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Don't let them down

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Take a straw poll across the UK today and I would suggest you would find 80 per cent of people who hold insurance and pension policies do not have them written in trust.

That is a considerable opportunity for financial advisers and, conversely, a sign that the advice market may not have been best serving its clients.

Writing of insurance and pensions in trust is a simple procedure and one that should be second nature to IFAs. As an adviser firm we have the appropriate documents with us when we visit clients to arrange a policy and this is always a subject we raise with new clients, as we have discovered this is often an area of omission in their financial planning.

Not having a policy set up in trust is effectively ensuring the client will have a potential 40 per cent inheritance tax liability on their estate. Given that pensions and life insurance can form the major part of the total wealth of an individual, not ensuring all our clients have these documents written in trust is letting them down.

There can be several reasons why people have life assurance and pension assets liable to fall into their taxable estate when they ought to be exempt. With the rise in internet-bought insurance people are increasingly buying policies direct from life companies or via comparison sites, which can miss out this important step. Likewise, policies taken out when mortgages are purchased are often seen as add-ons to the sales process, more often undertaken over

the phone or online, again with little or no attention to trust writing.

Even in circumstances where the process is begun there is no guarantee it is completed. Under a defined benefit pension scheme where the individual has a nomination form to complete and return, you have to ask how many people actually do so and a good guess would be that many forms are not returned to the pension companies.

Disturbingly, we have found that many of our new clients transferring from other adviser firms had not been advised on writing policies in trust. This left them vulnerable to unnecessary inheritance tax liability of 40 per cent on their estate over and above the current IHT allowance of £325,000 for an individual and £650,000 for a couple. With the combination of house values, which will certainly have risen over the years, plus pension and insurance policy proceeds, many clients are likely to exceed their IHT limit.

Given that writing a life insurance policy in trust is a simple procedure involving no more than filling in a form at the time when the life policy or pension is being set up, there is no reason why IFAs should not be completing the advice process in this way.

There are other benefits for the client in using trusts. First, it speeds up payment of any pension and insurance claim, as there is no need to wait for probate, which, as we all know, can take from months to several years to conclude. Policies written in trust lie outside of the estate and so payment of

policy proceeds can be made to surviving trustees on production of a death certificate, without waiting for a personal representative to produce a grant of probate or letters of administration. This almost immediate payment avoids long delays for the client's family and relieving what may be considerable financial strain at an already difficult time.

It also places the client in more control of their assets, as a trust allows the addition and removal of beneficiaries, accommodating changes to personal circumstance. For example, in extended families where there may be issues surrounding passing on of wealth, writing policies in trust enables the individual benefits to be ring-fenced and given to those the client wants to receive them.

As the decline of defined benefit schemes in the UK continues and we move towards defined contribution schemes, bringing this issue to people's attention becomes even more important.

Under a private pension, the advice process comes into its own, making sure the trust form or deed of nomination is brought to people's attention and that people complete the document.

Writing pension in trust ensures any death benefit payment is made to the trustees chosen by the client who are then able to decide who receives the policy proceeds, applying any wishes the client may have stipulated. The alternative in the case of a personal pension is that the scheme administrator makes that decision.

Alongside the essential issue of ensuring clients receive the best advice and service, it makes good business sense for IFAs to take trust writing seriously.

IFAs can use the process to build their relationship with clients. Use of a suitable trust provides a versatile personal and

financial planning vehicle. In addition, it establishes with new and existing clients that you are an adviser who is both knowledgeable and looking out for their interests.

The good news is that as well as being very easy to set up, a post inception trust can be implemented, so where there is no trust in place the situation can be rectified.

It is the simple, added value service that often is most remembered by clients and helps cement long-term relationships. Or to put it another way, it is a matter of trust.