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Coming up in future issues



- Our final IHT tip, including flexible life interest trusts in Wills
- Sharia Wills

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What happens to your life cover when you die and how our Family Trust can help to protect it?

In our March Newsletter we highlighted our “Top 5 IHT Planning Tips” and stated that we would be giving you more information on these in the following months.

Our May, July and November Newsletters discussed three of these top tips. Now we turn our attention to a fourth IHT Planning Tip – ensuring that the appropriate life assurance policies are placed into trust.

The issues and solutions identified in this Newsletter are very similar those identified in the November Newsletter when we discussed protecting any lump sum paid on your death from your pension by treating it as a family “heirloom” to be passed down the generations.

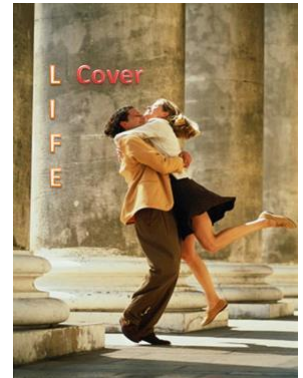


What is life cover?

Life cover can come under many different names depending on who you talk to: life cover, life insurance, life assurance, term assurance, whole of life policy, joint life – first death, adaptable term plan. Whatever name you know it by, it is a policy that will have been taken out for one of several reasons, some of these being:

- To clear the mortgage
- To provide funds for dependants
- To pay an inheritance tax bill
- To continue maintenance payments
- To provide funds for continued private education

Death in service benefits (DISB) provided by your employer is also a form of life cover but ceases when you terminate your employment. The treatment of DISB is slightly different and covered separately below.



Has the provider put your life policy into trust?

Nowadays, most providers will supply you with a form to complete that places the policy into trust. You nominate who the trustees are (those who will look after the funds and decide how it is invested and paid out) and who the beneficiaries are (those who will enjoy access to the proceeds).

If you remember completing this form then it is in trust. If so, it might be prudent to check:

- a) the trustees are still the people you wish to manage the trust fund
- b) the list of beneficiaries given as a default covers everyone that you might wish to



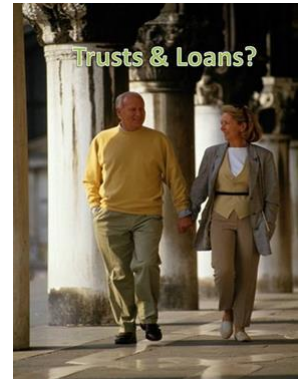
benefit from the funds in any given scenario

c) the trust deed allows for loans to be made to any of the beneficiaries.

If you haven't completed a form then it won't be in trust and will be paid into your estate to be distributed by your executors as stated in your Will, or through the laws of intestacy if you don't have a Will.

What if it's not in trust or doesn't provide for loans? What are the issues?

- If you are unmarried or in a mixed domicile marriage then it may be subject to Inheritance Tax (IHT) when it passes to your beneficiaries by your Will or through intestacy if you have no Will. So rather than your partner/spouse receiving 100% of the funds to clear down the mortgage, say, they only receive 60% as the other 40% has been paid in IHT
- The administration of your estate has to be completed before anyone can receive any funds distributed from your estate. This could take 6-9 months or even longer. If this money is intended to clear down the mortgage then your partner will have to continue paying the monthly mortgage payments (or accrue interest if unable to do so) for this period of time.
- If your beneficiaries are under 18 (in the case where you have no spouse/partner or he/she has died before you) your provider will insist on a trust being established anyway but how much will it cost and who will the trustees be?
- If the policy doesn't provide for loans then your **Partner/spouse may receive the funds directly with these issues:**
 - He/she subsequently dies then the funds may be subject to IHT on their death before it passes to your children or other beneficiaries.
 - They enter a new relationship or remarry after your death and, in that new relationship, they die first. Their new partner/spouse could claim the proceeds and your children get nothing.
 - They enter a new relationship or remarry after your death and pool their resources to purchase a joint property. Your partner/spouse dies first and the joint asset passes automatically to their new partner. Your children get nothing.
 - Having remarried, they subsequently divorce. Your proceeds from your life policy will be included in the divorce settlement.
 - Your partner/spouse needs long term care after your death and it is all spent on their accommodation costs. Your children get nothing.



How are death in service benefits treated differently?

Proceeds from a death in service benefits are slightly different to life cover as they are initially held in trust by your employer. This is why you will have nominated your beneficiaries through a "letter of wishes" or nomination of benefits form with your employer when you signed up to the scheme. The first two bullet points above

wouldn't apply but the other issues identified above would still be relevant and need to be considered.

What is the simple solution?

If the provider of your life policy cannot provide a trust solution or the cost of getting a new policy is prohibitive or you are now uninsurable, then nominating one of our Family Trusts (with your partner/spouse and/or children as beneficiaries) via a Deed of Assignment to receive the policy proceeds, your spouse/partner or children can overcome all of the issues identified above,

This means that it won't be taxed on your death, nor will it be taxed on the death of your spouse/partner/children. A great tax planning tip!

Please contact Cornerstone Wills for further information



Testimonials

Cornerstone Wills provided a great service throughout and Andy Parker, in particular, was extremely helpful. *Mr & Mrs Gadhvi, London*

Very helpful, made my Will easy to sort out and complete, thank you. *Mrs Woodings, Hampshire*

Thank you for the wills. Very simple and hassle free process and gives great comfort of mind with everything going on at the moment. *Mr & Mrs Parkhill, London*

