

## Who is offering PTA and How? – Financial Adviser – (July 2006)

After much fan fare, more column inches than any reasonably busy adviser would have time to read and the usual scurrying around by insurance company reps (briefing on their intentions, training on the issues and hoping to pick up morsels of what others in the market are planning) PTA is now here and I am glad to say offered now by enough providers to say with confidence that it will be a well supported, and therefore competitive, market. However, how long the Chancellor will continue to provide tax relief for basic life cover, where the cost is already very low, only he knows.

From an advisers perspective the introduction of PTA is either a welcome opportunity to demonstrate the value of advice, and revisit old clients with a new offering, or an unwelcome complexity which could quite well have been done without. Most of the advisers I have spoken to however are undecided and have not launched head first into selling PTA. In truth this is because the majority of protection advisers I have spoken to are also mortgage advisers and they have all been much busier recently arranging mortgages and have had little time to study the effects on them of A-day.

So if, as an adviser, you are planning to sell PTA what are the key areas that you have to cover off?

You will no doubt point out to your customers that the premiums are paid net of basic rate income tax relief and that higher rate tax payers may also be able to claim additional relief through their Tax Return. This makes the PTA net premiums cheaper than the normal level term (LTA) policies offered by the same life office. Of course, due to market forces, there are PTA providers whose net premium is still more expensive than other companies' standard LTA. The gross PTA premiums offered by each company are always more expensive, when compared on a like-for-like basis, with their LTA premiums so if the relief is reduced or removed in the future then the cost of PTA, over the term of the policy, could end up being greater than LTA.

You will have to explain to your clients that the policies are generally only available on a single life basis, although Liverpool Victoria seem to have found a way around this. It is worth noting here that for all the test cases I have run, two single life PTA policies have always been cheaper than one joint life LTA, although I accept that there are bound to be circumstances when this isn't the case.

You will also have a very limited choice of PTA providers if you recommend the use of waiver of premium, as this feature is only available currently from two providers, however I am sure that others will copy L&G's and Scot Eq's initiative.

So with some limitations, but with lower prices PTA will be popular and the additional areas that you will want to highlight with your customers are that:

- Whilst the cover is called Pension term Assurance, and the policy is set up as a registered pension scheme, the premiums payable provide life insurance only and are not providing for any pension entitlement in retirement.
- Tax Rules change - If the basic rate of income tax changes during the plan term then the net premiums payable will change also (up or down).
- The gross premiums charged by the insurer count towards your clients total pension contribution allowance, meaning there is less contribution allowance available for a pension savings plan. The maximum pension contribution allowance is set at the higher of 100% of earnings or £3,600 and there is also an overall cap on the annual allowance as below:

<b>Tax Year</b>	<b>Annual Allowance</b>
2006/07	£215,000
2007/08	£225,000
2008/09	£235,000
2009/10	£245,000

2010/11            £255,000

If you exceed the Annual Allowance limit, including any contribution from your employer, you'll be subject to a 40% tax charge.

- In the event of a claim the lump sum paid from the life assurance counts towards the overall pension lifetime allowance. This means that if upon death (or retirement) the total assets of the pension (including your Pension Term Assurance) arrangements total in excess of the following limits then the surplus would be subject to a tax charge of up to 55%. The total lifetime allowance available increases each year and is set out as below:
- The total lifetime allowance available is scheduled to increase over each of the first 5 years and is set out as below:

<b>Tax Year</b>	<b>Lifetime Allowance</b>
2006/07	£1,500,000
2007/08	£1,600,000
2008/09	£1,650,000
2009/10	£1,750,000
2010/11	£1,800,000

- Anyone who has made an application to HM Revenue and Customs' for enhanced protection of an existing pension fund should avoid arranging a new PTA because doing so would invalidate the enhanced protection of the existing pension fund.
- To qualify for tax relief the applicant needs to be a relevant UK individual. This means that they need to satisfy one of the following criteria:
  - Are resident in the UK at some time in that year.
  - Have relevant UK earnings chargeable to income tax for that year.
  - Was resident in the UK both at some time during the last 5 years immediately before that year and when the individual became a member of the pension scheme.
  - They, or their spouse, has for the tax year general earnings from overseas Crown employment subject to tax.

If you are advising under COB rules then the suitability of the plan, within the customers overall pension arrangements will have to be established and dealt with. If you advising under ICOB rules then you will have to make a statement along the lines of "I have been unable to check if the annual contribution allowance and/or lifetime allowance limits may be exceeded based on the your existing pension arrangements and the Pension Term Assurance we are arranging. This advice may therefore not be appropriate. If in doubt you should seek advice from your pension adviser".

If you cover all the bases above in writing then you should reasonably confident that you have covered all the bases for when, inevitably, a future regulator or ombudsman decides to change the rules again.

So, what is happening in the market today? Well as I mentioned earlier a lot of mortgage brokers are yet to get to grips with the product, whereas the 'direct' or 'discount' brokers, who can not rely on the pulling power of a local relationship or a recognisable consumer brand, are quoting little else because their business model depends entirely on having the lowest possible premium. Some of the discount brokers who give advice (advisers) are discussing the merits and risks of arranging a PTA over LTA before issuing their application packs to prospective customers; others however don't even tell you they are quoting a PTA until you receive their letter and the insurer's documentation. One major consumer facing comparative search engine was for at least a couple of weeks not even making the distinction in their quote request page, or their premium results page between PTA and LTA, hardly TCF but they have corrected that now!

Finally there is the whole advised versus non-advised sales argument which will role on and on I am sure, however the debate becomes even more complex ICOB registered 'advice champions' selling PTA under ICOB rules using the warning above to explain that they, the adviser, do not have enough information to confirm the advice is appropriate! I thought all advice had to be appropriate? This question leads me to believe that in the long run we may well see ICOB advisers offering PTA only on a non-advised basis, but as I said I expect this debate to run and run.

Finally, through my research I have found a number of inconsistencies with what I had been led to believe certain businesses would be doing, in particular at least one business that supports the 'No Advice No, Protection' campaign willing to sell PTA on a non-advised basis!

Still if there is one thing we can all rely on in life, it is that the world changes as do business opportunities, and that taxes are certain but tax relief is not.

By Richard Verdin, Sales & Marketing Director, Direct Life & Pension Services Ltd