

Hot topics -

What issues are your clients facing today?

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Learning objectives:

- Describe how the freezing of tax bands will mean more people will be paying higher rates of income tax and how paying a pension contribution can help
- Explain when IHT might be due on a pension from April 2027 and how you can reduce your estate using your pension
- Explain the role of Rysaffe Planning when dealing with pure protection policies and Discretionary Trusts
- Have a better understanding of the FCAs findings from the recent Pure Protection Market Study.



Freezing of tax bands until 2031

Impact of the frozen tax bands

More ...

- ... paying higher rates of tax
- ... paying child benefit tax charge
- ... losing funded childcare
- ... losing personal allowance





Pensions to the rescue

Adjusted net income

Work out 'net income'

Deduct gift aid donations

Deduct pension contributions

Add back tax relief for payments to a trade union or police organisation

High income child benefit charge



Adjusted net income
over £60,000



Lives in the
household where
child benefit
is claimed



Higher earner
pays the charge



Charge equals child
benefit if adjusted
net income is more
than £80,000

High income child benefit charge example



Maria age 40

She works full time and claims child benefit of **£3,148**



Triplets who are 4 years old



Income

She has an **adjusted net income of £70,000**



Tax charge

For the £10,000 she earns over £60,000, she pays NI, higher rate income tax and the child benefit tax charge equal to half the child benefit - £1,574

High income child benefit charge example



Pension contribution

Maria pays **£8000** to her pension fund



Outcome

Maria will benefit from **basic and higher rate tax relief** as well as now **not having to pay the child benefit tax charge**

£2,000 + £2,000 + £1,574 = 69.68% relief



IHT and pensions

IHT and pensions quick summary



IHT to apply to pensions from 6 April 2027



IHT then income tax where applicable



Personal representatives responsible for paying IHT



Different options for paying the charge



Out of scope:

- Charity LSDB
- Dependents pensions
- DIS benefit
- Joint life annuity survivor benefits.

Intergenerational tax planning example

Normal expenditure from income

Pension contributions



Contributions for a third party are exempt or potentially exempt



The individual receiving the contribution must have relevant earnings to support it or max of £3,600



If the recipient is a HR/AR tax-payer, then they can claim the relief



Growing in a trust which can't be accessed until at least 55

Inheritance tax and intergenerational planning

Contributing to a pension for a child or grandchild can reduce tax on a family basis



Regular contributions to a pension may be offset against normal expenditure

Or a parent or grandparent can use the annual exemption



Intergenerational planning case study



Martin aged 68

Widower
Income drawdown fund of £750,000, he has significant disposable income and a potential IHT problem



One daughter, Maria and triplet grandchildren who are 4 years old



Maria

Maria has an **adjusted net income of £70,000**, but no disposable income



Maria

For the £10,000 Maria earns over £60,000, she pays NI, higher rate income tax and the child benefit tax charge equal to half the child benefit - £1,574

Intergenerational planning case study



Martin

Martin decides to contribute **£2,880 (£3,600 gross)** a year into a pension for each of his grandchildren until they reach age 18



£2,880 per annum



£2,880 per annum



£2,880 per annum

Intergenerational planning case study



Martin

By doing this Martin has an IHT saving of **£3,456** per year



Saved each year until age 18
= £77,683 in each fund*



No further contributions post 18



Triplets reach age 60 =
retirement savings of £602,942*

Intergenerational planning case study



Martin

Martin pays **£8,000 per annum** to **Maria's pension fund**

Saving IHT of £3,200



Maria

Maria will benefit from **basic and higher rate tax relief** as well as now **not being liable** for the **child benefit tax charge**

**£2,000 + £2,000 + £1,574 + £2,160 +
£3,456 + £3,200 = 86.48% tax relief**

Claiming tax relief above basic rate

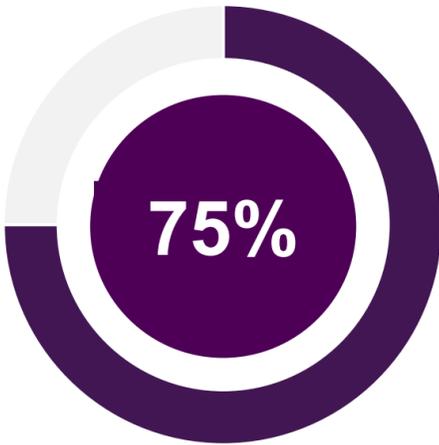
- Tax return
- Claim online
- By letter / post
- Salary sacrifice





IHT changes and protection

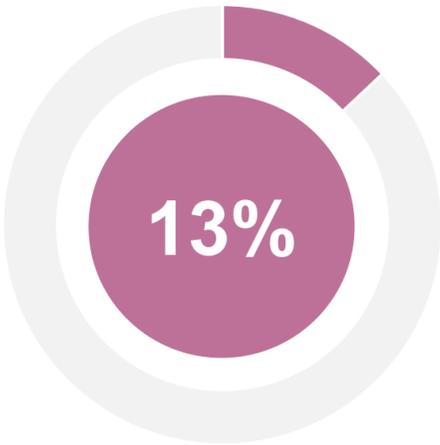
The perceived impact of the changes



of UK adults say they are not aware of the planned changes to the regime from April 2027



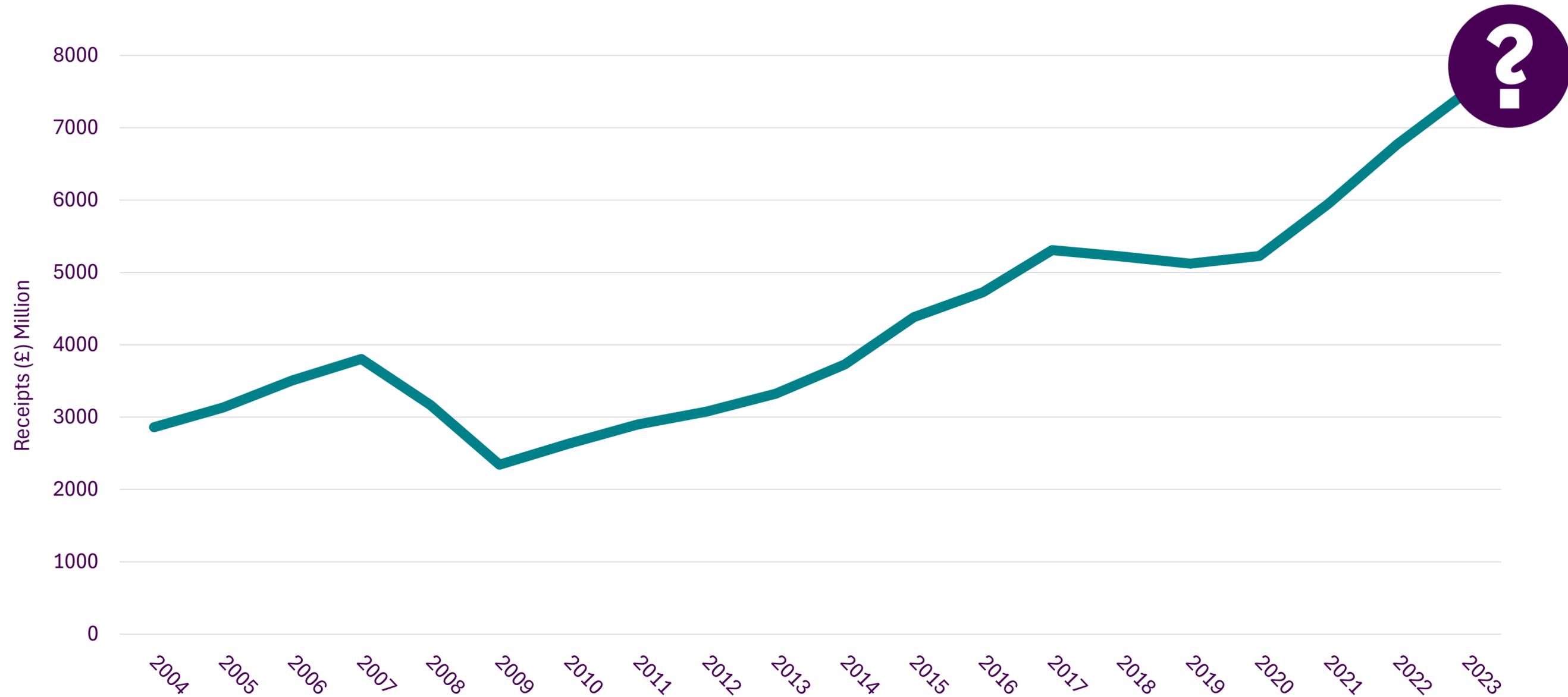
of mortgaged homeowners think they'll be affected by the IHT changes from 2027



of UK adults say they plan to give money away while they are still alive

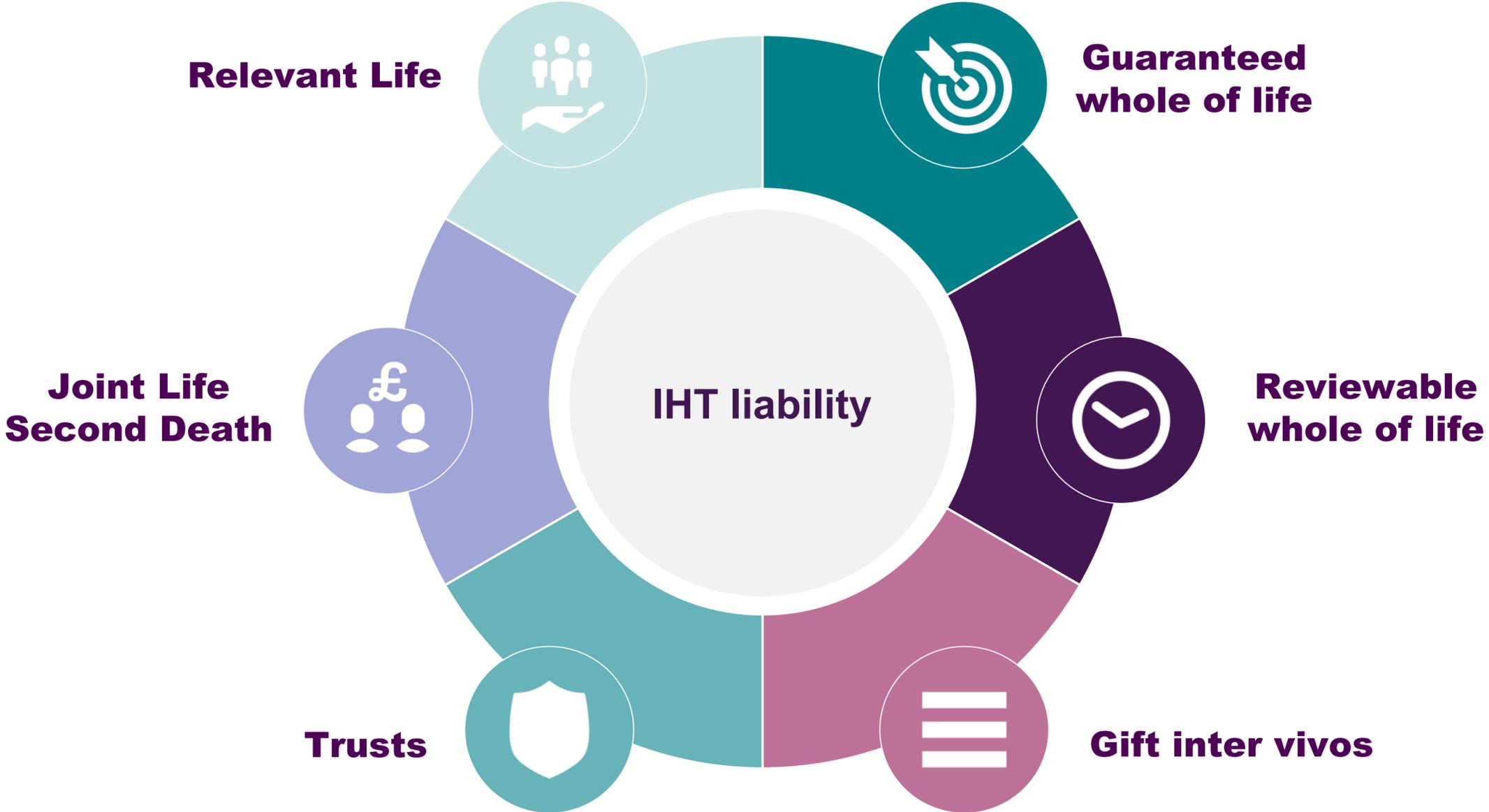
Source: YouGov plc. Total sample size was 4,043 adults. Fieldwork was undertaken between 5 March and 25 March 2025. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

IHT Receipts



Source: <https://www.gov.uk/government/statistics/inheritance-tax-liabilities-statistics/inheritance-tax-liabilities-statistics-commentary>

A reminder of the options



Protection plans in discretionary trusts



Rysaffe Trustee Co (CI) v Inland Revenue Commissioners (2003)

In this case two brothers created five trusts each, on different days, and the Inland Revenue tried to argue, unsuccessfully, that although the trusts were created on different days, they were one trust for tax purposes.

Discretionary trusts



Trustee discretion

Trustees have full discretion over who benefits, when and how much the beneficiaries receive.



Beneficiary flexibility

No beneficiary has an automatic right to the trust property – useful for control and flexibility.



Settlor control

A letter of wishes is recommended when using discretionary trust.



Relevant Property Regime

Discretionary trusts are classed as ‘in regime’

- Transfers in classed as a Chargeable Lifetime Transfers (CLTs)
- May be chargeable to lifetime IHT if they exceed NRB / exemptions
- Subject to periodic and exit charges

- Only applied to the value of the trust fund exceeding the NRB
- Charge is currently set at 30% of the lifetime rate of 20%
- Resulting in a maximum charge of 6%

Does this impact term policies?

A pure protection policy is unlikely to have a value except in two circumstances

1

Where claim proceeds are paid into the trust and remain there at a 10-year anniversary.

2

Where the plan has a market value, in other words, the life assured is in ill health at a 10-year anniversary.

And because any exit charge will depend on the rate of the previous periodic charge, so is likely to be nil in most circumstances.

What about whole of life plans?

How do you calculate the value?



The greater of:

- The open market value;
- The total of premiums paid at the 10-year period, 20-year period, and so on; or
- Where a claim proceeds are paid into the trust and remain there at a 10-year anniversary

This means that for particularly large whole of life plans, a periodic charge could occur if the total of premiums paid at each 10-year anniversary exceeds the nil rate band.

How could Rysaffe Planning help?

Before Rysaffe Planning

Whole of life sum assured	£1.5 million
Annual premium	£36,976.04
Total of 10 years premiums	£369,760.40
Nil rate band	£325,000
Total of premiums above nil rate band	£44,760.40
Periodic charge at 6% after 10 years	£2,685.62
Total of 20 years premiums	£739,520.80
Total of premiums above nil rate band	£414,520.80
Periodic charge at 6% after 20 years	£24,871.25



After Rysaffe Planning

Whole of life sum assured	£375,000*
Annual premium	£9,244.01*
Total of 10 years premiums	£92,440.10*
Nil rate band	£325,000
Total of premiums above nil rate band	£0
Periodic charge at 6% after 10 years	£0
Total of 20 years premiums	£184,880.20*
Total of premiums above nil rate band	£0
Periodic charge at 6% after 20 years	£0

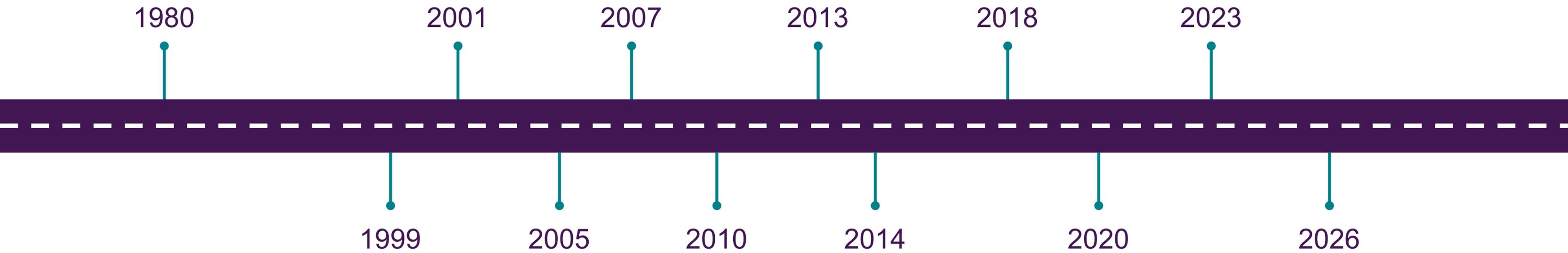
Whole of life policy (single life, client aged 63 attained) with a sum assured of £1.5 million and an annual premium of £36,976.04.

*figures shown are per policy

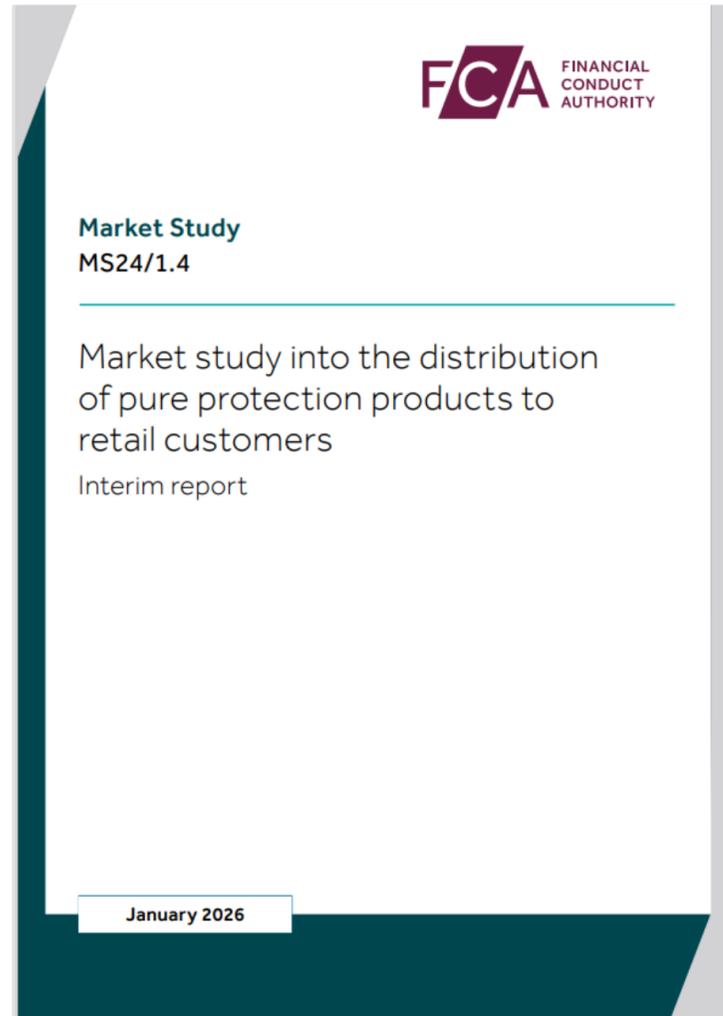


Pure Protection Market Review

Protection regulation landscape



What the FCA think is working well



Strong consumer outcomes

98% of all pure protection claims paid in 2024, equating to 275,000 claims and £5.3bn paid out – unusually high compared with other insurance classes.



Healthy product availability and competition

Multiple variations across term, CI, IP and whole of life, with customisable features to meet diverse needs.



Intermediary channel plays a key role

80% of all sales through intermediaries. Intermediaries help overcome complexity and prompt consumers to act.



Technology and innovation aids experience

Innovation is supporting better service, improving engagement, and helping advisers deliver more personalised recommendations.



Pricing generally reflects fair value

Premium dispersion reflects legitimate factors such as underwriting risk, policy features, and distribution dynamics. Claims ratios typically 50%+.

Areas of concern



Protection gap
remains large

58% of adults hold no protection, **59%** of these have never considered their needs.



Income Protection
value under scrutiny

Lowest claims ratio (~40%), higher uncertainty and capital burden.



Commission-linked
risks

Lapse spikes after clawback periods indicate some switching/churn driven by incentives.

Where do we go from here?



Reassessment of the **value of protection** products (particularly Income Protection) by refreshing claims-ratio analysis with full 2025 data to ensure products continue to deliver fair value.



Monitoring **switching & commission-driven** behaviour by developing industry-wide reporting metrics and improving transparency around lead-generation practices.



Improve claims outcomes by encouraging wider adoption of good point-of-sale practices such as placing policies in trust and helping customers with wills and Powers of Attorney.

Final report due Q3 2026

Learning outcomes

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Thank you for your patience.





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