What happens to my pension when I die?

RAYMOND JAMES®
Hitchin

Introduction

No-one likes to think about dying, but naturally you'll want to know what happens to your pension fund when you die.

If you have a pension and you haven't taken income from it…

If you were saving in a defined contribution pension scheme through your employer, it is likely that the scheme would pay the value of your pension pot to your dependents, or to any other beneficiaries you may have chosen. Rules can vary from scheme to scheme.

For all personal pensions, if you die **before age 75**, any pension benefits can be passed on **free of tax** (If value is less than Life Time Allowance £1,030,000 in the 2018/19 tax year). If you die on or after the age of 75, any benefits will be taxed at the beneficiary's marginal rate.

If you're drawing down income from your pension…

If you die while receiving income from your drawdown pension contract, your dependants have three options:

1. If you die before age 75, any drawdown benefits can be passed on free of tax. If you die on or after your 75th birthday, any benefits will be taxed at your beneficiary's marginal rate.

2. They can continue to drawdown and carry on taking an income from it, in which case they'll pay tax on the income at their marginal rate.

3. They can use the remaining fund to purchase an annuity, with the income taxed at their marginal rate.

If you have an annuity…

An annuity is a financial product that pays you an income for life, which you buy with money from your pension fund. If you die while receiving income from an annuity, what happens next will depend on which type of annuity you've got.

Your Pension Annuity or Enhanced Pension Annuity will end when you die unless:

- you die within the first 90 days of your plan start date, in which case value protection will apply and a lump sum will be paid to your estate. If you have a dependant on your plan, the lump sum will only be paid if you both die within this period and will be paid to the estate of the last one of you to die.
- you die after 90 days but within your guarantee period. Payments will continue until the end of the guarantee period, these will be paid to your estate or dependant on the policy.
- you have a joint or survivor annuity (often purchased by married couples) which will guarantee that a surviving spouse receives regular income for life.
- you have chosen to continue your value protection beyond the first 90 days of your plan start date, in which case a lump sum may be payable to your estate or your dependant's estate.

Alternatively, the unpaid guaranteed amount could be paid as a lump sum to your dependants, tax free before your 75th birthday or taxed at their marginal income tax rate from your age 75.

Inheritance Tax (IHT)

The death benefit from all pensions is normally free of inheritance tax. It doesn't matter whether the money is from undrawn savings or what's left in your fund after some money has been drawn down. Lump sum payments from annuities may be taxable depending on your circumstances.

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Passing your pension on to further generations…

In April 2015, the government removed the 55% tax charge that applied on pensions passed on at death, giving individuals the freedom to pass on their unused pension benefits to any nominated beneficiary.

Most pension options allow anyone to inherit your pension – they don't have to be your spouse or civil partner.

If you have purchased an annuity, the benefit options after death will depend on the terms of the product. In most cases the benefits cannot be passed on after the death of the beneficiary, (usually spouse or partner).

The beneficiary of a personal pension that has not been used to purchase an annuity will have the right to choose who can inherit these funds providing they remain within a personal pension.

The table shown below is taken from the HMRC website. It provides a basic overview of the tax payable by a beneficiary when inheriting a pension fund. Their

Things to remember…

Cash left behind

Any tax-free lump sums or pension income you have received from your pension and not spent before you die, will become part of your estate and therefore liable for Inheritance Tax.

Nominated Beneficiaries

Make sure your pension provider has up-to-date details of your beneficiary.

Make a will

Making a will offers you reassurance that what you own will go to the people who matter most to you.

Talk to us

If you have any questions or concerns about your pension or later life planning come and talk to us. Our initial meetings are free and with no obligation.

As you can see from the information above, advice is essential. Most importantly, the decisions made cannot be reversed so it's essential to choose the right options as there are no second chances.

Tax your beneficiary pays:

Inheritance	Your age when you die	Tax they pay
Unused cash you took from your pot	Any age	Inheritance Tax based on the size of your estate
Money still in your pot	Under 75 75 or older	Zero, if they take it within 2 years Income Tax
Adjustable income	Under 75 75 or older	Zero Income Tax
Joint, guaranteed period or capital protected annuity	Under 75 75 or older	Zero Income Tax

Your beneficiary might pay extra tax if the amount you take from your pot before you die plus the amount you leave behind is more than £1 million. (Source www.pensionwise.gov.uk 03/10/2018)

RISK WARNING

With investing your capital is at risk.

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