



**Punter
Southall**
Health &
Protection.

**Group Life Assurance
and the Lifetime Allowance**

Lifetime Allowance

In April 2006 the Lifetime Allowance was introduced. This allowance limits how much an individual can save into a Registered Pension Scheme tax free. Life Assurance benefits when provided through a Registered Trust are considered to be 'pension benefits'.

Therefore, when an employee dies, their Registered Life Assurance benefits are added to their pension benefits by HMRC, who calculate if the Lifetime Allowance has been exceeded.

Any unprotected lump sum pension benefits (including Registered Life Assurance benefits) above the Lifetime Allowance are currently taxed at 55%. The Trustees would pay the beneficiaries without any tax deducted, so any tax liability will apply to the beneficiaries.

Lifetime Allowance - Reducing in April 2016

The Lifetime Allowance was once as high as £1.8m but has been reduced over the years and in April 2016 will reduce to £1m. This reduced allowance will impact many employees when pension benefits and potential Life Assurance benefits are calculated together.

Pension Protection

When the Government introduced the Lifetime Allowance, they offered individuals the possibility to 'protect' their pension benefits already above this level, or if they expected them to rise above this level. This protection can be very valuable. It is important to note that any pension protection needs to be applied for by individuals directly with HMRC and is **not arranged by employers**.

There are a number of different types of pension protection and different rules apply to each variation. Employers need to be aware that pension protection could be lost if members subsequently join a new Registered Life Assurance arrangement, or if they continue to participate in existing Registered arrangements. **Employers therefore need to take great care in this area in order not to impact employees with pension protection.**

*Registered
Life Assurance
benefits count
towards the
Lifetime
Allowance*

Many employers are now considering Excepted Group Life Plans

UK Group Life Assurance Market

Group Life Assurance is one of the most commonly provided employee benefits in the UK and is generally set up in one of three ways:

1. Registered Arrangement

Linked to membership of a Corporate Pension Trust, with a pension scheme tax reference number (PSTR).

2. Registered Arrangement

Stand alone Life Assurance Trust not linked to a pension, also with a PSTR number.

3. Excepted Group Life Plan (EGLP)

Written under a Discretionary Trust but not registered and no PSTR number.

Most insured UK Life Assurance (over 90% according to Swiss Re Group Watch 2015) is provided through registered arrangements (options 1 and 2 above).

Excepted Group Life Plan

It is possible to provide Group Life Assurance benefits on a non-registered basis, and this is typically done through an Excepted Group Life Plan (EGLP). This arrangement is provided through a Discretionary Trust and is available from all the leading Life Assurance companies. Life Assurance benefits when provided through an EGLP do not currently count towards the Lifetime Allowance.

Given reductions in the Lifetime Allowance many employers are now considering using this type of Group Life Assurance.

Use of Excepted Group Life Plan

In recent years the market has seen a rise in the use of EGLP's. However, employers need to appreciate the different rules (and taxation) that apply. There are seven core HMRC rules which apply to EGLP's – these are summarised to the right.

HMRC rules applying to EGLPs:

- **The policy cannot insure employees over 75.**
- **The policy must not provide a surrender value.** No current Group Life Assurance policies generate surrender values.
- **Benefit can only pay out a lump sum.** You cannot insure Dependents' Death In Service Pensions under an EGLP.
- **Benefits payable under the policy must be paid to either an individual entitled to them (or a charity), or a Trustee for payment to individuals.** It is very unlikely that benefits would be payable to any other entity.
- **The policy is not taken out with the main purpose of avoiding the payment of tax.** The main benefit of this policy is to provide Life Assurance benefits to a dependant or dependants. It is our understanding that HMRC do not see such arrangements as tax avoidance.
- **No receipt of each other's benefit.** Lump sum benefits are not payable to any employee also covered under the same EGLP. However, payments are possible where the beneficiary would be classified as a dependant of the deceased.
- **The same method must be used for calculating the benefits payable for each member.** Whilst a single Discretionary Trust can cover all members, separate insurance policies will be required for each level of benefit.

Taxation of Excepted Group Life Plans

There are two possible taxes that apply to EGLP's:

1. Periodic Charge:

This tax liability arises on each 10 year anniversary of the Trust. Any money held in the Trust at that time could be taxed. For example, if a claim has been paid but not yet distributed on the 10 year anniversary. If a death occurs after the 10th anniversary but the deceased was terminally ill on the 10th anniversary, a periodic charge could also apply. The value of this charge would be between 0-6% of the value of benefits within the Trust at that time.

If a company closed down the Trust before the 10th anniversary and initiated a new Trust, then the original Trust would not reach a 10th anniversary and under current rules no periodic charge would apply.

2. Exit Charge:

This tax liability arises when benefits leave the Trust and therefore would occur on all deaths where a payment is made. Again, this would be between 0-6% of the benefit paid. The earlier in the 10 year cycle the death occurs, the lower the value of the charge.

These two possible tax charges fall on the Trustees of the arrangement. This is an important distinction from registered arrangements, where any tax liability falls upon the beneficiaries.

Under current rules Trustees should inform HMRC whenever benefits are paid through an EGLP so they can calculate any tax due. It is our belief that many employers are not aware of this responsibility and as such are not actively advising HMRC on any tax due. This is an area where you will often require specialist pension tax advice.

P11d Charges

Leading insurers state that an EGLP premium is not a P11d charge. We are aware of leading pension lawyers who believe this tax could apply, depending on who the beneficiaries are. Further clarity is awaited.

Pricing of Excepted Group Life Plans

Generally UK insurers would provide the same pricing basis and terms and conditions whether you use an EGLP or Registered policy.



Potential Approaches to Providing Group Life Assurance Benefits

As an employer you are not obliged to take any action as a result of changes to the Lifetime Allowance, as ultimately the tax position is the responsibility of the individual concerned.

However, the following options on the right could be considered.

Option	Possible Advantages	Possible Disadvantages	Current Market Position
1. Retain all staff in Registered Arrangement	- Simple - No risk of tax applying to Company/Trustees - Can cover staff over 75	- Staff with benefits over £1m may have tax applied at 55% - Employees with pension protection could lose this protection if they join or are active members - Senior employees may not be able to join - Possible dissatisfaction from those impacted by the Lifetime Allowance	Within the Punter Southall Health & Protection portfolio 79% of employers offer only Registered policies. This number has reduced in recent years and we expect will reduce further in 2016.
2. All staff in EGLP Arrangement	- Simple - All employees can join, even with Pension Protection - Life Assurance benefits do not add to the Lifetime Allowance - Satisfied senior employees	- Possible tax charges applying to Trustees - No cover for staff over 75 - Can't include dependants pension policies - Multiple policies covering different benefits	Within the Punter Southall Health & Protection portfolio 4.4% of employers offer only Excepted policies. We are expecting this group to grow significantly in 2016.
3. Put only employees with Pension Protection into EGLP	- Responsibility of employee to inform employer - Employee choice rather than company decision - Satisfies senior employees with pension protection	- Possible tax charges applying to Trustees for members selecting EGLP - No cover for staff over 75 - Cannot include dependants pension policies - Scheme administration - complex - Communication challenge - Employees who do not have pension protection could still be impacted	This approach is taken by 2.7% of the Punter Southall Health & Protection portfolio.
4. Agree a salary level (or benefit level or grade) where EGLP applies – below this Registered Trusts are used	- All senior employees will be placed in EGLP and Life Assurance benefits will not count towards the Lifetime Allowance - Simple to administer as based on an agreed threshold	- Possible tax charges applying to Trustees for members in EGLP - No cover for staff over 75 in EGLP - Cannot include dependants pension policies in EGLP - Communication challenge – why do well paid staff have EGLP when others don't? - How do you select a level when employer is unaware of pension values of the employee?	This approach is taken by 13.2% of the Punter Southall Health & Protection portfolio.
5. Default to Registered but allow employees to choose EGLP if they prefer	- Treats all employees fairly - Responsibility for Lifetime Allowance and pension protection is the employee's - Solution for employees with pension protection and possible Lifetime Allowance issues	- Challenging to communicate - Complex administration - Possible tax charges applying to Trustees - No cover for staff over 75 - Can't include dependants pension policies	This approach is taken by less than 1% of the Punter Southall Health & Protection portfolio.

There are advantages and disadvantages with each approach and care should be taken in reaching a decision which needs to be based on your own corporate objectives and employee profile.

Considerations and Next Steps

We feel companies should now agree and document their strategy for providing Life Assurance benefits to employees. As the Lifetime Allowance reduces, the issue will become increasingly important as it will impact more employees.

The strategy should document the following:

- How do you provide Life Assurance benefits?
- How do you handle employees who have pension protection – now and in the future?
- How do you communicate to employees this issue?

Having an agreed strategy is vitally important so member communication can be clear and any tax charges understood by employees and the company.

Summary Comparison

	Registered Trust	Excepted Trust
Lifetime Allowance	Life Assurance benefits added to pension savings when testing against the Lifetime Allowance. Any tax is due from recipients.	Life Assurance benefits not added to pension savings when testing against the Lifetime Allowance
Periodic Charge	Not Applicable	Applies on each 10th anniversary of the Trust and applies to money in the Trust – up to 6% tax payable Responsibility of the Trustees
Exit Charge	Not Applicable	Technically payable on every death Responsibility of the Trustees
Pension Protection	Joining a new Registered Trust could mean pension protection is lost	Not a Registered Pension so employees with pension protection can be included
Documentation	Registered Trust Deed Required	Excepted Trust Deed Required
Dependants Death In Service Benefits	Can be provided	Cannot be provided
Expression of Wish Forms	Required	Required
Eligibility	At discretion of Trustees	At discretion of Trustees but maximum age of 75
Beneficiaries	At discretion of Trustees but considering wishes of member	As with registered Trust but more restrictive range of beneficiaries



This document aims to provide an overview of this subject. Employers should take appropriate advice - for support from Punter Southall Health & Protection please contact your regular Account Manager, visit us at www.pshp.co.uk or call **0203 327 5700**



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