



Relevant Life Insurance Adviser guide

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Introduction

Employee benefits have an important role to play within a business. AIG Relevant Life Insurance provides a straightforward, cost-effective and, in most cases, tax-efficient way for small businesses to protect their employees and give them some valuable extra benefits.

This Adviser Guide has been written to help financial advisers assess the suitability of relevant life insurance for their client's protection needs and the issues that will need to be considered before a relevant life insurance application is submitted.

This guide, along with the AIG online application process, supports and helps to streamline the process of getting cover in place. It is not intended to provide a

definitive account of all relevant life insurance planning solutions or to be a substitute for professional or expert advice.

This guide can only outline the current practice for the more common tax situations. Tax treatment can vary depending on the structure of the business, the purposes for which insurance has been taken out, the legislation in force at the time of claim and the individual tax position of the owner of the cover, person(s) covered and their beneficiaries. This guide is not intended to replace detailed advice from a tax expert.

This document provides guidance for professional financial advisers and should not be distributed to retail customers.



The basics

What is relevant life insurance?

Relevant life insurance is an insurance policy that a business can take out to provide life insurance for an individual employee.

The policy is applied and paid for by the business, and is written into trust from outset so it pays out a lump sum to the employee or their beneficiaries if they die or are diagnosed with a terminal illness while employed during the policy term.

It complies with relevant life insurance legislation that makes it tax-efficient for the employee, their beneficiaries and the business, making it a valuable extra benefit that can be used alongside, or instead of, a group life insurance scheme.

Who is it suitable for?

You may want to consider recommending AIG Relevant Life Insurance to your client if:

- They run or work for a business that does not provide a group life insurance scheme (perhaps because it is too small to qualify for one), but would like the business to arrange life insurance as an employee benefit in a similarly tax-efficient manner for themselves or another individual employee; or
- They run or work for a business which does provide a group scheme, but would like to arrange additional life insurance that doesn't count towards any annual or lifetime pension allowances (this may be of particular interest to high-earning employees who may be near their pension limits); or
- They otherwise want the business to top-up the life insurance benefits that employees get from their group scheme
(a group scheme usually only covers up to 4 x salary, whereas AIG Relevant Life Insurance can cover up to 30 x salary, depending on age).

What are the conditions that have to be met for AIG Relevant Life Insurance?

Any employee (including a director) can have AIG Relevant Life Insurance, provided the business agrees to pay the premiums. However, there are certain conditions that have to be met:

- There must be an employer-employee relationship between the owner of the cover (employer) and the person covered (employee):
 - 'Employee' can include directors on PAYE, single directors of a limited company (e.g. management consultants, IT contractors, etc.) and 'salaried' partners who are taxed under PAYE on their employment income;
 - It does not include sole traders (in their capacity as business owner), equity partners of a partnership including limited liability partnerships who are taxed as self-employed or anybody else who is not a 'salaried' employee, because there is no 'employer';
- The employee must be aged 17-71;
- The policy cannot continue beyond the employee's 75th birthday;
- It must be a pure protection policy with no surrender value. It can only provide life insurance (i.e. pay out a lump sum on death or terminal illness) and no other benefit;
- The benefit can only be paid to an individual e.g., a family member or other dependant of the person covered, or to a nominated charity;
- It must not be set up for tax avoidance purposes; and
- It must not be set up to benefit the business.



When is AIG Relevant Life Insurance not suitable?

Relevant life insurance is not suitable for your client if:

- There is no employer-employee relationship between the owner of the cover and the person covered. For example, we cannot insure a sole trader (in their capacity as business owner), equity partner of a partnership relationship or equity member of a Limited Liability Partnership who is taxed as self-employed;
- They want to insure a business loan, shareholding in a business, a key person or otherwise intend for the pay-out to benefit the business;
- They want it primarily to avoid taxes or for the benefit of the business (we would be concerned that these rules were being compromised if the pay-out was intended to go to business beneficiaries such as a co-shareholder or an organisation other than a nominated charity);
- There is a more suitable type of cover available, such as business protection;
- They want an insurance that includes other benefits (critical illness, disability, waiver of premium) or has a surrender value;
- The employee is not aged 17-71; and
- They want to provide cover beyond the age of 75 or while not in employment.

Can these plans be used for business protection?

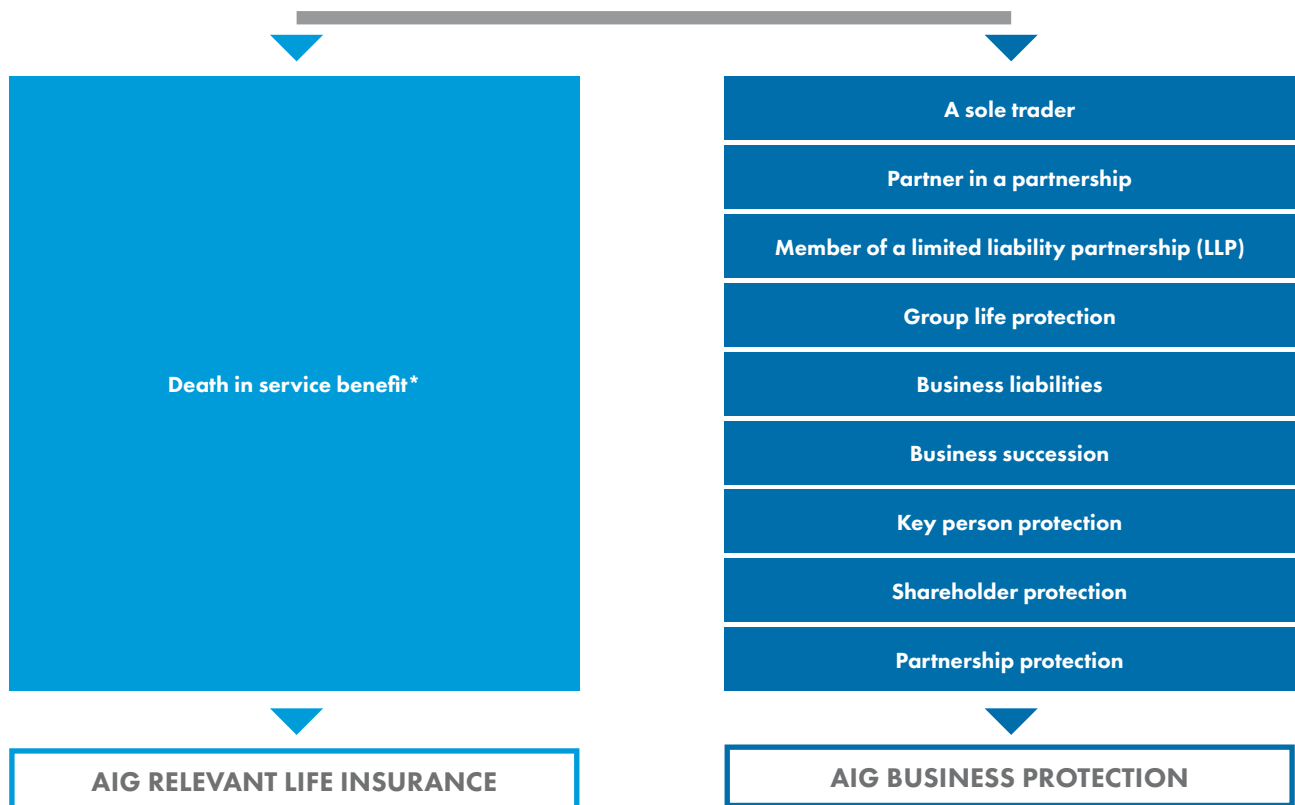
No. These policies are intended to provide life insurance for the employee and their dependants or beneficiaries, and not to benefit a business.

The legislation also requires that the primary purpose of relevant life insurance must not be tax avoidance. AIG would be concerned that the primary purpose rule is being compromised or that the aim is to avoid a charge of benefit-in-kind, or to obtain tax relief if:

- a) there is a more suitable type of cover available, such as business protection; or
- b) the benefits are paid to non-dependant or non-family beneficiaries, such as the co-shareholders. However, if the co-shareholder were also a spouse, or one of the defined beneficiaries in the trust, then this could be acceptable.

It is also a requirement in the legislation that benefits cannot be paid to a business, so using this for insuring against the loss of a key person, under business protection, is not acceptable.

Is AIG Relevant Life Insurance right for my client?



*This can include a single director of a limited company on PAYE



About the cover

Who owns the cover?

The business applies for the cover, but it is written into trust for the employee's beneficiaries.

What kind of cover is available?

As with any relevant life insurance, this cover has been designed to meet the legislative requirements governing these policies. This means it provides pure life insurance only, and no other financial benefits such as critical illness cover, income protection or waiver of premium.

In short, our policies pay out on either death or terminal illness within the term of the policy. Level and increasing (indexation) options are available.

Our policies also include valuable support services for the person covered and their family; these comprise Best Doctors™ and Winston's Wish (for more information go to the 'Valuable extra benefits' section).

What is the maximum cover available?

There is no statutory limit on the level of cover that can be provided so AIG has set its limits as:

- Ages 17-39 – 30 x salary
- Ages 40-49 – 25 x salary
- Ages 50-59 – 20 x salary
- Ages 60-71 – 15 x salary

*this includes salary, bonus, and any taxable benefit-in-kind.

Can the amount of cover be increased?

If the cover has an increasing sum assured, the premium will be reviewed annually and will increase by a higher percentage than that of the sum assured, because the amount of the increase of the premium will depend on the age of the person covered and the remaining term of the cover at that time.

Your client can also use the 'guaranteed insurability options' to increase the amount of cover by up to 50% of the original sum assured (up to a maximum of £75,000) without any further medical underwriting if the person covered gets married or enters a civil partnership, has (or adopts) a child, increases their mortgage or gets a pay rise.

What are the underwriting limits?

In addition to the usual medical underwriting, we will need proof of earnings where the employee seeks more than £3,000,000 of cover (including other life insurance policies), but not for amounts below that.

We do not need a financial questionnaire to be completed and rarely ask for additional evidence, and we will only do so if we need to clarify earnings in an unusual case.



Why choose AIG?

EASY TO SET UP - Our online application system helps us give over 90% of applicants an instant decision without needing additional medical evidence from a GP.

ONLINE TRUST FORM - You can also set up the trust online, making it easier to get everything in place right from the start.

FUTURE-PROOF - The amount of insurance can be increased without answering any further medical questions following a marriage or civil partnership, birth or adoption of a child, an increase in mortgage or an increase in salary.

BETTER COVER - We include cover for terminal illness for the full duration of the policy term (other insurers exclude such claims in the last 12-18 months of the policy).

INFLATION-PROOF - There is the option to increase the sum assured each year in line with the Retail Price Index up to a maximum of 10% per annum.

MORE COVER - We permit generous levels of cover, up to 30 times salary for 17 to 39 years of age.

POLICIES ARE PORTABLE - The policy can be transferred to a new employer if the new employer is happy to pay the premiums.

MORE THAN JUST FINANCIAL SUPPORT - The policy includes valuable extra benefits which provide the employee and their family with free medical advice from Best Doctors™ and child bereavement counselling from Winston's Wish.





Valuable extra benefits

Employee benefits have an important role to play within a business. While legislation means we can't add extra benefits to AIG Relevant Life Insurance, we do offer valuable support services for child bereavement counselling from Winston's Wish and free medical advice from Best Doctors™.

It means the employee and their family get more than just financial support if they ever have to claim, and that they have extra medical support services available to them throughout the life of the policy too.

About Winston's Wish

Families may find it difficult to give children the right support when struck by their own grief. Schools and other public services can also struggle to recognise, understand or manage a grieving child's behaviour. When parents or carers don't know what to say or what to do, Winston's Wish is available to help families make sure they're giving their children the right support.

About Best Doctors™

Founded in 1989 by Harvard Medical School professors, Best Doctors has established a worldwide database of over 50,000 doctors in over 400 different disciplines, each of whom has been chosen by other specialists in their field as one of the best in the world.

- It can be used by the person covered, their partner and any dependent children;
- It can be used as soon as the policy goes on-risk;
- There is no limit to the number of times it can be used;
- Pre-existing conditions are not excluded; and
- Enquiries do not have to relate to a claim or a condition covered by the policy.

If our policyholders are ever worried about the diagnosis or treatment options they, their partner or any dependent children are given, they can use Best Doctors™ to get a second medical opinion and information about treatment from a leading specialist in their condition.

Costs and case studies

Legislation covering relevant life insurance means the premiums and benefits for relevant life insurance are treated tax efficiently for the employee, their beneficiaries and the business.

How is it tax-efficient for the employee?

HMRC usually views the premiums as an allowable business expense for the employer and not a benefit-in-kind for the employee, so the employee does not have to pay Income Tax or National Insurance on the premiums. For a higher or additional rate taxpayer, this can be a significant saving.

How is it tax efficient for the beneficiaries?

The policy is set up using a discretionary trust so any payout will also be received free of Income Tax, as well as, usually, any inheritance tax liability.

In addition, unlike a group life insurance scheme, relevant life insurance is a 'non-registered' arrangement, so any pay-out does not count towards the employee's lifetime pension allowances. This is currently capped at £1 million for 2016-17. Anything the estate receives from a registered scheme in excess of this allowance is taxed at 55%. By contrast, the family will not have to pay tax on any lump sum payment it receives from relevant life insurance in excess of the lifetime allowance. This can be a significant consideration for employees who may be near the limits of their allowances.

How is it tax-efficient for the business?

The employer can claim tax relief on the premiums as long as the local inspector of taxes is happy that the premiums are 'wholly and exclusively for the purpose of trade' as part of the employee's remuneration. In addition, the benefits are written into trust on behalf of the employee so they are not viewed or taxed as business assets.

Are there any other taxes that could come into play?

Please note the tax treatment depends on an individual's circumstances and may be subject to change in the future. See the 'Are there any taxes that apply to the trust?' section.



AIG Relevant Life Insurance

cost-efficient life cover

Sarah Spencer is a founder and managing director of a user experience design consultancy in London. She works full-time and her company employs four designers, including Emily and Charlie.

After leaving her previous employer and setting up her own company, Sarah has lost her death-in-service benefit. Her financial adviser suggests she purchases life insurance through her company, and after comparing relevant life insurance to standard life insurance, it appears relevant life insurance is a more beneficial option for Sarah.

Example: Company Director



Sarah would like £1 million of cover. She is a higher rate taxpayer (40%) and pays National Insurance at 2% on the top end of her income. The company pays National Insurance at 13.8% (this assumes that the employee is not contracted out of the Additional State Pension). Corporation Tax is calculated at the small profits rate of 20% (which applies where annual profits are less than £1.5million; should profits exceed this, the rate rises to 23%).

In the illustration of the cost of non-relevant life insurance outlined below, it is assumed Sarah's company pays the premium under insurance that Sarah proposes for herself, as an employee.

		Personal life insurance	Relevant life insurance -
Cost to employee	Monthly premium (from net salary)	£71.42	£70.42
	Employee National Insurance contribution (@2%)	£2.46	n/a
	Employee Income Tax (@40%)	£49.26	n/a
	Total cost to employee**	£123.14	n/a*
Cost to employer	Monthly premium	n/a	n/a
	Employer National Insurance contribution (@13.8%)	£16.99	n/a
	Total gross cost	£140.13	£70.42
	Less Corporation Tax (@20%)	£26.03	£14.08
	Tax adjusted total cost	£114.10	£56.34

By opting for relevant life insurance, Sarah's company is saving a total of **£57.76 (49%)** per month which is **693.20** per annum

* The payments employers make are not subject to Income Tax because they are not normally assessable on the employee as a benefit in kind.

** These are the gross earnings required to leave sufficient net income to pay the premium. By providing relevant life insurance for the employee, the benefits will not form part of the employee's lifetime pension allowance and the payments made will not form part of the employee's annual tax allowance.



Example: Small Business

Digital design is a competitive market so Sarah wants to ensure that she employs the best people and offers attractive employee benefits, life cover being one of them. However, as her company is relatively small, a group scheme is not an option for Sarah, so her financial adviser suggests relevant life insurance. Sarah would like to provide a 'death in service' benefit equal to ten times each employee's salary.

Emily is 22 and pays Income Tax at 20%. Charlie is 51 and is a higher rate taxpayer (40%). They both pay National Insurance at 2% on the top end of their income.

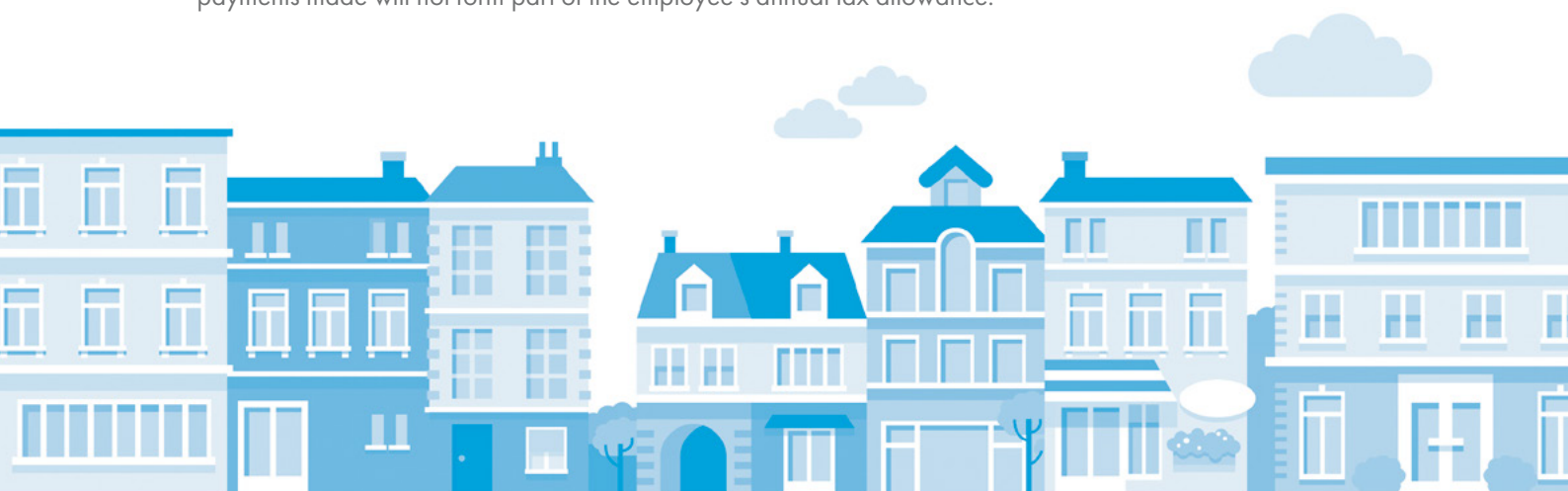
Their employer pays National Insurance at 13.8% and Corporation Tax at 20%.

The table below shows how cost-effective it is to provide life insurance through a relevant life insurance policy, treating the premiums as an allowable business expense for the company.

	Personal life insurance		Relevant life insurance	
	Emily	Charlie	Emily	Charlie
Cost to employee				
Monthly premium (from net salary)	£12.78	£134.48	n/a	n/a
National Insurance contribution (assuming 2%)	£2.26	£4.64	n/a	n/a
Income Tax (assuming 40%)	£3.76	£92.74	n/a*	n/a*
Total cost to employee**	£18.80	£231.86	n/a	n/a
Cost to employer				
Monthly premium	n/a	n/a	£12.57	£127.96
National Insurance contribution (@13.8%)	£2.59	£32.00	n/a	n/a
Total gross cost	£21.39	£263.86	£12.57	£127.96
Tax adjusted total cost	£17.13	£211.09	£10.06	£107.58

* The payments employers make are not subject to Income Tax because they are not normally assessable on the employee as a benefit-in-kind.

** These are the gross earnings required to leave a net sum sufficient to pay the premium. By providing relevant life insurance for the employees, the benefits will not form part of the employee's lifetime pension allowance and the payments made will not form part of the employee's annual tax allowance.





A relevant life insurance policy must be written in trust with the employee's family and dependants as beneficiaries.

Further explanation:

Any tax and National Insurance is calculated based on the cost to the employee, i.e. how much would it cost an employee in total to pay a premium taking account of Income Tax, National Insurance and the premium. Looking at the example for Charlie, to be able to pay a premium of £134.48, he would need to earn £231.86 on which he would have to pay Income Tax of £92.74 ($£231.86 \times 40\%$) and National Insurance of £4.62 ($£231.86 \times 2\%$) to reach the net amount of £134.48 ($£231.86 - £92.74 - £4.64$) which can be used to pay the premium. To get the total net cost to the employer and leave the employee sufficient net income to meet the premium, you would need to add the employer's National Insurance contribution costs and then deduct Corporation Tax Relief.

The information provided in these examples is for illustrative purposes only; the examples are purely fictitious and individual circumstances should be thoroughly assessed to calculate potential savings to the employer/employee.

The illustrations are based on our understanding of current law and HM Revenue & Customs practice as at October 2016 which may change in the future. Tax calculations are based on 2016/17 tax rates and may also change in the future. The calculations assume that the same rate of Income Tax/National Insurance applies to the whole of the premium or sums used to fund the premium. We strongly recommend that you seek professional advice before you go ahead with any arrangement.



Setting up the cover

How do I get a quote and apply for AIG Relevant Life Insurance?

You can get a quote for AIG Relevant Life Insurance through Iress, iPipeline, Lifequote and Weblife, or log in to quote and apply on www.aiglife.co.uk adviser extranet or the portals in the relevant life insurance section.

Once you have sought a quote, you can continue to amend and complete the application online. We do not accept paper applications.

The person covered will need to provide information about their health and medical history.

We will also need proof of earnings where the employee will have more than £3,000,000 of cover (including other life insurance policies), but we will not ask for it on amounts below that.

How do I write the policy into trust?

You must write the policy into trust for the employee's beneficiaries from the outset. You can do this online as part of the application process or by completing a paper trust declaration form.

What kind of trust does AIG use?

AIG Relevant Life Insurance uses a discretionary trust to provide the pay-out should the employee die or be diagnosed with a terminal illness.

A discretionary trust enables the employee to choose for the benefit to be paid to them, rather than their beneficiaries, if they are diagnosed with a terminal illness.

Who can be a beneficiary or trustee?

The potential beneficiaries are usually family members, although your client can choose to include non-family members, such as a live-in partner or other dependants.

The employer and the employee are automatically trustees. Subject to guidance from a trust adviser, it may be preferable to appoint a third trustee (this can be anyone, for example a family member or another company official).

Are there any taxes that apply to the trust?

As with any non-pension discretionary trust, the trust itself can be subject to inheritance tax periodic and exit charges.

Periodic charges are made if a trust has valuable assets on a 10-year anniversary. While the employee is alive and well, the value of the trust asset (the policy) will be negligible. Charges are therefore unlikely to happen, unless the employee dies and the claim is paid into the trust just before a 10th anniversary and there is not enough time to pay the assets out to the beneficiaries. In this case, a periodic charge will arise on the value of those assets in excess of the current nil rate band at a rate of up to 6%.

If the assets remain in the trust past a 10-year anniversary, there could be a potential exit charge when payment is made to the beneficiaries. This will be a proportion of the last periodic charge due, again up to a maximum of 6%.



However, where assets are paid out as soon as possible following a claim, there's unlikely to be any significant exit charge. And there won't be any exit charge if the assets are paid out within three months of a 10-year anniversary.

Before proceeding with the cover, we recommend that advice be taken from a qualified tax adviser to ensure there aren't any adverse taxation consequences for the employee, employer or trustees.

What happens if the employee leaves the business?

If the employee leaves the business to work for a new employer (or to start up a new company), we can transfer the policy to the new employer, provided they agree and are happy to pay the premiums. A new trust will need to be effected (with the new employer and employee as trustees - it may also be beneficial to appoint a further trustee).

This option may often be better than those offered under a group life insurance scheme. Some schemes don't offer a replacement policy while those that do can be expensive.

Alternatively, the insurance can be transferred into the sole name of the employee. The employee would be responsible for paying the premiums going forward. The existing trust would cease to exist and the terminal illness benefit would be removed from the policy. Furthermore, the employee may no longer qualify for the tax benefits associated with the policy. The employee should consult their financial adviser for professional advice before exercising this option.

Note that the transfer has to take effect within 90 days of the employee leaving their previous employer.



Appendices

More about tax treatment

Why does HMRC not view the premiums as a benefit-in-kind?

Because the policy qualifies as a relevant life policy, i.e. one that provides “excluded benefits”, the premiums are not normally seen as a benefit-in-kind and are therefore not taxed as income in the pocket of the employee.

Why don't payments and benefits count towards their pension allowances?

Unlike a group life insurance scheme, relevant life insurance is a ‘non-registered’ arrangement under HMRC rules, so any payout does not count towards the employee’s lifetime pension allowances.

The family will therefore not have to pay tax on any lump sum payment in excess of the lifetime allowance when they make a claim under relevant life insurance. This can be a significant consideration for employees who may be near the limit of their lifetime pension allowance.

Why can the business claim Corporation (or, where applicable, Income Tax) Relief on the premiums?

The business pays the premiums, which HMRC views as an allowable business expense if made ‘wholly and exclusively’ for the purpose of trade. Payment of remuneration to an employee will normally pass this test.

How is it treated for inheritance tax purposes?

The policy is set up using a discretionary trust so any payout will usually be received free of any inheritance tax liability. However, other IHT charges may apply to the trust as explained earlier (see the ‘Are there any taxes that apply to the trust?’ section).

About the legislation

Relevant life insurance is defined in subsection 393B(4) of the Income Tax (Earnings and Pensions) Act 2003 (‘ITEPA’) as:

- (a) an excepted group life policy as defined in section 480 of the Income Tax (Trading and Other Income) Act 2005,
- (b) a policy of life insurance, the terms of which provide for the payment of benefits on the death of a single individual, and with respect to which:
 - (i) condition A in section 481 of that Act would be met if paragraph (a) in that condition referred to the death, in any circumstances or except in specified circumstances, of that individual (rather than the death in any circumstances of each of the individuals insured under the policy) and if the condition did not include paragraph (b), and
 - (ii) conditions C and D in that section and conditions A and C in section 482 of that Act are met, or
- (c) a policy of life insurance that would be within paragraph (a) or (b) but for the fact that it provides for a benefit which is an excluded benefit under or by virtue of paragraph (a), (b) or (d) of subsection(3) of ITEPA s.393B.

The conditions that need to be met if a policy is to be a relevant policy within the ‘single life’ category set out in (b) are:



- Condition A in section 481 of the Income Tax (Trading and Other Income) Act 2005 ('ITTOIA')
 - that "under the terms of the policy, a sum or other benefit of a capital nature is payable or arises on the death in any circumstances of [the individual] insured under the policy who dies under an age specified in the policy that does not exceed 75".
- Condition C in section 481 – that "the policy does not have, and is not capable of having, on any day:
 - (a) a surrender value that exceeds the proportion of the amount of premiums paid which, on a time apportionment, is referable to the unexpired paid-up period beginning with the day, or
 - (b) if there is no such period, any surrender value".
- Condition D in section 481 – that "no sums or other benefits may be paid or conferred under the policy, except as mentioned in condition A or C".
- Condition A in section 482 of ITTOIA – that "any sums payable or other benefits arising under the policy must (whether directly or indirectly) be paid to or for, or conferred on, or applied at the direction of:
 - (a) an individual or charity beneficially entitled to them, or
 - (b) a trustee or other person acting in a fiduciary capacity who will secure that the sums or other benefits are paid to or for or conferred on, or applied in favour of, an individual or charity beneficially".
- Condition C in section 482 – that "a tax avoidance purpose is not the main purpose, or one of the main purposes, for which a person is at any time:
 - (a) the holder, or one of the holders, of the policy, or
 - (b) the person, or one of the persons, beneficially entitled under the policy.

