

alert

LIFE COVER ONLY MEMBERS

1 INTRODUCTION

We have previously alerted you to the question of whether, following the implementation of the European Pensions Directive into UK legislation, it is possible for occupational pension schemes to continue to have life cover only members as a separate category of membership.¹

Having recently heard from the DWP as to their thinking on this topic, we can now update you.

2 KEY QUESTION

Do you have life cover only members in your scheme?

- If the answer is **no** – you need take no further action.
- If **yes**, please read on.

3 TO RECAP

There is a potential problem because of the wording of the Pensions Act 2004 which is a straight lift from the relevant part of the European Pensions Directive. An occupational pension scheme can only carry out activities which are "retirement-benefit activities" and provide death benefits if they are ancillary or supplemental to those activities (trustees can incur civil penalties if they do not comply). One interpretation of this wording is that occupational pension schemes can only provide life cover in respect of individuals to whom a retirement benefit is intended to be paid and not as a stand-alone benefit.

¹ See our Sackers Extra Alert "European Pensions Directive" dated 24 October 2005

alert

Continued

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4 DO YOU NEED TO TAKE ACTION?

We have prepared the following reference table, based on the DWP's recently published views to help you consider whether you can continue to offer life cover only benefits in certain cases.

Benefit Design	Can you continue to offer benefit?
Life cover being provided under separate scheme	Yes (but the separate life cover only scheme will not be regarded as an "occupational pension scheme")
Life cover being provided instead of designating a stakeholder scheme	No (you must now offer stakeholder access if you were relying on this technical exemption)
Life cover being provided under occupational pension scheme (where no other benefit provided)	No
Life cover being provided under occupational pension scheme (where employer offers pension benefit through alternative vehicle)	Yes (probably)
Life cover provided to member in waiting period	Yes (probably)
Life cover provided to member who has opted out of active membership	Yes (probably)

5 BUT TAKE ADVICE BEFORE ACTING

The DWP's note makes it clear that their view cannot be regarded as definitive and that schemes should take their own professional advice (based on their own scheme rules) before committing themselves to a specific course of action.