

Insurance Protection

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LIFE & HEALTH

Below is a brief résumé of the topics covered in these notes:-

Life Insurance for yourself and your spouse/partner

- Level Term
- Convertible Term
- Mortgage Protection (Decreasing Term)
- Family Income Benefit
- Whole of Life
- Endowment
- Death in Service (Employers scheme)
- Pension Term

Medicals

Ownership of Policies - Single, Joint Life, Life of Another or Trust

Ill Health Insurance for yourself and spouse/partner

- Flying Licence Insurance (or if appropriate Flight Instruction Fees Insurance)
- Critical Illness.
- Waiver of Premium ('add on' benefit)
- Long Term Disability (Permanent Health Insurance, Income Protection)
- Long Term Care
- Mortgage Payment Protection Insurance (Accident, Sickness and Unemployment)
- Private Medical Insurance

For all types of insurance BFS is able to advise on the type and level of cover you need. Please take the time to complete one of our questionnaires, so that we can make recommendations with a complete understanding of your circumstances. If you feel you do not require advice, then some of the products covered can be arranged direct from the BFS website at www.balpa-bfs.co.uk which may also be accessed directly from the BALPA website.

Life Insurance

Cover should be taken out if there is someone who will need financial assistance on the death of yourself or your spouse/partner. This requirement can be a combination of a lump sum, or income replacement. This is usually because of commitments that either of you will have left behind - such as mortgage or school fees, but do not overlook "unpaid" work such as child care or housework. Cover can be taken out for life, or a more cost effective option is to take out a policy for a set term, timed to coincide with when the liability you are covering will end. **It should be remembered that the value of a fixed sum insured will gradually reduce in purchasing power as a result of inflation. However, if the liability you are covering is also diminishing, this may not be a problem.**

Level Term

This insurance has traditionally been available on a fixed premium/fixed sum insured basis, but in recent years some companies have introduced policies that incorporate investment linking - the idea being that if the underlying investments perform well, then the sum insured may increase (for the same premiums). Alternatively the premiums could decrease – the converse being true if investment performance is not good. **At BFS we normally recommend the fixed premium option**, but we can provide either. Also, some companies offer policies that have reviewable premiums so that after usually five years, the premiums could change if their claims experience is poor.

The fixed premium Level Term policy has a finite term, covering the period required to protect the aforementioned commitments. The sum insured remains constant and will only become payable upon the death of the insured during the policy term - thus the policy will not normally acquire a cash value on surrender or maturity. Some insurance companies will allow the 'death benefit' to be paid early upon diagnosis of a terminal illness which is usually defined as having less than 12 months to live, although this benefit is usually restricted when the policy is nearing maturity, usually within 12 or 24 months of the end. It is not always advisable for such benefit to be taken, and impartial advice should be sought.

Convertible and/or Renewable Term

Similar to Level Term but the policy can usually be converted to a whole of life, or endowment policy for the same sum insured **irrespective of medical health at the time** provided such conversion is made prior to the end of the original term. Some companies include an option to renew the Term Insurance for further periods, most ceasing cover at age 65. These policies are more expensive than a Level Term policy of the same duration, but can be useful for short term planning. One disadvantage is that the companies that offer competitively priced convertible term policies do not necessarily offer the best 'after conversion' policies. Unless an option is exercised which will result in a pay out, usually these types of plan do not acquire a cash value.

Mortgage Protection Insurance

This is sometimes confused with other types of cover with a similar name, and is sometimes known as decreasing term. This traditional policy is mostly used to provide Life Insurance that decreases more or less in line with the capital remaining outstanding on a Capital & Interest Mortgage usually called a Repayment Mortgage. This is as long as the mortgage repayments are met at the due date and is subject to the lenders interest rates not exceeding the limit specified within the policy. This type of policy does not acquire a cash value.

Family Income Benefit

This cover is designed to provide a regular income in the event of death, for the remaining term of the policy, and is especially useful to replace the lost income of a wage earner. As the liability to the Insurance Company runs off the longer that the life assured lives, it is particularly cost effective cover. Inflation will erode the value of the sum insured, thus it may be wise to consider some level of indexation, albeit at higher cost. This policy does not acquire a cash value.

Whole of Life

One thing in life is certain, and that is death. This type of policy is designed to pay out whenever death occurs, and because this is certain, whole of life policies are more expensive than term assurance, where a pay out does not usually occur. They do have their place in financial planning depending on circumstances.

They are also used in Inheritance Tax planning. Various whole of life policies are available, some investment or with profits linked, and others being non-profit.

It is particularly important for you to contact us for advice before effecting such a policy, particularly when considering Inheritance Tax, as illustrations provided often need detailed explanation, and (for example) one could be misled by unit linked whole of life plans which can be quoted on a maximum sum insured basis.

Endowment

We do not propose to go into great depth in these notes about why we are not generally in favour of new endowment policies. We have to mention them, as they do incorporate Life Insurance (and more recently other insurance benefits), but if protection only is required, this is an expensive way of providing it. Please read our notes on Capital Investment & Savings in conjunction with these.

The basic idea of an endowment policy was to provide a worthwhile investment return on savings, whilst 'throwing in' Life Cover at apparently no cost. Up until 14th March 1984 (from when tax relief on qualifying policy premiums for new policies was no longer available) this was an attractive option.

Many insurance companies once offered traditional with profit policies that would provide guaranteed minimum investment returns, but now these are few and far between, leaving the majority of companies either offering unit linked investment plans, or unitised with profits plans, that do not incorporate such guarantees. We believe it is best to consider Life Cover separately from investment, particularly as the investment funds of Life Companies are more heavily taxed than equity investments held directly or within an ISA (Individual Savings Account).

This does not mean that you should not consider a new endowment policy, or encash an existing one, and nor does it mean that you should rush out and invest in an ISA – it means you should seek our advice.

Employers Death In Service Life Insurance

Many BALPA members are fortunate to be provided with this valuable insurance as part of their employee benefits package, and of course, it should be taken into consideration when evaluating the amount of protection required. Many members make the common mistake in thinking that this cover will only pay out if they are killed on duty. The vast majority of schemes will pay out if you are at home, and die from natural causes. Some pay an additional amount if death occurs due to an accident at work.

That said, unlike other life insurance, this insurance is not assignable and it cannot always be relied upon to be in place at the time it is required. The insurance usually falls under a discretionary trust, with the power of appointment being in the sole hands of the Trustees, but in 99.9% of cases the Trustees will follow your directions, which are conveyed to the trustees whilst you are alive, by a simple form. This is usually called a Notice or Expression of Wish, and directions can be changed by completion of a new form at any time prior to death.

It is interesting to note that many members with children automatically request that the Trustees (via a Notice of Wish) to pay all of these benefits to their surviving spouse/partner, but in some instances it may be prudent to include the children. One advantage of this Trust arrangement is that the benefits are payable outside of one's estate, thus they would currently escape Inheritance Tax, and should be considered when you draft your Will.

Pension Term

This was available with restrictions for non pensionable employment or the self employed and for a short while for everybody. It is no longer available but as you can still claim the tax relief if you have a policy think very carefully before changing it for another type of life policy.

Medicals

Most members do not have the time, or like the thought of having to attend an insurance company medical, but sometimes (subject to the amount of insurance or the applicant's actual health) one is necessary. We would point out that even though most members undertake a six monthly CAA examination, the medical information required by an insurer has some differences as they have to take a longer term view.

Ownership of policies - Single, Joint Life, Life of Another or Trust

The simplest arrangement is a **Single** life policy, where the person whose life is covered, the life assured, is also the policy owner, and if a death claim is made, the proceeds form part of the deceased's estate.

Most life insurance policies can be written on a **Joint Life** basis, with the sum insured being payable on the first, or second death, as required. An insurable interest has to be evident - as with a married couple - or perhaps partners that have a joint mortgage. Usually, if a couple have a joint mortgage, or young children, the first death basis would be appropriate, but a second death basis could be advisable for a couple that (say) wish to provide funds for their beneficiaries to pay Inheritance Tax (as with a whole of life policy).

Although a Joint Life policy may be a little cheaper than if two separate policies were effected, this is not always recommended - because circumstances change, and you could end up having to cancel the policy. An example of this could be a marriage or partnership breakdown etc. The cost of effecting two separate policies for the same sum insured is often only marginally more expensive, and 'double the cover' is effectively provided. It can also make any trust arrangements more flexible.

With regard to **Life of Another**, this can be used where a person has an insurable interest in another, but where they wish to own the policy and pay the premiums as they fall due. This may be beneficial as payment of the death benefits will not ordinarily be delayed by probate, and it is also clear that the benefits belong to the policy owner free of Inheritance Tax, and without fear of contest. Also, the policy owner retains control, maintaining or ceasing contributions as desired.

Both new and existing Life Insurance policies can be placed under **Trust**, and if this is done the owner of the policy will then be the Trust itself, which is controlled by Trustees. They have the responsibility of ensuring that any benefits due are paid to the beneficiaries in accordance with the terms of the Trust. The proceeds of a Trust are usually paid free of Inheritance Tax as they do not/will not belong to the estate of the Settlor, provided that the Settlor was not included as a beneficiary or potential beneficiary of the Trust.

Technically, if a new policy is effected under Trust, the premiums paid are treated as gifts from the policyholder, and are accountable under the Inheritance Tax rules. However, regular premiums can sometimes be exempted from Inheritance Tax if they are accepted as being 'normal expenditure'. Capital (lump sum) investments placed under Trust need more careful consideration, and our advice should be sought. If an existing policy is placed under trust, then (generally) a gift of the value of the policy is made at that time, and this could have Inheritance Tax implications.

There are various types of trust that can be arranged, and although documentation can usually be provided by insurance companies (for their own products), you should seek legal advice. The two main types of trust they will offer you is a bare trust or a flexible, interest in possession trust. Following the Finance Act 2006, all policies put into a 'flexible trust' after 22nd March 2006 will be potentially liable to an IHT charge whereas those put into a 'bare trust' will not.

If you know who your beneficiaries are to be and you do not need flexibility then a bare trust is your best option. However, our experience of life is that you can never be sure what is around the next corner, so we still think that a flexible trust is worth the potential pitfalls. With a flexible trust, you state a whole range of potential beneficiaries from whom the trustees are able at their discretion to select, so it makes sense to have all and sundry included within this section, but you should also take care to delete certain classes that you may not wish to include (ex-partners spring to mind). The default beneficiaries' section only comes into play if the trustees have not made an appointment (usually 2 years after death). It is advisable to appoint an additional trustee, other than your spouse, although care needs to be exercised, as the trustees do have discretion who they make payment to.

There is the possibility that a periodic tax charge could arise if death were to occur just before a 10 year anniversary of the trusts creation, and the trustees did not have time to pay out the death benefits before a 10 year anniversary occurred. The maximum charge would be 6% of the death benefit but should in practice be lower, and when set against the tax charge of 40% for all sums over £325K (IHT nil rate band 2009/10), is a small price to pay if you were unlucky and this periodic charge did occur.

Please note that policies under Trust are not normally assignable, and therefore may not be acceptable to mortgage lenders if they require a mortgage over the policy.

III Health Insurance for you and your spouse/partner

Flying Licence Insurance

It is our belief that, **Flying Licence Insurance** or **Loss of Licence Insurance** is probably the most important 'health' insurance that an airline pilot can have during their working life as it is designed to pay out a cash lump sum if your licence is lost permanently, and in some cases there is also provision to pay out a monthly benefit on the occasions when a licence may be suspended. In the past some policies allowed the insurer to 'claw back' some of the sums paid out if a 'lost' licence was regained within three years (and indeed some policies still retain this clause), so be wary of this.

For those of you fortunate enough to be provided with this type of insurance by your employers, we do advise you to familiarise yourself with the terms and conditions, so that no misunderstandings can arise – particularly if you enjoy winter sports, as these activities are sometimes excluded in cover from your employer.

The current individual policy BFS recommend is through Flightcrew Risk Solutions PCC Limited a Guernsey based insurance company wholly owned by BFS. Specifically, the policy is issued through a cell in this company called Cell BF4. This is a protected cell, in that other cells within the insurance company cannot have an impact on the financial viability of the cell. We are therefore very much "hands on" when terms are negotiated with the reinsurer and most of the administration is carried out from our office.

Two types of Flying Licence Insurance cover are offered, one designed to pay out a lump sum if your licence is lost permanently, and the other designed to pay a monthly benefit if your licence is either suspended temporarily or permanently. You can choose either cover or a combination of the two. For those who are training to be a pilot we offer Flight Instruction Fees Insurance which is designed to pay a lump sum if your licence is lost permanently and or a monthly benefit if your licence is suspended.

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So what is a Licence worth, and how much cover should you have? Well, as pilot training costs are in the region of £80,000, that is a useful starting point, in addition to which, one should cover major debts such as the mortgage. The other and arguably most important factor is the number of years you have left in your flying career. ie. the younger you are, the more you have to lose. There are limitations on the amount of cover you can hold, and we will be pleased to advise you of these, and to provide you with further details if required. As premiums payable for individual Flying Licence Insurance are not tax deductible, you will be pleased to hear that the benefits are currently payable tax free. A more comprehensive set of notes outlining the cover and enabling you to calculate the premium is available on request.

Critical Illness

This is increasingly popular insurance, and is particularly worth considering for the longer term. ie. beyond your flying years after your Flying Licence Insurance / Loss of Licence Insurance will have expired. It is designed to pay out a cash lump sum upon such critical illnesses as Stroke and Cancer, and interestingly could become payable in circumstances where a Flying Licence has not been lost. eg. heart by-pass. That said, in many situations one's working life and income would probably continue, and that is one of the reasons why we feel that the aforementioned Loss of Flying Licence insurance is more important.

Many terms and conditions are associated with this policy, and it is imperative that you are not only aware of them, but also that you are clear as what illnesses are and are not covered.

A major disadvantage with the Critical Illness policies we have analysed is that the definition of total permanent disability, is only available on an 'any occupation' basis, rather than own occupation, as the insurance industry 'selects against' airline pilots. Insurance Companies insist that if pilots can (in the Insurance Companies opinion) undertake any other occupation, no matter how low their new salary may be, they should do that – thus this benefit is not of much use, and the overall value of the policy is reduced.

Waiver of Premium Insurance

This is an insurance 'add on' clause that is offered with many types of policy, including Critical Illness, Endowments, and Personal Pensions – but again, airline pilots are selected against, as the 'own occupation' definition is nearly always downgraded to 'any occupation'.

Long Term Disability (Permanent Health, Income Protection)

This is potentially an important insurance for those that require a regular income should they fall long term sick. Because of the specialist occupation of airline pilot, many policies available today are of no real use to BALPA members as the insurer could decline to pay out if the policyholder was deemed fit to carry on another occupation, i.e. written on an "any occupation" basis. This market is very difficult but we currently do have one provider that will offer "own occupation" for pilots, albeit with terms attached.

Long Term Care

This insurance can cover actual Nursing Home care, or care within one's own home, and although such insurance is usually associated with older age (parents, grandparents etc.), the younger you are when you take out a policy, the cheaper it usually is. It is even possible to take out cover for someone who is due to go in a home, but the cost reflects this. However, what this does guard against is the income or capital to pay the fees running out. This insurance has had rather a chequered history with not many providers entering the market, and lack of competition is always a bad thing.

Mortgage Payment Protection Insurance (Accident Sickness and Unemployment)

This insurance has a lot of pitfalls for airline pilots due to restrictive clauses. There are two parts to this type of cover, Accident and Sickness, and Unemployment, but given that Flying Licence Insurance is probably more appropriate for the accident and sickness part, we have concentrated on the unemployment part. For further information please refer to our website www.balpa-bfs.co.uk

Private Medical Insurance

Many members have this cover provided for them by their employers, and often family can be included at competitive rates. We are able to offer policies from a range of lenders, and give advice on the types of plan available, to help mitigate the cost.



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