

# Life Insurance & Estate Planning



Please note, this article does not constitute tax advice and cannot and should not be relied upon as such.

## Trigger 1 - UK Inheritance Tax

High Net Worth (“HNW”) individuals and families often use a gifting strategy during their lifetime to reduce their exposure to IHT.

However, in many cases there will still be an IHT exposure on death which can be covered by means of a Term insurance life policy (covering some or all of the IHT that will be due if death occurs within a term or a Guaranteed ‘Whole of Life’ policy (covering some or all of the IHT that will be due on death whenever that occurs.)

### Case Study: Bridget

- Bridget, a widow aged 60, with no children, has built significant savings and investments. An inheritance following the death of her sister increased the value of her estate to approximately £10 million, with an expected IHT liability of c.£4 million thereon.
- Conscious of her likely IHT position, she is also conscious of her needs for care in later life and has avoided solutions taking the money out of her control by making gifts using trusts.

### Bridget’s solution

- ✓ A Guaranteed ‘Whole of Life’ Policy was set up to provide a £4 million lump sum when she dies, with an annual premium of £80,000, and is expected to meet any future IHT liability.
- ✓ The policy is set up in trust and will pay out to the executor of her estate so that settlement can be made to her extended family without paying unnecessary tax.



## Trigger 2 - UK Property Ownership

Following rule changes in 2017, UK residential property can no longer be sheltered from IHT by holding it via an offshore structure.

Life insurance is often seen as the most effective and least controversial way of providing for IHT and ensuring that the property does not need to be sold to fund the IHT bill.

### Case Study: Julian

- Julian, aged 50, owns a property in the heart of Mayfair valued at £10 million, owned through a British Virgin Islands incorporated company held under a Jersey trust (of which he is both settlor and beneficiary).
- Since 2017, Julian has been exposed to IHT on the property's net value, and he wants to plan for a potential IHT liability.

### Julian's solution

- ✓ A sensible solution would be to purchase a Guaranteed 'Whole of Life' policy with a £4 million sum assured (to cover the 40% IHT exposure), paying annual premiums of £60,000.



## Trigger 3 - Gift Inter Vivos

Roughly translated, inter vivos means 'between the living', and gift inter vivos insurance policies are used by those who wish to cover the IHT liability that can arise when they gift assets to someone other than a spouse, whereby such gifts are considered 'potentially exempt transfers' ("PET").

The policy is taken out to cover the IHT that falls due if the donor dies within seven years of making a gift.

The IHT due following a gift tapers down between 3-7 years with the tax due reducing by 20% p.a.

### Case Study: Hardeep

- Hardeep, aged 81, has decided to gift his estate (which includes his main residence) to his son, Virat. The gift is valued at £5 million, meaning there could be a potential IHT liability of up to £1.8million after the IHT nil rate band (£500k in this case) has been accounted for.
- Hardeep has made no other lifetime gifts during the last seven years and has used the annual exemption allowance for gifts of £3,000. He requires a life insurance policy which will cover a potential £1.8 million IHT liability.

### Hardeep's solution

- ✓ The most effective policy is a Gift Inter Vivos Life Insurance plan which has a seven year term, with a monthly premium of £17,000.
- ✓ The policy will pay out a lump sum covering the value of the failed PET liability should Hardeep die within seven years of making the gift.



## Trigger 4 - Family Protection

What would happen to your family if you were to die suddenly or were diagnosed with a life-threatening illness? Providing protection for those we love is the most logical and easy to understand argument for taking out life insurance and/or critical illness cover.

However, most people are underinsured, and this is particularly true of high earners.

### Case Study: Mei Ling

- Mei Ling, aged 50, is CEO of a multinational pharmaceuticals company and is the main bread winner for her family.
- Mei Ling has an income replacement benefit through her job if she becomes terminally ill.
- Should anything happen to her, Mei Ling wants ensure there is cover in place to provide a significant lump sum to help her family through a very difficult and possibly very expensive time.

### Mei Ling's solution

- ✓ She purchases a £5 million guaranteed 20 year Term 'Critical Illness' cover policy, paying a premium of £50,000 per year.
- ✓ If Mei Ling is diagnosed with a critical illness within 20 years, the policy will pay out a lump sum for use by her family.



# Annual Premium Rate Card

Below is EFG Private Bank Ltd Quarter 1 2021 rate guide outlining the expected annual premiums, projected return to normal life expectancy date, and a Gross Equivalent Return for an additional rate taxpayer. We highlight the figures for both 'Term' Insurance (10 year & 20 year guaranteed) and 'Whole of Life' guaranteed insurance per £1 million sum assured.

Please contact EFG Wealth Planning UK for further information.

All prices are in £ sterling and are cost per £1 million of Life Cover(non-smokers)	10 Year Term Guaranteed Annual Premium	20 Year Term Guaranteed Annual Premium	Whole of Life Guaranteed Annual Premium	Projected Return to Normal Life expectancy Date	Gross Equivalent Return (45% taxpayer)
Single Life aged 30	£246	£288	£7,082	3.1%	5.6%
Single Life aged 35	£336	£409	£8,335	3.2%	5.8%
Single Life aged 40	£471	£616	£10,226	3.1%	5.6%
Single Life aged 45	£765	£964	£12,691	3.3%	6.0%
Single Life aged 50	£1,107	£1,521	£15,443	3.5%	6.3%
Single Life aged 55	£1,728	£2,592	£18,234	4.0%	7.2%
Single Life aged 60	£2,960	£4,702	£21,257	4.6%	8.3%
Single Life aged 65	£4,767	£8,744	£26,881	5.7%	10.4%
Single Life aged 70	£9,109	£16,429	£35,231	6.5%	11.8%
Single Life aged 75	£17,890	n/a	£48,143	8.2%	14.9%
Single Life aged 80	£37,966	n/a	£70,120	9.1%	16.5%
Single Life aged 85	n/a	n/a	£106,153	13.1%	23.8%

All prices are in £ sterling and are cost per £1 million of Life Cover(non-smokers)	10 Year Term Guaranteed Annual Premium	20 Year Term Guaranteed Annual Premium	Whole of Life Guaranteed Annual Premium	Projected Return to Normal Life expectancy Date	Gross Equivalent Return (45% taxpayer)
Joint Life 2nd Death Couple aged 30	£145	£161	£6,232	3.1%	5.6%
Joint Life 2nd Death Couple aged 35	£196	£223	£7,019	3.3%	6.0%
Joint Life 2nd Death Couple aged 40	£250	£309	£8,379	3.5%	6.4%
Joint Life 2nd Death Couple aged 45	£412	£482	£10,181	3.6%	6.5%
Joint Life 2nd Death Couple aged 50	£554	£761	£12,493	3.8%	6.9%
Joint Life 2nd Death Couple aged 55	£864	£1,343	£14,444	4.3%	7.8%
Joint Life 2nd Death Couple aged 60	£1,634	£2,436	£16,867	5.2%	9.5%
Joint Life 2nd Death Couple aged 65	£2,971	£4,447	£20,561	7.9%	14.4%
Joint Life 2nd Death Couple aged 70	£5,067	£8,215	£25,679	7.7%	14.0%
Single Life aged 75	£9,650	n/a	£34,142	9.4%	17.1%
Joint Life 2nd Death Couple aged 80	£18,983	n/a	£50,045	12.3%	22.4%
Joint Life 2nd Death Couple aged 85	n/a	n/a	£76,754	15.5%	28.2%

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