



guidance | trust | confidence



NI Young Solicitors' Association & Navigator Financial Planning

Estate Planning using
Life Policies & Pension

22nd April 2008

Agenda

- Life policies
- Pensions
- Planning ideas

Pre-FA 2006 policies

- Continued payment of premiums not added property
- Provided
 - premiums not increased
 - term not extended
- Unless
 - in accordance with terms of original policy

Caution!

- Increased payment outside of option or terms
- Premium payment by another person
- Exercise of convertible term option



Where we were

- Flexible power of appointment
 - interest-in-possession
- Premiums – potentially exempt (PET)
- Sum assured
 - paid to trustees IHT free
 - paid to beneficiaries IHT free
- Change of beneficiary
 - PET
 - no need to inform HMRC
- Remember – still time up to 5th October 2008!

Where we are

- All treated as discretionary
- Premiums – CLT
- Sum assured
 - paid IHT free to trustees
 - periodic charge
- Paid to beneficiaries
 - exit charge
- Change of beneficiaries
 - no IHT
 - inform HMRC on IHT 100

Premiums

- CLT unless exempt
 - Annual Exemption
 - gifts from normal expenditure
 - record-keeping

Periodic & exit charges

- Periodic charge determines exit charge
- Periodic charge not an issue **unless**
 - life assured in serious ill health or
 - proceeds paid and retained in trust
 - premium paid rule applies on whole-life

Rysaffe planning

- Different days
- Different trusts
- Each has own NRB

Rysaffe

- Whole-life policy in trust £100k premium
- One policy, one trust
- Value at 10 year anniversary £1M

| <u>Date</u> | <u>Premium</u> | <u>10 year value</u> |
|-----------------------|----------------|----------------------|
| 1 st April | £20,000 | £200,000 |
| 2 nd April | £20,000 | £200,000 |
| 3 rd April | £20,000 | £200,000 |
| 4 th April | £20,000 | £200,000 |
| 5 th April | £20,000 | £200,000 |

Critical Illness Policies

- Split trusts
- Should be OK
 - Separate benefits within same policy
 - Death benefit is extinguished by CIC
- May not be OK
 - Death benefit is reduced by CIC
 - GROB

Life company trusts

- Not limited to the life company's own trust
- Can use another company's trust
- Can use your own wording

Pensions

- Death benefits are separate
- Death benefits are exempt from IHT
- Spousal bypass trust
 - retains death benefits outside estate
 - spouse discretionary beneficiary

Pensions - caution

- Statutory schemes
 - pilot trust
- Multiple pensions
 - consider multiple trusts
 - multiple NRBs
- 2 year rule

Planning ideas

- Discounted Gift Trust
- Gift & Loan Trust

Discounted Gift Trust

- Remove capital from estate
- Retain right to “income” stream
- Value of “income” is discounted against full value
 - age
 - sex
 - level of income

DGT advantages

- Immediate reduction in IHT liability
 - 40% of value of discount
- Full reduction after 7 years
- Gift can be larger than NRB
 - Because of discount
 - Joint settlors get much larger discount
- Settlor retains “income” stream
- Future growth outside estate

DGT caution

- Underwrite
- The very elderly
 - Value of discount may be nil
- Powers of the trustees
 - Can investment be rewritten
 - Can trustees pay any Income Tax
 - Can trustees make loans/advances to beneficiaries

Gift & Loan Trust

- Small gift to trust
- Large loan to trust
 - assets now owned by trustees

Advantages of G&L

- Estate value frozen
 - Future growth outside of estate
- Flexibility
 - Not sure about beneficiaries
 - Funds gradually shifted to gifted portion
- Loan can be repaid over time to settlor to supplement income

G&L caution

- Loan may be repaid
 - No further access for settlor
- No immediate IHT saving

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