

Group Life Cover

Lifetime allowance

What is a registered pension scheme?

A registered pension scheme is one that is recognised by HMRC for paying or accruing (increasing) benefits in a way that is favourable for tax purposes. They are often set up by an employer for the benefit of their employees. An employer's registered pension scheme can provide pension and / or lump sum death benefits.

Lump sum death benefits can be provided by the employer's existing registered pension scheme. Alternatively they can be provided by a registered pension scheme set up to provide death benefits only, written under trust and under its own rules. This is known as a stand-alone group life insurance scheme and is classed as an occupational pension scheme under the Finance Act 2004.

What is the lifetime allowance or 'LTA'?

The LTA is the maximum amount of lump sum and / or pension that benefits from tax relief (a combination of exemptions and deductions on income and expenditure to recognise taxable income) for an individual receiving benefit from their registered pension schemes. This includes lump sum death benefits.

The LTA was introduced from 6th April 2006, and steadily increased to £1.8m by 2012. It then started to reduce each new tax year, reaching £1m by 2016. Since then, it has been increasing annually by the Consumer Price Index 'CPI', and is £1,054,700 from 6th April 2019.

Benefits payable in excess of the LTA are subject to a tax charge. The LTA charge is 25% if benefits are taken as income, and 55% if taken as a lump sum.

How does this impact my SME clients?

Lump sum death benefits

If the employer is providing life cover to their workforce via a registered pension scheme, their employees could be affected by the LTA charge, which looks at all of the registered pension schemes an employee is a member of, from which death benefits are paid. It is not limited to the one with their current employer.

The LTA charge is payable by the deceased's beneficiaries; where there are multiple beneficiaries the lump sum tax is pro-rataed across the lump sum recipients according to benefit received.

LTA protection

Since the LTA has been reducing, individuals have been able to apply for LTA protection to protect their benefits from the LTA charge.

Individuals can lose their LTA protection if particular events occur, which can include joining a new registered pension scheme, and accruing benefit in an existing scheme. It may be prudent to establish if this impacts any of your client's employees.

If an individual member is unsure of their particular circumstances, they should seek their own independent financial advice.

Want to know more?

Contact us on 0800 917 2111 or email ebnewbusiness@metlife.uk.com. Our friendly teams will be happy to help.

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