

LIFE AND DISABILITY

GROUP LONG TERM DISABILITY

PARTIAL BENEFIT GUIDE

PARTIAL BENEFIT

Partial Benefit financially incentivises incapacitated Members to work, where possible, on a reduced basis, in either their own or an alternative suited occupation offered by the Employer, rather than be on full Incapacity leave.

A partial Benefit can be payable when, as a direct consequence of their ongoing Incapacity:

- i. a Member is able to work on a reduced basis for lower Earnings, for a period exceeding the Deferred Period;
- ii. a Member returns to work on a reduced basis, following a period of Incapacity and receives Earnings at a lower level than their pre-Incapacity Earnings (adjusted for CPI);
- iii. a Member remains on full Incapacity leave, although evidence suggests that they can work on a reduced basis.

The partial Benefit applies to both Core Benefit and Supplementary Benefit covering Employer contributions and will never be greater than the full Benefit.

A partial Benefit does not apply:

- i. under the Any Occupation Definition of Disability;
- ii. for Supplementary Benefit covering waiver of premiums.

HOW DO WE CALCULATE A PARTIAL BENEFIT WHEN A MEMBER WORKS ON A REDUCED BASIS?

Partial Benefit is based on the Member's percentage income loss while taking account of inflation, as measured by the percentage change in CPI.

The partial Benefit is calculated by multiplying the full Benefit by a Partial Benefit Factor i.e.:

$$\text{PARTIAL BENEFIT} = \text{FULL BENEFIT} \times \text{PARTIAL BENEFIT FACTOR}$$

See 'Case Study One' for an example calculation.

WHAT IS THE FULL BENEFIT?

The full Benefit is the Benefit the Member is entitled to under the terms of the Policy. This may be the restricted Benefit where a Member has been restricted to the Free Cover Limit following Medical Underwriting. It could also be the maximum Benefit where the Member's Benefit is capped.

Where SIB integration is chosen, the full Benefit is the Benefit without any SIB deduction (see 'Case Study Two').

WHAT IS THE PARTIAL BENEFIT FACTOR?

The Partial Benefit Factor is derived from the reduction in Earnings as follows:

$$\text{PARTIAL BENEFIT FACTOR} = [\text{ADJUSTED EARNINGS} - \text{REDUCED EARNINGS}] / \text{ADJUSTED EARNINGS}$$

WHAT ARE REDUCED EARNINGS?

Reduced Earnings include:

- i. Earnings received from the Employer for working on a reduced basis;
- ii. income received from any other source.

WHAT ARE ADJUSTED EARNINGS?

Adjusted Earnings are pre-Incapacity Earnings adjusted for the percentage change in CPI from the end of the Deferred Period to the date the partial Benefit becomes payable.

$$\text{ADJUSTED EARNINGS} = \text{PRE-INCAPACITY EARNINGS} \times \text{PERCENTAGE CHANGE IN CPI}$$

Percentage change in CPI = (CPI at date partial Benefit payable / CPI at end of the Deferred Period).

Adjusted Earnings are calculated on the first occasion that partial Benefit becomes payable.

CASE STUDIES

1



CLIENT PROFILE

ABC LIMITED

ABC Limited have in place a Life and Disability Policy with Utmost Worldwide, which offers LTD to Termination Age with no SIB Integration. The Benefit under the Policy is equal to 80% of Earnings.



MEMBER PROFILE

ELENA SMITH

Female

POSITION

Operations Director at ABC Limited

PRE-INCAPACITY EARNINGS

£50,000

FULL BENEFIT

£40,000, equates to £3,333.33 per month

ADJUSTED EARNINGS AT RETURN TO WORK DATE

£60,000; equates to £5,000 per month.



SCENARIO 1

Elena has been a Long Term Disability Claimant under the Policy for the past 3 years. Due to her Incapacity, Elena is not fully able to return to work full time but has now returned to work part-time on reduced Earnings of £30,000.

IMPACT ON BENEFIT

Based on her adjusted Earnings, Elena's partial Benefit would be £20,000. This is calculated as follows:

$$\text{Partial Benefit Factor} = \frac{[\text{£60,000} - \text{£30,000}]}{\text{£60,000}} = 50\%$$

$$\text{Partial Benefit} = \text{£40,000} \times 50\% = \text{£20,000}$$

SCENARIO 2

Elena has been a Long Term Disability Claimant under the Policy for the past 3 years. Due to her Incapacity, Elena is not able to return to work full time but is doing a phased return to work.

Phase 1: Two days a week for a month giving reduced monthly Earnings of £2,000.

Phase 2: Four days a week for a month giving reduced monthly Earnings of £4,000.

Phase 3: Return to work in a full time capacity - No Benefit payable.

IMPACT ON BENEFIT

Based on her monthly adjusted Earnings, Elena's partial Benefit would initially be £2,000 per month, reducing to nil over time as she returns to work full time. This is calculated as follows:

Phase 1:

$$\begin{aligned} \text{Partial Benefit Factor} &= \frac{[\text{£5,000} - \text{£2,000}]}{\text{£5,000}} = 60\% \\ \text{Partial Benefit due for phase 1} &= \text{£3,333.33} \times 60\% \\ &= \text{£2,000 per month} \end{aligned}$$

Phase 2:

$$\begin{aligned} \text{Partial Benefit Factor} &= \frac{[\text{£5,000} - \text{£4,000}]}{\text{£5,000}} = 20\% \\ \text{Partial Benefit due for phase 2} &= \text{£3,333.33} \times 20\% \\ &= \text{£666.67 per month} \end{aligned}$$

Phase 3:

No Partial Benefit due for phase 3

CASE STUDIES (CONTINUED)

2



CLIENT PROFILE

XTZ LIMITED

XYZ Limited have in place a Life and Disability Policy with Utmost Worldwide, which offers LTD to Termination Age with SIB Integration. The Benefit under the Policy is equal to 80% of Earnings less SIB.



MEMBER PROFILE

LARRY RODRIGUEZ
Male

POSITION
Sales Manager at XYZ Limited

PRE-INCAPACITY EARNINGS
£50,000

FULL BENEFIT
£35,000

ADJUSTED EARNINGS AT RETURN TO WORK DATE
£60,000



SCENARIO 1

Larry has been a Long Term Disability Claimant under the Policy for the past 3 years. Due to his Incapacity, Larry is not fully able to return to work full time but has now returned to work part-time on reduced Earnings of £30,000.

Larry receives £5,000 a year in SIB payments from the government.

IMPACT ON BENEFIT

Based on his adjusted Earnings, Larry's partial Benefit would be £20,000. This is calculated as follows:

$$\begin{aligned} \text{Partial Benefit Factor} &= [\text{£60,000} - \text{£30,000}] / \text{£60,000} = 50\% \\ \text{Partial Benefit} &= [\text{£35,000} + \text{£5,000}] \times 50\% = \text{£20,000} \end{aligned}$$

A WORLD *of* DIFFERENCE

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