CURTIS BANKS

CASE STUDY

CONTRIBUTING AFTER AGE 75

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This case study is from Meet the Joneses – Series 2. This series is set 4 years after Series 1. Information about the family and further case studies can be found on our website, www.curtisbanks.co.uk/meet-the-joneses. All characters in the Jones family are fictional and intended for demonstrative purposes only.

The Challenges

Fred Jones is 78. After running his business with his son Dan for many years, he is thinking about stepping back and retiring. Dan and his son, Alfie, have gradually been taking over more of Fred's responsibilities over the last few years and are in a position to run the company themselves.

Fred calls his younger brother Steve for one of their regular catch ups and shares his plans. Steve is pleased for his brother, and shares his own experiences of accessing his pension benefits a few years ago.

Steve asks if Fred has considered making one last big contribution to his pension before he retires, possibly using some of the money Steve assumes Fred will get from leaving the business. Steve has a couple of friends who have done this: partly to take advantage of contribution tax relief using their full annual allowance and carry forward before triggering the money purchase annual allowance (MPAA), and partly to maximise the funds held in the inheritance tax (IHT) protected pension wrapper.

The Actions

Fred has already spoken to an adviser about plans for the proceeds from leaving his business, and had already discounted paying a large contribution to his pension. Fred had lengthy discussions with his provider about contributions when he turned 75 three years ago, and is very familiar with the rules and their stance.

Fred hadn't appreciated that anything would change with his pension when he turned 75, until he got a letter from his provider about his benefits being tested against the lifetime allowance on his 75th birthday. Fred was still working and had no plans to access the benefits, which prompted him to research the pension rules surrounding age 75.

Aside from the lifetime allowance tests, Fred learned that any personal contributions he made would no longer attract tax relief. He was also concerned to read that many providers didn't accept further contributions at all after age 75.

Fred had called his provider to ask their view. Fred hadn't made personal contributions for some time, but his pension was still receiving a regular employer contribution which he wanted to continue.

The representative Dylan had confirmed that while they could accept contributions from clients age 75 and over, such contributions were considered on a case-by-case basis.

Dylan explained that since 2015, there has been a concern that over-75s could look to use their pensions purely for IHT purposes, rather than for retirement saving purposes. Over 75s don't get tax relief on their personal contributions, but those contributions also aren't tested against the annual allowance or lifetime allowance. Employer contributions aren't tested against the lifetime allowance either, although they are still tested against the annual allowance. With no lifetime allowance to consider, over-75s could look to put large amounts into their pensions purely for the purposes of removing the funds from their estates for IHT purposes, ready to pass to their beneficiaries in the form of pension death benefits.

While strictly speaking this was possible before 2015, the pension freedoms changes made it a much more attractive proposition. Firstly, more beneficiaries would have the option of beneficiaries' drawdown and may be able to carefully manage the amount of income tax they paid on the death benefits; secondly, if the client did need to withdraw any of the funds again they would no longer need to worry about capped drawdown limits.

Dylan went on to explain that when this potential loophole was discussed before the pension freedoms took effect, the Chancellor at the time was quoted saying that the government did not want pensions to become purely IHT planning vehicles. Therefore some providers took the view that such activity could be at risk of being seen as tax avoidance, potentially retrospectively. This was the reason behind their stance to look at post-75 contributions on a case-by-case basis: Dylan confirmed that they would not accept contributions that were being made purely for IHT reasons.

The Results

As Fred's pension had been receiving regular employer contributions for many years and he could demonstrate that he was still working, the provider was happy for his contributions to continue when he turned 75. However, as Fred discusses with Steve now, he knows from this conversation that his provider would be very unlikely to accept a large, one-off personal contribution from him now even if he wished to make one.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

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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