



Reward & Retirement Provision

Assignment 2 Notes

(Part 2 - Health and Risk Benefits)

1. Outline how Statutory Sick Pay (SSP) works.

10 Marks

Answer should cover:

- Payable when an employee is unable to work due to sickness or disability
- Minimum payable for the first 28 weeks of time off work
- Flat rate of £95.85 per week (2020/2021) irrespective of the employee's income
- Only payable after the employee has been off work sick for at least four consecutive days (including weekends and holidays)
- Paid through the employer's payroll and any liability for income tax and/or National Insurance contributions is deducted at source in the usual way
- Employer will normally pay the employee in the same way and on the same day that the employee would normally receive their wages
- Not means tested
- To be eligible employee must earn at least enough to pay Class 1 National Insurance contributions – the earnings threshold of £120 per week (2020/2021)
- If the earnings threshold is not met then income support may be claimed, although this is a means tested benefit
- Payment limited to a maximum of 28 weeks
- Different periods of sickness may be linked if they are at least four days in a row and less than eight weeks apart
- If sickness/disability continues after the end of the 28-week period then incapacity benefit may be claimed



2. As the company's Benefit Consultant, prepare a paper for the HR Director explaining how a group income protection policy operates.

Your paper should also cover:

- a) The design features of a group income protection policy**
- b) The cost to the employer**
- c) The taxation of benefits and contributions**

35 marks

Answer should cover:

- Purpose of group Income Protection (IP) benefit arrangements
- Link to the employee's contract of employment
- Waiting period before the benefit is payable in the event of a claim
- Link with long term State provision whilst maintaining at least some financial incentive to return to work
- Level of benefit is specified as a percentage of gross or net pre-incapacity earnings
- Under what circumstances the benefit under an IP arrangement for an employee normally ends
- Each insurer will set a maximum benefit formula on the policy and this is determined at the beginning of the policy
- Exclusions
- Design features of IP arrangements
- Costing
- Taxation of income benefit
- Taxation of premiums
- Tax relief



3. Explain how the rules of a defined benefit occupational pension scheme may allow for payment of benefits based on ill health or incapacity. 5 marks

Answer should cover:

- Common for occupational pension scheme rules to contain a provision for the immediate payment of pension, regardless of age, on the grounds of incapacity
- Condition must prevent employee from fulfilling their normal employment, or seriously impairs their earnings ability
- Employers and Trustees will define the benefits payable in the rules
- The benefits provided can vary, such as with or without a reduction for early payment, and allowance for full prospective service up to the employee's Normal Retirement Date
- The rules may allow for different levels of pension being payable depending upon the severity of the incapacity
- Where life is very short (no more than 12 months) full commutation for cash is allowable by HMRC with the exception of dependants' pensions which will become payable in the usual way. Any lump sum is tested against the Lifetime Allowance
- Medical evidence must be available to support the decision to grant a pension on the grounds of incapacity

4. A new employee has asked for information in relation to what is covered by the company's private medical insurance (PMI) policy. As Total Rewards Manager, write an email to the employee outlining the main areas of treatment typically covered by PMI, including examples, and the treatments that are generally excluded, again providing examples. 10 marks

Answer should cover:

- What is normally covered by PMI policies:
- In Patient Hospital Charges (including examples)
- In Patient Surgical and Medical Charges (including examples)
- Out Patient Charges (including examples)

General exclusions:

- Except for large employer paid group plans, employees are not normally covered for known pre-existing medical conditions at the time of joining
- Other exclusions vary between PMI providers
- Example of exclusions should be provided
- Exclusions may be provided at an additional cost



5. Explain the different methods for calculating the cost of private medical insurance (PMI) and what steps companies can take to reduce the cost. 25 marks

Answer should cover:

- How Cover is Costed
- Community Rated (Age Rated)
- Experience Rated (Claims Rated)
- Explanation of the methods of reducing cost:
 - Managed Care
 - Directional Care
 - Deferred Access Plans
 - Excesses
 - Co-insurance
 - No claims discount

6. Outline what personal accident schemes are and how they work, providing examples of the benefits payable. 5 marks

Answer should cover:

- Lump sum payment paid out due to death or injury
- Fixed payments or salary related
- Examples of different level of benefits payable
- Benefit Restrictions
- Tax treatment

7. Provide an overview of critical illness schemes, including how they work and the taxation of both premiums and payment of benefits. 10 marks

Answer should cover:

- Lump sum benefit
- Different levels of cover (base and extra)
- Claims, including free cover limit / automatic entry level
- Cost normally covered by employer
- Tax implications for employer and employee