

A Day, the 6th April 2006, marked the start of changes to the contribution and benefit limits that apply to all tax-privileged pension arrangements. These changes also apply to Group Life and Dependants' policies. Therefore, as a Group Risk specialist we have looked at the impact in detail and mapped the necessary policy transitions, tax implications and options available for your clients.

WARNING: The information contained in this document is based upon Unum's current interpretation of the underlying legislation which may change. We do not accept any responsibility for any loss which may arise based upon reliance on the information enclosed.

Here we present a summary of the options available to help you create the best solutions for your clients and help you manage the impact as efficiently as possible.

What's changed?

Previously Approved Occupational Pensions and Approved Group Life schemes have been subject to similar benefit limits. For example, the earnings cap (£105,600 for 2005/2006 tax year) limited the earnings on which approved pension and death-in-service benefits were based.

Tax-privileged lump sum benefits payable on death-in-service were limited, for most employees, to up to four times the earnings cap for Approved Group Life schemes and up to 2/3rds the member's prospective pension for dependants' pensions. The new legislation makes it possible to radically change the shape of Group Life benefit structures.

The major changes that apply specifically to Group Life policies mean:

- Existing Approved policies for employees automatically became Registered policies.
- The introduction of the Lifetime Allowance (LTA) on the value of all tax-privileged pension savings, including lump sum benefits payable on death. This was set at £1.5 million in 2006 and will increase year on year.
- There is no requirement for lump sum benefits to be a multiple of salary.

- Unlimited lump sum death-in-service benefits. Tax-free if below the LTA. A tax rate of 55% applies to lump sum benefits above the LTA.
- Unlimited dependants' pension payable on death-in-service, taxed as income.
- No earnings cap. A scheme may set its own cap or rely on transitional provisions that allow an "earnings cap" to continue in the pre A Day format until April 2011.
- The introduction of an Annual Allowance (AA) for Defined Contributions or increases in value of Defined Benefits. Premiums in respect of insured death-in-service benefits provided under a Defined Benefit arrangement do not count towards the AA.
- A more straight-forward HMRC (HM Revenue & Customs) on-line scheme registration process has replaced approval applications.
- New pension schemes established after A Day only have a tax advantaged status once they have been formally registered with HMRC.

Lifetime and Annual Allowance Table		
Tax Year	LTA	AA
2006/7	£1.5m	£215k
2007/8	£1.6m	£225k
2008/9	£1.65m	£235k
2009/10	£1.75m	£245k
2010/11	£1.8m	£255k
Published by HMRC; reviewed every 5 years.		

the impact of
Pensions Simplification
 on Approved Group Life and Dependants' Pension policies

June 2007

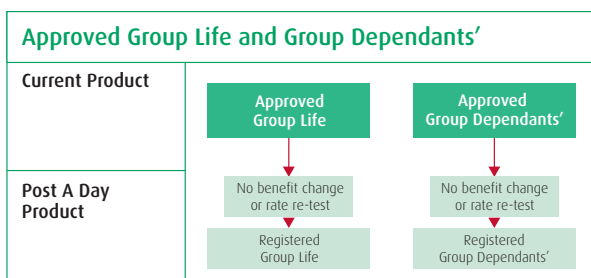
Impact on existing Approved policies

The implications differ between those existing Approved policies that retain their current benefit structure and those that are changed. The impact on Approved Group Life policies, where there is no change to current benefit structure, is minimal. In reality the tax-privileged benefits of many employees do not approach the Lifetime Allowance.

► **For customers who do not want to make a benefit change**, we have provided all intermediaries, whose customers have existing Approved Group Life or Dependants' Pension policies, with a policy endorsement that ensures that their policies comply with the new requirements. The endorsement is effective from A Day. The policy endorsement focuses on:

- Introducing a notional earnings cap to replace reference to the statutory earnings cap.
- Amending the definition of the maximum age for a dependent child to be age 23.

All other terms and conditions of the policy, including premium rates and rate guarantee period, are unaffected by A Day.

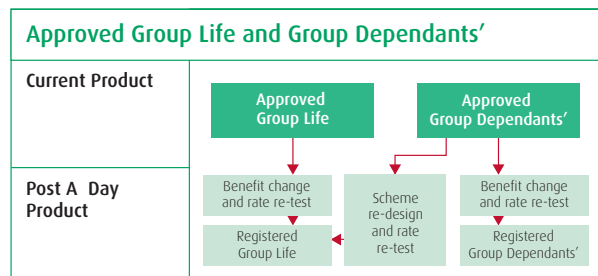


► **For customers who do wish to make a change to current benefit design.**

Employers and trustees may be looking at ways to:

- Optimise the use of the Lifetime Allowance.
- Provide more than 4 times salary as a lump sum death benefit.
- Convert some dependants' pension to an equivalent lump sum.
- Transfer current Unapproved benefits into a Registered scheme.
- Remove or modify the current earnings cap.

Removal of the earnings cap presents an opportunity to radically change scheme design, and increase the current level of benefit for members subject to the existing cap. However the question then arises about the appetite to do so. We expect that many employers are looking to maintain current costs and benefit levels - at least for the time being. In most instances a change in benefit will require a rate re-test.



An opportunity arises with dependants' pensions. Although they do not count towards the members LTA and have no imposed maximum benefit limits, they will continue to be taxed as earned income. Consequently, some schemes may wish to offer employees the choice of replacing existing dependants' pensions with increased amounts of lump sum benefit in order to maximise the amount of tax-free lump sum that can be provided on death. The example below illustrates one possible scenario.

	Current	Revised
Earnings	£60,000	£60,000
Lump sum	4 x salary = 4 x £60,000 = £240,000	12 x salary = 12 x £60,000 = £720,000
Dependants' pensions	= £26,667 p.a. taxed as income (4/9ths of earnings)	£nil p.a.

Where a Guaranteed Minimum Pension needs to be provided, the scheme will not be able to replace the pension entirely with a lump sum benefit.

Clients and intermediaries need to consider the options for higher earners. Schemes may still wish to provide dependants' pensions where their lump sum benefit has reached the Lifetime Allowance.

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The moral issue

Employers are presented with a moral dilemma when considering replacing dependants' pensions with increased amounts of lump sum benefit. To what extent do they want to "encourage" or allow employees to select lump sum benefits for their beneficiaries. What might a spouse live on when all this lump sum has gone? Are they able to make appropriate investment decisions? Can they make the best use of this lump sum given that this may be all they have to live on in the future?



Registration instead of 'Approval'

From A Day our on-risk process changed. Approval of schemes has been replaced by scheme registration, schemes must be registered before we can go on-risk. A Day and the new registration process mean:

- An end to the submission of Group Life schemes for approval by HMRC. This is replaced by a process of registering a scheme. Registration with HMRC is on-line only and by the scheme administrator.
- HMRC handle Registrations on a "process now and check later" basis, in line with other areas of their business. HMRC has the power to enquire into the scheme's affairs at a later date and could then withdraw the scheme's registration.

- A scheme is registered instantly at the time the scheme administrator submits a valid on-line application.
- Scheme administrators receive electronic notification that the scheme has been registered and the effective date, along with a Pension Scheme Tax Reference number.
- Scheme administrators need to keep their details and the registration details updated on-line.

The tax implications

	Registered Group Life	Registered Group Dependants' Pensions
Premiums	Employer pays the premium and claims as a business expense. Not a Benefit-in-Kind (P11D).	Employer pays the premium and claims as a business expense. Not a Benefit-in-Kind (P11D).
Benefit	Lump sum with no limit. Tax-free upto LTA/PLTA. Excess of LTA/PLTA is taxed at 55%.	Pension with no limit. All pension taxed as earned income.

Notes:

- I. Lifetime Allowance (LTA) set at £1.6m (for the 2007/8 tax year) and increases annually.
- II. Some pre 06/04/2006 members may have primary transitional protection and have their own (higher) Personal Lifetime Allowance (PLTA).
- III. Lump sums from all Registered schemes count against the LTA/PLTA. Retirement benefits already received will have used part (or all) of the LTA/PLTA.
- IV. The LTA tax charge falls solely on the recipients of the lump sum death benefits. The personal representatives of the member are responsible for ascertaining any charge.
- V. Employer premiums to Defined Benefit Group Life policies do not count towards the Annual Allowance.

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What do you need to do?

We would like to ensure that you have the necessary information and support you need to assess the impact of the new tax regime on Group Life policies. Documents are available that cover Unapproved policies and Equity Partners policies.

Then we would like you to take the following steps:

- Step 1 - Contact your clients** - determine if and how they want to change their schemes.
- Step 2 - Where there are no scheme changes** - you need do nothing further, as we provided you with the necessary endorsements for policies to comply with the new requirements.
- Step 3 - Where there are scheme changes** - let us know if you plan to make changes e.g. removal of the earnings cap that will require a rate re-test.
- Step 4 - Discuss your options** - you may like to discuss your options with one of our Sales Consultants located in our Regional Sales Offices.
- Step 5 - Once you have agreed scheme design** - submit a revised quotation request using the e-mail information detailed [overleaf](#).

This note relates to Approved Group Life and Dependants' Pension policies. Separate notes are available for each of Unapproved and Equity Partner policies.

Unum contact and support

Unum web site

You can access more information regarding Pensions Simplification on the Adviser section of our web site at www.unum.co.uk

Unum Sales Consultants

Your usual Unum Sales Consultant can discuss with you any changes to scheme design you wish to make. We have almost 40 consultants in the UK who can talk to you about the impact of Pensions Simplification or any of your other requirements regarding Group Risk. Full details of our Regional Sales Offices are shown overleaf.

Regional Sales Offices

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