income tax
9.3 - Which of the following is a feature of a Personal Accident and Sickness Plan?	A.	Tax relief on contributions.
	B.	Tax free weekly and lump sum benefits.
	C.	Permanent weekly benefits in the event of permanent disability.
	D.	Permanent cover which can not be cancelled by the insurer.
9.4 - Jerry is diagnosed with heart disease and elects to be treated privately, claiming on his budget PMI policy. Which of the following statements applies to his policy?	A.	Budget plans will cover treatment for heart disease on a recurring basis
	B.	If the heart disease is deemed to be chronic, a reoccurrence may not be covered
	C.	Charges for home nursing, if required, will be covered
	D.	Private ambulance services will be included in the cover

9.5 - What is the key difference between a Mortgage Payment Protection Insurance policy and an individual Accident Sickness and Unemployment policy?	A.	The benefit payment period
	B.	The events covered
	C.	The taxation of the benefits
	D.	The basis used to calculate the benefits not linked to a mortgage

9.6 - Which of the following best describes the tax treatment of an individual Personal Accident and Sickness policy?	A.	Relief on premiums, income tax on benefits.
	B.	No relief on premiums, income tax on benefits.
	C.	Relief on premiums, no tax on benefits.
	D.	No relief on premiums, no tax on benefits.

9.7 - Which of the following exclusions would NOT normally apply to a Personal Accident and Sickness policy?	A.	Being under the influence of alcohol.
	B.	Flying as a fare paying passenger.
	C.	Hazardous sports.
	D.	Normal pregnancy.

9.8 - Which of the following is NOT a feature of a Mortgage Payment Protection Insurance policy?	A.	Monthly benefit.
	B.	Benefit paid to retirement age.
	C.	Maximum benefit linked to mortgage costs.
	D.	Deferral period.

9.9 - What does mortgage payment protection insurance usually cover?	A.	Mortgage interest only.
	B.	Mortgage interest and capital repayments only.
	C.	Only the mortgage taken out at the same time as the policy.
	D.	Mortgage costs up to a limit.

9.10 - Which of the following is an advantage of moratorium underwriting?	A.	Simpler and cheaper to obtain cover.
	B.	Guaranteed renewal of the policy on the anniversary.
	C.	Pre existing conditions will be covered.
	D.	Preferential tax treatment.

- **End of Questions** -

Answers

Question	Answer	
9.1 - Which of the following is a common feature of a MPPI policy?	A	A maximum limit on benefits.
9.2 - What is the tax treatment on MPPI Policies?	D	Tax relief is not available on premiums and the benefits are paid free of any income tax
9.3 - Which of the following is a feature of a Personal Accident and Sickness Plan?	B	Tax free weekly and lump sum benefits.
9.4 - Jerry is diagnosed with heart disease and elects to be treated privately, claiming on his budget PMI policy. Which of the following statements applies to his policy?	B	If the heart disease is deemed to be chronic, a reoccurrence may not be covered
9.5 - What is the key difference between a Mortgage Payment Protection Insurance policy and an individual Accident Sickness and Unemployment policy?	D	The basis used to calculate the benefits not linked to a mortgage
9.6 - Which of the following best describes the tax treatment of an individual Personal Accident and Sickness policy?	D	No relief on premiums, no tax on benefits.
9.7 - Which of the following exclusions would NOT normally apply to a Personal Accident and Sickness policy?	B	Flying as a fare paying passenger.
9.8 - Which of the following is NOT a feature of a Mortgage Payment Protection Insurance policy?	B	Benefit paid to retirement age.

9.9 - What does mortgage payment protection insurance usually cover?	D	Mortgage costs up to a limit.
9.10 - Which of the following is an advantage of moratorium underwriting?	A	Simpler and cheaper to obtain cover.