

# NIL DISCOUNT, DECLINED AND POSTPONED UNDERWRITING DECISIONS

In this document we have explained how your client's underwriting decision may impact their application for the Estate Planning Bond, Generation Planning Bond or Discounted Gift Trust. We have also provided alternative options if your client receives a nil discount, declined or postponed underwriting decision.

As part of the application process for the Estate Planning Bond, Generation Planning Bond or Discounted Gift Trust, we use information regarding your client's health to make an underwriting decision on their application. The following pages explain the types of underwriting decisions and their effect on the application.

The types of underwriting decision fall into 5 categories:



Whilst we have followed current HMRC guidelines for the valuation of Discounted Gift Schemes, HMRC reserves the right to review or challenge any valuation given.



For further information regarding our Discounted Gift Trusts, please refer to our **Estate Planning Bond/ Generation Planning Bond Product Guides** or **Your Discounted Gift Trust Conversion Guide**.

# 1

## STANDARD TERMS

Your client can proceed with the application and will receive a 'discount' to UK Inheritance Tax.

A 'standard terms' offer means the discount is based on your client's actual age, with no age adjustment necessary. If your client has had a birthday during the application process this will be reflected in the final decision received.

# 2

## AGE ADJUSTED

Your client can proceed with the application and will receive a 'discount' to UK Inheritance Tax.

An age adjustment means the discount is based on your client's actual age plus some additional years (the adjustment) that compensate for their current state of health. This will not affect the regular withdrawals that they have requested, but it will result in a smaller discount to UK Inheritance Tax.

# 3

## AGE ADJUSTED 91-95, 'NIL-DISCOUNT' TERMS

If your client's adjusted age is between 91 and 95 we are unable to offer a discount but the policy can proceed on a 'nil-discount' basis. This is in line with HMRC's published technical note on Discounted Gift Schemes.

### WHAT ARE THE BENEFITS OF CONTINUING ON A NIL-DISCOUNT BASIS?

- › Although there will be no immediate discount, your client will still be able to benefit from the fixed withdrawals of capital throughout their lifetime (subject to bond value), whilst also gifting their investment into trust
- › If your client survives seven years after making the gift into trust, the entire investment will be outside of their estate and not liable to UK Inheritance Tax (IHT)
- › Any growth on the investment is outside your client's estate for IHT purposes
- › The bond does not end upon the death of your client and can be used as a flexible investment by the trustees/beneficiaries after your client's death.

### WHAT ARE THE RISKS OF CONTINUING ON A NIL-DISCOUNT BASIS?

- › The value of your client's gift into trust will be the entire investment value (on the date of transfer). Therefore, if your client dies within seven years of making the gift this value will form part of their estate with no discount (though taper relief may apply)
- › If your client dies within the seven year period, the value of the gift on which IHT is assessed may be higher than the value of the bond at that time. This could occur if the growth on the funds does not exceed the withdrawals combined with any charges on the bond. Whilst this could also occur if your client received a discount, it is less likely (as the gift itself would be smaller).



For full details of the risks associated with your client's chosen product please see the **Key Features of the Estate Planning Bond/Generation Planning Bond or Your Discounted Gift Trust Conversion Guide**.



If your client does not wish to proceed on a nil-discount basis, you may wish to explore alternative IHT planning options, including the trusts described in the next section.

# 4

## DECLINED

In some circumstances, where your client is not in good health, we must decline the application.

If the application is for joint lives and one applicant is accepted, it is possible to proceed on a single life basis.

If the application was for a single life and cannot proceed (or it was for joint lives and your clients do not wish to proceed on a single life basis) you may wish to arrange an alternative form of IHT planning for your client. We are able to offer other trusts that do not require underwriting. You and your client may wish to consider using these trusts in combination with one of our bonds:

### LOAN TRUST

By using the Loan Trust, in combination with a bond, any growth is held under the trust for the beneficiaries and is outside your client's estate for IHT purposes. Your client will still be able to access their original capital (the loan) by taking withdrawals from the bond.

If your client has an existing bond it cannot be placed in a Loan Trust as the trust and loan agreement must be established before the bond.



Our Loan Trust deed uses a Discretionary Trust and is only available on a single applicant basis. Please see **Your Guide to the Loan Trust** for further information.

### GIFT TRUST

By using our Discretionary Trust or Absolute Trust, in combination with a bond, your client can make a gift into trust for their beneficiaries. The whole investment is held for your client's beneficiaries and your client will not have any access to it. Any growth on the bond is immediately outside of your client's estate for IHT purposes. The gifted amount will also be outside your client's estate after seven years. If they die within seven years the gift into trust will be assessed for IHT along with any other relevant gifts.



A Gift Trust will not be appropriate if your client requires any access to their original capital.

# 5

## POSTPONED

In some cases we will be unable to assess your client's life expectancy at the time of application. With some health events, our underwriters will set a postponement period that must pass before we can make an underwriting decision. The postponement period allows sufficient time for any treatment to have its full effect.

### WHAT ARE THE OPTIONS IF MY CLIENT'S APPLICATION IS POSTPONED?

A postponed decision does not necessarily mean that your client cannot take out an Estate Planning Bond, Generation Planning Bond or Discounted Gift Trust in the future. There are several options which you could discuss with your client:

1. If the application is for joint lives and one applicant is accepted, it is possible to proceed on a single life basis.
2. If the application was for a single life (or it was for joint lives and your clients do not wish to proceed on a single life basis), one option is for them to wait until the postponement period has elapsed and reapply. Your clients will be required to go through the underwriting process again. You should be aware that there are risks in taking this option and these should be explained to your client:
  - › There is no guarantee that we will be able to offer your client a discount when they reapply in future and your client may still be declined
  - › By waiting, your clients are delaying other IHT planning which they could have otherwise put in place.
3. You may wish to explore alternative IHT planning options, including the trusts described on the previous page.
4. If the application was for the Estate Planning Bond, an alternative would be for your client to invest in Utmost Limited Evolution bond, on a capital redemption basis, which may be appropriate should they wish to invest rather than remaining 'uninvested' during the postponement period. After the Evolution bond has been in force for 12 months or more, it can be gifted into the Utmost Limited Discounted Gift Trust. Therefore, your client could invest in the Evolution bond (without underwriting), wait for the 12 month period or postponement period (whichever is longer) to elapse and then apply to gift the bond into our Discounted Gift Trust to obtain the benefits originally intended. As before, we will underwrite the application and assess your client's health at that time.

Again, you should explain the risks of taking this option. Whilst your client may benefit from the tax treatment of the bond, it is possible that they will not be able to transfer it into a Discounted Gift Trust in the future if a declined decision is reached after underwriting.




You cannot gift an Utmost Ireland dac Selection bond into a Discounted Gift Trust scheme.




Please read **Your Discounted Gift Trust Conversion Guide** for more information on how an Evolution bond is converted and any restrictions that may apply.

# CONTACT US


If you would like to find out more about our underwriting process and the solutions we can offer, please contact us on:

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WEALTH SOLUTIONS

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