Helping you succeed in tomorrow's world

Excepted Group Life Policy schemes

Osborne Clarke can help you establish and manage an Excepted Group Life Policy (EGLP) scheme for your employees.

Background

Many pension savers have been affected by the reduction in the Lifetime Allowance (LTA) from £1.8m in 2010 to £1.0m in 2016/17. The LTA is the amount of pension benefits that a member can accrue within a UK registered pension scheme without incurring a tax charge known as the LTA charge. If a member exceeds the LTA when pension savings are taken out (i.e. when they retire), the excess amount will be subject to a LTA charge of up to 55%.

Death-in-service benefits

The reduced LTA brings into sharp focus the need for employers to consider how they should provide death-in-service benefits to their employees. There are now greater risks that automatically signing up certain employees to workplace schemes will cause a loss to their pension pots:

- Employees may have claimed forms of LTA protection (such as Fixed Protection and Enhanced Protection) to safeguard the pension benefits they have already built up. This protection could be claimed when the LTA was introduced in 2010 and each time it was reduced but can be lost automatically if the employee joins a registered scheme. There is a particular risk of protection being lost when individuals are automatically signed up to a death-in-service scheme on joining a new employer.

- A pay-out from a registered death-in-service scheme is treated as a pension benefit and so a substantial sum can tip the employee over the LTA threshold, triggering the LTA charge. For example, an employee earning £80,000 p.a. who received a death benefit of 4 times salary would be effectively reducing their tax free allowance by £320,000.

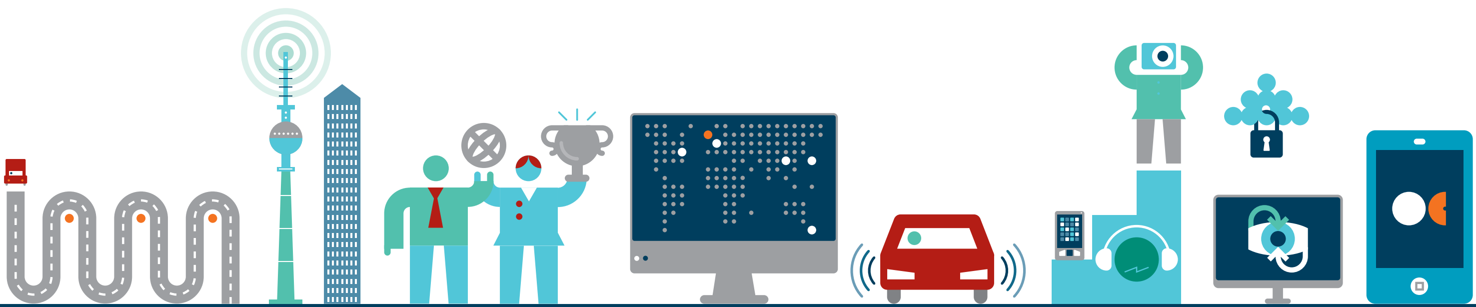
EGLP

An EGLP can be an attractive way to provide death in service benefits because it allows lump sum benefits to be paid on an employee's death outside of the LTA, thus avoiding LTA charges. It carries the added benefit that joining an EGLP scheme does not invalidate any previous protection claimed by employees.

An EGLP scheme can either stand alone or in support of a registered pension scheme that does not include life benefits. In some cases, there may be a benefit to stripping life cover from an existing registered scheme and instead providing it from an EGLP scheme. We can help you with the legal aspects of restructuring and separating your arrangements.

Conditions

EGLP schemes are subject to strict conditions which must be met to ensure they qualify for special treatment. These relate to the policy, the trust holding the policy and the ultimate beneficiaries of the lump sum under the trust (family or nominated beneficiaries of members). We can review the policy documentation provided by the life company and the trust deed to ensure that your proposed EGLP scheme would qualify under the statutory rules.



Where an employer only wants to provide cover for one key employee outside of a registered pension scheme (an exceptional earner, individuals with protection or those looking for higher multiples), this can be achieved with a "relevant life policy". Relevant life policies are subject to similar conditions as an EGLP scheme but are limited to a single member.

Practicalities

A group life policy that meets the EGLP conditions should be held via a discretionary trust supported by appropriate scheme rules. These should be established so that any death benefit can be paid out to the member's family or nominated beneficiaries. It also ensures that the lump sum can pass outside the member's estate, avoiding inheritance tax. An employer company will typically act in the role of trustee.

The policy may cover the employees of group companies, in which case the policy and trust deed can be drafted to include employees of associated companies within the beneficial class. Since the EGLP is not a registered pension scheme it does not have to be registered or reported to HMRC automatically, although this may be required in the event of larger payments.

Tax implications

When considering an EGLP, a company should be fully aware of the taxation position as certain risks can be managed with professional advice. They should then be reviewed and monitored on a regular basis.

EGLP schemes are treated differently from registered pension schemes. Additional care must be taken to ensure that premiums are deductible for corporation tax and they do not benefit from the wholesale exemption from the inheritance tax regime for trusts.

We can explain and help you address these tax issues to ensure they do not carry any cost in practice.

Future of EGLPs

The LTA is likely to grow as an issue for employees and employers will come under pressure to provide tax efficient benefits to their staff, particularly those with defined benefit schemes.

Under the government's current proposals, the LTA is unlikely to be raised other than to reflect inflation so EGLPs are likely to be increasingly attractive as an alternative way to provide group-wide death-in-service benefits.

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