# inheritance options

the flexible approach to inheritance tax planning

Irish Life

*more options for your future*

055 Crystal Mark

Honesty and clarity approved by Plain English Campaign

## About us

Founded in 1939, we have been taking care of our customers' financial futures for over 60 years. We are proud to be part of the Irish Life & Permanent group of companies, one of Ireland's largest and most successful financial organisations.

As the leading life assurer in Ireland, our vision for the future is to be your first and best choice for all your savings, investment, pensions and protection needs. We understand that your lifestyle and financial circumstances are specific to you and so we aim to offer you, over your lifetime, a better combination of choice, value and service than any other company. We will do our best to provide you with the flexibility to manage your finances and the freedom to live your life the way you want to.

## The Honesty Crystal Mark

Because financial products can be complicated and difficult to understand, we are committed to using clear and straightforward language in all our customer communications. We work with Plain English Campaign, an independent company who specialise in testing the text and layout of our documents to make sure that all our customer communications meet the highest standards of clarity, openness and honesty. Irish Life is the first financial company in Ireland to sign the Plain English Campaign's declaration of honesty. This means we make certain everything you need to know is included in this booklet and is written in language you can easily understand.

# the inheritance options plan

A flexible approach to inheritance tax planning.

# contents

# 1 introduction

## Do I need to worry about **inheritance tax**?

Inheritance tax is a tax which most people must pay if they receive an inheritance from you when you die. The amount of tax will depend on:

- the value of their inheritance;
- previous gifts or inheritances they have received; and
- their relationship to you.

Your husband or wife will not have to pay inheritance tax on anything they inherit from you.

If your family is likely to have to pay inheritance tax when you die, it is a good idea to protect them against this beforehand. This tax is normally due very shortly after death. If you do not plan ahead, your family could lose part of their inheritance or be faced with a difficult decision between having to sell part of their inheritance, or borrow the money to pay the tax bill.

## How can Inheritance Options give me the **protection** I need?

We have designed the Inheritance Options plan to help you to protect your family against having to pay inheritance tax. The plan will provide a cash payment when you die which your family can use to pay any tax bill that might arise at that stage.

Your beneficiaries will not normally have to pay inheritance tax on this payment once they use it to pay inheritance tax bills that arise at that time (as defined in Section 60* of the Finance Act 1985).

The following example shows the potential tax advantage in taking out an Inheritance Options (Section 60*) plan.

| For example | Potential inheritance tax |
|---|---|
| Standard life cover plan €250,000 | €50,000 |
| Section 60* life cover plan €250,000 (see below) | 0 (see below) |
| Only when used to pay inheritance tax in line with Section 60* of the Finance Act. | |

*The legislation dealing with Section 60 plans (as they have become known) is now contained in Section 72 of the Capital Acquisitions Tax Consolidation Act 2003.

This booklet will  give you details of the benefits of the Inheritance Option plan. It is only a guide that allows us to explain the product to you in simple terms. The specific details of your contract will be in your terms and conditions booklet. We also advise you to read the customer information booklet carefully before you apply.

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# inheritance tax **explained**

In general, anyone who inherits any money, property or other assets from you when you die may have to pay inheritance tax. Your husband or wife will not have to pay inheritance tax when you die.

## The **tax rate** and tax-free amounts

Most other individuals will pay tax at 20% on the value of any inheritance over a certain amount. The threshold, or amount that a beneficiary can inherit tax-free, depends on their relationship with you.

These tax-free amounts increase each year in line with inflation. Below are the amounts from 1 January 2005.

| | |
|---|---|
| €466,725 | if the person receiving the property is your child (or certain grandchildren). |
| €46,673 | if the person receiving the property is your brother, sister, or the child of your brother or sister. Certain other close relatives may also qualify for this threshold. |
| €23,336 | in all other cases. |

This is the situation in January 2005, but conditions may change in the future. Please check with your financial adviser.

## What **assets** is inheritance tax charged on?

The personal representatives of the person who has died must list all the assets and liabilities and fill in a tax return for inheritance tax purposes. All assets are taken into account - the family home, a second home or investment property, the value of all investments, including cash, pension and life-assurance benefits as well as all personal property, for example, house contents, jewellery and so on.

## Are there any **tax reliefs or exemptions** available to reduce the tax which has to be paid?

Yes, there are.

The most important relief is the 'spouse exemption' which was introduced in the 1985 Finance Act.

This Act also introduced an exemption on the proceeds of life-assurance plans to encourage people to plan for paying tax.

If a life-assurance plan is put in place to provide for the tax, the Revenue will not charge inheritance tax on the plan proceeds if the money is used to pay inheritance tax which arises when the lives covered under the plan die. However, certain conditions must be met

Other reliefs and exemptions have been introduced over the years, mainly to encourage private enterprise and to prevent families from having to sell a family farm or business (for example) and indeed the family home in certain circumstances.

- Agricultural relief – the taxable value of farmland, buildings and stock can be reduced by 90% if the beneficiary is a qualifying farmer and keeps the property for six years.
- Business relief – can provide a similar reduction of 90% in the taxable value of businesses or private companies, if both the business and the beneficiary meet certain qualifying conditions.
- Family home – this exemption will apply in relation to gift and inheritance tax to the value of a 'dwelling', but only if the beneficiary satisfies a number of conditions.

## Paying **tax**

Your beneficiaries will normally have to pay tax shortly after your death. Unpaid tax attracts interest at a rate of 1% a month or 12% a year.

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# the inheritance options plan

## The **problem**

John and Mary Browne are both age 50 next birthday. They have two children, Mark 25, and Anne 23.

| List of assets | € |
|---|---|
| Family home | €950,000 |
| Investment property | €800,000 |
| Pension scheme | €150,000 |
| Cars | €40,000 |
| House contents | €60,000 |
| **Total** | €2,000,000 |

John and Mary made a will so that when the first person dies everything goes to the survivor. When both John and Mary have died, all their assets will be divided equally between their two children.

What is the likely inheritance tax that the children will have to pay if both parents die tomorrow in an accident?

Based on the current value of their assets the value of each child's inheritance is €1,000,000.

Assuming both Mark and Anne can take advantage of the full €466,725 threshold, they will each pay tax at 20% on €533,275.

So the total inheritance tax bill following the death of John and Mary Browne could be €213,310.

## The **solution**

To cover the tax bill, Mr and Mrs Browne could take out an Inheritance Options plan with cover of €213,310 to be paid after they both die.

The cost of the plan based on the couple's current age and assuming that they both don't smoke is about €174 a month to provide long-term cover. The cost works out at less than 1% a year of the estimated tax bill.

Remember the money paid out from the Inheritance Options plan will be exempt from inheritance tax, if it is all used to pay inheritance tax!

## **Long-term** cover

The cost shown in the above example is designed to provide cover throughout life based on our current charges and assuming an investment return of 6% a year.

## The **Inheritance Options Plan**

Inheritance Options gives you and your family flexible protection against the cost of inheritance tax.

## Personal or family **protection**

You can arrange the plan to pay out when you die (single life) or to pay out only when both you and your husband or wife die (joint-life last-survivor). The joint-life option is commonly used for family situations, along with a joint-life last-survivor will. This means inheritance tax will only arise when your children inherit following the death of both you and your husband or wife.

If you arrange the plan on the lives of yourself and your husband or wife, we will not make any payment when the first person dies.

## **How much** protection do I need?

The level of protection you need and whether you need a single or joint-life plan will depend on the size of your estate, who you plan to inherit your assets, and when they are likely to inherit. The person advising you about this plan can help you decide on the level of cover and type of plan you need.

## The **cost** of the plan

The amount you will pay depends on your sex, your age, your health, whether you smoke, how much protection you want and how long you want it for. The least you can pay is €65 each month. The payment you make builds up a protection fund which will pay for the ongoing cost of the benefit to be paid out when you die.

## This is a **long-term** plan

At the beginning, we can quote you the estimated cost to provide protection throughout your life. We recommend you take the option of making payments for "whole of life" at the beginning because this plan is designed to last your lifetime. If you choose a shorter term, your regular payments will increase significantly if you want to maintain the same level of cover at the end of the term. This is because you will be older at that stage.

We work out the cost to provide protection for the period you choose assuming the fund your payment is invested in achieves an investment return of 6% each year before tax and charges. We also assume that our current charges will not change.

However, we guarantee the initial cost for the first 10 years assuming you don't change your plan other than protecting against normal inflation increases.

You can choose the period of cover for which you want to pay. At the end of this period, the cost of the plan will go up. Inheritance Options can last as long as you like, as long as you keep paying the regular payments.

## You can **increase or reduce** your benefits

You can change the level of protection, up or down, if you need to. To increase your protection, you will need to provide satisfactory medical evidence by filling in an application form. However, you need to be careful that by increasing or reducing your protection your plan does not lose Section 60 tax benefits.

## You can protect against **inflation**

You probably expect the overall value of your assets will increase over time. This means the likely tax bill for your family when they inherit will also increase. If you also include the inflation protection option, it can help protect against this.

## Is Inheritance Options a **savings plan**?

No, the Inheritance Options plan assumes you only need protection for inheritance tax when you die. However, the plan does build up a value after a number of years. This money is used to help pay for protection costs which will increase over the term you have chosen.

## **Tax** on the plan

If you cash in part or all of your plan, you will currently have to pay tax of 23% on any profit you make. If there is any tax due, we will take this from the amount we pay. You will have no further tax to pay on the plan. Under tax legislation, this exit tax is also paid on death. We will take the appropriate amount of tax which is currently 23% on the profit element of the value of your fund on the day you die.

## Important note

An important feature of Inheritance Options is that your beneficiaries will not have to pay inheritance tax on the plan proceeds in certain circumstances. To benefit from this generous tax exemption the plan must, at all times, meet certain conditions laid down by the Revenue Commissioners. For example, one of the conditions relates to substantially increasing or reducing the level of payments you make into the plan.

Before you make any change to your plan you should speak to your financial adviser or us to discuss the matter.

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# making sure your plan benefits qualify for **tax relief**

We recommend that you take your plan out in trust for your next of kin. This means that we pay the benefit quickly and in line with your wishes. As a result, you will need to fill in a trust application as well as our normal application for protection.

## What is a **trust**?

A trust is a legal arrangement where your plan is held for the benefit of other beneficiaries - normally your next of kin. The person who holds the plan and looks after all dealings with us in relation to the plan is called a trustee. Under our trust, you or you and your husband or wife (in the case of a joint plan) are the trustees while you are alive. On the trust you can choose someone to take over as trustee after your death.

## Do I have to put the **plan in trust**?

You don't have to put the plan in trust. But to make sure that you make the most of Section 60 tax relief, it is a good idea that the plan either be issued in trust or that you say in your will that the plan benefits should be used to pay inheritance tax for your dependants. Although we provide standard trust forms, we recommend that you get professional advice from your financial adviser for all aspects of inheritance tax and estate planning.

## Some **important** conditions

To make sure the plan will continue to benefit from Section 60 tax relief, you must make sure that the plan meets the conditions laid down by the Revenue Commissioners. The main conditions are set out below and relate mainly to changes to the plan after you have started. If you have any questions on these conditions, you should contact your financial adviser or us. You should also talk to your adviser or us before making any changes to your plan payments or benefits.

## Main **Revenue** conditions

- To qualify for Section 60 tax relief the person covered under the plan must also make the regular payments.
- The level of protection or cover on the plan normally must be at least eight times the value of the regular payments being made each year.
- A joint-life plan can only be taken out by a married couple.
- You must continue to make regular payments for at least eight years.
- If you stop making regular payments, even after the eight-year period, you cannot restart.
- If your payments double or half in any continuous eight-year period, in certain circumstances, your plan may cease to qualify for Section 60 tax relief.
- If you withdraw money from your plan this can also effect its S60 tax exempt status.

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## your questions **answered**

## What happens when I **apply** for cover?

You need to send your application form to your broker, personal finance adviser, consultant or directly to us at: Irish Life, Lower Abbey Street, Dublin 1.

We will assess your application to see if we think you are an acceptable risk. Your answers to the questions on our application form give us the information we need to decide whether or not to accept your application. For this reason, it is important to tell us everything relevant when you answer those questions.

We accept most applications after assessing the application form alone. However, if you have a history of ill health or you want a high level of cover, we may need a report from your doctor. Once you have signed the application form, you have given us your permission to ask for this report. We will pay the fee for this report which is made from your medical records and will include details of your visits, results of any investigations, current medication and habits such as smoking, drinking or taking drugs. The fact that we may get a report does not mean that you do not need to give us full information on the application form. In a small number of cases, you may also need to have a medical examination by an independent doctor. All the information we receive is kept strictly confidential.

If we accept your application you will receive:

- your terms and conditions booklet (which give you detailed information about your plan);
- a customer information notice (which sets out tax and payment details)
- a schedule (which sets out how much you need to pay, and what cover you have); and
- a photocopy of your application form or a summary of the medical information contained in it.

When you receive these items you should make sure that the details in them are correct and that you are happy with the plan. Remember that a life-assurance plan is a long-term commitment. You have 30 days after we send you this information to cancel the plan. If you decide to do this we will refund any payments you have made.

## Do I need a **medical**?

You may need a medical before we accept your application for this plan, especially if you have a history of ill health, want to take out a lot of cover or are at an older age. We will tell you if you need a medical. All you need to do is make an appointment in our medical centre in Lower Abbey Street, Dublin 1. Or we can arrange for you to attend a medical near your home or work. The medical will be free of charge

## Are there any situations in which my benefit **would not be paid**?

Yes, you would not receive benefit in the situations explained below.

If, when you first took out the plan, you gave us incorrect information or did not tell us something that would have affected our decision to accept your application. You must tell us everything relevant about your health on your application. If you do not and you then make a claim, we may not pay your benefit.When we accept your application we will send you a photocopy of your application form or a summary of the medical information contained in it. You should check this to make sure that you have answered all the health questions accurately.

We will not pay benefit for life cover if death is caused by suicide or execution within a year of the plan starting.

## How do I make a **claim**?

If you need to make a claim, contact your financial adviser or our Customer Service Centre on 01 704 2000. We will send you a claim form and tell you what you need to do.

## Who will receive the benefit **when I die**?

If the plan has been set up under trust (as recommended) we will pay the benefit to the trustees who will then be responsible for passing it on to your beneficiaries. Your beneficiaries then use the money to pay their inheritance tax.

If there is no trust, we pay the benefit to your estate in line with your will and your beneficiaries use it to pay inheritance tax. This assumes that you say in your will that the benefit from the plan is to be used to pay inheritance tax for some or all of your next of kin.

If you do not make specific provision either in your will or by setting up a trust the benefit could be viewed as another taxable inheritance, and add to the ultimate tax liability.

## What should I do if I am **not happy** with my plan?

If you feel that the plan you have taken out is not right for you, or if you have any questions or complaints, please contact the person who told you about this plan or phone our Customer Service Centre on 01 704 1010. We will arrange an appointment to speak to you or visit you and do whatever we can to sort out your problem. If you feel that your complaint has not been properly dealt with, you can contact the Insurance Ombudsman.This will not affect your right to take action. For more information, contact the Insurance Ombudsman at: 32 Upper Merrion Street, Dublin 2.

## What **happens** to my regular payments each month?

We invest your payments in a fund called the consensus fund. Any part of your payment that we do not invest is taken as a charge.

## What charges do I pay?

The various charges on your Inheritance Options plan are as follows.

- Any part of your regular payment that we do not invest in the consensus fund is taken as a charge. The table below sets out how much of your payments will be invested in the fund.

| | During the first 16 months of payment | During further months |
|---|---|---|
| Your starting payments | We don't invest any of your payments | We invest 95% of the payments |
| Any payment increase | We don't invest any of your payments | We invest 95% of the payments |

If you are aged over 55, we will increase the amount we invest from months five to 16 by 3% for each year you are aged over 55. The charge we take goes towards the cost of setting up and managing the plan, including sales and commission costs.

- We charge 0.075% of the offer value of the fund each month to cover our investment management expenses.

- We also charge the cost of providing protection benefits from your fund. The amount of this will vary according to the individual details of the plan and will depend on factors such as your age, sex, occupation and whether you smoke.

- We also charge a plan fee each month. The plan fee is €4 a month. We will increase the plan fee each year by:
  - the increase in the Consumer Price Index for the previous year; or
  - 5%, whichever is higher.

## Can I **cash in** all or part of my plan before the end of my chosen term?

You can cancel your protection plan at any time, but it will have no value in the first three years.  If your plan has enough funds, you can cash in part of your plan [at least €300 after tax], after the third year (the fund may fall as well as rise in value). If you cash in part of your plan, we will review your cover and your regular payments.  This is likely to mean an increase in payments if you want to keep the same level of cover. See "Main Revenue Conditions" on page 12 for more details. This may affect the section 60 status of your plan.

## Will my cover **increase** in line with inflation every year?

On the first anniversary of your plan, we will give you the chance to increase your cover to keep it in line with the cost of living.  At the moment this increase is about 5% a year.  This increase of 5% is not guaranteed and may be greater than this. If you do increase your cover the payments you make will also go up each year to reflect the extra cover and the fact that you are older. As you are older your payments increase will be greater than your cover increase.

This option protects the real value of your cover as time passes.  If you do not take this option, your cover will stay the same.  You have to choose this option as we do not offer inflation protection automatically. If you refuse this option two years in a row, you will need to give us evidence of your health if you want to increase your cover in the future.  These increases end at age 75.

## **How** do I pay?

We want to make paying for your plan as hassle-free as possible, so with the Inheritance Options plan you pay by direct debit.

## If I **stop making payments**, can my cover continue?

If you stop making payments during the first eight years of the plan your plan will no longer qualify for Section 60 relief.  If you stop making payments you cannot start again without breaching Revenue conditions.

As long as you have made three years' payments and you have built up a value in your Consensus fund, you can choose to stop making payments for a period of six months (12 months if you make a yearly payment). You must tell us if you want to stop making payments for a while and we will tell you if this is possible. When your fund runs out, cover under the plan ends.

## Will the payments I make ever be **reviewed**?

Yes, we will review your payments after the first 10 years and may review your payments each year after this. At a review date we will look at the protection payments you are making, the value of your protection fund, any options under your plan, and current rates of deaths.

## **When will you review the payments** I make for Inheritance Options?

We will first review your payments on the 10th anniversary of the date your plan started.  We may review your payments each year after this. However, if you change your plan in any way during the first 10 years, we may need to carry out a review to make sure that your payments can provide the benefits you are covered for.

We may carry out a review if:

- the amount you pay changes (except in line with inflation each year);
- you stop making your payments for a while;
- you cash in all or part of your fund;
- you change your benefit levels; or
- you reach the end of the initial term of cover.

We guarantee that your regular payment will not increase for the first 10 years as long as you don't make any changes to the plan. However, each year we will offer you, if you choose it, the opportunity to increase your cover to keep in line with inflation (unless you have refused two increases in a row). If you take up this offer to increase your benefit, your payment will also increase.

## **What happens when you review the amount** I pay for my Inheritance Options Plan?

Each time we review your plan we will look at the payment you are making, the value of your fund, the growth rate on the Consensus fund, any options under your plan, current death rates and our experience of claims.  Based on these factors, and any others which are relevant, we will work out the highest death benefit that we will be prepared to provide for the payment you are making. If you want, you may increase the payments you make, to maintain your current level of benefits. If, on any review date, your benefits are more than the new maximum we have worked out, we will reduce the level of these to the new maximum.

## Can I **increase my payments**?

You can increase your payments but there is a monthly minimum payment increase of €13.

*Before making any changes to your plan, particularly changing or stopping your payments or cashing in part of your plan, you should contact your financial adviser or Irish Life – as certain changes could upset the Section 60 tax-exempt status of the plan for the payment of inheritance tax.*

## Products we offer

### Investments
Low risk options
- Tracker bonds

Higher growth options
- Property bonds
- Unit-linked share investments

### Protection
- Term life cover
- Mortgage protection
- Flexible family protection
- Income protection
- Inheritance tax planning

### Savings
- Savings plan

### Pensions
- PRSAs
- Company pensions
- Additional voluntary contribution (AVC) pensions
- Pension life cover
- Post-retirement options

## Keeping in contact

Each year, we will send you a statement, which keeps you up to date on your plan, explaining the benefits, cash-in values (where appropriate) and other relevant information concerning your plan.

You can call us six days a week on our customer helpline where we will do our best to answer your question. Our websites are available 24 hours a day, seven days a week. You can keep track of your Scope funds at www.escope.ie. At www.irishlife.ie, you can, among other things, find your nearest financial adviser or get a quick quote on any of our products.

## Personal financial advice

It takes just a short time for a professional financial adviser to sit down with you and review your personal finances. An adviser will tell you the most suitable ways for you to get the most benefit from your money, taking account of all your existing financial commitments.

## How to contact our Customer Service Department

Call or fax us at:

**tel: 01 704 1010 fax: 01 704 1900**

Email us at:

**customerservice@irishlife.ie**

Visit our website at:

**www.irishlife.ie**

Or write to us at:

**Irish Life Assurance plc, Irish Life Centre, Lower Abbey Street, Dublin 1.**

Lines are open between 8am and 8pm Monday to Thursday, 8am and 6pm on Fridays and from 9am and 1pm on Saturdays.

Calls will be recorded or monitored to help improve customer service.

Irish Life

www.irishlife.ie

055 Crystal Mark

Honesty and clarity approved by Plain English Campaign

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