Group Protection

# Helping you understand Relevant Life Policies (RLP) and Excepted Group Life Policies (EGLP)

Legal & General

# Contents

# Introduction

Relevant life policies (RLP) and Excepted Group Life Policies (EGLP) are two types of protection that can provide life cover.

To understand the purpose of RLPs including EGLPs, and if they're a suitable option, you'll find it useful to know a bit about other types of group life assurance schemes. Therefore, to help you compare, this guide also contains some information about registered schemes and employer-financed retirement benefits schemes (EFRBS).

The information we've given is based on our understanding of current law and tax rules. We suggest you talk to your legal adviser before setting up, or changing employment benefits.

We've used plain language to help make this guide easier to understand. You'll find explanations of any technical terms we use in the glossary at the end of this document.

Where terms in the glossary appear in the main text, we've **highlighted them like this**.

# The different types of group life assurance

You can set up a group **policy** that pays a lump sum benefit for dependants and relatives after the death of an employee, partner or Limited Liability Partnership (LLP) member in different ways:

1. A **policy** covering **registered scheme benefits**
2. A relevant life policy **(RLP)**
3. An Excepted Group Life Policy **(EGLP)**, a special type of Relevant Life Policy
4. An **employer-financed retirement benefits scheme (EFRBS)**.

For many years **registered scheme policies** have been the traditional way to provide life cover for employees. However, more recently some employers have needed to consider alternative options.

- The amount of tax advantaged **registered scheme benefit** available to individuals was significantly reduced in 2012, 2014 and 2016.
- Equity partners and LLP members have been unable to set up a **registered scheme** just for themselves.

**RLP**, including **EGLP**, provide an alternative option because different tax rules apply.

If cover for employees isn't set up as a **registered scheme** policy, **RLP** or **EGLP**; then by default it's classed as an **employer-financed retirement benefits** scheme. It's rare for employers to set up this type of scheme because of the high levels of tax that may become due.

There are other types of group life assurance cover for equity partners and LLP members; however, they aren't relevant for this guide.

# What is an RLP?

**RLP** are a type of life insurance policy that need to meet a few conditions defined by law[1]. While the legal definition allows for different claim events such as ill health, the type of **RLP** we provide will only insure death.

If you need us to insure two or more employees for the same benefit calculation under an **RLP**, we will set up an **EGLP**. An **EGLP** is a type of **RLP** that's capable of insuring groups of people, and isn't subject to employment income tax or **chargeable gains tax**. We've detailed the conditions an **EGLP** needs to meet under 'What is an EGLP? on page 4'.

If you need us to insure one person for a specific benefit level, we can set up an **RLP**. While the **RLP** only insures one person, it isn't subject to employment income tax and we would not expect a chargeable gain to become taxable. This is because of the way the chargeable gains tax charge is calculated.

In line with the Group Protection market, our traditional **RLP** product is called an 'Excepted Group Life Policy,' and capable of insuring one or more people. Although from a pure legal standpoint, it can only be an **EGLP** when it covers a group of people.

[1] **RLP** are defined under s393B Income Tax Earnings and Pensions Act 2003 (introduced by s249 Finance Act 2004)

# What is an EGLP?

An **EGLP** is a type of **RLP** that insures two or more people and isn't subject to **chargeable gains tax** charges. An **EGLP** must meet seven conditions set out in law[2] summarised below:

1. It can only pay lump sum benefits for deaths before age 75.
2. Benefit must be worked out in the same way for everyone included in the **EGLP**.
3. If the **EGLP** is cancelled, it must not have a cash value. However, unused premiums can be refunded.
4. Only the benefits set out in the **EGLP** terms and conditions can be paid.
5. Benefits can only be paid to:
   (i) Individuals
   (ii) Charities
   (iii) Trusts set up for individuals or charities.
6. Benefit cannot be paid to another person also covered by the **EGLP**. However, benefit can be paid if that other insured person is a dependant or relative of the person who died.
7. The **EGLP** must not be set up with the main purpose of avoiding tax.

There's more information about some of these conditions under the section 'What must I remember when I set up an **RLP**?' on page 6.

# What is the difference between an RLP and an EGLP?

**RLP** are a broad legal classification of life insurance policies that's important for tax purposes. An **EGLP** meets the legal classification of an **RLP**, plus a few legal extra conditions. In other words, an **EGLP** is one type of **RLP**.

The **EGLP** distinction is important from a group life cover perspective. This is because unlike other types of **RLP**, **chargeable gains tax** doesn't apply to **EGLP**.

The 'G' in **EGLP** stands for 'Group'; therefore an **EGLP** cannot be set up to cover one person. **Chargeable gains tax** shouldn't be a concern for other types of **RLP** that only insure one person for a single payment on death. This is because the tax calculation takes account of previous claim payments (of which there cannot be any) and returns a zero amount due.

With the above in mind when we're asked to set up an **RLP**, we'll set up an **EGLP** if the same cover level is needed for groups of people and **RLP** for everyone else.

# What RLP do you offer?

In line with the Group Protection market, our traditional **RLP** product is simply called an 'Excepted Group Life Policy' and is capable of insuring one or more people. Although from a pure legal standpoint, it can only be considered an **EGLP** when it covers a group of people.

Our 'Excepted Group Life Policy' can be set up by itself, or to complement **registered scheme benefit** cover. If you need to cover different groups of employees for different benefit calculations, we'll set up separate 'Excepted Group Life Policies' for each benefit calculation to help make sure the **EGLP** conditions set out in law are met.

If you choose to set up multiple Excepted Group Life Policies with us, we'll keep the administration simple wherever possible using a common set of policy terms with a shared account and invoice.

[2] **EGLP** are defined under s480 Income Tax (Trading and Other Income) Act 2005, with the conditions listed under s481 and s482

# What must I remember when I set up an RLP?

In line with the Group Protection market, our traditional **RLP** product is called an 'Excepted Group Life Policy',. Whether you want to insure one or multiple lives, our 'Excepted Group Life Policy' will need to be set up to meet the **EGLP** conditions described in law. The main conditions to remember are:

1. It can only pay lump sum benefits for deaths before age 75.

   We agree a day cover will stop. This could be when an insured person reaches their state pension age, or a set birthday. However, we cannot cover a person under **RLP** once they have reached age 75.

2. Benefit must be worked out in the same way for everyone included in the **EGLP**.

   The benefit formula we insure under an **EGLP** must be the same for everyone we cover under it.

   We can cover benefit as a multiple of earnings, or a flat amount, for example £100,000. If benefit is based on earnings, the earnings definition and the frequency we allow for changes in earnings must be the same for everyone included in the **EGLP**.

   The benefit can be limited to a maximum or a minimum. Any maximums and minimums must be the same for everyone included in the **EGLP**.

   The benefit can include a deduction, or an addition, for example a fixed cash amount. If it does, the same deduction or addition must apply to everyone's benefit in the **EGLP**. We cannot offset the value of a person's pension fund, as this will vary from person to person.

   If we include a restriction or exclusion in our terms, we must apply it to everyone included in the **EGLP**.

   If you need to cover more than one benefit formula, to meet the **EGLP** conditions we'll set up a separate **EGLP** for each benefit formula. Where there's more than one **EGLP**, we may group them together for administration and accounting purposes. Normally only one **trust** and proposal form will be needed.

3. Benefits can only be paid to:

   (i) Individuals

   (ii) Charities

   (iii) Trusts set up for individuals or charities.

   To help secure favourable tax treatment of benefits paid from an **RLP**, the benefits are usually paid through a **scheme** set up under a discretionary **trust**. The **trust** and **scheme** rules will describe who may ultimately receive the benefit paid from an **RLP**, and these will need to be limited to individuals and charities. It's also possible to pay the benefits onto a trust set up for the benefit of an individual or charity.

   We strongly suggest employers talk to their legal advisers before setting up any new **trust** or **scheme** to help make sure all their specific needs are met. Our specimen **trusts** and **scheme** rules for **RLP** benefits could help start these legal considerations.

   We're sometimes asked why our specimen documents don't allow benefit to be paid to the estate of the person who died. Paying benefit in this way may create the following issues:

   (i) A person's estate could go to another body such as a club or business, that couldn't be considered an individual or charity.

   (ii) If the **RLP** cover equity partners or LLP members and benefit can be paid to the estate, the insured persons could have to pay pre-owned asset tax every tax year.

4. Benefit cannot be paid to another person also covered by the **EGLP**.

   This is a further consideration for the **trust** and **scheme** that **RLP** benefits are paid through. However it's important to note that this condition should not prevent another insured person receiving benefit if they're relative or dependant of the person who died.

**RLP** employee benefits are usually paid through a **scheme** set up under discretionary **trust**. This helps secure the most favorable tax treatment of benefits. If the **RLP** just covers equity partners or **LLP** members, a simple discretionary **trust** is often used for the same reasons. **Trusts** and **scheme** rules describe who may ultimately receive the benefit paid from an **RLP**, and will need to allow for **EGLP** conditions relating to benefit recipients.

# Why choose an RLP?

Most employers offering life cover as part of an employment package continue to provide these benefits through a **registered scheme**, however increasing numbers are considering using an **RLP** instead. We've given a few examples below where an employer may choose to set up life cover using an **RLP** instead of through a **registered scheme**.

1. Employees with other large **registered scheme** benefits, for example a large pension investment that could also be released on death, may have little or no tax free allowance available.

   From 6 April 2024, the Finance Act 2024 changes the tax allowances available to members of **registered** schemes, including the allowance lump sum death benefit payments count towards. This Act abolishes the **lifetime allowance** and introduces the **lump sum and death benefit allowance**.

   - **Up to 6 April 2024**
   Lump sum group life assurance payments will count towards the **lifetime allowance** of a **member** who dies. The standard **lifetime allowance** is £1,073,100 for the tax year 2023/24, and applies most benefits paid from all the **registered** pension schemes a **member** may have joined, including any unused pension savings that may be paid on their death. A group life assurance benefit payment is checked against their remaining **lifetime allowance**. Any benefit that exceeds this allowance is taxed by HMRC at the marginal rate of income tax for the person or persons, receiving the benefit.

   - **From 6 April 2024**
   Lump sum group life assurance payments will count towards the **lump sum and death benefit allowance** of a **member** who dies. This allowance is for the total amount that can be paid as tax-free lump sums for a person both during their lifetime and when they die. The limit has been set at £1,073,100. Most tax-free lump sums a person takes from a **registered** pension scheme during their lifetime will reduce the amount of allowance available for any lump sum benefits paid following their death. Any part of a lump sum that is above this allowance will be taxed at the highest rate of income tax of the individual receiving it.

   Benefits paid from **RLP** do not count towards the **lifetime allowance** or the **lump sum and death benefit allowance** and a business may consider providing life cover for its employees in this way.

   A business will need to satisfy itself that the main purpose of using an **EGLP** isn't to avoid tax. They may want to talk to their legal adviser.

2. Equity partners and LLP members cannot set up a **registered scheme** just for themselves.

   Equity partners and LLP members cannot set up a **registered scheme** just for themselves, however, they can join a **registered scheme** set up to provide death-in-service benefits for their employees. This often isn't the preferred route for equity partners and LLP members because:

   (i) The **scheme** rules will be available to all people included in it. The firm may not want the employees to find out the benefit level for equity partners and LLP members.

   (ii) Equity partners and LLP members are generally well paid in comparison to their employees. They usually have large pension investments and need large life assurance cover.

   Equity partners and LLP members can ask us to set up a partners' life assurance **policy** as an **EGLP**.

3. How life cover is taxed if you're insuring a two or more employees.

   **Chargeable gains tax** rules will apply to life cover that isn't provided through a **registered scheme** or an **EGLP**. While a **chargeable gains tax** charge is unlikely on the first benefit payment because of the way this tax charge is calculated, an employer may have to pay tax after a second death under the policy, and each death thereafter.

   The **chargeable gains tax** rules do not apply to **registered scheme benefits** or **EGLP**.

   If the group life cover isn't provided through a **registered scheme** and doesn't meet the **RLP** conditions, then it will be treated as an **employer financed retirement benefits scheme (EFRBS)**. In addition to the **chargeable gains tax** rules applying, other tax advantages on premiums and benefits may also be unavailable. Employers rarely set up an **employer-financed retirement benefits scheme (EFRBS)** because their tax treatment is generally unattractive.

# Should I set up an EGLP or a registered scheme for all my employees?

Employers often consider setting up an **EGLP** if they are aware of employees whose **registered scheme** tax allowances may be significantly reduced or used up by large pension investments. Other employers may simply wish to avoid any risk of any benefit being caught by a **registered scheme** tax allowance.

The approach taken will vary from employer to employer. For example, an employer may consider:

- An **RLP** or **EGLP** solution for defined groups of employees who are less likely to have the available **registered scheme** tax allowance needed for a tax-free benefit payment. The remainder of the employees may have their benefit provided through a **registered scheme**.
- Using an **EGLP** solution for all the employees they wish to insure.
- Using a **registered scheme** to provide benefit up to a fixed cash amount, and an **RLP** or **EGLP** to cover any extra benefit. When determining the fixed cash amount, it's worth remembering other **registered scheme** benefits may also count towards the **registered scheme** tax allowance.

While **RLP** or **EGLP** may offer advantages for some employees, the majority of employer provided cover is set up through a **registered scheme**. A **registered scheme** providing only group life assurance benefits is relatively easy to set up, has few HM Revenue & Customs reporting requirements and offers the following advantages.

- Tax relief is available on the premiums an employer pays for a **registered scheme**. While in practice, HM Revenue & Customs agrees this tax relief is available for **RLP**, the legislation isn't so clear.

For any employee financed portion of premiums, tax relief through salary sacrifice is available for **registered schemes**, however, not for **RLP**.

- **Registered schemes** can pay lump sum life assurance benefit tax-free up to the **lifetime allowance**, or from 6 April 2024, the new **lump sum and death benefit allowance**.
- An **EGLP** will only allow benefit to be paid to individuals or charities. **Registered schemes** can pay benefit to a wider group.
- A single **registered scheme policy** can cover more than one benefit basis. An **EGLP** can only cover one benefit calculation under each **policy**. A separate **EGLP** for each different benefit calculation could increase administration.
- The legislation for **registered schemes** is well documented. HM Revenue & Customs provides **registered scheme** support for both employers and **trustees**. The legislation for **EGLP** isn't so clear and employers may need to pay for legal advice to clarify particular points.
- **Exit charges** and **periodic charges** may apply to an **RLP**; however, these charges currently don't apply to a **registered scheme**.

There are many factors to consider and we suggest you take advice when choosing between providing life cover through a **registered scheme** or **EGLP**.

# How are RLP taxed?

Benefit paid from a **RLP** will not count towards a person's **lifetime allowance** or **lump sum and death benefit allowance**. Additionally, the **chargeable gains tax** rules do not apply to an **EGLP**.

However, **RLP** are not without tax charges. There are also small differences between the taxation of **RLP** set up for employees, and **RLP** set up for equity partners or LLP members.

For **RLP** set up to cover employees and pay benefit under a discretionary **trust**:

1. The insurance premiums you pay may qualify for tax relief as a business expense. For this tax relief, the local tax inspector must agree the **policy** is wholly and exclusively for business purposes.
2. The insurance premiums are not treated as a **benefit in kind** (a P11D benefit) for the employees provided costs of cover aren't recovered from the employees through an optional remuneration arrangement.
3. Lump sums are subject to the normal tax rules that apply to discretionary **trusts**. This means **periodic charges** and **exit charges** may apply. These charges are worked out when benefit is paid. Each of the two charges will not exceed 6% of the benefit.
4. **Exit charges** and **periodic charges** may arise in respect of individuals who have already used their full Inheritance Tax nil rate band, and are considered to have settled their own cover into trust rather than their employer.
   We suggest employees tell their tax adviser about any **RLP** or **EGLP** cover if they carry out any inheritance tax planning.
5. **Chargeable gains tax** does not apply to **EGLP**. While **chargeable gains tax** rules apply to other types of **RLP**, its calculation results in a zero tax charge for **RLP** insuring one person for a single payment on death.

For **RLP** set up to cover equity partners or LLP members, and pay benefit under a discretionary **trust**:

1. Equity partners and LLP members cannot get tax relief on the premiums they pay for their cover.
2. Lump sums are subject to the normal tax rules that apply to discretionary **trusts**. This means **periodic charges** and **exit charges** may apply. These charges are worked out when benefit is paid. Each of the two charges will not exceed 6% of the benefit.
3. **Exit charges** and **periodic charges** may arise in respect of individuals who have already used their full Inheritance Tax nil rate band, and are considered to have settled their own cover into trust.
   We suggest individuals tell their tax adviser about any **RLP** or **EGLP** cover if they carry out any inheritance tax planning.
4. **Chargeable gains tax** does not apply to **EGLP**. While **chargeable gains tax** rules apply to other types of **RLP**, its calculation results in a zero tax charge for **RLP** insuring one person for a single payment on death.

# Glossary

### Benefit in kind

A benefit in kind is a taxable benefit an employee may receive from their employer. A benefit in kind will not be any form of pay. Examples of a benefit in kind include a company car, private medical insurance and critical illness cover.

The employer will know the value of the benefit in kind, and that value will normally be taxed as income.

Benefits in kind are sometimes called P11D benefits.

### Chargeable gains tax

Chargeable gains tax is a tax against profits made on a one-off basis. For example, a business may have to pay chargeable gains tax on any profit it makes when it sells an asset.

Chargeable gains tax will not apply to a **registered scheme** or an **EGLP**.

For other group life cover **policies**, chargeable gains tax will not apply to the first benefit payment, however, it may apply to second or subsequent benefit payments. This is because of the way the chargeable gain is worked out:

(surrender value + value of all previous claims) – all premiums paid = chargeable gain

The relevant tax rate is then applied to the chargeable gain.

For the first claim the value of all previous claims will be zero and the **policy** has no surrender value, therefore there cannot be a chargeable gain.

If there is a chargeable gain, we need to send a chargeable gain certificate to the policyholder, and sometimes, HM Revenue & Customs as well.

### Employer-financed retirement benefits scheme (EFRBS)

A **scheme** set up for employees that is not a **registered scheme**, an **EGLP** or any other type of **RLP**. Their tax treatment is generally unattractive.

Group life assurance for equity partners or LLP members can never be an employer-financed retirement benefits scheme because there isn't an employer-employee relationship.

### Excepted Group Life Policy (EGLP)

A type of life insurance policy that insures two or more people and meets the definition of an 'excepted group life policy' under s480 Income Tax (Trading and Other Income) Act 2005. It must meet all the conditions listed under s481 and s482 of the same Act.

### Exit charges

Exit charges are a type of inheritance tax that may apply to group life assurance benefits paid through a discretionary **trust**. Exit charges do not apply to **registered schemes**.

Exit charges can be complicated to work out. They are based on the time elapsed since the later of the **trust** start date, or the last ten-year anniversary of the **trust**. The exit charge rate moves from 0% up to 6% over each ten-year period. The rate may also be reduced if previous benefit payments have been taxed, or a tax allowance hasn't been used up.

### Lifetime allowance

From 6 April 2024 the Finance Act 2024 abolishes the lifetime allowance and introduces new allowances, including a **lump sum and death benefit allowance** that applies to most lump sums paid from a **registered scheme**.

Until 6 April 2024, lifetime allowance is the maximum amount of tax advantaged benefits that can be paid for an individual from all **registered schemes**. The lifetime allowance for the tax year 2023/24 is £1,073,100.

### Lump sum and death benefit allowance

The lump sum and death benefit allowance introduced by the Finance Act 2024.

This allowance is for the total amount that can be paid as tax-free lump sums from **registered** schemes for a person, both during their lifetime and when they die. Most tax-free lump sums taken during the person's lifetime will reduce the amount of allowance available for any lump sum benefits paid on death. The lump sum and death benefit allowance has been set at £1,073,100.

### Periodic charges

Periodic charges are a type of inheritance tax that may apply to group life assurance benefits paid through a discretionary **trust**. Periodic charges do not apply to **registered schemes**.

Periodic charges can be complicated to work out. They are usually based on the value of the **trust** at a 10-year anniversary. Most legal advisers believe a **trust**, set up only for group life assurance benefits, can only have a value for a period between the insurer paying the benefit to the **trustees**, and the **trustees** paying it on to the people entitled to it. Unless there is a death just before a ten-year anniversary and the benefits haven't left the trust, or a terminally ill insured person at that anniversary, most **trusts** should not have a value at that time.

The periodic charge rate can be from 0% up to 6%.

### Policy
The insurance contract is agreed between us and the **trustees**. The **trustees** use the policy to cover all, or some, of their liability to pay life assurance benefit under the **scheme**. We do not have a direct contractual relationship with employees.

### Registered scheme
A **scheme** registered with HM Revenue & Customs in line with the Finance Act 2004. Registered schemes can provide tax-free benefits up to the **lifetime allowance** or the **lump sum and death benefit allowance**, dependent on the date the benefits are due from. A registered scheme just providing life assurance benefits is often called a registered stand-alone death-in-service scheme. Registered schemes can also provide pensions on retirement.

### Registered scheme benefits
The benefits provided under a **registered scheme**.

### Relevant life policy (RLP)
A type of life insurance policy that meets the definition of 'relevant life policy' under s393B Income Tax Earnings and Pensions Act 2003 (introduced by s249 Finance Act 2004).

### Scheme
The legal contract the principal employer sets up to provide life assurance benefits to its employees. The scheme consists of a **trust** and scheme rules. The **trust** and rules describe who is included, the benefits provided and who the **trustees** can pay the benefit to.

The principal employer and **trustees** have responsibilities and liabilities recorded in the **trust** and rules. As an insurer, our liabilities are recorded separately in the **policy**.

Equity partners and LLP members decide together the eligibility and benefits.

### Trust
The legal document the principal employer uses to set up the **scheme** for its employees. The trust will be used to record important high-level information including the **scheme** name, the day the **scheme** starts and appoints **trustees**.

Equity partners and LLP members typically use a slightly different trust that doesn't set up a **scheme**. It states its purpose (to pay the benefits from the **policy**), who the **trustees** are, and the day it was set up from.

A discretionary trust is a type of trust a business will normally use to pay group life assurance benefits because of its tax advantages. A discretionary trust describes all the people who may receive benefit after an insured person dies. These people include dependants, relatives, charities and anyone else the insured person has chosen benefit to go to. The **trustees** decide who gets the benefit. They must act in the best interest of everyone and do not have to pay benefit to the people chosen by the insured person.

### Trustees
The trustees are responsible for running the **scheme** and paying benefit in line with the **trust** and **scheme** rules.

For stand-alone death-in-service **schemes**, the trustee will often be the principal employer. However, the principal employer can appoint a board of trustees or a trustee company instead.

For **schemes** providing pension benefits on retirement, the principal employer must appoint separate trustees.

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