



FRIENDS PROVIDENT

TRUST FORMS FOR TERM ASSURANCE: LEVEL TERM AND HOMEBUYER PROTECTION WITH OR WITHOUT CRITICAL ILLNESS COVER

The use of the correct trust form can reduce a client's IHT liability and enable policy proceeds to be paid swiftly without waiting for probate. However, it is not always appropriate to place a policy in trust, for instance, where a policy is for mortgage purposes.

The trust documents described below are designed for family protection and SHOULD NOT be used for business protection purposes. If you are advising a client on business protection, please contact your Friends Provident Area Office for a copy of our Business Trust and the accompanying draft cross option agreement. (Please also see notes on Business Trusts below).

FLEXIBLE TRUST (DISABILITY BENEFITS RESERVED): FTD

The trust should be completed at application stage, i.e. before the policy has gone "on risk", and caters both for plans with life cover only and plans including Critical Illness Cover.

The trust caters for both the Law of England and Wales, and the Law of Scotland. If the applicant shows an address in Scotland, Scots Law will apply. In all other cases, the Law of England and Wales will apply.

Death Benefit

Unless the policy is written on a joint life first death basis, the death benefit will always pass to the trustees to hold on behalf of the beneficiaries, and the trust is IHT effective for this purpose.

Joint Life, first death policies

The applicants decide, at the time of writing the policy into trust, whether the policy proceeds will be held in trust for the surviving applicant, instead of the other beneficiaries. Ticking box G of the Schedule will indicate that the policy proceeds will be held in trust for the surviving Applicant if they are living 30 days after the death of the deceased Applicant. If the applicants die within 30 days of each other, the policy proceeds will be paid to the trustees to hold on behalf of the other beneficiaries.

Critical Illness and Disability Benefit

The Critical Illness Cover (CIC) and Permanent and Total Disability Cover (PTD) under Friends Provident's term assurances are written as an accelerated payment of the death benefit and on payment, the plan ceases. If CIC/PTD is applied for, the trust holds these benefits for the applicant but leaves the death benefit in trust for the chosen beneficiaries as shown above. This is, of course, because Critical Illness Cover is designed to help the client survive the financial consequences of a serious illness. In other words, it is a lifetime or survival benefit.

Terminal Illness Cover

Terminal Illness Benefit (TIB) is included automatically in Friends Provident's term assurances whether or not CIC has been selected.

The question to be considered is whether the client wishes to retain the TIB for him/herself or whether it should go to the beneficiaries in the same way as the death benefit. We hope that the following will help IFAs in guiding their clients.

Firstly, one needs to consider the TIB definition which is **"the diagnosis by a Consultant within the National Health Service of a rapidly progressing and incurable medical condition which is almost certain to lead to death within 12 months"**. We are not therefore considering a lifetime or survival benefit but the slightly early payment of the death benefit by Friends Provident.

The client is clearly close to death if we are accepting a claim for TIB and thus it can be reasonably assumed, in the large majority of cases, that the proceeds will be used in very much the same way as they would have been later on death. In such cases, the relevant Section F of the Trust schedule should have been ticked which gifts the TIB to the beneficiaries.

Each case should be considered individually in the light of the client's circumstances and wishes but also what his/her situation may be in the future. It is not possible to design a trust which changes the destination of the TIB at a later date.

FLEXIBLE TRUST (DISABILITY BENEFITS RESERVED) FOR AN EXISTING POLICY: FTD(EP).

This trust form is specifically designed to be used with an existing policy, i.e. once the policy has gone "on risk". It works in exactly the same way as the FTD trust wording.

BUSINESS TRUSTS

Where a policy is to be used for business protection, it is important to note that it must be placed in trust **at application stage**. Adverse taxation consequences could occur if an existing policy is assigned into a business trust. Where existing policies are placed under trust for the respective benefit of the other partners or shareholders, this may represent an assignment for money or money's worth. Such a "cross assignment" would bring the policy into the capital gains tax regime, giving rise to a potential tax liability in the event of a claim.

In the unlikely event that these trusts are not appropriate for your client please contact your Friends Provident Area Office or IFA Support on 08457 573036.



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Friends Provident Life and Pensions Limited is a member of the Friends Provident Marketing Group and is regulated by the Financial Services Authority

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