

Life Assurance

The majority of schemes, whether defined benefit or defined contribution, will provide a level of life assurance cover for death in service before normal pension date. The life assurance benefit will be generally expressed as a multiple of salary (defined in accordance with the scheme rules) at the date of death. Prior to 6 April 2006 (when 'Tax Simplification' became effective), the maximum multiple was 4 times salary although it was not uncommon for the multiple to be either 2 or 3 times salary. A limit on the multiple of salary no longer applies.

The RST Pension Scheme provides a life assurance benefit of 2.5 times the member's contractual salary at the date of death regardless of age provided the member is still in pensionable service.

The XYZ Pension and Life Assurance Scheme provides a life assurance benefit for Category A members of 4 times salary (the member's last 12 months' earnings at the date of death) provided the member is still in pensionable service but has not attained normal pension age (65). For Category B members the life assurance benefit is 3 times salary.

The OPQ Retirements & Death Benefits Plan provides a life assurance benefit of 3 times the member's annual salary at the date of death regardless of age provided the member is still in pensionable service.

For death in service on / after normal pension date, there will be generally no provision in the scheme rules for a life assurance benefit to be paid (the RST Pension Scheme is different – see above). However, for defined benefit schemes (including the XYZ Pension and Life Assurance Scheme), there will still usually be provision in the scheme rules for a lump sum death benefit to be paid, albeit not life assurance. This will typically be calculated as 5 years' pension payments based on the pension that the member would have received had retirement occurred on the date of death.

Similarly, for actual death in retirement, whilst there will be no provision for continuing life assurance cover, there will usually still be provision for a lump sum death benefit to be paid. This will be typically the balance of 5 years' pension payments (based on the pension currently being paid) should death occur within 5 years of retirement and before the member's 75th birthday. This applies to both the RST Pension Scheme and the XYZ Pension and Life Assurance Scheme.

For death in deferment – and where a member has left the company – cover for life assurance will automatically cease. However, if a deferred member has left the scheme but remains an employee of the company, it is possible that cover for life assurance may continue, albeit sometimes at a lower level.

With death in deferment, whilst there will usually be no provision for continuing life cover, there will generally still be a lump sum death benefit in the form of a refund of member contributions (including AVCs) for defined

benefit schemes and a refund of a member's entire policy account for defined contribution schemes.

From 6 April 2006, the maximum authorised lump sum death benefit (which includes life assurance and refund payments) has been equal to the deceased member's remaining Individual Lifetime Allowance. Any payment over and above this amount has been deemed an unauthorised payment, with the recipient(s) being taxed on this excess amount accordingly.