CURTIS BANKS

CASE STUDY

CONTRIBUTIONS FROM DEATH BENEFITS

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This case study is from Meet the Joneses – Series 1. Information about the family and further case studies can be found on our website, www.curtisbanks.co.uk. All characters in the Jones family are fictional and intended for demonstrative purposes only.

The Challenges

Paula Jones (25), Alfie Jones (22), and Flo Calvi-Jones (24) recently inherited money from their late grandmother Margaret's pension. Each would have preferred to keep all their inherited funds in beneficiaries' drawdown, but due to Margaret's circumstances and legislative restrictions, each has ended up receiving just over half of their share as a lump sum.

Paula is a self-employed plumber who has had very early success in her career. She is earning just over £50,000 a year and has recently bought her first home. Her next goal is to build up her pension in order to use it to purchase a commercial property for her business, having been inspired by her father Dan, aunt Julia, and grandfather Fred doing the same. She inherited £87,500 from her grandmother; £50,000 as a lump sum and £37,500 in drawdown.

Paula's brother Alfie earns £30,000 a year working for his father and grandfather's company, and aims to run the business with his father once his grandfather steps down. He lives at home, which is conveniently close to the office. He inherited £122,500; £70,000 as a lump sum and £52,500 in drawdown. Although he thinks he will probably use some of the money for a house deposit eventually, he has no immediate plans to move out and would have preferred to keep the money in a pension in the meantime.

Flo has just started out as a freelance illustrator and hasn't got a predictable income. She was living in a house share, but after her parents Julia and Sara broke up, Flo moved back in with Julia to help out with her apartment and shop. Flo's very aware that it may be some time before she's able to make meaningful, regular pension contributions herself, and sees the money from her grandmother as an opportunity to jump-start her savings without having to worry about finding the funds herself. She doesn't want to consider using the funds as a house deposit until she's comfortable that her earnings could support the mortgage. She inherited £140,000 from Margaret: an £80,000 lump sum and £60,000 in drawdown.

The Actions

As Paula was already looking to maximise her pension savings, she'd been researching the rules about how much it's possible to contribute each year. She discovered that strictly speaking there's no limit to how much someone can contribute, but that there are limits on how much tax relief a person can benefit from each year.

She explains to her brother and cousin that it's possible to contribute up to the value of your income each year whilst claiming tax relief, although the annual allowance of £40,000 puts an overall cap on the amount of tax relief you can benefit from each year.

Therefore she believes each of them could use the lump sums they received to make larger pension contributions, and get the money into their pensions that way.

Paula points out that this won't be quite the same as if they had received the lump sums as beneficiaries' drawdown to begin with, as the money they contribute will be treated as their own pension funds and all normal pension rules will apply. Unlike the money which is in beneficiaries' drawdown, under the current rules this will mean that they won't be able to access these funds before reaching normal minimum pension age, and the income won't be tax free (although they will be entitled to tax free cash). This may be more of a consideration for Alfie, who thought he might eventually use the money to fund a house deposit.

The Results

Paula is keen to get money into her pension as soon as possible, so that she's ready to purchase a property as soon as she finds the right one. She was already on track to contribute £12,000 gross to her pension this year. This means she can contribute a further £38,000 gross while claiming tax relief. Although this is over the annual allowance, Paula will be able to use carry forward. She joined her first pension when she was 20 and has not fully used her annual allowance over the past three years, so carry forward will allow her to use some of that unused annual allowance this year.

Paula therefore decides to contribute a further £30,400, which becomes £38,000 once the provider has reclaimed tax relief. She decides to try to wait until next tax year to contribute the remainder so that she can benefit from tax relief on those funds too. However, she also checks with her provider and confirms that she could make a further contribution without tax relief if the right property came up and she needed the extra funds.

Alfie thinks that his £52,500 would be enough to put towards a deposit, and would also like to pay larger contributions using the lump sum. Alfie's pension currently receives £3,000 of contributions each year through a mix of employer and personal contributions, so he could contribute £21,600 and receive £5,400 tax relief to bring his total contributions to £30,000 this year. It would take him a few years to contribute the full value of the lump sum this way; however Alfie thinks that if he did find a house in that time and he wanted a larger deposit, he could always use the remaining funds. He decides to talk to his parents about what to do with the rest of the money in the meantime.

Flo's unpredictable income makes it most difficult for her to make a plan. She decides that she will wait until as late as possible each tax year, when she has a better idea of her income for the year, before making her contributions. She calls her provider to confirm what would happen if she made a contribution which turned out to be worth more than her earnings. The provider confirms that as long as she notified them it had happened, they could correct the tax relief position with HMRC. Still, Flo will avoid this if possible as she would rather make the most of the tax relief when it's available.

Contact details

If you'd like to speak to us about anything in this case study, please contact us on:

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We may record and monitor calls. Call charges will vary.

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