PASSING ON YOUR PENSION

A guide to death benefits from income drawdown

Retirement Solutions

It's now easier than ever to pass any remaining money in your pension to the people you love when you die. New rules have come into force that are far more generous than before. They give you more flexibility to pass on the fund to anyone you want, and to continue passing it on until it runs out. This guide shows you how.

If income drawdown isn't available on your pension plan, you would need to transfer your pension to an income drawdown product, such as Royal London's Income Release plan, to access all the options shown here.

The information in this guide is based on our understanding of current taxation law and practice and may be affected by changes in legislation and your individual circumstances.

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It doesn't matter whether you've left your fund invested, taken some of it as lump sum(s) or drawn an income from your plan using income drawdown. The rules on what you can pass on to your loved ones when you die will depend on your age when you die.

You can now choose anyone to receive your remaining pension benefits when you die. The person or people you choose will be classed as your nominated beneficiary(ies).

You may, in certain circumstances, nominate a charity as a beneficiary, and pass on your remaining fund – tax-free, if you're under 75 when you die.

When any of your beneficiaries die, any remaining funds can also be passed on to further nominated beneficiaries. So it's possible to continue passing on the fund until it eventually runs out.

DEATH BENEFITS FOR DEATH **UNDER AGE 75**

Your nominated beneficiaries will be able to take the remaining fund as a lump sum, annuity or income drawdown, normally with no tax charge.

Drawdown fund

Lump Sum to beneficiary (Tax free)

Annuity to beneficiary (Tax free)

Drawdown to beneficiary (Tax free)

Lump sum

Your nominated beneficiary(ies) can take it as a tax-free cash lump sum. The lump sum must be paid within 2 years of the date of death or an income tax charge will be payable on the lump sum. Normally it will be paid free of inheritance tax.

Annuity

A lifetime annuity will provide a guaranteed, regular, tax-free income for the rest of their life.

Drawdown

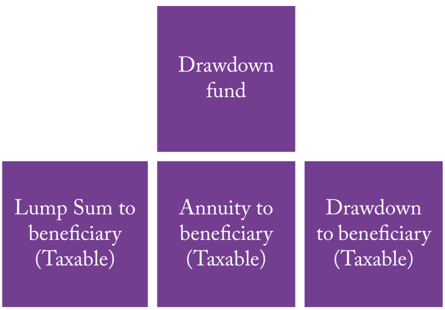
Your nominated beneficiary(ies) can receive an income tax-free through a drawdown plan, such as Income Release.

If the total value of all your pension savings when you die exceeds £1,055,000 (the current lifetime allowance) an additional tax charge will be applied on the excess over £1,055,000.

See 'Understanding taxation' for more details

DEATH BENEFITS FOR DEATH ON OR **AFTER AGE 75**

Beneficiaries will be able to take the remaining fund as a lump sum. This will be subject to a tax charge. They can also choose to take it as either an annuity or drawdown, which is subject to income tax like any other earned income.



Lump sum

Your nominated beneficiary(ies) can take the remaining savings as a one-off lump sum and this would be added to the recipient's taxable income and taxed accordingly.

Similarly, if they take the remaining savings in two or more lump sums using flexi-access drawdown it would be taxed as earned income.

Annuity

A lifetime annuity will provide a guaranteed, taxed regular income for the rest of their life.

Drawdown

Your nominated beneficiary(ies) can continue to receive income through an income drawdown plan and this will be taxed as earned income.

If the total value of all your pension savings when you die exceeds £1,055,000 (the current lifetime allowance) an additional tax charge will be applied on the excess over £1,055,000.

See 'Understanding taxation' for more details.

DEATH BENEFITS FROM AN **ANNUITY**

If you buy an annuity with any of your pension fund, the death benefits from the annuity will depend on the options you chose when you bought the annuity.

If you buy an annuity on or after 6 April 2015

	Death below age 75	Death on or after age 75
Joint-life annuity	The second annuitant can receive payments tax-free.	**Any** beneficiary can receive payments taxed as earned income.
Guaranteed-term annuity	**Any** beneficiary can receive payments tax-free.	**Any** beneficiary can receive payments taxed as earned income.
Annuity-protection lump sum death benefit	**Any** beneficiary can receive payment tax-free.	**Any** beneficiary can receive payments taxed as earned income.

Please note that you must name the beneficiary(ies) when you buy the annuity.

Guaranteed term annuity

These are annuities which are guaranteed to be paid for a certain period of time, for example 5 years. If you die within the 5 years the outstanding instalments will be paid to your nominated beneficiary(ies). Alternatively, an equivalent lump sum could be paid.

Annuity-protection lump sum death benefit

If you die before the sum of the annuity instalments paid equal the price you paid for the annuity, an annuity with this protection will pay the balance of the purchase price to any nominated beneficiary.

Joint-life annuities

Joint-life annuities are written on two lives. On the death of the first life, the annuity continues wholly or partially to be paid to the second life. However, when the second life dies the annuity will stop. This is unlike income drawdown plans where it's possible to continue passing on the fund until it eventually runs out.

If you bought your annuity before 6 April 2015

The death benefits available would be the same as shown above for annuities bought after 6 April 2015, except income tax would always be payable on the death benefits.

UNDERSTANDING **TAXATION**

Inheritance Tax

Any lump sums we pay to your beneficiary(ies), whether they're free of income tax or not, will be included in their estate on their death. So it could mean that Inheritance Tax is payable when they die.

If you want to protect the value of any lump sums as they're passed on, then you might want to consider using a Trust. A Trust allows any lump sum death benefit to be paid to the Trustees appointed by the Trust. The benefit is then applied in accordance with the terms of the Trust.

A Trust can be used to minimise or completely remove Inheritance Tax.

Trust law is complicated and we strongly recommend you seek advice from a legal or tax adviser or any other professional adviser who is qualified to provide advice on Trusts. Please note that an adviser may charge for their service.

You can find more information on Inheritance Tax at: **www.moneyadviceservice.org.uk/en/articles/will-you-have-to-pay-inheritance-tax**.

Lifetime allowance

A tax charge is applied to any lump sum death benefits paid out that are over the Lifetime Allowance that applies at that time.

The standard lifetime allowance for the current tax year is £1,055,000, however if you have a particularly large pension fund, you may already have some form of protection in place. If you think this may be the case then you should speak to your financial adviser.

The tax charge currently applied to the amount over the lifetime allowance is 55%, if the excess is taken as a lump sum. It's payable by the recipient of the lump sum.

Any fund in excess of the relevant lifetime allowance can be used to provide an income (annuity or drawdown), in which case a tax charge of 25% is payable.

For more information on the lifetime allowance see **www.gov.uk/tax-on-your-private-pension/lifetime-allowance**.

Income tax

If a beneficiary receives any pension death benefits that are subject to income tax, then the amount paid to them from the pension will be added to any other taxable income for that tax year to work out the tax payable.

They can earn up to their Personal Allowance each tax year before they pay any Income Tax. The amount of the Personal Allowance is set by the government and can change from one tax year to the next.

The tax year runs from 6 April to 5 April, and for the 2019/20 tax year the standard Personal Allowance is £12,500.

Income Tax is made up of different bands. This means that as the amount of income increases, the amount of Income Tax payable increases.

The table below shows the rate of Income Tax payable in England, Wales and Northern Ireland on anything over a person's Personal Allowance.

Rate	2019/20
Basic rate: 20%	£0 to £37,500
Higher rate: 40%	£37,501 to £150,000
Additional rate: 45%	Over £150,000

Income Tax payable in Scotland is different and is detailed in the table below.

Rate	2019/20
Starter rate: 19%	£12,500 to £14,549
Basic rate: 20%	£14,550 to £24,944
Intermediate rate: 21%	£24,945 to £43,430
Higher rate: 41%	£43,431 to £150,000
Top rate: 46%	Over £150,000

See **www.gov.uk/income-tax-rates** for the latest income tax and personal allowance rates.

If a beneficiary is taking death benefits from a pension and they want to minimise the income tax they pay, they may want to consider:

- Taking the death benefits over more than one tax year.
- If their earnings are close to the upper limit for the basic rate (or higher rate) income tax band after their Personal Allowance, then they might want to reduce the amount of income they take from the pension, to prevent them paying the higher rate (additional rate).


Ye Olde
Annual
Cricket
Match
Lamb Inn
Wolf Inn
Winners
WOLF Inn 1938

NEXT STEPS

- Speak to your financial adviser about the rules and see how they could affect you and your loved ones. If you don't have a financial adviser you can find one in your area at **www.unbiased.co.uk/find-an-adviser**. You may be charged for this service.
- As you can nominate anyone as a beneficiary, it's important to complete or update your Payment of benefits on death form (14P27).
- Consider whether a Trust is suitable for you.

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