

# How to manage group life assurance governance risk

**Group Life Master Trust**  
by Mercer Marsh Benefits

**COVID-19 brought home to every business the importance of looking after their workforce, both protecting employees' day-to-day well-being and making sure that employees' loved ones are protected in case of terminal illness or death.**

Life assurance is one of the most high-profile demonstrations of this duty of care. According to the Swiss Re Group Watch Report 2022, the number of people covered for insured death benefits increased by 6.3% in 2021, underlining the extent to which this type of benefit continues to be favoured by many employers.

Thankfully, the majority of employers rarely have to make a claim on their group policy. However, when they do so, it is essential that the process is straightforward and well administered, and that it pays out as expected, within a reasonable timeframe.

Work-based life assurance is often the only cover an employee has, so errors in administration or governance can cause real hardship and emotional turmoil for beneficiaries, as well as reputational damage for employers.

The Group Life Master Trust by Mercer Marsh Benefits has been created to reduce the trust-related burden on employers, and to protect employees and their loved ones from being exposed to issues.



**Fulfilling promises to employees and their loved ones in the worst of circumstances is essential. I'm delighted to see our Group Life Master Trust help employers meet these promises and reduce the burden on employers.**

Chris Bailey, UK & Ireland Leader, Mercer Marsh Benefits





Governance shortfalls often only come to light when employers have to make a claim.

Some common risks Mercer Marsh Benefits has seen include:



### Personnel changes

Signatory details become out of date when the individual responsible for managing life assurance policies changes. Vital information, such as HMRC login details, might not get passed on when job roles change, or might not be checked for accuracy.



### Poor document management

Making life assurance claims is not an everyday occurrence. When the time comes to make a claim, trust documentation may be incomplete or missing.



### Out-of-date arrangements

Mergers, acquisitions and other business changes are not always recorded in policy updates, making it unclear which employees are covered. It is also important that trust arrangements are updated in line with legislation.



### Inaccurate employee details

Over time, people's circumstances and personal lives change, but employees for whom this is the case may forget to update their expression of wishes. That can make it difficult to identify the correct beneficiaries and can complicate any adjudication that needs to be done on who should be paid in the event of a claim.



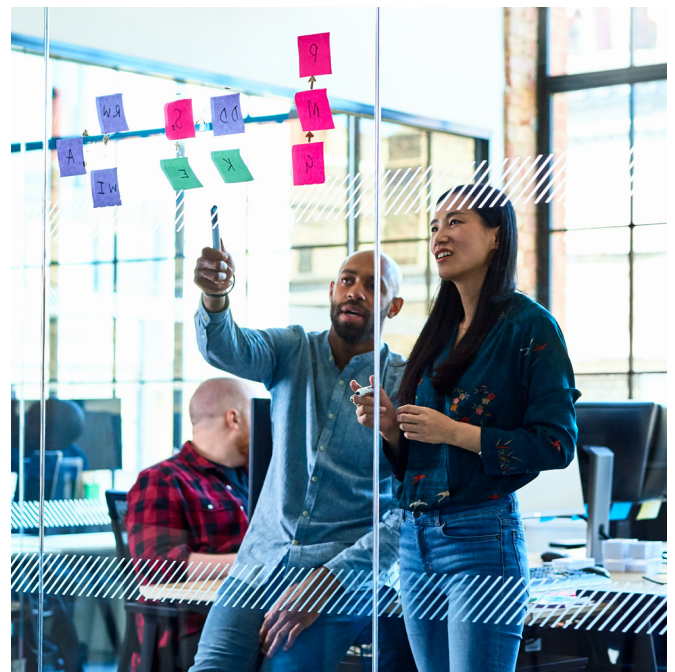
### Mismatch with employees' needs

As workforces become more diverse and inclusive, life assurance offerings need to adapt. For example, employees with beneficiaries from other countries may need extra support if English is not their first language, or if there are cultural issues related to payments after death.



### Limited expertise within the business

In the past, life assurance was typically linked to a defined-benefit pension scheme and managed by the scheme's trustee board. With the move to defined-contribution (DC) pensions, that linkage has been lost. Businesses can no longer rely on trustees' expertise in decision-making and objectivity when making claim decisions. In addition, there may not be any comparable knowledge elsewhere in the organisation.





## Ways to reduce life assurance risks

To ensure that employers really can deliver on their duty of care and pay life assurance claims effectively and efficiently, the following risks need to be managed carefully.

### 01

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#### Review life assurance benefits

Check that life assurance policies are suitable for the workforce and that employees understand the potential impact of claims on the lifetime allowance (see box on page 5) linked to any registered schemes. Check that the scheme is inclusive and competitive and that it meets the needs of current employees.

### 02

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#### Assess administration needs

Make sure that signatories are correct and that scheme details are well maintained and up to date. Review whether ongoing administration tasks (such as keeping employees' expression of wishes current) are achievable using resources from within the benefits team, or if there are any outsourced models that could better support these processes.

## 03

### Explore other models of scheme governance

Both registered and excepted life assurance arrangements (see box below) can be paid via master trust arrangements. Such trusts are run by independent professional trustee organisations, who are responsible for long-term governance and day-to-day management. Using a master trust arrangement lessens the load on employers, as well as helping to ensure that the offering is well run and complies with legislation.

## 04

### Consider how to manage beneficiary adjudication

In circumstances where there is a dispute between potential beneficiaries or incomplete information, deciding who to pay is a sensitive issue for individuals, and potentially detrimental for an employer. Benefits teams will rarely have to deal with such adjudications, so, when they happen, they can be an emotive and costly undertaking. In contrast, master trust trustees will have a wealth of experience and expert resources to draw on to help them make these decisions. They can also provide an independent voice in the benefits adjudication process.

### The lifetime allowance — how life assurance and pensions taxes are linked

Group life cover can be either registered or excepted. The difference between these two models can have a significant impact on beneficiaries.

Registered arrangements, as the name suggests, must be registered with HM Revenue & Customs (HMRC). Any lump sums paid from a registered scheme are aggregated alongside other HMRC-registered benefits, including pensions.

A payout from a registered life assurance product counts towards an individual's lifetime allowance (LTA). This is the amount that someone can save tax-free into pensions over the course of their lifetime. The LTA is currently set at just over £1 million and has been frozen at that level until 2026.

While £1 million might sound like a high limit, exceeding the LTA is an increasing concern, even for people on moderate salaries as inflation will increase the value of a claim while at the same time reducing the value of the LTA in real terms.

Benefits above the LTA are taxed at 55%, so beneficiaries risk losing a sizeable proportion of a claim if, in the event of someone's death, that person's aggregated defined contribution pensions plus any lump sum (paid on death from a defined benefit pension and life assurance pay out) collectively exceed the LTA.

In contrast, an excepted group life arrangement is not registered with HMRC, and a paid claim does not contribute towards the LTA. However, excepted arrangements can be more complex to set up and, in some circumstances, can have an impact on inheritance tax payments.

## £1,073,100

is where the LTA is currently set

## 55%

tax amount for benefits above the LTA



## Life assurance and ESG

Organisations are more aware than ever of environmental, social and governance (ESG) issues, such as their relationship to the environment, their responsibility to employees, and the impact of good governance on their company's future profitability.

Providing group life assurance for employees contributes to ESG excellence in a number of ways:

- Life assurance that is offered inclusively throughout the workforce supports the social aspect of ESG, by looking after employees and their beneficiaries.
- If life assurance offerings are run to consistently high standards, they contribute to good corporate governance.
- Businesses are paying closer attention to the ESG credentials of their supply chain members, including their life assurance providers. We are seeing employers asking more questions about each supplier's approach to climate change, employee well-being, regulatory compliance and the quality of leadership. Mercer can help explore the policies and purpose of supply-chain businesses as part of a market review.

## Contact us

To find out more about key aspects of group life assurance such as how Excepted Cover and Master Trusts can help your organisation, please reach out to your MMB consultant.

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## **About Mercer Marsh Benefits (MMB)**

Mercer Marsh Benefits (MMB) was born out of the unification of one of the world's most respected HR consultancies, the global leader in people risk advisory and the number one disruptive benefits technology firm to form one unique business. Together they have shaped some of the world's most loved employee benefit experiences for small companies, growing enterprises and global firms. MMB is 7,000 strong, on the ground in 73 countries, and servicing clients in more than 150 countries. It brings local expertise to more places and works side-by-side with clients, and Mercer and Marsh colleagues around the world. Mercer and Marsh are two businesses of Marsh McLennan (NYSE: MMC), together with Guy Carpenter and Oliver Wyman. The Company's 81,000 colleagues advise clients in more than 130 countries. With annual revenue of almost \$20 billion, through its market-leading companies Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.