

We know what it means to your clients

Wealth Protection





Zurich has a comprehensive suite of wealth protection solutions, with flexible product and underwriting options that provide your clients and their beneficiaries with certainty, liquidity and peace of mind.

“With the Inheritance Tax (IHT) nil-rate band frozen until at least 2031, and legislative reforms bringing more assets into scope of IHT and closing traditional methods of mitigating it, I believe wealth protection using life insurance is becoming an increasingly popular estate planning tool”

Andy Roberts, Head of Specialist Propositions



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Background to IHT

Broadly, IHT is payable on the taxable value of a person's estate above the tax-free allowance known as the 'nil-rate band' (NRB). The standard rate of IHT is 40%.

Estate allowances

The NRB is the threshold up to which a person's estate will be free of IHT. This has been frozen at £325,000 since 2009, and will remain so until at least 2031, as will the Residence NRB - an additional allowance of £175,000 if the family home is left to direct/lineal descendants¹.

With allowances frozen but asset values (e.g. house prices and stock markets) continuing to rise, more people are inevitably being dragged into the IHT net. Since 2009 IHT receipts have more than tripled from £2.7bn to £8.3bn in 2024/25¹ and are forecast to reach £14.7bn by 2031².



¹IHT receipts in the UK from 2010/11 to 2024/25, statista, 2025

²OBR, Economic and fiscal outlook, March 2025

Lifetime gift exemptions

IHT can also apply to gifts or 'transfers of value' made during a person's lifetime, with certain exemptions:

- **Spouses/civil partners:** unlimited (if both are 'Long-Term Resident')
- **Annual exemption:** £3,000 per year
- **Small gift allowance:** £250 per year
- **Wedding gifts:**
 - £5,000 for a child
 - £2,500 for a grandchild
 - £1,000 for anyone else
- **'Normal Expenditure out of Income':** unlimited

The Normal Expenditure out of Income (NEOI) exemption relates to payments that:

- Are paid out of the donor's net income
- Form part of their normal spending pattern, and
- Don't compromise their standard of living

This exemption is key with respect to wealth protection, as it will typically include life insurance premiums provided they meet that criteria (e.g. aren't paid from encashment of investments).

Key IHT reforms

Three reforms were announced in the Autumn Budget 2024 which are significantly changing the landscape for IHT planning and are expected to account for around 14%¹ of IHT receipts by 2031.

Scrapping of the domicile regime

The former domicile-based tax regime was replaced with a new residency-based regime on 6th April 2025.

A former 'non-dom' who has been UK resident for at least 10 of the previous 20 tax years is now classed as 'Long-Term Resident' (LTR), and is therefore liable to IHT on their worldwide assets, not just their UK assets as was previously the case.

LTRs who permanently leave the UK will carry a 'tail' of IHT liability with them, the length of which will depend on how many of the previous tax years they were UK resident:

No. years UK tax resident	Length of IHT tail
10-13	3 years
14	4 years
15	5 years
16	6 years
17	7 years
18	8 years
19	9 years

¹OBR, Economic and fiscal outlook, March 2025

Agricultural Relief (AR) & Business Relief (BR)

Prior to 6th April 2026 100% IHT relief was afforded on transfers (either following a person's death or during their lifetime) of all qualifying agricultural and business assets after they had been held for a certain period of time:

	Qualifying assets	Qualifying period
Agricultural Relief	The value of land occupied for purpose of agriculture, plus buildings/farmhouses (but not farm equipment, machinery, derelict buildings, harvested crops or livestock)	2 years if the land was occupied by the owner, or 7 years if it was occupied by someone else
Business Relief	A business or an interest in a business, shares in unquoted companies and shares not listed on a recognised stock exchange (e.g. Alternative Investment Market (AIM))	2 years

However, since 6th April 2006 only the first £2.5m of combined agricultural/business assets receives 100% relief, with 50% relief thereafter. Furthermore, all quoted shares not listed on a recognised stock exchange (e.g. AIM) only receive 50% relief, regardless of value.

In addition to business and farm owners this will impact BR qualifying investments - popular vehicles for older people wanting to get funds out of their estate as quickly as possible.

The £2.5m allowance is per person, and any unused allowance is transferrable between spouses/civil partners.

Key IHT reforms

Inherited pensions & death benefits

Currently most unused pension funds can be inherited free of IHT, but from 6th April 2027 they will be included in the value of an estate and therefore liable to IHT.

This includes most pension death benefits, though not 'death-in-service' benefits or dependents pensions.

The government estimated that 49,000 estates¹ will immediately have either a new or increased IHT liability as a result of these changes, but many younger people who are still growing their pension can also expect to be drawn into the net in future.

Following significant public criticism regarding the impracticality of being able to report on let alone pay IHT on inherited pensions, certain provisions were announced in the Autumn 2025 budget, which are explained further in the next section.

¹[Inheritance tax - unused pension funds and death benefits, GOV UK, 2025](#)



IHT planning with Protection

Life insurance doesn't directly reduce a person's IHT liability (though the premiums will if they are exempt as NEOI), so what is the need for it with respect to IHT planning?

Why use Life Insurance?

Liquidity

If an IHT bill is not paid by the end of the sixth month after the person's death, daily interest will be charged (at the Bank of England's Base Rate + 4%).

Even where extensions are granted (for example to pay the bill in 10 annual instalments) interest will still be charged.

The Personal Representatives (PR) of a person's estate (the Executor if the deceased died with a will, or the Administrator if they died intestate) are responsible for reporting and paying IHT, and probate will not be granted until any IHT due is paid.

And this is the catch-22 situation - most of a deceased's assets can't be accessed by the PRs to pay the IHT bill until probate is granted...but probate won't be granted until the IHT is paid.

If they don't have the means to pay the IHT the PRs might need to borrow money, for example by way of a probate bridging loan which can be complex and expensive.

Life insurance held in trust (which it must always be when used for IHT purposes as otherwise it will merely exacerbate an IHT liability) will expedite the funds for the PRs to pay the IHT bill without needing to wait for probate to be granted.

Certainty

There are exceptions to the rules that may be granted in some circumstances, for example:

- HMRC may agree to allow IHT on particularly illiquid assets such as property to be paid in 10 annual (interest-bearing) instalments
- Some liquid assets (e.g. cash held in a bank account) may be accessible to pay IHT prior to probate being granted
- From April 2027 PRs may be able to direct pension scheme administrators (PSAs) to withhold 50% of a pension for up to 15 months

The key word in all these instances is 'may'; there is no certainty and interest will continue to roll-up if the IHT bill isn't paid within 6 months regardless.

Life insurance in trust provides the funds for the PRs to be able to quickly pay the IHT, giving them certainty and peace of mind.

Residual estate liability

The 'residual estate' is essentially the net value of a person's taxable assets after everything else has been accounted for. The IHT liability is typically 40% of the residual estate, and life insurance can be put in place to provide liquidity and certainty.

As explained in the previous section, from April 2026 the residual estate will include 50% of the value of business and agricultural assets not fully relievable from IHT, and from April 2027 also the full value of unused pension pots and taxable death benefits.

The appropriate type of life cover to put in place to cover a residual estate liability will depend on the client's situation and financial planning objectives:

Product	Suitability	Duration
Whole of Life (WOL)	Clients who aren't willing or able to gift or invest away their assets to mitigate their IHT liability, so the liability is expected to remain until death, at whatever age that may occur.	Permanent
Level Term	Clients who intend to gift and/or invest away their IHT liability by a certain age. The term of the policy will be the date/age by which the IHT liability is expected to be mitigated.	Temporary
Convertible Term	Clients who need the flexibility to convert a Term policy into WOL, e.g. high earners who need mortgage/family cover now but expect to need WOL in future to cover an IHT liability.	Hybrid

There is no IHT liability on transfers of assets between spouses/civil partners, so joint life cover payable on second death (JLSD) is typically required, regardless of the type of product.

Further detail on these products is provided in the Products & underwriting section.

Lifetime gift liability

Transfers of value, whether to another person or to a trust, may give rise to IHT if they are not otherwise exempt (as explained earlier). For gifts of jointly owned assets a share (usually 50%) is attributed to each donor, and they are treated as separate gifts.

Taper relief

If the donor of a gift dies within 3 years IHT will be payable at 40%. However, if they die between years 3-7 taper relief will apply, reducing the rate of IHT payable (not the value of the gift):

Years	Taper relief	Effective IHT rate
0-3	0%	40%
3-4	20%	32%
4-5	40%	24%
5-6	60%	16%
6-7	80%	8%
7+	100%	0%

Taper relief does not apply to gifts that fall within the donor's available NRB, as there is no tax liability in the first place (though the gift will reduce their available NRB).

Gift Inter Vivos (GIV)

A GIV policy is one which mirrors the IHT liability on a gift, typically structured as a series of Level Term policies, with terms of 3, 4, 5, 6 & 7 years, each for 20% of the initial IHT liability. The total sum assured therefore reduces by 20% between years 3-7.

For example, your client has made a gift of £500,000 to her grandchildren. Assuming she hasn't made any other gifts in the last 7 years the gift is £175,000 over her NRB, which would give rise to an initial IHT liability of £70,000, i.e. £175,000 x 40%.

To cover the IHT liability over the next 7 years she could take out a GIV policy as follows:

Term	Sum assured	Total Cover
3	£14,000	£70,000
4	£14,000	£56,000
5	£14,000	£42,000
6	£14,000	£28,000
7	£14,000	£14,000

After year 3 one of the policies will fall away each year, and the total cover will fall in line with the reducing IHT liability. The total premium payable will also reduce as a result.

You can use our [Gift Inter Vivos calculator](#) to assist with the calculations and calculate the total cost of cover.

GIV carve-out option

If a client takes out a JLSD term policy with us to cover their residual IHT liability and then later makes a gift(s), our GIV carve-out option will allow them to convert some of the JLSD cover into a new GIV policy/ies without the need for further underwriting. The JLSD cover will reduce by the total sum assured of the new GIV policy.

Investment IHT liability

Business Relief (BR) isn't just available to small business owners - investors in qualifying businesses can benefit too; but of course, investing directly into a small, unquoted business is not feasible for most individual investors.

The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) are government initiatives which encourage investment into small businesses to aid their growth by affording certain tax benefits to investors.

Some investment providers also offer access to BR qualifying funds, which allow investors to benefit from their specialist research/knowledge and cost-effectively diversify their risk across a portfolio of BR qualifying businesses.

The first £2.5m (per person) invested into these schemes is free of IHT after 2 years (assuming the investor doesn't have any other business or agricultural assets on which they would claim relief), and as such they are popular estate planning vehicles for those wanting to get capital outside their estate for IHT purposes as quickly as possible.

Some providers also offer AIM funds, which only attract 50% IHT relief (after 2 years).

Covering the IHT liability

The full value of these investments will be liable to IHT for 2 years, so a 2-year Level Term policy should therefore be put in place to cover the IHT liability, as always written into trust to ensure the proceeds of the policy will be outside of the investor's estate.

Assuming the investor's estate is worth more than the NRB (as will usually be the case since these schemes are most suitable for high-net worth investors), the sum assured required would simply be 40% of the value of the investment. Joint investments can be covered on a JLSD basis.

Some of the IHT schemes include bundled life cover, but the cost of this should be assessed against the cost of stand-alone cover such as that provided by Zurich, as in many cases stand-alone cover could be more cost-effective.

The balance of any BR qualifying investments over £2.5m, plus any investments into AIM portfolios, will also need longer-term cover since they will only attract 50% IHT relief, unless this has already been accounted with cover on the residual estate.

Products and underwriting

There are three main products which are used for wealth protection:

Feature	Level Term	Convertible Term	Whole of Life
Minimum age at entry	18	18	18
Maximum age at entry	83	82	83
Maximum age at expiry	89	83	-
Maximum age at conversion	-	83	-
Single Life (SL)	✓	✓	✓
Joint Life First Death (JLFD)	✓	✓	✓
Joint Life Second Death (JLSD)	✓	x	✓
IHT increase options	✓	✓	✓
Gift Inter Vivos option	✓	x	x
Joint Life separation option	✓	✓	x
Monthly or annual premiums	✓	✓	✓
Indexation options	RPI, 3% or 5%	RPI, 3% or 5%	RPI, 3% or 5%
Online discretionary trust facility	✓	✓	✓
IHT Free Cover	£1.5m	£1.5m	£1.5m

Level Term

A Level Term policy can be written to a set age (maximum 90 next birthday) or a fixed number of years (maximum 50) as required. It is available on a single life (SL), joint life first death (JLFD) or joint life second death (JLSD) basis.

It is a simple yet versatile product - in addition to covering a long-term liability on the residual estate it can also be used to cover a very short-term liability such as the 2-year period on a BR qualifying investment, and to construct a Gift Inter Vivos policy.

Convertible Term

One of the benefits of choosing Zurich is that we offer Convertible Term, and it's actually an option available with our Level Term product rather than a separate product, that allows it to be converted to WOL by a certain age with no further

Level Term basis	Conversion to WOL	Max conversion age
Single Life	Single Life	84
JL First Death	JL First Death	70
JL First Death	JL Second Death	84

The reason it isn't available on JLSD basis is because the cost of the option to allow conversion to WOL would be so high that it wouldn't provide good value in comparison to WOL.

It provides **future guaranteed insurability** for those who don't need WOL now but might in future - for example high earners who need mortgage/family cover now, but once the mortgage is paid off and the children grown up will likely need WOL to cover an IHT liability.

The WOL premium will be based on the prevailing rates/current age at the time of conversion, and the client must be UK resident at the time of conversion. The option can be removed (but not re-added) at a later date if desired.

Whole of Life (WOL)

A WOL policy is guaranteed to pay out on a valid claim at whatever age death occurs, and for that reason is the most expensive product, but is also the most suitable when an IHT liability is expected to be permanent.

The value of a WOL policy

Let's consider the value of a WOL policy in investment terms, by looking at the 'return' it typically provides - i.e. the amount paid out compared to the premiums paid in.

The longer a client lives the more premiums they will pay and the lower the return will be, but typically they would have to live to an unrealistic age before they would have paid more in premiums than will be paid out to their beneficiaries.

For example, on 1st December 2025, for an annual premium of £6,000 a 70 year old non-smoker accepted at standard rates would have secured a sum assured of £185,043. If they died aged 87 the return would be 81.41%:

Total premiums paid at death	£102,000
Value returned (sum assured)	£185,043
Gain/loss	£83,043
Return (Gain/Loss ÷ Contributions x 100)	81.41%

They would have to live until age 101 before the return would be zero, i.e. when the premiums paid exceeded the sum assured.

That same £6,000 per annum saved into an investment achieving 4% annual compound growth would only have returned 44.97% in that same timeframe. And if written into trust the proceeds from a WOL policy will be free of IHT, unlike most investments.

You can use our [Whole of Life calculator](#) to demonstrate the value of WOL by modelling the return it will provide at any given assumed age of death.

Pension planning with WOL

Currently most unused pension funds can be inherited free of IHT and therefore conventional wisdom for individuals who don't need to take an income from their pension has been to leave them alone for estate planning purposes.

However, from April 2027 this will no longer be the case. As explained earlier, the PRs may be able to direct the PSAs to withhold 50% of a pension for up to 15 months to pay the IHT arising directly within it. But consider the potential issues with that:

- It relies on the PSAs having the appropriate processes in place in time to facilitate payment of the IHT, and being able to do so within 6 months
- The pension beneficiary/ies will be deprived of 50% of the pension benefits that they would otherwise have received
- How liquid are the assets in the pension, can they be sold within 6 months? For example, many SIPP's hold commercial property which can take years to sell

Withheld pension benefits can only be used to pay the IHT arising within itself, not that arising from the rest of the estate, and if the IHT isn't paid within 6 months interest will continue to roll-up. So is there a better way to use that surplus pension?

Instead a client could take out a WOL policy, funded by income taken from the pension (e.g. an annuity or regular drawdowns), and in doing so not only cover their current IHT liability, but also reduce it by the value of premiums paid (which should be exempt transfers as NEOI) leaving the excess as a tax-efficient legacy gift for their family.

Rysaffe planning

With respect to protection, the Rysaffe principle involves splitting a WOL policy into multiple policies and writing them into separate discretionary trusts created on different days, in order to benefit from multiple NRBs and minimise the risk of periodic and exit charges.

This topic is covered in more detail in our [technical guide](#). You can use our [Rysaffe planning calculator](#) to determine the optimal number of policies to split a WOL policy into.



Underwriting considerations

Long-Term Residents leaving the UK

As explained earlier, LTRs who permanently leave the UK will carry a 'tail' of IHT liability, so they will need a Level Term policy to match the length of that tail. We can only offer cover to UK residents, so it is essential they apply before they leave the UK.

Provided the client meets our definition of UK resident at the time they take out the policy, we can consider applicants who intend to move permanently abroad to countries within the EEA, plus Switzerland, North America, Australia and New Zealand.

Joint cover for an uninsurable life

Where JLSD cover is required, if one life is declined/uninsurable, or presents a significantly increased risk that would result in a premium higher than that for the healthier life on a single life basis, we will offer JLSD priced solely on the healthier life.

This ensures your clients receive a fair price, and the policy will still pay out on the 2nd death, ensuring the proceeds are paid at the right time, i.e. when the IHT liability arises.

Our system will automatically adjust the premium in line with the single life rate; there is no manual intervention needed so you can submit the application as normal.

Joint cover for significant age gaps

Where Term cover is required for a joint IHT liability then usually JLSD would be the appropriate basis. However, JLSD Term is written to the age of the older life, and therefore where there is a large age gap between the two lives this may not be desirable.

For example, a JLSD Term policy written to age 90 for lives aged 60 and 74 would have a term of 16 years, and therefore the younger life would only be covered to age 76.

Should it be preferable, where there is an age gap of at least 10 years we can consider allowing two single life policies, each for 50% of the joint IHT liability, on the proviso that they are written into suitable trusts that ensure the spouse/civil partner is excluded as a potential beneficiary, and the claim proceeds will be held in the trust until the second life dies.

The clients would need to be aware that if the policies were held in a discretionary trust, then following payment of the claim proceeds upon the first death there may be a periodic charge payable if the survivor lives beyond the 10-year anniversary of the trust, and therefore also an exit charge when the proceeds were eventually distributed.

High-net worth cases

Further information about underwriting considerations for high value cases is available in our High-net worth brochure.

Contact us

For more information about our Wealth Protection solutions please reach out to your usual Zurich contact.

Further information and technical resources are also available on the Wealth Protection hub on our website.
<https://www.zurichintermediary.co.uk/wealth-protection-hub>



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