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Relevant Life Insurance

A guide to our Relevant Life Trust

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One of the legal requirements for a relevant life policy is that any benefits paid are for the benefit of an individual or a charity. Making payment of those benefits to the trustees of a suitable relevant life policy trust (i.e. a trust where the only possible beneficiaries are individuals or charities) meets this requirement.

That's why our Relevant Life Insurance policy has to be issued under a suitable trust right from the start.

Our Relevant Life Trust is a discretionary trust and offers the following benefits:

- **Inheritance tax** – the benefits of the policy won't be included as part of the life covered's estate. (Please note that in some circumstances, inheritance tax may be payable on the trust itself – see below for an explanation.)
- **Speed of payment** – as long as there is a surviving trustee, we can make any payment to them, as the legal owner of the policy, without delay. For example, we won't need to wait for a grant of probate following the death of the life covered.
- **Trustees control** – the trustees decide which of the 'potential beneficiaries' any benefits are paid to (or used for) and when. So they control how the money held in the trust is used, which can be especially useful if the beneficiaries are young children.

  The life covered can make a nomination to the trustees as to how they'd like any payment to be paid to the beneficiaries. However, this isn't binding.
- **Payments can be made to the life covered** – as the life covered is one of the potential beneficiaries of the trust, the trustees can use their discretion to pay any terminal illness or employee significant illness benefit to them. However, any payments made to the life covered from the trust will be owned by them. So unless they are spent, they will be included in the life covered's estate for inheritance tax purposes.

The trust can be written in paper form or online through the application process. Completing the trust online is signature free. Any director completing the trust online on behalf of a company needs to ensure all shareholders are in agreement.

Who are the trustees?

With our Relevant Life Trust, the employer is automatically a trustee and they can appoint up to three additional trustees. All trustees must have full legal capacity, so if an individual is appointed they must be at least 18 years old and of sound mind. The life covered can also be a trustee.

The trustees' responsibilities include:

- Being the legal owners of the trust fund.
- Looking after the trust fund in accordance with the powers and provisions of the trust and with trust law. To do this, they should be familiar with the terms of the trust, taking their own legal advice where necessary.
- Acting together, as one trustee can't override the decisions of another.
- Getting financial advice so the trust fund is suitably invested if the benefits aren't paid to beneficiaries straightaway following a claim.
- Paying any tax liabilities out of the trust fund. This should only happen if the money stays in the trust fund following a claim.

Who are the beneficiaries?

The potential beneficiaries can be:

- the life covered
- any spouse, civil partner, former spouse, former civil partner, widow/widower or surviving civil partner of the life covered
- any child or remoter descendant (which includes grandchildren) of the life covered
- any individual or UK registered charity nominated by the life covered.

The trustees can make payments out of the trust, at their discretion, to any of the potential beneficiaries of the trust.

What happens if the life covered is no longer employed by the business?

If the life covered's new employer wants to pay the premiums then the potential tax advantages of the Relevant Life Insurance policy could continue. The trust will remain in place, with the former employer retiring as a trustee and the new employer being appointed in their place. To make this happen, our Relevant Life Insurance Continuation Form (Change of Employer) must be completed.

Alternatively, the policy can be cancelled and the life covered can take out a new policy as policyholder, without further health and lifestyle questions being asked. The new policy will only have death benefit and, if available, terminal illness benefit. The premium payable for any new policy will be payable by the life covered and will be based on the rates available and the personal circumstances of the life covered at the time. The policy conditions and eligibility criteria at the time will apply to the new policy and it would not have relevant life status. In these circumstances, the existing trust would be brought to an end.

What about inheritance tax?

As our Relevant Life Trust is a discretionary trust, it is a Relevant Property Trust for inheritance tax purposes. This means an inheritance tax charge may arise on each 10th anniversary of the creation of the trust. A tax charge may also arise when the trustees pay money out of the trust to beneficiaries.

Any tax is payable by the trustees, out of the trust fund.

10 yearly (periodic) charge.

If, on a 10 year anniversary of the creation of the trust, the value of the trust fund is higher than the nil rate band for the trust at that time, an inheritance tax charge will arise on the excess. The amount of the tax charge is 30% of half the death rate (i.e. 20%). This equates to 6%.

However, where the only asset in the trust fund is the Relevant Life Insurance policy, the value of the trust will be very small as long as the life covered is in good health.

Exit charge

When the trustees pay money from the trust to the beneficiaries, an exit charge may apply. However, it will only occur where they paid an inheritance tax charge at the last 10 year anniversary or at the start of the trust if that was less than 10 years ago. Again, this is unlikely to happen where the only asset is the Relevant Life Insurance policy.

Find out more

For more information on Relevant Life Insurance, please read:

- Introducing Relevant Life Insurance
- Relevant Life Insurance In focus
- Understanding Relevant Life Insurance and employee significant illness.

Or you can speak to your account manager for more information.

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