Guaranteed Whole of Life – too expensive?

Case study:

About Bob and Maureen

- Bob and Maureen have a potential IHT liability on their death of £500k . Bob is 62, and Maureen is 60, and both are non smokers. They have a cautious attitude to risk and want to ensure that their children receive their full inheritance.

What are their options?

- Do nothing – £500k would still be due to HMRC!
- Gifting strategies – is this practical?
- Specialist strategies, e.g. loan / discounted gift trusts – do they have access to a lump sum that they are prepared to utilise?
- Guaranteed Whole of Life plan – Bob and Maureen think the premiums are very expensive
- Separate savings account – how long would it take to save £500k?

Guaranteed Whole of Life plan v Savings

- Guaranteed Whole of Life plan (joint life second death) - £608.20 per month, £500k sum assured
- Based on typical life expectancy[1] a claim under the Whole of Life plan might be expected at 32 years, as indicated by the solid vertical red line in the graph below
- Assume Bob and Maureen find a bank account that pays an annual compound interest rate of 3.25%
- It would take 36 years of saving £608.20 per month to accumulate £500k to match IHT liability
- Bob would be 98, Maureen 96
- But what is the position if Bob and Maureen die earlier?
- Also need to consider a 40% IHT charge on savings, as cash forms part of the estate

- Whole of Life plan provides the full £500k (as plan written under trust) **whenever** death occurs
- Certainty of full pay out and premiums guaranteed from day 1 as long as premiums are paid in full
- No exposure to market volatility – consistent with clients' attitude to risk
- Bob and Maureen's objectives regarding their wishes for children's inheritance achieved
- **Does £608.20 per month still seem expensive or a cost effective solution?**

[1] Life expectancy is based on the Institute and Faculty of Actuaries' Continuous Mortality Investigation "08" series assured lives mortality tables.

Royal London
royallondon.com

We're happy to provide your documents in a different format, such as Braille, large print or audio just ask us when you get in touch.

All of our printed products are produced on stock which is from FSC® certified forests.

December 2023

SA6P10001