



Solidus

Protecting Inter-Generational Wealth Transfers

Protecting the DIS Benefits of Cohabiting Couples





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Generally, few cohabiting clients receive adequate advice on the protection and inter-generational tax planning of their estate, be it pensions, Death in Service (DIS) benefits, life cover, property assets, savings and investments or lifetime inter-generational transfers. The impacts are frequently greater because the current laws benefit married clients and often disadvantage cohabiting couples. Whether you are a family where a legal partnership has never been a priority or have formed a new partnership later in life, your planning requirements may be more complex.

Integrated financial planning and effective legal planning are essential in delivering guaranteed outcomes, and DIS benefits are one of the most significant considerations often neglected by providers of legal services. This is largely because cohabiting clients are unaware of the risks to their DIS benefits and do not understand what simple steps can be taken to address them.

The unpredictability of life requires us to be prepared. DIS is an excellent employer benefit that will pay out tax free (in many cases at the discretion of your employer) to your chosen Beneficiaries if you are employed by them when you die. It is good practice to check the details of your employer's scheme and benefits and establish the value of any likely payment.

Your DIS benefits will be paid to the approved nominated Beneficiary (usually your partner or your children) and it will be their choice to decide how to use the funds, for example, to pay off a mortgage if required or to be invested by your financial adviser to provide a long-term income source.

You should consider any possible future outcomes once your chosen Beneficiary receives the DIS payment (tax free).

- If your partner enters into a new relationship could there be a potential risk to the funds intended for other desired Beneficiaries?
- If, historically, your partner is not good with money, will the DIS benefits be used wisely?
- The DIS benefits will form part of your partner's estate and will pass to the Beneficiaries in their Will. Is this the outcome you want?
- Will the addition of a DIS benefit to your partner's estate increase the potential for an Inheritance Tax (IHT) liability?
- Would the DIS benefits be exhausted if they were required to pay for care for your partner, resulting in others not benefiting?
- If you are in a blended relationship and want your DIS benefits to pass to your children and not your partner, would you like them to do so in a protected and tax-efficient manner?

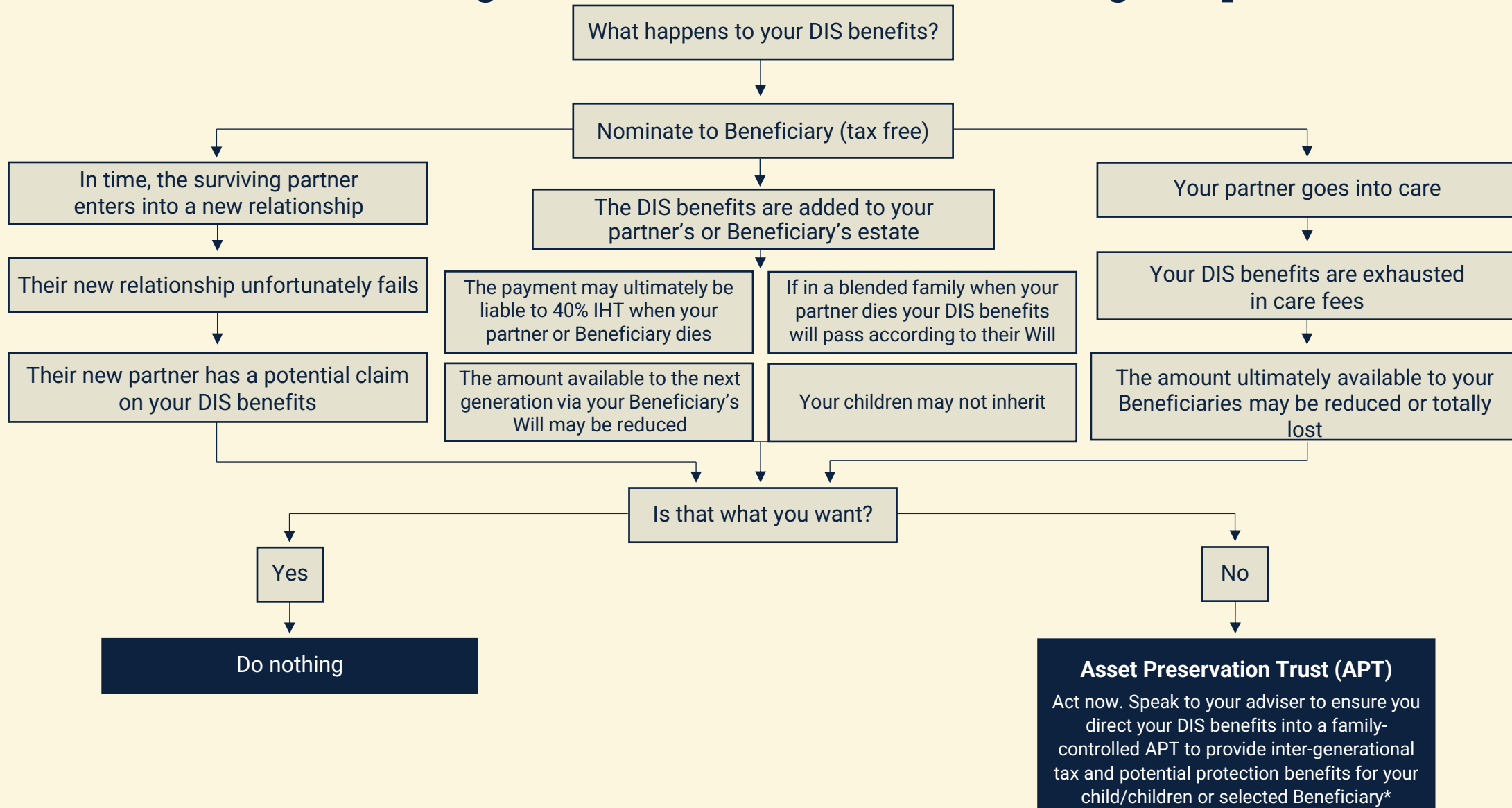
If you look ahead you will see the potential threats that may arise in the future.

Act now to address any concerns you may have.

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*Check with your employer if (at their discretion) you can nominate your DIS benefits to your APT for your chosen Beneficiaries.

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Protecting your DIS Benefits – The Asset Preservation Trust (APT) from Solidus

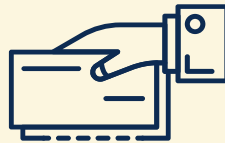
- Instead of nominating your partner or chosen Beneficiary to receive your DIS benefits, your employer's scheme may allow you to nominate a family Trust to receive the tax-free lump sum.
- This will not affect the tax treatment of the payment.
- The payment will be made to your chosen Trustees, who are often also the Beneficiaries.
- The Trustees will take advice from your estate planner or their successor or from and Solidus.
- The Trustees can invest the sum to provide a regular income (useful if a partner only requires income).
- Alternatively, Trustees have powers to make loans to the surviving partner, which means such advances can potentially be protected from a third party (new partner). This can also have tax benefits.
- The DIS benefits are outside the surviving partner's estate for IHT purposes and will not be subject to inter-generational taxation.
- Capital sums can also be advanced to the surviving partner with the agreement of the Trustees.



DIS benefits pass into the APT tax free on your death



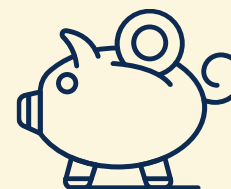
Trustees receive guidance from your "Letter of Wishes"



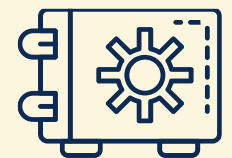
Trustees can engage Solidus through their estate planner



Assets are invested to provide income or loaned to the surviving partner or Beneficiaries



Any loans are repaid on death and are available for the next generation tax free



The APT offers potential protection for the future Beneficiaries and inter-generational tax efficiency

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Case study

Raj and Sarah have lived together for ten years. Raj is divorced and Sarah is a widow. They each have an adult child. Sarah's daughter is married and financially independent. Sarah has DIS as part of her benefits package. She has recently nominated her DIS benefit of four times her salary into her APT on her death. Sarah does not want to pay unnecessary tax and both her and Raj have estates with a value just under the Inheritance Tax (IHT) threshold. Sarah's priority is to support Raj, who does not enjoy good health, and to maximise the inter-generational wealth transfer to her daughter.

As Sarah's DIS benefits are directed to Trust she has chosen her Trustees carefully and, with the assistance of her estate planner, has briefed the Trustees on how the six-figure Trust Fund (her DIS benefits) is to be used.

She predeceases Raj and her APT receives the full proceeds of her DIS benefits. Part of the Trust Fund is invested by their estate planner and a sum is loaned to Raj to pay off the remainder of their joint mortgage. Raj never enters into a new relationship and does not go into care, so these risks do not materialise.

Raj dies six years later. Because of the increase in the value of their property, he has a potential IHT exposure. However, because there was a debt (loan) on his estate to Sarah's APT the IHT payment is avoided. The sum loaned to Raj did not pass through his Will and is retained for Sarah's daughter and grandchildren through her APT.

Sarah's daughter is a Trustee and has had regular contact with her mother's estate planner because of the Trust and is herself a client. She has enjoyed continuity of advice and, as her marriage is stable, decides to access the Trust Fund by means of a loan. She understands that this approach will give her access to the funds to invest but will not add to her own family wealth for IHT purposes. Ultimately her own children should inherit the sum free of IHT when the loan is repaid to the Trust as part of inter-generational planning.

Frequently Asked Questions

- **Can my DIS benefits go into an APT?** The majority of DIS benefits can go into an APT at the discretion of your employer. We encourage you to check with your employer before establishing your APT.
- **Is an APT expensive to set up?** No, as a proportion of the value you protect it is typically much less than one percent of the DIS benefit.
- **Is an APT expensive to run?** No, nothing goes into your APT until you die, so until then there may only be an occasional cost, e.g. for changing a Trustee. There will be some initial costs for advice when you die.
- **Who should my Trustees be?** We encourage you to consider adult family members or trusted friends. Speak to your adviser for guidance.
- **What happens if I change employer?** No problem, just fill out a new nomination form from your new employer to direct benefits to your APT.
- **How long does my APT last for?** 125 years in England and Wales and 80 years in Northern Ireland. Most families use them for at least one further generation.
- **Are Trusts taxed?** There is no tax on funds going into the APT. A Trust is like a person and has its own tax allowances for Income Tax, Capital Gains Tax and Inheritance Tax. Your Trustees can take advice in the future.
- **Can an APT be contested?** Trusts can face claims from third parties, but without an APT there is no protection.

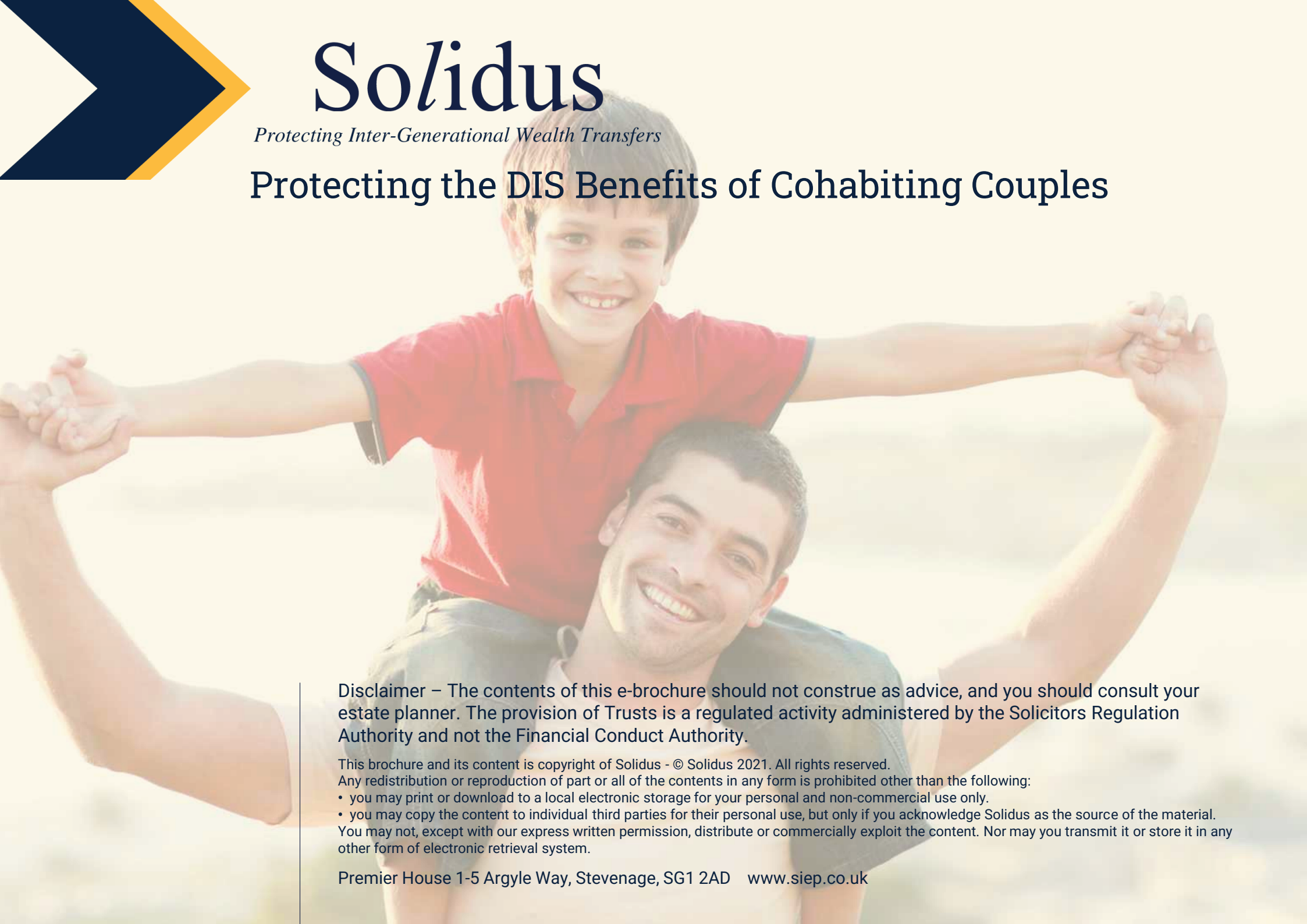
Act Now: Contact your estate planner to progress your APT application.



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Disclaimer – The contents of this e-brochure should not construe as advice, and you should consult your estate planner. The provision of Trusts is a regulated activity administered by the Solicitors Regulation Authority and not the Financial Conduct Authority.

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