Registered life assurance scheme VS Excepted life assurance scheme

DAM Community Hub

What is Group Life Assurance?

Group Life Assurance - also known as death in Service - is a way to provide life protection for a group of employees working for a single employer. It pays out a cash lump sum into a specially - drafted trust on the death of an employee, which is then distributed to the employee's family, in accordance with their nomination of beneficiary form. You can cover your employees for different multiples of salary - between two and four times salary is typical , although some providers permit multiples up to 15 times salary. Alternatively, you can cover employers for a fixed sum each.
Central to any good employee benefits package, Group Life Assurance is a highly-valued benefit among employees. It can help attract new staff and retrain existing ones, all the while showing your duty of care as an employer.

What is a registered Group Life Scheme?

Most Group Life assurance schemes are set up as registered schemes. This means that on death, the benefit from registered group life assurance schemes counts towards the Lump Sum & Death Benefit Allowance (LSDBA), currently standing at £1,073,100 in 2025/26.

The LSDBA allowance limits how much can be paid tax-free on death. In some circumstances a lump sum paid from a pension scheme can count towards to LSDBA allowance, depending on how it is accessed.

Any benefits paid out as a lump sum above £1,073,100 will be subject to a tax at the beneficiary's marginal rate. This allowance may be higher if the individual has pension protection in place.

Therefore, when deciding on the suitability of a group life assurance scheme, we consider the benefits payable under the scheme as well as any potential lump sum pension benefits payable on death.

How can we prevent this tax charge?

The alternative to a registered group life scheme is an Excepted Group Life Policy. Benefits paid out under an excepted policy are not tested against the lump sum and death benefit allowance (LSDBA) meaning the benefits will be tax free, even if in excess of £1,073,100.

However, excepted Group Life Schemes are more complicated, especially with regards to the inheritance tax rules applicable to the discretionary trusts required during set up.

Key differences between Registered V Excepted life assurance schemes include:

1. Tax relief is available on the premiums an employer pays for a registered scheme. The legislation is less clear for excepted group life schemes. Although in principle HMRC agrees tax relief is available for such schemes for the employer, for any employee-financed portion of premiums, e.g. via salary sacrifice, tax relief is not available for an excepted scheme whereas it would be for a registered scheme.
2. A registered scheme is permitted under tax legislation to pay dependants' pension benefits (if it's a joint Death in Service and company pension scheme). An excepted scheme cannot do this; only a lump sum can be insured under an excepted group life scheme (EGLP).
3. With a registered scheme, you can have different multiples for different levels of seniority within the business, or have some people, e.g. directors, on a fixed lump sum. This isn't possible under an excepted scheme, and having a separate excepted scheme for each different benefit basis increases administration.

4. The legislation for registered schemes is well documented. HMRC provides registered scheme support for both employers and trustees. The legislation for EGLP isn't so clear and employers may need to pay for legal advice to clarify particular points.
5. Exit charges and periodic charges may apply to an EGLP due to the discretionary trust used during set up. However, these charges don't apply to a registered scheme.

Establishing an Excepted Group Life Scheme

To establish an excepted group life scheme, you'll need to do the following:

- Establish a discretionary trust deed, which is treated as a relevant property trust. The only asset in that trust will be the excepted group life policy.
- Cover at least two lives.
- Ensure the policy provides for a cash lump sum payable on the death of a person included in the policy before the age of 75, with the same method (e.g. multiple of salary, fixed figure) being used across all staff members which the scheme covers.
- Make sure the policy has no surrender value other than the return of a proportion of the premiums in respect of the unexpired period of risk that had been paid in advance.
- Provide evidence that the policy payout is paid to an individual or charity beneficiary entitled to them; or a trustee or other person who will ensure that the beneficiary receives the payout.
- Make sure tax avoidance is not the main purpose or not one of the main purposes.

Inheritance tax and excepted group life schemes

With an excepted group life scheme, a specific type of trust known as a discretionary trust need to be set up when the policy is initiated. This means excepted schemes are subject to the usual inheritance tax rules that apply to discretionary trusts, which could, in certain rare circumstances, give rise to:

- Entry charges - charged when something is places in the trust.
- Periodic charges – at each 10 year anniversary of the trust.
- Exit charges - when anything of value leaves the trust.

These charges apply when anything of value is places into a trust, has been in a trust for 10 years, or if anything of value leaves the trust. However, for an excepted life assurance scheme, the only asset permitted in the trust is the policy itself. This is unlikely to be deemed to have any value by HMRC if all members are of good health on the date the policy was 'settled' into the trust.

Where a member is terminally ill, though, an actuarial value may be calculated to determine the entry charge, which will typically be 20% of any value HMRC deems the trust to have. A periodic charge is a percentage of the value of the asset(s) in the fund on each tenth anniversary of the creation of the trust.

Again, where the only asset in an excepted group life assurance trust is the policy, the trust is unlikely to be deemed to have a value unless:

- A member dies close to the tenth anniversary and the death benefits were due or held by the trust and had not been paid to the beneficiaries; or
- A member is terminally ill at the tenth anniversary, in which case an actuarial value may be calculated.

The periodic charge will typically be 6% of any value. An exit charge may be due if HMRC deemed the trust to have value on its last 10 year anniversary; if, however the charge at the previous 10-year anniversary is nil, an exit charge for anything of value leaving the trust between 10-year anniversaries will also be nil. In the first 10 years, the value added to the trust would be proportionate share of the premiums paid for the deceased individual. However there would not normally be any exit charge in the first 10 years as the policy is unlikely to have any value given that a group life insurance policy has no surrender value. As the trustees have discretion over the payment of the death benefits, these are not treated as within the scheme member's estate. A solution to avoid potential IHT, would be to wind up the scheme after 9 years so that the 10 years is not breached.

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