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Pension Death Benefits

What happens to your pension when you die?

Before the changes to pension rules in April 2015, only a dependant of the pension plan holder could receive a drawdown pension on the plan holder's death.

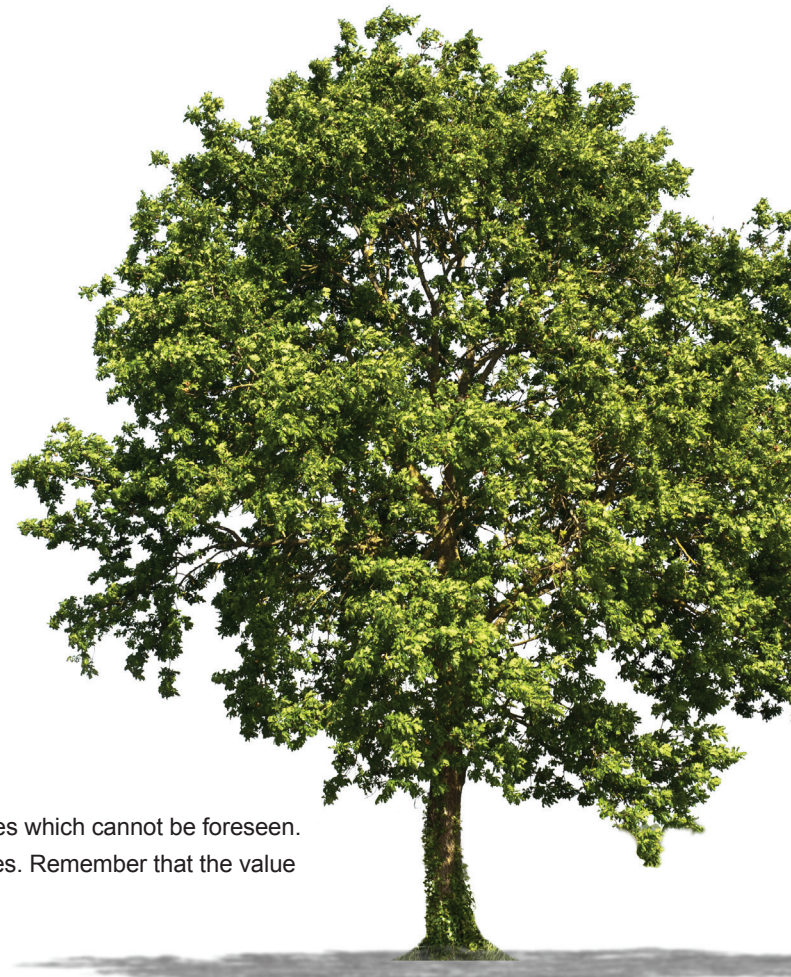
Since April 2015 however, a nominee(s) can also now receive a drawdown pension called **Nominee Flexi-Access Drawdown**. What's more, on the nominee's death, a successor(s) can take a drawdown pension called **Successor Flexi-Access Drawdown**.

The problem is, that many existing pension plans are not able to offer Nominee and Successor Flexi-Access Drawdown, which means that on the pension policy holder's death, the pension fund value is paid out to the nominees as a cash lump sum and treated as part of their estate. This creates two potentially avoidable issues:

- Whilst held as cash the money is not in a tax-advantaged environment which means if the nominee or successor wants to invest the money, tax might have to be paid on income or growth or both.
- On the nominee's death, the amount could be subject to Inheritance Tax (IHT) when passed onto their beneficiaries.

The benefits of Nominee and Successor Flexi-Access Drawdown

- You can pass wealth down through family generations in a pension wrapper and they won't be subject to IHT. Otherwise known as the 'family pension tree'.
- The monies will be retained in a tax-advantaged environment until they are needed by the nominee or successor. Or they can be passed down to the next generation on the nominee or successor's death and they won't be subject to IHT
- They provide a flexible income to the nominee or successor as and when they need it. What's more, if the pension policy holder dies before they reached age 75, the income payments are made tax free.



HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

There's no guarantee that you'll be any better off by transferring, and should consider any relevant benefits, guarantees and penalties. Remember that the value of your pension can go down as well as up and you may get back less than has been paid in.

The pension family tree

Who might be in your pension family tree?

Husband dies aged 76 with £500,000 in his pension fund.

£500,000 passes to wife free of tax

Wife inherits a Nominee Flexi-Access Drawdown. Any withdrawals are taxable as husband died over aged 75. Wife leaves £450,000 when she dies aged 74.

£225,000 passes to each child free of tax

Two children inherit half each via Successor Flexi-Access Drawdown. Withdrawals are tax free as mother died under aged 75. Both children die in their 60's and have two children of their own. Each residual pension fund passes tax free to the four grandchildren.

£112,500 passes to each grandchild free of tax

Grandchildren inherit a Successor Access Drawdown similar to their parents. Withdrawals are tax free.

The tale of two families

Mr and Mrs Brown

Mr and Mrs Brown have two adult children, John and Julie. Mr Brown has a pension plan with ABC Pensions Ltd with a value of £500,000.

ABC Pensions Ltd told Mr Brown that when he dies, his pension plan cannot go into Nominee and Successor Flexi-Access Drawdown. Instead, the remaining fund value will be paid as a lump sum to his beneficiaries, in line with his Expression of Wish form.

As Mr Brown's financial advisers, we met with him and his family to discuss the consequences of this.

After careful consideration, Mr Brown decided to move his pension plan to an account offering Nominee and Successor Flexi-Access Drawdown options. The annual cost was an extra 1 per cent, meaning his pension fund would be slightly lower. However, Mr Brown said he was happy to pay the higher charge because it gave him peace of mind that when he died, any remaining pension fund would pass to his beneficiaries in a more tax-efficient way.

Unfortunately Mr Brown died at age 62. At the time his pension plan was worth £600,000 which passed to his wife via Nominee Flexi-Access Drawdown, in line with his Expression of Wish form

Mrs Brown can access the pension savings as and when she chooses and there was no tax payable because Mr Brown had died under age 75.

Mrs Brown arranged to meet with us and completed an Expression of Wish Form, so that she could leave her Nominee Flexi-Access Drawdown to John and Julie in equal shares on her death.

Sadly Mrs Brown died six months later following a serious illness. The pension plan she inherited from her husband was now worth £550,000 as she had spent some of the money on her care.

John and Julie each inherited a Successor Flexi-Access Drawdown of £275,000. This was free of any Inheritance Tax and they can access as and when they need without having to pay tax. Any income and/or growth on their investments will also be tax-free.

John and Julie have completed their own Expression of Wish forms so that their children can benefit from Successor Flexi-Access Drawdown on their deaths.

£500,000
Pension value.

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ABC - New provider
Changes provider to gain Nominee and Successor Flexi-Access Drawdown options.

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£600,000
Pension value at time of death. Passed to wife as Nominee Flexi-Access Drawdown.

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£550,000
Pension value at time of wife's death, after money spent on care. Passed to children as Successor Flexi-Access Drawdown

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£275,000
Successor Flexi-Access Drawdown per child.

Mr and Mrs Jones

Mr and Mrs Jones have two adult children, David and Donna. Mr Jones has a pension plan with XYZ Pensions Ltd with a value of £500,000.

XYZ Pensions Ltd told Mr Jones that when he dies, his pension plan cannot go into Nominee and Successor Flexi-Access Drawdown. Instead, the remaining fund value will be paid out as a lump sum to his beneficiaries, in line with his Expression of Wish form.

As Mr Jones's financial advisers, we met with him and his family to discuss the consequences of this.

After careful consideration Mr Jones decided to keep his pension plan with XYZ Pensions Ltd. He understood what would happen on his death but decided it wasn't worth paying the extra 1 percent a year in charges to move his pension plan to an account which would have facilitated Nominee and Successor Flexi-Access Drawdown on his death.

Unfortunately Mr Jones died at age 62. At the time his pension plan was worth £620,000 which passed to his wife in line with his Expression of Wish form. This was free of Inheritance Tax because it was written in trust.

Mrs Jones initially put the money into her bank deposit account until she was in the right frame of mind to consider how to invest it.

She understood that she would have to pay income tax on any interest generated in the meantime and that on her death, the amount would be subject to Inheritance Tax (she owned a large property and had some other savings).

Sadly Mrs Jones died six months later following a serious illness and her estate was split equally between David and Donna.

The amount in her bank deposit account was now worth £570,000 as she had spent some of the money on her care.

David and Donna each inherited £171,000 from the bank deposit account - their share of £285,000 less 40% Inheritance Tax.

David and Donna have contacted us to discuss how they can invest their inheritance more tax efficiently.

£500,000
Pension value.

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XYZ
No change in provider. No Nominee or Successor Flexi-Access Drawdown options.

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£620,000
Pension value at time of death. Paid out as cash to wife tax-free as written under pension trust. Wife invested into bank deposit account.

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£570,000
Investment value at time of death, after money spent on care. After 40% inheritance value of investment is £342,000.

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£171,000
Cash received by each child needing to invest.

The value of your investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Purely for illustrative purposes.

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