



Employee protection technical bulletin 5

Market update – Post A-Day Implications

From the 6th April 2005, widely referred to as ‘A-Day’, the tax treatment of pensions and life assurance benefits changed. These changes were known as Pensions Simplification and a single pensions tax regime was introduced, which replaced the numerous previous tax regimes.

Many clients took the decision not to amend their scheme and/or rules when the new regime came into force. Instead they relied on the transitional measures introduced by the Registered Pension Schemes Regulations 2006 ("Modification Regulations"). The Modification Regulations allowed schemes to continue to take advantage of a notional earnings cap for a transitional period but this will come to an end on 5th April 2011.

From 5th April 2011 further changes will take place and this letter is being issued to ensure you are aware of the changes, and to give you time to make any changes to your Group Life Assurance scheme and supporting trust deed and rules, where necessary.

Please note that if you take no action, there could be an impact on your insured benefits, and subject to your specific circumstances the main concern could be the **potential uninsured liability if your scheme does not reflect the legislative changes.**

Therefore some areas for consideration are as follows:

- ◆ Do your scheme rules need to be updated to reflect the employment contract expectation of group life benefits?
- ◆ Do you want to insure full benefits, i.e. above the notional Earnings Cap?
- ◆ Are you aware of any members who have been granted Primary or Enhanced Protection on their pension?
- ◆ Do your group life assurance scheme rules reflect post A-Day legislation?
- ◆ Are your life assurance benefits insured in the most tax efficient manner?

If any of these considerations are relevant to your circumstances, we recommend you speak to one of our specialist group risk account managers, who can provide guidance around these issues to assist the Trustees with any decisions.

Just to recap how A-Day affected group life assurance benefits, the main changes are outlined below:

- ◆ The maximum benefit limits and earnings cap were removed.
- ◆ A Lifetime Allowance (LTA) was introduced which applies to all lump sum death in service benefits. The LTA started at £1.5 million in 2006/07 and has now risen to £1.8 million in 2010/11, but will reduce back to £1.5 million in 2012.
- ◆ Life assurance lump sum benefits are counted towards the LTA and are paid tax-free.
- ◆ Where the crystallised value of benefits, including lump sum exceeds LTA, they are taxed at 55%.
- ◆ It should be noted that Dependant’s pensions do not count towards the LTA.



Notes

This is a guide only and you are advised to seek your own legal guidance before taking any action.

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