



Pondering planning

... with pensions in the IHT world.



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.

No reproduction, copy, transmission or amendment of this presentation may be made without our written permission.

Learning objectives

By the end of this session, you will be able to:

Explain the changes
to pension death
benefit taxation from
April 2027.

Evaluate different
options to mitigate a
pension driven IHT
liability.



Where are we?

Related events

ON-DEMAND EVENTS

Pensions and IHT update - guiding clients through the IHT maze

In this webinar the M&G Technical Team look at the government's July 2025 response to the consultation

 23 Jul 25

ON-DEMAND EVENTS

Inheritance Tax planning in a post budget world

Watch this online event where the M&G Technical Team look at the IHT planning landscape subsequent to the Autumn Budget 2024.

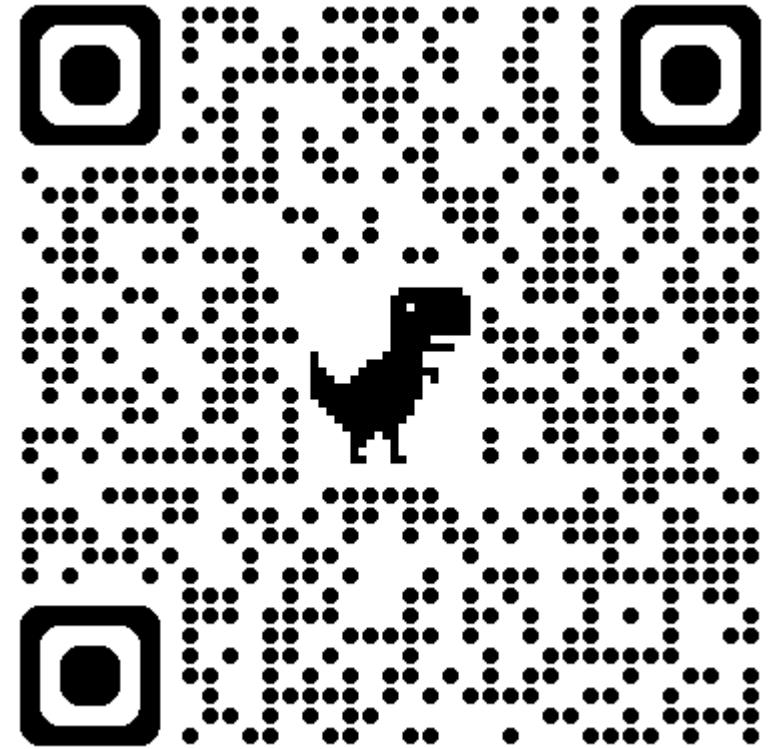
 17 Apr 25

ON-DEMAND EVENTS

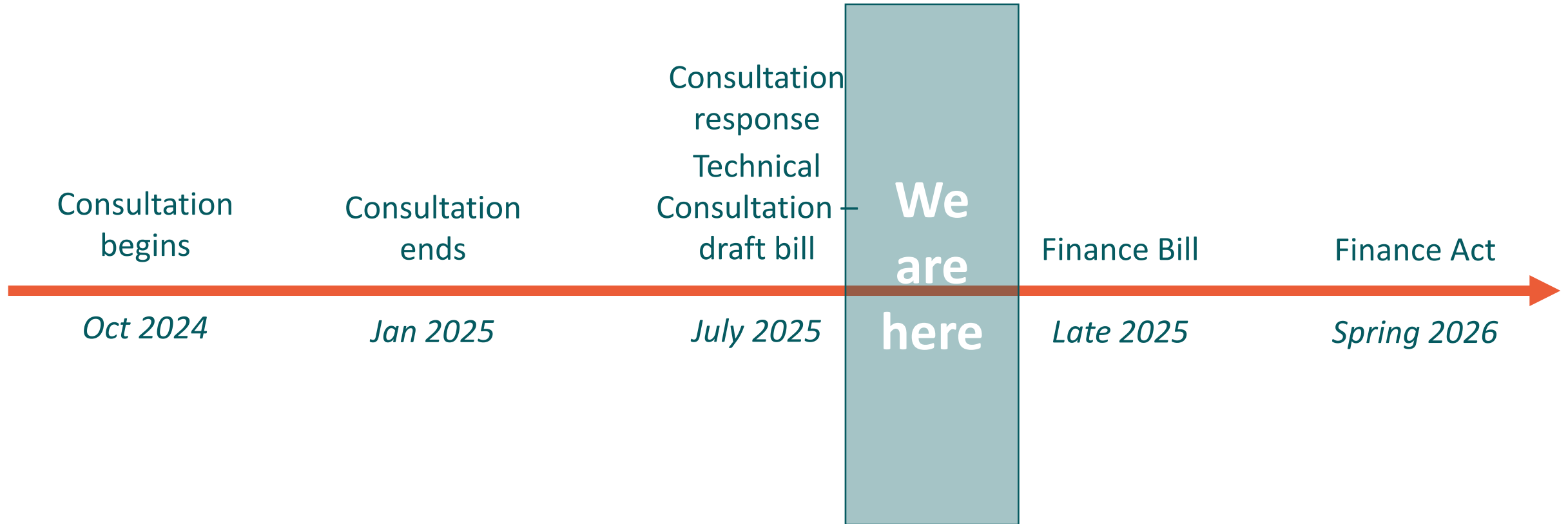
Pensions, death and tax.

Join Les Cameron from the M&G Technical Team for a session on all things pensions, death and tax.

 23 Jan 25



Timeline



Rules apply to transfers of value on or after 6 April 2027

Pension death benefits

5 things **fully** out of scope

Benefits to
Spouse

Benefits to
Charity

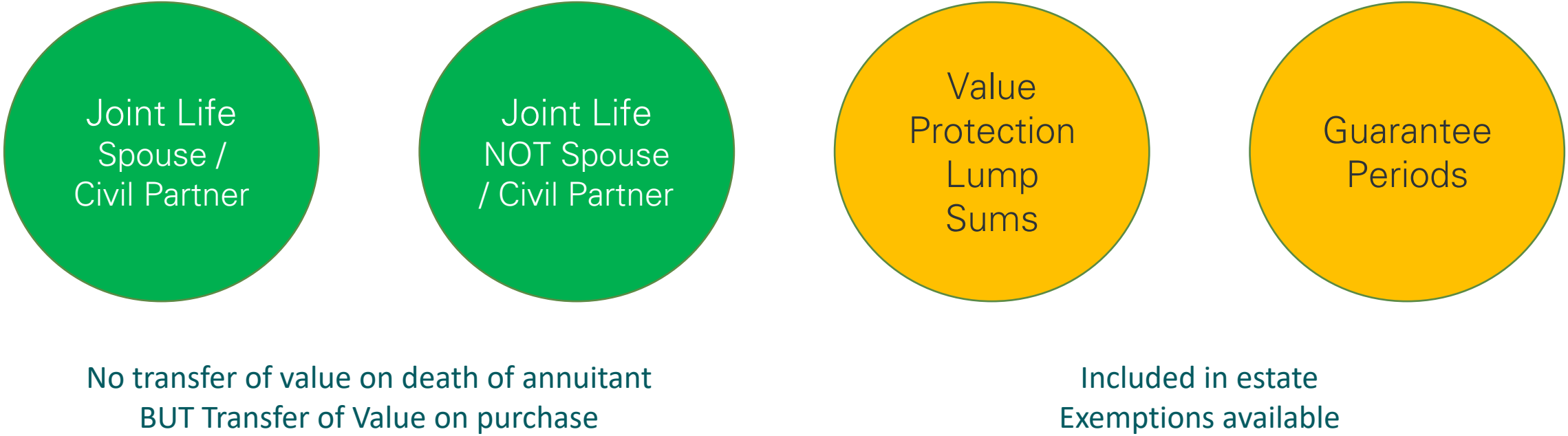
Dependants
Scheme
Pensions

Pension
Death in
Service

Trivial
Commutation
Lump Sum
Death
Benefits

Everything else is in scope (incl Unauthorised Payments)

Annuity death benefits



Joint Life
Spouse /
Civil Partner

Joint Life
NOT Spouse
/ Civil Partner

Value
Protection
Lump
Sums

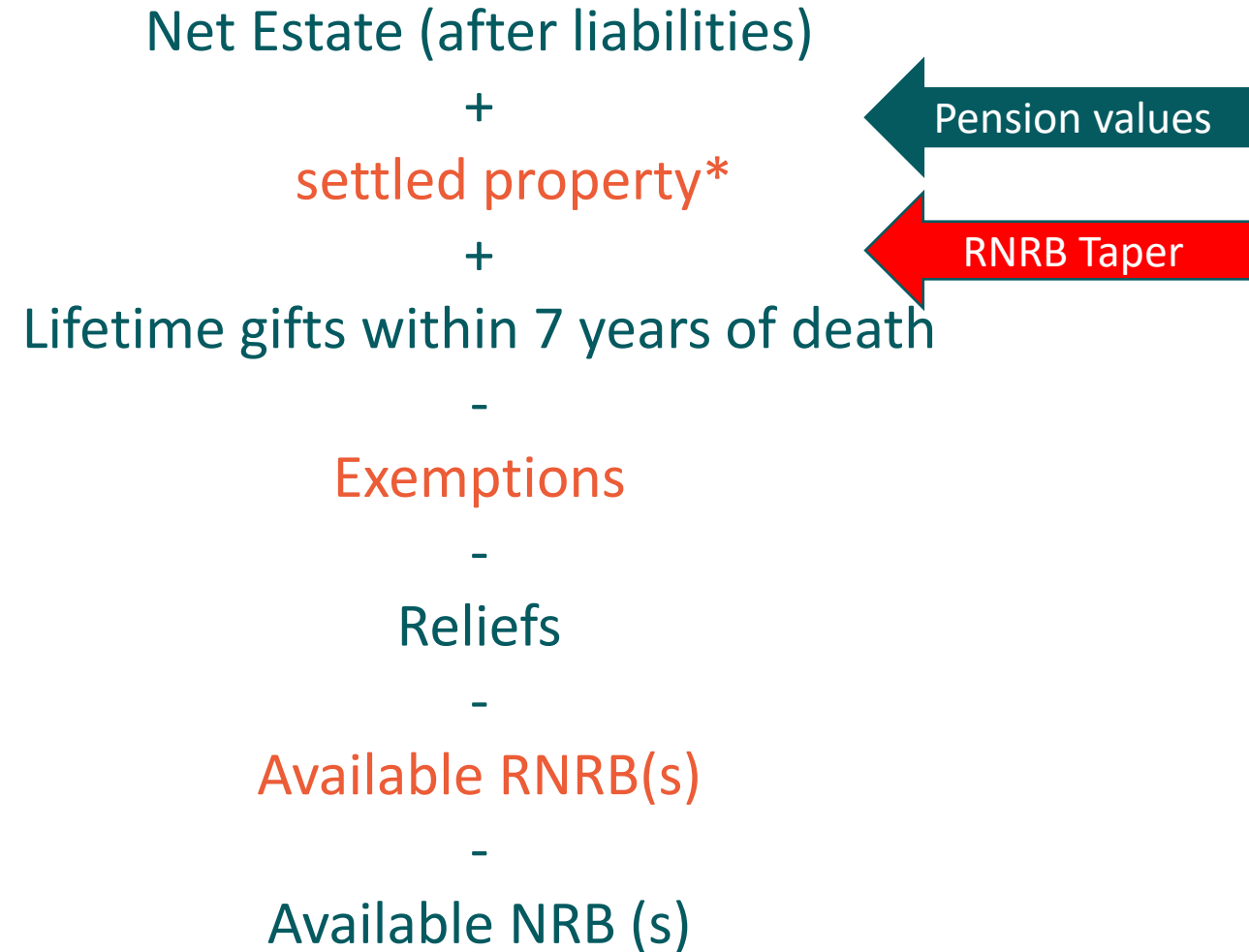
Guarantee
Periods

No transfer of value on death of annuitant
BUT Transfer of Value on purchase

Included in estate
Exemptions available

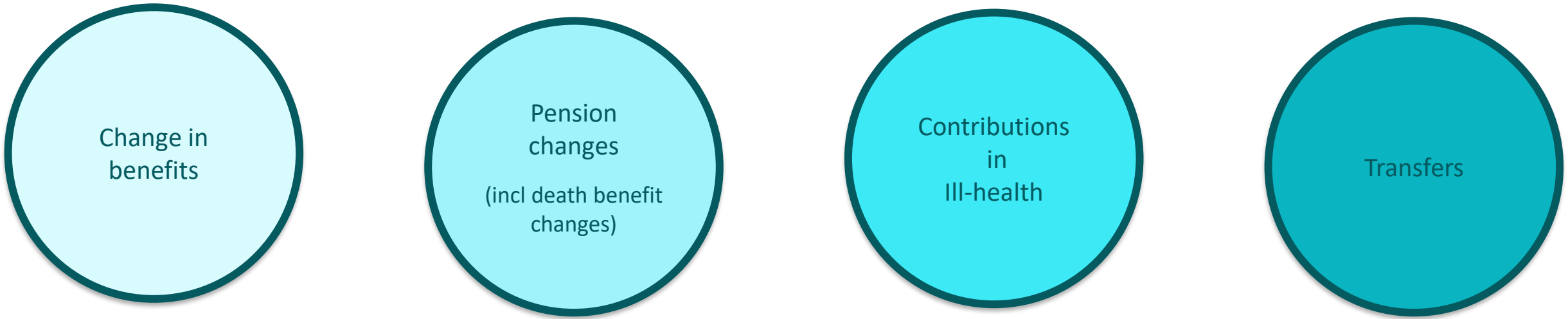
There is no annuity in a Fixed Term Annuity

Transfers of value on death



* where there is settled property and tax due the bill is proportioned between the estate and the settlement

Transfers of Value in Lifetime



a transfer of value is a disposition made by a person (the transferor) as a result of which the value of his estate immediately after the disposition is less than it would be but for the disposition; and the amount by which it is less is the value transferred by the transfer.

S3(1) IHTA1984

What about pre April 2027 events with post April 27 deaths?

Legislative Detail TBC

Quick Succession Relief

36% Charity Rate

Double Charge Relief

Omission to Act

Loss relief

Income tax recovery

Planning
matters

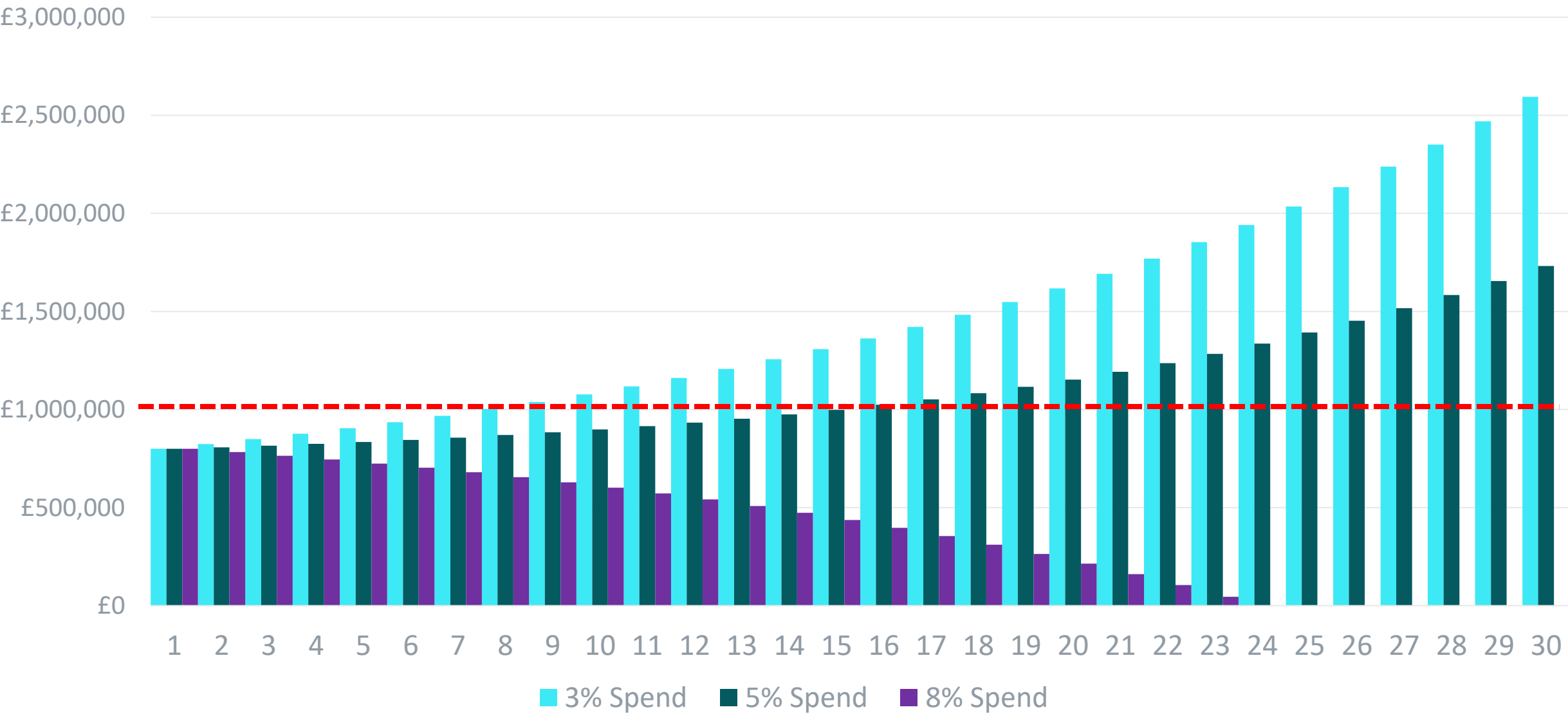


A 7 step process

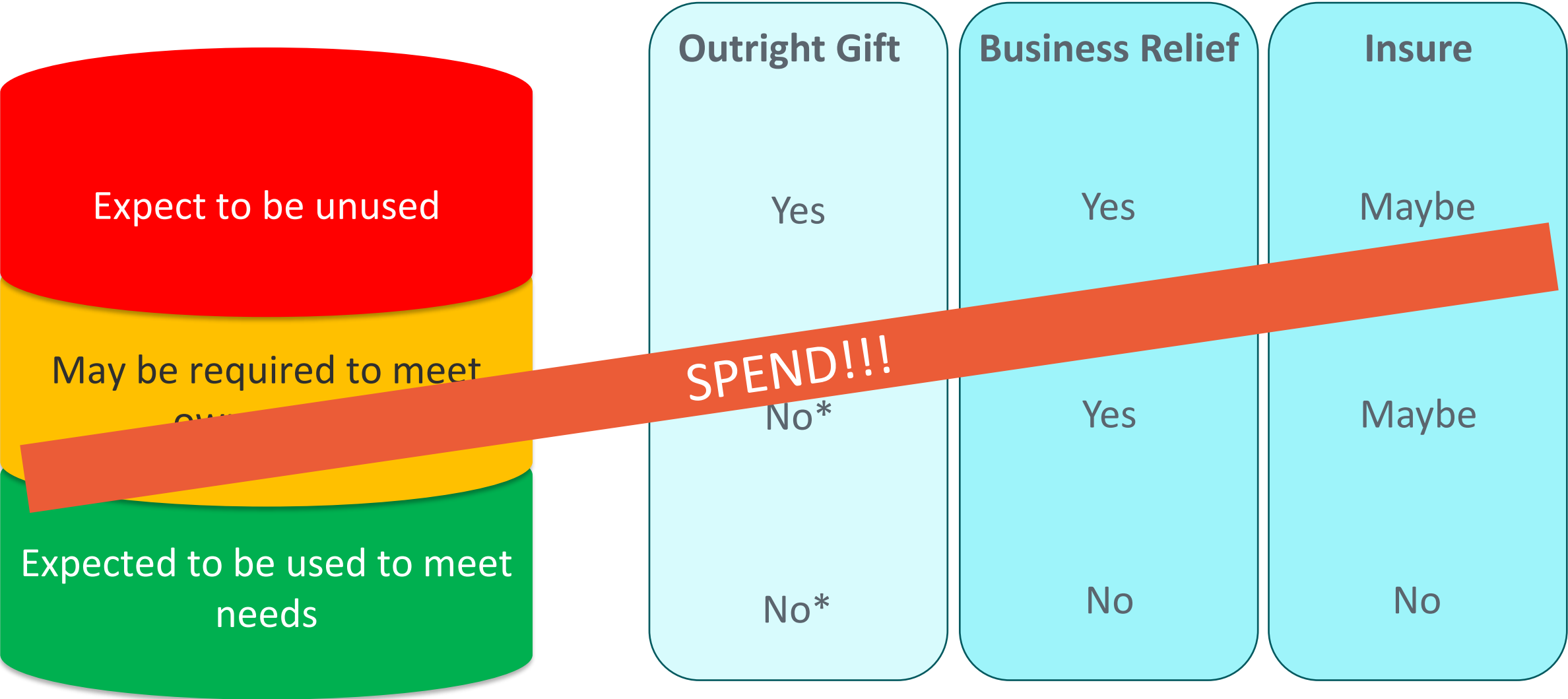
- 1 establish objectives (needs & wants)
- 2 model the issue – current and future
- 3 RAG your assets – access to assets required
- 4 assess tax position of all assets – on gifting and on death
- 5 identify and exclude unsuitable options – gift spend relief insure
- 6 recommend suitable option - pros and cons, modelling
- 7 implement and monitor

We're just going to....?

3% income yield, 3% capital growth, £800,000 startline...



Segmenting your clients assets



*IHT efficient methods of providing are available

Discounting

Protection?

Not if they want pre death access for beneficiaries

Reliefs?

Not if they are risk averse / reasonable investment horizon

Spend?

Lifetime of prudence may be hard to change

Outright gifts?

Want to keep control

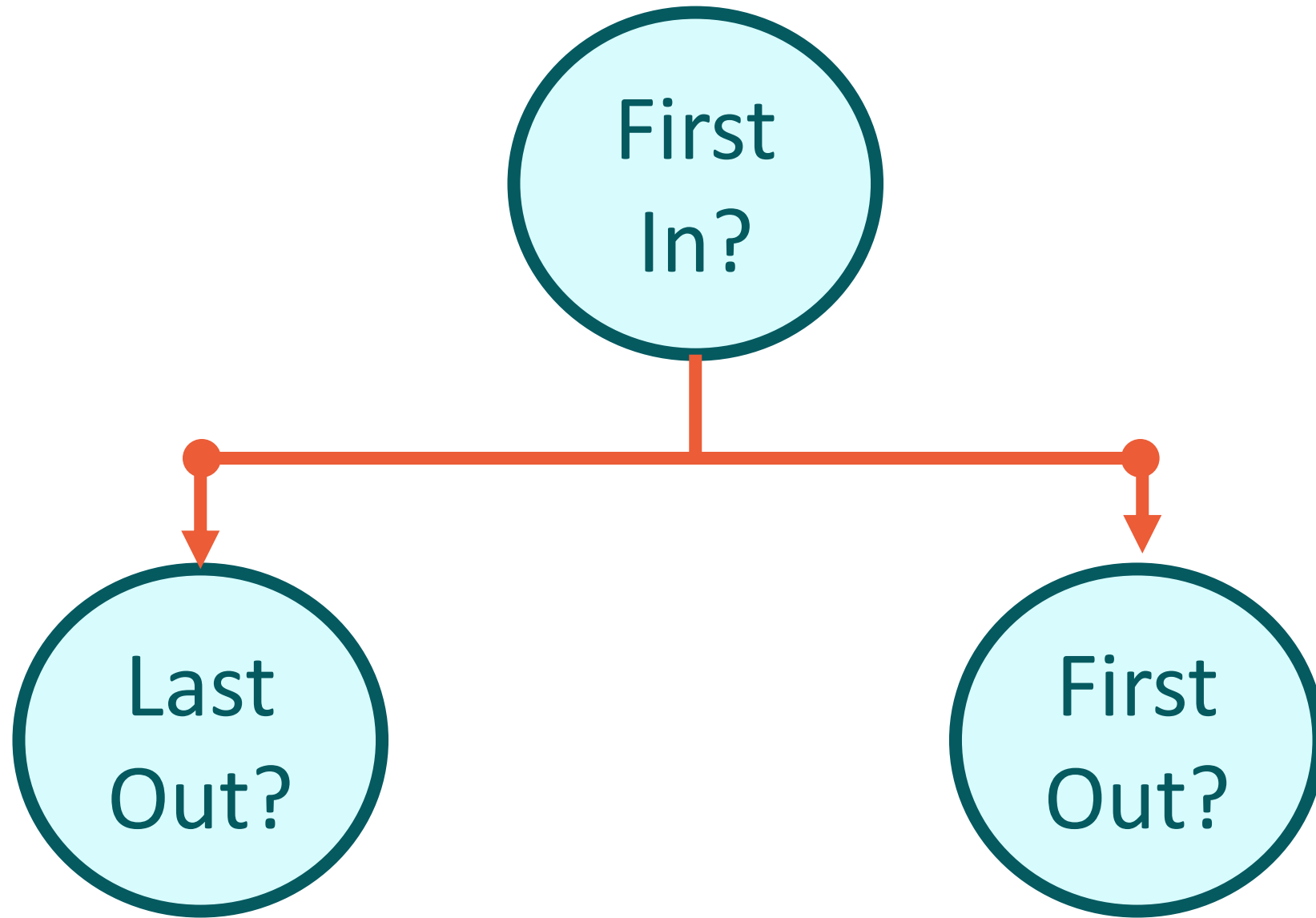
Want total access?

Protection only option?



Pensions are dead...

Pensions are dead...



First In?

Marginal
rate tax
relief

Tax
Deferral

Tax free
growth

Tax free
cash

NO

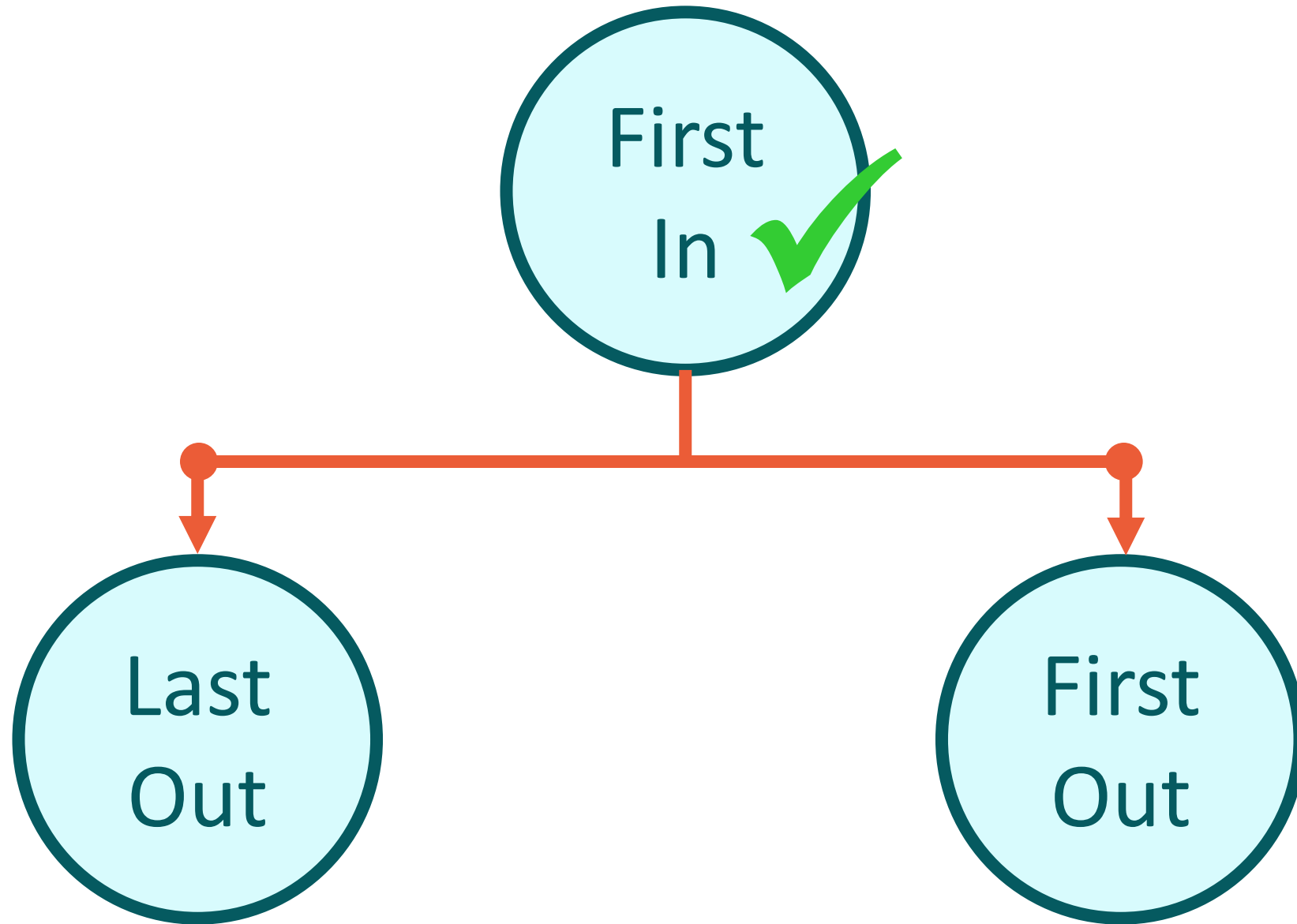
(but some niche stuff)

MAYBE

ABSOLUTELY

Always the best way to fund your retirement needs?

Pensions are dead...



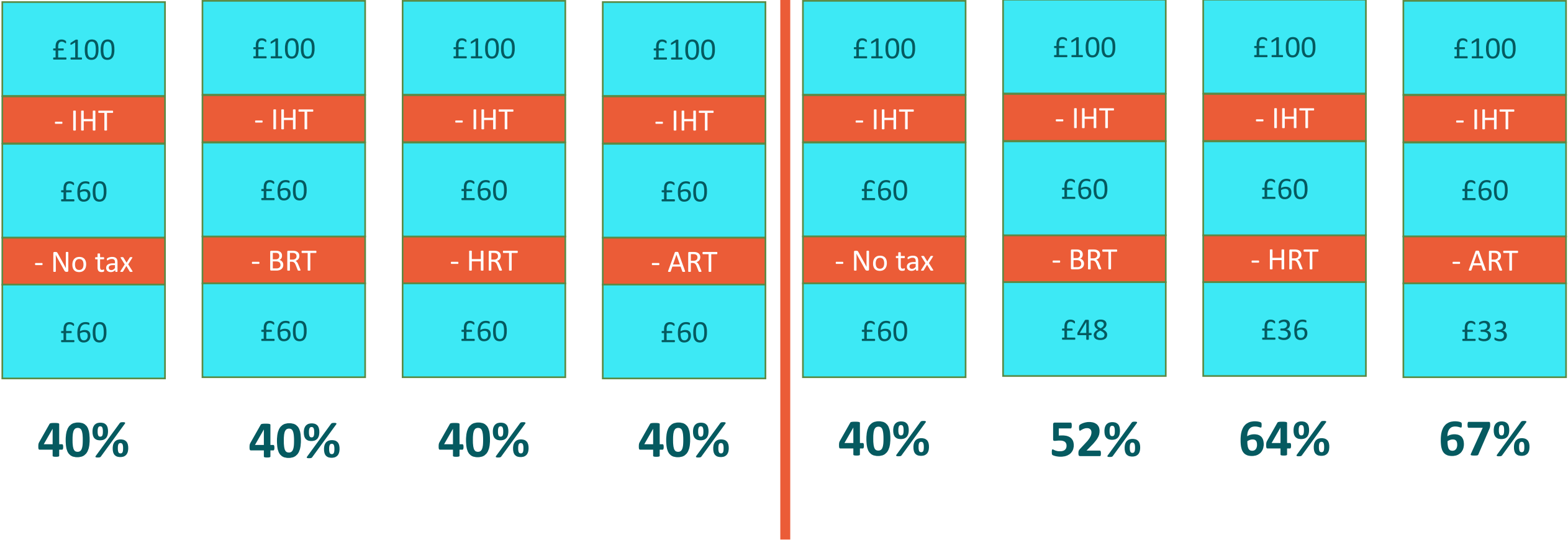
£100 of pension beyond April 2027



£100 of pension beyond April 2027

Non pension assets

Pension assets



Spend the one with the highest tax on death first?

First In.. but when out

$$\begin{array}{c} \text{Current Wealth} \\ + \\ \text{Growth} \\ - \\ \text{Lifetime Taxes} \\ - \\ \text{IHT} \\ - \\ \text{Beneficiary taxes} \\ = \\ \text{Net legacy} \end{array}$$

First In.. but when out

Current Wealth

+

Growth

-

Lifetime Taxes

-

IHT

-

Beneficiary taxes

=

Net legacy

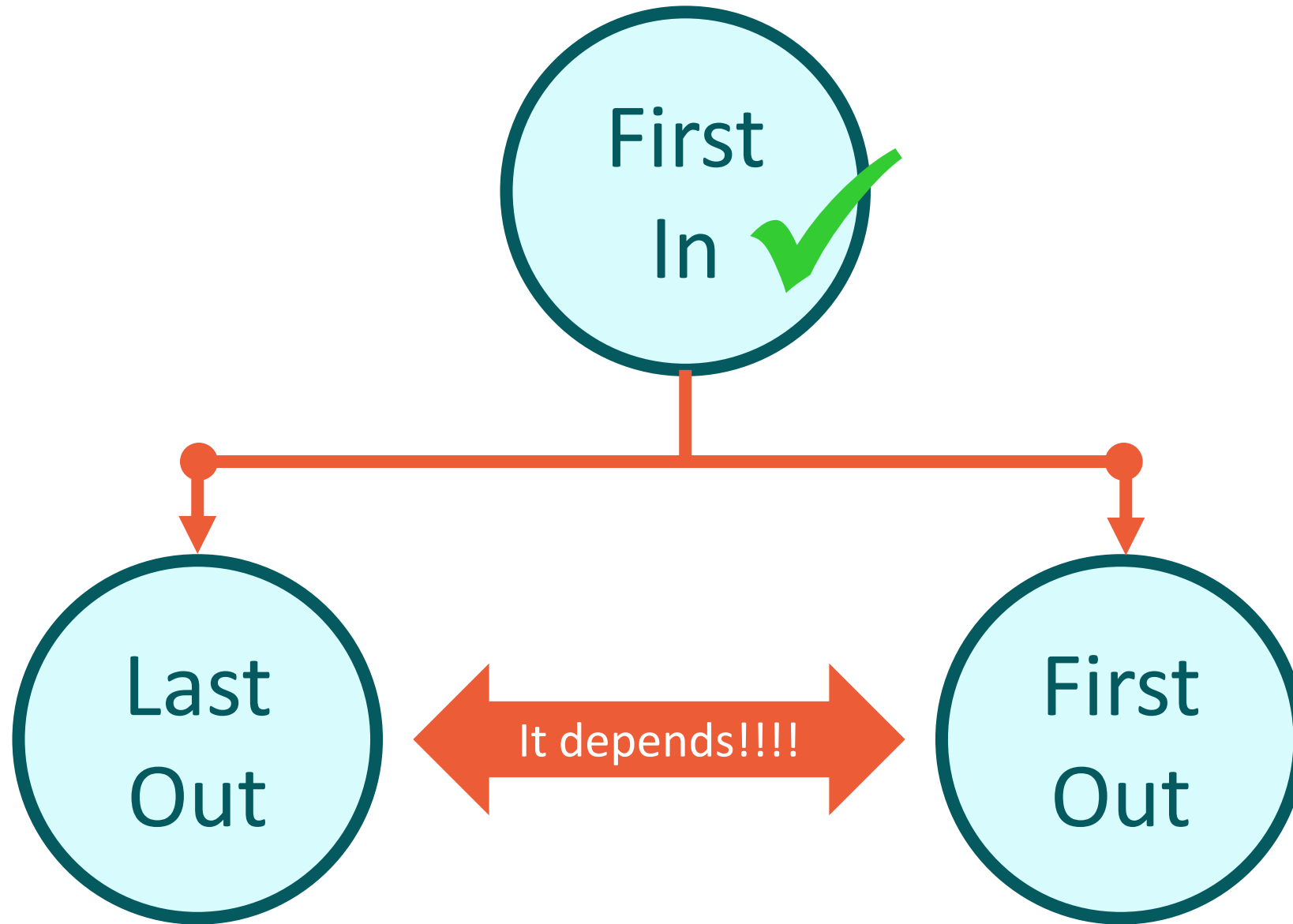
Members lifetime taxes > Beneficiary Taxes
= Pension Last

Members lifetime taxes < Beneficiary Taxes
= Pension First

Members lifetime taxes = Beneficiary Taxes
= It depends

Sensitivity to growth assumptions!

Pensions are dead...

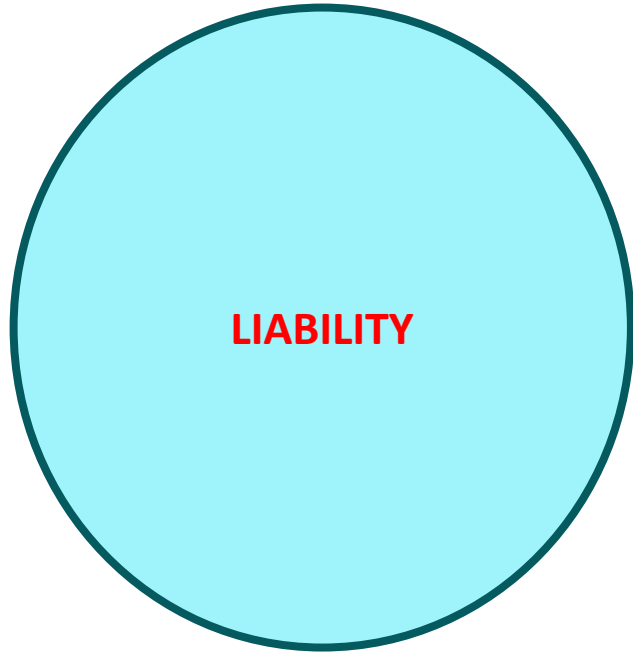


Spend the one that leaves the highest net estate under your NRB!



Let's do Whole of Life...

Protection



At what point are you covering your liability?

Just pension liability, whole estate liability?



Financial underwriting?

Considerations for WOL

Can you get it?

Place in
trust!

IHT treatment of
premiums

Gifts!

Periodic
Charges
(discretionary trust)

Guaranteed or
reviewable?

Can attorney
continue to fund
it?

Is there a risk of lapse?



Moving money...

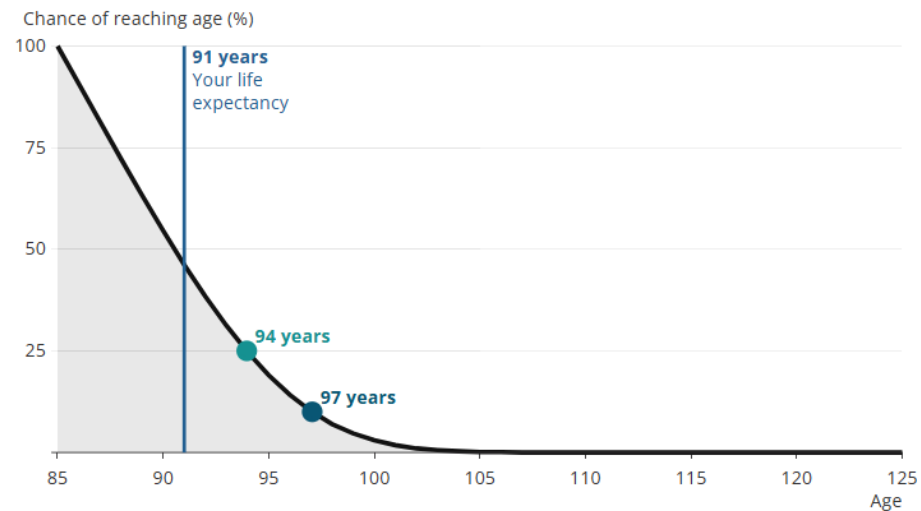
They've left it too late

Age Sex

Calculate your life expectancy

Your average life expectancy is
91 years

However there's a chance you might live longer...

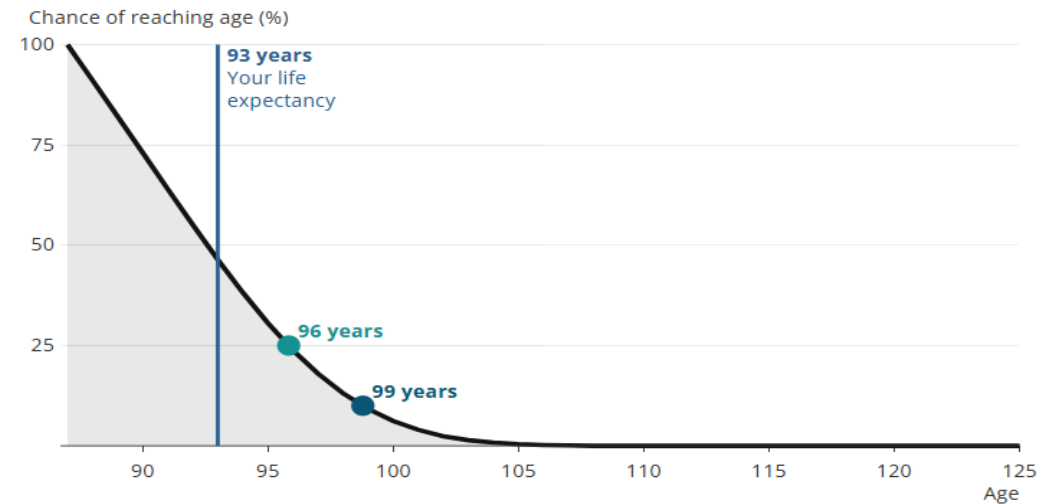


Age Sex

Calculate your life expectancy

Your average life expectancy is
93 years

However there's a chance you might live longer...



Mid 80s before non exempt gifts likely to fail!

Moving money

Current Wealth

+

Growth

-

Lifetime Taxes

-

IHT

-

Beneficiary taxes

=

Net legacy



Tax free?

or

Taxable?

Red money – 0% tax on withdrawal, beneficiary 20% taxpayer

Scenario		In pension death pre 75	In pension death post 75	Gift
Pension value		£100,000	£100,000	£100,000
Tax on withdrawal		£0	£0	£0
Net value		£100,000	£100,000	£100,000
2 years time				
Gross value		£110,250	£110,250	£110,250
IHT (assume no NRB)	40%	£44,100	£44,100	£40,000
Beneficiary Income tax	20%	£0	£13,230	£2,050
Net legacy		£66,150	£52,920	£68,200

Red money – 0% tax on withdrawal, beneficiary 20% taxpayer

Death in 2 years

Rank	Scenario	Net legacy
1	Exempt gift	£108,200
2	Business Relief	£106,090
3=	Gift	£68,200
3=	Loan Trust	£68,200
5	Pension pre 75 death	£66,150
6	Pension post 75 death	£52,920

3	IHT changes cancelled Post 75 death	£88,200
---	--	---------

Death in 7 years

Rank	Scenario	Net legacy
1=	Exempt gift	£132,568
1=	Gift	£132,568
3	Business Relief	£122,987
4	Loan Trust	£92,568
5	Pension pre 75 death	£84,426
6	Pension post 75 death	£67,541

4	IHT changes cancelled Post 75 death	£112,568
---	--	----------

All growth 5% net except business relief 3%. 100% Business relief. No loan repayments.

Red money – 40% tax on withdrawal, beneficiary 40% taxpayer

Scenario		In pension death pre 75	In pension death post 75	Gift
Pension value		£100,000	£100,000	£100,000
Tax on withdrawal		£0	£0	£40,000
Net value		£100,000	£100,000	£60,000
2 years time				
Gross value		£110,250	£110,250	£66,150
IHT (assume no NRB)	40%	£44,100	£44,100	£24,000
Beneficiary Income tax	40%	£0	£26,460	£2,460
Net legacy		£66,150	£39,690	£39,690

Red money – 40% tax on withdrawal, beneficiary 40% taxpayer

Death in 2 years

Rank	Scenario	Net legacy
1	Pension pre 75 death	£66,150
2	Exempt gift	£63,690
3	Business Relief	£63,654
4=	Pension post 75 death	£39,690
4=	Gift	£39,690
4=	Loan Trust	£39,690

2	IHT changes cancelled Post 75 death	£66,150
---	--	---------

Death in 7 years

Rank	Scenario	Net legacy
1	Pension pre 75 death	£84,426
2=	Gift	£74,656
2=	Exempt gift	£74,656
4	Business Relief	£73,792
5=	Pension post 75 death	£50,656
5=	Loan Trust	£50,656

2	IHT changes cancelled Post 75 death	£84,426
---	--	---------

All growth 5% net except business relief 3%. 100% Business relief. No loan repayments.

Moving money

REGULAR

More admin

Lower legislative confidence

Ability to redirect

Still got access to future payments

Growth on remaining capital will be in your estate
(unless annuity)

Potentially immediately exempt

LUMP SUM

Less admin

Greater legislative confidence

Loss of access

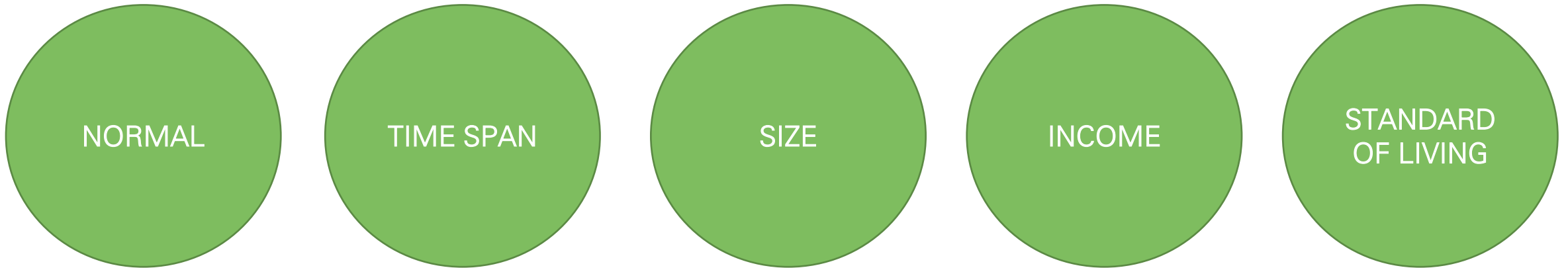
Immediate reduction in estate
(only for RNRB)

All growth in capital outside estate

7-year clock

Moving money regularly

5 things you need to know about NEOOI



Drawdown Income, PCLS and UFPLS are income

Moving money regularly

ANNUITY

- Immediate reduction in estate
- Transfer of value if ill health / Death benefits in estate
- Inflexible
- NO death benefits if from beneficiary drawdown pots
- No ambiguity over NEOOI!

DRAWDOWN

- Residue still in estate
- Gifting higher amounts possible
- Flexible
- May outperform annuitisation
- NEOOI ambiguous

Are annuities without death benefits suitable for gifting other than WOL?

Annuitise v Drawdown

	0	5	10	15	20
Annuity					
Probate value	£165,989	£137,772	£102,101	£60,174	£0
IHT	£66,395	£55,108	£40,840	£24,069	£0
G'tee payments still to be made	£366,980	£275,235	£183,490	£91,745	£0
G'tee payments less IHT	£300,585	£220,127	£142,650	£67,676	£0
Drawdown					
Probate Value	£250,000	£216,852	£174,312	£119,718	£49,655
IHT	£100,000	£86,740	£69,724	£47,887	£19,862
Residual pot	£150,000	£130,111	£104,587	£71,830	£29,793

£250,000 fund standard annuity rates, 65 yr old, 20yr gtee - £18,350 per annum

Regular gifting – annuity income & drawdown income

WHOLE OF LIFE

Immediate reduction in estate

No beneficiary access prior to death

Inflexible

May need to stop = lapse risk?

Can you get cover?

Liquid for IHT bill

REGULAR GIFT

May outperform, especially if rated

Beneficiary access pre death

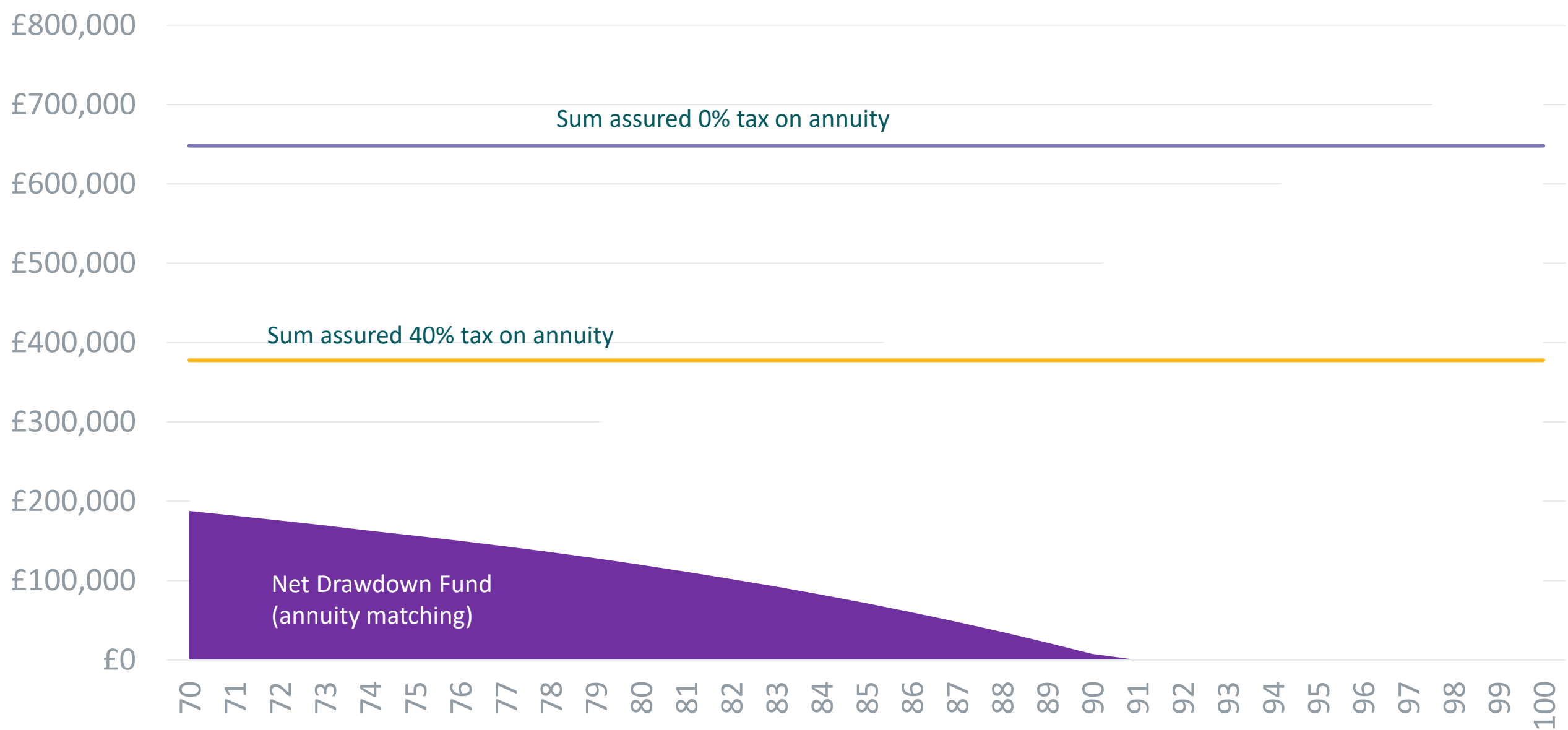
Flexible

May need to stop = fund still available.

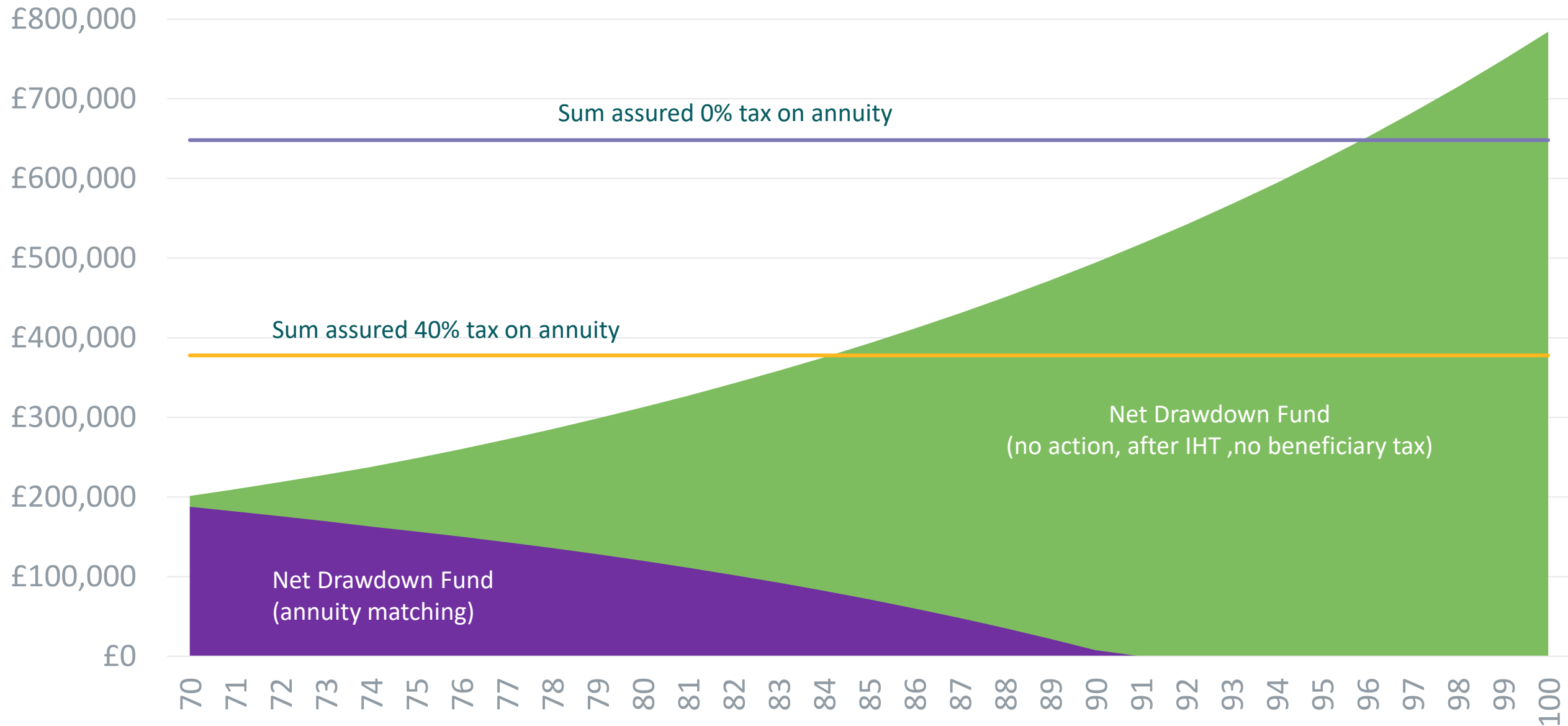
No need for underwriting

Could be liquid for IHT bill

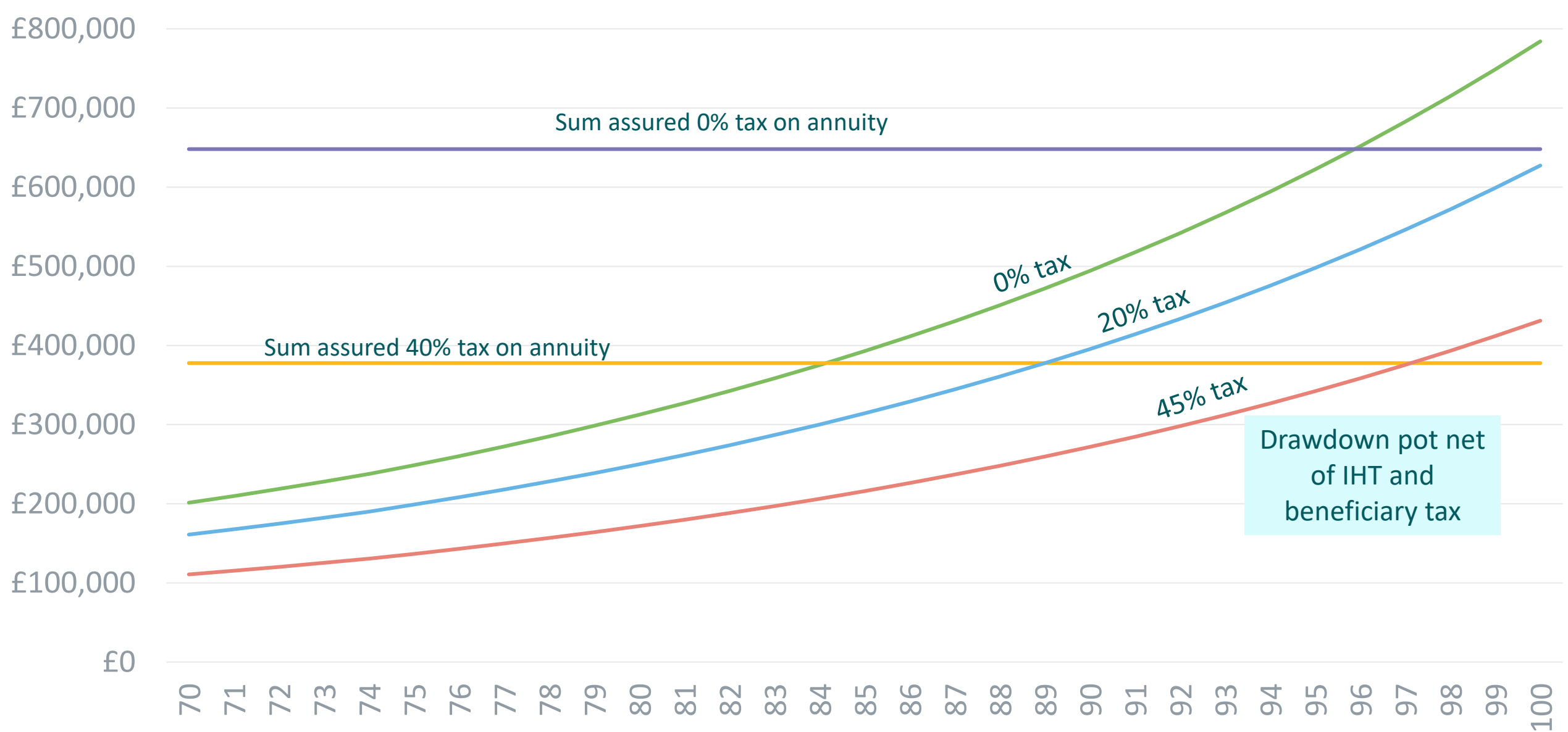
Let's fund a whole of life – £250,000 pot, income level £18,988, standard rates, DD growth 5% net



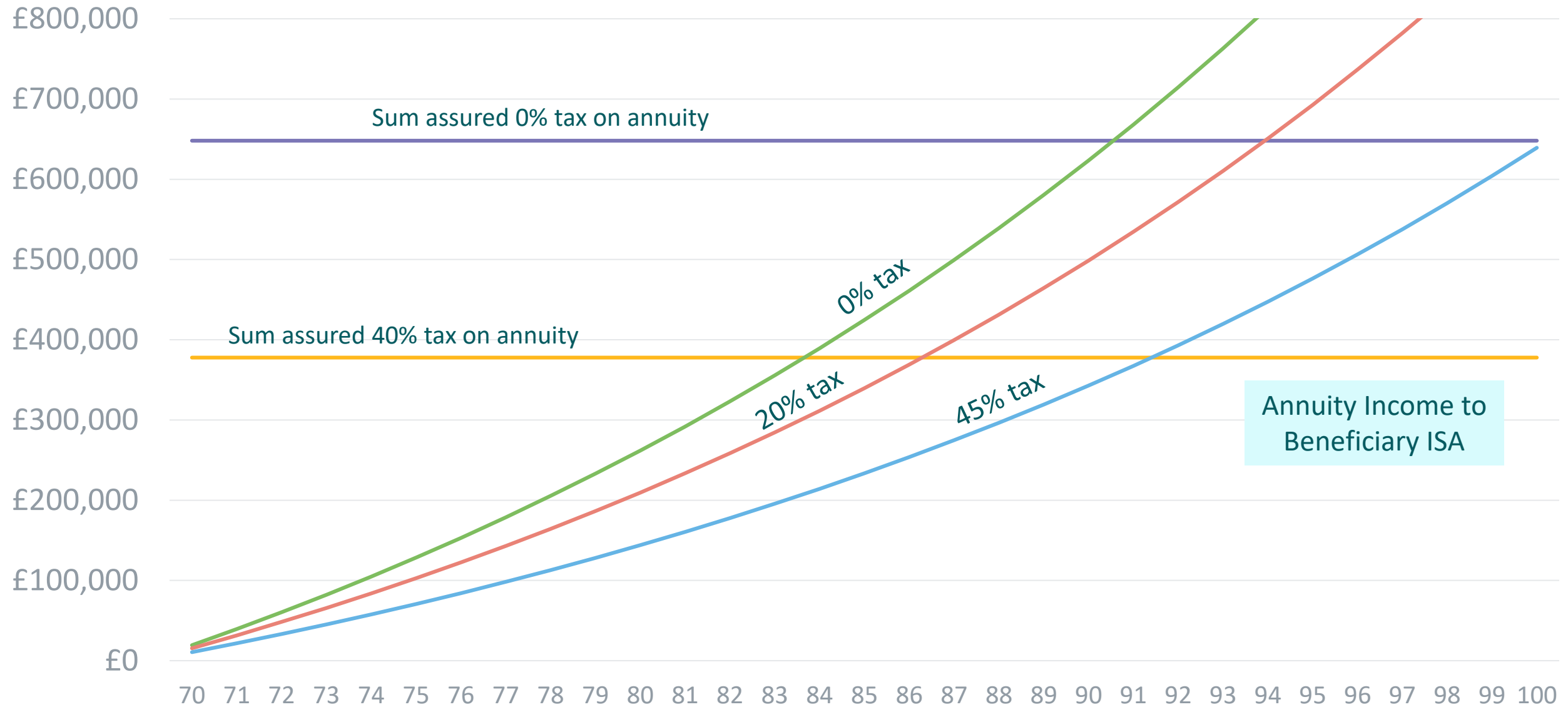
Let's fund a whole of life – income level £18,988, standard rates, DD growth 5% net



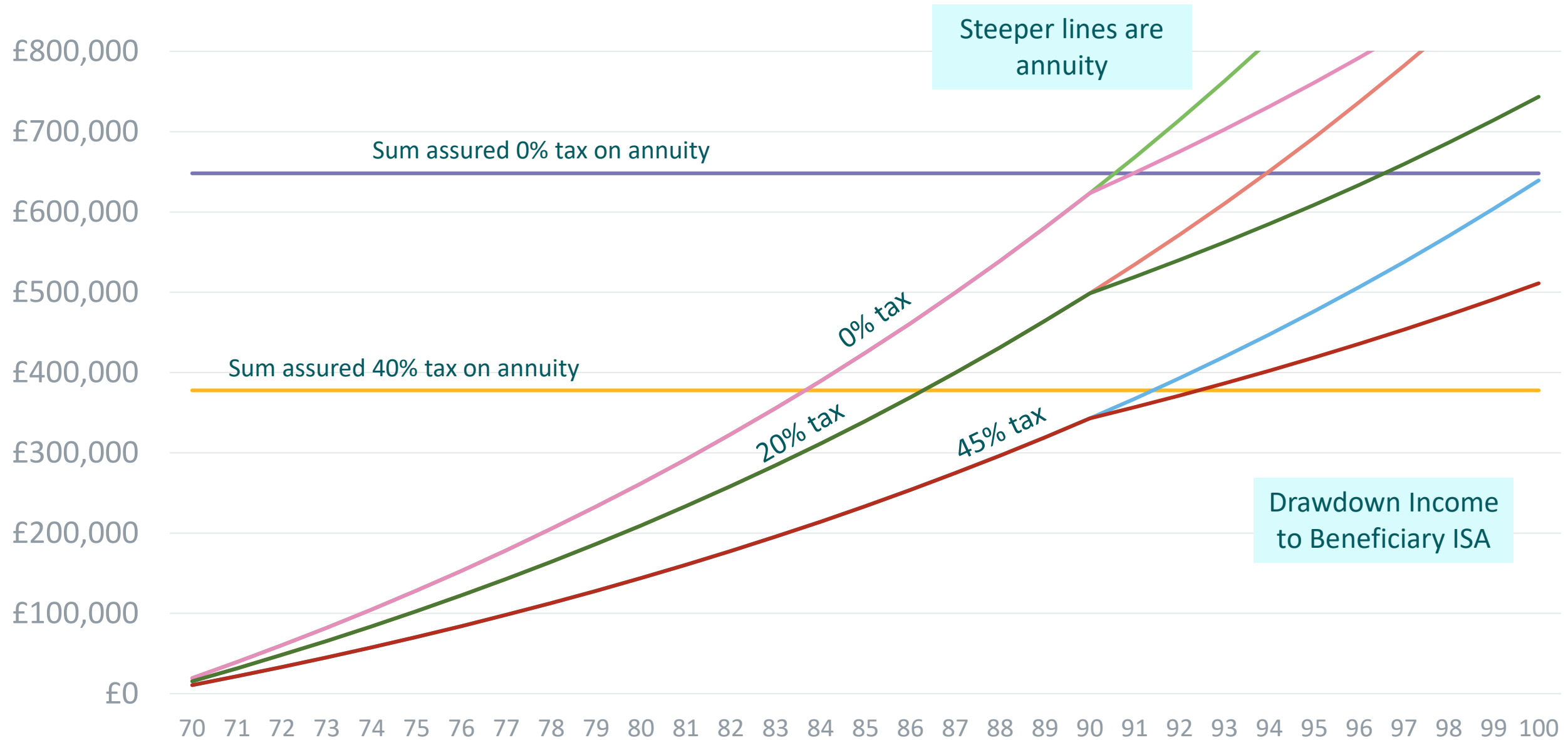
Let's fund a whole of life – income level £18,988, standard rates, DD growth 5% net



Let's NOT fund a whole of life – income level £18,988, standard rates, DD growth 5% net



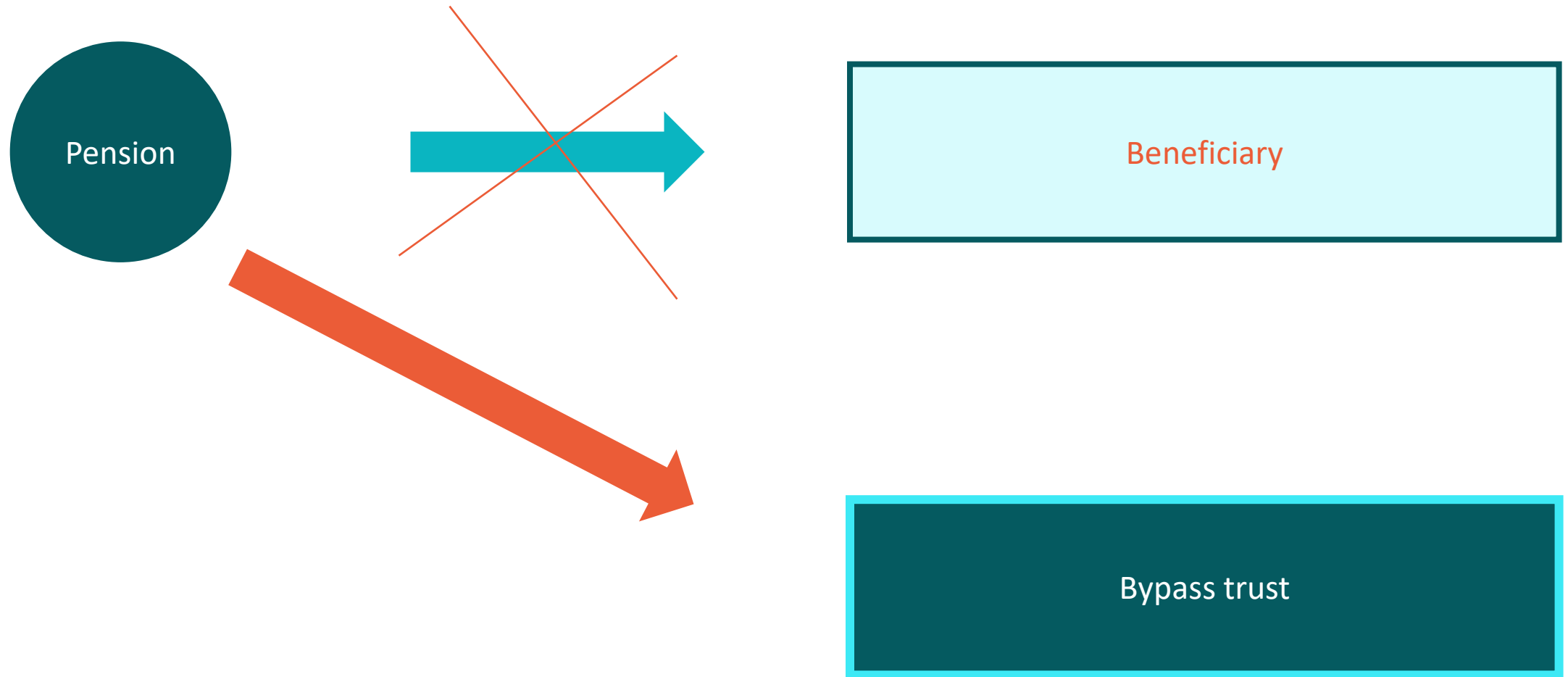
Let's NOT fund a whole of life – income level £18,988, standard rates, DD growth 5% net



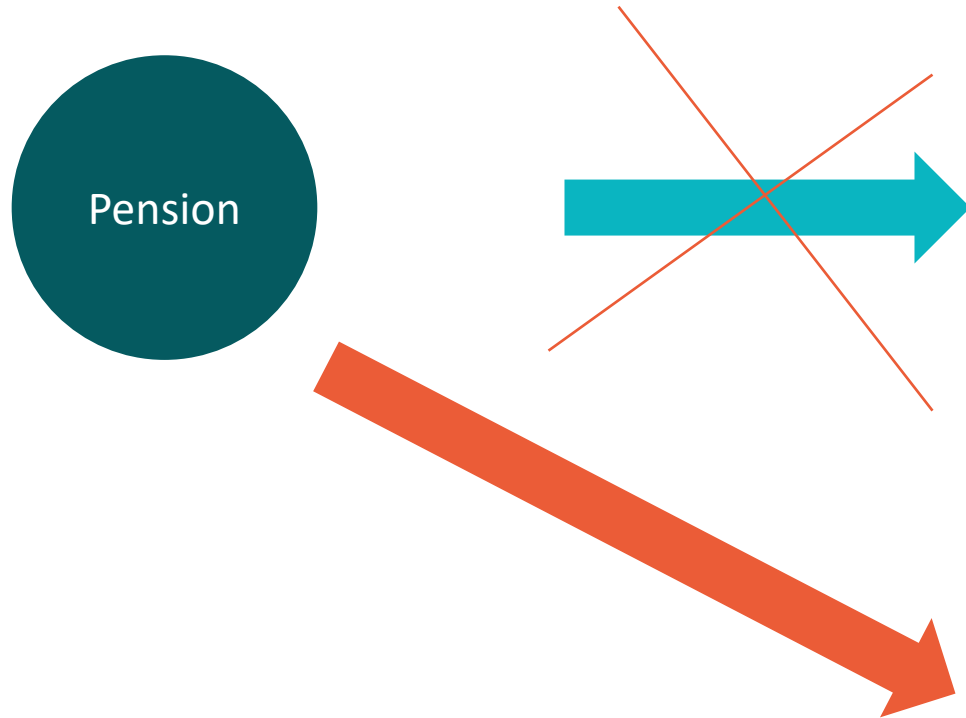


~~Spousal~~ Bypass trusts...

What's a bypass trust? And why!



What's a bypass trust? And why!



Beneficiary

Taxation issues on beneficiary death?

Control issues with beneficiary?

Distribution controlled by beneficiary/scheme

Bypass trust

Better overall tax outcome?

Beneficiaries get 45% tax credit (post 75 deaths)

Not in beneficiary estate

Distribution controlled by trustees

Nominations?

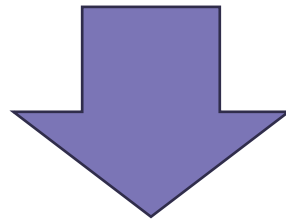


£325k DC
pension



£325k DC
pension

Pass to
spouse



5 April 2027



Nominations?



£650k DC
pension



Death before 5 April 2027

no IHT due

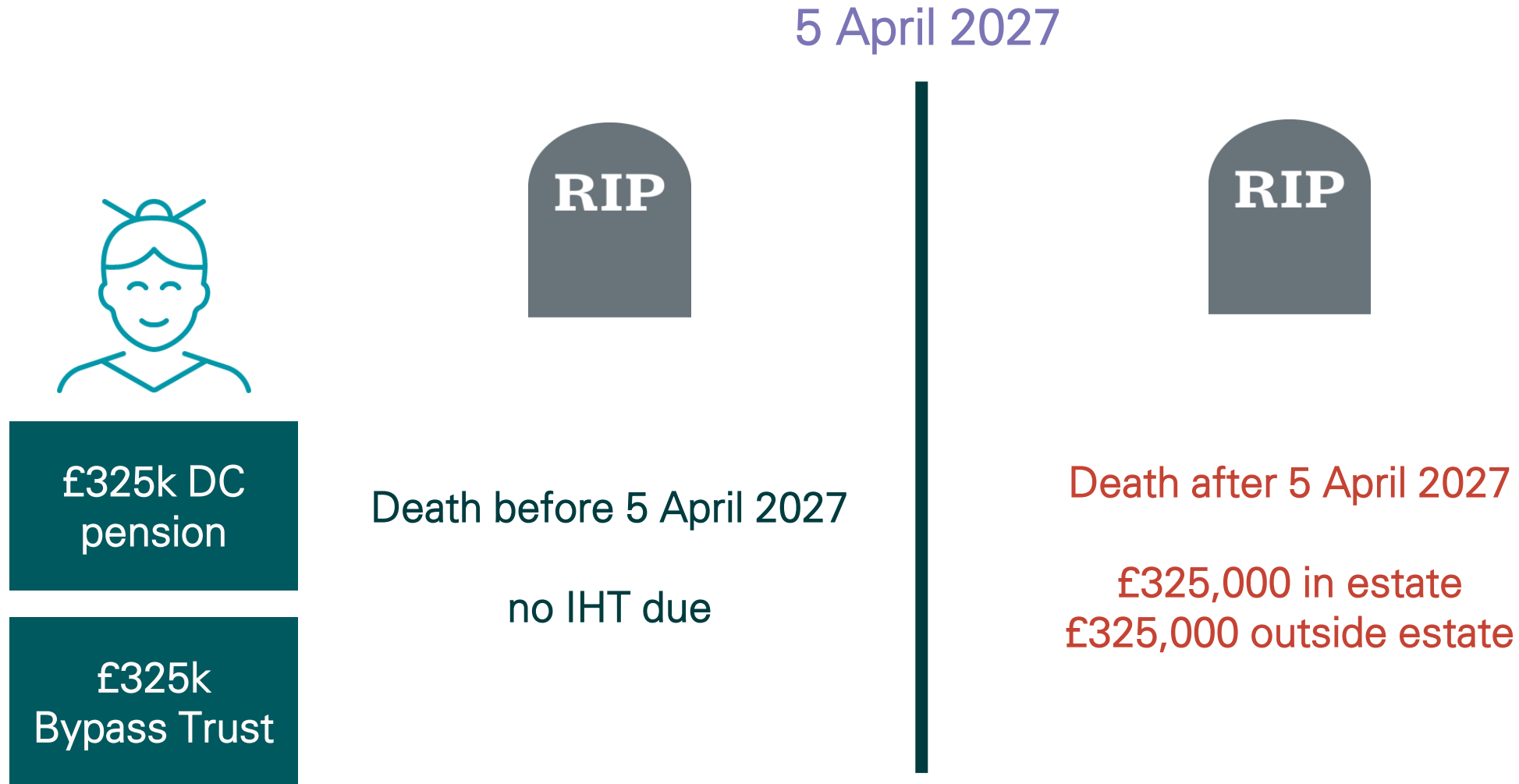
5 April 2027



Death after 5 April 2027

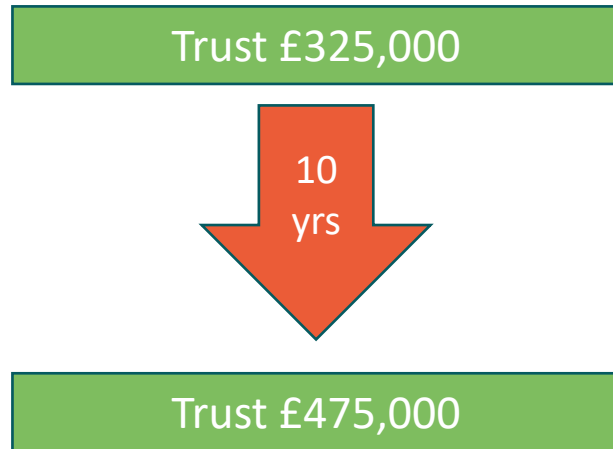
£650k pension in estate for IHT

Nominations?



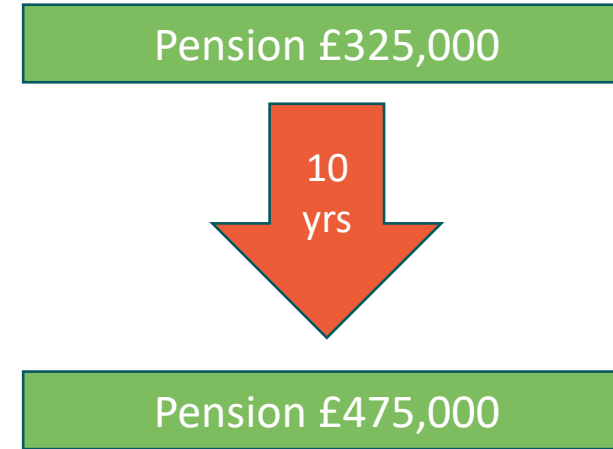
Post April 2027 Bypass trust case study - Spouse inherits all non pension assets, pre 75 death

Allocate available NRB to bypass trust on first death



IHT	Income Tax
$6\% \times$ $\pounds 150,000$ $= \pounds 9,000$	$\pounds 150,000 \times$ beneficiary rate

Leave in pension



IHT	Income Tax
$40\% \times$ $\pounds 475,000$ $= \pounds 190,000$	$\pounds 285,000 \times$ beneficiary rate

Should you use NRB on first death?



When to act?

Learning objectives

By the end of this session, you will be able to:

Explain the changes
to pension death
benefit taxation from
April 2027.

Evaluate different
options to mitigate a
pension driven IHT
liability.



Thank you for your time

Get in touch with your usual M&G contact if you need further help

