Your Guide to Life Insurance Trusts

A practical guide to life insurance trusts and how they can help protect your loved ones

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Introduction

Life insurance is about protecting the people who matter most to you. But it's not just the policy that matters, what happens to that money after it pays out is just as important. Without careful planning, a payout could be considerably delayed by probate or affected by inheritance tax.

A life insurance trust is often a straightforward way to help your policy benefits be paid more efficiently and in line with your wishes. This guide explains what a trust is, when it may be appropriate, and how it can help support your loved ones financially.

Understanding Probate and Inheritance Tax

When taking out life insurance, it's natural to focus on the policy itself: how much it pays out, how long it lasts, and what it costs. But it's equally important to understand what happens to that money when it's paid out, and how probate and inheritance tax (IHT) can affect your loved ones' access to it.

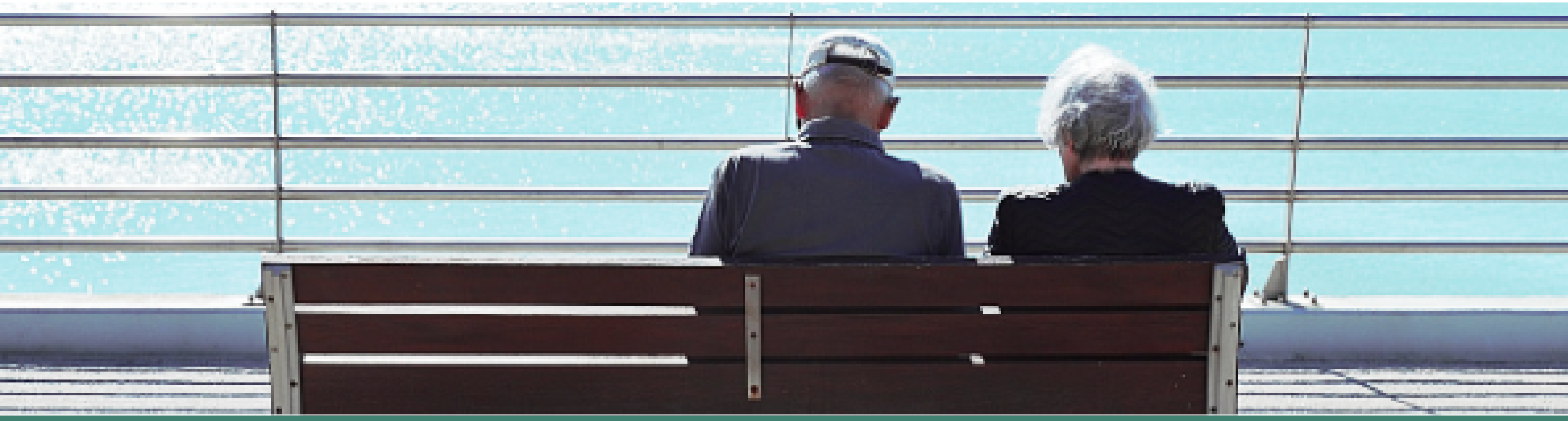
Probate
Probate is the legal process that is typically required when someone dies with assets, and a Grant of Probate is usually needed before a person's estate can be fully passed on. It isn't always required. For example, if most of your assets are jointly owned or already held in trust, probate may not be needed.

When probate is required, your estate must first be assessed and valued. Depending on the complexity of your assets, this can take several months. Typically, probate can take 6 to 12 months, or even longer for larger or more complex estates. During this time, your loved ones may not be able to access funds.

Inheritance Tax
Inheritance Tax (IHT) is a tax on the value of your estate above a certain threshold (currently £325,000, though this can vary depending on marital status, use of allowances and government policy). The standard rate is 40% on the value above that threshold.

If a life insurance payout is paid into your estate, it could increase the total value of your estate and may therefore be subject to IHT if the overall estate exceeds the threshold. These proceeds would also need to wait until probate is granted before being released.

Understanding these points early can help you make informed decisions and reduce the risk of delays or additional tax affecting your life insurance payout.



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What is a Trust?

Imagine someone pays you £100,000. You have two boxes to choose from.

- One box has a padlock. It can only be opened after around 6–12 months, and before you get to it, some might be taken away in tax or costs.
- The second box can be opened by your loved ones, without delay or extra cost, and has the money inside.

Which would you choose?

That second box is a simple way to picture what a life insurance trust is designed to achieve.

A trust is a legal arrangement that allows your life insurance payout to be held outside of your estate, for the benefit of your chosen loved ones (known as beneficiaries).

By placing a life insurance policy into trust:

- Your loved ones can usually access the payout more quickly, without waiting for probate
- The proceeds are normally not included in your estate for inheritance tax purposes

This can help ensure that the right amount of money, reaches the right people, at the right time.

The Three Roles Within a Trust

When you set up a trust, three key roles need to be filled. Understanding what each person does will help you choose the right people for your circumstances.

Role	Who They Are	What They Do
Settlor	The person (or people) who take out the life insurance policy and place it into trust	Sets up the trust and decides who should benefit and under what terms. Depending on the type of trust used, these decisions usually cannot be changed once the trust has been established.
Trustees	The people you appoint to manage the trust and carry out your wishes	Become the legal owners of the policy, but only so they can ensure the proceeds are paid correctly to the beneficiaries. Trustees must always act in the best interests of the beneficiaries and in line with the terms of the trust.
Beneficiaries	The individuals or organisations you want to receive the life insurance proceeds	This commonly includes a spouse or partner, children, or other loved ones. Depending on the trust type, beneficiaries may be named specifically or selected by the trustees at the time of payout.

Choosing Your Trustees

Choosing beneficiaries is usually straightforward. They're typically the people you want to protect financially. Selecting trustees often requires a bit more thought, as trustees carry legal responsibilities.

- **Age & Health:** Will they be around and capable of fulfilling their duties when the time comes?
- **Relationship to You:** Do they know your wishes and values? Would they act in line with your intentions?
- **Trustworthiness:** Trustees have legal control of the policy, so only choose people you fully trust.
- **Willingness:** Make sure they're comfortable with the responsibility.
- **Number of Trustees:** It's usually best to have at least two trustees, but no more than four. Having an odd number (e.g. three) can also help resolve any disagreements.

Types of Trust

Absolute (Bare) Trust
An absolute trust names the beneficiaries and specifies exactly how much each will receive. Once the trust is set up, these details cannot be changed, even if your circumstances change later. This makes absolute trusts simple but inflexible.

Discretionary Trust
A discretionary trust gives trustees flexibility to decide which of the potential beneficiaries receive funds, when payments are made, and how much each beneficiary receives.

This type of trust is often used where future circumstances may change, such as marriage, divorce, or having additional children or grandchildren. It can also allow trustees to delay payments to younger beneficiaries until they reach a suitable age rather than being legally eligible to inherit at age 18.

Discretionary Survivorship Trust
This trust is used for joint life policies. If one policyholder dies and the other survives for at least 30 days, the surviving policyholder receives the payout. If both policyholders die together or within 30 days of each other, the proceeds are paid into the trust for the beneficiaries.

Retained Benefits
Some life insurance policies include benefits that are intended for you rather than your beneficiaries, such as terminal illness benefit or critical illness cover.

When setting up a trust, these benefits can usually be excluded so that they remain payable to you personally, while the main death benefit is held in trust.

Pros and Cons of Using a Trust

Pros

- Funds are usually paid to loved ones without waiting for probate
- The payout normally sits outside your estate, helping reduce inheritance tax exposure
- Greater control over who benefits and when, particularly for children
- Can help protect proceeds from creditor claims or complications following remarriage
- Peace of mind that the money will reach the intended people efficiently

Cons

- Trusts are usually irrevocable and can't normally be undone
- You give up legal ownership of the policy to your trustees
- Certain policy changes may require trustee consent
- Trustees carry legal responsibilities, and unsuitable choices can lead to delays or disputes

Important Information

This guide is for general information only and should not be relied upon as legal, tax, or financial advice. We are not authorised or regulated to provide legal or tax advice — our role is to explain how life insurance trusts work and to help guide you through the relevant trust forms. Trust and tax rules can change in line with government policy, and their impact will depend on your personal circumstances. If you are unsure about your situation or the suitability of a trust, you should seek independent legal or tax advice.

How WR Ethical can help

Finding the right protection isn't just about the ethics of your provider. You need cover that fits your specific circumstances and budget. That's where our expertise comes in.

We can help you navigate the complexities of life insurance, critical illness cover, and income protection. We'll assess your needs, explain your options, and help you find cover that provides the right balance of ethics, value, and protection for your family.

Our service is independent, which means we're not tied to any particular insurer. We'll search the whole market to find the best options for you, taking into account both your ethical preferences and your practical needs.

Ready to get started?

If you're ready to explore your life insurance options or want to discuss how to align your protection with your values, we're here to help.

We'll take the time to understand your circumstances, explain your options clearly, and help you find protection that gives you peace of mind whilst staying true to your values.

Contact us today for a free initial consultation

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