Guide to writing your life insurance policy under trust

Only 6 per cent of people put their life insurance in trust. Yet doing so could be very advantageous. In this guide we list the potential benefits, including avoiding going over the inheritance-tax threshold, and getting the benefits sooner due to bypassing probate.

When it comes to planning your family's financial future, it makes good sense to take all steps possible to protect their standard of living. Arranging your life insurance in the right way to give your loved ones the maximum possible benefit is a further crucial consideration.

One sensible option to consider when taking out life insurance is putting the policy into a trust. And yet according to insurer Aegon, only 6 per cent of life-insurance policies in the UK are set up in this way. This is surprising as, although this process isn't necessarily suitable for all policies, it can be very advantageous in the case of many.

What is a trust?

A trust allows you to set aside an asset to benefit a specified person or people (the beneficiaries). The asset is managed by a trustee until such time as the beneficiary is intended to benefit. So, for example, your spouse may look after property on behalf of your children until they reach a responsible age.

Life insurance policies are such an asset, and putting a policy into a trust has huge consequences on what happens to the payout from a policy in the event of your death.

Note: In industry jargon, putting a life insurance policy into a trust is known as "writing life insurance in trust" or a policy is "written in trust".

The benefits of writing a life insurance policy in trust

The principal advantages to putting a life insurance policy into trust are as follows:

Trusts can help sidestep inheritance tax - The biggest advantage relates to tax. Under normal circumstances, the payout from a life insurance policy will form part of your legal estate – and may therefore be subject to inheritance tax. The threshold for inheritance tax in the UK is £325,000. Tax is payable at 40 per cent on any part of an estate above this level.

By writing a life-insurance policy in trust, the proceeds from the policy will be paid directly to the Trust (and distributed to beneficiaries) rather than to your legal estate, and will therefore not be taken into account when inheritance tax is calculated. This means the value of your estate may not move above the threshold, depending on your circumstances.

It is also important to remember that any inheritance tax is payable within six months of a death. By putting life insurance in trust, it may help your family meet a tax bill.

You don't need probate to be granted in order for the policy to pay out - Writing a policy in trust also means payment to your Trust (and subsequent beneficiaries) is likely to be quicker, as the money will not go through probate.

This is a legal process which confirms an executor's authority to deal with your possessions. So, for example, if you leave everything to your spouse in your Will, then your spouse will have to get probate granted before they can distribute your money, property and so on. This process can take a long time, even when there is a Will. In cases of intestacy, it can drag on for a lot longer.

However, if the life insurance policy is put into trust, then it can potentially pay out long before probate is granted, as the insurance provider will just require a death certificate before paying out. Obviously it is better for a family to get an insurance payment as soon as possible, as the period following a death is stressful enough without being concerned about where the money's coming from.

You get greater control over your policy - Writing life insurance in trust allows you to specify how you want the proceeds to be paid out. For example, trustees can be appointed to oversee money for the benefit of children under 18.

In addition, setting up a trust means that the payout will go to the people you intend it to. If you owe money at the time of your death, it will be paid to your loved ones rather than to creditors.

What are the drawbacks?
Generally speaking, there are none, although it is advisable that policies held simply to pay off a mortgage rather than to support your dependants should not be written in trust. It is important to get advice on the correct Trust for your needs and circumstances as it can be difficult and costly, if impossible, to remove the policy from the Trust at a later date.

Does it cost extra?
No. All life insurance policies arranged by Christopher Little & Co can be written under trust at no extra cost. We will help you appoint trustees and complete all of the paperwork giving you the peace of mind that everything is taken care of.

If you already have a life insurance policy and want to write it under trust we can help by liaising with your insurance company. Speak to us today and book your review meeting. Remember to mention how you found us and your initial consultation is at our expense!   (Source: confused.com)