

CanTrust Wealth Preservation Account

Draft paragraphs for a Suitability Report

These sample paragraphs are for your information and consideration only. It is the responsibility of advisers to make sure that any letters sent to clients meet the requirements of the regulatory authority and that any recommendations made are appropriate for the client. No liability is accepted by Canada Life International Limited in connection with the use of any of these suggestions.

Introduction

I/We have explained and provided you with copies of my initial disclosure document and [Terms of Business] which we discussed and both signed.

Following our latest meeting on [date], I/we recommend you invest into the Canada Life International Limited (CLI) Wealth Preservation Account (WPA). The WPA is a single premium life assurance contract which is commonly referred to as an “investment bond”, held under a bespoke trust arrangement.

The purpose of the WPA is to provide a reduction in your potential inheritance tax (IHT) liability, provided that you live for seven years, and potential tax-efficient capital growth over the medium to long term with access to capital payments.

You invest in a series of policies and gift them to a bare trust and discretionary settlement arrangement. You are automatically one of the trustees of the bare trust and there should be at least one other trustee. There should be at least two trustees of the discretionary settlement at all times. I/We will discuss the matter of trustees further should you accept my recommendations.

Under the terms of the trust, if the initial trust trustees allow a policy to mature, then the maturity proceeds will be distributed to you. In this way you regain access to some capital should your circumstances change.

The WPA offers the best mix of tax efficiency and flexibility to match your personal circumstances, which may change in the future.

I/We believe it is suitable for you, in light of:

- your personal and financial circumstances;
- your needs and priorities, as identified through our fact finding process; and
- your attitude to risk both in general terms and to the specific area of need and recommendation.

The report indicates that you have [a capital sum of £amount available] [shares valued at £amount which you would like to sell] [unit trusts and OEICs valued at £amount which you would like to transfer to CLI] for investment over the medium to long term, to provide the following:

- a combination of an optional yearly payment and potential capital growth;
- deferral of income tax liabilities;
- a choice of investment options from an open architecture solution;
- a choice of investment managers for those funds;
- regular yearly maturities from the outset of the WPA; and
- efficient administration and minimum paperwork.

Estate planning

You are using a discretionary trust because you want to make a gift of your investment, but want to keep your options open as to who should ultimately benefit. The reason for using this trust is because you are concerned about your potential IHT bill.

Your WPA will be assigned to a bare trust initially, in order to transfer the investment from your name into those of your chosen trustees (including yourself).

Please note that because the investment will be transferred into the names of trustees, CLI will require the signatures of all the initial trust trustees to authorise any future dealings with the WPA.

Various rights under the WPA will then be settled in a discretionary trust, which is a 'chargeable lifetime transfer' for IHT purposes. It is important that you understand the ramifications of this.

There is an initial charge to IHT when property is settled in discretionary trusts, if the amount transferred (together with any other chargeable lifetime transfers in the previous seven years) exceeds the current nil rate threshold of £325,000. As this does not apply in your case, there is no initial charge. [Note: If this is not the case, please contact your Canada Life Account Manager for the appropriate wording].

Where the gift to trust exceeds £260,000, the trustees are obliged to report the trust to HMRC using form IHT100 (plus any related forms) in all cases, even though there may be no immediate IHT charge.

A periodic charge may also arise on every tenth anniversary of the start of the trust, if the relevant value at that time is greater than the available nil rate band. The available nil rate band used is the nil rate band on the ten-year anniversary, reduced by any other chargeable lifetime transfers in the seven years before the start of the trust and any distributions or appointments to beneficiaries in the ten years before the ten-yearly anniversary.

The charge would be at the rate of six percent (currently) on the value over and above the available NRB.

Finally, there may be exit charges when benefits are paid or appointed to one or more of the beneficiaries. These arise if IHT was paid at outset or at a ten-year anniversary.

However, if a periodic charge is payable at a ten-yearly anniversary, any payments or appointments, made to the beneficiaries in the following ten years will be subject to an exit charge. The rate of tax payable is at the same effective rate of tax as the periodic charge and is reduced proportionally according to the time elapsed since the ten-yearly anniversary. If the trustees took a payment one year after the ten-yearly anniversary for example, the charge would be reduced to 4/40ths; after two years it is 8/40ths and so on.

I/We appreciate that IHT is complex, but as a general rule if your investment at outset and the value of the WPA every ten years is less than the NRB at the appropriate time, no IHT charges will be payable.

The NRB is £325,000 for the current tax year and although it has been linked to the rate of inflation in the past it is currently frozen until 2025/26.

Please note that any other chargeable lifetime transfers you made in the seven years before taking out the WPA count towards the IHT calculations. In your case, **you do not appear to have made any of these./you have made previous gifts but these will only be taken into account if you do not live for seven years after the date of the gifts./you have made previous chargeable lifetime transfers of £xxx,xxx.**

Disclosure of Tax Avoidance Schemes regulations (DOTAS), Pre-Owned Asset Tax (POAT), and Gift with Reservation (GWR)

HMRC have confirmed that the WPA is not subject to DOTAS, or GWR, and specifically refers to arrangements which “put the policies into bare trust for the settlor and then assign the equitable rights under the policies to a trust which sets out the respective rights of the settlor and beneficiaries. <https://www.gov.uk/hmrc-internal-manuals/inheritance-tax-manual/ihtm20562>

HMRC have also confirmed that the settlor’s retained rights do not give rise to a charge under the POAT legislation: <https://www.gov.uk/hmrc-internal-manuals/inheritance-tax-manual/ihtm44112>

Fund choice and selection

When making an investment, having a choice which covers the wide range of asset classes and fund types available in the market today is essential.

The WPA allows you to invest in almost any investment fund from around the world. Acceptable investments can include:

- Funds from the UK; unit trusts and open ended investment companies (OEICs)
- Investment trusts
- Cash holdings
- Hedge funds
- Other funds from recognised financial jurisdictions such as Bahamas, Channel Islands, Bermuda, Switzerland, Cayman Islands, Hong Kong and so on.

There are some restrictions as to what can be held within the investment and CLI has a dedicated Investment Governance Team who can assist in determining whether any proposed fund is acceptable.

Segregated Portfolio Service

There is also the opportunity to appoint a Segregated Portfolio Service manager. They will have access to a wider choice of investment options but you will have to be willing to give up all investment decision making to them. **(As you do not want to give up all investment decision making to your Discretionary Fund Manager, this service is not suitable for you).**

Full details of the charges appropriate to the funds chosen are shown on your personal illustration.

I recommend the following investments for this Account:

- **[insert chosen investments]**

Full details of the applicable investment charges are shown on your personal illustration. The accompanying on-going charges and fees document breaks down dealing and administration fees.

Past performance is not a guide for the future and the value of units can fall as well as rise. Currency fluctuations can also affect performance.

Timescale

The WPA is a single payment endowment assurance contract, which is sub-divided into a series of policies with different terms. Each policy has a maturity date and will remain in force until that maturity date, or any extended maturity date as requested by the trustees, or the death of the last surviving life assured.

Tax advantages

Because CLI is based in the Isle of Man, it pays no local taxes on the capital growth or income which accrue to the funds. However, withholding tax may be charged on certain investments, and this cannot be reclaimed.

This means that if there are any chargeable gains from the WPA during your lifetime, you will have an income tax liability at your highest rate of tax. You may pay higher rate or additional rate tax if it is applicable to your personal circumstances.

This information regarding taxation is based on our understanding of current legislation, which may be altered and depends on your individual financial circumstances.

Charges

As discussed with your professional adviser/me, your WPA will use the Option 1/Option 2 charging structure. [\[Delete as appropriate\]](#)

Option 1 – At outset, CLI will take a charge for setting-up the WPA. This option is best suited to your financial needs because there are no ongoing quarterly establishment charges.

Option 2 – An establishment charge is deducted quarterly from the WPA over the first five years.

With Option 2, if the trustees surrendered the WPA in the first five years, the value of the units (at the next valuation date) less any outstanding fees and establishment charges will be payable. This option is best suited to your financial needs as it allows you to spread the initial costs over a five-year period and offers a full 100% allocation rate.

Risk warnings

The WPA is intended as a medium to long-term investment of at least ten years.

It is important to note that if the investment growth is less than the amount being taken, capital growth will be used in making these payments which will reduce the value of your WPA.

Please be aware that if you cancel your WPA, you may get back less than you paid in. Further information about your right to change your mind can be found in the Key Information Document.

[\[If you are selling shares or transferring unit trusts and OEICs to CLI, this will be a disposal for capital gains tax purposes. Depending on your personal circumstances, this may mean that you will pay tax on that transaction.\]](#)

Why Canada Life International Limited

CLI was established in 1987 and is based in the Isle of Man, a jurisdiction recognised for its stable government, strong regulatory controls and policyholder protection measures. CLI continues to receive strong ratings from specialist agencies in relation to financial strength, unit-linked business and commitment to service.

Since formation, CLI works in close partnership with some of the world's largest investment specialists and has continually developed expertise in providing wealth management solutions for UK and international clients alike. The combined assets under administration for CLI and its subsidiary, CLI Institutional Limited, are £18.89 bn as at 31 December 2020.

In 1987, CLI was a founder member of the Association of International Life Offices (AILO) – an association of international companies supplying insurance and investment services in many areas of the world.

CLI is a subsidiary of the Great-West Life Assurance Company which is owned by Great-West Lifeco Inc. The Great-West Lifeco Inc Group of companies serves the financial security needs of individuals and organisations in Canada, the United States and Europe, providing retirement savings and income plans, as well as comprehensive protection contracts for individuals and families. With assets under administration of £1,138 billion (as at 30 December 2020) Great-West Lifeco Inc has been given A+ financial strength ratings from Fitch Ratings (as at 9 September 2020) and AA financial strength ratings from Standard & Poor (as at 30 March 2020).

AKG 5-star rating

AKG is an actuarial consultancy specialising in the provision of information and market assistance to the financial services industry. Each year, AKG representatives visit the head offices of a number of investment companies. From an international investment perspective, every major insurer that operates in an international jurisdiction takes part in the assessment. The AKG ratings, whilst considering the financial strength of the parent group, focuses on assisting intermediaries on evaluating the strength, solvency, business processes and practices of companies such as Canada Life International Limited.

The 2020 report reaffirmed that CLI is a key player in the international investment market and remains amongst the leading international providers. Furthermore, CLI was the only international insurer to have maintained an overall 5-star Yearly Review rating for the eighteenth consecutive year.

Quality of Service

Should you not receive a first rate service from CLI then you have the peace of mind of being protected by its investment and estate planning service charter. This provides you with monetary compensation should it not deliver on its promised response and processing times detailed within the service charter.

Fees

As discussed, for reviewing and analysing your personal and financial objectives and arranging this investment we will be charging a fee of £xxxx. As part of the application form, you have asked CLI to deduct this amount from the payment you have made and they will fulfil this request and arrange for £xxxx to be paid to us on your behalf.

In addition to this, the trustees have agreed for fees of £xxx/x% to be paid each year to cover the ongoing advice we will provide.

Full details of the charges appropriate to the funds you have chosen are shown on your personal illustration.

Closing

You have already received a Key Information Document and personal illustration for the proposed WPA. These contain full details of the features, benefits, charges and any risks.

I/We consider that the WPA is the most suitable product for your financial needs and that Canada Life International Limited is the most appropriate product provider.

It is important to let us know of any changes to your personal circumstances. In order that your report can be revised and any circumstances identified.

The information regarding taxation is based on our understanding of current legislation, which may be altered and depends on the individual financial circumstances of the investor.

Please sign and return the attached copy of this letter, in the prepaid envelope enclosed, to confirm that you have read the letter and accept the contents thereof.

Thank you for your application.



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