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# Why should you be fussed about trusts?

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# Learning objectives

## By the end of this session, you should be able to:

- Understand why getting trusts wrong can undermine protection outcomes, and how correct structuring helps achieve good client outcomes
- Confidently apply trust solutions in protection planning to align plan ownership, control and benefits with client needs
- Understand when setting up a trust to receive pension death benefits might be appropriate and what rates of tax would apply.

# The trust gap



# Achieving good outcomes

“Is it important to you that...”

The right **people** receive the money from your life insurance?

Right hands

They get it **quickly** when it's needed the most?

Right time

The plan **doesn't** add to or create an Inheritance Tax (IHT) liability of up to 40% on your estate?

Right money

# Achieving good outcomes

## Where does the money from a life plan claim go?

**The estate**

**A trust**

**Life of another**

**Nominated  
beneficiaries**

# An industry problem?

**1,381,577**

New individual term assurance sales (including Critical Illness) sold in 2025<sup>1</sup>

**22.8%**

Estimated percentage of single own life term plans placed in trust in 2023<sup>2</sup>

**Why are so few life insurance plans assigned to trust?**

1. Swiss Re Term & Health Watch 2026

2. Swiss Re / Insuring Change, Life claims: balance of risk, 2024

# Understanding trusts



# Why use a trust with life insurance?

Plan proceeds pay out to the intended beneficiary

Plan proceeds are outside of the estate for IHT purposes

Funds received by the trustees without having to wait for probate

Intergenerational planning



## Providing for a family

Can be set up to provide a spouse, civil partner and/or dependent children with financial support.



## Educational provisions

Life insurance could ensure there's continuation of education.



## Partnership protection

Funds needed to buy the partner's share of the partnership from the estate.



## Vulnerable beneficiaries

Trustees can control funds for young and/or vulnerable beneficiaries.



## IHT planning

Protect donees who've received lifetime gifts and provide funds to pay an IHT bill outside of the estate.



## Directors' share protection

Life insurance can provide necessary funds on death to buy the shares from the estate.

# Bare or Discretionary?

	Bare	Discretionary
Benefits	<ul style="list-style-type: none"><li>• Simple and transparent</li><li>• Income and gains taxed at beneficiary's rate</li><li>• No ongoing IHT charges</li></ul>	<ul style="list-style-type: none"><li>• Flexible</li><li>• Assets don't belong outright to any beneficiary</li><li>• Useful for cross-generational wealth preservation</li></ul>
Watch-outs	<ul style="list-style-type: none"><li>• Little flexibility</li><li>• Assets belong outright to the beneficiary</li><li>• Parental tax rules for minor beneficiaries</li></ul>	<ul style="list-style-type: none"><li>• Potential for ongoing IHT charges</li><li>• Administration</li><li>• Income and capital gains tax rates and allowances</li></ul>

# Defining benefits

Discretionary trusts used for protection plans define various protection benefits into three categories: gifted benefits, retained benefits and personal benefits.

## Gifted benefits



These are paid to the trustees to be held for the benefit of the discretionary beneficiaries.

## Retained benefits



The trust keeps these for the benefit of the donor(s). They may have the option to make them gifted benefits.

## Personal benefits



These are always paid to the donor(s).

# Taxation and trusts

## General tax position

	Bare	Discretionary
Income tax	Taxed as if the beneficiary owns the assets. Any income is taxed at the beneficiary's tax rate.	£500 exemption. If income is less than £500 no tax is paid, but if income is over £500 the whole amount is either taxed at 45% or 39.35%.
Capital Gains Tax (CGT)	Gains are taxed as if they belong to the beneficiary on disposals by the trustees.	Gains are taxed within the trust, which has a lower CGT allowance (£1,500 in 2026/27). Gains above this are taxed at 24% on disposal.
Inheritance Tax	The gift into trust is a potentially exempt transfer (PET). Assets are treated as if they're within the beneficiary's estate.	The gift into trust is a chargeable lifetime transfer (CLT). A periodic charge may be payable every 10 years, up to a maximum rate of 6%. There may be an exit charge when property leaves the trust.

# Relevant property regime

## Entry charge



### When does it apply?

Applies when assets over the nil rate band (NRB) are placed into trust.



### The calculation

20% tax on the value exceeding the NRB.

## Periodic charge



### When does it apply?

Applies every 10 years on the trust's value.



### The calculation

6% on assets above the available NRB.

## Exit charge



### When does it apply?

Applies when assets are distributed to beneficiaries.



### The calculation

Based on time since last periodic charge. A proportion of the 6% charge is applied.

# Who's involved in a trust?



# The parties to a trust



# The donor



- Typically included as a trustee.
- Both lives on a joint life first death plan are the donors.
- Should use a ‘letter of wishes’ to express what they want to happen to the money from a plan on death.
- Writing a plan in trust **doesn't change the cover and premiums**. It only affects who receives the money and how it's paid.

# The trustees



- Trustees **don't need to be professionals**, but it can be helpful in certain situations.
- Under English Trust law, trustees must be at least 18 years old.
- Trustees can be based overseas but should be aware of the impact on the administration.
- It's essential that they act together, and often decisions need to be **agreed by majority**.

# The beneficiaries



- The donor(s) must not be named as a beneficiary, otherwise the trust will fail to be effective for IHT.
- If a Bare Trust is used, the beneficiary must be named at the start, they can't be changed.
- A **beneficiary can be a trustee**, provided they are over 18 and of sound mind, but must act impartially.
- If a Discretionary Trust is used, there's a list of potential beneficiaries that can benefit from the trust funds.

# The beneficiaries

## Discretionary Trust

### F17 The Discretionary Beneficiaries

**Note:** This is the list of beneficiaries the Trustees may appoint all, or any part of, the Gifted Benefits to, using the powers in clause B1.

You can add to this list at any time by giving the Trustees the full names of any Discretionary Beneficiaries you would like to be able to potentially benefit from the Trust Fund or by writing the full names of the Discretionary Beneficiaries at vii and viii below.

We only use this information to pay your benefits in the event of your death. Please make sure your Discretionary Beneficiaries are aware of how we use their information.

The Discretionary Beneficiaries means:

- F17 i The children and remoter issue of the Donor (or either Donor, if there are two Donors) (whenever born) including children and remoter issue by adoption and step-children of a Donor's Partner or surviving Partner.
- F17 ii Any Partner or former Partner of anyone within (i) above.
- F17 iii Any person at any time the Partner of the Donor (or either of them) or the widow or widower or surviving Partner of the Donor (or either of them).
- F17 iv Any person descended from the mother or father of the Donor (or of either of them).
- F17 v Any person who, after the death of the Donor (or either of them), may benefit from the Donor's residuary estate.
- F17 vi Any person nominated in writing to the Trustees by the Donor provided that the Donor (or either of them) may not be the subject of any such nomination.

F17 vii

F17 viii

PROVIDED THAT the Excluded Person (whether or not comprised in any of the categories (i) to (vi) above) shall not be a Discretionary Beneficiary.

Why do discretionary trust deeds have a set list of discretionary beneficiaries?

Do they cater for modern family structures?

# Trust Registration Service



# Trusts used with life plans



Most trusts used with protection plans **don't** need to be registered immediately because of special exemptions.



A trust holding a plan excluded from registration during the life of the person covered **continues to be excluded** from registration for two years if, following the death of the person covered, the trust receives the payout from the plan.



For all other claims, for example on diagnosis of a critical illness, and if a plan is surrendered, HMRC has confirmed that if the benefit is paid to the trustees, the trust must be registered within 90 days of the claim being paid.

Any trust that has a current tax liability already needs to be registered or will need to be **registered within 90 days** if a tax liability arises in future.

# An alternative option



# The process



## Named beneficiary

For any single own life cover, your client can name beneficiaries who'll receive any payout made on death (unless others are chosen later).

## A trust

Your client should complete a trust form, and we'll pay to their trustees for the benefit of the people specified in the trust.

## Your client(s)

Your client wants any payout to be made to them or their estate.

# The right choice?

## Beneficiary nomination

- Straightforward situations
- Most single own-life plans
- Commonly partner or children are beneficiaries
- Retain terminal illness cover
- Not ready to take out trust
- Don't want to deal with trustees
- Easy to update

## Trust

- Complex cases
  - Young beneficiaries
  - Blended families
- Beneficiary 'protection'
- Jointly owned– simultaneous deaths
- IHT planning:
  - Cover used to pay IHT
  - Generation skipping / loans

# Making trusts your business





# Trust disclaimer

I understand that contrary to the advice by my protection adviser, I **do not** wish to write my life insurance plan into trust or nominate beneficiaries in the plan.

I understand this means...

- My beneficiaries will have a **delay** in receiving any proceeds from my plan
- Payment from my life insurance plan could go to the **wrong people**
- My plan proceeds could be subject to **an inheritance tax charge of 40%**

Client signature: \_\_\_\_\_

Date of signature: \_\_\_\_\_



**If you were the client,  
would you sign this?**

# Top tips to trust success



## Plan set-up

Formal direction of benefits isn't an optional extra, it's essential to correct plan set-up.



## Engage the trustee

Trustees should be made aware of their responsibilities.



## The alternative to a trust?

Consider using contractual beneficiary nomination for single own life cases.



## Review service

Identify clients with life plans having no beneficiary nomination or trust.



## Revisit

Revisit regularly to ensure nominations / trust wishes are up to date.

# Using a trust for pension death benefits

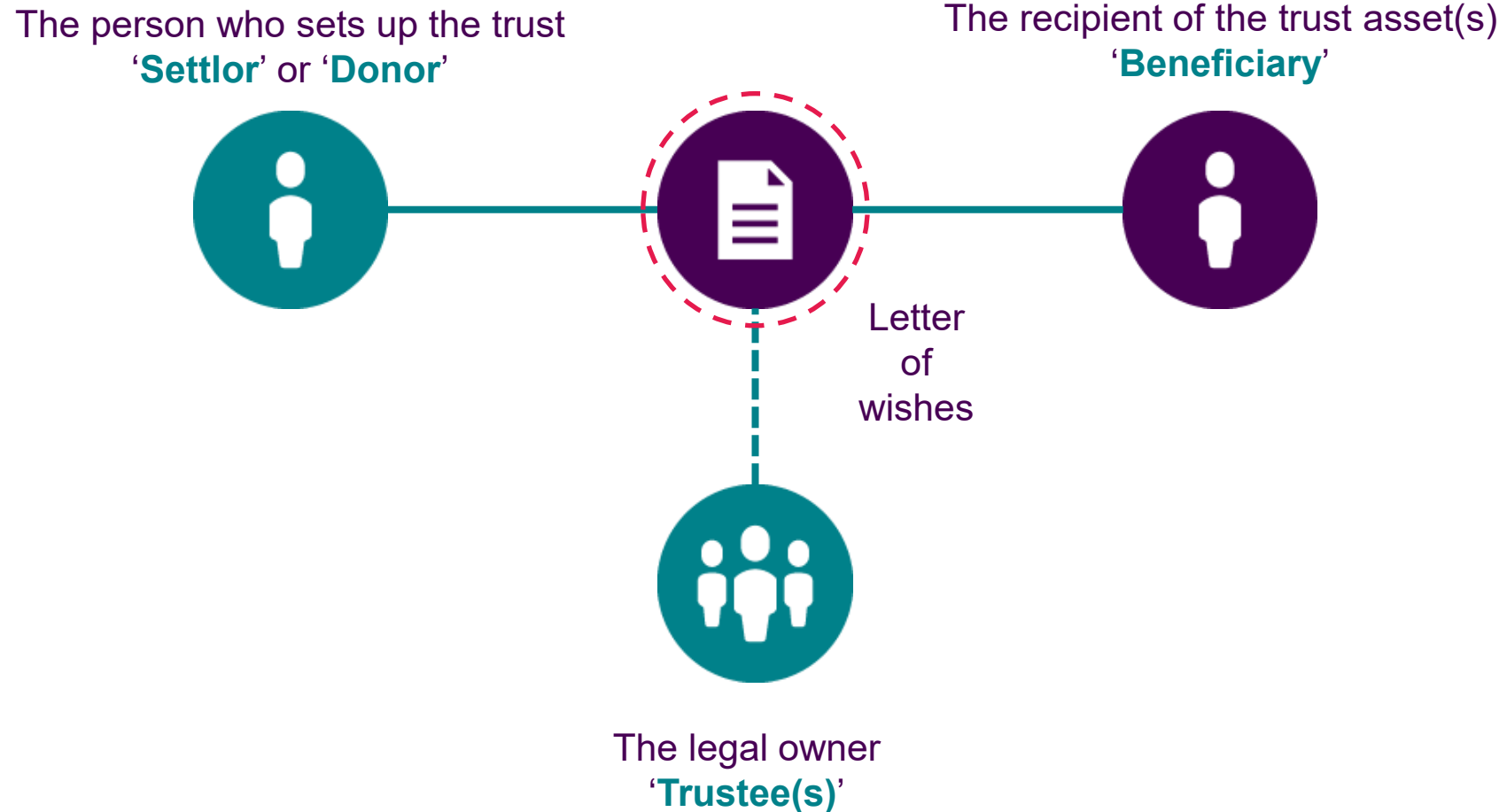


## Why would you use one?

- Control over payments
- Could save IHT later
- Young beneficiaries
- Potential to make loans



# How does it work with pension death benefits?



# How does the tax work before 6 April 2027?

- On death before age 75 the benefits will pass to the trust income tax-free if they're within the available lump sum and death benefit allowance (LSDBA).
- The trustee rate of income tax will apply to any excess - 45%.
- On death after age 75 the special lump sum death benefit charge applies - 45%. This'll be deducted before the payment is made to the trust.

# How does the tax work after 6 April 2027?

- On death before age 75 the benefits will pass to the trust income tax-free if they're within the available LSDBA.
- The trustee rate of income tax will apply to any excess - 45%.
- On death after age 75 the special lump sum death benefit charge applies - 45%. This'll be deducted before the payment is made to the trust.
- **IHT will potentially apply to the amount immediately before death.**

## Meet Julie

- She's aged 75 and in drawdown.
- She has two children with her current partner and two from a previous marriage.
- There's a flexible trust in place to receive the death benefits.
- She'd like her partner to continue to receive an income when she dies then any remainder to be shared with the four children after she dies.



# How the tax charges will work before 6 April 2027

- Assume Julie's fund is £400,000 when she dies.
- £220,000 will be paid to the trust.
- Assume one of the beneficiaries receives a payment of £55,000.
- This would be classed as a gross payment of £100,000 ( $£55,000/0.55$ ).
- The recipient can claim any overpaid tax.

# How the tax charges will work after 6 April 2027

- Assume Julie's fund is £400,000 when she dies.
- £132,000 will be paid to the trust.
- Assume one of the beneficiaries receives a payment of £33,000.
- This would be classed as a gross payment of £60,000 ( $£33,000/0.55$ ).
- The recipient can claim any overpaid tax.

## What does the beneficiary receive?

From a £100,000 share of the fund value:

- **Before 6 April 2027 - £60,000**
- **After 6 April 2027 - £36,000**

Assumed higher rate tax and IHT of 40% has been deducted post April 2027.



## **Tax when it's in the trust**

- Income tax of 45% or 39.35% for dividends
- Capital gains tax of 24%
- Periodic and exit charges
- No entry charge before 6 April 2027



## Julie's decision

- The tax charge isn't as bad as she first thought.
- The reasons for setting up the trust still remain so she decides to leave it in place.
- This should be considered at her review every year.



# Planning points



Make sure you're up to date with the IHT changes.



Make sure expression of wish forms are up to date.



Is a trust still required? Or is a trust worth considering?



Make sure the clients' desired options are available.

# Learning objectives

## You should now be able to:

- Understand why getting trusts wrong can undermine protection outcomes, and how correct structuring helps achieve good client outcomes
- Confidently apply trust solutions in protection planning to align plan ownership, control and benefits with client needs
- Understand when setting up a trust to receive pension death benefits might be appropriate and what rates of tax would apply.

**Please note that your CPD certificates will be sent to you by email after the webinar and may take up to 24 hours to arrive. During this time, there's no need to follow up by email.**

**Thank you for your patience.**





# Thank you

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