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Employment Tax Pensions – Excepted Group Life Policies

What are they?

- Excepted Group Life Policies ("EGLPs") are life assurance policies acquired by employers to provide death in service ("DIS") benefits.
- EGLPs have been offered by insurance providers for a number of years. There has been a marked increase in uptake from employers as a consequence of reductions in the Lifetime Allowance ("LTA") limit applicable to benefits provided under UK registered pension schemes.
- Death benefits under an EGLP can deliver an equivalent lump sum benefit to existing registered DIS arrangements (e.g. six times salary). However, lump sum death benefits under an EGLP are not tested against the employee's LTA.
- The DIS scheme must meet specific conditions relating to (i) the policy itself, (ii) the benefits that may be provided and (iii) the class of beneficiaries in order to qualify as an EGLP and be taxed as such.

DIS benefits are typically **calculated as a multiple of salary** (e.g. six x base pay). Assuming an average salary of £50,000 p.a. this equates to £300,000.

DIS benefits under a **registered pension** are tested against the LTA along with aggregate pension savings in the event of death, with any excess paid out as a lump sum being taxed at 55%. Conversely, DIS benefits provided through an EGLP are **not** subject to the LTA limit.

The **LTA** has been **substantially reduced** over time, with the last reduction in April 2016 reducing the LTA to £1m. The current LTA is £1,073,100 and, as confirmed in the 2021 Budget, will remain at this level until at least 2026.

Key considerations for employers

Insurance premium cost

Premiums paid by an employer should be corporation tax deductible provided they are "wholly and exclusively" incurred for business purposes (i.e. no difference in the treatment as compared with funding the same benefit through a UK registered pension scheme).

EGLP premiums should not be taxable on employees as a benefit in kind, unless DIS cover is provided as a flexible benefit, in which case the position may be more complex.

Income Tax

Since 2011, unapproved funded third party arrangements may be subject to the UK Disguised Remuneration rules, resulting in upfront taxation.

Provided the DIS scheme meets the relevant conditions to qualify as an EGLP, the Disguised Remuneration rules would not apply. Further, DIS benefits provided under an EGLP would not be taxed as payments from an Employer-Financed Retirement Benefits Scheme.

Inheritance Tax

EGLPs are typically written into trust, as a consequence of which any DIS benefit is maintained outside an employee's estate for UK inheritance tax.

However, since the value in the trust is UK relevant property, it is necessary to consider any associated UK IHT implications.

Conversely, UK registered pension schemes are normally wholly outside the scope of UK inheritance tax.

Lifetime Allowance limit

The LTA sets the maximum amount an individual can accumulate across all registered pension schemes (or UK tax-relieved contributions in a relevant non-UK schemes) before significant tax charges apply (up to 55% if the excess is paid out as a lump sum).

By carving out DIS benefits, the risk of exceeding this limit is reduced in the event of a pay-out on death.

LTA elections & new hires

Employees with fixed / enhanced protection elections will lose their protection if they participate in a **new** registered pension scheme, including one to provide DIS benefits only.

This can cause difficulties for employers when implementing remuneration packages for new employees. An EGLP presents an alternative means of providing equal DIS benefits, without putting LTA protections at risk.

How we can help

Our specialist team has substantial experience in advising members, trustees and employers on a wide range of pension issues, including death benefit provision.

Our assistance on the matter of DIS provision and, in particular, cover under an EGLP includes:

1 Analyse

We can provide UK tax analysis in respect of the tax implications and consequences of implementing an EGLP to provide life cover to employees, including:

- The income tax implications of implementing an EGLP, including specific consideration of the Optional Remuneration Arrangements rules.
- The corporation tax deductibility of insurance premiums.
- The inheritance tax (“IHT”) implications of providing DIS benefits outside a (generally IHT exempt) UK registered pension scheme.
- Consideration of tax risks associated with implementing an EGLP to mitigate LTA charges and how these are typically managed.

2 Review

We can review your employee population to assist in identifying those likely to be impacted by the LTA limit / with protective elections in place.

3 Implement

We can assist with the implementation of an EGLP, including reviewing policy documentation to confirm whether the conditions for the scheme to be treated and taxed as an EGLP are met.

4 Communicate

We can assist with the delivery of employee communications in a variety of forms on any changes to existing life cover arrangements you implement.

Deloitte contacts

If you would like further information please speak with your usual Deloitte contact or speak to one of the specialists listed who would be happy to help you.

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