Wealth Management

Generations

Controlled Access Account

Client Guide

canada life

International™

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Gift money for a child to give them the best start in life. The trust fund can be used for education fees and maintenance of the child and allows the trustees to control the timing of payments.

Provide
or future
nerations

Everything you have worked hard for may be dramatically reduced unless appropriate IHT planning is put in place.

Introduction

As we get older and more financially secure it is only natural that we consider the futures of our children and grandchildren. However, the situation is brought into sharper focus by the fact that UK inheritance tax (IHT) may well reduce the amount that we are able to leave to our children and grandchildren. IHT is a tax levied against the value of an individual's estate on death and also, in some circumstances, on gifts made during their lifetime.

One solution to this problem lies in Canada Life International's Controlled Access Account (the 'Account'), which allows you to set aside a specific sum into trust to secure a named child's financial future, while at the same time reducing your potential IHT liability.

The Controlled Access Account consists of a series of maturing polices, which are set up at the outset to mature at future Account anniversary dates, so that funds can be released in phases over time from the trust. Prior to the beneficiary's 18th birthday, the Trustees have the power to defer maturity to a future Account anniversary if funds are not required at that time, giving greater control over exactly when funds are made available.

Why Canada Life International?

Financial strength and stability

Canada Life International's businesses are part of Great-West Lifeco, one of the largest life insurance organisations in the world, with interests in life insurance, health insurance, investments, retirement savings and reinsurance. The ethos of our parent company, and their focus on putting the long-term needs of customers first, prevails throughout our businesses, and is one of the reasons why we have successfully looked after the financial futures of so many clients for so many years. Together with Great-West Lifeco's other subsidiaries, we serve the financial needs of more than 36 million customers and have more than £1.539 trillion in assets under administration (at 31 March 2023).

What is the Controlled Access Account?

The Controlled Access Account is a series of offshore single premium investment linked life assurance policies with varying maturity dates, wrapped in a bare trust for the eventual benefit of a specific named child beneficiary.

It is designed for someone who wants to secure the financial future of a child while also reducing their potential inheritance tax bill by permanently giving away some of their wealth.

Its aims are:

- To allow you (the donor) to make a permanent gift into trust for the future benefit of a named child beneficiary
- To reduce your potential inheritance tax liability
- To limit the access to the capital of the trust, allowing the trustees full control of when the beneficiary can receive payments from the trust
- To provide the potential for long term capital growth for your beneficiary by offering access to a very wide investment universe
- To give the trustees freedom to vary their choice of investments over time, to match any changes in circumstances or attitude to investment risk

The donor(s) must be aged between 18 and 89 and the trustees must be over 18 and UK resident. The child beneficiary must be no older than 17 at the outset and will be nominated as the sole life assured on the Account.

The minimum amount you can invest is £50,000 and there is no maximum amount. Once the Account is set up you cannot add any further premiums to it, although you are able to have more than one Controlled Access Account.

How it works

The Controlled Access Account allows you to make a gift into trust for the future benefit of a named child beneficiary. You alone or you and your spouse will be the donor(s) of the trust. The trust is set up first and then the trustees invest your gift into the Account.

Each Account is made up of the following elements:

- A bare trust to which you make a permanent and irreversible gift of the amount available for investment. The trust must have two named beneficiaries – the child (who benefits from 99% of the trust fund) and an adult beneficiary who cannot be the donor (who benefits from 1% of the trust fund). This approach helps to limit the child beneficiary's access to the remaining policies once they reach their 18th birthday
- The trustees invest your gift into a series of offshore single premium investment linked life assurance policies with varying maturity dates, issued by Canada Life International in the Isle of Man.

The Trustees are the owners of the Account and are responsible for all the day to day decisions regarding the individual policies that make up the Account.

The number of individual policies that make up the Account is limited as follows:

- The minimum premium for each policy is £2,000
- The maximum number of policies allowed is 99

At the outset, the trustees decide when these individual policies mature.

To retain maximum flexibility it may be advisable to arrange for all the policies to mature prior to the child beneficiary's 18th birthday. This is because until the child beneficiary reaches age 18, the Trustees can decide to defer any maturing policies to a future maturity date if there is no need to release the funds at the time. However, once the child beneficiary reaches age 18, all maturing policies must be paid to the beneficiaries when they fall due; the Trustees no longer have the power to defer payment.

Example of how a Controlled Access Account could be set up:

Mr and Mrs Smith have £200,000 available to gift into trust for the eventual benefit of their grandchild, who is aged 5. The trust is to be used primarily to pay for education fees. The Smiths and their financial adviser decide to opt for a total number of 80 policies in the Account, each with an initial premium of £2,500 (80 x £2,500 = £200,000). The policies are initially set up to mature from when the grandchild is 11 until they are 17, so that funds are available each year to help pay for school fees.

In this scenario, the Controlled Access Account looks as follows:

Policy anniversary	Grandchild's age	Policy size £ x	No. of maturing policies =	Total value £ at the outset
1	6	-	-	-
2	7	-	-	-
3	8	-	-	-
4	9	-	-	-
5	10	2,500	6	15,000
6	11	2,500	8	20,000
7	12	2,500	8	20,000
8	13	2,500	10	25,000
9	14	2,500	10	25,000
10	15	2,500	12	30,000
11	16	2,500	12	30,000
12	17	2,500	14	35,000
Totals			80	200,000

You do not have to structure your Account in this way; it can be set-up with maturities over a greater number of years or with different amounts maturing each year.

However, it is good to know that the trustees have the ability to extend the maturity date of all or some of the policies at any policy anniversary that falls in any year before the 18th birthday of the child beneficiary, if for whatever reason none or only some of the maturing funds are required at the time.

The actual amount the beneficiaries receive from maturing policies will depend on the performance of the underlying investments linked to the Account. This is not guaranteed and the amount received could be less than the amount invested.

How does it work in practice?

For all policies maturing before the child beneficiary's 18th birthday, at 60 and 30 days before each policy matures, we will write to the trustees asking them to choose from one of the following options:

1. Extend all maturing policies
2. Extend some of the maturing policies and allow the rest to mature
3. Allow all policies to mature. This is the default position should we not hear from or be unable to contact the trustees

So, using our example above, on the 1st policy anniversary when 4 policies are due to mature, the trustees could elect to:

Please note that if the child beneficiary is aged 18 or over, and it is not the final policy maturing, then the maturity proceeds must be taken and cannot be deferred.

Option 1 example:

Policy anniversary	Grandchild's age	Policy size £ x	No. of maturing policies =	Total value £ at the offset
1	6	-	-	-
2	7	-	-	-
3	8	-	-	-
4	9	-	-	-
5	10	2,500	~~6~~	~~15,000~~
6	11	2,500	8	20,000
7	12	2,500	8	20,000
8	13	2,500	10	25,000
9	14	2,500	10	25,000
10	15	2,500	12	30,000
11	16	2,500	12	30,000
12	**17**	**2,500**	**20**	**50,000**
Totals			80	200,000

Option 2 example

Policy anniversary	Grandchild's age	Policy size £ x	No. of maturing policies =	Total value £ at the outset
1	6	-	-	-
2	7	-	-	-
3	8	-	-	-
4	9	-	-	-
5	10	2,500	~~3~~ 3	~~7,500~~ 7,500
6	11	2,500	8	20,000
7	12	2,500	8	20,000
8	13	2,500	10	25,000
9	14	2,500	10	25,000
10	15	2,500	12	30,000
11	16	2,500	12	30,000
12	**17**	**2,500**	**17**	**42,500**
Totals			80	200,000

Option 3

Policy anniversary	Grandchild's age	Policy size £ x	No. of maturing policies =	Total value £
1	6	-	-	-
2	7	-	-	-
3	8	-	-	-
4	9	-	-	-
5	10	2,500	6	15,000
6	11	2,500	8	20,000
7	12	2,500	8	20,000
8	13	2,500	10	25,000
9	14	2,500	10	25,000
10	15	2,500	12	30,000
11	16	2,500	12	30,000
12	17	2,500	14	35,000
Totals			80	200,000

On the next policy anniversary, the same options would again be available for those policies that are due to mature. As can be seen above, until the beneficiary becomes 18 it is possible to vary the amount taken from the trust as the policies mature.

Please note, the examples above exclude any investment growth or loss within the Account and should be used for indication purposes only.

Questions and Answers

Where and how is my money invested?

The Controlled Access Account provides investment flexibility by allowing access to a comprehensive range of investment options. These will provide the trustees and their financial adviser with the ability to build a portfolio of investments, providing maximum flexibility when considering their objectives and risk profile.

Investment choice

When making an investment, having a choice which covers the widest possible range of asset classes and fund types in a range of jurisdictions is essential.

The Account gives the trustees access to our Open investment range which allows them to choose from a comprehensive range of professionally-managed external assets with discounted charges from around the world.

Acceptable investments can include:

- Collective investments from the UK or Ireland; including Unit Trusts, Open Ended Investment Companies (OEICs) and investment trusts
- Cash deposits
- Hedge funds
- Other collective investments from recognised financial jurisdictions, which include the Bahamas, Channel Islands, Bermuda, Switzerland, Cayman Islands and Hong Kong.

There are some restrictions as to what can be held within the Account and we have a dedicated Investment Governance Team who can assist in determining whether any proposed asset is acceptable to us.

The document 'Your guide to investment funds' (reference 6815) provides further information on the different types of assets that are available. This guide is available to download from our website; ww.canadalifeint.com

There is no maximum number of assets or funds that can be linked to the Account.

For the assets or funds the trustees choose to invest in, we will allocate a number of units to the Account, based on the price of those assets or funds at the time. The ongoing value of the Account will be the current value of all of the units.

Please note that past performance is not a guide to the future. The value of the underlying investments linked to your Account can fall as well as rise. Currency fluctuations can also affect performance, especially where the currency of an underlying investment is different to the currency of your Account.

Fund adviser and Discretionary Fund Manager

The trustees can choose to manage the portfolio of funds, if they wish.

The trustees can nominate their financial adviser as the ongoing fund adviser, allowing them to make the day to day investment decisions on your behalf.

The trustees can outsource the investment decisions to a discretionary fund manager (DFM). This would be someone who is not their financial adviser. We already have agreements in place with a large number of existing DFM companies.

Segregated Portfolio Service

Our Segregated Portfolio Service gives you access to a wider range of investment types than those usually available and allows a DFM to access equities and bonds directly.

To use this service, the trustees will need to appoint a DFM in order to benefit from their expertise in stock selection. The DFM will need to have an agreement with us, so that they can access equities and bonds directly.

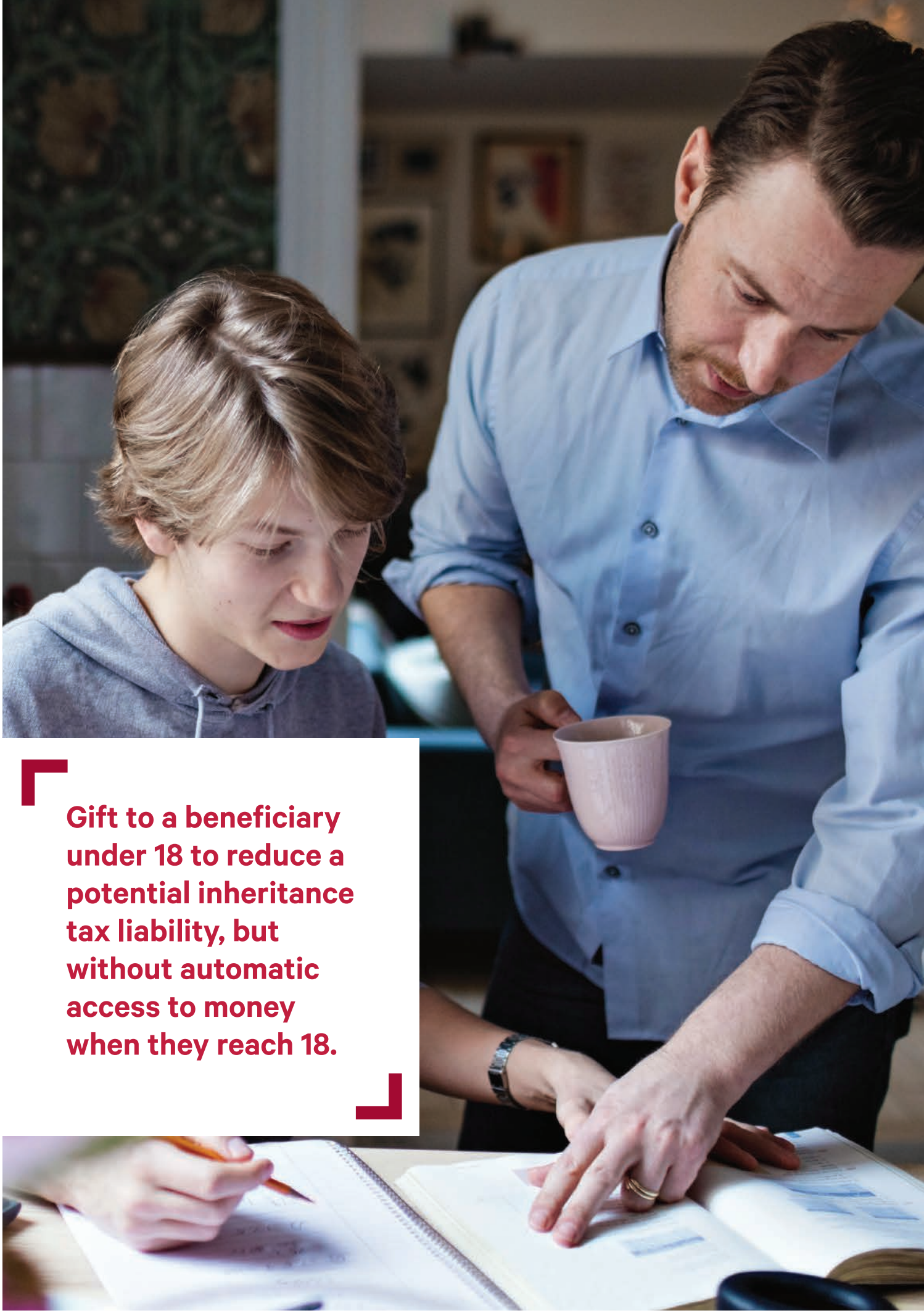
The DFM can step outside of the normal HMRC rules that would otherwise limit the types of assets that can be linked to offshore bonds, while still meeting these HMRC regulations for offshore bonds – as long as they manage the portfolio without influence from you or your financial adviser.

Fund switching

There may be times when the trustees' objectives or attitude to risk changes, or they want to review the underlying investment choice. It is possible to change the underlying investments at any time, although dealing charges will apply (please see the section 'What are the charges?').

The trustees can instruct us to switch from one fund to another at any time.

Access an almost unlimited range of investment options.



Gift to a beneficiary under 18 to reduce a potential inheritance tax liability, but without automatic access to money when they reach 18.

Questions and Answers

What are the charges?

We charge for managing your Account and the investments it holds, which will affect its value. Charges may increase, for example, if the cost to us of managing your Account increases. We review these charges every year and recommend that you/the trustees contact us or your financial adviser for a copy of the 'Controlled Access Account Key Information Document' (reference IOM01003) and the Charges and Fees document (IOM01353). Some or all of the following charges may apply:

Establishment charge

A charge that we deduct for setting up the Account based on the value of your premium. This can either be deducted as a one-off amount at the outset or deducted quarterly for the first 5 years of the Account.

Administration fee

An ongoing quarterly charge we deduct for administering the Account.

Fund management charges

The Manager of any underlying assets linked to your Account may apply initial charges and/or ongoing annual management charges to cover the costs and expenses of managing the assets. Where an initial charge applies, this will be deducted from your premium before it is invested. For ongoing annual management charges, you will not see these as deductions from the Account because they are already allowed for in the price of the underlying asset.

Transaction fees

Transaction fees apply to every individual purchase and every individual sale of any underlying investment linked to the Account. If you switch from one underlying investment to another, this results in two separate transaction fees – one for the sale and another for the subsequent purchase.

We will also pass on to the Account any safe custody fees or any other external stockbroker fees applicable based on your choice of underlying assets.

Financial Adviser charges

We can deduct a one-off amount from your initial payment and pay this to your financial adviser before it is invested in the Account. We are unable to facilitate any on-going financial adviser charge deductions, however we can set up ongoing charges to pay for fund advice.

Fund adviser fees

If the trustees decide to appoint a fund adviser then they may charge for their services. Fees can vary and the level will be agreed between the trustees and the fund adviser. The fee will then be deducted from the Account by unit cancellation each quarter, based on the value of units at the end of each quarter when the fee is due.

Discretionary fund manager fees

If the trustees decide to appoint a discretionary fund manager then they may charge for their services. Fees may vary and the level will be agreed between the trustees and the adviser. The fee may be deducted from the trading cash account on the Account each quarter, based on the value of units at the end of each quarter when the fee is due.

Segregated Portfolio Service charge

If the trustees choose to invest in our Segregated Portfolio Service, we deduct an ongoing quarterly administration charge based on the value of the Account.

We may make additional charges for providing non-standard services, such as requests for additional valuations (we provide these once per quarter without charge), or charging for certain types of bank payments when making withdrawals. Full details of all our charges and fees are shown in the relevant charges and fees document, which can be downloaded from our website: www.canadalife.co.uk or requested by calling +44 333 015 1382.

Questions and Answers

What happens if the life assured dies?

On the unfortunate event of the death of the life assured, the Account comes to an end and we pay a death benefit to the trustees which will be the value of the Account at the time of notification of death, plus £100, less any outstanding charges.

As the Controlled Access Account is subject to the bare trust, providing there is at least one trustee at the time of the death of the life assured, there would be no requirement to obtain UK or Isle of Man Grant of probate; the death benefit would be paid to the trustees without delay.

What about tax?

This guide assumes that you and the beneficiaries are UK resident and domiciled for taxation purposes. If you are in any doubt about your tax status you should consult your financial adviser.

Corporation tax

We pay no corporate taxes in the Isle of Man on the capital growth or income which accrue to any of the underlying assets linked to your Account.

Capital gains tax

Any investment gains made as a result of switching the underlying investments choices within the Account do not give rise to a UK capital gains tax liability.

When any of the policies that make up the Account mature, they are not subject to Capital Gains Tax but may be subject to income tax.

Income tax

UK resident Controlled Access Account beneficiaries are assessed under income tax when certain transactions occur. These transactions are known as chargeable events and if a chargeable event occurs, a chargeable gain calculation is made to establish if any income tax is payable. The main chargeable events are:

- On the maturity of each of the individual policies that make up the Account,
- If the Account comes to an end because the Life Assured dies and the death benefit becomes payable

If a chargeable gain arises it will be assessed to income tax on the beneficiaries at their highest marginal rate of income tax at that time. If the child beneficiary is a minor and if the donor is the parent, it would fall on the donor and the adult beneficiary. Top-slicing relief is available.

Is the 5% tax deferred allowance available?

No. The only benefits payable from the Account are each of the maturing policies and the death benefit.

Plan for a child's future whilst reducing your inheritance tax.

Questions and Answers

Inheritance tax

IHT will have an increasing impact on the estates of people throughout the UK. Everything you have worked hard for may be dramatically reduced unless appropriate IHT planning is put in place.

An individual is allowed to leave £325,000 plus (subject to conditions) £175,000 for their main residence to their heirs without the estate suffering IHT. These amounts are referred to as the nil rate band (NRB) and the residence nil rate band (RNRB) respectively. Married couples and registered civil partners are allowed to leave twice this amount between them and with appropriate planning, only an amount in excess of £1m should suffer IHT (this assumes that RNRB qualifying rules apply and that the net estate does not exceed £2 million).

IHT legislation allows individuals and couples to make gifts during their lifetimes to reduce the value of their estate on death. These lifetime gifts are known as potentially exempt transfers (PETs) or chargeable lifetime transfers (CLTs) and, providing that the donor survives seven years after making the gift, the amount gifted will not be liable to the 40% IHT charge.

In the case of the Controlled Access Account, the gift to the trustees of the bare trust is regarded as a potentially exempt transfer ('PET') for inheritance tax purposes. If the donor (the person making the gift) survives for seven years from the date of making the PET, it is fully removed from their estate and exempt from IHT.

If the donor dies within seven years of making the gift to the trust, it becomes a chargeable transfer and IHT may become payable. However, any IHT payable (assuming that the entire PET does not fall within the donor's IHT nil rate band) will be reduced by taper relief if the donor dies more than three years after the date of the chargeable transfer. Taper relief has the effect of reducing the rate of IHT payable from 40% to as little as 8%, depending when the donor dies within the seven-year period. (Please note that the RNRB cannot be used for lifetime gifts.)

The information regarding taxation is based on our understanding of UK legislation as at May February 2024, which may change in future. How tax affects you will depend on your individual circumstances.

Is there any policyholder protection in the Isle of Man?

Policyholders of Canada Life International policyholders are protected by the Isle of Man Life Assurance (Compensation of Policyholders) Regulations 1991 if the company becomes insolvent and unable to meet its liabilities to them.

In the event of our insolvency, policyholders would be able to claim up to 90% of our liability to them. This liability to policyholders would be administered by the Isle of Man Financial Services Authority ('FSA') who would levy contributions from all remaining participating insurers, and these contributions would be held in a Policyholders' Compensation Fund. As a result, if we ever need to pay a levy to the Isle of Man Policyholders' Protection Scheme, we reserve the right to deduct an amount of no more than 2% of the account value at the time. In the event that the Compensation Fund is insufficient to sustain all claims, the FSA could defer, reduce or extinguish any amounts of compensation.

Details of the Isle of Man Policyholders' Compensation Scheme is available through the FSA website: https://www.iomfsa.im/consumer-material/compensation-scheme-lifeassurance/

Next steps

This guide has been designed to give you information on the features of the Controlled Access Account. However, additional important information is also contained in the relevant Key Information document, Key Features document and your personal illustration.

If you have further questions, please speak to your financial adviser.

Getting in touch

If you have any questions regarding the Controlled Access Account we recommend that you contact your financial adviser in the first instance. Where this is not possible, you can contact us in the following ways:

By post

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Canada Life House
Isle of Man Business Park
Douglas
Isle of Man
IM2 2QJ

Call us

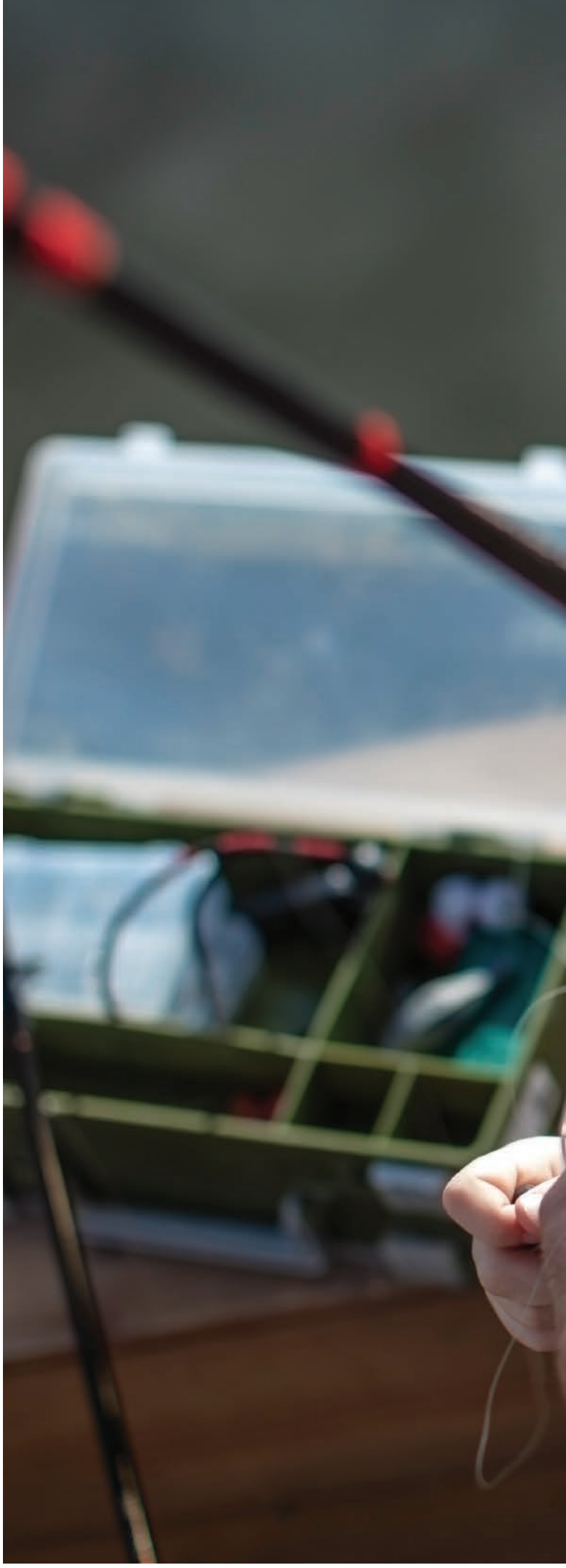
+44 (0) 333 015 1382

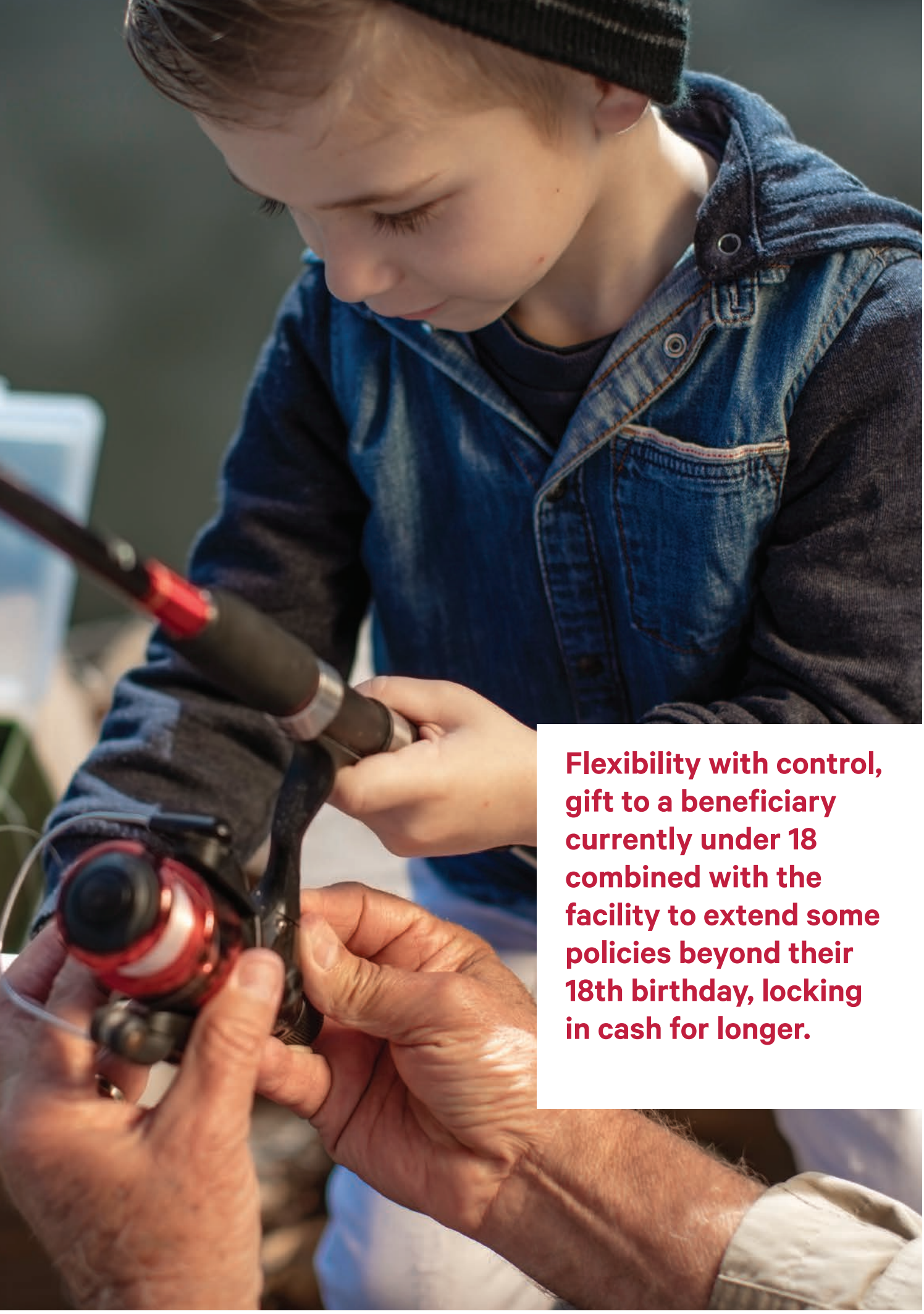
By email

adviser.support@canadalifeint.com

Online

www.canadalifeinternational.co.uk





Flexibility with control, gift to a beneficiary currently under 18 combined with the facility to extend some policies beyond their 18th birthday, locking in cash for longer.

6965 – 0224R/B - Promotion approved 10.04.2024