

Lifetime Allowances and life cover through Excepted Group Life Policy

Since the Lifetime Allowance (LTA) reduced again to £1 million at 6 April 2016, there has been an increase in the use of excepted group life policies (EGLPs) for employees who already have a high level of benefit in a registered pension scheme.

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There has been an increase in the number of excepted group life assurance policies since the Lifetime Allowance was reduced to £1 million at 6 April 2016.

Implications for Life Assurance

The majority of standalone life assurance schemes in the UK are known as ‘registered schemes’. These are registered with HMRC and treated as a pension scheme. It is the nature of how HMRC treats standalone life assurance schemes as a pension scheme that determines whether the insured death benefit counts as accumulation towards an individual’s LTA.

Some employers may continue to cover its employees through registered schemes. However, as an alternative to registered life assurance schemes, HMRC has approved the use of ‘excepted schemes’. These schemes are outside of HMRC registration and do not count towards LTA accumulation. If any employees have opted to take pension protection status, it may be appropriate to place these employees into an EGLP, which we can help set up.

What is an EGLP?

An EGLP is a policy that meets the following criteria:

1. It can only pay lump sum benefits for deaths before age 75.
2. The same method for calculation of the lump sum and any limitation must be applied to all lives insured.
3. If the policy is cancelled, it must not have a surrender value other than a refund of unused premiums.
4. Only the benefits set out in the policy can be paid.
5. Benefits can only be paid to either an individual entitled to them or a charity, directly or via a trustee.
6. Benefit cannot be paid to another person also covered by the policy. However, benefit can be paid if that other insured person is a dependant or relative of the deceased.
7. The policy must not be taken out for tax avoidance purposes.

An EGLP covering one person is often called a relevant life policy.

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Lifetime Allowance

The LTA is a limit on the amount of pension savings that you’re allowed to make over your lifetime without paying additional tax when the savings are drawn. This includes any pension savings while you have been with the company and any pensions from previous employers or private pensions you may have. Aside from pensions, proceeds from life assurance policies typically also count towards the LTA.

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We strongly advise that all companies and/or trustees take legal and tax advice to determine the best course of action before setting up an EGLP or changing employment benefits.

The LTA was introduced in April 2006 at a level of £1.5 million and by April 2010, gradually increased to £1.8 million. The LTA was reduced to £1.5 million with effect from 6 April 2012 and reduced further to £1.25 million from 6 April 2014. From 6 April 2016 the LTA reduced again to £1 million. The Government has announced that the LTA will increase annually by Consumer Price Index inflation from 6 April 2018.

Identifying affected employees

There is no requirement on a company or trustees to actively seek out those who have high level of benefits in a registered scheme or who have taken LTA protection.

A new employee who holds fixed protection or enhanced protection should not join the employer's registered group life assurance scheme. An employee with one of these protections who joins a new registered scheme would lose their protection status; once lost protection cannot be reinstated.

Where a contractual promise of life assurance has been made to a new employee with enhanced or fixed protection status, their benefit should not be provided through a registered group life assurance scheme, which could cause loss of protection. The employer would either need to self-insure this benefit, or look to implement an EGLP.

Legal and tax advice

We strongly advise that all companies and/or trustees take legal and tax advice to determine the best course of action before setting up an EGLP or changing employment benefits. This includes taking advice on whether it should be offered to a selected group (e.g. high earning employees with pension protection) or to all employees.

The insurance premiums the employer pays will normally qualify for tax relief as a business expense, however it would be advisable for the employer to confirm its position with a tax advisor.

Barnett Waddingham is not authorised to give legal or tax advice and this briefing note is based on our understanding of the current law.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us Kevin O'Neill or Nilesh Shah via the following:

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