Trusts

A trust is a legal arrangement that allows you to leave money and things you own (your 'assets') to a person or people (the ‘beneficiaries’) when you die. A trust can be managed by family, friends or a solicitor (the ‘trustees’). All your assets put together form your ‘estate’. Your life insurance is an asset and can be put into a trust in the same way as anything else.

Choosing to put life insurance in trust has a number of benefits, which include:

- Control – putting your life insurance in trust means you get to define who benefits from what you leave behind and who you'd like to manage it.
- Speed – probate is the process of dividing up your assets after you die and can take months to complete. If your life insurance is in trust, your loved ones don’t have to wait for probate for the policy to pay out – usually your trustee just needs your death certificate. However, they may have to apply for probate for other assets in the estate.
- Tax – if your total estate, which includes your life insurance, is worth more than the inheritance tax threshold, there may be a 40% inheritance tax bill to pay on the part over and above that amount. Putting your life insurance in trust means it’s legally owned by your trustees and isn’t part of your estate. This means it doesn’t count towards the inheritance tax calculation, and that means your loved ones get the full pay out.

If you do not put a policy in trust the beneficiary will typically wait longer to receive the benefits and may have to pay more tax once they are received.

Although there are benefits to setting up a trust, it might not be the best thing for you. It’s a legal arrangement and you should think carefully before signing up.

A trust also has tax implications. You should seek guidance from a qualified tax adviser if you are unsure about any tax implications. Your insurance / protection adviser is unable to give any advice to you on tax matters.