



The Benefits of Life Insurance for Peace of Mind

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Peace of mind involves an assortment of elements. One is how well you provide for your loved ones on your death. This article focuses on life insurance policies and the potential advantages of having a policy written in trust.

What is a life insurance policy?

Life insurance is a financial product that will pay a lump sum if you pass away within the policy term. Having a life policy in place can help give your loved ones peace of mind that if anything happens to you, there will be a pot of money to help pay the bills, pay any outstanding mortgages, or help maintain a standard of living.

Do I need life insurance?

Whether you need life insurance is a personal decision and depends on your circumstances. A financial adviser could discuss your position and advise you of the policy options available.

I encourage clients to consider what would happen if they pass away without a policy. For example:

- Can your surviving partner and family afford any outstanding mortgage?
- Can your surviving partner and family maintain their standard of living?
- Will your estate be subject to a substantial [inheritance tax](#) liability?

Who will benefit from the policy proceeds?

It is always worth checking with the policy provider what will happen to the policy proceeds after you have passed away.

The policy may be paid to your estate. The policy will, therefore, be an asset of your estate to be subject to inheritance tax (IHT), and the proceeds will pass to the beneficiaries named in your Will.

Alternatively, the policy can be written in trust. This is a legal arrangement that will take the policy outside of your estate for IHT purposes. Many policy providers will have standard trust deeds that can be completed. You can name the people you want to benefit and to what extent. Sometimes, your intended beneficiaries will be the same as in your Will.

Should my policy be written in trust?

I look at my client's circumstances on a case-by-case basis. Usually, I recommend that my clients consider writing their policy in trust. Not only does this have substantial IHT advantages, but it often means that your intended beneficiaries can access the policy proceeds sooner than if they were paid to the estate because a grant of probate is not required.

Should I use the insurance provider's standard documents?

Again, this is something I consider on a case-by-case basis. In some situations, the standard documents are perfectly sufficient. It is a cheaper and simpler option, and many clients can complete the paperwork themselves without professional involvement.

However, in some cases, I recommend that clients have a bespoke trust policy.

Many clients will consider what would happen on their death, but for estate planning to be effective, you must look beyond this and consider the broader family circumstances.

For example, many would want their spouse or partner to benefit from the policy. However, you need to consider whether increasing the survivor's estate with the value of the policy is just going to increase the IHT liability when they pass away.

Setting up a bespoke trust

Trust documents are put in place so that when you pass away, the policy proceeds are paid to the trust and not to your named beneficiaries. With a well-planned and managed trust, your intended beneficiaries can benefit from the policy proceeds but with the advantage of the proceeds not forming part of their estate to be taxed on their death.

If you want to look at putting a bespoke trust in place, it is essential to ensure that you receive legal advice about this, mainly to ensure that there are no unintended consequences.

At Lester Aldridge, we can advise you on setting up bespoke [trusts](#) and the legal, practical and [tax](#) implications. For more information and advice, please contact us to speak to one of our experienced solicitors at online.enquiries@LA-law.com or call 01202 702612.

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