For customers

Income protection – the facts

We’ve designed this document to give you more information about our income protection benefits. It doesn’t form part of any contract between you and/or us. This information refers to our product terms as at June 2017. The full terms and conditions of the contract are in the policy conditions. Your policy schedule will show the terms and conditions that apply specifically to you.
Other documents you should read

Personal Protection or Business Protection key features
These provide a summary of the benefits and options available under our Personal and Business Protection menus.

Personal Protection or Business Protection policy conditions
These provide details of the terms and conditions that apply to your Personal or Business Protection policy.

You can get a copy of all these documents from the ‘Support’ section of our website at aegon.co.uk or from your financial adviser.

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What you need to know about our income protection benefit

What’s income protection?
Income protection is available as a main benefit under our Personal and Business Protection menus. It’s available on a single-life basis only. There are three options:

Individual income protection – available under our Personal Protection menu. This pays the insured person a monthly benefit amount after the deferred period, if due to accident or sickness they’re still unable to work, resulting in a loss of earnings or net profit. There are three definitions of incapacity for this benefit: ‘own occupation’, ‘any suited occupation’ or ‘activities of daily work’. Depending on the insured person’s circumstances, we may only be able to offer the ‘any suited occupation’ or ‘activities of daily work’ definitions. We’ll let you and the insured person know which definition they can have.

Key person income protection – available under our Business Protection menu. This pays the policyholder a monthly benefit amount after the deferred period, if due to accident or sickness the insured person is still unable to work. This benefit can be used to either help pay for a replacement employee or to help cover the loss of profits. There are two definitions of incapacity available for this benefit: ‘own occupation’ and ‘any suited occupation’. Depending on the circumstances, we may only be able to offer the ‘any suited occupation’ definition. We’ll let you know which definition the insured person can have when you apply for the policy.

Executive income protection – available under our Business Protection menu. This pays the policyholder a monthly benefit amount after the deferred period, if due to accident or sickness the insured person is still unable to work resulting in a loss of earnings. This allows you to insure the taxable earned income of valued employees. This benefit must be used to help pay replacement taxable earned income to the employee while they’re off work and will be paid through the PAYE (Pay As You Earn) system. There are three definitions of incapacity for this benefit: ‘own occupation’, ‘any suited occupation’ or ‘activities of daily work’. Depending on the circumstances, we may only be able to offer the ‘any suited occupation’ or ‘activities of daily work’ definition. We’ll let you know which definition the insured person can have when you apply for the policy.

How does income protection work?
You decide how much benefit you need, the benefit term and when you need income payments to start. If an accident or sickness stops the insured person from working, you must let us know the details as soon as possible but no later than shown in the table below. If you don’t tell us within these time limits, it may affect the decision on the claim and could delay payment of the benefit amount.

<table>
<thead>
<tr>
<th>Deferred period</th>
<th>Notification period</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 or 8 weeks</td>
<td>by week 2</td>
</tr>
<tr>
<td>13 weeks</td>
<td>by week 4</td>
</tr>
<tr>
<td>26 weeks</td>
<td>by week 6</td>
</tr>
<tr>
<td>52 weeks</td>
<td>by week 12</td>
</tr>
</tbody>
</table>
We'll pay a monthly benefit amount after the end of the deferred period, if we agree your claim. You can find details on the deferred period in the ‘When will the income protection payments start?’ section of this guide. We'll make the first payment one month after the end of the deferred period and will continue making payments for as long as the insured person meets the definition of incapacity as shown on your policy schedule (or any subsequent changes) and subject to the conditions in the ‘How long can income protection payments last and how long will we pay your claim?’ section of this guide.

Waiver of premium benefit is automatically included with all income protection benefits and will cover payment of your premiums while we’re paying your income protection benefit. We won’t pay waiver of premium benefit while we’re paying proportionate or rehabilitation benefit.

**What’s the maximum benefit amount we can pay?**

When choosing the benefit amount you need, you should remember that the maximum amount we can allow is:

**Individual income protection** – the lower of 55% of the insured person’s total earnings and £150,000 a year. The actual amount of benefit we’ll pay if you make a claim will be based on your pre-incapacity earnings. We limit the amount of the benefit because tax and National Insurance (NI) contributions are deducted from your normal earnings but not from the benefit amount we’ll pay you.

**Key person income protection** – you select the amount of benefit suitable at the start, based on one of the following maximum benefit calculations (up to a maximum of £250,000 a year):

- 2.5 times the insured person’s income averaged over the last three years, or
- 75% of the company’s average gross profits that can be attributed to the key employee over the last three years.

**Executive income protection** – the maximum benefit calculation will be:

- 75% of the employee’s pre-incapacity taxable earned income (up to a maximum of £150,000 a year); plus
- the yearly contribution towards the insured person’s pension made in the previous 12 months by the company, plus
- employer NI contributions (which can also be protected by the employer up to the amount paid for the insured person in the last 12 months).

The combined overall limit for pension and NI contributions is £30,000. And the total executive income protection cover available is £160,000 a year.

**What happens if my earnings have dropped by the time I claim?**

**Individual income protection**

We know your income can vary over the term of your policy. That’s why we offer an income promise to help protect you against a drop in your income after your policy has started. If you’re still receiving an income during your claim, we’ll take that income into account and deduct it from the benefit amount.

If you take out cover of up to £1,500 a month, we’ll make sure the income you receive while claiming is equal to the insured amount, up to a maximum of £1,500. For example, if you’re insured for £900 a month, we’ll pay you £900, less any continuing income and not recalculate 55% of pre-disability income.

If you’re insured for more than £1,500, we’ll make sure your income during claim is equal to at least £1,500 a month, less any continuing income.
To qualify, the insured person must work a minimum of 16 hours a week (self-employed) or 24 hours a week (employed) when they make a claim. The income promise doesn't apply to housepersons or those taking a career break. We'll also need to confirm the taxable earned income stated at the time you applied for cover was correct.

We'll also need to confirm the taxable earned income stated at the time you applied for cover was correct.

**Example**

Karen’s income before becoming ill was £24,000 a year. She has individual income protection which gives her a monthly benefit amount of £1,200. She has no continuing income, for example, sick pay.

So Karen’s allowable benefit is (£24,000 x 0.55)/12 = £1,100.

So although Karen’s allowable benefit is £1,100, our income promise means we’ll pay her £1,200.

Now let’s assume Karen had continuing income of £200 a month sick pay. Although our income promise means we’d pay her £1,200, we still need to deduct any continuing income from this figure. So assuming she receives £200 a month sick pay, we’d pay her £1,000 a month until her sick pay finishes.

We know there are a number of reasons why your income might reduce before you make a claim. That’s why, if your insured benefit is over £1,500 a month, we’ll offer a financial cushion.

As mentioned before, the most we can pay out is 55% of the insured person’s yearly taxable earned income. We then take off other income they may be receiving, such as income that continues to be payable to them during their period of incapacity, benefits under any other income protection or ill health/accident policies they may have or pension benefits payable.

However, if after we’ve taken off the other income, the maximum amount we could pay is within 10% of the insured amount, we’ll pay the amount you’re insured for in full.

**Example**

Steve earns £40,000 a year. He has individual income protection which gives him a monthly benefit amount of £1,833. Three years after taking out his income protection cover, Steve’s salary reduces to £38,000 a year. The following year, Steve becomes sick and isn’t able to work.

First we need to determine the maximum amount we can pay Steve: 55% of £38,000 = £20,900 a year or £1,741.67 a month

Then we deduct any other income he’s receiving (in this case, Steve doesn’t have any other income):

£1,741.67 – £0 = £1,741.67 a month

Finally we check this isn’t more than Steve was covered for originally – £1,833 a month.

The difference between the maximum amount we could pay now (£1,741.67) and what he was originally covered for (£1,833) is within 10% of his insured amount. As the difference is 5%, we’ll pay him the £1,833.
Key person income protection
We don’t recalculate the benefit amount at claim stage so we won’t reduce the benefit amount. However, we’ll need evidence to confirm the company is suffering a loss of income due to the absence of the insured person.

Executive income protection
Any payment will be based on the insured person’s current earnings. See the ‘What other income may reduce what we pay you?’ section of this guide for details.

What do we mean by ‘taxable earned income’?
We mean ‘income that will be lost in the event of incapacity’. This could include regular income such as salary, commission, bonuses and overtime (as long as the insured person can prove that this has formed part of their normal salary over the last three years) and P11D benefits which would be lost in the event of incapacity.

Individual income protection
If the insured person is employed, their pre-incapacity taxable earned income is their gross taxable earnings averaged over the last 12 months before they became incapacitated. If they’re self-employed, their pre-incapacity taxable earned income is the net profit from their occupation averaged over the last three years before they became incapacitated, as assessed for income tax and as shown on an agreed tax return provided by HM Revenue & Customs.

If the insured person is a company director of their own business, and they’re also a shareholder – their pre-incapacity taxable earned income means the salary and dividends received from the profit generated after deduction of corporation tax in the 12 months before a claim.

If the insured person is a houseperson or not in paid employment – the maximum amount of benefit we can pay out is £1,500 a month.

Key person income protection and executive income protection
Income for a company director of their own business, who is also a shareholder, means the salary and dividends received from the profit generated after deduction of corporation tax in the 12 months before a claim. Please also see the ‘What other income may reduce what we pay you?’ section of this guide.

When will the income protection payments start?
When the insured person is first unable to work due to accident or sickness there will be a period, known as the deferred period, when we don’t pay out any benefit. For individual income protection and executive income protection you can choose a deferred period of 4, 8, 13, 26 or 52 weeks. For key person income protection, you can choose a deferred period of 13, 26 or 52 weeks. The minimum deferred period available for houseperson’s benefit is 13 weeks.

How long can income protection payments last and how long will we pay your claim?
When you take out the income protection benefit, you can choose how long you want the cover to last by choosing either a benefit term or the age you want the benefit to stop. For individual income protection, this must be no later than your planned retirement date or your 70th birthday, if sooner. There may also be additional restrictions on the benefit term available for certain occupations.
We’ll pay income protection benefit payments until the earliest of:

**Individual income protection**
- the end of the benefit term (this may be restricted for certain occupations);
- the death of the insured person;
- the insured person no longer meeting the definition of incapacity as shown on your policy schedule, or
- the insured person no longer suffering a loss of earnings.

**Key person income protection**
- the end of the benefit term (this may be restricted for certain occupations). The maximum benefit term available for key person income protection is 10 years;
- the death of the insured person;
- the insured person no longer meeting the definition of incapacity as shown on your policy schedule;
- the end of the benefit payment period;
- the date the insured person’s employment with the company ends, or
- the date the company stops trading.

We’ll pay key person income protection for a set period of time within the benefit term, known as a payment period. You must choose the payment period of one, two, three, four or five years at the start.

**Executive income protection**
- the end of the benefit term (this may be restricted for certain occupations);
- the death of the insured person;
- the insured person no longer meeting the definition of incapacity as shown on your policy schedule;
- the insured person no longer suffering a loss of earnings, or
- the date the insured person’s employment with the company ends.

If you have executive income protection cover and the company stops trading we’ll continue to pay the benefit to the insured person, subject to the conditions above. If this happens, the meaning of income will be restricted and will not include pension or NI contributions. If the benefit isn’t in payment, the executive income protection cover will end.

Your income protection cover won’t end when your claim ends if the benefit term hasn’t ended and, for key person income protection, the payment period hasn’t ended. You can claim as many times as you need to. However, to make sure your cover continues when your claim ends, you have to start paying premiums again.

**How will we assess your income protection claim?**

There are three definitions of incapacity for individual income protection and executive income protection. These are own occupation, any suited occupation or activities of daily work. There are two definitions of incapacity for key person income protection. These are own occupation or any suited occupation. Your policy schedule will show you which one applies at the start of your policy.

We may need to change the definition of incapacity if you become unemployed, take a career break or have houseperson’s benefit.
If the definition of incapacity is own occupation or any suited occupation, we’ll assess any claim made on the insured person’s occupation immediately before their incapacity started. We’ll also ask for evidence of the insured person’s loss of earnings/net profit or the company’s loss of profit. You’ll qualify for income protection benefit payments if the insured person satisfies the definition of incapacity resulting in a loss of earnings/net profit or loss of profit.

If the insured person is unemployed or has been made redundant in the last 12 months before claiming, we’ll treat the claim as if they were in full employment.

If the insured person isn’t in paid employment at (and has been unemployed for more than 12 months before) the time of claim, we’ll use the activities of daily work definition of incapacity to assess your claim and limit the maximum amount we pay you to £1,500 a month. The deferred period will be increased to 13 weeks for benefits which had a four- or eight-week deferred period.

In all cases we’ll ask for medical evidence, for example a consultant’s report, an independent medical examination or a home visit by a qualified nurse. This list isn’t exhaustive and we’ll pay any costs involved.

Can I claim again after returning to work?
Yes. There’s no limit to the number of claims you can make during the term of your income protection benefit. However, you must restart paying premiums when each claim ends to make sure that your cover continues. If you need to make another claim for the same condition or a related condition within six months of your last claim ending and the insured person satisfies the definition of incapacity, the deferred period won’t apply. For key person income protection, if multiple claims are made, the length of these claims will be added together and when the total length of the claims matches the length of the benefit payment period, we’ll stop paying the claim.

Can the insured person return to part-time or less well-paid work?
Yes. If the insured person’s no longer able to fully carry out their normal occupation but return to work in a reduced role or if they take up different work at a lower income, we’d support them by continuing to pay a monthly benefit amount. This would be at a reduced level depending on their new income.

Rehabilitation benefit – available with all income protection benefits
If the insured person can’t do their normal job on the hours they’re contracted to do and have to go back with fewer duties or working less hours, we could pay a reduced benefit. We’ll work out the amount of benefit payable in the same way as proportionate benefit.

Proportionate benefit – available with individual income protection and executive income protection
If the insured person’s no longer able to carry out their normal occupation but they take up different work at a lower income with the same company, we’d support them by continuing to pay a monthly benefit amount at a reduced level dependent on their new income.

You must let us know if this happens. After the deferred period, we’d pay a reduced benefit based on the calculation shown over the page. You can claim for proportionate benefit even if you haven’t received full benefit. We’ll pay it for as long as the insured person meets the definition of incapacity (see the ‘How long can income protection payments last and how long will we pay your claim?’ section of this guide). Proportionate benefit isn’t available if the insured person has the activities of daily work definition of incapacity.
Here's how we work out the benefit:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum allowable benefit</td>
<td>£10,000*</td>
</tr>
<tr>
<td>Pre-incapacity earned income</td>
<td>£18,500 (A)</td>
</tr>
<tr>
<td>New reduced earned income</td>
<td>£12,000 (B)</td>
</tr>
<tr>
<td>(A minus B)</td>
<td>£6,500 (C)</td>
</tr>
<tr>
<td>Divide C by Pre-incapacity earned income</td>
<td>£6,500 (C)</td>
</tr>
<tr>
<td>Reduced benefit amount is (E x D)</td>
<td>£10,000 x 0.35</td>
</tr>
</tbody>
</table>

* Maximum allowable benefit is the lowest of 55% of the gross salary or the insured amount.

Please also see the ‘What other income may reduce what we pay you?’ section of this guide.

Additional support to help recovery

We may also offer rehabilitation support. Where we feel it will benefit the insured person's return to work, we'll pay for rehabilitation experts to help them manage their recovery so they can resume their normal lifestyle as soon as possible. The rehabilitation programme will depend on individual circumstances for example, how ill they are and to what extent their illness lends itself to rehabilitation.

Premium payments while claiming

You should carry on paying premiums until we accept your claim. You don't need to pay them while we're paying a benefit under your income protection cover. However, you'll need to start paying premiums if the insured person starts working again, even if the work is on a part-time basis or they're in a different occupation.

What other income may reduce what we pay you?

Individual income protection

We'll reduce the benefit amount if any of the following take the insured person over the maximum benefit amount we can allow (see the ‘What's the maximum benefit amount we can pay under income protection?’ section of this guide):

- Continuing payments from their employer, such as sick pay.
- Any ongoing income from a business or company.
- Pension payments – unless they'd have received them if they were still working.
- Other insurance benefits – if they pay out because of their incapacity and are paid to the insured person or to someone else for them, such as, but not limited to, mortgage payments.

We won't reduce the benefit amount if they receive:

- income support or other means-tested state benefits, although our payment may affect their eligibility for means-tested state benefits;
- investment income, or
- state incapacity benefit.
Key person income protection
We don’t recalculate the benefit amount at claim stage so we won’t reduce the benefit amount. We’ll need evidence to confirm the company is suffering a loss of income due to the absence of the insured person.

Executive income protection
We’ll deduct any Employment and Support Allowance (or a similar benefit if amended or replaced) to which the insured person is entitled, and we’ll also reduce the benefit amount if any of the following take the insured person over the maximum benefit amount we can allow (see the ‘How much benefit can be paid?’ section of this guide):

• Continuing payments from their employer (such as sick pay).
• Any ongoing income from a business or company.
• Pension payments – unless they’d have received them if they were still working.
• Other insurance benefits – if they pay out because of the insured person’s incapacity and are paid to the insured person or someone else for them, such as but not limited to, mortgage payments.

We won’t reduce the benefit amount if the insured person receives:
• income support or other means-tested state benefits, although our payment may affect their eligibility for means-tested state benefits, or
• investment income.

If we have to reduce your benefit amount, we won’t refund any of your premium payments.

If the insured person takes a career break can the income protection continue?
Yes, if you have individual income protection or executive income protection.

If the insured person takes a recognised company career break, the income protection can continue. We’ll reduce the premium and the benefit amount, if necessary, to the maximum houseperson’s benefit amount of £1,500 a month or the current benefit amount, whichever’s lower. There will be a minimum deferred period of 13 weeks with this option and the activities of daily work definition of incapacity will apply. You must tell us in writing if the insured person decides to take a career break.

If the insured person goes back to work within five years of taking the career break, we’ll put the benefit amount, premium and definition of incapacity back to the level they were at before. The insured person won’t have to provide any more information on the state of their health, as long as their new earnings justify the level of benefit. If you’ve chosen the indexation option, we’ll put the benefit amount back to the amount it would have been if the insured person hadn’t taken the career break. Where the premium basis is reviewable and a review falls within a career break, the review will be based on the current lower premium and benefit amount.
I've recently become unemployed – can the income protection continue?

Yes, if you have individual income protection. If the insured person isn’t working at the date of claim but has been in work in the previous 12 months, we’ll pay you based on your policy definition and their previous job. You’ll receive 12 months of benefit, after the end of the deferred period, based on this definition. After 12 months, we’ll assess them using the houseperson’s definition.

If you need to claim after more than 12 months of redundancy or unemployment, the maximum benefit amount will be £1,500 a month and the activities of daily work definition will apply.

Maximum and minimum age and term

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Age last birthday when you take out a benefit</th>
<th>Benefit term (years)</th>
<th>Maximum age attained at the end of the benefit term</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Min</td>
<td>Max</td>
<td>Min</td>
</tr>
<tr>
<td>Individual income protection</td>
<td>18</td>
<td>59</td>
<td>5</td>
</tr>
<tr>
<td>Key person income protection</td>
<td>18</td>
<td>59</td>
<td>5</td>
</tr>
<tr>
<td>Executive income protection</td>
<td>18</td>
<td>59</td>
<td>5</td>
</tr>
</tbody>
</table>

Claims requirements

You’ll only remain covered for individual protection, executive income protection or key person income protection while the insured person’s a permanent resident in one of the home countries: United Kingdom, the Channel Islands or the Isle of Man. If they travel or live temporarily outside the home countries for more than 13 continuous weeks in any 12-month period then cover for the income protection benefits will be excluded. The cover will start again when the insured person has been back in any of the home countries for 39 weeks in a row.

If the insured person travels or lives temporarily in any one or more of the following designated countries: European Union (excluding the UK), Andorra, Australia, Gibraltar, Liechtenstein, Monaco, San Marino, Turkey, the Vatican City State, New Zealand, Canada, Iceland, Norway, Switzerland, or the United States of America – then the 13-week period mentioned above will be extended to 26 weeks during any 12-month period. The cover will start again when the insured person has been back in any of the designated countries for 26 weeks in a row.
What about tax?

**Individual income protection**
As the premiums are usually paid from your taxed income, any benefits received are normally exempt from tax.

**Key person income protection**
The business will normally be entitled to tax relief on the premiums it pays on the policy, provided that:
- the policy is designed to compensate for a loss of profits;
- the key person is an employee;
- as an employee they don’t have a significant shareholding, and
- the term of the policy doesn’t extend beyond the period of the insured person’s usefulness to the company. It’s generally recommended that the benefit term shouldn’t be more than five years.

If these conditions aren’t met, then it’s unlikely that the business will qualify for tax relief on the premiums.

Key person income protection benefits will be paid directly to the business. They’re subject to tax as a trading receipt if they’re used for a revenue purpose.

**Executive income protection**
Premiums for executive income protection will normally be allowed as a business expense if they meet the wholly and exclusively for the purposes of the business test. This means the expense can’t serve a dual purpose, for example it shouldn’t have some business and non-business use, with the split between the two not being readily recognisable. Non-business related expenditure isn’t tax deductible.

As the policy is owned by you as the employer rather than the employee, the premiums aren’t treated as a benefit in kind for the employee.

Benefits paid from an executive income protection policy are paid to you, the employer, and taxed as a trading receipt. The benefit passed on to the employee is subject to PAYE and NI, as it’s taxed as earned income. This should usually be an allowable expense for you the employer. The employee will receive the benefits net of tax and NI contributions under the PAYE system.

This information is based on our understanding of current legislation, taxation law and HMRC practice, which may change.
How to contact us

Remember, a financial adviser will normally be your first point of contact. We won’t be able to give you any financial advice at any stage.

If you have any questions, you can phone, email or write to us at:
Protection Customer Service Centre
03456 00 14 02
Monday to Friday, 8.30am to 5.30pm
protect_support@aegon.co.uk

Aegon
Edinburgh Park
Edinburgh
EH12 9SE

We may monitor calls to improve our service.

If you want to make a claim, please phone or email us at:
03456 00 04 93
Monday to Friday, 8.30am to 5.00pm
claims@aegon-service.co.uk

Alternatively, please write to our Claims department at the address above.