AV Trinity

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Could your Death in Service benefit damage your pension?

Death in Service benefits provide a fantastic means to leave your loved ones a sum of money in a tax efficient manner at a time where they are likely to need it most. However, for some, this benefit can also carry a significant drawback.

D I S schemes are subject to the rules of Registered Pension Schemes and the maximum benefit that can be paid without a tax charge is equal to the Lifetime Allowance, currently set as £1 million (as at 01/12/2016). But there are other factors that need to be taken into consideration.

One of these lesser known factors is that this benefit also has to take into consideration the value of all pension schemes held by the individual. Therefore, if the total value of your pension schemes, in addition to your Death in Service benefit exceeds the Lifetime Allowance, the excess is subject to tax, currently at 55%.

For those of you that applied for and achieved Fixed Protection, where the Lifetime Allowance was fixed at a higher level than £1 million, there is an even greater issue facing you. Fixed Protection allows you to secure a greater Lifetime Allowance on the proviso that you do not make any further contributions to any pension scheme. In the event that you make additional contributions or are automatically enrolled into your workplace pension scheme, and do not 'Opt Out' within the 30 day timeframe, your Fixed Protection will be lost.

As Death in Service benefits are subject to the rules of Registered Pension schemes, being enrolled into one could be deemed to be 'making a contribution' to a pension scheme. This could cause you to lose your Fixed Protection. With the combination of the loss of your Fixed Protection and the increase of the Death in Service benefit, all of a sudden your chosen beneficiaries could be facing a sizeable tax charge instead of the legacy you had planned for.

And that is not all. Death in Service benefits are often reviewed and re-brokered every year as employers try to seek ever more competitive rates. In many cases, to simplify administration, new policies are set up using new trusts. When a new trust is set up, it is often classed as a new scheme and therefore Fixed Protection could be lost.

In most cases, the above factors are out of your control and, for those of you that have considerable pension savings and/or high earnings (and therefore a high Death in Service benefit) you need to pay close attention to the value of your pension schemes and your Death in Service benefit.

So what are your options?

The Government is aware of the complications and as such, they have allowed the introduction of 'Excepted' Life policies, such as Relevant Life Plans. Provided your employer agrees to implement these on your behalf, they can be used to circumvent the above problems. Just like a Death in Service benefit, the proceeds of a claim are paid to your chosen beneficiaries in a tax efficient manner. The important difference is that the amount paid out at the time of a claim is not tested against the Lifetime Allowance and therefore cannot impact your pension.

Additionally, the premiums for an 'Excepted' Life policy are not classed as a benefit in kind and qualify as an allowable expense for your employer.
In summary, it is strongly advised that you seek independent advice from a professional.

Please contact us

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