

Pension death benefits in the post LTA world

Sheffield Life and Pensions
Society

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Learning objectives.

- > Explain what happens to a member's pension fund when they die
- > List those who can benefit from a member's pension fund
- > Outline what benefits the Scheme Administrator / SSAS trustees can provide
- > Describe what happens when a beneficiary with drawdown funds dies
- > Outline how liquidity can be created to pay cash death benefits
- > List options for non-cash payments of death benefits

Agenda.

- > Introduction to Dentons
- > When a pension scheme member dies
- > Who can benefit?
- > What benefits can be provided?
- > What happens when a beneficiary dies?
- > Liquidity in SIPP and SSAS
- > Non-cash death benefits

1 UK office based in Godalming Surrey.



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Over **120** staff
(as at September 2024)



Over **8,300** SIPP's
(as at September 2024)



Over **4,000** Commercial Properties
(as at September 2024)



Over **1,300** SSASs
(as at September 2024)



£7.8bn
Assets under administration
(as at September 2024)



..in this world, nothing is certain...



Benjamin Franklin
1789

What happens to fund on death?

- > **Scheme Administrator / SSAS trustees –**
 - > Uses member's fund...
 - > ...along with any scheme trustee-arranged life assurance taken out
 - > ...to provide member's beneficiaries
 - > ...with benefits in accordance with
 - > ...Scheme Rules and...
 - > HMRC legislation

What happens to fund on death?

- Scheme Administrator...
- ...decides in absolute discretion
- ...who to pay benefits to
- ...and how much
- Normally no IHT consequences
- ...unless member in ill-health.....



What happens to fund on death?

- If member in ill-health...
- ...in 2 years prior to death
- IHT might apply
- ...if greater contributions than usual paid-in
- ...if transfer made to enhance death benefits
- More to follow later



What happens to fund on death?

- Other tax consequences...
- Depend on age of member on death and...
- ...whether benefits taken
- ...and LSDBA position
- Beneficiaries can choose form of benefits



Who can benefit?

- > Member death benefit Nomination Form completed?
- > ...indicates beneficiaries to be considered by Scheme Administrator / SSAS trustees
- > ...not binding
- > ...but should be considered as part of procedures to select beneficiaries
- > ...should be kept up to date by member
- > ...and lodged with Scheme Administrator / SSAS trustees

Who can benefit?

- > Wide range of potential beneficiaries...
- > Member's spouse, civil partner, other dependants, children, grandchildren, etc.
- > Any individual included on Nomination form
- > Any individuals entitled under member's Will to interest in estate
- > Any persons known to member prior to death
 - > If Scheme Administrator decides member would have wished to have provided for
- > Member's legal personal representatives

What benefits can be provided...

- > ...by Scheme Administrator / SSAS trustees?



What benefits can be provided?

- Lump sums
- Drawdown pensions
- Annuities



What benefits can be provided?

- > Lump sums
 - > Selected beneficiaries...
 - > Individuals
 - > Trusts
 - > Member's estate
 - > Charities
- > Drawdown pensions – only to...
 - > individuals financially dependent on member at date of death
 - > individuals specifically named on nomination form
 - > i.e. “nominees”

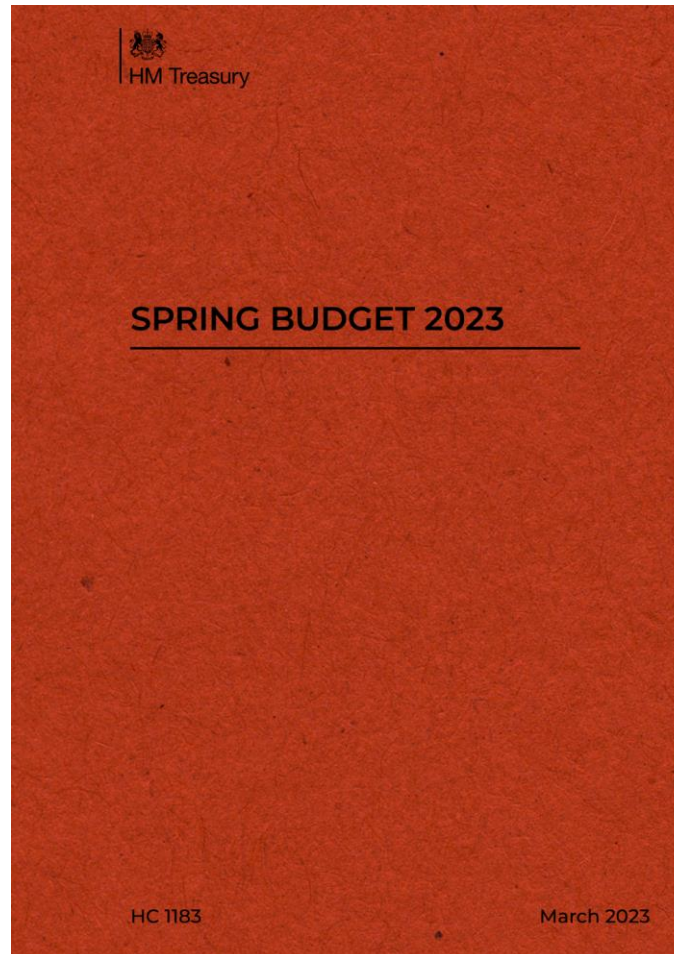
What benefits can be provided?

- > **Annuities**
 - > Only bought from insurance co. for...
 - > Member's dependants
 - > And nominees
- > **If no surviving dependants / nominees...**
 - > Scheme Administrator / trustees can pay drawdown pensions / buy annuities...
 - > ...for individuals chosen by Scheme Administrator

Death benefits tax consequences.



Spring Budget 2023



Spring Budget 2023.

- > **Some outcomes:**
 - > No Lifetime Allowance tax charge in tax year 2023/24
 - > Abolition of Lifetime Allowance from 6/4/2024

What happens after 6/4/2024?

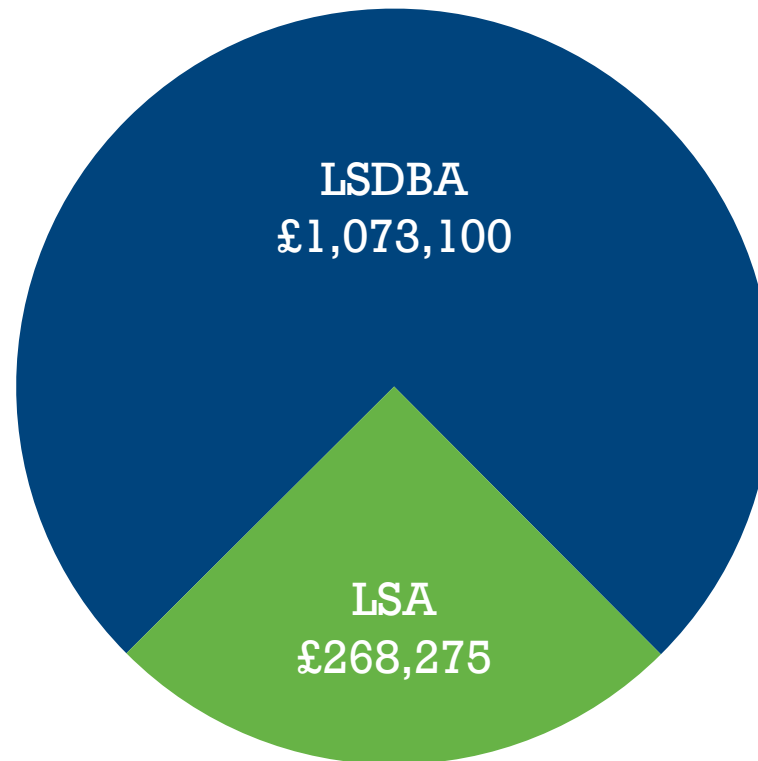
- > “Authorised lump sums and lump sum death benefits tested against new threshold.....set at same level as present LTA”
- > Source; HMRC Policy Paper 18 July 2023

What happens after 6/4/2024?

- > New threshold - £1,073,100 (“lump sum and death benefit allowance”)
 - > Except where Protections apply
 - > Only applies to lump sums, NOT pension income
- > Lump sums above this level – taxed at member/beneficiary’s marginal rate
- > Max PCLS £268,275 (“lump sum allowance”)
 - > Except where Protections apply
- > BCE 1, BCE 2, BCE 3 and BCE 4 }
- > BCE 5, BCE 5A and BCE 5B } all removed from 6/4/2024
- > BCE 5C and BCE 5D }

Lump Sum Allowance and Lump Sum Death Benefit Allowance

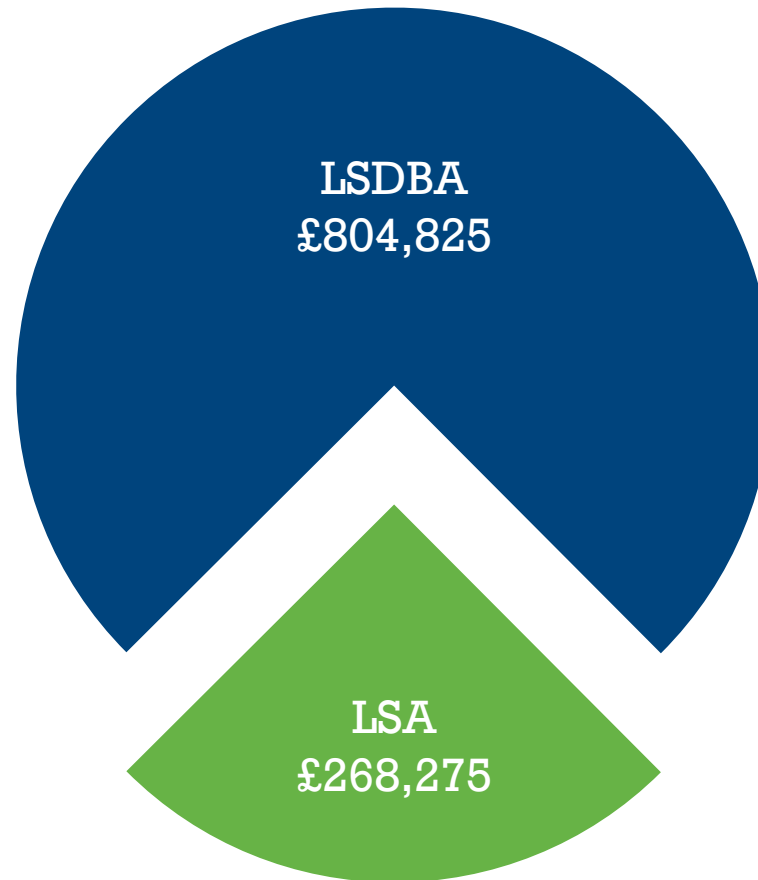
LSDBA = Lump Sum and Death
Benefit Allowance



LSA = Lump Sum Allowance

Lump Sum Allowance and Lump Sum Death Benefit Allowance

LSDBA = Lump Sum and Death
Benefit Allowance



LSA = Lump Sum Allowance

What happens after 6/4/2024?

- > Lump sums tested against “lump sum and death benefit allowance” include:
 - > Pension commencement lump sums
 - > Tax-free elements of uncrystallised funds pension lump sums
 - > Stand-alone lump sums (tax-free value that could have been paid on 5/4/2023)
 - > serious ill-health lump sums
 - > Lump sum death benefits on death pre-75th birthday (except from funds crystallised prior to 6/4/2024)
- > “relevant Benefit Crystallisation Events”

Relevant Benefit Crystallisation Event (rBCE).

- > What is a relevant benefit crystallisation event?
- > “The legislation specifies the occasions when a scheme administrator must check whether a lump sum being paid to a member exceeds that member’s available lump sum allowance or lump sum and death benefit allowance. These occasions are known as relevant benefit crystallisation events.”
 - > Source: HMRC Pensions Tax Manual

Relevant Benefit Crystallisation Event (rBCE).

- > For death benefits:
- > “A relevant lump sum death benefit for the purposes of the lump sum and death benefit allowance means any lump sum death benefit other than:
 - > A charity lump sum death benefit
 - > A trivial commutation lump sum death benefit
- > A relevant lump sum death benefit does not include a lump sum death benefit if it is paid in respect of rights that were crystallised before 6 April 2024.”
 - > Source: HMRC Pensions Tax Manual

Relevant Benefit Crystallisation Event (rBCE).

- > Where an rBCE occurs:
 - > “the member, or if the member has died the member’s personal representative, must be given a statement telling them how much of the member’s lump sum allowance and lump sum and death benefit allowance have been used up by the relevant benefit crystallisation event.”
 - > Source: HMRC Pensions Tax Manual

What happens after 6/4/2024?

- > Finance Bill 014 2023-24 dealt with gaps in previous draft legislation:
 - > Lump sums taken pre-6/4/2024:
 - > The lump sum allowance is reduced by 25% of the previously used amount. So, if 100% of LTA was used the lump sum allowance is Nil.
 - > If 50% of the LTA has been used then the LSA used up will be:
 - > $50\% \times \pounds 1,073,100 \times 25\% = \pounds 134,137.50$
 - > Equivalent deduction to the LSDBA (except serious ill health)
 - > This is the “default transitional reduction”
 - > Member / personal representatives able to apply for “transitional tax-free amount certificate”
 - > e.g. if actual PCLS taken is less than default calc allows for.....
 - > ...example might help

What happens after 6/4/2024 – case study - Katie

- > Transitional tax-free amount certificate:
- > Katie previously used 50% of her LTA
- > LTA was £1m
- > Amount crystallised was £500,000; £125,000 PCLS, £375,000 designated to drawdown
- > Default calc – $50\% \times £1.0731\text{m} \times 25\% = £134,137.50$
- > BUT actual PCLS taken was only £125,000
- > Katie could apply for a transitional tax-free amount certificate confirming £125,000 PCLS taken
- > Katie's available LSA becomes £268,275 minus £125,000 (£143,275) instead of £134,137.50
- > PLUS LSDBA improves to £948,100 ($£1.0731\text{m} - £125,000$) instead of £938,962.50 ($£1.0731\text{m} - £134,137.50$)
 - > Once applied for, certificate applies EVEN IF not advantageous to Katie

Death benefits tax consequences.

- **Death pre-age 75; lump sums**
- **Depends on any LTA protections**
- **If within member's LSDBA; tax free...**
- **...if benefits paid within 2 years**
- **Otherwise taxed at beneficiary's marginal rate when paid**



Death benefits tax consequences.

- **Death pre-age 75; drawdown pensions**
- **Tax free if under beneficiary drawdown**
- **And benefits paid within 2 years**



Death benefits tax consequences.

- **Death pre-age 75; annuities**
- **Tax free...**
- **...if bought within 2 years**

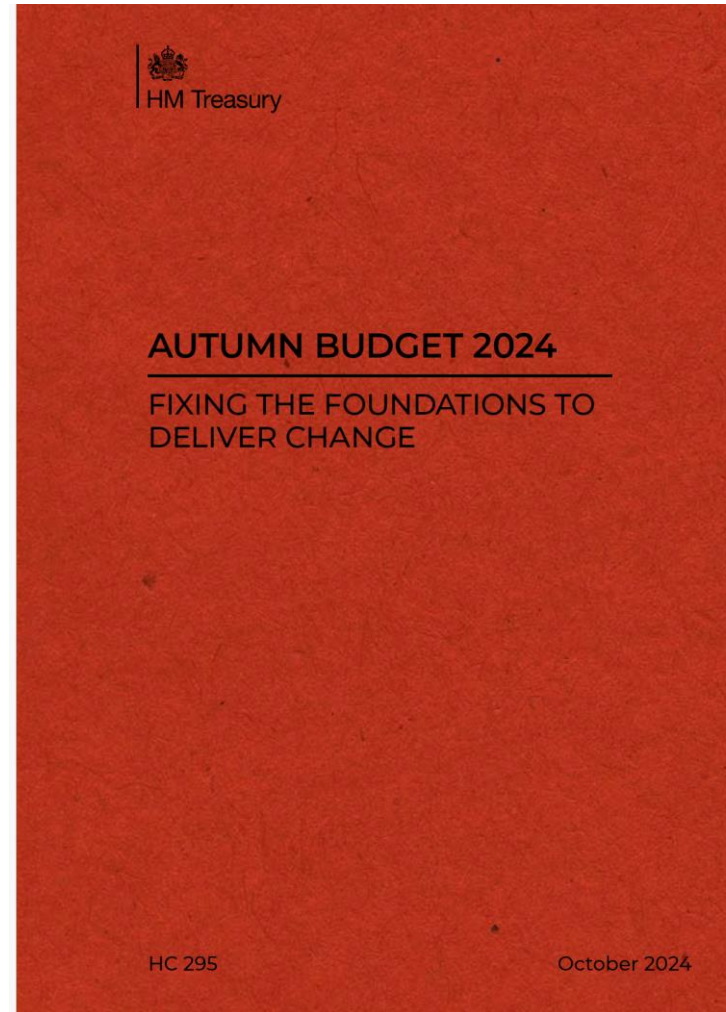


Death benefits tax consequences.

- **Death post-age 75;**
- **Lump sums**
- **Drawdown pensions**
- **Annuities**
- **...all taxable at recipient's marginal rate of tax**
- **Special rules for trusts, charities and member's estate**

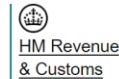


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“1.4. In recent years, pension schemes have been increasingly used and marketed as a tax planning tool to transfer wealth without an Inheritance Tax charge, rather than for their intended purpose of funding retirement.”



Open consultation

Technical consultation - Inheritance Tax on pensions: liability, reporting and payment

Published 30 October 2024

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Introduction

Summary of this consultation

As announced at Autumn Budget 2024, from 6 April 2027 most unused pension funds and death benefits will be included within the value of a person's estate for Inheritance Tax purposes and pension scheme administrators will become liable for reporting and paying any Inheritance Tax due on pensions to HMRC. This consultation seeks views on the processes required to implement these changes.

Scope of this consultation

This is a technical consultation on the processes required to implement these changes for UK registered pension schemes.

Who should read this

Individuals, pension scheme administrators and other pensions professionals, tax and

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Annex B: Authorised Pension Death Benefits included in the value of an individual's estate for Inheritance Tax from 6 April 2027

Death Benefit	Scheme	Description	Included in value of estate for Inheritance Tax?
Dependants scheme pension	Defined benefit and Defined contribution	Income taxed at beneficiaries' marginal rate.	No
Dependants annuity	Defined contribution	Income.	Yes
Dependants drawdown pension	Defined contribution	As above	Yes
Dependants short-term annuity	Defined contribution	As above	Yes
Dependants drawdown pension fund	Defined contribution	As above	Yes
Dependants flexi-access drawdown	Defined contribution	As above	Yes
Nominees annuity	Defined contribution	As above	Yes

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Nominees short-term annuity	Defined contribution	As above	Yes
Nominees flexi-access drawdown	Defined contribution	As above	Yes
Successors annuity	Defined contribution	As above	Yes
Successors short-term annuity	Defined contribution	As above	Yes
Successors flexi-access drawdown	Defined contribution	As above	Yes
Defined benefits lump sum death benefit	Defined benefit	Lump Sum. Usually paid if member is still employed.	Yes
Pension protections lump sum death benefit	Defined benefit	Lump sum. Usually paid if a member dies within a short period after taking their pension.	Yes
Uncrystallised funds lump sum death benefit	Defined contribution	Lump Sum. Only paid from uncrystallised funds.	Yes
Annuity protection lump sum death benefit	Defined contribution	Lump sum. Allows beneficiaries to take lump sum from an annuity.	Yes

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Drawdown lump sum death benefit	Defined contribution	Lump Sum. Allows beneficiaries to withdraw lump sum from a drawdown fund.	Yes
Flexi-access drawdown fund lump sum death benefit	Defined contribution	As above	Yes
Charity lump sum death benefit	Defined contribution	Included in the estate for Inheritance Tax, but exempt provided payment made to a qualifying charity	No
Trivial commutation lump sum death benefit	Defined benefit and Defined contribution	Taxed at beneficiaries' marginal rate	Yes

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In most cases the Income Tax treatment of the benefit will depend on the age of the member when they died.

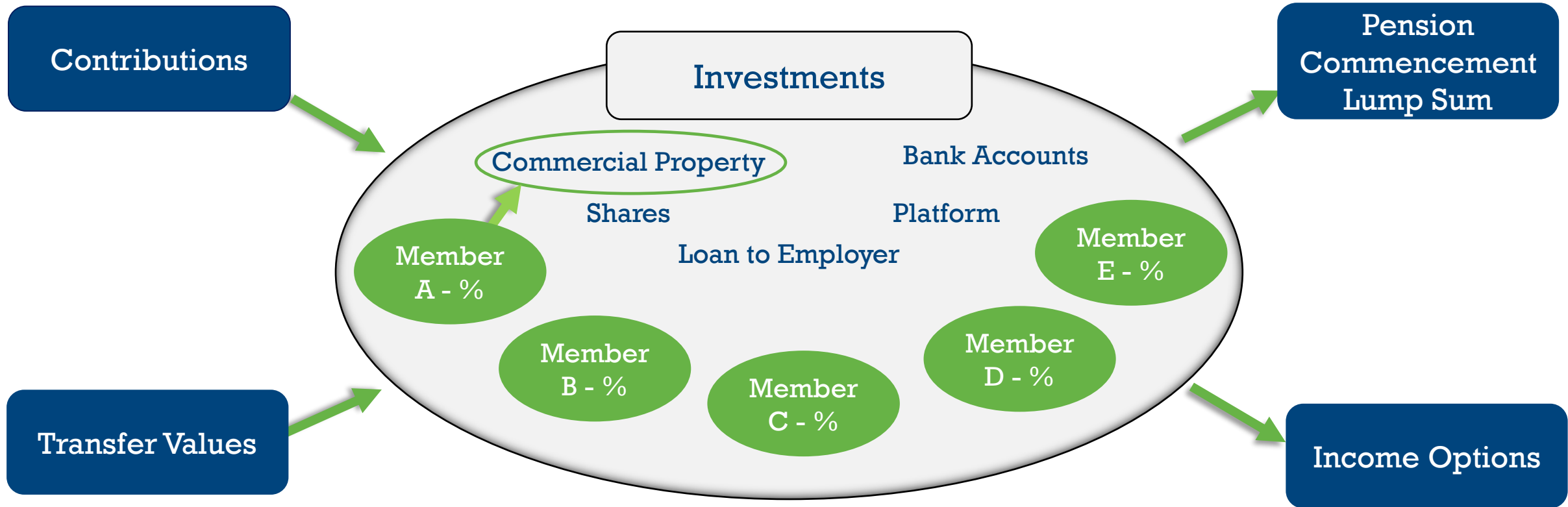
All life policy products purchased with pension funds or alongside them as part of a pension package offered by an employer are not in scope of the changes in this consultation document.

Any unauthorised payments made from a deceased member's pension fund will be in scope of Inheritance Tax.

Liquidity in SIPP / SSAS.

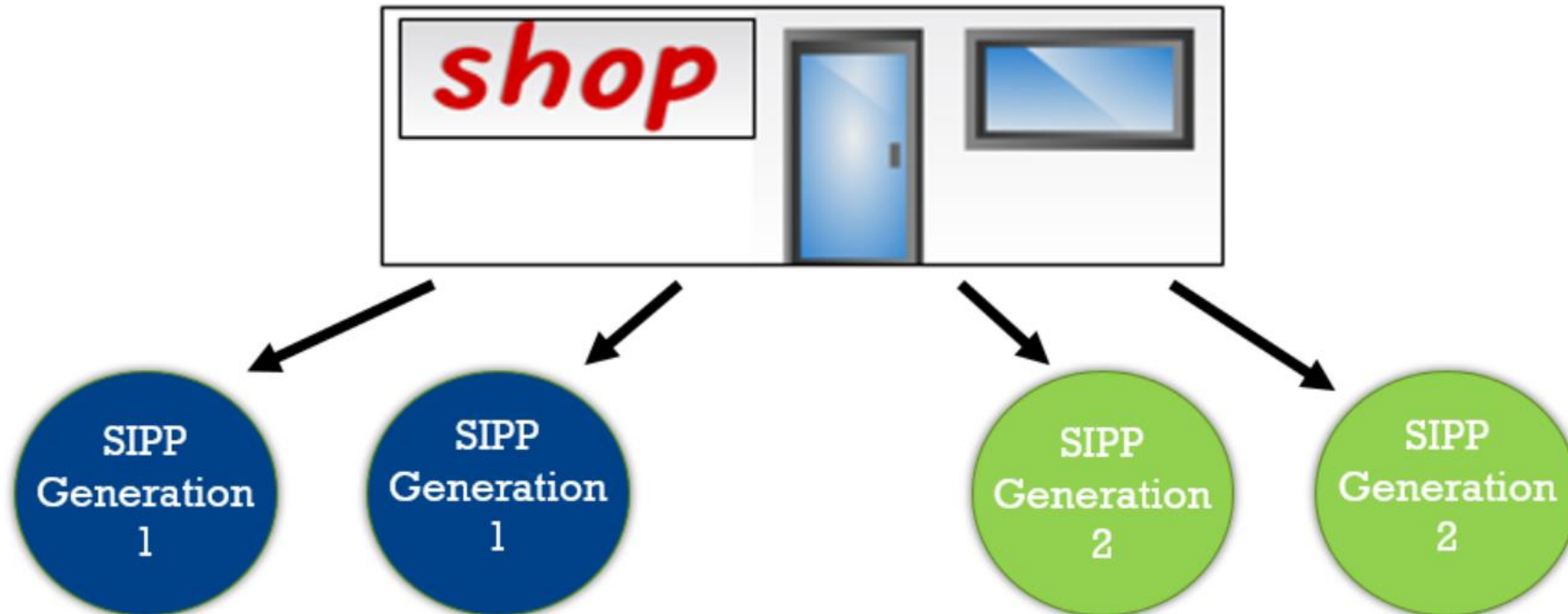


SSAS fund allocations.

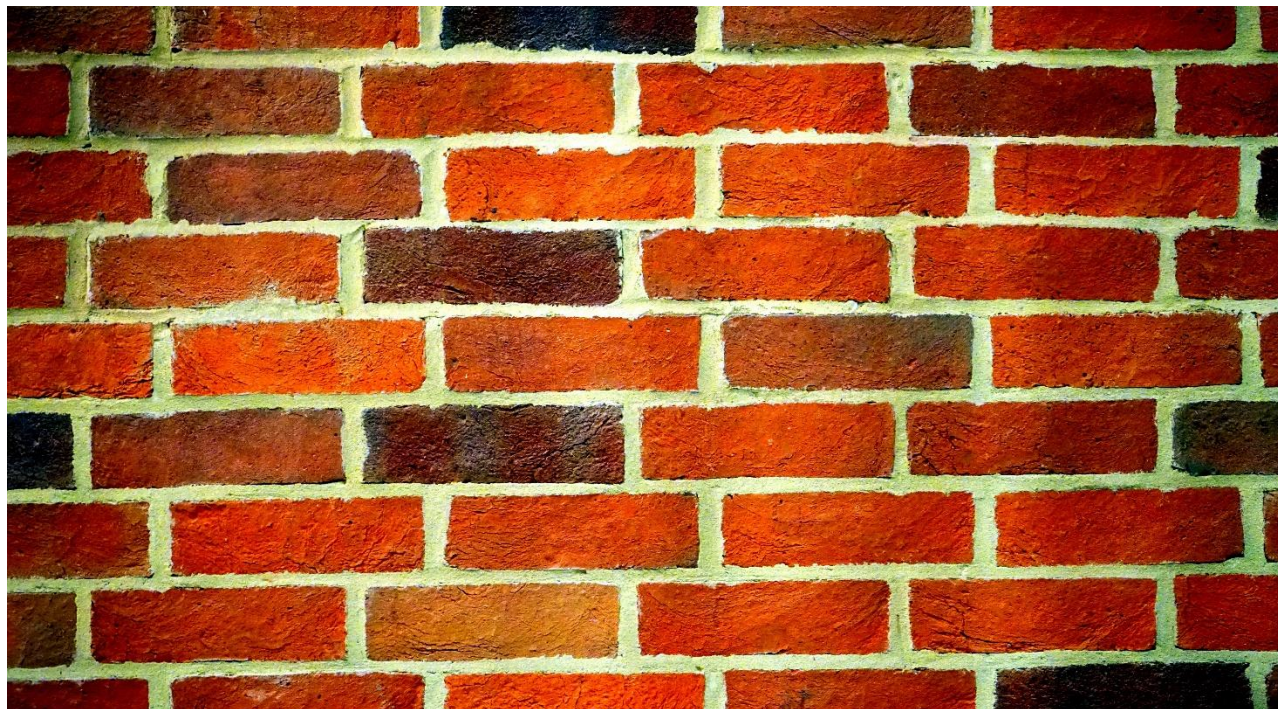


Decumulation – SIPP.

PROPERTY



Non-cash benefit payments.



Possible key planning points.

- > **Assess PCLS client has taken prior to 6 April 2024**
 - > Need for transitional tax-free amount certificate?
 - > Note any stand-alone and scheme-specific tax-free cash amounts
- > **Assess death benefit options available in current scheme**
 - > Beneficiary drawdown available?
- > **Re-visit death benefit nomination forms**
 - > Non-dependants named to enable drawdown pensions?
- > **Note HMRC Newsletter 158.....**

Possible key planning points.

HMRC Newsletter 158 suggests postponing certain actions relating to:

- > scheme-specific lump sum protection
- > individuals who plan to transfer their pension savings to a qualifying recognised overseas pension scheme (QROPS)
- > transfers where the member has Enhanced Protection
- > transfers to QROPS from drawdown or those including pre-A-Day benefits
- > taking benefits where the member has enhanced or primary protection with protected cash greater than £375,000
- > payment of lump sum death benefits from funds which crystallised before 6 April 2024.

Learning objectives.

- > Explain what happens to a member's pension fund when they die
- > List those who can benefit from a member's pension fund
- > Outline what benefits the Scheme Administrator / SSAS trustees can provide
- > Describe what happens when a beneficiary with drawdown funds dies
- > Outline how liquidity can be created to pay cash death benefits
- > List options for non-cash payments of death benefits

Any questions?



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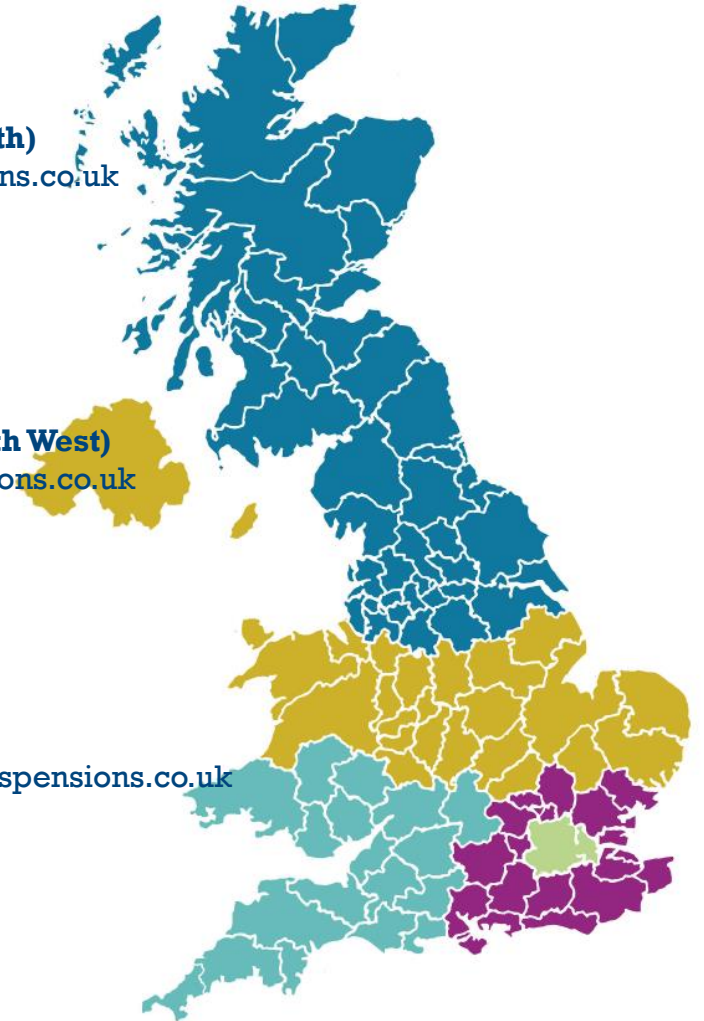
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