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MANY EMPLOYERS STILL TO MAKE A-DAY CHANGES A REALITY FOR EMPLOYEES

Two years on from A-Day, AEGON Scottish Equitable has found that many employers are still unaware of some of the opportunities that have arisen following the significant tax changes brought in by the Finance Act, and have not yet taken steps to realise the benefits on behalf of their employees.

AEGON reports that only about 35% of its schemes since April 2006 have removed the earnings cap. The earnings cap was the maximum level of salary that was allowed to be put into tax efficient schemes. A-day removed these limits and instead put in a system of allowances.

This potentially means that nearly two thirds of companies are still operating with a restrictive benefit limit that was imposed by the Revenue, when in fact as a result of the A-Day changes they have the opportunity to remove this and make benefit calculations and communication easier for their employees.

Simon Bailey, Employee Benefits Marketing Manager at AEGON Scottish Equitable says:

"Although there is a requirement for group schemes to adopt the new rules by 2011, we have found through experience there is a large majority that still need to do this. If companies do not act now, they will have to act at the next rate review in 2010 as generally companies will only change things on their scheme when the scheme comes up for rate review. The rate guarantee periods in Group risk are for two years. So this means that companies that rate review in 2010 should really be looking to adopt new rules at this point which will put extra pressure on both employers and IFAs."

Where these schemes that renewed or joined AEGON since April 2006 that had an associated High Earners scheme, the members have been moved into the Registered Scheme. Previously in the old approved world, benefits could only be included up to the earnings cap forcing companies who wanted to ensure higher earners full salary to set up an unapproved scheme. This means the companies have additional admin work in running two schemes. With Registered schemes these higher earners can be included in the one scheme reducing the work load. This has made it easier to administer running with just one policy rather than two. This provides a major opportunity for the 65% that have yet to act.

Following A-day, there was an expectation that clients would also look to restructure benefit packages and benefit levels. AEGON's experience shows that this has not yet been the case. For example, only a handful of cases have increased the maximum life cover benefit above four-times salary.

Bailey continues: "The Protection Gap – which reflects that people don't have enough life and protection cover – is now recognised. But more specifically, in many cases, there is also a significant gap between what employers could traditionally provide and the level of financial commitments individuals actually have today. The removal of the benefit limits therefore gives employers scope to provide greater levels of cover – which particularly nowadays represents a highly-valued and much needed benefit."

Similarly, Bailey has indicated that there has been no decline in dependents' pensions. Many advisers thought that post- A-Day, employers would convert this benefit – an income to the spouse for the rest of her life – into an equivalent tax free lump sum. Again, there has been little sign that this has been done over the past two years.

AEGON has also identified an increase in Excepted Group Life, where clients have the ability to insure benefits in a way that means these are not assessed for tax against the Lifetime Allowance. This not only reduces the chances of potential tax shocks to the beneficiary as well as also removing the administrative requirements attached to Registered schemes.

Bailey concludes:

"Two years on from A-day, many employers are yet to take the important steps that will enable their employees to realize the full benefits from A-Day.

Advisers should talk to their corporate clients about the new possibilities benefit structures and how they could benefit. The requirement for all registered schemes to adopt new Scheme Rules by 2011 means there are clear benefits for advisers and clients to revisit their Group Life arrangements today."

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Notes to editors

- AEGON has assets under administration of £52.3 billion and employs around 4,000 staff. AEGON is part of the AEGON Group, which is one of the world's largest listed insurers and has assets around Euro 359bn (£250 billion).