# FINANCE UPDATES

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HOWE MAXTED GROUP
INDEPENDENT INSURANCE BROKERS & FINANCIAL ADVISORS

## PENSIONS AND PASSING ON WEALTH

An increasingly effective estate planning strategy.

When pension freedoms were introduced back in April 2015, new inheritance tax planning rules slipped under the radar for some.

While over-55s were presented with much more choice when it comes to flexibly accessing their pension pots, passing retirement savings on became less punitive.

Before the freedoms came in, savers could only pass on their defined contribution pension tax-free if they were under 75 and the pension funds were untouched.

For those who were over the age of 75 and had started to access their retirement savings, a 55% "death tax" would be applied to pensions passed on at death.

The reforms offer retirement savers an opportunity to pass on their entire pension to their beneficiaries either tax-free or at a substantially lower tax charge, making pensions an effective inheritance tax planning tool in 2019.

### NOMINATING BENEFICIARIES

You have freedom to pass on your unused defined contribution pension to any beneficiaries or causes you nominate.

Only spouses and dependants were previously able to be named beneficiaries of the pot. Now, you can nominate anybody.

To pass on a pension fund, you need to be an active member of a scheme and have completed a nomination of benefits letter.

This should include details of who you want to receive this pension on death, an allocated percentage to a beneficiary, and their relationship to you.

Nominations are not binding, however. They are an expression of wish and the scheme will pay in regard to your wishes, while also considering if there are any financially dependent individuals to whom some or all of the money should go to.

Your pension savings do not form part of your legally valid will and you need to ensure your pension provider knows the identity of your nominated beneficiaries.

The recipients can decide whether or not to receive your pension savings as a lump sum or as income, while they can also nominate their own beneficiaries.

This is useful, for example, when looking to pass your pension wealth down – potentially from generation to generation.

In the same way as a legally valid will, you should update your nomination of benefits letter fairly regularly to ensure that any major changes in your life are reflected in your wishes.

### PASSING ON A PENSION

How and when you access your pension pot will affect how you can leave it to any beneficiaries or causes you nominate.

Pension fund holders who die before reaching the age of 75 can pass on part or all of the fund as a tax-free lump sum up to the value of the lifetime allowance.

The lump sum forms part of death benefits, which are paid by a pension scheme to beneficiaries on death, usually without being liable to tax.

It is also possible to pass on some or all of the pension fund to a beneficiary through income drawdown, also up to the value of the lifetime allowance (£1.055 million in 2019/20).

Beneficiaries may have to pay extra tax if the amount you take from your pension before death, plus how much you leave behind, exceeds the lifetime allowance.

Lifetime allowance charges of 55% apply if the pension benefit is taken as a lump sum, or 25% if accessed as income, and its value surpasses £1.055m in 2019/20.

If death occurs at, or after, the age of 75, any beneficiary will pay tax at their marginal rate for the tax year they receive the lump sum or income.

## INHERITANCE TAX AND PENSIONS

Any wealth held in your pension fund does not usually form part of your taxable estate in the same way as any assets, property, investments or possessions.

Current legislation allows you to pass your pension wealth down through the generations without being liable for inheritance tax.

Therefore, keeping pension wealth within your pension fund and passing it on to any beneficiaries can be an efficient estate planning strategy.

However, any money flexibly withdrawn from your pension pot from the age of 55 does contribute towards the value of your estate and will be liable for inheritance tax.

If the value of an estate exceeds the nil-rate threshold of £325,000 in 2019/20, it will attract inheritance tax at 40% before being distributed to any beneficiaries in your legally valid will.

It is possible to increase that nil-rate threshold to £475,000 in 2019/20 if your family home is included in your estate and it is bequeathed to direct descendants.

Some older types of pension may be inside of your estate and attract inheritance tax. It is important to check this as they may not include death benefits.

## DEFINED BENEFIT TEMPTATION

Some retirement savers have transferred valuable defined benefit pensions into self-invested personal pensions (SIPPs) when it was the right thing for them to do.

A common motivation of transferring the cash equivalent transfer value into a SIPP was to benefit from different death benefit rules, as defined benefit pension arrangements were not covered by death tax changes introduced in April 2015.

The changes extended to SIPPs, income drawdown, capped drawdown and flexi-access drawdown, and some annuities.

Always seek professional financial advice if you are considering transferring a defined benefit arrangement.

## KEY CONSIDERATIONS

If you are thinking about using your pension to circumnavigate inheritance tax and pass on pension wealth, you need to fully understand your options.

Know what death benefit options you want from your pensions, and check whether or not your plan falls outside of your estate.

Some pension arrangements need retirement to be taken before the age of 75, although it is possible to defer withdrawing income until after this age through SIPPs.

Most pensions will be outside of your estate and not be liable for inheritance tax, but a dilemma may arise with older plans.

If that applies to you, weigh up whether or not it makes sense to transfer your pot into pension schemes that offer what you want.

Ensure you speak to one of our professional financial advisers before you do this to make sure you will not be walking away from valuable benefits or guarantees.

Review your beneficiaries and notify your pension provider of any changes you wish to make when your circumstances change.

This is a particularly important consideration if you are over the age of 75 as death benefits become taxable at your beneficiaries' highest marginal rate.

Updating who you wish to leave your pension pot to is not the same as updating your legally valid will. Both the will and your pension provider may need updating.

**Speak to us for help with passing on wealth.**