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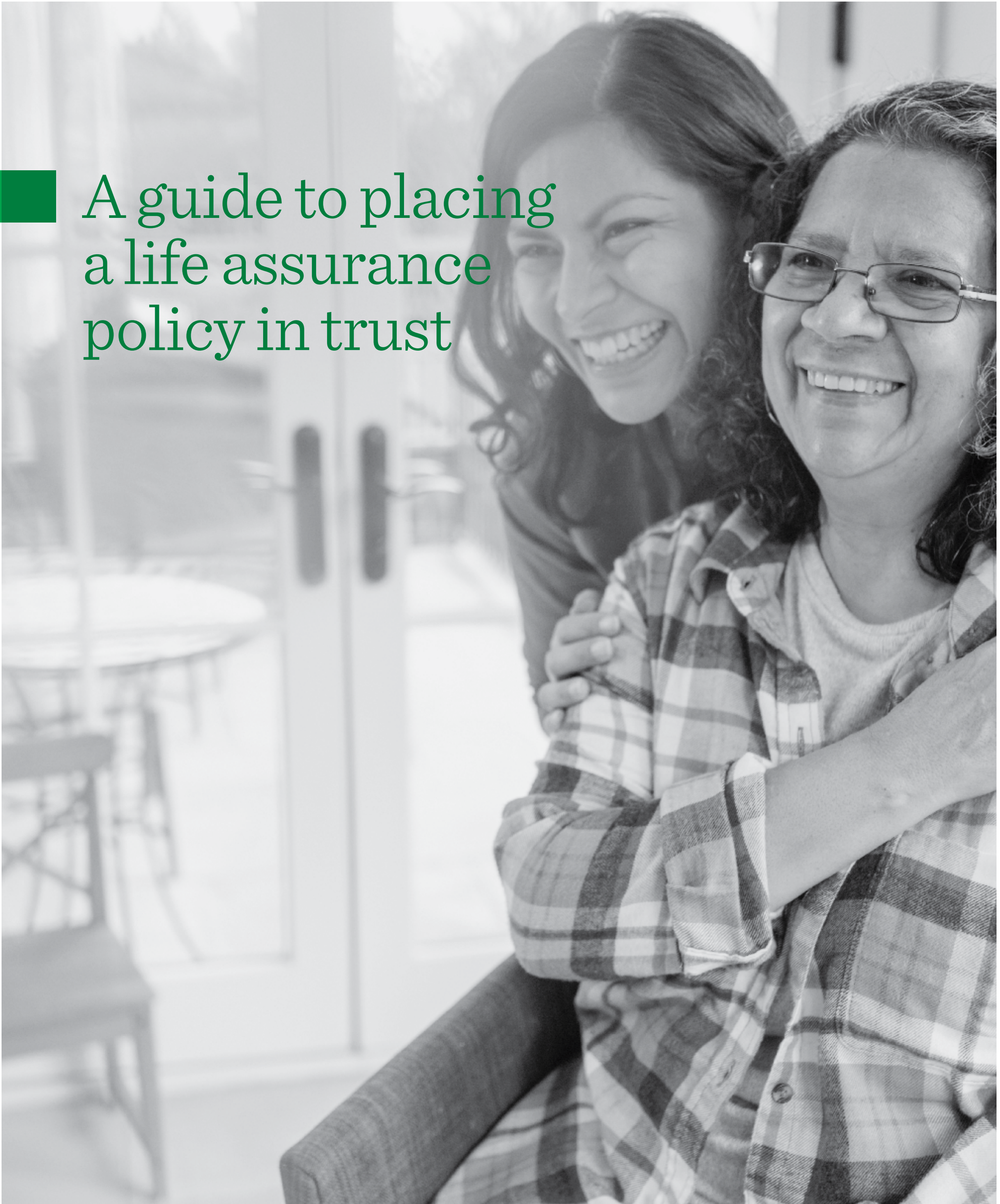

A guide to placing a life assurance policy in trust

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Introduction

This guide offers an easy-to-read explanation of a trust and its key features. It looks at

- **what a trust is**
- **why you might use a trust**
- **how a trust works in practice.**

What is a trust?

At its simplest, a trust is a legal instrument that enables you to give away property in an efficient way. While a trust will often be used to make gifts of shares, cash, land and bricks-and-mortar property, you can also use a trust to gift your life assurance policy and its proceeds to beneficiaries that you nominate.

There are three entities involved in creating a trust.

1. **Beneficiary** – the person or persons that you choose to benefit from the proceeds of your policy.
2. **Settlor** – the creator of the trust, which is the policyholder.
3. **Trustee** – administrators of the trust; while the settlor is normally a trustee, it is sensible to appoint at least one further trustee.

Why put your policy in a trust?

A trust helps you to make sure that the right money goes to the right people at the right time.

The key feature of a trust is that you no longer own the asset held in the trust, your life assurance policy. This means that should you die the proceeds of the policy do not form part of your estate. This delivers two important benefits.

Avoid probate delays

Probate is the legal process that determines how a dead person's estate is distributed. The probate process, on average, takes between nine and twelve months to complete.

When you place your life assurance policy in a trust you give it away. Because the trust now owns the policy there is no ownership issue to be decided by probate. This means the life assurance provider can pay the proceeds quickly to the trustees, who will pass the money to your chosen beneficiaries.

Avoid inheritance tax

Inheritance tax (IHT) is a tax due on the value of a dead person's estate once it passes a certain threshold. Currently, IHT is payable at the rate of 40% of the amount by which the estate exceeds £325,000.

When you place your life assurance policy in trust, the proceeds no longer form part of your estate. This means the trustees can distribute the proceeds of the policy with no liability to IHT.

As you give away your policy when you place it in trust, HM Revenue & Customs (HMRC) will treat the premiums you pay as gifts for IHT purposes. Unless the premium is exceptionally large, HMRC will assess your premiums as 'exempted gifts' that you've paid for from normal expenditure, or as exempt as part of your 'annual exemption', which is currently £3,000.

Trusts in practice

As the policyholder, when you place the policy in a trust you become the settlor. Once you've created a trust, you cannot cancel it, although it will end if the policy ends; for example, because you stop paying premiums.

Nominating trustees

As settlor, you are normally a trustee, but it makes sense to nominate additional trustees. If you die leaving no additional trustees, the administration of the trust will pass to whoever is administering your estate. Inevitably this will cause delays, removing one of the advantages of you placing your policy in trust in the first place.

There are no special qualifications needed to be a trustee other than being over 18 and of sound mind. However, it is a good idea to choose trustees who are both UK resident and easy to contact. You can replace, remove or appoint further trustees at any time. However, bear in mind that too many trustees can hinder rather than help.

Trustees' duties

When a life assurance policy is the only asset of the trust, the trustees' duties usually extend to nothing more than passing on the policy proceeds to your nominated beneficiaries. However, if any of the beneficiaries are young children, the proceeds stay in the trust until they are 18. In this event, the trustees become responsible for investing the trust assets until they can pay them to the beneficiaries.

Nominating beneficiaries

You can nominate any person or charity as a potential beneficiary. Your nominated beneficiaries have no legal interest in the trust, only what's known as an equitable interest. This means the life assurance provider only ever takes instructions from the trustees.

You can change your nominated beneficiaries whenever, and as often as, you like. Your latest written nomination of beneficiaries overrides any earlier nominations.

The Quilter Foundation is Quilter's charity. The Quilter Foundation provides vital funding to carefully selected charitable organisations, focusing on education, employment and health & wellbeing.

To find out more visit:
www.quilter.com/the-quilter-foundation

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