Using a trust into which lump sums due on death from professional death in service schemes, pension plans and life insurance policies will be paid, preserves the use of these funds for your dependants, avoids direct ownership and may save inheritance tax.

How does Death Benefit Wealth arise?

Death Benefit wealth arises in a number of ways:

Life Insurance

You may have a life insurance to cover inheritance tax, provide a lump sum for family or to cover the death of a shareholder in a business.

Death in Service

You may be part of your employer's group policy scheme which provides a multiplier of your salary as a death benefit if you die whilst in service.

Pension Funds

A good example here is if you have an occupational or self-invested pension plan and have not drawn down any income benefits, a lump sum will be returned on death.

Critical Illness

These types of policy produce an income supplement in the event of a critical illness and on death there is usually a lump sum paid. It is important to make sure the critical illness benefit remains due to the insured but the lump sum can be protected via a trust.

What is Death Benefit Protection?

This involves the use of a Declaration of Trust that has the effect of diverting the lump sum due on death from one of the above sources away from the direct ownership of surviving next of kin and into the hands of your chosen trustees. A Letter of Wishes will be drawn up to guide the trustees in their use of the money. This is very cost effective as you can change your wishes as circumstances change by simply updating the Letter of Wishes.

Why use a trust?

As with any form of asset, if a lump sum of cash falls into an estate it will be subject to inheritance tax rules, and creates a number of potential risks which threaten to significantly waste the benefit of the cash sum including:

- **Remarriage after death**: If a surviving spouse receives the benefits and then remarries, the assets will be taken into the subsequent marriage. The inherited funds could then be lost to the new spouse and other beneficiaries of your choice (for example, your children) might not benefit.
- **Divorce**: The cash lump sum could be included in a beneficiary's divorce settlement.

- **Bankruptcy**: The cash lump sum would be at risk from creditor claims or the bankruptcy of the beneficiary.
- **Care fees**: The cash lump sum could be included in the calculation of assets used for assessing an individual's care costs.

Using a trust will mean a quick claim

If the cash lump sum payable on death is payable to declared Trustees, then those Trustees need to submit a copy of the death certificate to make a claim and can avoid the need to incur estate administration processes and costs. The funds become immediately available to meet family costs and this is very reassuring at what will no doubt be a stressful time.