Pension Death Benefits

Post 2015 flexible death benefits pre and post age 75

Pre 75

- Options – lump sum, dependants/successors drawdown, annuity
- Income and capital received by beneficiaries – no income or capital gain tax
- No inheritance Tax – the death benefits must be paid out within 2 years of the members death. Also where the member is in poor health and they transferred their benefits within 2 years of their death, there may be a liability to IHT
- Potential lifetime allowance tax charge

Post 75

- As above options
- Income Tax is paid by the beneficiary on receipt of lump sums or income
- No inheritance Tax
- No Lifetime allowance tax charge/assessment

Dependants drawdown benefits

- Can retain tax advantages of pension wrapper
- Not included in own pension lifetime allowance
- Can nominate own further beneficiaries/ successors drawdown

Complex family situations

- Spousal bypass trust
- Pre 75 no tax on passing into the trust
- Post 75 – 45% special LSDB tax charge – reclaimed by individual claiming income
- All standard disc trust regime – periodic charges, exit charges
- Less to invest initially, limiting growth
- Ability to control who benefits

Old policies

- Some old Retirement Annuity contracts (80s) have not benefited from the new rules – proceeds pass to estate and potentially subject to IHT
- Even some newer policies pre 2015 have no option for dependants/successors drawdown

Nomination of beneficiary vital

- If name is not on the expression of wish – no option for Trustees but to pay lump sum
- Crucial to have children named – nominal share – 1%
- Kept up to date

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A pension is a long term investment. The fund value may fluctuate and can go down. Any eventual income may depend on the size of fund when accessed, interest rates and legislation.

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