DEATH BENEFITS GUIDANCE FACT SHEET

Introduction

Death benefit provisions within pension schemes can be complex. This document sets out the main benefits that can be provided (under a SSAS or SIPP arrangement) on death and to whom. It illustrates the death benefits that can be paid pre and post-age 75.

Death benefits which can be paid under a scheme pension are covered briefly; however, for more information regarding death benefits payable under a scheme pension please contact your adviser/consultant/client relationship manager.

All notes are based on our current understanding and interpretation of the legislation, which is subject to change.

Trustees' discretion

In relation to the scheme held with Mattioli Woods, the rules of the scheme vest the powers for distributing death benefits at the discretion of the trustees of the scheme. If the member or beneficiary has completed an expression of wish form, the document will indicate to the trustees how they would prefer their benefits to be distributed in the event of death. However, the final decision is at the discretion of the remaining trustees.

An expression of wish form can be amended as often as required. It is prudent to review and update the expression of wish form on any change of personal circumstances.

Who can receive death benefits?

In their lifetime, an individual or subsequent beneficiary could nominate whomever they wish to receive benefits from the scheme. Benefits do not need to be left to one person, as many beneficiaries as wished can be nominated. The beneficiaries could include a spouse, children, grandchildren or even someone unrelated, or a nominated charity.

Benefits can be paid as a lump sum or by leaving the fund invested to provide an income, or as a combination of the two.

Funds which remain invested and paid as income will continue to remain in a tax-efficient environment.

Options at a glance – scheme member/beneficiary dies before age 75

OPTIONS AVAILABLE IF DEATH OCCURS BEFORE AGE 75		
Type of benefit	**Payable to**	**Tax**
Lump sum	Dependants, nominees and/or successors	Nil (if paid within two-year window); marginal rate of income tax (if outside two-year window)
Drawdown pension	Dependants, nominees and/or successors	Nil (if designated within two-year window); income tax (if outside two-year window)[1]
Annuity	Dependants, nominees and/or successors[2]	Nil (if individual died on or after 3 December 2014); income tax (if individual died before 3 December 2014)
Scheme pension	Dependants	Income tax
Charity lump sum death benefit[3]	Charity (as defined in paragraph 1 of the Finance Act 2010 Schedule 6 Part 1) and nominated by member	Nil

[1] No two-year rule for crystallised funds
[2] For nominees and successors, this option is only available if individual died on or after 3 December 2014 and entitlement is after 6 April 2015
[3] Option only available on crystallised funds and where there are no dependants

Options at a glance – scheme member/beneficiary dies after age 75

OPTIONS AVAILABLE IF DEATH OCCURS AFTER AGE 75		
Type of benefit	**Payable to**	**Tax**
Lump sum	Dependants, nominees and/or successors	Marginal rate of income tax (formerly 45% between April 2015 and April 2016). Payments made to non-qualifying individuals will continue to be liable to a 45% tax charge
Drawdown pension	Dependants, nominees and/or successors	Income tax
Annuity	Dependants, nominees and/or successors	Income tax
Scheme pension	Dependants	Income tax
Charity lump sum death benefit (if no dependants)	Charity (as defined in paragraph 1 Finance Act 2010 Schedule 6 Part 1) and nominated by member or dependant	Nil

How death benefits are taxed

This depends on two factors: the age of the member at the time of death and whether or not benefits are 'designated' to the beneficiary within two years.

Death before age 75

On death before age 75, the trustees have the following options available:

1 Retain the fund within the scheme to provide a flexi-access drawdown pension.
2 The entire fund can be paid out as a lump sum.
3 Fund can be used to purchase an annuity.
4 Fund can be used to provide a dependant's scheme pension.
5 A combination of the above can be paid.

If the member died before age 75 and pension funds are designated to the beneficiaries as a lump sum death benefit within two years, they will be paid tax-free. Any lump sum paid after the two-year rule will be taxed at the recipient's marginal rate of income tax. If the recipient is a non-qualifying individual, a tax charge of 45% will apply.

If funds remain within the pension scheme to pay an income to the beneficiaries, the income is paid tax-free assuming funds are designated for income within two years. The beneficiaries do not actually have to start drawing an income within the two years, but the funds do need to be designated. Any amounts not designated within two years would be taxed at the recipient's marginal rate. There is no two-year rule for funds which were previously used to provide an income – these can be paid tax-free.

Death after age 75

If the member died after age 75, the following options are available:

1 Retain the fund within the scheme to provide a flexi-access drawdown pension.
2 The entire fund can be paid out as a lump sum.
3 Fund can be used to purchase an annuity.
4 Fund can be used to provide a dependant's scheme pension. There is a limit on the amount if the member was previously receiving scheme pension.
5 A combination of the above can be paid.

If the member died after age 75 then lump sum death benefits are taxed at the recipient's marginal rate of income tax. If the recipient is a non-qualifying individual, a tax charge of 45% will apply.

If the funds are used to provide an income to the beneficiaries, this would be taxed at their marginal rate of income tax.

Death benefits under scheme pension

If the member died whilst in receipt of a scheme pension pre or post-age 75, the following benefits can be paid:

1 Continuation of the member's scheme pension for remaining guarantee period (if applicable).

Only after the end of the payments under any guarantee can the following be paid:

1 Dependant's scheme pension.
2 Dependant's annuity.
3 Dependant's drawdown pension.
4 Annuity protection lump sum death benefit (subject to a cap, tax-free pre-age 75 or taxed at recipient's marginal rate of income tax post-age 75).

If there is more than one dependant, each dependant may be given a benefit under the arrangement. A lump sum benefit or the continuation of a scheme pension can be paid to any nominated individual, even if not a dependant.

Benefits on the death of the beneficiary

If funds are kept in the scheme to pay a beneficiary's pension income and the beneficiary dies without drawing the entire pot, these funds can then be passed on again. The beneficiary can nominate successors to whom they wish the funds to go. The successors will then have the option of taking the fund as a lump sum or pension income. The tax treatment of benefits will depend on the age of the beneficiary who was holding the funds at their death.

Inheritance tax (IHT)

IHT is a complex area and may require specialist tax advice.

All benefits paid from a pension scheme are paid free of IHT. However, there are tax charges on certain benefits if paid out of the scheme and these are covered, where relevant, within this document.

Second death – all schemes

One issue that needs careful consideration is if following the death of the member the spouse then draws the fund as a lump sum from the scheme, this could cause potential IHT liabilities. The reason for this is that upon second death, any lump sum paid out of the pension scheme environment will form part of an individual's estate for IHT purposes.

Pension death benefit trust

One option the member may have established to potentially mitigate IHT as well as protect pension wealth within 'bloodline' relatives is a pension death benefit trust. If this has been established on first death, the fund could be paid to the pension death benefit trust, although on death at age 75 and over and if funds are not distributed within two years prior to age 75, there would be a 45% tax charge. However, there is provision that where this is subsequently paid out of the trust to an individual, the beneficiary may receive some credit for the 45% tax charge. The pension death benefit trust can include wider beneficiary classes, for example children and grandchildren.

Trusts are not tax exempt in that there would be tax charges on income received by the fund. However, as the funds would be held within the trust rather than personally on second death, they do not form part of the estate for IHT purposes. Your adviser/consultant/client relationship manager should inform you if a pension death benefit trust was established during the lifetime of the deceased member.

Summary

This hopefully gives an overview of the various options available. However, if you require any further information concerning death benefits please feel free to contact your adviser/consultant/client relationship manager.