Friends Provident International

Notes on trusts, beneficiary nominations and assignments

For advisers only
Not for use with customers.

Trusts

The protection trust can be used with both new and existing policies and is available in PDF format.

With any significant amount of life cover, a trust should be considered for those with a potential liability to UK inheritance tax (IHT). This is because if a policy is beneficially owned by the life assured on death, the sum assured will form part of their estate for IHT. A liability to IHT could be created (or increased) when those policy proceeds are added to the deceased's other assets. The policy benefits will be paid outside of the deceased's estate, however, if the policy is held in a suitable trust.

Additionally, a trust enables the death benefit to be paid to the trustees without waiting for probate providing the ability to quickly clear debts and provide financial support for the family. As this is a discretionary trust, applicants may wish to provide a letter of wishes to their trustees in respect of the policy benefits. Any letter should make the writer's wishes clear and unambiguous in order to avoid disputes at a difficult and emotional time.

Terminal illness benefit (TIB) – International Protector Middle East

Accelerated life cover (ALC) – International Protector Asia

The trust offers a choice of 'carving out' the TIB or ALC for the benefit of the applicant or leaving it subject to the trust for the beneficiaries. The TIB/ALC is an early payment of the death benefit on diagnosis of a life expectancy of less than 12 months.

Points to consider

- If the applicant wishes to be able to use the TIB/ALC during his/her short remaining life expectancy, they should 'carve out' the TIB/ALC for themselves. It should be noted that any of the TIB/ALC, which has not been spent by the time of death, will be part of their estate and therefore potentially subject to IHT.
- If the TIB/ALC is to be for the beneficiaries, then it should not be 'carved out'.

Critical illness and disability benefit (CIDB) and Total and permanent disability benefit (TPD)

- If the policy includes either of these benefits, it is automatically 'carved out' for the benefit of the applicant(s).
- Apart from very occasional business protection situations, stand-alone 'critical illness cover', where CIDB is the principle benefit with no major death benefit element, is unlikely to be required in trust.

Products covered by this document

International Protector Asia
International Protector Middle East

Nomination of beneficiaries

- The application form incorporates a section for nomination of beneficiaries. A nomination can also be made when the policy is in force, by using a separate nomination form. A nomination can later be cancelled or changed.
- The main benefit of such a nomination is speedy payment of the death benefit without the delay in obtaining probate, even though this may also be required in order to distribute the remainder of the deceased's estate.
- It should be noted that all lifetime benefits, in other words any benefits intended for use during the applicants' remaining lifetime e.g. CIDB and TPD, are automatically 'carved out' for the applicant(s).

Assignments

- An assignment form for consideration by a policyholder's and potential assignee's legal adviser is available from our website.

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