



Pension Death Benefits

As a further part of the new Freedom and Choice reforms individuals can now use their pension pot to pass wealth to future generations. From 6 April 2015 there are significant changes in the options and definitions surrounding death benefit and how they are taxed. Death benefits provided by a pension plan post crystallisation will depend upon the terms of the plan

What does it mean?

The new rules allow pension savings to be passed to any nominated individual (not a trust) to draw an income whilst remaining in a tax privileged pension wrapper via an inherited drawdown fund. The nominated beneficiary is then able to access the pot at any age drawing as much or as little as they wish. In turn that person can nominate their own beneficiaries allowing the pension wealth to be passed down generations without ever forming part of the estate until paid out.

Although the new rules can be applied to all Defined Contribution (DC) pensions, not every DC pension scheme is set up to facilitate them. Therefore it is not just a question of how can death benefits be paid but also where can they be paid is important.

Tax

Tax is now based on age in the treatment of pension tax benefits;

Payment	Type – Defined Contribution (DC), Defined Benefit (DB)	Age owner died	Tax
Most lump sums	DC or DB	Under 75	No tax
Most lump sums	DC or DB	75 or over	45% tax deducted by provider
Trivial commutation	DB or DC	Any age	Income tax deducted by provider
Annuity or drawdown fund	DC	Under 75	No tax
Annuity or drawdown fund	DC	75 or over	Income tax deducted by provider
Pension provided by scheme	DC or DB	Any age	Income tax deducted by provider

The beneficiary may also have to pay tax if the pension pot's owner was under 75 when they died and:

- They had pension savings over £1.25 million
- They died before 3 December 2014 and the beneficiary buys an annuity from the pot
- The beneficiary is paid more than 2 years after the pension provider is told of the death

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