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Pensions Quick Guide

Excepted Group Life Assurance Arrangements

What Is an Excepted Group Life Assurance Arrangement?

An excepted group life assurance arrangement is a death benefits arrangement that is not registered with HM Revenue & Customs (HMRC). It has only been available in its current form since 6 April 2006. The arrangement comprises (1) a trust and (2) an excepted group life policy. The trustees of the trust will hold the excepted group life policy under a discretionary trust, in order that any death benefits may be paid by the trustees free from inheritance tax (although, note that the arrangement itself is not entirely free from the risk of incurring inheritance tax – see below for more on this). There is no formal process available for seeking HMRC approval of an excepted group life arrangement – it is, therefore, important that appropriate advice is taken to ensure the arrangement meets all of the necessary criteria.

Why Are Excepted Group Life Assurance Arrangements Popular?

Any payments made under an excepted group life assurance arrangement fall outside of a person's lump sum and death benefit allowance (which for most people will be £1,073,100). For some employees, it would not take an exceptionally large death benefit from a registered pension plan to push them over their lump sum and death benefit allowance. Benefits payable from an excepted group life assurance arrangement do not impact upon a person's allowances under a registered pension scheme, which makes such arrangements a particularly attractive means of rewarding high earners.

Is an Excepted Group Life Arrangement a "No-Brainer"?

While excepted group life assurance arrangements could provide a suitable means of reward for employees with large registered pension pots, they can have their pitfalls if appropriate advice is not taken.

First, if the trust holds "relevant property" at certain measurement times, an inheritance tax charge may arise. In the case of an excepted group life assurance arrangement, a tax charge could potentially arise:

a. When the insurance policy first becomes a trust asset

b. On the 10-year anniversary of the trust

c. When death benefits become payable by the trustees

A tax charge is unlikely to arise when the excepted group life policy first becomes a trust asset, because the policy is usually treated by HMRC as having a nominal value only.

A 10-year anniversary charge will apply if there is value in the trust on each 10th anniversary of the trust being established. There will be value in the trust if the policy has paid out death benefits and those benefits have not yet been distributed.

It is possible that there would also be value in the trust if the policy covers an employee who is terminally ill when the trust is established or on a 10th anniversary.

A tax charge will only arise on the payment of a death benefit if a tax charge arose at either the commencement of the trust (which is unlikely) or at the 10-year anniversary immediately prior to payment of the benefit.

Second, one of the conditions of an excepted group life policy is that tax avoidance must not be one of its main purposes. Many employers established an excepted group life assurance arrangement in order to benefit employees who might otherwise exceed their allowances. There is the possibility, therefore, that HMRC might decide such an arrangement is for the purpose of tax avoidance. When advising clients in relation to these types of arrangements, we will often seek advance clearance from HMRC.

Where Do I Locate the Tax Rules Relating to an Excepted Group Life Assurance Arrangement?

Relevant legislation is not located in one place and it is necessary to consider each element of tax law. Much of the legislation surrounding excepted group life assurance arrangements relates to the conditions attaching to the excepted group life policy, rather than to the actual trust. Because the trust is not a pension plan, inheritance tax legislation relating to trusts holding "relevant property" will also apply (see above). This area is complex and we recommend taking appropriate advice.

Some Practical Points

Do	Don't
Do ensure that the excepted group life policy covers two or more persons – it must be a group arrangement.	**Don't** allow the cover to extend beyond age 75 (in order for the policy to comply with the requirements for an excepted group life policy).
Do check that any conditions attaching to benefits payable apply equally to all persons covered by the policy, for example, if the benefit is a multiple of salary then the same multiple of salary must be used for all employees.	**Don't** have a policy that provides other benefits in addition to a single lump sum payment on death, such as the payment of a pension (although the lump sum payment could be subsequently used to purchase an annuity for a beneficiary).
Do remember that the employer must not be a beneficiary – only individuals and charities nominated by an insured may be a beneficiary.	**Don't** have a policy with a surrender value.
Do check that the category of potential beneficiaries under the policy does not include other individuals insured under the policy, unless they qualify as a beneficiary in their own right, for example, by virtue of being related to another insured individual.	**Don't** forget to amend the rules of an existing pension plan if lump sum death benefits are to be paid through a new excepted group life assurance arrangement rather than through the existing plan – this will avoid a beneficiary being entitled to lump sum death benefits from both arrangements when the benefit will only have been insured once!
Do remind trustees to seek new nomination forms from the members of a newly established excepted group life assurance arrangement.	**Don't** leave a former standalone registered life assurance scheme in place – this should be terminated and deregistered.
Do check what fee will be payable to the Information Commissioner's Office when setting up a new excepted group life assurance arrangement.	**Don't** establish an excepted group life assurance arrangement with tax avoidance as one of the main purposes.

Where Can I Find Further Information?

HRMC's Insurance Policyholder Taxation Manual covers excepted group life assurance arrangements. We would also be happy to provide you with advice and can supply the trust instrument.

Contact

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