# The Beneficiary Trust

## Introduction

The RL360° Beneficiary Trust is designed for policyholders who are non UK domiciled and who want the policy's benefits to go to one or more beneficiaries in the event of death. Whilst there is nothing to prevent UK domiciled policyholders from also using the trust, it is important to understand that there would be no Inheritance Tax (IHT) planning advantages in doing so.

Unlike other trusts within the RL360° range, the Beneficiary Trust comes into effect on the death of the 'Relevant Person'. The 'Relevant Person' is the person who, upon their death, the policy is transferred into trust. Where there are joint policy owners, the policy will not pass into trust until both owners are deceased. It is important to note, however, that where the policy is written on a Life Assurance joint life first death basis, the trust will not work. This is because on the death of the first life assured, the policy would pay out to the surviving policyholder.

The trust will be of particular interest to those individuals who want the policy to remain in their own name during their lifetime but would like the policy to pass into trust after their death. This will mean that, assuming at least one of the nominated trustees is still alive on the death of the last surviving policyholder, the costs and delays associated with obtaining Manx Probate would be avoided.

## How does it work?

When the sole or last surviving policyholder dies and this also brings the policy to an end because they are also the sole or last remaining life assured, then the proceeds of the policy may be paid to the trustees. Alternatively, if the beneficiaries are 18 or over and we have been provided with satisfactory client and address verification requirements, we could make payment directly to them.

If the beneficiaries are minors, the proceeds of the policy could be reinvested by the trustees under the terms of the trust until they reach the age of 18.

Where the sole or last surviving policyholder dies, the policy automatically passes into trust and is held by the trustees until such time as the trustees wish to distribute the trust fund either by surrendering the policy or assigning the policy out of the trust to a beneficiary. Where a policy is written on a Life Assurance basis, the policy can only continue where there is a surviving life assured.

The trust can be revoked at any time prior to the death of the last surviving policyholder. To do this, the policyholder(s) inform RL360° in writing confirming that they no longer wish to use the trust, or by completing a new Beneficiary Trust which would replace the previous version. This would be relevant where the policyholder(s) has had a change of heart over the intended beneficiaries of the trust.

## Case study

Mahindra is an Indian national working in Dubai as an electrical engineer. He has a ten year old son called Vishay from a previous marriage. After discussions with his financial adviser, Mahindra has decided to invest in a Quantum policy with RL360° on a single life assured basis. His intention is to save regularly into the policy to fund Vishay's further education in the future.

Mahindra's financial adviser explains to him that, since it is registered in the Isle of Man, the policy will be classed as a Manx asset and therefore Manx Probate will be required in order for Mahindra's personal representatives to claim the proceeds of the policy upon his death. The adviser explains that this may cause delays in terms of the proceeds of the policy being distributed and there will also be the cost of appointing an Isle of Man based solicitor to deal with Manx Probate.

For this reason the financial adviser recommends that a simple trust be wrapped around the policy and that Mahindra considers who he would like to appoint as trustees. At this point in the conversation Mahindra is uncomfortable with this aspect of the arrangement. He likes the idea of being able to switch funds free of charge as and when he sees fit and is concerned that if the policy is placed under trust, he will need to obtain the other trustees' signatures in order for any switch instructions to be effected.

This poses a problem as he would like to nominate his two brothers as trustees and they both live in India.

Mahindra's financial adviser reassures him that the trust he has in mind is a trust which will not take effect until Mahindra dies and therefore only Mahindra's signature will be required in order for RL360° to be able to action his fund switches.

Mahindra feels the Beneficiary Trust is suitable for his needs and therefore completes the Settlement Deed along with the Quantum application. He appoints his brothers as trustees of the policy and his son Vishay as the sole beneficiary.

Mahindra is reassured that should he die before his son has completed his further education, that the trustees will be able to use the proceeds of the Quantum policy for his intended purpose without incurring any additional costs or delays in obtaining Isle of Man Probate. If Vishay is aged 18 or more at the time of his father's death, the trustees can chose to pay all the policy proceeds to him to use as he sees fit or they can remain within the trust to be distributed as and when required by the trustees.

## Important notes

For financial advisers only. Not to be distributed to, nor relied on by, retail clients.

If the 'relevant person' is UK resident at the time of their death and they were the last remaining life assured on the bond, then any income tax liability would fall on that individual at his or her highest marginal rate. If the death of the UK resident 'relevant person' does not bring the policy to an end, then subsequently if the policy is surrendered in trust, there may be an income tax liability on the trustees if they are UK resident or on any UK resident beneficiaries where the trustees are non UK resident.

Finally, please note that every care has been taken to ensure that the information provided is correct and in accordance with our understanding of current law and practice with Her Majesty's Revenue and Customs (HMRC) as at 6 April 2013. You should note however, that we cannot take upon the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change.

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