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Relevant Life Insurance

Introducing Relevant Life Insurance

AVIVA

Contents

Introducing Relevant Life Insurance

We've designed Relevant Life Insurance specifically for businesses who want a tax-efficient way to offer life insurance (death in service benefit) to their employees on an individual basis.

This product allows employers to offer employees comprehensive financial protection - and take advantage of the tax efficiency usually enjoyed by larger companies with larger workforces.

Historically, relevant life policies have tended to only include death and terminal illness benefits. Our Relevant Life Insurance also offers the option of including an employee significant illness benefit.

The inclusion of employee significant illness benefit on our Relevant Life Insurance was extensively researched by internal and external legal counsel. Aviva and HMRC are in agreement that Aviva's Relevant Life Insurance with employee significant illness benefit qualifies as a relevant life insurance product.

Life insurance

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Optional employee significant illness

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Tax-efficiency

=

Relevant Life Insurance

Offering employee significant illness cover as an optional extra on a Relevant Life Insurance policy can demonstrate how much an employer cares about the well-being of their employees.

This can be a useful tool in recruitment and retention of key employees.

The last thing anyone wants when they're seriously ill is to be worried about money on top of everything else. With employee significant illness cover, employees could get the financial support they need in the event of retirement or anticipated retirement, due to their significant illness.

What is Relevant Life Insurance?

Our Relevant Life Insurance policy is an individual death in service policy that can allow an employer to provide tax-efficient life cover for employees.

It lets an employer choose life cover or life and employee significant illness cover:

- **Life cover** pays out a lump sum if the life covered dies during the policy term.
- **Life and employee significant illness cover** pays out a lump sum if the life covered either dies during the policy term or meets the definition for one of our defined employee significant illness conditions during the policy term, survives for at least 10 days and the condition results in the retirement or anticipated retirement of the life covered.

Both types of cover include terminal illness benefit. This pays out if, during the policy term, the life covered is diagnosed with a terminal illness that meets our policy definition.

It will only pay the cover amount once. So when we've paid a claim, the policy will end.

The policy has no cash-in value at any time.

The employer: Policyholder

The employer must be a UK based business. The business can be a limited company, a limited liability partnership, a partnership or a sole trader. The employer takes out the policy and pays the premiums.

The employee: Life covered

The life covered must be a UK resident employee of the policyholder. This can include salaried company directors, partners and employees of sole traders. It doesn't include equity partners, sole traders and anyone who is self-employed. To get a policy, at the time of applying the life covered must be aged between 18 and 73 for life cover only or aged between 18 and 64 for life and employee significant illness cover.

The trust: Relevant Life Trust

Relevant Life Insurance must be written under trust using our Relevant Life Trust for the employee's chosen beneficiaries, which can include themselves.

What are the tax advantages?

Relevant Life Insurance is an important financial planning solution for:

Small businesses	Members of **group life schemes**	**High earning** employees

And if put in place correctly, it can result in more favourable tax treatment than if the employee purchased life insurance themselves.

What's more, it's an excellent way for employers to provide a valuable added benefit to their employees.

Small businesses

Often, small businesses don't have enough employees to be able to offer a registered group life scheme or an excepted group life policy. Legislation means that they can't offer a group scheme on a single life basis.

Because Relevant Life Insurance can be written on an individual life basis, small business owners can take advantage of the tax efficiencies generally enjoyed by larger companies. More details on how it is tax efficient are provided on page 7.

Members of group life schemes

Some group life schemes can be restrictive, with some discounting of overtime, bonuses and dividends.

Relevant Life Insurance is an excellent way of helping members of established group life schemes to top up their existing group life benefits – in a tax-efficient way.

High earning employees

Registered group life schemes fall under pension legislation. So when it comes to calculating the lifetime allowance, any lump sum paid on death is added to the employee's pension fund.

And anything over the allowance is taxed at their marginal rate of tax.

But any payment from a Relevant Life Insurance policy won't count towards the lifetime allowance.

Some high earners might also have protected their lifetime allowance to avoid the lifetime allowance tax charge. However, in return, they often can't make any further contributions to their pension without losing this protection. Joining a registered group life scheme would count as an additional pension contribution, but a Relevant Life Insurance policy could give high earners the chance to get the extra cover they need.

How does Relevant Life Insurance work?

An employer takes out a policy on an employee's life

The policy is put into trust for the beneficiaries

The employee dies, becomes terminally ill or meets our definition of employee significant illness leading to retirement or anticipated retirement

The trustees make a claim

The policy pays out to the trustees

At their discretion, the trustees can pay the employee in the case of employee significant illness or terminal illness or their chosen beneficiaries in the event of death

How is this tax-efficient?

Relevant Life Insurance is an important financial planning solution for:

The **employer:**

No employer National Insurance contributions on premiums where fully employer funded

Corporation tax relief

Their **employee:**

Benefits aren't taxed as employment income

No capital gains tax

No National Insurance contributions on premiums or benefits where fully employer funded*

Benefits not included in their estate for inheritance tax purposes

Benefits don't count towards pensions annual or lifetime allowances

***NB. Premiums funded through optional remuneration arrangements would be taxed as a benefit in kind.**

How is this tax-efficient? Continued

Benefits

The benefits

- Will be free of income tax, capital gains tax and National Insurance.
- Won't be included in the lifetime allowance.
- As the benefits are held under trust, they won't be included in the employee's estate for inheritance tax purposes.

Premiums

As long as HMRC are satisfied that the premiums are being paid 'wholly and exclusively for the purpose of the business', they should be treated as an allowable expense for taxation purposes.

Also, where premiums are fully employer-funded, they aren't usually treated as being further income paid to the employee or as a benefit in kind (P11D). This means that neither the employer nor the employee has to pay National Insurance contributions on the premiums and the employee will not pay income tax on the premiums. This will not apply where the premiums are funded indirectly by the employee through salary sacrifice or other optional remuneration arrangements.

Inheritance tax

The policy benefits won't be treated as part of the employee's estate for inheritance tax purposes. However, inheritance tax may be payable on the trust itself. As our Relevant Life Trust is a discretionary trust, it is a relevant property trust for inheritance tax purposes. This means an inheritance tax charge may arise on each 10th anniversary of the creation of the trust. A tax charge may also arise when the trustees pay money out of the trust to beneficiaries.

Any tax is payable by the trustees, out of the trust fund.

10 yearly (periodic) **charge**

If, on a 10 year anniversary of the creation of the trust, the value of the trust fund is higher than the nil rate band at that time, an inheritance tax charge will arise on the excess. The amount of the tax charge is 30% of 20% i.e. half the death rate. This equates to 6%.

However, where the only asset in the trust fund is the Relevant Life Insurance policy, the value of the trust will be very small as long as the life covered is in good health.

Exit charge

When the trustees pay money from the trust to the beneficiaries, an exit charge may apply. However, it will only occur where they paid an inheritance tax charge at the last 10 year anniversary or at the start of the trust if that was less than 10 years ago. But again, this is unlikely to happen where the only asset is the Relevant Life Insurance policy.

The cost case for Relevant Life Insurance

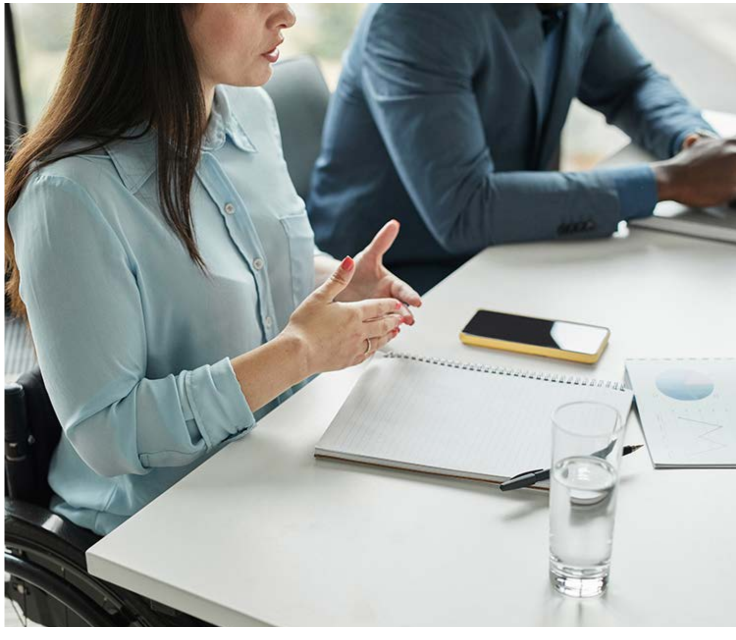
This is an example and is for illustrative purposes only.

Figures assume:

- The employee is a higher rate (40%) taxpayer.

Cost to employee	Relevant Life Insurance	Non-relevant
Monthly premium	n/a	£100.00
NI contribution	n/a	£5.73
Income tax	n/a	£70.48
Total gross earnings needed to fund premium	n/a	£176.21

Cost to employer	Relevant Life Insurance	Non-relevant
Monthly premium	£100.00	n/a
NI contribution	n/a	£26.52
Gross cost	£100.00	£202.73
Less corporation tax	£19.00	£38.52
Total cost adjusted for tax	£81.00	£164.21



- Employee National Insurance contributions are at 3.25%. Employer National Insurance contributions are at 15.05%.
- Tax and National insurance rates for tax year 2022/23. Example not appropriate for Scottish tax payers.
- The premiums for Relevant Life Insurance are fully employer funded.

Based on the example above, the employer could save over £80 a month. Ask your financial adviser for a more personalised example of the potential savings for the employer as they can access our Relevant Life calculator on our adviser website.

What happens if the employee leaves the business?

If the employee leaves the business then they won't be covered and the policy will be suspended.

However the continuation benefit can be used to transfer the policy to the life covered's new employer. By transferring the policy to their new employer, the policy will keep its relevant life status. The new employer will need to take over paying the premiums.

Alternatively the policy can be cancelled and the life covered can take out a new policy without further health and lifestyle questions.
The new policy will be a life only policy and the premiums will be based on the rates, cover details, the personal circumstances of the life covered and the terms available at the time. The new policy will not have a relevant life status.

Whilst the policy is suspended, we'll not pay any claim. However, cover will restart when the policy transfer has been completed or the new policy is taken out.

For both options, all our requirements must be completed within 90 days of leaving employment. After 90 days we will be unable to reinstate cover or offer cover under a new policy and this policy will end.

For full details, please see the policy conditions.

At a glance - questions and answers for Relevant Life Insurance

1. What is a relevant life policy?
A relevant life policy is designed to allow employers to provide an individual death in service benefit for an employee in a tax-efficient way, both for the employer, employee and the employee's beneficiaries.

The policy must meet a number of legislative requirements in order to qualify as a relevant life policy and receive the tax treatment associated with it.

2. Who is eligible to be the life covered for a relevant life policy?
The life covered must be a permanent resident of and physically living in the UK and an employee of a UK resident business. This includes salaried partners/directors and salaried single directors of a limited company (e.g. IT contractors). Equity partners, sole traders and anyone treated as being self employed are not classed as employees for the purpose of taking out a relevant life policy, so are not eligible.

To have a policy the life covered must be between the ages of 18 and 73 for life cover only or aged between 18 and 64 for life and employee significant illness cover.

3. What type of business can take out a relevant life policy?
Limited companies and limited liability partnerships are legal entities and can take out a policy in the name of the business.

Partnerships (in England and Wales) and sole traders are not legal entities and cannot take out a policy in the name of the business. For partnerships, all of the partners would jointly apply for the policy on the life of the employee. For sole traders, the business owner would apply for the policy on the life of the employee.

4. What trust should I use for Relevant Life Insurance?
Aviva's Discretionary Trust for Relevant Life Insurance should be used with Aviva's Relevant Life Insurance. The policy must be written under trust from commencement.

5. Can the Aviva Discretionary Trust for Relevant Life Insurance be used with an existing policy?
No. Aviva's Relevant Life Insurance must be taken out under an Aviva Discretionary Trust for Relevant Life Insurance from outset.

6. Is Aviva's Discretionary Trust for Relevant Life Insurance a split trust?
No, Aviva's Discretionary Trust for Relevant Life Insurance does not need to be a split trust, as the life covered is a potential beneficiary.

For policies applied for on or after the 11 March 2018, this means that the trustees could use their discretion to pay any employee significant illness benefit to the life covered.

For current inheritance tax purposes, including the life covered as a potential beneficiary under the trust is not a gift with reservation, as the employer (not the life covered) is the settlor of the trust.

7. Can Relevant Life Insurance include cover such as employee significant illness benefit?
HMRC and Aviva are in agreement that Relevant Life Insurance with employee significant illness qualifies as a relevant life policy. On that basis, no benefit in kind will arise on premiums funded by the employer and no charge to tax will arise when claims proceeds are received by individuals.

To find out more about employee significant illness please refer to the policy summary.

8. What does the Relevant Life Insurance (with employee significant illness) mean for existing Relevant Life Insurance policies (with critical illness)?
These changes do not impact advisers or their clients who have an existing Relevant Life Insurance policy with critical illness cover. Existing Relevant Life Insurance policies will remain in force based on the terms and conditions under which the policy was issued.

For the avoidance of doubt, Aviva will always pay a valid claim under the terms of the contract.

9. What is the tax treatment of Relevant Life Insurance?
Provided they are not funded through salary sacrifice, the premiums should be treated as an allowable expense for the business and as the premiums will not usually be a taxable benefit for the employee, the employee will not pay income tax on the value of the premiums and the employee/employer will not pay NICs on the value of the premiums.

The policy proceeds will usually be paid free of income tax, capital gains tax and NICs.

As the policy is held under trust, the policy proceeds should not be treated as part of the employee's estate for inheritance tax purposes.

No pension lifetime allowance charge will apply. Please remember tax rules may change in the future and will depend upon the individual circumstances of your clients.

10. What happens if the life covered under Relevant Life Insurance is no longer employed by the business?
If the life covered leaves the business, they won't be covered and the policy will be suspended. However, the policy can be transferred to the life covered's new employer, who must also arrange to take over the premium payments. If this happens, it can continue to qualify as a relevant life policy. This must be completed within 90 days of the life covered leaving their previous employer. The old employer would retire as trustee and the new employer can be appointed as new trustee.

If the Relevant Life Insurance policy is not transferred to a new employer, the life covered can use the continuation benefit to take out a new individual policy with us for life cover only. The life cover policy conditions in force at the time will apply to the new policy. They can do this without answering any further health and lifestyle questions, provided they do so within 90 days of leaving their employment. They will not be able to have employee significant illness cover on any new policy (regardless of whether they had it at outset) and any new policy will not have relevant life status.

Please see the policy conditions for more information.

11. When might Relevant Life Insurance be suitable?
A relevant life policy may be suitable for:

- employees with (or who are likely to have) significant pension funds
- employers who wish to provide additional benefits not already provided by their group life policy
- employees who do not (or cannot) have a group life policy.

12. Will the death benefit of a relevant life policy form part of the employee's Pension Lifetime Allowance?
No.

13. Can Relevant Life Insurance be used for shareholder/partnership protection or key person protection?
We do not recommend using Relevant Life Insurance for shareholder/partnership protection or key person protection.

14. What happens if the employer or the employee moves abroad?
The employer/employee must tell us if they move abroad, as this may affect the cover under the policy.

To find out more, please refer to the policy conditions.

Important information

Any references to tax treatment are based on Aviva's understanding of legislation and HM Revenue & Customs practice at the time of publication. Both of these are likely to change in the future, and a liability to tax may arise under an existing arrangement. Every care has been taken as to accuracy, but it must be appreciated that neither Aviva nor its representatives can accept responsibility for loss, however caused, suffered by any person who has acted or refrained from acting as a result of material published. Tax rules depend upon individual circumstances.

Find out more

For more information, please speak to your financial adviser. They may charge you for their services. You can also contact your usual Aviva account manager or visit our **adviser website**.

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