Bond School

Session 001 - What's a bond (onshore /offshore)?

Learning Objectives

By the end of this session, you will be able to:

Understand the difference in the legal and beneficial ownership position of owners, lives assured and estate/trust beneficiaries

Evaluate and determine whether to use a life assured or capital redemption basis

Identify who should be the bond owner(s), lives assured and how many segments the bond should be set up with

What is a bond and who can invest in one?

Description of a bond

- A tax wrapper to hold investment funds
- Non-qualifying whole of life assurance policy
- Non-qualifying capital redemption policy (offshore)
- Non-income producing investment
- Single premium (regular premium is possible)

Bond providers

Onshore (UK) bonds

- Issued by UK based life companies
- Available to UK resident clients
- Open architecture and insured funds available
- Life assured basis only

Offshore (International/Non-UK/Foreign) bonds

- Issued by life companies based in tax favoured jurisdictions
- Available to UK resident clients
- Some providers offer a compliant version for non-UK jurisdictions
- Open architecture and insured funds available
- Life assured and capital redemption basis available

Who can invest a bond?

Individuals

Trustees of non-charitable trusts

Incorporated associations

Who can’t or shouldn’t invest in a bond?

Unincorporated associations (e.g. clubs and societies) are not a legal entity and therefore **cannot** invest in a bond.

Charitable trusts and charitable companies **shouldn’t** invest in a bond as they are not qualifying investments for charities.

Main differences between Life Assured & Capital Redemption basis

Life assured basis

Capital Redemption basis

- Bond ends when last life assured dies
- Sum assured payable on death
- Disregarded for long-term care cost assessment
- Available Onshore and Offshore

- Ends at maturity date (term of 99 years)
- Maturity benefit payable at maturity date
- Included for long-term care cost assessment
- Available on Offshore bonds only

Life Assured v Capital Redemption - what option should be chosen?

Life Assured (L/A) basis	**Capital Redemption (CR) basis**
• Bond ends when last life assured dies	• Ends at maturity date (term of 99 years)

Tax lead decision i.e. planning around “death” or “maturity” triggering a chargeable event

• Sum assured payable on death	• Maturity benefit payable at maturity date

Net benefit decision i.e. will this make the client or beneficiaries richer and is a “death” or “maturity” event likely?

• Disregarded for long-term care cost assessment	• Included for long-term care cost assessment

By-product of life assurance i.e. selecting a L/A basis over CR basis cannot be an objective (deprivation of assets rules)

• Available Onshore and Offshore	• Available on Offshore bonds

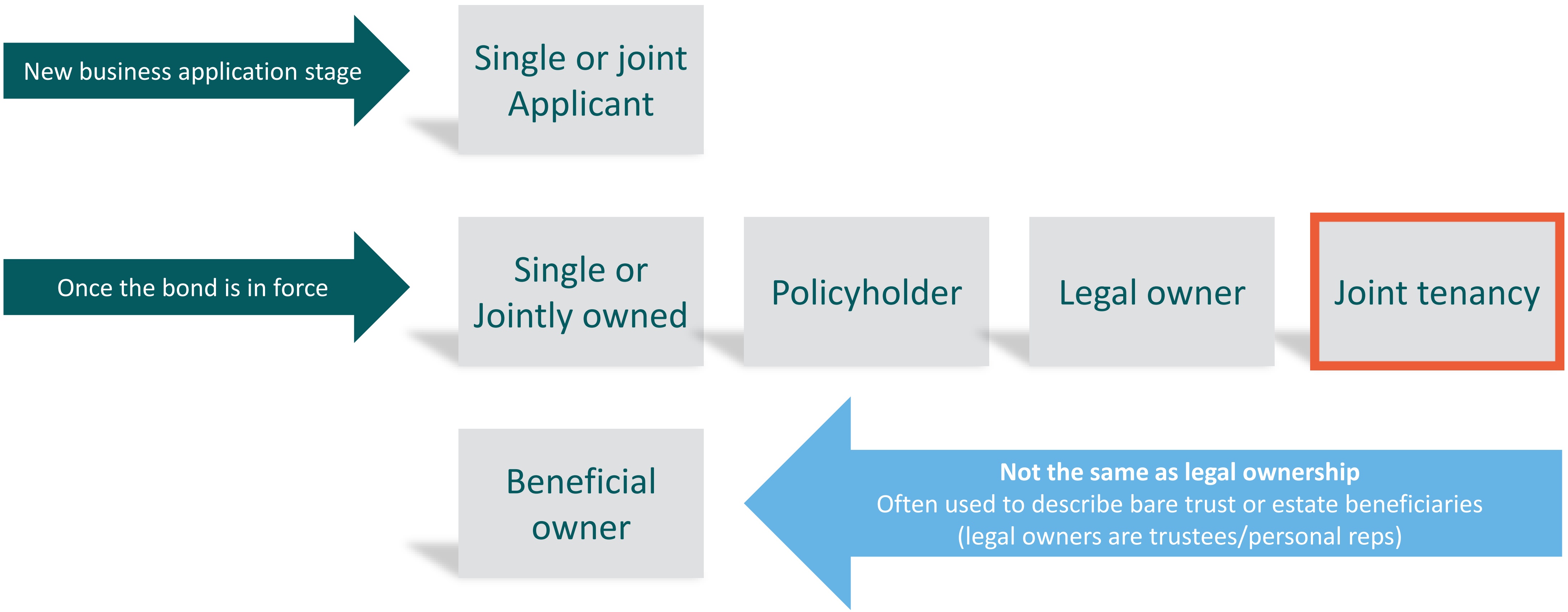
Tax & net benefit decision i.e. will onshore or offshore lead to a better net return

Parties to a bond - Owners & Lives Assured

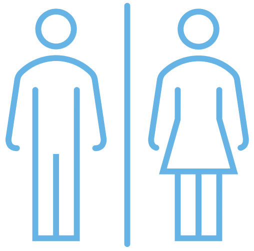
Bond terminology

Policyholder	Legal owner	Life / lives assured	Insurable interest	At issue
Single or Joint life	Joint tenancy	Single or Jointly owned	Own life / life of another	Single or joint Applicant
Capital Redemption	Person to be covered	Segments / Clusters	After issue	Beneficial owner

Bond terminology – legal ownership

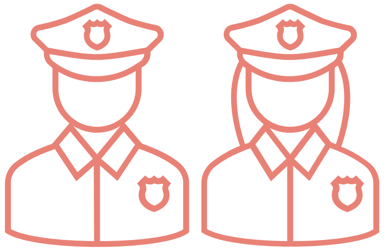


Bond terminology – Joint tenancy rules



Individuals

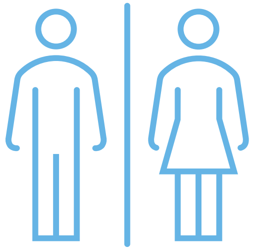
- All segments owned jointly
- On first death the survivor becomes the sole owner (survivorship rules)
- Value of deceased’s owners share in their estate for IHT purposes
- Probate planning a by-product of joint tenancy (not the purpose)
- More than two individual owners is generally uncommon



Trustees

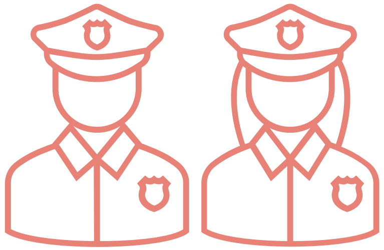
- All segments owned jointly
- It is not uncommon for there to be more than two trustees
- Ownership continues with survivor if a trustee dies
- Probate not relevant

Bond terminology – Changes in legal ownership



Individuals

- Assignment by way of Gift to other individuals
- Assignment in relation to Judicial Separation, Divorce or Dissolution
- Assignment for money or monies worth (very rare)
- Assignment into trust



Trustees

- Assignment of some or all segments to a trust beneficiary
- Assignment by trustees to another trust (not very common)

Bond terminology – Lives assured

Life / lives assured	Own life / life of another	Single or Joint life	Person to be covered	Insurable interest

Key Point
Relevant at the new business stage

Key Point
Onshore bonds often limited to two lives assured with Offshore providers allowing more than two lives assured

Key Point
A life assured has no legal or beneficial entitlement in their capacity as life assured

Key Point
Bond will end on death of sole or last surviving life assured and trigger a chargeable event

Key Point
Changing a life assured on an existing bond would be a fundamental reconstruction and trigger a chargeable event (not normally allowed)

Bond terminology – Insurable interest

Insurable interest

The Life Assurance Act 1774

Key Point
Insurable interest exists on the applicants own life (applies to individuals & trustees)

Key Point
Insurable interest exists on the applicant's spouse (applies to individual applicants, not applicants who are trustees)

Key Point
The sum assured on life assurance bonds is negligible (e.g. 101% of surrender value or lower)

Key Point
Due to negligible sum assured, bond providers normally don’t vet insurable interest

Key Point
Life of another basis (e.g. children/grandchildren of the applicant as life assured) is a tax strategy decision

Bond terminology – not related to legal ownership or lives assured

At issue	**Key Point** Relates to when setting up a new bond in conjunction with a new trust
After issue	**Key Point** Relates to assigning an existing bond into trust
Capital Redemption	**Key Point** An offshore bond that has no lives assured
Segments / Clusters	**Key Point** Each segment/cluster is a separate policy and uniquely designated by appropriate sub-numbering

Setting up a bond – 3 key steps

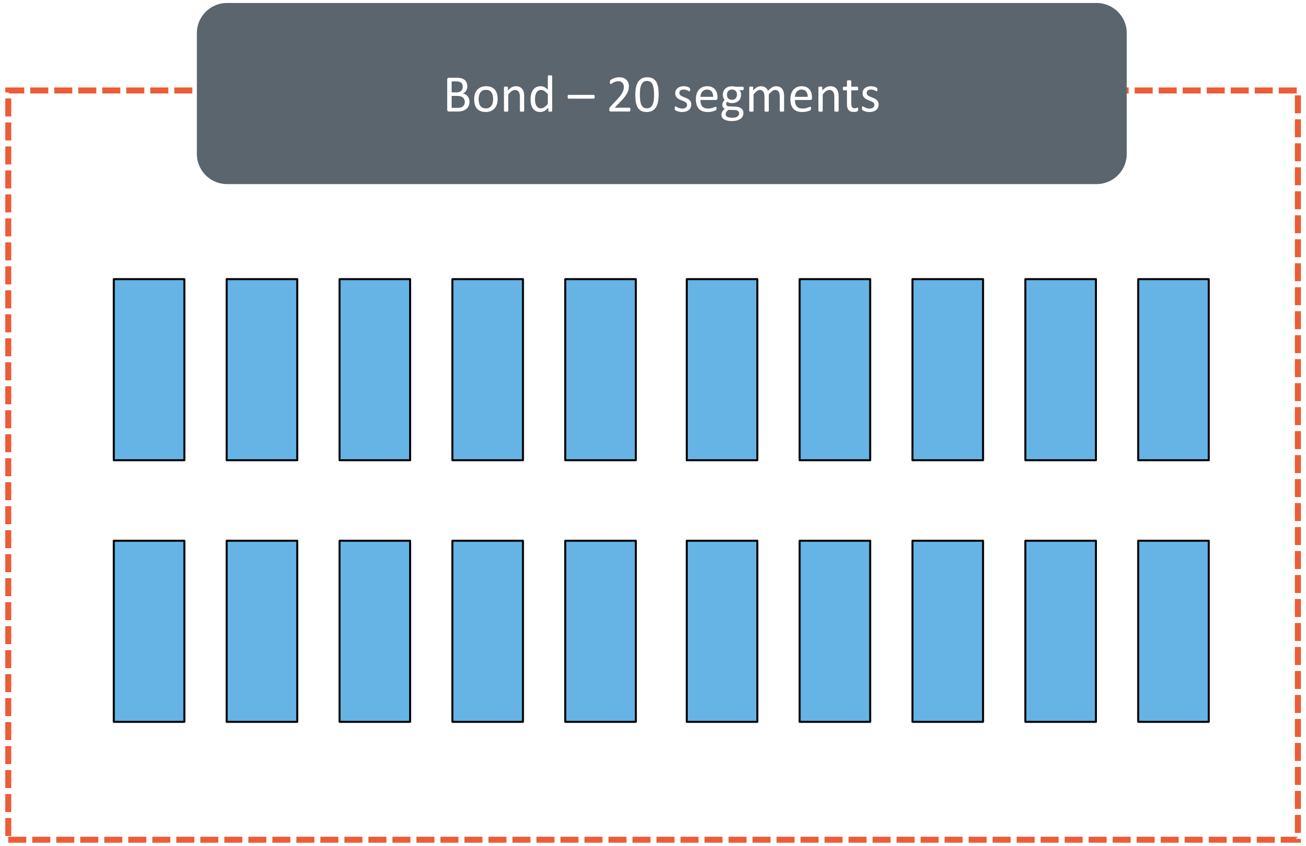
Setting up a bond – The applicant(s)

- The name of the applicant will be the individual(s) who are investing their own money or trustees of a trust fund
- For Power of Attorney and Deputyship Orders cases the Donor (Granter in Scotland) is still the named applicant with the Attorney or Deputy signing on their behalf
- For Power of Attorney and Deputyship Order cases it should generally be on a single applicant basis
- All applicants must sign the application (this applies even if trustees/attorneys/deputies can act jointly or severally)

Setting up a bond – The live(s) assured

- Who you name is generally a tax lead decision
- If life of another basis you will generally select the youngest (and healthiest) family member(s)
- Assure the client(s) that not naming a trust or estate beneficiary as a life assured has no relevance to them benefitting – it's the trust or their will the dictates that!

Bond segmentation



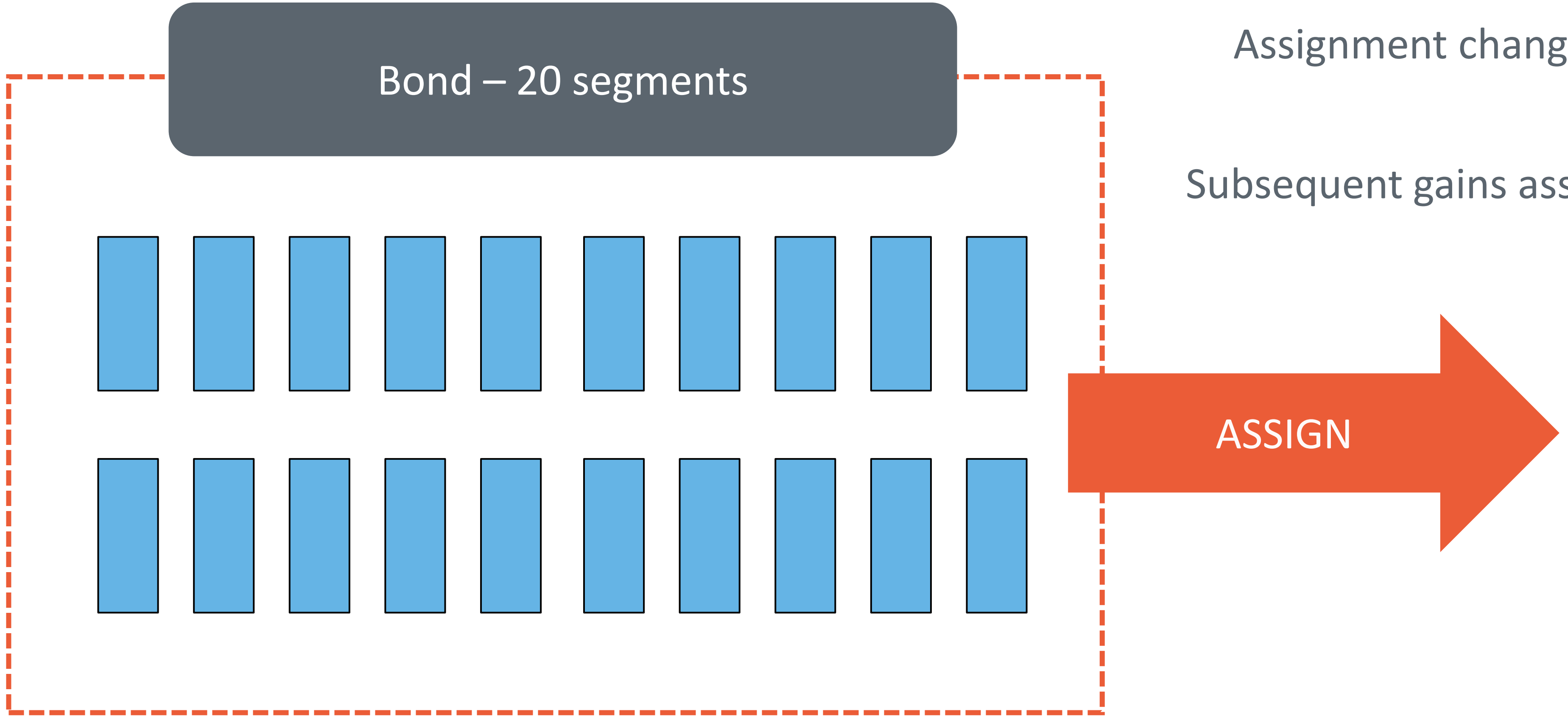
Key Point
The highest number of segments possible is better from a chargeable event planning perspective

Key Point
Trust & Estate planning – ensure the number of segments is in line with intended distribution to beneficiaries e.g. if there are three beneficiaries with an equal share, ensure the number of segments is divisible by three

Key Point
Each segment is a uniquely identifiable policy and can be surrendered or assigned to another individual or into trust

Key Point
Each segment is also uniquely identifiable for tax purposes

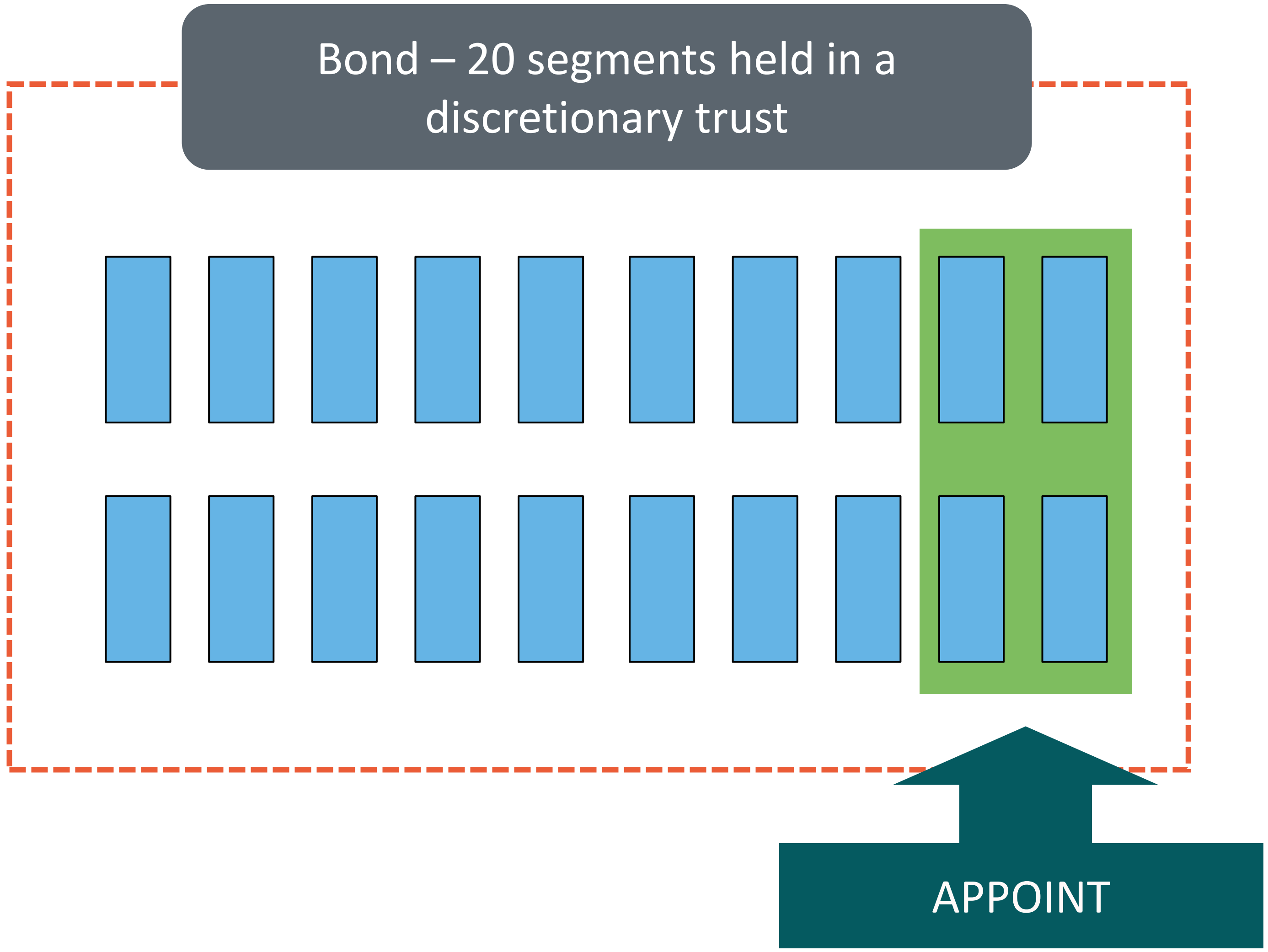
Assignment of segments – assignee must be 18 years old



Assignment changes legal ownership

Subsequent gains assessed on new owner

Appointment of segments – bonds in discretionary trusts



Appointment changes beneficial interest

Segments still owned by trustees

Gains on segments in bare trust assessed on beneficiary

This doesn’t work if parental settlement rules will apply!

Learning Objectives Recap

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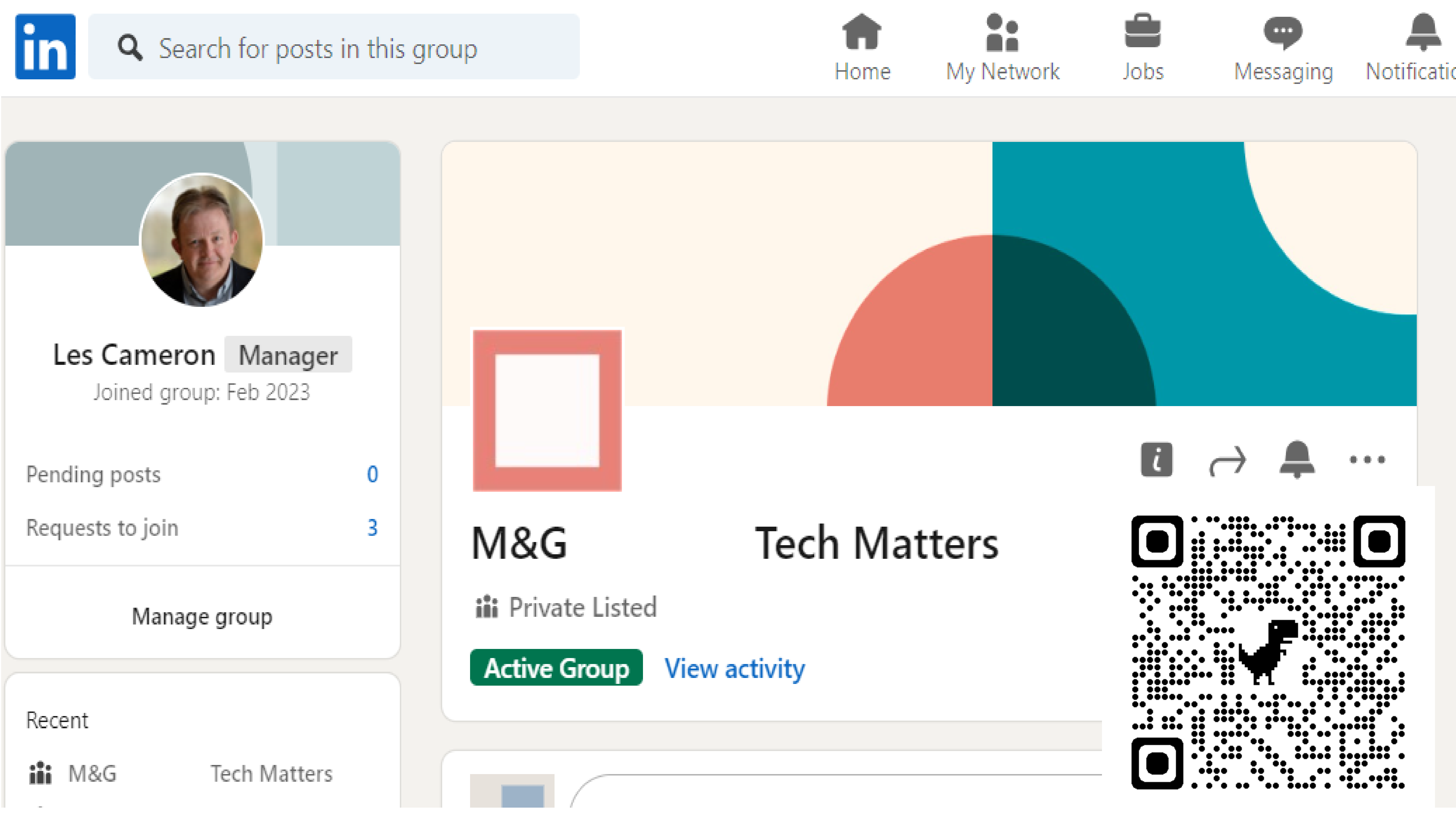

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