



Solidus

Protecting Inter-Generational Wealth Transfers

Protecting the Pension 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 pension death 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 pension benefits and do not understand what simple steps can be taken to address them.

Pensions are one of the most significant considerations and may be the largest single asset which many people have apart from their main residence. They deserve specific attention.

Your pension 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 carry on within the pension environment, to pay off a mortgage if required or to be invested by your estate planner to provide a long-term income source outside of future pension legislation.

You should consider any possible future outcomes that could occur after your partner receives the personal benefit of your pension.

- If you are in a new relationship do you want to support your new partner but guarantee your pension benefits for your ultimate Beneficiaries?
- If your partner enters into a new relationship could there be a potential risk to the pension funds intended for your family?
- If, historically, your partner is not good with money, will the pension benefits be used wisely, particularly if a lump sum of capital is claimed and the tax-free cash option was used?
- Would the pension benefits be taken into account if your partner had to go into care?
- If your estate is likely to attract Inheritance Tax (IHT), could it make the requirement to pay tax more likely, resulting in your children (Beneficiaries) inheriting less?

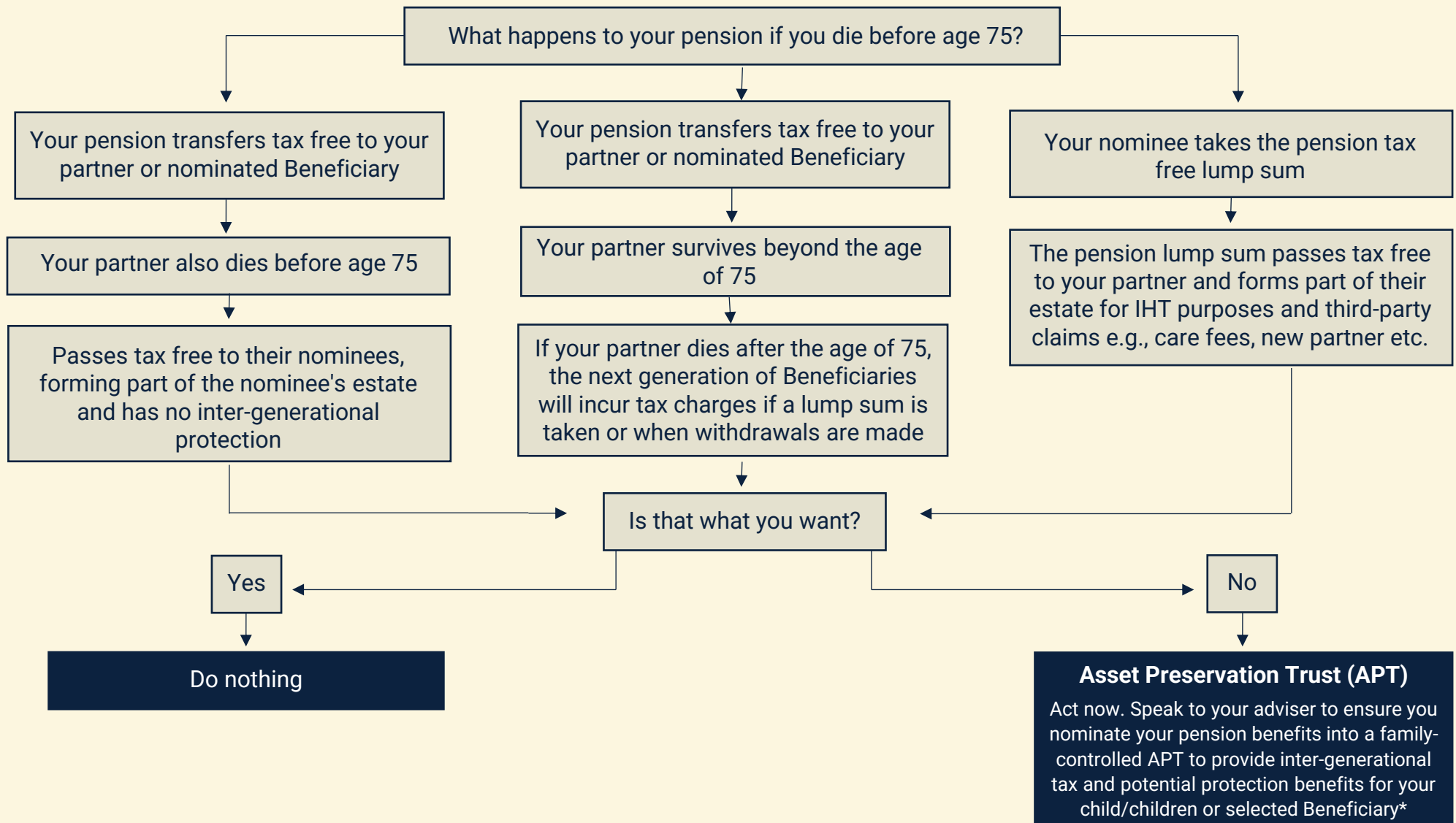
If you look ahead, you will see the potential threats that exist and the opportunities that may be derived from protective planning.

Act now to address any concerns you may have.

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*Check with your estate planner if you can nominate your pension benefits to your APT for your chosen Beneficiaries.

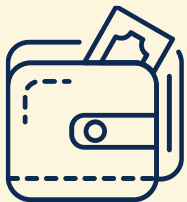
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Protecting your Pension Benefits – The Asset Preservation Trust (APT) from Solidus

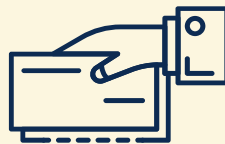
- Instead of nominating your partner to receive your pension benefits directly, it can be nominated into Trust for them on your death pre age 75.
- This will not affect the tax treatment of the payment, which should be tax free pre age 75.
- The payment will be made to your chosen Trustees, who are often also the Beneficiaries.
- The sum will be outside the pension tax free investment framework but will be free from future changes to pension legislation.
- The Trustees will take advice from your estate planner or their successor or from 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 deliver tax planning opportunities.
- The pension 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.



Pension benefits pass into the APT tax free on your death pre age 75



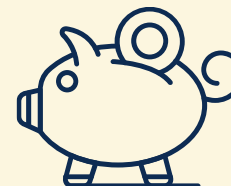
Trustees receive guidance from your "Letter of Wishes"



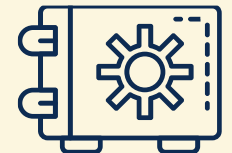
Trustees will be guided by their estate planner and Solidus



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



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



The APT offers potential protection for your children or Beneficiaries and inter-generational tax efficiency

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Case study

Brendon and Sarah have lived together for ten years. Brendon is divorced and Sarah is a widow. They each have an adult child. Sarah's daughter is married and financially independent. Sarah has a substantial pension which she has recently nominated into her APT on her death. Sarah does not want to pay unnecessary tax and both her and Brendon have estates with a value just under the Inheritance Tax (IHT) threshold. Sarah's priority is to support Brendon, who does not enjoy good health, and to maximise the inter-generational wealth transfer to her daughter.

As Sarah's pension death benefits and 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 Trust Fund is to be used.

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

Brendon 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 Brendon 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. Her mother's estate also passed via a Beneficiary Protection Plan structure and delivered the same tax and inter-generational planning benefits.

Frequently Asked Questions

- **Can my pension benefits definitely go into an APT?** The majority of pension benefits can go into an APT at the discretion of the pension provider Trustees. We encourage you to check with your pension provider before establishing your APT. Your DIS may also go into your APT.
- **Is an APT expensive to set up?** No, as a proportion of the value you protect it is typically a fraction of a percent of the pension 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 estate planner for guidance.
- **What happens if I change employer?** No problem, just fill out a new nomination form from your new employer pension to direct the new 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?** Pre age 75 there is generally no tax on funds going into the APT. Once assets go into your APT it 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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