ROYAL LONDON

Protection

Insuring the uninsurable

If you have clients that are worrying about Inheritance Tax (IHT) and one of the lives have previously been declined for life cover, you might think that addressing this issue using an insurance-based solution is out of the question. But that's not strictly true.

Did you know?

If your clients require joint life second death cover, but one of them is declined, what do you do?

Doing nothing could have serious financial consequences for the couple's beneficiaries when they're faced with the inheritance tax (IHT) bill

A single life policy for the accepted life could work, but if they die before the non-insured partner, it comes with potential headaches for everyone involved.

We could still offer the joint life last death policy you originally recommended. It's a normal policy, with the same benefits - we'll simply base the premium on the single life rates for the healthier life.

We can still help you provide an ideal solution that will help your clients leave a legacy for their loved ones, with the peace of mind that the resulting IHT liability will be covered.

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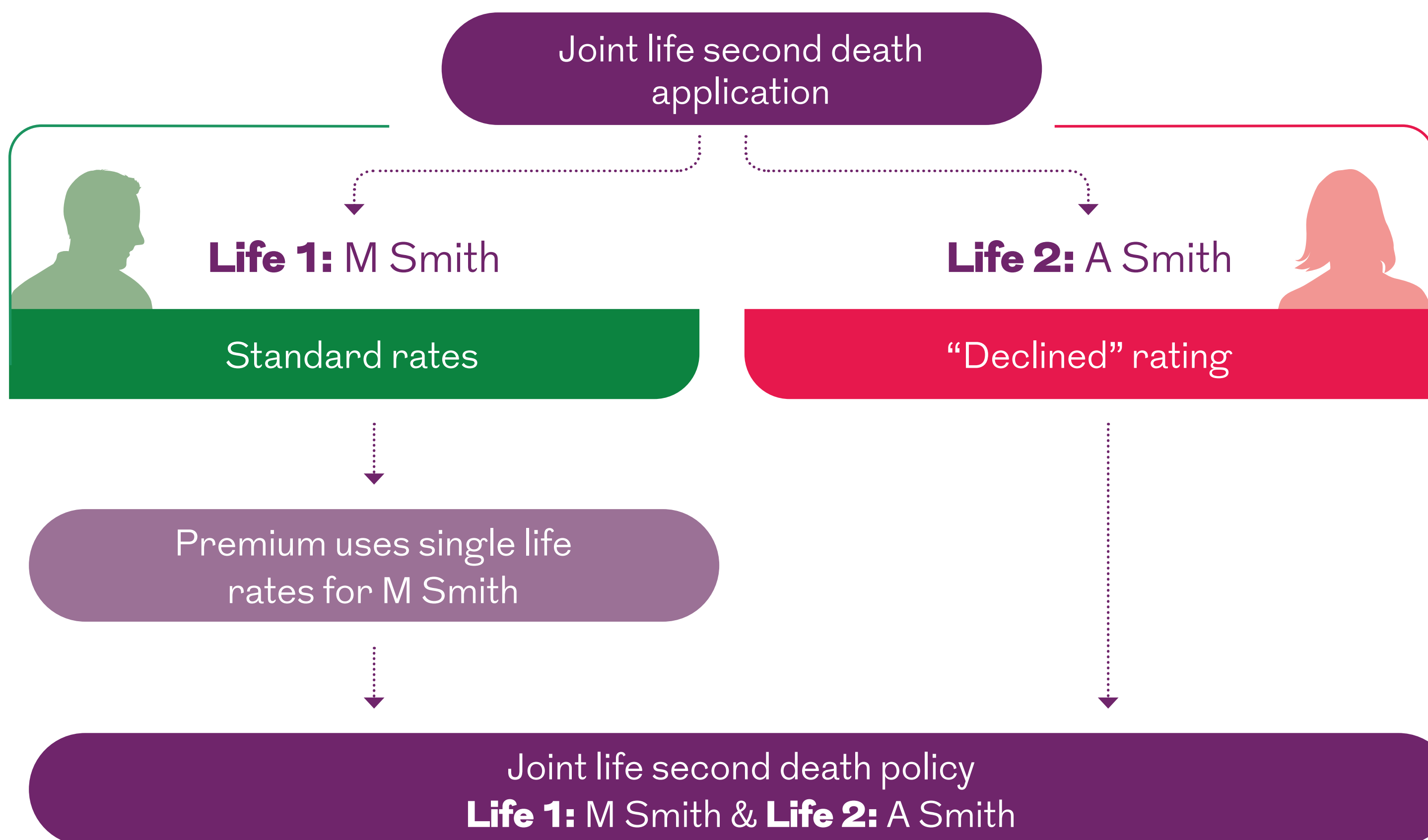
Normal policy, same benefits (illustrated below)



Things to consider

Do premiums continue to be paid if the healthier life dies?

Yes, premiums will have to continue to be paid in the same way they would after the first person dies on any 2nd death policy.

What are the potential problems that could occur if a single life policy was used instead?

If the healthier life dies first and only a single life policy is used the following need to be considered:

- The trustees would either need to invest the benefit paid so that it is available to pay the IHT liability when the second person dies or pay the money to the beneficiary for them to invest.
- These investments would need to be reviewed on a regular basis.
- Depending on where the money is invested it may lose value or may not keep pace with inflation. This could be a particular concern if increasing cover had originally been chosen so that the amount of cover would increase to take account of the value of the estate and IHT liability increasing over time.
- The investments could give rise to an income tax or capital gains tax liability meaning the trustees would need to complete a tax return and account for any tax payable.
- If a discretionary trust is used there may be periodic and exit charges for IHT on the trust which the trustees would need to report and account for to HMRC.
- The trust would need to be registered with HMRC's Trust Registration Service no more than 2 years after the claim is paid and the details on the register need to be kept up to date.
- If paid to a beneficiary there may be a temptation for the money to be used for other purposes instead of paying the IHT liability when the second person dies.

For more information visit:
adviser.royallondon.com/protection

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