Solidus

Protecting Inter-Generational Wealth Transfers

Protecting the Pension Benefits of High Net-Worth Families

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Generally, few High Net-Worth 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.

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 legal services providers. This is largely because married clients are unaware of the risks to their pension benefits and do not understand what simple steps can be taken to address them. For High Net-Worth clients the risks are even greater, and a negative outcome is more certain if no action is taken.

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 spouse), and it will be their choice how to use the funds. For example, to continue to use the proceeds as a pension, to pay off a mortgage if required or to be invested by your estate planner to provide a long-term income source outside of potential future pension legislation restrictions.

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

- If your spouse enters into a new relationship could there be a potential risk to the pension funds intended for your family?
- Will the pension benefits be used wisely, particularly if a lump sum of capital is claimed and the tax-free cash option was used?
- If your estate is likely to attract Inheritance Tax (IHT), could the tax free lump sum option add to an IHT assessment, resulting in your children (Beneficiaries) inheriting less?
- Would the pension benefits be taken into account if your spouse had to go into care?
- After you die, are your family missing a potential tax planning opportunity outside of the pension wrapper?

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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What happens to your pension if you die before age 75?

Your pension transfers tax free to your spouse or nominated Beneficiary

Your spouse also dies before age 75

Passes tax free to their nominees, forming part of the nominee's estate and has no inter-generational protection

Your pension transfers tax free to your spouse or nominated Beneficiary

Your spouse survives beyond the age of 75

If your spouse dies after the age of 75, the next generation of Beneficiaries will incur tax charges if a lump sum is taken or when withdrawals are made

Your nominee takes the pension tax free lump sum

The pension lump sum passes tax free to your spouse and forms part of their estate for IHT purposes and third-party claims e.g., care fees, new partner etc.

Is that what you want?

Yes

Do nothing

No

Asset Preservation Trust (APT)

Act now. Speak to your adviser to ensure you nominate your pension benefits into a family-controlled APT to provide inter-generational tax and potential protection benefits for your child/children or selected Beneficiary*

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

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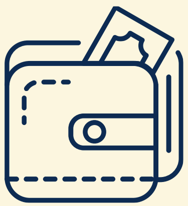
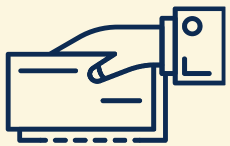
Protecting your Pension Benefits – The Asset Preservation Trust (APT) from Solidus

- Instead of nominating your spouse to receive your pension benefits directly, they can be directed 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, assuming no lifetime allowance considerations.
- 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 spouse only requires income).
- Alternatively, Trustees have powers to make loans to the surviving spouse, 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 spouse’s estate for IHT purposes, will not be subject to inter-generational taxation and will not impact available Residence Nil Rate Band (RNRB) allowances.
- Capital sums can also be advanced to the surviving spouse with the agreement of the Trustees.



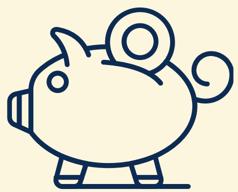
Pension benefits pass into the APT tax free on your death pre age 75

Trustees receive guidance from your “Letter of Wishes”

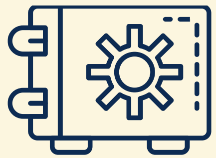


Trustees will be guided by their estate planner and Solidus

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



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

Harry and Olivia are married and have two children. They have a large estate. Olivia has a substantial pension which she has nominated into an Asset Preservation Trust (APT) along with her DIS benefits. Their daughter is married and financially independent in her own right. Their son is divorced and has a new partner who Olivia and Harry are less than fond of. Olivia and Harry do not want to pay unnecessary tax, and, under the current rules, their estate would attract IHT in the future. Their priorities are to support each other and to maximise the inter-generational wealth transfer to their children and grandchildren.

Olivia's estate planner ensured that her pension death benefits are directed to her family-controlled APT. She chose 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 Harry and her APT receives the full proceeds of her pension death benefits tax free and her DIS benefits. The sum is loaned from the Trust to Harry and invested in his name by his estate planner. Harry never remarries nor goes into care, so these potential risks never materialise. When he dies, the gross estate is over the IHT limit but as the loan value is deducted from his estate, there is no IHT to pay on the pension benefits. There are also Residence Nil Rate Band Tax benefits.

Their daughter receives her share of the Trust Fund by means of a loan, as her marriage is stable. Their daughter is a Trustee, and 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 will inherit the sum free of IHT as part of the inter-generational planning.

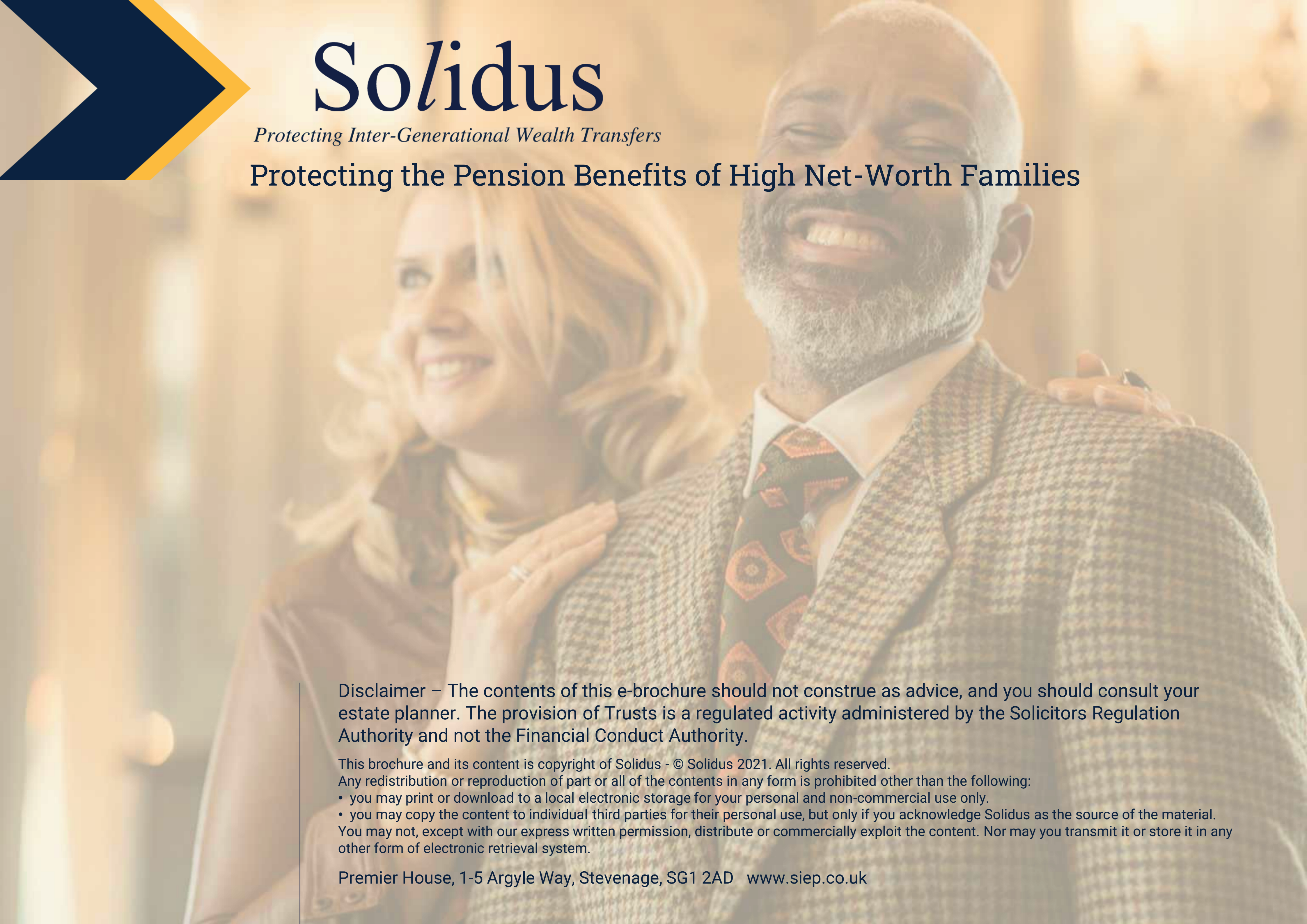
Their son's share is invested to provide an annual financial return as income because of his personal circumstances and his uncertain relationship. The capital will be protected.

Similar protective Trusts have been put in place for life cover and her property and investment assets were protected within a Beneficiary Protection Plan framework.

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. The APT may also receive DIS benefits.
- ***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. Also nominate your DIS 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.
- ***My spouse also has pension benefits. Should we both get an APT?*** To be tax-efficient, each of you must have your own family-controlled APT.
- ***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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