Insurance wrappers

Reducing the administrative burden for trustees

Having the ultimate responsibility for the management of the trust fund can be a complex task that requires a lot of time and administrative work. However by using an insurance wrapper to hold the underly assets holding as opposed to holding them directly it can significantly simplify the day to day administration of the trust.

The insurance wrapper is held in the name of the trustees, whilst all of the underlying investments are held in the name of the insurance company. Typically, an insurance wrapper can hold most types of asset in which a trustee would wish to invest, subject to the asset being acceptable by the insurance company. We've laid out some points below to highlight how insurance wrappers can allow trustees to focus on the important matters by reducing administration.

Single point of contact

With an insurance wrapper there is only one application to make, that of the insurance company providing the wrapper. No matter how many different types of investment are held within it, the trust does not have to complete additional, complicated application processes with fund houses. Compare this with the time and effort involved in opening multiple accounts in different jurisdictions, all with potentially different requirements making the insurance wrapper a more-efficient, responsive and cost-effective choice.

Streamlined management and costs

Administration costs of a trust typically include trustee fees, legal costs, accounting and annual tax fillings. Depending on the complexity of the structure and the assets held, the costs can be substantial. Holding assets via an insurance wrapper can significantly reduce these costs as there is only a single investment to be administered rather than all the individual assets owned by the trust itself.

If investments are held directly by the trust, dealing instructions would need to be submitted to various providers, thereby increasing the trust's administration costs. With an insurance wrapper a single dealing instruction can be submitted to the insurance company setting out which assets are to be bought or sold, thereby reducing dealing turnaround times and costs.

Simplified accounting

When assets are held directly by the trust, they could generate income which may need to be accounted for or earmarked for specific beneficiaries.

An insurance wrapper is classed as a non-income producing asset in the Isle of Man and many other jurisdictions. The insurance company owns the assets on behalf of the trust so, even if the underlying investments generate income, this accrues to the insurance company and not to the trust directly. This can alleviate the responsibility of having to distribute or account for income as it is generated within the insurance wrapper.

Regular reviews

Trustees are typically required to undertake regular reviews of their investments to ensure that everything is working as expected.

With an insurance wrapper, the insurance company can quickly provide a consolidated valuation that sets out the performance of all investments held in an easily digestible format.

With directly held investments, separate valuations would need to be requested from different providers. This information would then need to be collated and analysed to determine the overall performance of the trust fund.

Segmentation

An insurance wrapper can be segmented into multiple individual policies. This provides a manageable way for making distributions to beneficiaries that are aged 18 and over.

Individual segments from the insurance wrapper can be assigned out of the trust and into the names of individual beneficiaries. The beneficiaries can then either hold those segments in their own name or surrender the segments. The tax liability falling on the beneficiary at their own marginal rate of income tax.

Segmentation can also be used to run multiple investment portfolios for different beneficiaries within the same trust at minimal additional costs.

Distributions to Beneficiaries

When making distributions to beneficiaries, cash may need to be raised by selling or realising specific investments.

With the insurance wrapper, all assets are held in one place. Therefore, a single withdrawal or surrender instruction can be sent to the insurance company who will manage the selling of assets and payment to the trustees.

Depending on where the beneficiaries are resident, an insurance wrapper can offer additional benefits where segments or the entire wrapper has been assigned to them.

UK resident

If segments of the insurance wrapper are assigned to a beneficiary, any tax liability shifts away from the trust to the beneficiary, potentially at reduced tax rates.

UK resident owners/beneficiaries can benefit from an annual tax deferred withdrawal allowance of 5% which is cumulative for 20 years and could be used to provide a regular income.

Australian resident

For an Australian tax resident, if the wrapper has been in force for 10 years or more, the growth is not subject to any taxation on the gain.

FPIL offers a variety of insurance wrappers to meet the unique requirements of today's internationally-mobile investor. From regular savings, protection and investment, FPIL can provide bespoke solutions to help you secure your future. Contact your Financial Adviser for more information on FPIL and its products.

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