Punter Southall
Governance Services

Excepted life assurance master trust

Removing your compliance burden and saving tax for beneficiaries

Many employers use an excepted life scheme to provide death in service benefits for employees affected by the pension lifetime allowance.

These come with compliance and governance issues that can lead to **tax charges and Financial Ombudsman complaints** if not handled correctly.

Managing your excepted life scheme has just got much simpler.

Managing improper decision risk

Discretionary payment pitfalls

Issue

For most excepted life schemes, the employer acts as trustee and is responsible for exercising discretion on the appropriate beneficiary for death benefits.

This can be **fraught with danger** opening the trustee to complaints and potential Financial Ombudsman cases.

You can't simply rely on the expression of wish form.

Solution

Our professional independent trustees act as trustee for your policy under the PSGS Excepted Life Master Trust.

We take away the responsibility for all discretionary decisions, removing the risk, administration and hassle from you.

This is our day job and we know how to avoid the pitfalls associated with death benefit payments.

Case study

Why an excepted life trust is so important

The situation

A senior employee dies in active employment before drawing any of their pension benefits.

Basic salary: £120,000

Death in service benefit: £480,000
(4 x basic salary paid from a registered group life trust)

Defined contribution pension savings: £750,000

The issue

In this situation, the employee's full DC pension savings of £750,000 are paid out as 'uncrystallised lump sum death benefits' (excuse the HMRC jargon) and tested against the lifetime allowance.

The £480,000 lump sum paid from the group life trust is a 'defined benefits lump sum death benefit' and is also tested against the lifetime allowance.

The employee has no lifetime allowance protection so, in the 2018/19 tax year:

Total payments made to be tested:
£750,000 + £480,000 = **£1,230,000**

Lifetime allowance exceeded by:
£1,230,000 - £1,055,000 = **£175,000**

Tax charge:
£55% x £175,000 = **£96,250**

The liability for paying this £96,250 tax charge falls on the beneficiaries of the employee's death benefits.

The excepted life trust solution

If the employee's 4 x salary death benefit had been insured under an excepted life trust, the lump sum paid out would not be tested against the lifetime allowance.

Total payments made to be tested: £750,000

Lifetime allowance not exceeded

No tax charge!

If the employer had used an excepted life trust, the individual's beneficiaries would have been saved the tax charge

Punter Southall
Governance Services

Punter Southall
Governance Services

Excepted life master trust

Ensuring compliance

Issues

Periodic tax charge

Liability incurred on 10 year anniversary of your excepted life trust.

Exit tax charge

Additional charge on payments from your trust that can be levied after 10 year anniversary.

Solution

Stringent internal controls mean we close the PSGS Excepted Life Master Trust ahead of the 10 year anniversary and automatically establish a new trust to ensure **continuation without the risk of tax charges**.

Issue

Re-establishing your trust every time you change insurer

To avoid the legal costs associated with drafting a bespoke trust deed, most employers use their insurer's off the shelf documents to establish their excepted life scheme. This means a new trust needs to be set up each time you change insurer following a market review and makes switching administratively complex.

Solution

The PSGS Excepted Life Master Trust enables an employer to **contract with any insurer** for life cover and **switch at any time** without the need to execute new trust documents.

Speak with us to find out how our Excepted Life Master Trust can help you manage the risks of providing death benefits.

Set up is simple

Your policy under the PSGS Excepted Life Master Trust can usually be **set up in just a few days**.

A **fixed annual fee** delivers cost certainty. Only complex discretionary cases may incur an extra charge.

To learn more, contact:

James Double
Head of Trusteeship

020 3327 5368

james.double@psgovernance.com

For other services, email
info@psgovernance.com
or call 0845 313 0024

psgovernance
.com