LGE
Local Government Employers

Local Government
House, Smith Square,
London SW1P 3HZ

Tel 020 7187 7373
Fax 020 7664 3030

pay, pensions and
employment solutions

Local Government Pensions Committee
Secretary, Terry Edwards

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AVC LIFE COVER

1. This Bulletin provides information on whether, following the 2007 Budget announcement, tax relief is available on AVCs paid for life assurance cover.

2. Following the 2007 Budget statement, HMRC placed BN18 on their website (see http://www.hmrc.gov.uk/budget2007/bn18.htm). A copy of BN18 is attached at Annex 1. The Finance Bill 2007 (see Annex 2) contains the relevant provisions which, when enacted, are intended to deliver the policy intention behind the Budget statement.

3. In essence, the Finance Bill provides that contributions made on or after 1 August 2007 under a "non-group life policy" will cease to attract tax relief, unless the application for the policy was received before 29 March 2007 and the policy was taken out as part of the pension scheme arrangements before 1 August 2007.

4. The key question in determining whether the tax relief changes will apply to AVC life cover under the LGPS is whether or not such cover is provided under a "non-group life policy".

5. This question was discussed at the Technical Group meeting on 12 June 2007 and it was agreed that as AVC life assurance policies seemed to fall somewhere between being:
   - group life assurance (in that the premiums are standard rates applicable to all life assurance cover taken out by individual LGPS members), and
   - non-group life assurance (in that the assurance only covers those LGPS members who personally decide to pay AVCs for extra life cover i.e. cover is not provided to all Scheme members)

   the position needed to be clarified.

6. One of the major AVC providers, the Prudential, has now received confirmation[1] from HMRC that the policies they offer, which allow both Pension Investment and Pension Term Assurance (i.e. AVC life assurance cover), are not caught by the removal of tax relief i.e. they are group policies, rather than non-group policies and thus tax relief can continue to be given.
7. Administering authorities who use an AVC life assurance provider other than the Prudential are advised to check with their provider that the AVC life assurance they offer is, as in the case of the Prudential, provided under (in effect) a group policy.

Terry Edwards

Head of Pensions

June 2007

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[1] This assumes no material change in the wording of the Finance Bill 2007.

Annex 1

BN18 - Tax Relief on Personal Term Assurance

Who is likely to be affected?

1. Scheme administrators, members of registered pension schemes and their dependants, insurance companies and financial advisers.

General description of the measure

2. The measure removes an individual's entitlement to tax relief on any pension contributions they pay that are used to fund personal term assurance policies. It does not affect the relief available for contributions paid by employers.

Operative date

3. For contributions under occupational registered pension schemes, this measure will have effect for all contributions made on or after 1 August 2007 in respect of personal term assurance policies, unless the insurer received the application for the policy before 29 March 2007 and the policy was taken out as part of the pension scheme before 1 August 2007.

4. For contributions under other registered pension schemes, it will take effect for all contributions made on or after 6 April 2007 in respect of personal term assurance policies, unless the insurer received the application for the policy before 14 December 2006 and the policy was taken out as part of the pension scheme before 6 April 2007.

5. Where relief remains available for contributions paid on or after 1 August 2007 (for occupational schemes) or on or after 6 April 2007 (for other schemes), the individual will cease to be entitled to relief if the policy to which the contribution relates is varied outside its original terms so as to increase the sum assured or lengthen the term. However, if there is an option under the policy which is then exercised this will not affect the relief due.

Current law and proposed revisions

6. Term assurance policies are life insurance policies that only pay benefits on the death or critical illness of insured persons. When taken out outside a pension, there is no tax relief on premiums and no tax to pay on lump sum benefits.

7. As part of pensions tax simplification, the previous limits on the provision of death benefits through registered pension schemes were removed from 6 April 2006. This enabled a term assurance policy to be sold with pension tax relief so long as the policy terminated before the 75th birthday of the insured individuals.

8. The member gets tax relief on contributions under the scheme that are used to pay for the term assurance policy but if the member dies and the insurance policy pays out the death benefits these will not normally be taxable but may be subject to the lifetime allowance charge if, when aggregated with other benefits from registered pensions schemes, the lump sum death benefit exceeds £1.5m in 2006-07 (£1.6m in 2007-08).

9. The change to be introduced in Finance Bill 2007 will mean that individuals will no longer get tax relief on pension contributions that are used to pay premiums under personal term assurance policies. A term assurance policy will be regarded as personal to the individual if it terminates the first time an insured person dies, as with all single life policies and most joint life policies, or if all the insured individuals are members of the same family.

10. The Finance Bill legislation will also provide new powers to pass secondary legislation which will enable the Government to act quickly to remove relief from new products sold with a view to avoiding the new restrictions on tax relief. This supplements existing powers that provide for specified types of payment by registered pension schemes to be treated as unauthorised payments.

11. The Government is happy to hold further discussions with the industry between publication and Finance Bill Committee Stage about the detail of the draft legislation in order to ensure that the measure only affects the policies and contributions it is intended to catch.

Further advice

12. These changes are included in the full Regulatory Impact Assessment published today.

13. If you have any questions about this change, please contact the Pensions Helpline on 0115 974 1600.

Annex 2

Relevant Extracts from the Finance Bill 2007

Part 4 - Pensions

67 Abolition of contributions relief for life assurance premium contributions

Schedule 18 contains provisions denying relief for contributions made by or on behalf of members in respect of life assurance premiums.

Schedule 18 - Pensions Schemes: Abolition of Relief for Life Assurance Premium Contributions Etc

Section 67
Introduction
1
Part 4 of FA 2004 (pension schemes etc) is amended as follows.

Life assurance premium contributions not to be relievable pension contributions
2
In section 188(3) (relief for members' contributions: contributions which are not relievable pension contributions), after paragraph (a) insert -
(aa) "any contributions which are life assurance premium contributions (see section 195A),".

Life assurance premium contributions
3
After section 195 insert -
"195A Life assurance premium contributions
(1) Contributions paid by or on behalf of an individual under a registered pension scheme are life assurance premium contributions for the purposes of section 188(3)(aa) if -
(a) rights under a non-group life policy (see subsection (2)) are (or later become) held for the purposes of the pension scheme, and
(b) the contributions are treated by this section as paid in respect of premiums under the non-group life policy (see subsections (3) to (5)).

(2) For the purposes of this section a "non-group life policy" is a policy of insurance under which the only benefits which may become payable are benefits payable in consequence, or in anticipation, of -
(a) the death of the individual or one of a group of individuals which includes the individual, or
(b) the deaths of more than one of a group of individuals -
(i) which includes the individual, and
(ii) the other members of which are connected with the individual.

(3) Contributions paid by or on behalf of the individual under the pension scheme are treated as paid in respect of premiums under the non-group life policy if -
(a) the payment of the contributions constitutes the payment of premiums under the policy, or
(b) the person by whom the contributions are paid intends the contributions (or an amount equivalent to them) to be applied towards paying premiums under the policy.

(4) Where the amount of the premiums under the policy in a tax year exceeds the amount of any contributions treated as paid in respect of the premiums by subsection (3), other contributions paid by or on behalf of the individual under the pension scheme in the tax year are treated as paid in respect of premiums under the policy to the extent that their amount does not exceed the difference between the amount of the premiums and the amount of any contributions treated as paid in respect of the premiums by subsection (3).

(5) But where -
(a) the benefits under the policy relate to the death of one or more of a group of individuals, and
(b) contributions are also paid under the pension scheme in the tax year by or on behalf of another member or other members of the group,
the amount of the contributions paid by or on behalf of the individual which are treated as paid in respect of premiums under the policy by subsection (4) does not exceed what is just and reasonable having regard to the operation of section 188(3)(aa) in relation to the contributions paid by or on behalf of another member or other members of the group.

(6) The Commissioners for Her Majesty's Revenue and Customs may by regulations amend subsections (2) to (5).

(7) Regulations under subsection (6) which limit -
(a) the policies of insurance which are non-group life assurance policies for the purposes of this section, or
(b) the contributions which are treated by this section as paid in respect of premiums under such policies,
may be made so as to have effect in relation to times before they are made.

(8) For the purposes of this section an individual ("A") is connected with another individual ("B") if -
(a) A is B's spouse or civil partner,
(b) A is a relative of B,
(c) A is the spouse or civil partner of a relative of B,
(d) A is a relative of B's spouse or civil partner, or
(e) A is the spouse or civil partner of a relative of B's spouse or civil partner;
and for the purposes of this subsection "relative" means brother, sister, ancestor or lineal descendant."

Commencement: occupational pension schemes

6

(1) In relation to contributions under any occupational pension scheme, the amendments made by this Schedule have effect in relation to contributions paid on or after 1st August 2007.

(2) But they do not have effect in relation to such contributions paid at any time if the contributions are treated as paid in respect of premiums under a policy of insurance which at that time is a protected policy (see paragraph 7).

7

(1) This paragraph specifies when a policy of insurance is a protected policy in a case where the rights under it are held for the purposes of an occupational pension scheme.

(2) A policy of insurance within sub-paragraph (3) or (4) is a protected policy but only until a relevant event occurs (see sub-paragraphs (5) to (7)).

(3) A policy of insurance is within this sub-paragraph if -
(a) it is issued in respect of insurances made before 21st March 2007,
(b) the pension scheme became a registered pension scheme before that date, and
(c) rights under the policy became held for the purposes of the pension scheme before that date.

(4) A policy of insurance is within this sub-paragraph if -
(a) it is issued in respect of insurances made before 1st August 2007,
(b) the pension scheme became a registered pension scheme before that date,
(c) rights under the policy became held for the purposes of the pension scheme before that date,
(d) the policy was issued in pursuance of a proposal made in writing (by whatever means) and received by or on behalf of the insurer before 29th March 2007,
(e) the amount of the benefits payable under the policy (at the latest of the time when the insurances were made, the pension scheme was registered or rights under the policy became held for the purposes of the pension scheme) is no more than the amount applied for in the proposal,
(f) the period for which benefits are so payable (at the latest of those times) is no longer than the period specified in the proposal, and
(g) the policy is not a protected policy by virtue of sub-paragraph (3).

(5) For the purposes of sub-paragraph (2) a "relevant event" occurs if, after the relevant time, the terms of the policy are varied so as to -
(a) increase the benefits payable under the policy, or
(b) extend the period during which benefits are so payable.

(6) "The relevant time" -
(a) in the case of a policy of insurance within sub-paragraph (3), is 20th March 2007, and

(b) in the case of a policy of insurance within sub-paragraph (4), is the time when it became a protected policy.

(7) A variation of the terms of a policy made in order to comply with the Employment Equality (Age) Regulations 2006 (S.I. 2006/1031) or Employment Equality (Age) Regulations (Northern Ireland) 2006 (S.R. 2006/261) (or any regulations amending or replacing them) is to be ignored for the purposes of sub-paragraph (5).

Power to amend commencement provisions

8

(1) The Commissioners for Her Majesty's Revenue and Customs may by regulations amend paragraphs 4 to 7.

(2) Regulations under sub-paragraph (1) having the effect of limiting the contributions which are life assurance premium contributions may be made so as to have effect in relation to times before they are made.

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LGPC
Local Government Employers
Local Government House
Smith Square
London, SW1P 3HZ

or email: terry.edwards@lge.gov.uk
tel 020 7187 7346
fax 020 7187 7367