

The Sanlam Bypass Trust

At a glance



Important note

This guide is for use by Financial Advisers only. It is not intended for onward transmission to a private customer and should not be relied upon by any other person. The information contained in this document is correct as at 31 January 2014. This information is provided as a summary of the Sanlam Bypass Trust, more detailed information can be found in the “Your Guide to the Sanlam Bypass Trust”.

What is a Bypass Trust

The Bypass Trust is a discretionary trust established during the lifetime of the pension scheme member to allow death benefits from their pension to be paid into it, subject to the discretion of the pension scheme trustees/administrator.

A Bypass Trust can only be used if the pension scheme has the necessary discretionary powers to make payments of lump sum death benefits upon the scheme member's death. Pension schemes such as a Section 32, deferred annuity and other retirement annuity contracts do not have the necessary discretionary provisions written in to the scheme rules.

Objectives

The aim of the Sanlam Bypass Trust is to receive death benefits from certain Sanlam pensions to provide for payment to a wide range of beneficiaries including your widow/er and dependants.

Where a member has elected for a lump sum to be paid to the Sanlam Bypass Trust and completed an Expression of Wish form, the scheme trustees/administrator may exercise their discretion to pay death benefits to the trustees of the Bypass Trust.

If the pension scheme trustees/administrator, at their discretion, pay the death benefits to a Bypass Trust, it will not be in the beneficiary's estate for Inheritance Tax purposes if payment is made within two years of the date of the scheme member's death.

Frequently Asked Questions

What is the purpose of a Bypass Trust?

To allow death benefits from a pension to be paid to potential beneficiaries without forming part of their estate when the death of the scheme member occurs.

How is the Bypass Trust established?

It is established during the settlor's lifetime by making a gift of £10 to the trust. The nominal cash sum of £10, which should be paid to the trustees once the trust is created and retained with the trust document in cash form. No additional money should be added to the trust until after the death of the settlor. If the settlor wishes to do any additional Inheritance Tax planning this should be done with a separate trust.

How should the Bypass Trust be set up?

As single settlor. The settlor's spouse can then be a potential beneficiary, but only after the settlor has died to avoid any gift with reservation of benefit or pre-owned asset tax charge issues. The settlor then needs to complete the Expression of Wishes letter to the scheme trustees/administrator nominating the Bypass Trust as the beneficiary. The scheme trustees/administrator would then take this into consideration when distributing the pension death benefits upon the scheme member's death but they would not be bound by the nomination.

How many trustees are allowed?

The settlor will normally be a trustee and we will allow a maximum of four including the settlor.

Does the trust have the power to make loans?

Yes. The trustees have the power to make loans to any potential beneficiaries and these can be interest bearing or interest free. It should be noted that making a loan to a beneficiary could be beneficial for them rather than granting payments of capital as a loan would create a debt on the beneficiary's estate. The loan would need to be paid back to the trust on their death, which will reduce the value of the estate and could negate some or all inheritance Tax that may be due on the beneficiary's estate.



Wealth

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