If you have arrangements in place whereby lump sums due on death from professional death in service schemes, pension plans and life insurance policies will be paid, setting up a trust can be beneficial. Using a trust preserves the use of these funds for your dependants, avoids direct ownership and may save inheritance tax.

How do death benefit lump sums arise?

Death benefit wealth arises in a number of ways:

Life Insurance

You may have 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 employers' group policy scheme which provides a multiplier of your salary as a death benefit if you die whilst in service.

Pension Funds

You may have an occupational or self-invested pension plan and have not drawn down any income benefits and where a lump sum will be paid on death.

Critical Illness

You may have a policy that produces 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 Critical Event 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.

A trust protects and ring fences lump sum proceeds, however surviving family may have to access the wealth through the trustees. This is particularly relevant if you want to control where your wealth goes and make sure it goes to people you trust and not into the hands of unwelcome or estranged family members.

Why use a trust?

If a lump sum of cash falls into an estate it will be subject to inheritance tax rules. There are also a number of potential risks created which threaten significantly to 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 in a protected trust environment to meet family costs and this is very reassuring at what will no doubt be a stressful time.