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LIFE INSURANCE SPECIALISTS

Relevant Life Policies - what you need to know

Synopsis: Following the relatively recent legislation targeting employee benefit trusts and employer-financed retirement benefits schemes the impressive tax reliefs available to relevant life policies (RLPs) make them employee benefits in which there is, and will continue to be, great interest.

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What you need to know

RLPs allow employers to provide employees (including directors) with tax efficient death in service benefits. They can be particularly attractive for high-earning employees or directors who have substantial pension funds and who do not want their benefits to form part of their pensions Lifetime Allowance.

Fundamentals

A RLP is a term assurance policy that can only be effected by an employer on the life of an employee and which is funded by the employer.

The primary purpose of the RLP is to provide a benefit on death before age 75 although other benefits in respect of ill health, disablement and death by accident may also be payable as long as the life assured is still in employment.

RLPs benefit from favourable tax treatment as compared to other employer-financed retirement benefit schemes (EFRBS) and trust arrangements, as they provide 'excluded benefits'.

However, to qualify as a RLP certain conditions must be satisfied. These are...

- The plan must provide for a lump sum on death before the age of 75.
- If an ill health benefit is included, this can apply only during employment.
- The policy cannot have a surrender value.
- Any benefit must be paid to an individual or a charity (benefits will usually be paid by trustees through a trust and most providers will provide a draft discretionary trust to use for this purpose).
- The main purpose of the policy must not be tax avoidance. Note that the fact that the tax reliefs associated with a RLP are secured, is not of itself evidence of tax avoidance being the main motive.

If a plan fails to qualify as a RLP, for whatever reason, the policy will be treated for tax purposes in the same way as any other policy effected by an employer for the benefit of an employee.

Planning

Where RLPs are appropriate, they can provide significant benefits. For example...

- Tax relief on the premiums for the employer subject to satisfying the 'wholly and exclusively' test.
- No assessment of premiums on the employee as benefits in kind, provided the premiums are not paid under a salary sacrifice arrangement.
- Premiums not taken into account in determining the employee's available Annual Allowance for registered pensions.
- No assessment for the purpose of National Insurance contributions, provided the premiums are not paid under a salary sacrifice arrangement.
- Benefits arise free of income tax.
- Benefits do not count towards the employee's pension Lifetime Allowance.
- Death benefits normally arise free of inheritance tax.

Generally, a RLP is suitable for those employers who, perhaps because of the smaller size of their business, do not wish to set up group arrangements for all their employees or wish to provide additional benefits to individual employees.

A RLP is also suitable when the employer wishes to provide tax-efficient additional benefits on death or ill health in service.

A RLP can only be used by employers (whether trading through a partnership, a limited liability partnership (LLP), a limited company or a sole trader) who are applying for a new plan on the life of an employee. The term 'employee' would include a director or officer of a company but does not include a partner in a partnership, a member of an LLP or a sole trader.

A RLP will not be suitable if...

- The life to be insured is not an employee.
- It is intended to provide benefits beyond age 75 and beyond the period of employment.
- It is intended to provide benefits other than just death before age 75 and ill-health, disablement and death by accident benefits whilst in service.

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