Discretionary trusts

What is a discretionary trust?

A discretionary trust is an arrangement, defined by law, where an organisation or group of individuals are made responsible for assets for the benefit of another group of people. The organisation or individuals appointed to administer the trust are known as 'trustees', and those benefiting as 'beneficiaries'.

The trust includes 'rules' which the trustees have to use in carrying out their duties, and include details of who can be beneficiaries.

Why use a discretionary trust?

The main benefits are:

- benefits held under the trust are protected and can only be used for the benefit of beneficiaries
- payments to a beneficiary do not form part of the deceased's estate so payment is exempt from UK Inheritance Tax
- tax relief may be available on premiums paid to insurer

Notes

Payments of pensions are still subject to Income Tax.

Who sets up a trust?

Unless our Master Trust is to be used, the employer that needs the trust is responsible for setting up their own.

We have a number specimen trusts available on our website which can be used, if appropriate to the employer's requirements

Who owns the trust?

The trustee(s) owns the trust.

This is still the case even where our or any other insurer's specimen documents have been used.

Who updates a trust once it has been set up?

It is very important the trust is kept up to date. In all circumstances the trustee(s) is solely responsible for keeping the trust documentation up to date.

We have a number of specimen deeds of amendment available on our website which can be used, if appropriate to the trustee requirements.

Legal advice

We recommend that legal advice should always be taken as we are unable to provide this.

Our Group Life policies

All our policies are designed to work in conjunction with a discretionary trust.

We are currently able to issue policies where the following types of discretionary trust have been executed:

- Registered stand-alone Group Life Scheme
- Excepted Trust

In addition we are able to insure organisations who sign up to use our Master Trust.

Notes

Further detail regarding these trusts can be found on the next page.

We are not willing to insure a policy where a discretionary trust has not been executed.

Canada Life™
Group Insurance

GROUP LIFE ASSURANCE

How it Works
Product Information
Going On Risk

Registered stand-alone Group Life Schemes

This is a trust written under the same legislation used to establish a Registered Occupational Pension Scheme (Section 150 of the Finance Act 2004).

If this type of trust is to be used the established scheme must be registered with HMRC. Further information can be found on HMRC's website.

This type of trust can be used for both registered lump sum and dependent's pension benefits.

How do you register a scheme with the HMRC?

This has to be completed online by a Scheme Administrator appointed by the trustees. Information on how this can be done is available in our guide to Registering both a 'Scheme Administrator' and 'the Scheme'

Additional information can be found on HMRC's website and in the in the following documents:

- The Role of the Scheme Administrator
- Scheme Administrator 'Fit and Proper Person' legislation'
- What happens if 'the Scheme' is not registered correctly
- Understanding PSO and PSTR numbers

Canada Life Master Trust

This is a prearranged Registered stand-alone Group Life Scheme which employers can choose to join.

Each employer still has their own Group Life Assurance policy. However, the administration of the trust, including the payment of claims and keeping up to date with changes in legislation, will be handled by the trustees of the Master Trust instead of the employer.

Only registered lump sum benefits can be insured where the Master Trust is used.

Notes

We may not able to insure a policy where benefits are provided under another Master Trust. Appropriate advice should be taken regarding this.

Excepted Trust

The legislation relevant to the trust is dependent on the type of insurance policy being used to insure a lump sum benefit:

- for a relevant life policy, the conditions as defined in section 393B(4)(b), Income Tax (Earnings and Pensions) Act 2003 ("ITEPA") (as substituted by section 249, Finance Act 2004)
- for an excepted group life policy, Income Tax (Trading and Other Income) Act 2005 ("ITTOIA")

Comparison between registered group life schemes, excepted group life policies and relevant individual life policies

We have produced a comparison guide which compares the pros and cons of each type of arrangement.

Useful Information

More detailed information and specimen trusts and amending deeds can be found in the Trusts section of our website.

Please contact us on if you require a specimen Excepted Trust.

Contact us

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Our forms are available to download from our website: www.canadalife.co.uk/group
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HIW/GLA/GOR/PI/F3/0816