TechTalk – Personal Pension Term Insurance

Personal Pension Term Insurance is available to those who are self employed and taxed under Schedule D (Case I or II) or those in non-pensionable employment which is an employment that is not linked to an occupational or statutory scheme and taxed under Schedule E.

These plans are an additional benefit that can be provided for clients, giving them the security that should they die whilst covered under the plan a lump sum will be payable to their estates.

The plans are also very cost effective especially when compared to traditional Guaranteed Term Protection plans as contributions towards personal pension term insurance can qualify for tax relief which can reduce the net cost to the client by as much as 40% of the premium.

In this TechTalk, we'll explore Personal Pension Term Insurance covering:

- Eligibility,
- Tax relief on premiums,
- Maximum lump sums on death and
- Potential tax for the estate.

Eligibility: A client must be aged between 18 and 70, to take out a Zurich Life Personal Pension Term Insurance contract. The maximum age of expiry is 75, so the minimum term on the contract is 5 years. The maximum term that can be covered is 40 years.

In order to be eligible for Personal Pension Term Insurance, the client must satisfy the same criteria as they would for a Personal Pension or Retirement Annuity Contract. Therefore, they must have a source of income which is taxed under Schedule D (Case I or II) for the self-employed or Schedule E for those in non-pensionable employment.

The questions posed on the Zurich Life Personal Pension Term Insurance proposal ask the client to confirm one of the following:

- Are you engaged on your own account or as a partner personally acting in some trade, profession or occupation? (Yes/No)
    - » This refers to those self-employed or those in firms, where the employment income is taxed under Schedule D. They may also be contributing to a Personal Pension or a PRSA.
- Are you an employed person (or the holder of an office or employment) with one or more of your occupations non-pensionable? (Yes/No)
    - » This refers to those working in a company who have not joined an occupational pension scheme and may be contributing to a personal pension or a PRSA. Their employment income would be taxed under Schedule E.

Once the client has answered 'Yes' to one of the above questions, eligibility has been established and a Personal Pension Term Insurance policy may be taken out.

Tax relief: Once the policy has been set up, the client may be entitled to tax relief on the premiums payable for the Personal Pension Term Insurance.

Tax relief is based on the clients age and the relevant percentage of "net relevant earnings" allowable for tax relief purposes, the same as those which apply for Personal Pensions and PRSAs.

Premiums payable in excess of this limit may be made but will not qualify for tax relief in the current year of assessment. Any amount of premium which is not allowed for tax relief in one year may be carried forward and relief allowed in subsequent years. If a premium is paid after the end of the year of assessment, but before the following 31 October or the extended ROS deadline for online submissions, relief may be allowed in the earlier year. This conforms with the income tax return filing date.

The aged based percentage limits for relief are:

Age of Client taking out the policy	Maximum % of relevant earnings
Up to 29 years of age	15%
30 years old up to 39 years old	20%
40 years old up to 49 years old	25%
50 years old up to 54 years old	30%
55 years old up to 59 years old	35%
60 years old and over	40%

An overall monetary maximum of €115,000 salary applies for tax relief purposes.

Assume a client who is 45 years old next birthday and a non-smoker. €200,000 life cover is taken out with a normal retirement age of 65, with the added benefit of Protection Continuation option included. The premiums with and without tax relief would be as follows, assuming the tax rate is either 20% or 40%.

	20% tax payer	40% tax payer
Total premium	€32.82	€32.82
Tax Relief	- €6.56	- €13.13
Net Cost to client	€26.26	€19.69

To receive tax relief, the self employed will allow for the premiums when filing their annual tax returns. PAYE workers can register the payments on Revenue's My Account section of www.revenue.ie.

It should be noted that the premiums payable for Personal Pension Term Insurance are aggregated with those payable for Personal Pensions and/or PRSAs for the purpose of calculating the maximum tax-relieved contributions. For example, if a 34 year old client is contributing the full 20% of earnings into a personal pension policy, no tax relief will be available on any Personal Pension Term Insurance premiums.

Maximum Lump sums: The full value of the Personal Pension Term Insurance approved under Section 785 is payable to the estate of the life insured. However, another option for the Personal Pension fund is the purchase of an annuity with the value of that Personal Pension.

There are no maximum lump sums applicable on these contracts.

Potential Tax in the estate: Any potential tax is determined by the relationship of the deceased 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%.

In conclusion

To sum up this Techtalk, it is a very tax efficient method for those who are eligible for Personal Pension Term Insurance to have life cover in place, to ensure a lump sum is payable to their estates in the event of death.

While some clients may be inclined to take out a standard term protection policy for life cover only, they may find it more tax efficient to purchase a Personal Pension Term Insurance policy where tax relief is available to them on the premiums payable.

If you need any further information on Personal Pension Term Insurance, please contact your Broker Consultant and/or service team.

Zurich Life Assurance plc
Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurich.ie

The information contained herein is based on Zurich Life's understanding of current Revenue practice as at June 2021 and may change in the future.

Intended for distribution within the Republic of Ireland.

GR: 6062 Print Ref: ZL LSA 6062 0621