

Reduced Income Benefit

- Guidance for Intermediaries and Employers

This document explains how we treat benefit payments when an employee returns to work in a reduced capacity in their own or an alternative occupation. The calculations should only be viewed as examples, as each individual case will vary.



What is Reduced Income Benefit?

Reduced income benefit becomes payable when an incapacitated member returns to work after the end of the deferred period and experiences a loss of earnings. This is subject to the medical evidence supporting the fact that the incapacitated member can only return to work in a reduced capacity, on reduced duties, with a reduced income, or in a lower paid occupation.

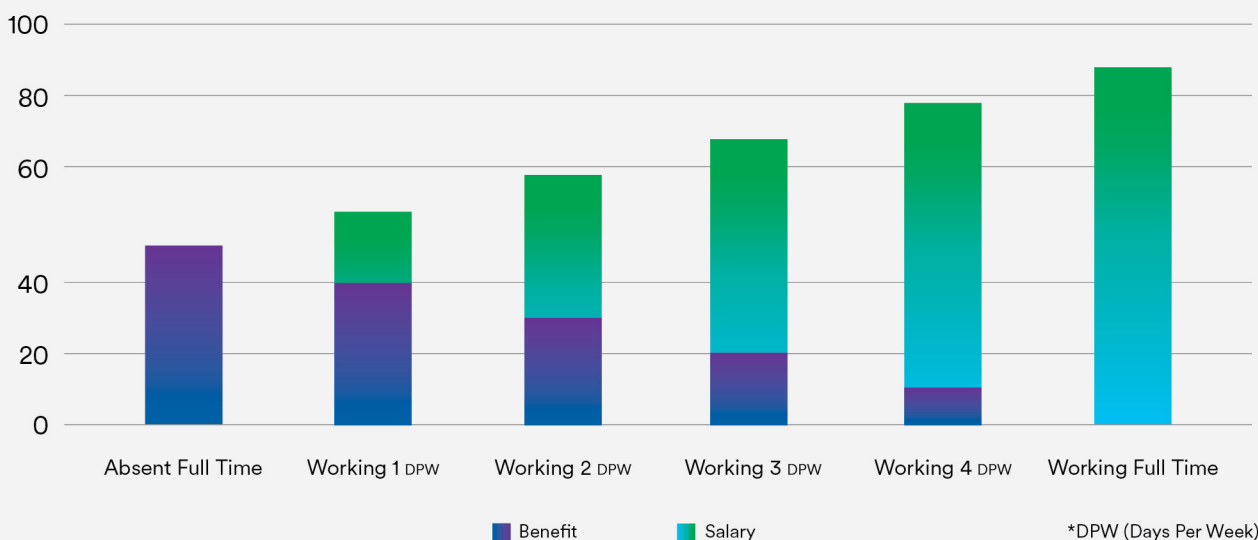


How Reduced Income Benefit works

In addition to the Reduced Income Benefit provided, the employer should continue to pay their employee a pro-rata salary for the hours they undertake at work.

As the individual increases their working hours or duties, the total money they receive increases. Similarly, should the working hours need to reduce for medical reasons, the Reduced Income Benefit compensates for the shortfall.

Reduced Income Benefit cannot exceed the level of full benefit insured by the scheme.



To ensure an incapacitated member is not penalised when we calculate reduced income benefit, we increase their pre-incapacity salary in line with inflation as evidenced in the calculations below. In addition, if a fixed benefit offset such as Employment Support Allowance has been chosen as part of the scheme benefit basis, this is added back to the full benefit figure for the purposes of calculating reduced income benefit.

Pre-incapacity earnings are enhanced at the date the reduced income benefit is first payable, then on every 12 month anniversary after this date. The enhanced amount to be added to the pre-incapacity earnings prior to reduced income benefit being calculated is calculated as follows:

$$= (RPI\ Two - RPI\ One) / RPI\ One \times \text{pre-incapacity earnings}$$

RPI One is the UK Retail Price Index measured over the preceding one month period three months before the date of first day of incapacity, then at the date of the last enhancement for any subsequent enhancements; and RPI Two is the UK Retail Price Index measured over the preceding one month period three months before the date the reduced income benefit is payable from.

The following information can be found in our Group Income Protection Terms and Conditions.

Reduced Income Benefit is calculated as the **incapacitated member's pre-incapacity earnings** minus their current **earnings**, which is then divided by their **pre-incapacity earnings**; multiplied by the **income benefit**.

Example Calculations

1. Initial Calculation

| | | |
|------------------------------------|-------------------|--|
| Claimant Name | A N Other | |
| Date First Absent (DFA) | 20/06/2021 | |
| Deferred Period | 26 Weeks | |
| Claim Commencement Date (CD) | 19/12/2021 | |
| Date Returned to Work | 07/07/2022 | |
| Pre-Incapacity Salary | £35,000.00 | |
| New Salary | £15,999.36 | Average 16hpw x £19.23 per hour |
| Retail Price Index Figure 1 | 296.9 | 3 months prior to Date First Absent |
| Retail Price Index Figure 2 | 334.6 | 3 months prior to Return to Work |
| Enhanced Pre-Incapacity Salary | £39,444.26 | |
| Full Basic Benefit | £17,500.00 | 50% of Pre-incapacity Salary |

Calculation Basis for Reduced Income Benefit is as follows:

Enhanced Pre-Incapacity Salary – New Salary divided by the Enhanced Pre-Incapacity Salary multiplied by the Full Basic Benefit, Full Pension and NI Benefit (if insured).

Basic Benefit

$$\frac{£39,444.26 - £15,999.36}{£39,444.26} \times £17,500.00 = \mathbf{£10,401.66}$$

Calculation Basis for Reduced Income Benefit is as follows:

Salary for working an average of 16hpw + Reduced Income Benefit combined:

$$\mathbf{£15,999.36 + £10,401.66 = £26,401.02}$$
 versus $\mathbf{£17,500.00}$ for not working and receiving full benefit.

2. Annual Enhancement

| | | |
|------------------------------------|-------------------|--|
| Claimant Name | A N Other | |
| Date First Absent (DFA) | 20/06/2021 | |
| Deferred Period | 26 Weeks | |
| Claim Commencement Date (CD) | 19/12/2021 | |
| Date Returned to Work | 07/07/2022 | |
| Pre-Incapacity Salary | £39,444.26 | Previous Enhanced Pre-Incapacity Salary |
| New Salary | £15,999.36 | Average 16hpw x £19.23ph (hours worked and hourly rate may change) |
| Retail Price Index Figure 1 | 334.6 | RPI 2 from initial calculation now becomes RPI 1 |
| Retail Price Index Figure 2 | 372.8 | 3 months prior to annual enhancement date (in this case, April 2023) |
| Enhanced Pre-Incapacity Salary | £43,947.46 | |
| Full Basic Benefit | £17,500.00 | 50% of Pre-Incapacity Salary (subject to change if escalation applies). |

Calculation Basis for Annual Enhancement is the same formula as outlined.

The Enhanced Pre-Incapacity Salary and RPI rates are updated to calculate the Annual Enhancement.

Basic Benefit

$$\frac{£43,947.46 - £15,999.36}{£43,947.46} \times £17,500.00 = \mathbf{£11,129.01}$$

Salary for working an average of 16hpw + Reduced Income Benefit combined:

$$\mathbf{£15,999.36 + £11,129.01 = £27,128.37}$$
 versus $\mathbf{£17,500.00}$ for not working and receiving full benefit.

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