

Death in Service Benefits under Individual Executive Pension Term Insurance.

Death in Service (DIS) plans are an additional benefit that can be provided for employees, giving them the security that should they die whilst in that employment, a benefit can be payable which can include death in service lump sums, spouses/dependents pensions and the creation of an Approved Retirement Fund for a beneficiary.

Executive Pension Term insurance is arranged under a one-member occupational pension scheme and is available to employee's whose employers wish to put such an arrangement in place. The policy is held under irrevocable trust by way of the Letter of Exchange with the Trustee being the policyowner who takes out the policy on the life of the member and is responsible for arranging for payments to the relevant beneficiaries in the event of that members death. The Trustee for an Executive Pension Term arrangement with Zurich Life Assurance plc must be the employer.

Executive Pension Term Insurance is a Life Cover only plan where a sum insured is payable in the event of the life insured's death within the term to their Normal Retirement Age (NRA). The policies are cost effective as tax relief is available on the premiums paid (subject to usual Revenue limits).

The Pensions Authority have recently confirmed that Pension Scheme's which provide Life Cover only which would include Group Risk Schemes and Executive Pension Term Insurance schemes are not subject to the new IORPS II Regulations which came into effect on the 22nd April 2021. This is good news for Trustees of those schemes, however those Trustees are still subject to the pre-existing obligations under the Pensions Act.

In this Techtalk we cover the details of the Executive Pension Term Insurance arrangement under the headings of (a) Eligibility, (b) Tax relief on premiums, (c) Maximum lump sums on death and (d) potential tax for the estate

Eligibility: The member must be registered as an employee of the schemes employer with the Revenue and receiving a salary which is taxable under PAYE to be eligible to join the scheme. Proof of that income will be required in the form of a payslip or Employment Detail Summary to seek Revenue approval for the scheme. That employee as life insured must be aged between 18 and 65, to proceed with a Zurich Life Executive Pension Term Insurance contract.

It is important to note that the NRA for the Executive Pension Term Insurance scheme must mirror the NRA for any other occupational pension scheme linked to the same employment in which that employee is a member.

The maximum age of expiry is 70 assuming the NRA on the scheme is 70, the minimum term on the contract is 5 years.

Where an employer provides Death-in-Service benefits only through an Executive Pension Term Insurance arrangement for an employee, that employee is still considered to be in non-pensionable employment and may contribute to a PRSA or Personal Pension/RAC.



Tax relief: Generally speaking the cost of the cover on these schemes is paid entirely by the employer. The employer can seek tax relief on the premiums they pay for the Executive Pension Term Insurance when filing their annual accounts. Relief can only be given on the premiums paid in the given accounting period.

Maximum Lump Sums: On death-in-service the Trustee’s must adhere to the Revenue rules around maximum allowable death in service lump sums and arrange for spouses or dependents pensions with any residual funds.

These limits apply to all schemes linked to the employment so where there are separate pension schemes for the same employment then the funds or sums insured under same must also be factored into this calculation.

The maximum allowable death in service lump sum is the greater of €6,350 or four times the deceased employee’s final remuneration.

This maximum allowable lump sum must be reduced by any retained benefits (lump sums payable from pension arrangements linked to previous employments*) except in cases where the death in service lump sum being paid is equal to or lesser than 2 x Final Remuneration.

*This includes Personal Retirement Bonds and occupational pension schemes linked to previous employments.

Trustee’s may also allow that a refund of any employee contributions or AVC’s made to other schemes or AVC arrangements linked to the employment (including interest on same) may be paid in addition to any death in service lump sum.

The definition of final remuneration for an ordinary employee can be any of the three available definitions in Appendix I of the Revenue Pensions Manual.

Those definitions of Final Remuneration are as follows:

Definition (i)

(a) Basic remuneration over any 12-month period of the five years preceding the relevant date (that is, the date of retirement, leaving service or death, as the case may be),

plus

b) the average of any fluctuating emoluments over three or more consecutive years ending on the last day used in (a) above.

Definition (ii)

The average of the total emoluments for any three or more consecutive years ending not earlier than ten years before the relevant date.

Definition (iii)

The rate of basic pay at the relevant date or at any date within the year ending on that date plus the average of any fluctuating emoluments calculated as in (i) above.

The definition of final remuneration for a 20% director can be definition (ii) as above but Revenue also allow that in death in service scenario that they can also have Final Remuneration based on the rate of pay payable at the date of death.

Members may complete a letter of wishes or nomination form in which they advise the Trustee’s how they wish benefits to be paid on death. The benefits payable on death may be

paid to a nominated beneficiary as advised by the member or distributed at the discretion of the trustee who is not legally bound by any instruction given in same nomination form or letter of wishes.

Where the sum insured exceeds the maximum allowable lump sum, then there is the option to purchase an annuity for a spouse/dependent or invest those funds in an ARF.

Example

John is a member of an occupational pension scheme for pension benefits and his employer also provides a death in service benefit via an Executive Pension Term Insurance arrangement. John also has a PRB from a previous employment.

We have summarised John’s situation below and looked at what would happen to his benefits in the event of his death whilst in service.

Member: John

Final Remuneration: €75,000

Occupational Pension Scheme Benefits: €200,000 (Split between Employer Contributions: €100,000 & Employee Contributions: €100,000)

Executive Pension Term Sum Assured: €300,000 (Employer has insured for 4 X Final Remuneration)

Retained Benefits: €50,000 (PRB from a previous employment)

Lump Sum Payable under PRB

The PRB can be paid in full to the members estate as a preserved benefit so a payment of €50,000 would be payable in respect of the PRB.

Maximum Allowable Lump Sum payable under occupational pension schemes would be

Total Benefits Payable on Death	
Value of Main Scheme Pension benefits	€200,000
Sum Insured under Executive Pension Term	€300,000
Total:	€500,000

Breakdown of Payments on Death	
Refund of Employee Contributions	€100,000
Maximum allowable Lump Sum(4 x salary)	€250,000*
Fund used to purchase annuities or ARF	€150,000**
Total:	€500,000

* The maximum allowable lump sum of 4 X Final Remuneration must be reduced to allow for retained benefits in the PRB (4 x €75,000 = €300,000) - €50,000 = €250,000). So after the employee contributions are refunded, that leaves scope for a Death in Service Lump Sum of €250,000.

** This fund could be used to purchase spouses/dependents annuities or invested in an ARF at the discretion of the Trustee’s.

Potential Tax in the estate: Any potential tax on the lump sum payable under Executive Pension Term is determined by the relationship of the deceased employee to the beneficiaries of the estate. If the estate is fully inherited by a spouse or registered civil partner, then no inheritance tax applies due to the exemption to CAT for spouses/RCPs.

However, there may be a liability to inheritance tax if the estate's beneficiaries are children of the deceased or nephews/nieces to the estate.

The current threshold for Children is €335,000 so if the value of the estate exceeds this amount, tax will apply at 33%.

The current threshold for nephews/nieces (or any other lineal descendant) is €32,500 so if the value of the estate exceeds this amount, tax will apply at 33%.

Spouses'/civil partners' and dependants' pensions are payable subject to income tax in the course of payment, and the Universal Social Charge, but not PRSI deductions.

Payments under any Approved Retirement Fund that is created are subject to Income Tax, PRSI and USC.

Zurich Life's Protection Continuation Option

The Protection Continuation Option available on Zurich Life's Pension Guaranteed Term Protection policies provides an efficient way of continuing the cover, even where an employee has left employment. It is an optional added benefit, that gives the client the option to extend the term of a plan, without any further medical evidence.

The option to continue the cover is available at the end of the original term or if the member leaves the employment, during the term of the contract. The continuation of cover is available without medical evidence being provided for.

As the Normal Retirement Age on an Executive Pension Term must reflect the NRA of the main pension scheme, potential issues may arise if the NRA on the pension scheme is extended but with Protection Continuation Option can alleviate these issues by extending the cover at the end of the original term without further underwriting

Cover can also be continued into either a Personal Pension Term Insurance policy, where eligibility for same can apply or a standard Guaranteed Term Protection policy.

In conclusion

Executive Pension Term Insurance is a very valuable benefit that employers can offer their employee's which can provide supports to their families in the event of their death whilst in service. In addition, the tax reliefs available to employers make this a very tax efficient method of enhancing an employee's benefit package from that employer.

For further information please contact your Broker Consultant or Zurich Technical Services on 01 209 2020.

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The information contained herein is based on Zurich Life's understanding of current Revenue practice as at April 2022 and may change in the future.

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