For customers

Your guide to our Relevant Life trust

When setting up a Relevant Life policy, holding it in trust from the start helps to make sure that it meets the legislative conditions of a relevant life policy – in particular, to make sure that the benefits are only payable to an individual or charity and the policy is tax efficient. That's why we'll only accept applications for Relevant Life policies that are to be held in trust.

In this guide, we explain what our Relevant Life trust[1] is and how to create one as part of your Relevant Life application. You should read this whether you're using our signature-free Relevant Life trust or our paper Declaration of trust for a Relevant Life policy.

This information is based on our understanding of current legislation, taxation law and HM Revenue and Customs practice, as at July 2021, which may change. Trusts establish legal rights, obligations and entitlements and might have material financial and tax implications for the settlor, trustees and beneficiaries. We explain who these are on the next page. Aegon UK isn't authorised to provide legal or tax advice, so you should take your own legal and/or other professional advice before setting up a trust, to make sure that it meets your requirements. Our trusts have been drafted for use by UK-resident and domiciled settlors.

1 Throughout this document, where we refer to our Relevant Life trust, this means either our signature-free Relevant Life trust or our paper **Declaration of trust for a Relevant Life policy**.

About our Relevant Life trust

What's a trust?

A trust is a legal arrangement where an asset is given to the trustees to look after for the beneficiaries.

With our Relevant Life trust, the asset will be the Relevant Life policy and any pre-completion benefits, such as accidental death benefit and immediate cover. This is a tax-efficient policy that lets you provide a lump sum death benefit to an employee (including employed directors) without the need to set up a group life scheme. The value of any tax benefits will depend on the individual circumstances of all the people involved.

Who's involved with our Relevant Life trust?

Settlor

The **settlor** creates the trust and provides the assets, such as the Relevant Life policy. In this instance, you're the settlor. For tax purposes, the person making the policy payments will also be a settlor. You can find more information about why you might not always be the person making the policy payments in the **Changing circumstances** section.

Trustees

The **trustees** are the legal owners of the trust fund and are responsible for managing it in line with the trust terms and powers.

If you're a limited company, you can choose to act as a corporate trustee yourself, but there may be certain circumstances when you wouldn't want to do this. Your financial adviser can help you decide whether it would be beneficial for you to be a trustee or not.

You can also choose other people to act as trustees. Before naming (appointing) your trustees, you should speak to them to make sure they're happy to act.

Beneficiaries

The **beneficiaries** are restricted to individuals or charities to meet legislative conditions. This means the people that could benefit from the trust fund include:

- the employee (insured person)[2];
- their husband, wife or registered civil partner;
- their children and dependants, and
- other individuals or charities that your employee (insured person) nominates in writing to benefit from the trust fund.

[2]As the employee (insured person) is a beneficiary, this means they can potentially receive any terminal illness benefit we pay the trustees.

In summary, you set up the trust and request that we issue the Relevant Life policy to the trustees. You choose trustees, who legally own and control the assets in trust, and the beneficiaries of the trust are the people who can benefit from it.

Who is the Relevant Life trust suitable for?

Our Relevant Life trust is suitable if you want:

- to provide death-in-service benefits for an employee (including employed directors);
- potential savings on inheritance tax and/or income tax and National Insurance contributions on the claim proceeds, subject to the individual circumstances of the people involved;
- funds paid out on death without the need for probate (or confirmation in Scotland), and
- flexibility over who will benefit from the trust fund, when, and to what extent.

How our Relevant Life trust process works

You choose to take out a Relevant Life policy for an employee (insured person), and request, either using our signature-free Relevant Life trust or paper Declaration of trust for a Relevant Life policy, that we issue it to the trustees.

As the legal owners of the Relevant Life policy, the **trustees** administer the trust, in line with the trust's terms and powers and trust law.

The trustees decide which of the potential beneficiaries ultimately benefits from the trust fund.

If you're a limited company, you might want to act as a corporate trustee yourself since it's the trustees who control the trust. However, it may be administratively beneficial not to be a corporate trustee in certain circumstances, for example if you're a limited company with a sole shareholder director.

Your financial adviser can help you decide whether to be a trustee or not.

What kind of trust is our Relevant Life trust?

Our Relevant Life trust is a discretionary trust. This means the trust is flexible as the trustees decide which of the potential beneficiaries defined in the trust terms and powers will ultimately benefit from the trust fund.

The employee (insured person) can also nominate individuals or charities that they'd like to benefit, by writing to the trustees. You can use our Nomination form for a Relevant Life trust to do this. While nominations aren't legally binding, they do help the trustees decide who to distribute the trust fund to.

The trustees can also remove a beneficiary from the list of potential beneficiaries by deed.

Setting up our Relevant Life trust

There are two ways you can declare a trust – using our signature-free Relevant Life trust, or completing our paper Declaration of trust for a Relevant Life policy. Your financial adviser will confirm which option they'll use for your Relevant Life policy application.

It's important you recognise that trusts create legal entitlements and obligations and have material financial and taxation implications. Once established, they can't simply be ignored.

Signature-free Relevant Life trust

When using our signature-free trust, your financial adviser should give you a copy of our Relevant Life signature-free trust terms and powers. You should take legal advice to make sure that the trust terms and powers meet your requirements before going ahead.

It's a simple six-step process for you to create a trust.

1	You agree with your financial adviser's recommendation to take out a Relevant Life policy and request that we issue it to your chosen trustees.
2	You decide who you'd like to be your trustees and speak to them to make sure they're happy to act. You can't choose people who don't have a UK address, but can add them later using a paper deed.
3	Your financial adviser will collect information from you that they need to apply for the Relevant Life policy as well as details of your chosen trustees. As part of the application process you'll declare a verbal trust.
4	Your financial adviser will complete an online application, which includes submitting details of your verbal trust. Once they submit the online application, you'll have created a trust which you can't undo.
5	We'll send you a **Confirmation pack** containing details of the policy application and trust that your adviser submits to us. You should check all details carefully and let us know as soon as possible if any of the policy details are incorrect. If the trust details are incorrect, please call us on 03456 00 14 02 to let us know (call charges will vary).
6	When your policy starts, we'll send all your trustees a pack confirming that you've chosen them as trustees. This will contain a **Representation of the signature-free trust declared for a Relevant Life policy**, which is a copy of the trust you declared to your financial adviser.

How can I be sure my trust is valid?

For trusts to be valid, they don't need to be made by deed or in writing – a verbal declaration is just as binding as long as the following three certainties are satisfied:

- Certainty of intention – is the settlor's intention to create a trust evident?
- Certainty of trust property – are the Relevant Life policy and any pre-completion benefits clearly defined in the trust terms and powers and verbal declarations?
- Certainty of the beneficiaries who could benefit from the trust – are the potential beneficiaries clearly defined in the trust terms and powers?

By following the process on the previous page for setting up our signature-free Relevant Life trust, you should be creating a valid trust as all of the above certainties will be satisfied.

If any of your trustees contact us to tell us they don't want to act as a trustee, this won't affect the validity of your trust. However, we may need to get in touch with you to choose a replacement trustee.

Declaration of trust for a Relevant Life policy

If you choose not to use our signature-free Relevant Life trust, we must receive a fully completed paper Declaration of trust for a Relevant Life policy before your policy starts. Your financial adviser can give you a copy of this.

You'll need to get all your chosen trustees to sign the form before returning this to us.

You should take legal advice to make sure that the trust terms and powers meet your requirements.

You must keep the completed form in a safe place, as we might need to see it if the trustees make a claim.

Choosing trustees

Who can be a trustee?

You can choose individuals and limited companies to act as trustees. If you're a limited company you can choose to act as a corporate trustee, but you don't have to. Your financial adviser can help you decide whether to be a trustee or not.

An individual can be a trustee as long as they're aged 18 or over and are of sound mind.

A beneficiary can also act as a trustee, however you should consider if this could create a conflict of interest.

All trustees must act in the best interest of all the beneficiaries and should act impartially.

How many trustees should there be?

We suggest having at least two individual trustees, or one corporate trustee (with more than one director) at any time. Having more than one trustee helps to make sure that there will always be a continuing trustee to act, if one or more of the trustees die.

With our signature-free Relevant Life trust, you can choose a maximum of four trustees, including yourself (settlor) and your employee (insured person). All trustees must have a UK address. If you'd like to choose a trustee who doesn't have a UK address, you can add them later using a paper deed.

With our paper Declaration of trust for a Relevant Life policy, you can choose a maximum of five trustees, including yourself (settlor) and your employee (insured person).

What's the lead trustee?

The lead trustee is the person we'll communicate with about the policy. It's their responsibility to keep all other trustees updated. Although we communicate with the lead trustee, trustees have to make decisions unanimously and all have to act together to instruct us.

With our signature-free Relevant Life trust, if you've chosen to be a corporate trustee, you'll automatically be the lead trustee. If not, you'll need to choose which of your trustees is to be the lead trustee.

With our paper Declaration of trust for a Relevant Life policy, the lead trustee will be the first named trustee.

If the trustees want to change who the lead trustee is, they should get in touch with us.

Who can add new trustees?

The trustees have the power to name (appoint) additional or replacement trustees. You might be able to use our Deed of appointment of additional trustees for this, which you can download from aegon.co.uk/support

Can a trustee resign?

Yes, as long as there's still at least two individual trustees or one corporate trustee acting after their resignation. Otherwise, the trustees will have to name (appoint) a replacement trustee before the trustee can resign. They can use our **Deed of resignation as a trustee**, part of our Changing trustees form, for this, which they can download from aegon.co.uk/support

Can a trustee be removed?

Yes, but we suggest that you make sure that there are still two individual trustees or a corporate trustee acting after the employee (insured person) removes the trustee. Otherwise the trustees may first have to name (appoint) a replacement trustee using a deed, before the employee can remove them. They might be able to use our Deed of appointment of additional trustees for this. The employee (insured person) can remove a trustee by giving them notice in writing, sent by recorded delivery to their last known address, and completing a deed.

Changing circumstances

What happens if the employee (insured person) leaves my employment?

If the employee (insured person) leaves your employment, there are various options.

- The employee (insured person) could let their Relevant Life policy lapse and their cover will stop.
- The employee's (insured person's) new employer could decide to take over the policy payments, with the tax advantages of the Relevant Life policy generally continuing to apply.
- The employee (insured person) could take over the policy payments themselves, leaving the Relevant Life policy in the existing trust. This would result in their terminal illness cover stopping. With this option, the trustees should take advice to make sure that the trust continues to be inheritance tax effective.
- The trustees could transfer ownership of the Relevant Life policy to the employee (insured person), who would take over the policy payments themselves. However, this would mean some of the associated tax advantages may no longer apply, and their terminal illness cover would stop.

We recommend taking professional advice before using any of these options.

Tax

This information is based on our understanding of current taxation law and HM Revenue and Customs practice, which may change.

What's the inheritance tax treatment of our Relevant Life trust?

For the settlor

While you (as employer) make the policy payments, you won't usually have to pay inheritance tax on them.

However, if you're a close company (broadly, a company controlled by five or less shareholders) and your employee (insured person) is a shareholder director who has provided the company's funding, and is also a beneficiary of the trust fund, there could be adverse inheritance tax implications.

Inheritance tax is a complex area and we recommend that you take professional advice.

For the trustees

Inheritance tax charges could arise on each 10th anniversary of the trust (a 10-year charge) and when assets leave the trust (an exit charge). During the employee's lifetime, these are unlikely to result in inheritance tax being payable as the value of the trust assets while your employee (insured person) is alive and in good health is likely to be negligible. The main risk of inheritance tax being payable occurs where there's a claim around the 10th anniversary of the trust.

The rules and calculations in relation to 10-year charges are complex and we recommend the trustees take professional advice.

Will tax be payable on any claim proceeds?

The trustees won't normally be liable for any income tax or capital gains tax on the claim proceeds.

To find out more about our Relevant Life trust, speak to your financial adviser.

If you'd like a large print, Braille or audio CD version of this document, please contact us on 03456 00 14 02 (call charges will vary) or at aegon.co.uk/onlineform We're always here to help, so if you need some additional support from us, please let us know.

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