

Penguin Bitesize Guides to Better Money Management

Guide #8



Putting Your Life Assurance Policies into Trust. It's a "No-Brainer"



Most people during their working lives have a life assurance policy. Or more than one.

Most people do **not** have this policy "subject" to a trust. In most cases, that is a basic financial error.

Correcting that error is simple – and we can help you. One problem with this subject is that it can seem as if this is a complex situation.



Using trusts with
a life policy is
NOT complex

We really don't help ourselves within the financial sector, as we can take fantastic ideas which are of immense benefit to you and make them seem hideously complicated and difficult.

Putting any life policy, you have into trust is a great example. Most people will think that trusts are not relevant to them.

They think *"trusts are for the uber-rich, are legal documents which have strange language applied to them and are only of use if you have complex affairs"*.

Before explaining how none of this is true when it comes to life assurance policies, let us reframe the position entirely and present you with a straightforward choice of two options:

Option one

You have a life assurance policy for £200,000 and, unfortunately, this pay outs because you die, whilst the policy is still in force.

A lump sum is payable to your estate of £200,000 (your "estate" refers to everything you own when you die, which is then distributed to your beneficiaries).

Your estate receives the money directly and this is used to help look after your spouse, kids, pay off debts etc.

However, there's a problem with getting probate (this being the legal right to distribute/access an estate of a deceased individual) and things get complicated. The pay-out is delayed for a very long time, creating hassle and stress for your loved ones.

The life assurance money is paid eventually, by which time your spouse has met someone else and a few years later remarries. This doesn't work out; it was a mistake.

Your spouse still has most of the £200,000 from your life assurance policy to help look after themselves and your kids, but now must face the prospect of losing half of that £200,000 to his/her newly divorced ex-spouse.

They then start a business and try to make a success of this, but it fails, and they have accumulated creditors who now want to pursue them for outstanding sums and debts, the remaining £100,000 or so from your life assurance pay-out is used to help clear up the position.



Option two

You have a life assurance policy for £200,000 and, unfortunately, this pay outs because you die, whilst the policy is still in force. **A lump sum is payable, to a trust, of £200,000.**

That trust is controlled by your spouse and the cash within the trust is there for their benefit and that of your kids. They can decide how and when to release that money.

It is not in your estate, so there is no need to wait for probate to get access to any of this sum.

Your spouse meets someone new, remarries and it all goes horribly wrong. The newly divorced ex-spouse of your spouse has no claim against the trust.

Your spouse starts a business, it goes horribly wrong and there are lots of creditors. They have no claim against the trust.

Putting your life policy into trust (subject to a trust on pay-out) puts a protective wrapper around the lump-sum pay-out.

It is, to use the popular saying, a "no brainer".



A life assurance pay out could bump up a potential tax liability?

If a lump sum pay-out is not subject to a trust arrangement this means it will be added into the deceased's estate and passed through to their beneficiaries. This could lead to an Inheritance Tax (IHT) payment – quite unnecessarily – becoming applicable. Either immediately or in the future.

Example one

JB, a divorced businessman with two kids, dies unexpectedly. He has personal and business assets valued at £800,000 and a life assurance policy valued at £400,000.

His total allowances against IHT are £500,000 (his "Nil Rate Band") – so his total estate is £1,200,000, his net estate, subject to tax, is £700,000, his estate must pay £280,000 in IHT.

The life assurance pay-out increases his estate by £400,000 and increases the tax bill by £160,000.

In effect, he has paid for life assurance so that £160,000 of the pay-out is paid in tax. IF THAT POLICY HAD BEEN PLACED INTO TRUST, the £400,000 would not have been subjected to IHT.

Example two

Mr JB is married to Mrs AB. They have joint assets worth £900,000 and a £500,000 life assurance policy. They have a young family.

Mr JB dies, and everything goes to Mrs AB, who also receives the £500,000 life assurance pay-out. There is no IHT payable because everything has moved from husband to wife, on death.

However, Mrs AB now has an estate of £1.4 million. £400,000 above the current £1 million total Nil Rate Band, assuming they have a suitable residential property which provides for this level of allowance.

If the life assurance has been subject to a pay-out into a trust it would not been added to her estate.



Summary

The benefits of using a trust to receive the pay-out from a life assurance are potentially significant, and it is very simple to place a policy into trust, including any existing policies.

Come and talk with us if you have existing life assurance policies or are considering taking out a policy, we can help you with getting this subject to a trust on pay-out.

It is important to note that if you have existing policies, they can be made subject to a trust, you do not have to arrange this at inception, when you first arranged the policy. So, it is never too late to sort this.

About Penguin Wealth

We are a Cardiff-based Financial Planning firm formed in 2010 by a group of Financial Planners who share the same vision and love for what we do. Our processes, support team and the accreditation we have achieved all reflect our principles and prove that we are best placed to help you live the life you deserve with peace of mind.

Our Mission Statement

Helping People Live their Best Lives, by Making Smarter Financial Decisions.

Core Values

- At Penguin we Commit to our Words, Actions and Results
- Clients' Needs 1st – Always
- Communication is key
- Have Penguin Positivity

Providing the highest standard of advice is at the heart of what we do, and we are always extremely excited to see what we can help you to achieve in the future!

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