Relevant Life Insurance

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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

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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 6.

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 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 55%.

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.**

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 taxpayer.

Cost to employee	Relevant Life Insurance	Non-relevant
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
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

- National Insurance contributions are 2%.
- The premiums for Relevant Life Insurance are fully employer funded.

Based on the example above, the employer could save almost £78 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.

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 the individual circumstances of each client.

Find out more

For more information, please speak to your financial adviser.