

M
&G

Planning with
pensions in the
IHTnet

A case study



Important Information

This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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Learning Outcomes

By the end of this session you should be able to:

0 1 Assess the impact of the IHT changes in the 2024 Autumn Budget on your clients' financial planning.

0 2 Describe the fundamental elements of an IHT plan



0 3 Evaluate different options to mitigate a pension driven IHT liability



Introducing

Tina Pollock

Tina has seen the publicity around the changes to IHT in the budget and is concerned about how much of her and Ian's hard-earned wealth she will have left to pass onto the boys.

- 74-years-old widow – 75 in January 2027 
- Husband Ian died 8 years ago at 68 and she inherited everything, including his AIM ISA, on his death. 
- Lives alone in family home she shared with Ian.
- In good health with no known health issues.
- Two sons have joint power of attorney on her health and finances.
- She has a will and is splitting everything equally between her two sons.
- Balanced attitude to risk leaning on the cautious



The “boys”

Roy (43)



- Lives with his partner Kevin (45). No dependents.
- Both work for a large IT company and are financially independent.
- Roy earns £115,000 a year.
- His workplace pension is quite generous. He pays in 6% and his employer pays in 12%

Bob (43)



- Married to Lyndsay (40) who works in the family home as a full-time mum
- 3 children. Rosie (10) and twins Sophie and Emma (8).
- Bob earns £70,000 a year
- His workplace pension only provides auto enrolment minimum.

Other factors

Income & Expenditure

- Met by drawdown and state pension
- No material spending planned

Gifting

- Likes control – boys to “make their own way in the world”.
- £200,000 of inherited AIM shares to boys 4 years ago. On condition they paid off chunks of their mortgages.

Soft facts

- “Care aware”. Quite comfortable with using her home as a means of funding the care as “it’s too big anyway and I’m rattling around in it most of the time”. She’ll probably downsize and move closer to the kids and grandkids at some point anyway.
- She’d rather not give up access to all her assets but is not averse to gifting some assets if she can control how they are spent.
- Concerned with investment performance with her AIM shares.



Assets



£760,000

Home

Unencumbered

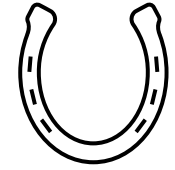
3% growth



£8,000

Cash in Bank

2% interest

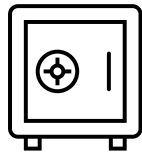


£37,000

Premium Bonds

0% growth

Spends winnings

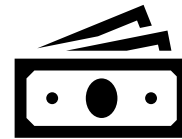


£400,000

Member drawdown

6% growth

No income

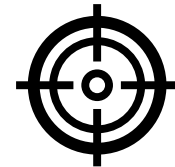


£480,000

Beneficiary Drawdown

6% growth

Income £2,200 p.m.



£220,000

AIM ISA

2% growth

No withdrawals

IHT liability

– April 2026

Net Estate	House	£760,000	£1,025,000
	Bank	£8,000	
	Premium Bonds	£37,000	
	AIM ISA	£220,000	
Add settled property			£0

RNRB Taper check!

IHT liability

– April 2026

Net Estate	House	£760,000	£1,025,000
	Bank	£8,000	
	Premium Bonds	£37,000	
	AIM ISA	£220,000	
Add settled property			£0
Less exemptions			£0
Less reliefs	Business relief 50% - AIM	£110,000	£110,000

IHT liability

– April 2026

Net Estate	House	£760,000	£1,025,000
	Bank	£8,000	
	Premium Bonds	£37,000	
	AIM ISA	£220,000	
Add settled property			£0
Less exemptions			£0
Less reliefs	Business relief 50% - AIM	£110,000	£110,000
Less Nil Rate Bands	Main NRB	£450,000	£800,000
	RNRB	£350,000	

Main NRB reduced by failed gifts.

IHT liability

– April 2026



Net Estate

House	£760,000	
Bank	£8,000	
Premium Bonds	£37,000	
AIM ISA	£220,000	
		£1,025,000

Add settled property

£0

Less exemptions

£0

Less reliefs

Business relief 50% - AIM	£110,000	£110,000
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Less Nil Rate Bands

Main NRB	£450,000	
RNRB	£350,000	
		£800,000

Chargeable

£115,000

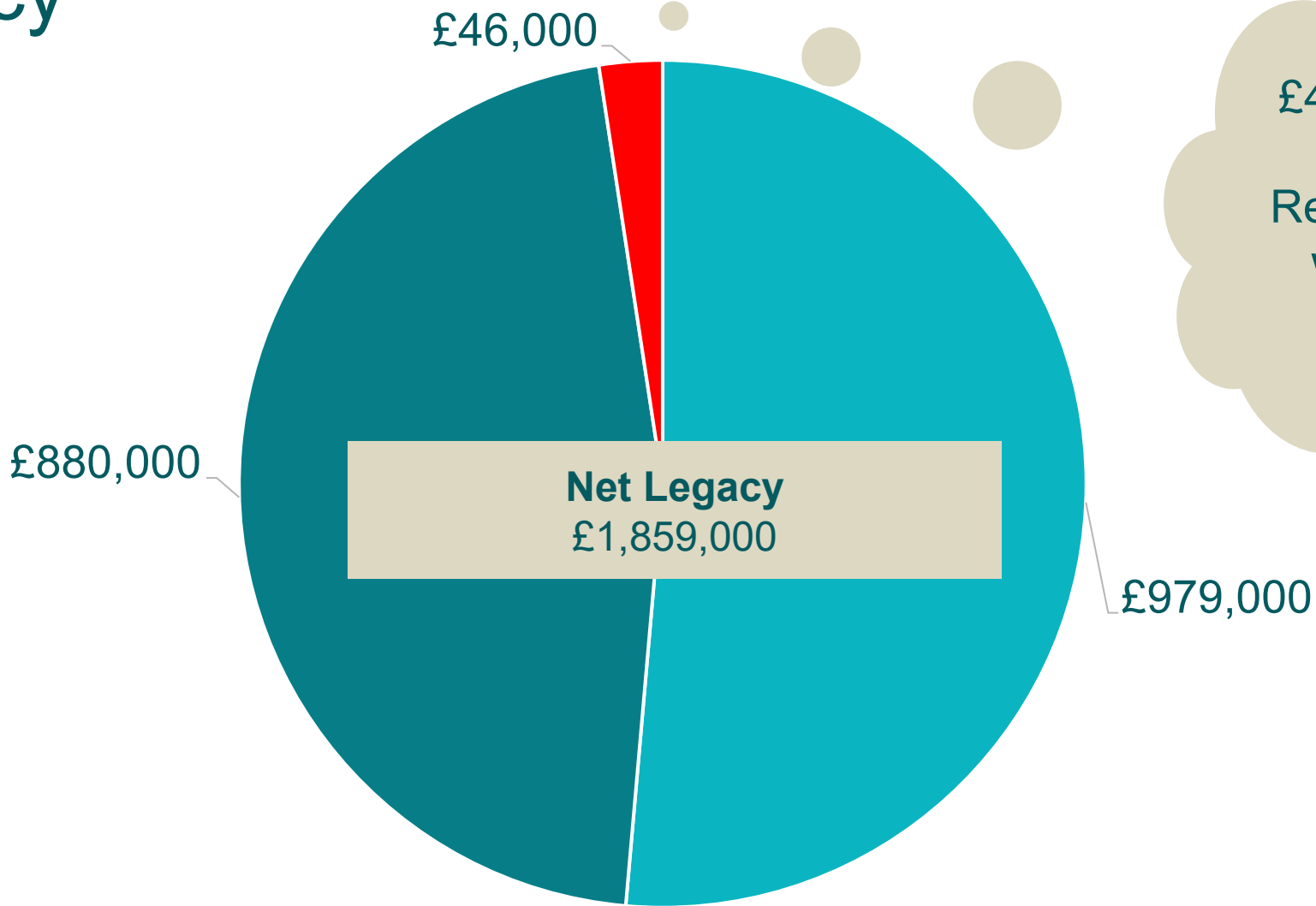
IHT due @ 40%

£46,000

Member and Beneficiary Drawdown pensions IHT free

Net Legacy

April 2026



£44,000 of IHT is Business Relief reduction wef 6th April 2026

Net Pension

Net Estate

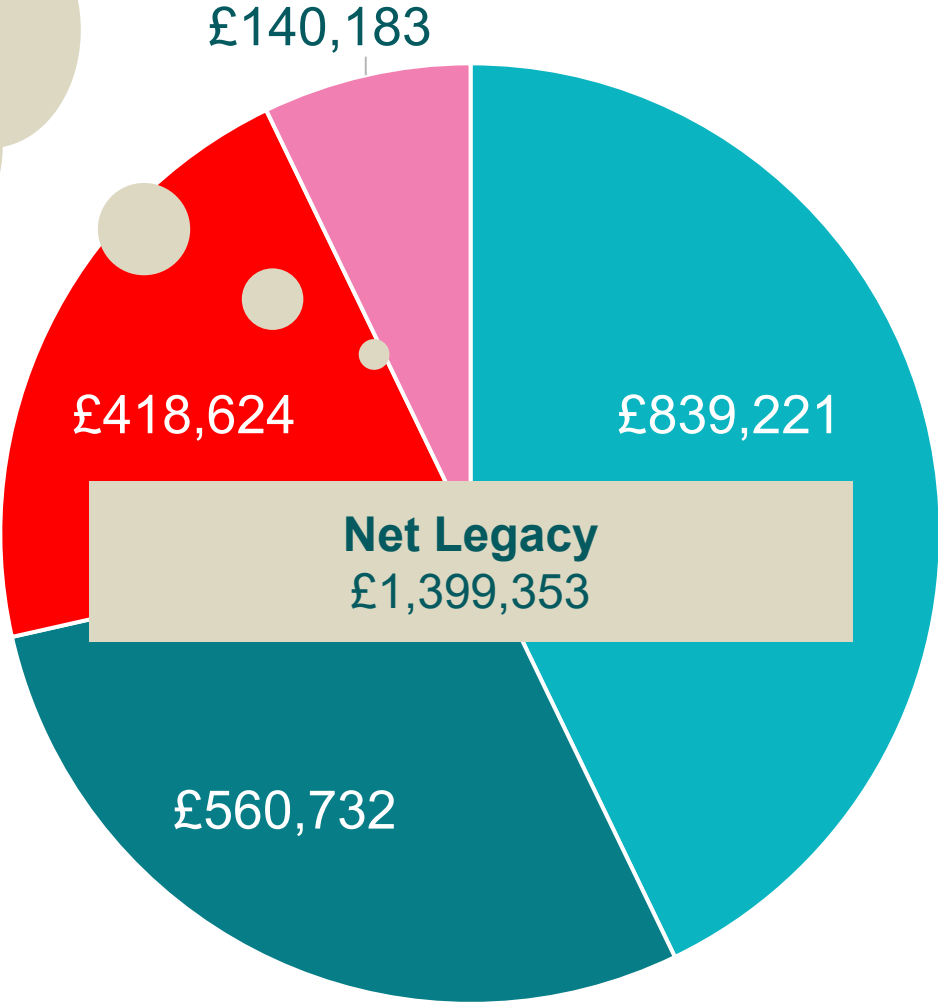
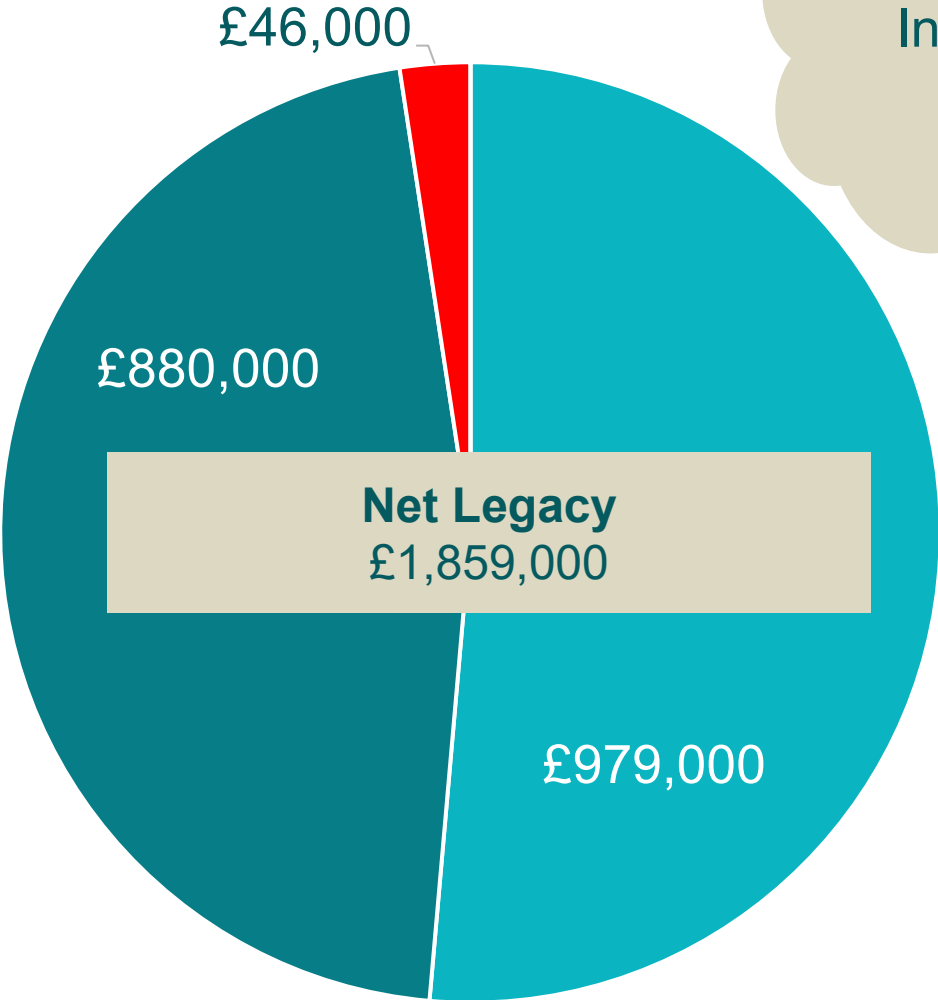
IHT

Income Tax (20%)

Net Legacy

April 2026 > April 2027

Pensions IHT
and Post 75
Income Tax
kick in.



Net Pension

Net Estate

IHT

Income Tax (20%)

The IHT bill

Apportioning the NRBs

Non Pension Estate	
Net estate	£1,052,360
less Exemptions	£0
less Reliefs	£112,200
Chargeable	£940,160

Pension scheme	
Death benefit value	£906,400
less Exemptions	£0
less Reliefs	£0
Chargeable	£906,400

Chargeable estate £1,846,560

Available NRB + RNRB (£1,000,000 - £200,000) = £800,000

$$\begin{aligned} & (\text{£}940,160 / \text{£}1,846,560) \times \\ & \text{£}800,000 \\ & = \text{£}407,313 \end{aligned}$$

$$\begin{aligned} & (\text{£}906,400 / \text{£}1,846,560) \times \\ & \text{£}800,000 \\ & = \text{£}392,687 \end{aligned}$$

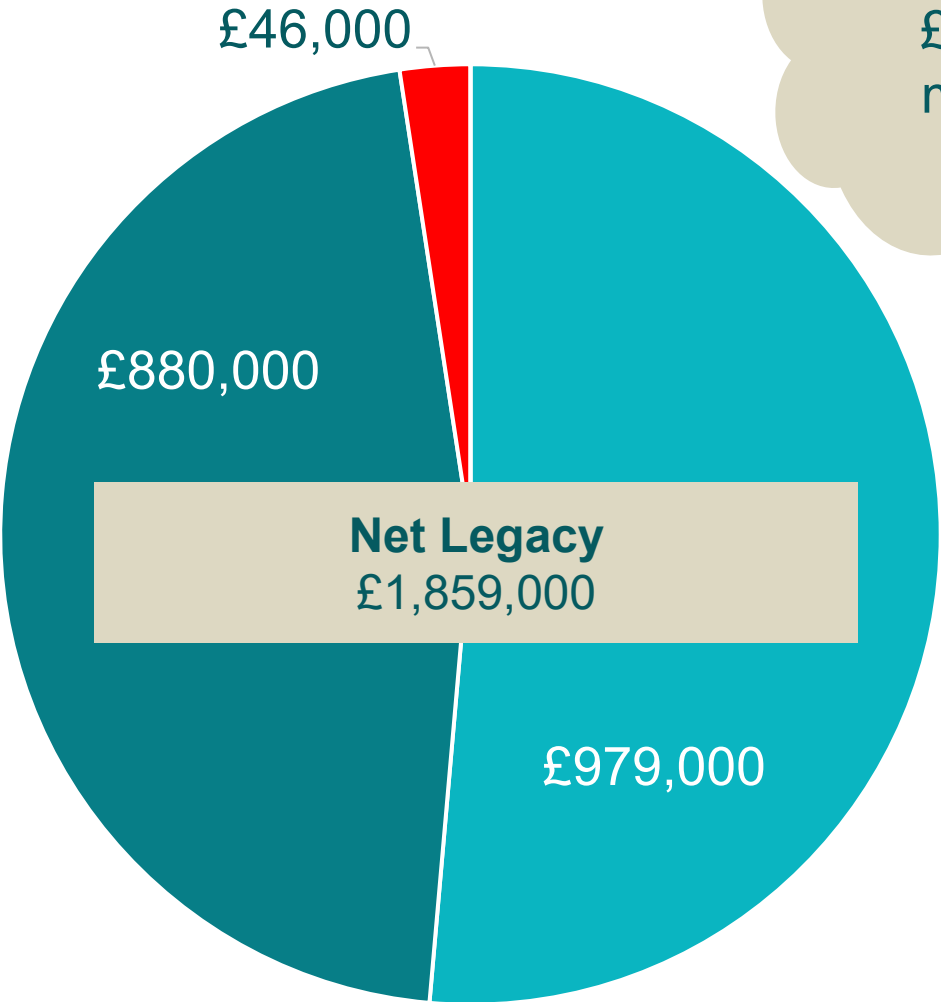
$$\begin{aligned} & \text{£}940,160 - \text{£}407,313 \times 40\% \\ & \text{IHT } \text{£}213,139 \end{aligned}$$

$$\begin{aligned} & \text{£}906,400 - \text{£}392,687 \times 40\% \\ & \text{IHT } \text{£}205,485 \end{aligned}$$

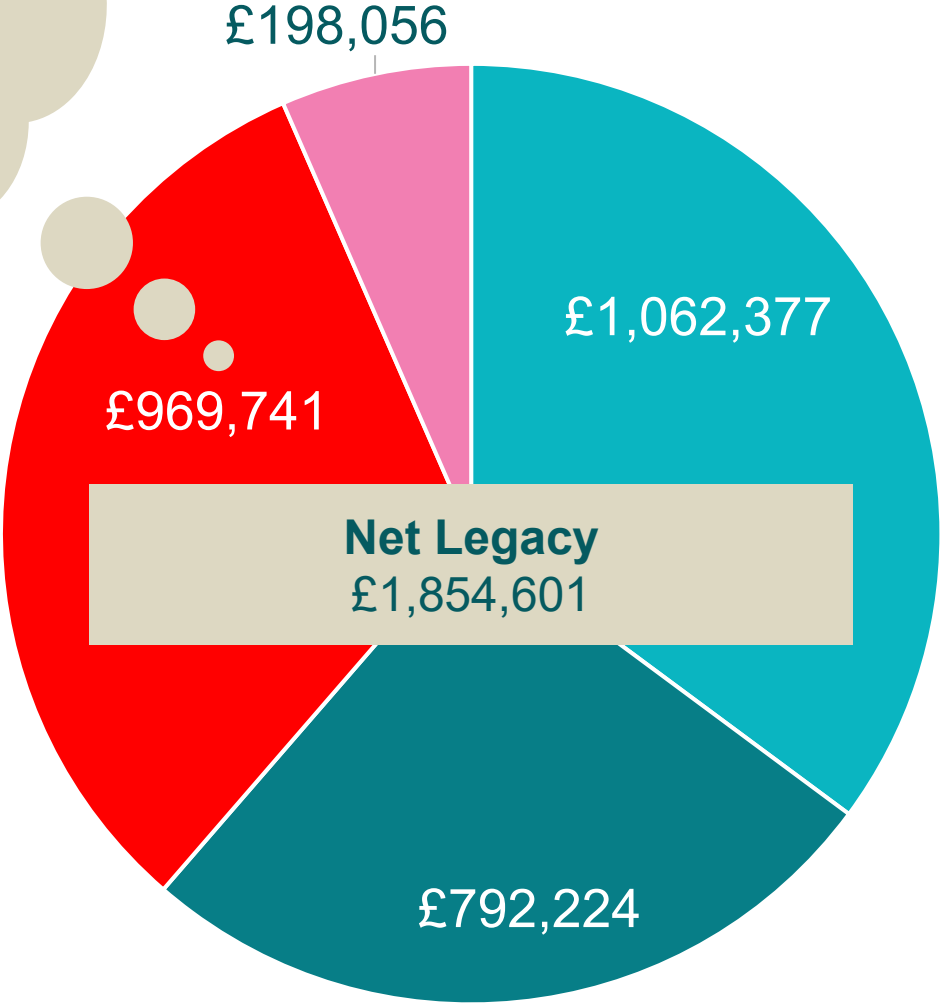


Net Legacy

April 2026 > April 2041



RNRB gone now too = £140,000 more IHT



Net Pension

Net Estate

IHT

Income Tax (20%)

Paying IHT

Personal Reps

Recovery from
beneficiaries
“Withholding
Notices”

Same
beneficiaries?

Pension Scheme

“Scheme
Pays”
PRs & Bens

Prior to setting
up benefits?

Beneficiary

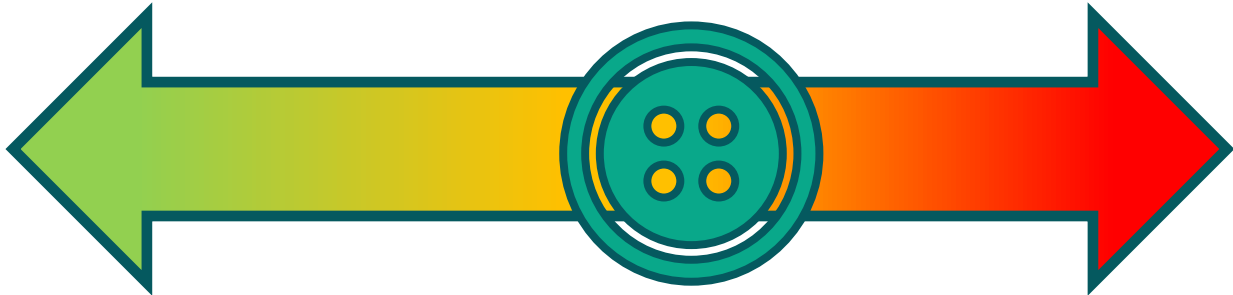
Requests
benefits / own
resources

Income tax
refund on IHT
amount

Planning matters



Balancing needs and wants...



Retirement Income
(NEED)

Fund Care
(NEED)

Increase Legacy
(WANT)

One size
fits all
process?

But no one size
fits all answer.

- 01 Establish objectives (needs & wants) ✓
- 02 Model the issue – current and future ✓
- 03 RAG assets – Access, needs and tax (lifetime & death)
- 04 Identify and exclude unsuitable options – gift spend relief insure
- 05 Choose suitable option from those remaining – pros/cons/modelling/trade offs
- 06 Implement and monitor

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RAG assets – Access, needs and tax

Lifetime & death

03

Segmentation (RAGing) of client's assets...

Green Money

Expected to be used to meet Tina's needs

All about Tina

Amber Money

May be required to meet Tina's needs

Perhaps an eye on legacy for "the boys"

Red Money

Expected to be unused with an IHT and/or Income Tax liability

All about "the boys"

ASSETS



£760,000

Home

Unencumbered

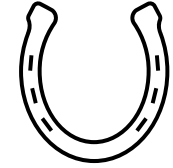
3% growth



£8,000

Cash in Bank

2% interest

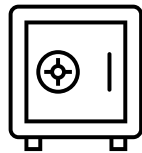


£37,000

Premium Bonds

0% growth

Spends winnings

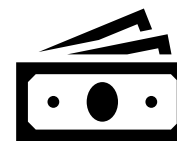


£400,000

Member drawdown

6% growth

No income

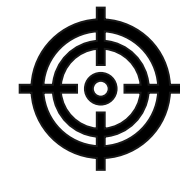


£480,000

Beneficiary Drawdown

6% growth

Income £2,200 p.m.



£220,000

AIM ISA

2% growth

No withdrawals

Taxes everywhere...

	Access Tax		Death Tax	
	April 26	April 26	April 27	April 27
Tax Free Pension	0%	0%	52% / 64%	
ISA	0%	20%	20%	
Taxable Pension	20% to 43%	0%	52% / 64%	
Residual assets	N/A	40%	40%	

We have a full basic rate tax band and potentially 15 yrs plus time horizon

ASSETS



£760,000

Home

Unencumbered

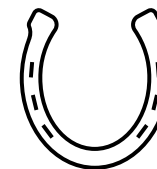
3% growth



£8,000

Cash in Bank

2% interest

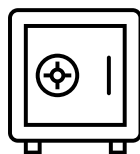


£37,000

Premium Bonds

0% growth

Spends winnings



£400,000

Member drawdown

6% growth

No income



£480,000

Beneficiary Drawdown

6% growth

Income £2,200 p.m.



£220,000

AIM ISA

2% growth

No withdrawals

Member's pot – Annuity or Drawdown?

Basis	Monthly		Annual		Effective tax rate	Drawdown exhaustion
	Gross	Net	Gross	Rate	%	Age
No Guarantee	£3,258	£2,608	£39,101	9.78%	19.93	89
10 yr Guarantee	£3,024	£2,431	£36,282	9.07	19.58	91
15 yr Guarantee	£2,790	£2,244	£33,480	8.37	19.54	95
20 yr Guarantee	£2,573	£2,071	£30,871	7.72	19.50	99
30 yr Guarantee	£2,198	£1,771	£26,378	6.59	19.42	114

* £400,000 pot, single life, level, standard rates

Annuitise v Drawdown

74

Annuity	
Probate value	£281,764
IHT	£112,708
G'tee payments still to be made	£617,420
G'tee payments less IHT	£504,712

Drawdown	
Probate Value	£400,000
IHT	£160,000
Residual pot	£240,000

£400,000 fund standard annuity rates, 74 yr old, 20yr gtee - £30,871 per annum

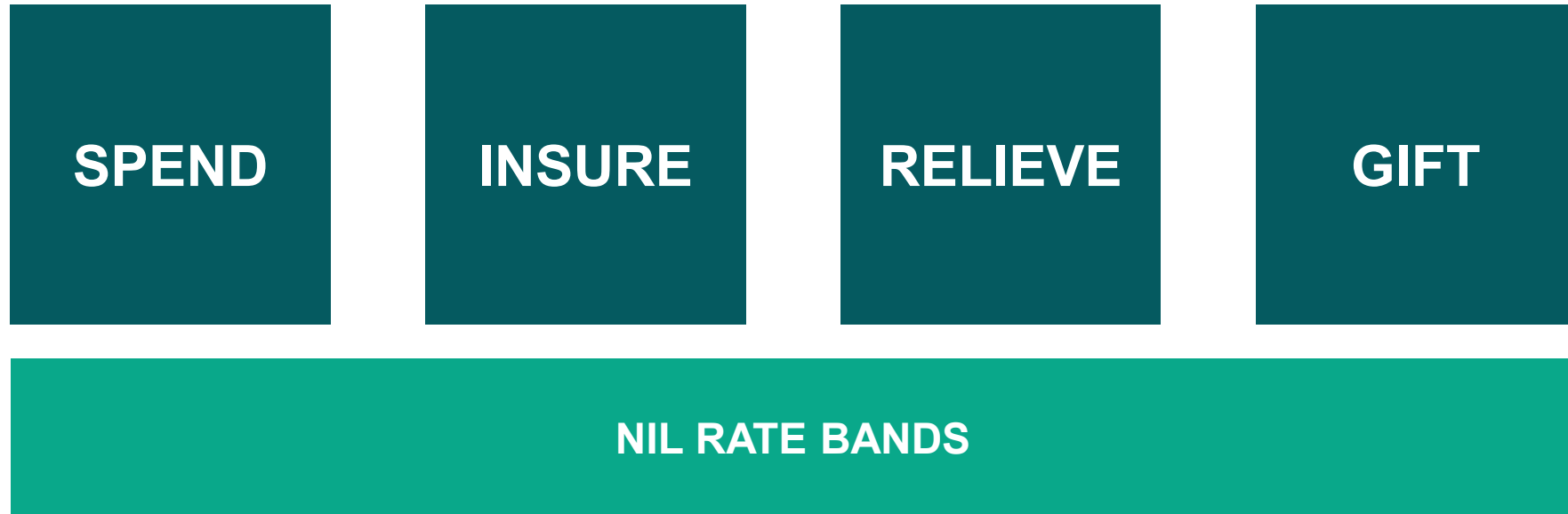
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Identify and exclude unsuitable options

Gift > spend > relieve > insure

04

IHT planning

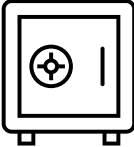




SPEND?

Spend?

£0 at 89



£400,000

Member drawdown

£41,185

(annual)

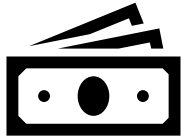


£220,000

AIM ISA

£17,121

(annual)



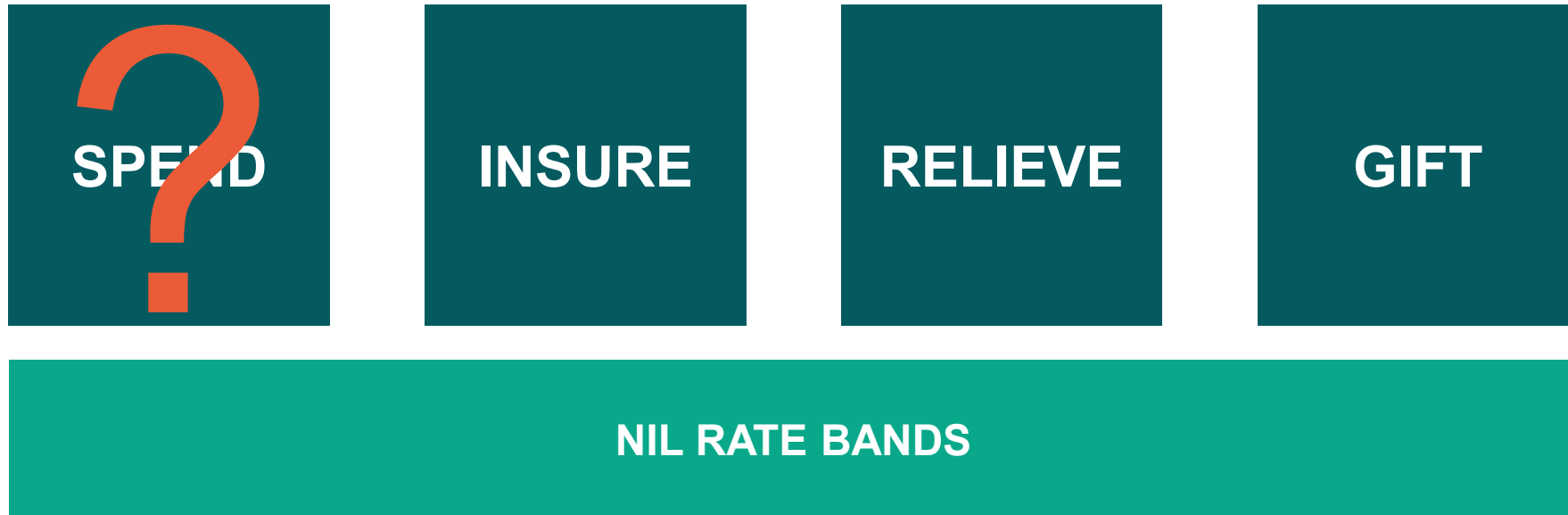
£480,000

Beneficiary Drawdown

£49,422

(annual)

IHT planning



Insure?

Age

- 74 +

Sex

Male Female

Calculate average life expectancy

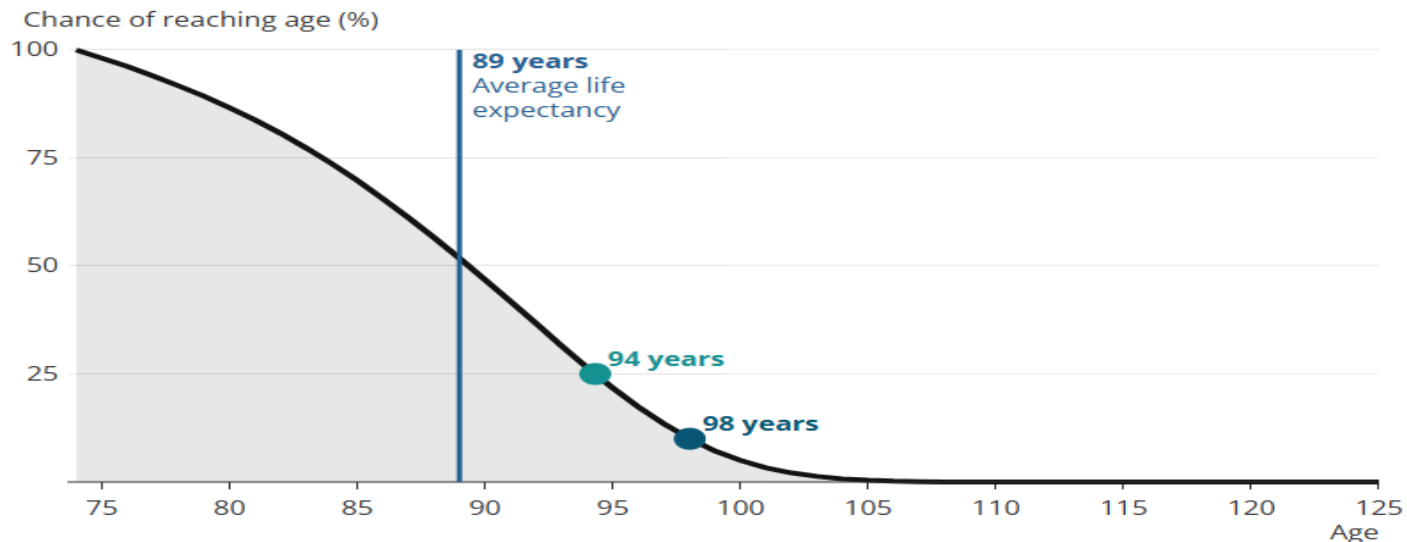
Average life expectancy
89 years

Chance of female aged 74 years living to...

● **94 years**
1 in 4 chance

● **98 years**
1 in 10 chance

● **100 years**
5.0% chance



£1,472 p.m

Sum Assured*
£450,000
(just over April 27 liability)

“You’ll be 99 before you’ll have paid over £450,000!”

Insure or invest?

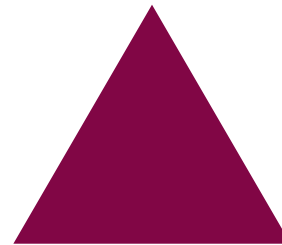
“You’ll be 99 before you’ll have paid over £450,000!”

“But if you make it beyond? 85/90 your legacy will be smaller”

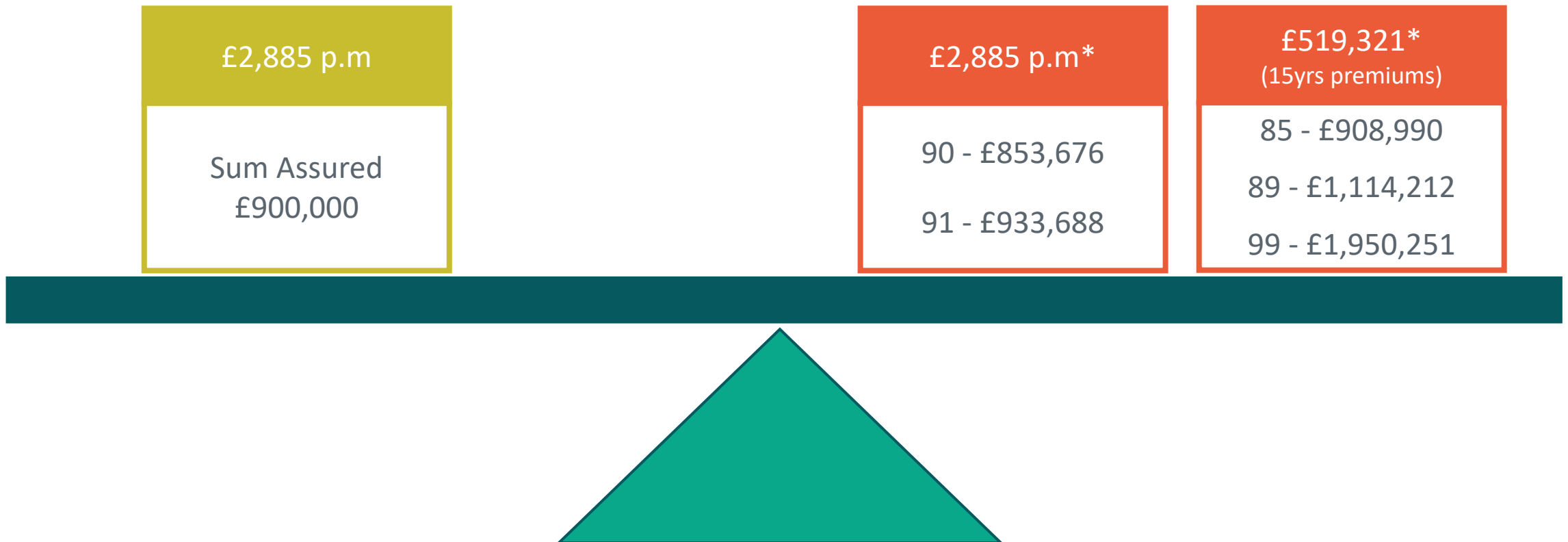
£1,472 p.m
Sum Assured £450,000

£1,472 p.m*
90 - £435,549 91 - £476,371

£264,960* (15 yrs premiums)
85 - £463,770 89 - £568,475 99 - £995,026



Insure or invest?

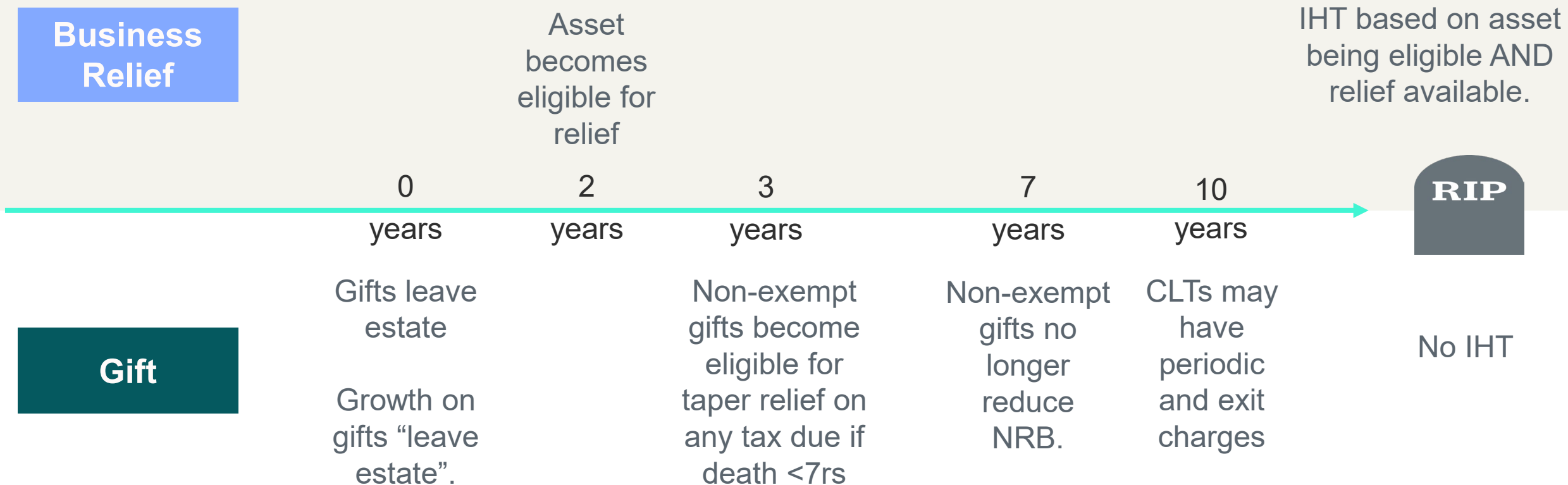


*5.1% net growth

IHT planning

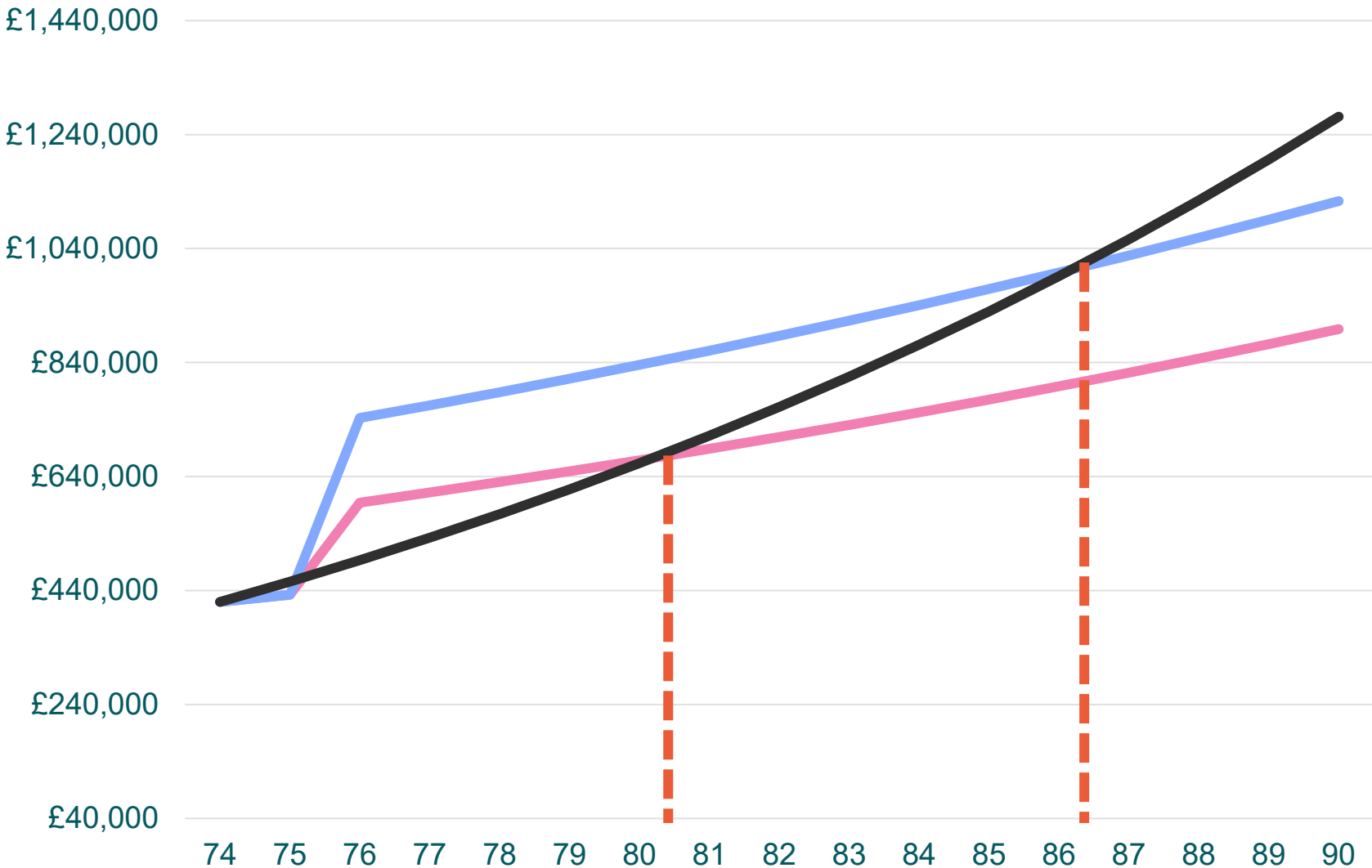


Timeline – Reliefs v gifting



Business Relief 3% v Onshore Loan Trust 5.1%

- £700,000 invested**
- Tax Credit covers bond gain
 - No tax on BR
 - 40% IHT on full loan
 - 50% IHT relief on BR
 - 100% IHT relief on BR



100% BUSINESS RELIEF

50% BUSINESS RELIEF

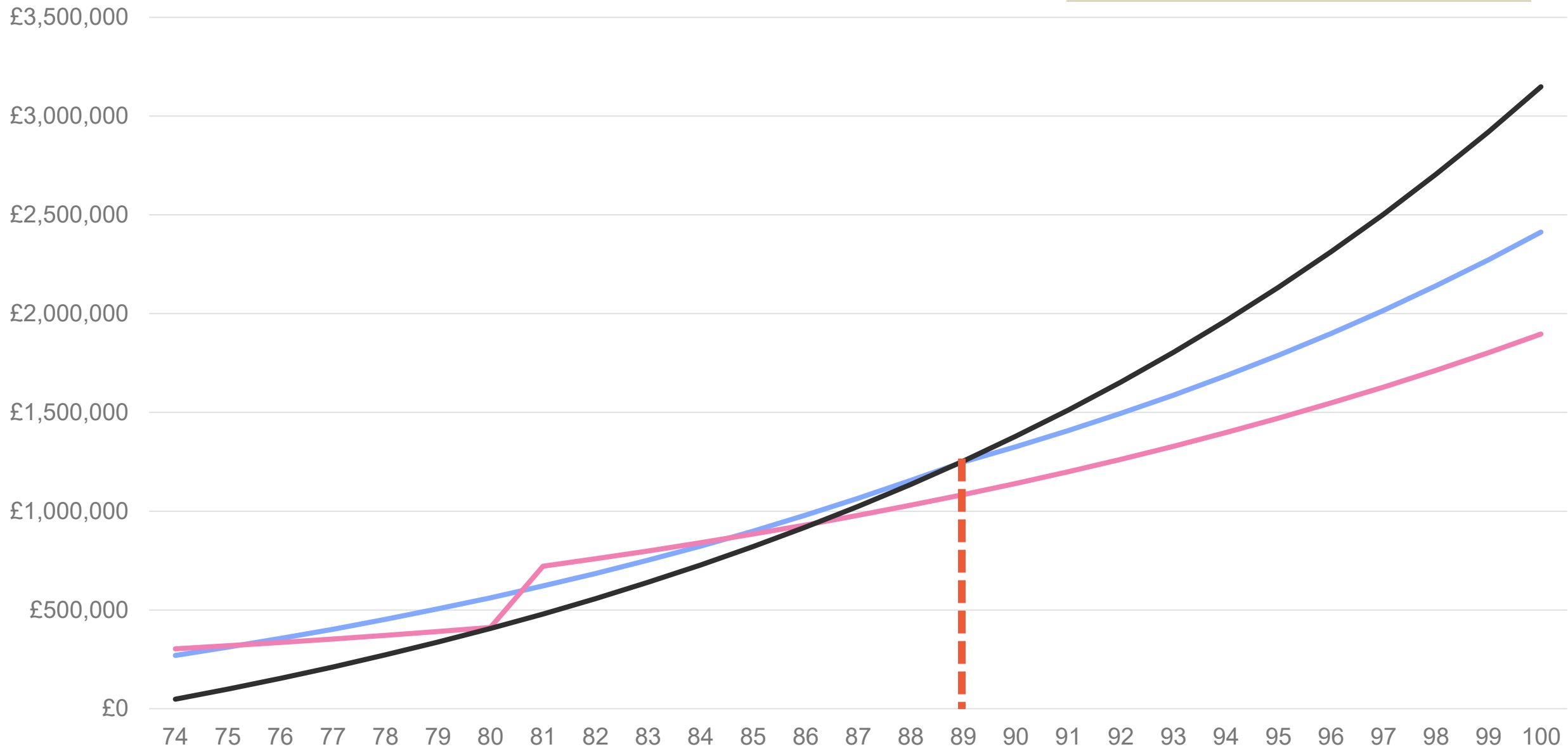
LOAN TRUST

IHT planning



Gifting Regular v Lump Sum

£480,000 annuitised, £3,904 p.m.,
growth: pension 6%, gifts 5.1%



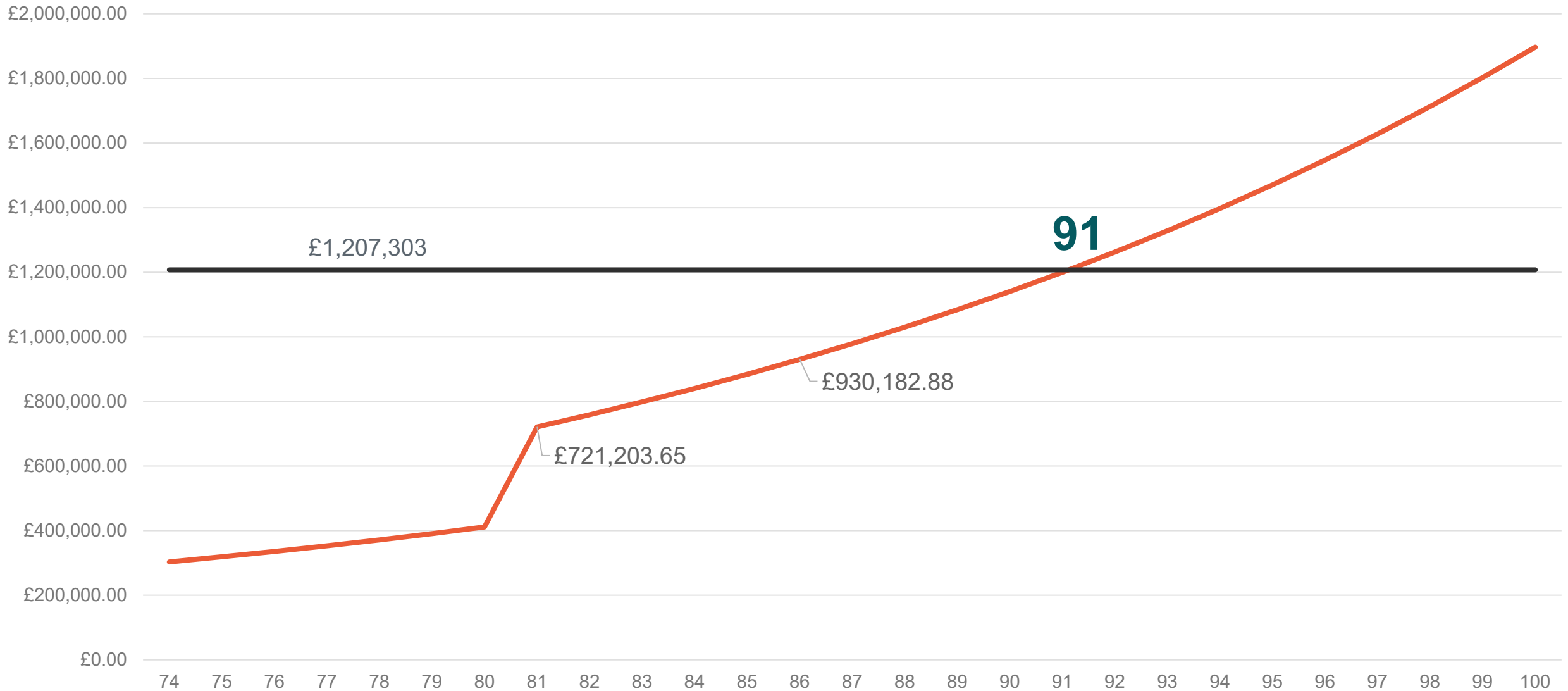
Drawdown gifting (residual pot less IHT and 20%)

Lump Sum Gift

Annuity Gifting

Protect v Lump Sum

£480,000 annuitised, £3,904 p.m
Sum Assd £1,207,303, growth 5.1%



Lump Sum gift

Sum Assured

IHT planning



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Choose
suitable option
from those
remaining

Pros/cons/modelling/trade offs

05

Recommendation

Plan A

**BENEFICIARY
DRAWDOWN
(£480,000)**

**AIM ISA
(£220,000)**

(£325,000)

(£155,000)

(£170,000)

(£50,000)

Member
Drawdown
£37,700 p.a

Onshore
Gift Trust
£325,000

Onshore
Loan Trust
£325,000

ISA Transfer
£50,000

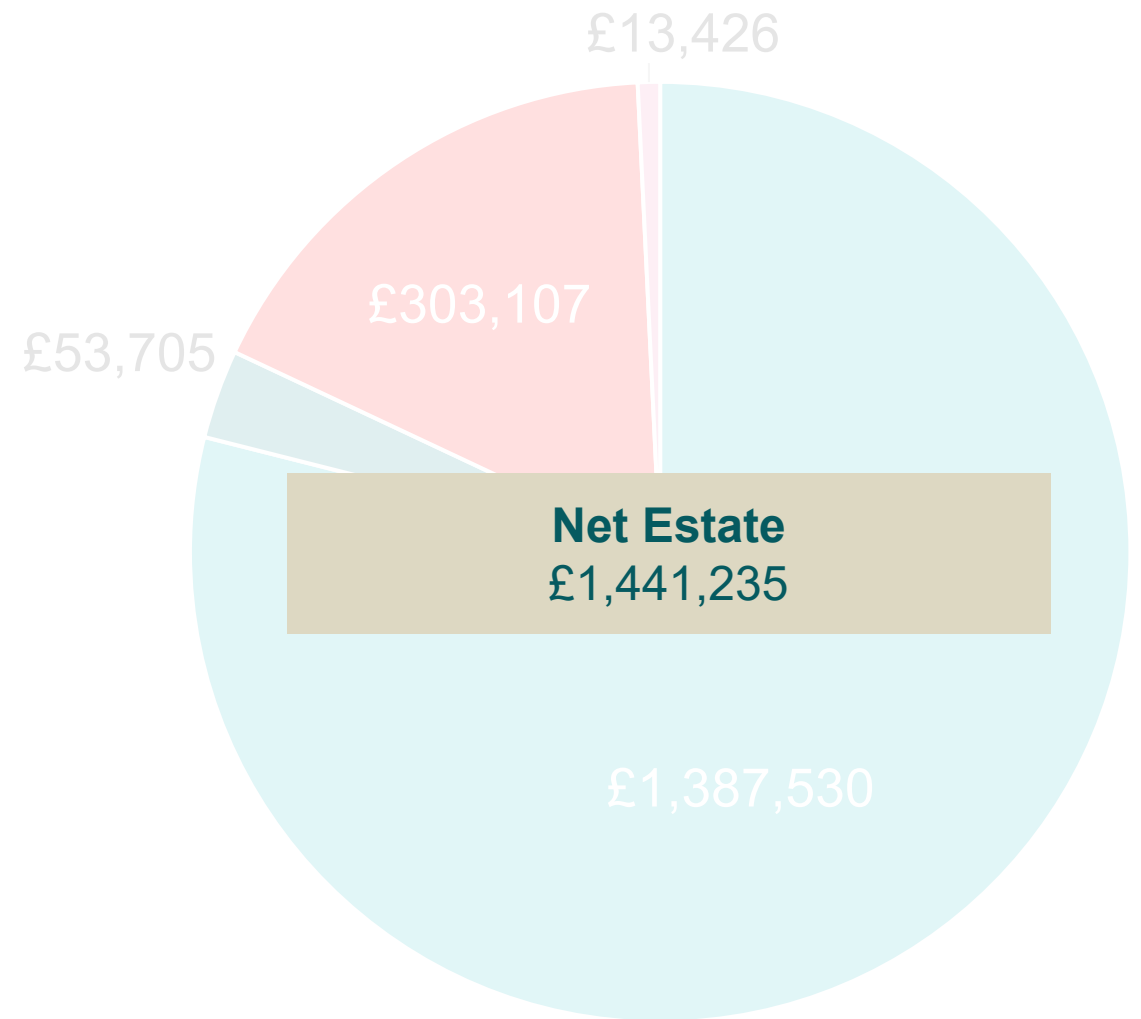
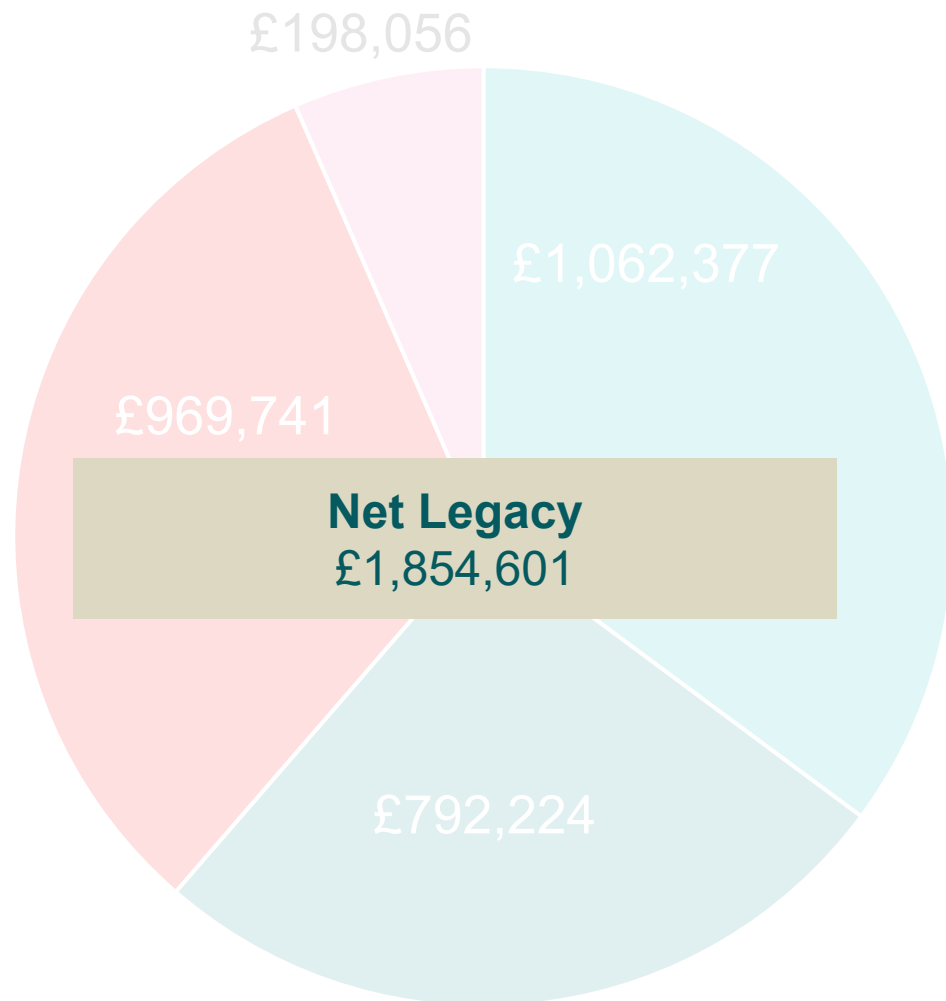
NEOOI
£4,077 p.a.

Checklist

Recommendation	Retirement Income (NEED)	Fund Care (NEED)	Increase Legacy (WANT)
Member Drawdown	✓	✓	✗
ISA Transfer	✓	✓	✗
Loan Trust	✓	✓	✓
Gift Trust	✗	✗	✓
NEOOI	✗	✗	✓

April 2041

No plan v our plan



Net Pension

Net Estate

IHT

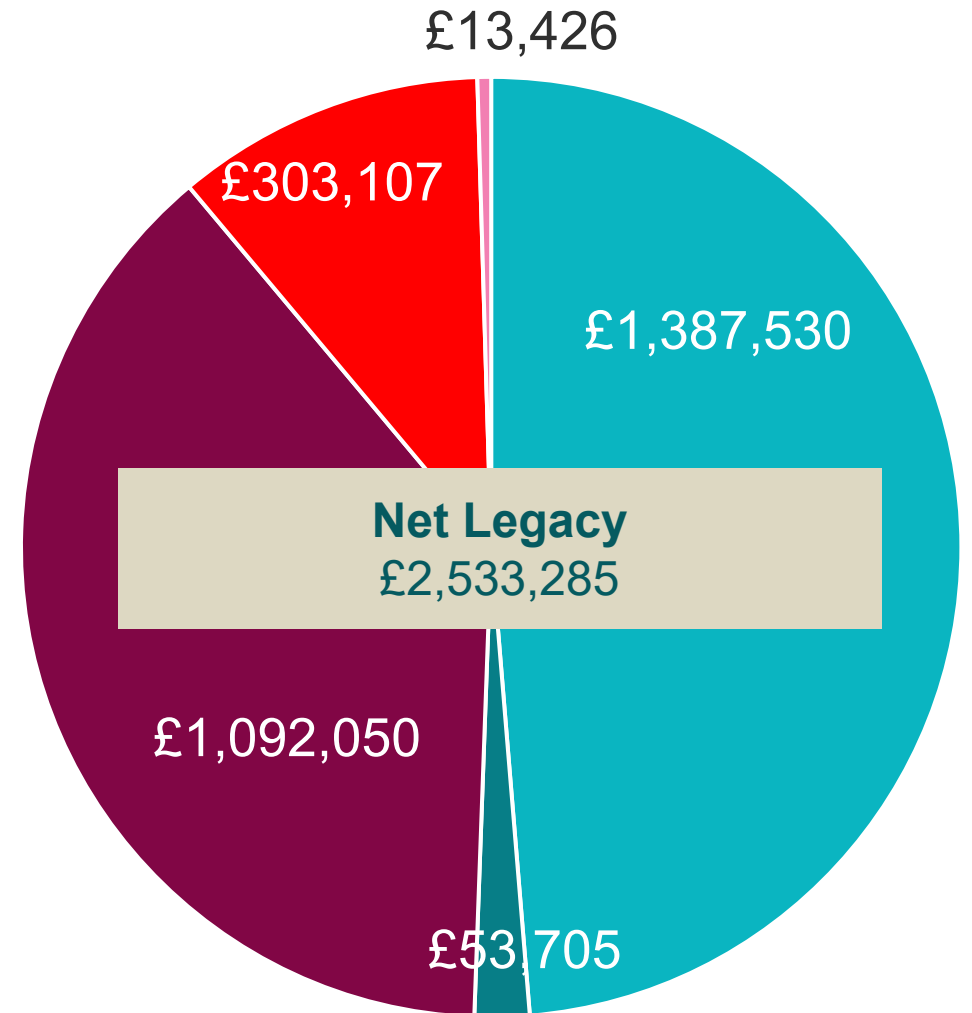
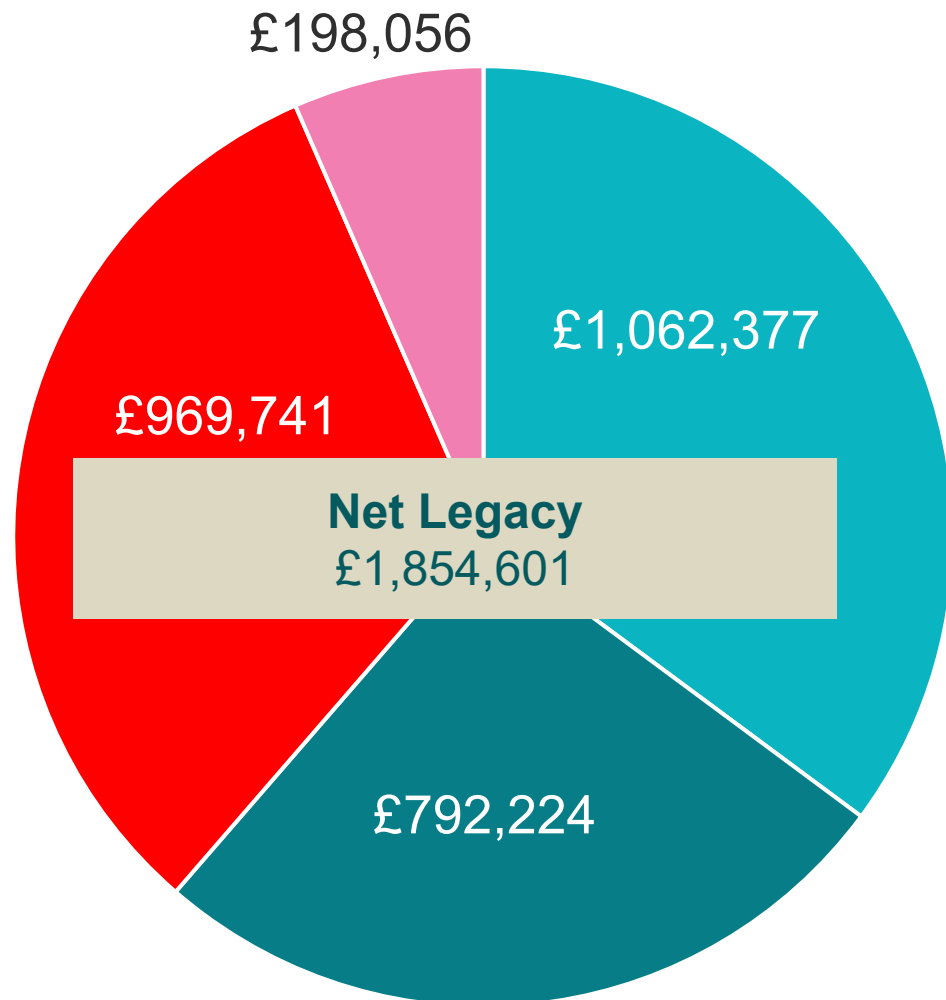
Income Tax (20%)

Red money moved!



April 2041

No plan v our plan



Net Pension

Net Estate

Net Gifts

IHT

Income Tax (20%)

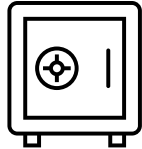
A

Drawdown income up to
basic rate band

£325,000 to Gift Trust
£155,000 to Loan Trust

£170,000 to Loan Trust
£50,000 to Non AIM ISA

PLAN

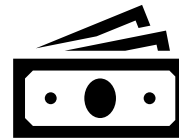


£400,000

Member drawdown

6% growth

No income

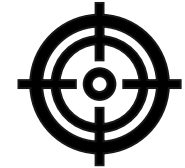


£480,000

Beneficiary Drawdown

6% growth

Income £2,200 p.m.



£220,000

AIM ISA

2% growth

No withdrawals

B

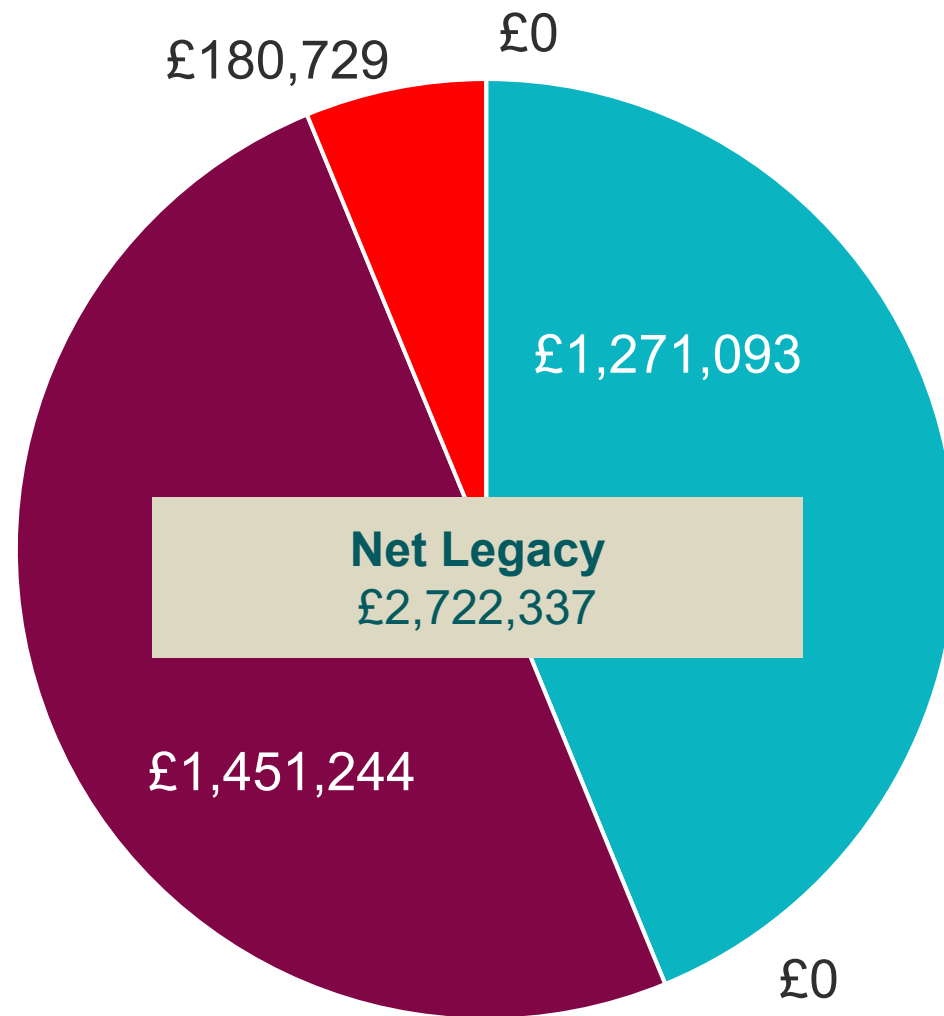
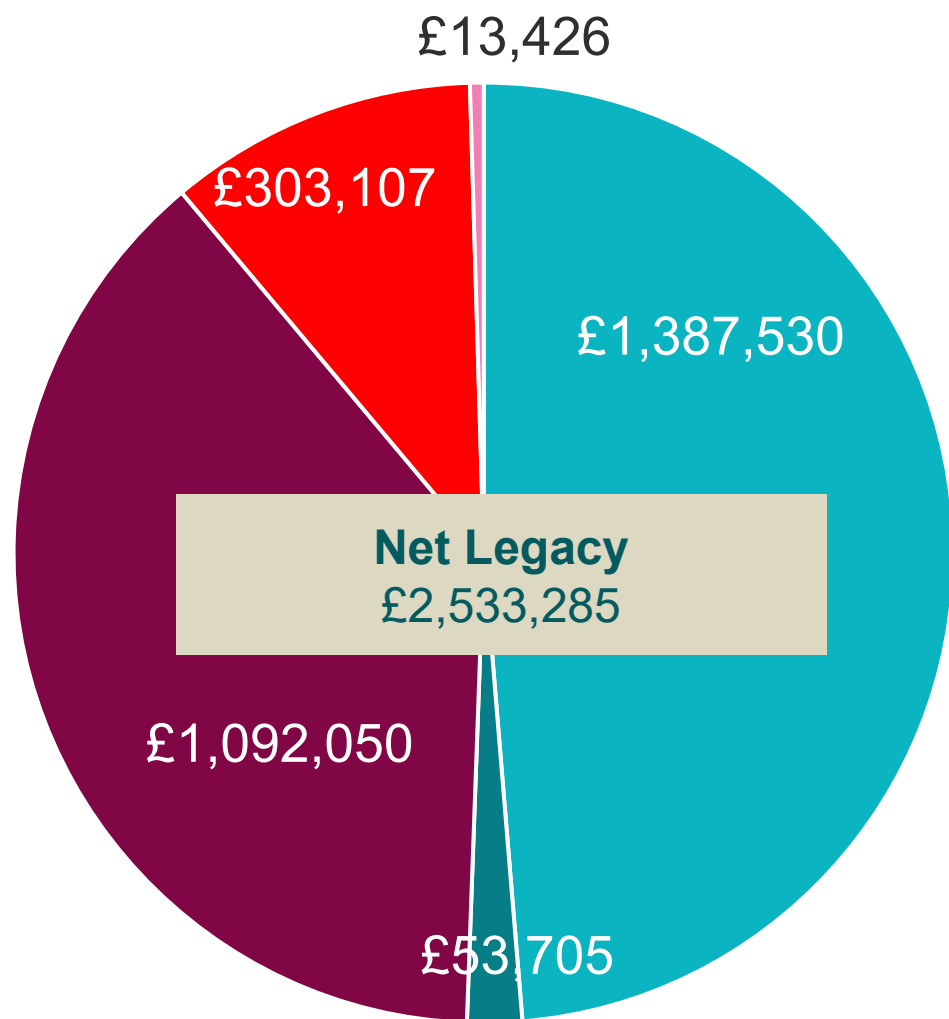
Annuity – G15, £2,244 net
per month

Beneficiary annuity
£3,904 per month funding
£1,207,303 sum assured
WofL

£220,000 Loan Trust

Alternate plan

A v B



Net Pension

Net Estate

Net Gifts

IHT

Income Tax (20%)

A richer life, isn't always a richer life...

Beyond the modelling...

A - Gifting out

Fairly flexible/adaptable

Funds available for lifetime gifts

Only given up £325k and growth on £650k

Insure the rest?

Growth on capital working for family

Investment risk

B - Annuity & Protect

Fairly simple

Inflexible

Limited funds for lifetime gifting

Given up significant capital and replaced it with income

Growth on capital working for annuity and protection providers

Little investment risk (Loan Trust only)

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Implement

... and monitor

06

Implement

...and monitor.

Loan trust
management

Downsizing

Income
requirements

Exemption
Management

Annuitise?

Investment
performance

ATR/CFL

Legislation
changes

Care costs

Hard / Soft
facts

Additional
gifting?



Pension Legacy Modelling Tool

Built by M&G

Inputs

Value of pension being withdrawn	£325,000
Pensionholder tax rate	0.00%
Beneficiary tax rate	20.00%
Term (years)	15
IHT	40%

Net growth

Pensions	6.00%
Loan Trust and Gifts	6.00%
Business Relief	3.00%

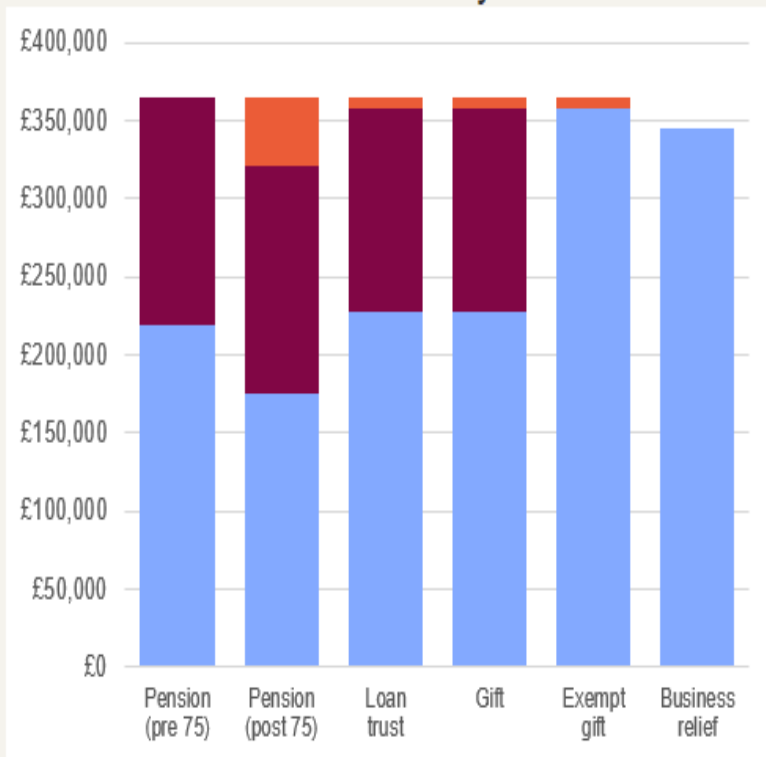
RESET

Key

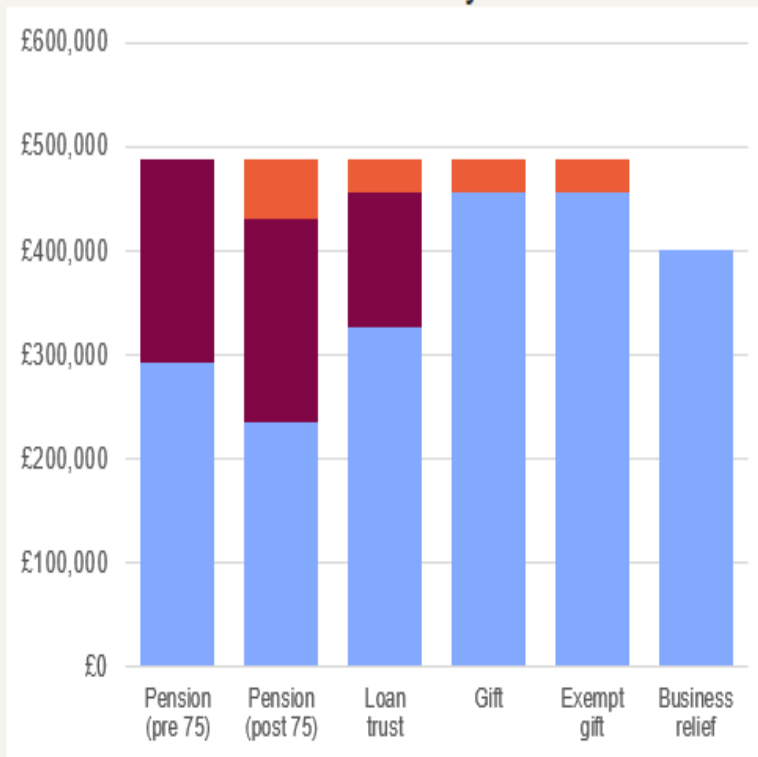
- █ Net Legacy
- █ Inheritance Tax
- █ Beneficiary Income Tax

Tax and Net Legacy Breakdown by Term

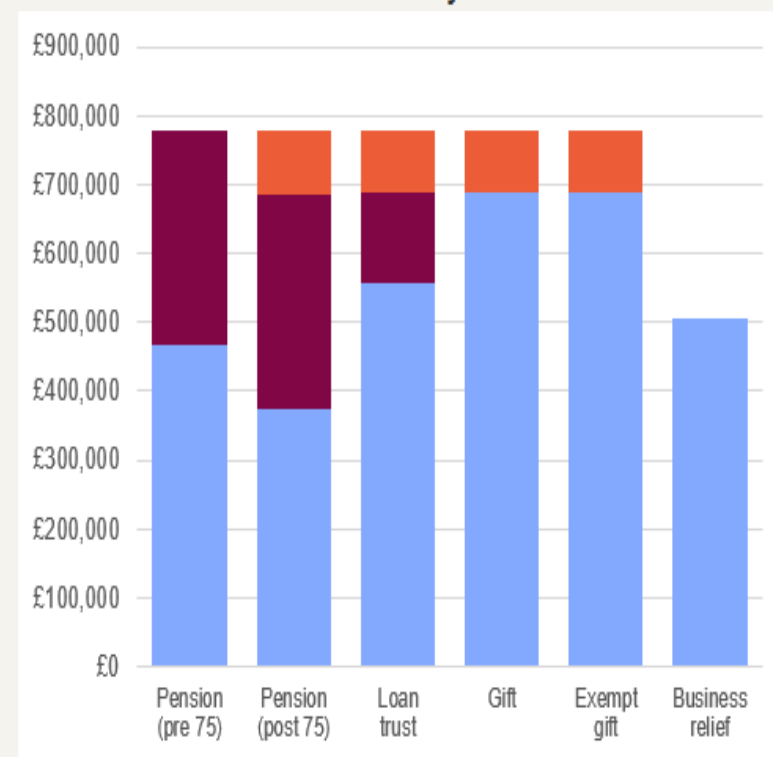
Values after 2 years



Values after 7 years



Values after 15 years



Learning Outcomes

By the end of this session you should be able to:

0 1 Assess the impact of the IHT changes in the 2024 Autumn Budget on your clients' financial planning.

0 2 Describe the fundamental elements of an IHT plan

0 3 Evaluate different options to mitigate a pension driven IHT liability



Any
questions?



Thank
you

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www.mandg.com/wealth/adviser-services/tech-matters