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# Relevant Life Insurance

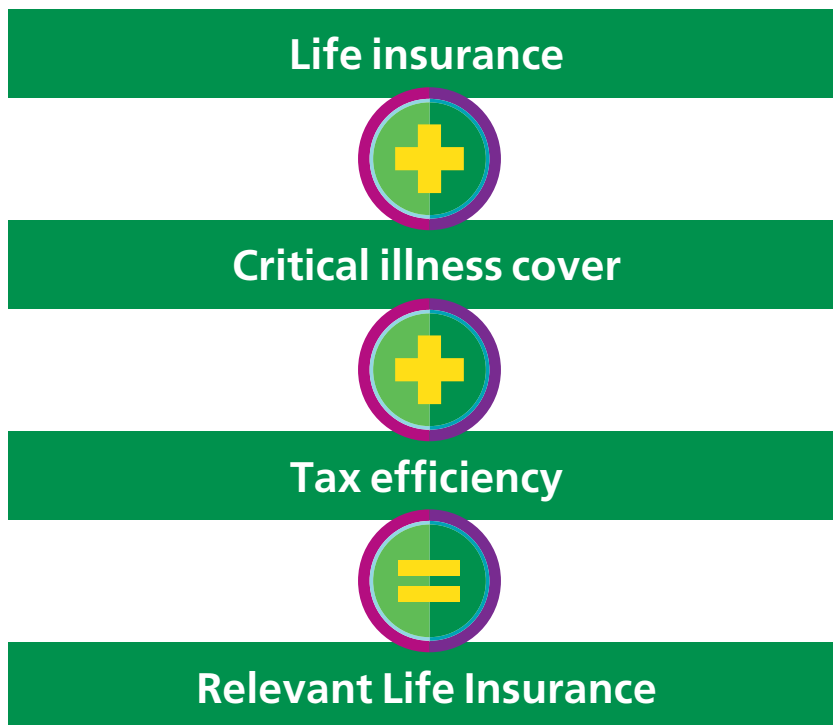
Introducing Relevant Life Insurance

# 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) and critical illness cover to their employees on an individual basis.

So now your clients can offer their employees comprehensive financial protection - and take advantage of the tax breaks usually enjoyed by larger companies with larger workforces.

Queen's Counsel's advice has been obtained for Relevant Life Insurance. This confirms that the inclusion of a critical illness benefit within Relevant Life Insurance is compliant with the relevant legislation and qualifies as a relevant life plan.



Offering critical illness cover as an optional extra on a Relevant Life Insurance policy demonstrates how much your clients care about the well-being of their employees.

This can be a useful tool in recruitment and retention.

The last thing anyone wants when they're ill is to be worried about money on top of everything else. With the critical illness cover on Relevant Life Insurance, employees could get the financial support they need to help them focus on their recovery.

# 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 you choose life cover or life and critical illness cover:

- **Life cover** pays out a lump sum if the life covered dies during the policy term.
- **Life and critical illness cover** pays out if, during the policy term, the life covered dies or is diagnosed with a critical illness that meets our policy definition and survives for at least 10 days. We only cover the critical illnesses we define in our policy and no others.

Both types of cover include terminal illness cover. 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. If the premiums are not paid, we'll stop providing cover and we won't pay any money back.

In order to qualify as a relevant life policy the life covered must remain an employee of the policyholder.

If the life covered leaves employment, policy ownership can be transferred using the continuation benefit. The policy can retain its relevant life status if transferred to another employer.

If transferred to the life covered, the policy will lose its relevant life status but can revert to an ordinary life insurance policy under which claims can still be made for all the benefits available. If the policy is not transferred within 90 days of the life covered leaving the policyholder's employment, the policy will end.

## The employer: Policyholder

The employer must be a UK resident business. The business can be a limited company, a limited liability 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 and partners. It doesn't include equity partners, sole traders and anyone who is self-employed.

## The trust: Relevant Life Trust

Relevant Life Insurance is written under trust using our Relevant Life Trust for the benefit of the employee and their chosen beneficiaries. This means benefits are more likely to be paid to the right people without unnecessary delays.

# 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 or critical illness cover 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.

What's more, legislation means that they can't offer a registered scheme on a single life basis.

Because Relevant Life Insurance can be written on a single life basis, as small business owners your clients can take advantage of the tax benefits generally enjoyed by larger companies.

## Members of group life schemes

Some group life schemes are very restrictive, often discounting overtime, bonuses and dividends.

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

Plus, of course, employers may want to use it to offer critical illness cover.

## High earning employees

Some 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.

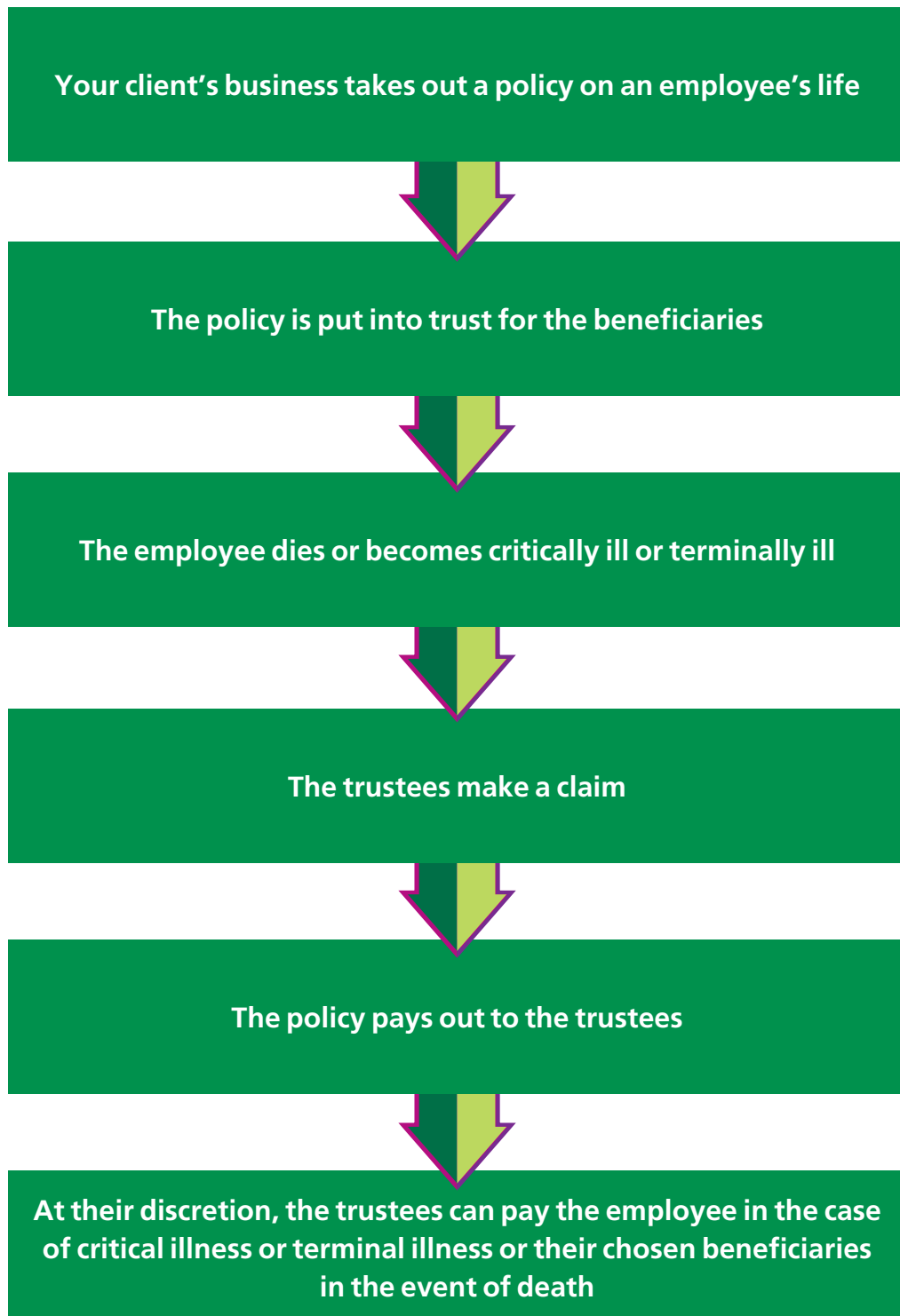
And anything over the allowance is taxed at 55%.

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

What's more, the premiums don't count towards the annual pension allowance.

Some high earners might also have protected the amount which exceeds the lifetime allowance to avoid the tax charge. However, in return, they often can't make any further contributions to their pension. Joining a registered group life scheme would count as an additional pension contribution, so a Relevant Life Insurance policy could give your high-earning client the chance to get the extra cover they need.

# How does Relevant Life Insurance work?



# What are the **tax advantages?**

Relevant Life Insurance is an important financial planning solution for:

Your **client:**

**No National Insurance contributions on premiums**

**Corporation tax relief**

Their **employee:**

**Benefits aren't taxed as a benefit in kind**

**No capital gains tax**

**No National Insurance contributions on premiums or benefits**

**Benefits not included in their estate for inheritance tax benefits**

**Benefits don't count towards annual or lifetime allowances tax benefits**

## Benefits



### The benefits

- will normally be free of income tax, capital gains tax and National Insurance
- won't be included in the lifetime pension allowance so no lifetime allowance charge will apply.

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, the premiums 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.



### Inheritance tax

The policy benefits won't be treated as part of the life covered's estate for inheritance tax purposes unless these are actually paid to them. 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% off 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.

 Cost to employee	Relevant Life Insurance	Non relevant life
Monthly premium	n/a	£100.00
NI contribution	n/a	£3.45
Income tax	n/a	£68.96
Total gross earnings needed to fund premium	n/a	£172.41

 Cost to employer	Relevant Life Insurance	Non relevant life
Monthly premium	£100.00	n/a
NI contribution	n/a	£23.79
Gross cost	£100.00	£196.20
Less corporation tax	£19.00	£37.28
Total cost adjusted for tax	£81.00	£158.92

## Figures assume:

- The employee is a higher rate taxpayer.
- National Insurance contributions are 2%.

Based on the example above, your client could save almost £78 a month. For a more personalised example of the potential savings for your client, use our Relevant Life calculator.

## What happens if the employee leaves the business?

If the life covered's new employer wants to pay the premiums then the tax advantages of the Relevant Life Insurance policy could continue. The trust will remain in place, with the former employer retiring as a trustee and the new employer being appointed in their place. To arrange this, a Relevant Life Insurance Continuation Form (Change of Employer) will need to be completed and returned to us.

If the life covered starts paying the premiums, the tax advantages will no longer apply and the policy will lose its relevant life status. The existing trust must be brought to an end, with the life covered being able to start a new one if required. To arrange this, a Relevant Life Insurance Continuation Form (Revert to Employee) will need to be completed and returned to us. If the policy is not transferred within 90 days of the life covered leaving the policyholder's employment, the policy will end.

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. NB. Tax rules depend upon the individual circumstances of each client.



# Talking to your clients about Relevant Life Insurance

If your client has already put life cover in place, you can get the conversation started by asking whether they've thought about doing the same for their employees. If they haven't, you can start with their own key person protection and then move on to their employees.

Either way the message is clear – they could save money on providing a valuable employee benefit.



## Find out more

**For more information, please read our guides:**

- Relevant Life Insurance At a glance
- Relevant Life Insurance In focus
- Relevant Life Insurance A guide to our Relevant Life Trust
- How we've added critical illness benefit to Relevant Life Insurance

Or you can speak to your account manager for more information.





