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If you have a life insurance policy to protect your family if you die you may not have thought about writing it in trust. As a result your family could end up paying more inheritance tax on your estate and have to wait longer to receive the money from the policy.

Writing your life insurance in trust is normally a straightforward matter of filling in a form when you take out the policy and there is normally no charge for setting it up. However once written in trust this may be difficult to change.

Why you Should Write your Life Insurance in Trust?

With a trust you can decide before you die who is to benefit from the life insurance and how much they will receive. This is separate from your will and can mean that the money is paid out more quickly and can mean less tax to pay.

If you don't write your life insurance in a trust it could mean that your family will have to pay inheritance tax on the amount the policy pays out when you die. When you die the value of your estate is added up and if it is above a certain threshold (£325,000 in 2010 to 2011 per person) your family will have to pay inheritance tax of 40%. If you are married or in a civil partnership and you die after your partner, you are allowed to use both your allowances as long as it wasn't used when your partner died - meaning £650,000 is free of inheritance tax.

A trust will also mean that your family won't have to wait for probate to be granted to receive the money from a life insurance policy. This could mean avoiding a wait of up to six months or more.

Why so few Life Insurance Policies are Written in Trust?

Many people are unaware of the benefits of writing life insurance in trust and don't realise how easy it is. It has been estimated that the number of life insurance policies written in trust could be as little as 1%. This is shocking given the benefits of writing your life insurance in trust.

The Cost of not Writing Life Insurance in Trust

If you die and your estate consists of a house and savings worth £300,000, there is no inheritance tax to pay as it is below the £325,000 threshold. However if you also left a life insurance policy worth £200,000 your family would have to pay 40% inheritance tax on £175,000 (£300,000 + £200,000 = £500,000 - £325,000) = £175,000) reducing your estate by a whopping £70,000. Meaning you leave behind a total of £430,000 after inheritance tax.

If the life insurance policy had been written in trust it would not have been included in the estate and there would be no inheritance tax to pay. The full £500,000 passing to your family.

How to Find the Right Life Insurance Policy

Life insurance is complicated and it's essential that you choose the right policy. We specialise in life insurance and will search the market and help you find the right cover at the best price available. Quotes for life insurance are free and you are under no obligation

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