Group Life Insurance

A comparison between registered group life schemes, excepted group life policies and relevant individual life policies

Canada Life Group Insurance – May 2021

This bulletin sets out to provide a comparison between registered group life schemes and excepted group life and relevant individual life policies. For many years excepted policies have been used primarily to help provide cover for equity partners and members of an LLP, where a registered scheme may provide issues due to the method of taxation of those individuals. In recent years excepted policies have been used in greater numbers to be able to provide cover where employees may lose fixed/enhanced protection.

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	Registered group life scheme	Excepted group life policy
Basic requirements	The scheme is established using a trust deed and then registered with HM Revenue & Customs. Once registered, a group life policy can be taken out.	A discretionary trust deed must be established, which is treated as a relevant property trust. The only asset in that trust will be the excepted group life policy. **http://www.hmrc.gov.uk/manuals/ihtmanual/ihtm17091.htm** To qualify as an excepted group life policy as defined in section 480 of the Income Tax (Trading and Other Income) Act 2005, the policy must meet the conditions set out in sections 481 and 482 of that Act. A minimum of 2 lives must be covered. **1** The policy must provide for a capital sum payable on the death of a person included in the policy before age 75. **2** The same method is to be used for calculating the capital sum payable in respect of all persons included in the policy. In this respect if any limitation applies it must apply equally to all persons included the policy. **3** The policy must not carry a surrender value other than the return of a proportion of the premiums in respect of the unexpired period of risk that had been paid in advance. **4** The only sums that can be conferred or paid under the policy are those referred to in 1. & 3. above. No other benefits can be permitted.

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	Registered group life scheme	Excepted group life policy
Basic requirements	The scheme is established using a trust deed and then registered with HM Revenue & Customs. Once registered, a group life policy can be taken out.	**5** Any sums payable under the policy must be paid to or for, or conferred on, or applied at the discretion of: a) An individual or charity beneficially entitled to them, or b) A trustee or other person acting in a fiduciary capacity who will secure that the sums are paid to the beneficiary. For this purpose a charity means a body of persons or a trust established for charitable purposes only. **6** No person who is, or is connected with, an individual whose life is insured under the policy may, as a result of a group membership right relating to that individual, receive (directly or indirectly) any death benefit in respect of another individual whose life is so insured. **7** Tax avoidance is not the main purpose or not one of the main purposes, for which a person is at any time: a) The holder or one of the holders of the policy, or b) The person or one of the persons beneficially entitled under the policy. **http://www.legislation.gov.uk/ukpga/2005/5/section/480**
Minimum number of lives at outset	2	2 If there is only one person to be covered a relevant life policy could be used. Please refer to page 6.
Who can be covered?	Employees of an employer, as per the definition of an occupational pension scheme in section 150 of the Finance Act 2004. It can also provide cover for other people; so for example, equity partners could only be covered if the partnership also has employees that are covered. **http://www.legislation.gov.uk/ukpga/2004/12/section/150**	There is no legislative restriction on who can be included. Canada Life will only provide insurance where there is a link through employment or partnerships.
Who can be covered?	A lump sum and/or dependant's pension using a pre-determined, defined formula. Benefits payable on death only.	A lump sum only, using a pre-determined, defined formula which must be the same for all members of a policy. Benefits payable on death only.

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	Registered group life scheme	Excepted group life policy
Can benefits be paid to beneficiaries who are also members of the scheme?	Yes.	Yes, but business-cover type policies such as Keyman policies, Partnership Protection or Shareholder Share Protection insurances are not allowed. Full guidance is available here: **http://www.hmrc.gov.uk/manuals/iptm/iptm7035.htm**
Lifetime allowance (LTA) charge	Lump sum and retirement pensions paid are assessed against the LTA. Benefits that exceed the LTA are subject to a tax charge. Death in service pensions do not count towards the LTA. Death in service pensions are not assessed against the LTA.	The LTA does not apply, so there is no charge.
Income Tax	Lump sum benefits are not subject to income tax. Death in service pensions are treated as earned income for income tax purposes.	Lump sum benefits are not subject to income tax.
Chargeable gains on second death	No.	No.
Inheritance tax	All benefits do not form part of a member's estate for inheritance tax purposes and are therefore not subject to inheritance tax.	Schemes are subject to the normal inheritance tax rules that apply to discretionary trusts, which could give rise to: An **entry charge** when an asset is added to the trust. In this case the only asset of the trust is the excepted group life policy. The policy is unlikely to have any value if all members are in good health. However for a group policy where risk is being transferred it is possible a member could be terminally ill, in which case an actuarial value may be calculated. The entry charge will typically be 20% of any value. A **periodic charge** as a percentage of the value of the trust fund on each tenth anniversary of the creation of the trust. There would only be a periodic charge if there was any value held in the trust, which could occur in two situations: • a member dies close to a tenth anniversary and the death benefits were due to or held by the trust and had not been paid to the beneficiaries, or • a member is terminally ill at the tenth anniversary, in which case an actuarial value may be calculated. The periodic charge will typically be 6% of any value.

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	Registered group life scheme	Excepted group life policy
Inheritance tax	All benefits do not form part of a member's estate for inheritance tax purposes and are therefore not subject to inheritance tax.	An **exit charge** when a member dies as a percentage of the value previously added to the trust in respect of that deceased member. In the first ten years, the value added to the trust would be a proportionate share of the premiums paid. There would not normally be any exit charge in the first ten years as the policy is unlikely to have any value (a group life policy does not acquire a surrender value) and is the only asset of the trust. Exit charges might, however, still be triggered under current legislation, depending on HMRC's view. Trustees do not need to check the health of all members at outset or the tenth anniversary. However any death occurring in the first year or in the year after a tenth anniversary should be looked at with hindsight to ascertain whether a charge was due.
Protection from the LTA	With the introduction of the LTA and subsequent changes to its amount, HMRC has provided different types of protection for individuals who were not previously affected by the LTA. These include: • Primary Protection • Enhanced Protection • Fixed Protection, Fixed Protection 2014, Fixed Protection 2016 • Individual Protection 2014, Individual Protection 2016 Protection may be lost in certain circumstances, for example if a relevant benefit accrual is made in a registered pension scheme or if an individual joins a new registered pension scheme. Different rules apply for each form of protection, which are explained here: **https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm090000**	Membership of an excepted policy does not affect any of the forms of protection.

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	Registered group life scheme	Excepted group life policy
Protection from the LTA	Automatic enrolment into a workplace pension scheme creates some difficulty for individuals with enhanced protection or any of the forms of fixed protection, which will be lost if they join a pension scheme. To avoid this problem, the individuals must opt out of the pension scheme within one month of being auto-enrolled, so that they are not treated as having joined the scheme.	Membership of an excepted policy does not affect any of the forms of protection.
Tax considerations	Schemes obtain tax privileges through registration.	Tax avoidance must not be the main purpose, or one of the main purposes, for the policyholder or one of the persons entitled to benefits under the policy.

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	Relevant life policy for an individual
	As an excepted policy requires a minimum of two members, if only one person is to be covered for a particular level of benefit a relevant life policy is required instead. In the context of group life insurance, this will be treated the same as an excepted policy for practical purposes. The notes above apply, apart from items 2 and 6 of the basic requirements. To qualify as a relevant life policy for an individual as defined in section 393B(4) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA), the policy must meet the same conditions as an excepted group life policy, except that only one life can be covered. **http://www.legislation.gov.uk/ukpga/2003/1/section/393**

Where a brand new excepted policy is required, Canada Life's requirements are as follows:

- Clear written request.
- Use of the Canada Life Excepted Solution or written confirmation an excepted trust deed is in place. Canada Life has draft specimen deeds which can be obtained by contacting us.
- Proposal Form.
- Clear eligibility to define who is to be covered under the excepted policy.
- Data of those to be in the excepted policy and, if linked to a registered policy, those who remain in the registered policy.
- Direct Debit if monthly paid.

It is possible for Canada Life to assume risk for excepted policies linked to a registered policy where flex benefits are provided. Depending on how the excepted trust is written, only a single trust document is required but Canada Life will set up individual policies for each different benefit basis.

There are some unknowns with regard to the suitability of using excepted policies for group life depending on each clients' individual circumstances. There is also the potential that circumstances may change with future budgets. Due to the issues involved we recommend legal and taxation advice are always taken when considering an excepted policy.

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