

CASE STUDY

BENEFICIARY OPTIONS

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An outdated expression of wishes affects the options available to beneficiaries.

The Challenges

Nate, 63, passed away with a SIPP which was crystallised in 2013. His SIPP has an expression of wishes in place in favour of his twin sister Lexie. Nate completed the expression of wishes many years ago when he first set up the SIPP and had not updated it since. Nate was also divorced with two daughters, Polly and Fiona. Nate had no contact with his daughters for many years while they were growing up, but in the last few years they had become close again. At the time of Nate's death, Polly was 24 and Fiona was 22.

The Actions

Lexie informs Nate's pension scheme administrator of his death and agrees to be a point of contact regarding the death benefits. Nate did not have a financial adviser but Lexie does; she will be asking Navid for help throughout the process.

Lexie is baffled to learn that she is the only beneficiary named on Nate's expression of wishes; she assumed the benefits would be split equally between herself, Polly, and Fiona. She is convinced that Nate must have forgotten to update the expression of wishes. However, she is confused after checking Nate's Will and discovering that he updated it more recently, in late 2014, soon after he got back in contact with his daughters. The Will splits Nate's estate equally between Lexie, Polly, and Fiona.

If Nate had thought to update his Will, Lexie wonders if it was his intention for her to receive the whole pension after all.

She calls Navid, who says that unfortunately many people remember to update Wills but still forget about expressions of wishes, or incorrectly assume that a Will automatically applies to a pension, so it's possible that this situation has arisen by mistake. Navid adds that it's also possible that Nate considered the death benefits rules in 2014 and made a conscious decision not to nominate his daughters. Lump sum death benefits would have incurred heavy tax charges and still would have left the girls with large amounts all at once considering their ages at the time. If they'd set up drawdown accounts with their inherited funds, they would have had to withdraw all the funds before their 23rd birthdays due to a quirk in the rules. Navid says that although lump sums aren't as heavily taxed now, and child dependants no longer have to exhaust drawdown funds by age 23, it's possible that Nate didn't keep track of these changes.

Whether Nate simply forgot about his expression of wishes in 2014, or recently failed to keep track of rule changes and update his wishes accordingly, Lexie is still adamant that Nate would have wanted Polly and Fiona to receive some of the funds. She liaises with the scheme administrator to give a full view of her brother's circumstances, and after taking everything into account the administrator decides to split the

death benefits equally between Lexie, Polly, and Fiona. The administrator writes to Lexie and Fiona to ask them to choose between receiving lump sums and setting up drawdown accounts, and writes to Polly to confirm the amount of her lump sum. Unsure of why there is a difference, they seek an explanation from Navid.

Navid explains that the rules don't always allow scheme administrators to offer drawdown to a beneficiary. In order to be eligible, one of the following conditions must apply:

- The beneficiary is classed as a dependant under HMRC's definition
- The beneficiary was named on the deceased's expression of wishes
- The beneficiary is receiving death benefits in a situation where there are no surviving dependants and no expression of wishes in place.

Lexie is not a dependant, but she is named on Nate's expression of wishes. Fiona is not named on the expression of wishes, but HMRC's definition allows a child to be classed as a dependant if they have not turned 23 at the date of death (unless they are still dependent due to physical or mental impairment). Therefore at 22, Fiona is still a dependant. However, at 24 Polly is too old to be a dependant and was also not named on her father's expression of wishes. Therefore she could only have had drawdown if there were no dependants and there was not an expression of wishes, and in this case, there were both. The scheme administrator is therefore only able to offer Polly a lump sum.

Lexie discusses further with Navid, who explains about the Lump Sum and Death Benefit Allowance (LSDBA). This is an allowance which limits the amount that can be taken as a tax-free lump sum during a client's lifetime or following their passing before age 75. The LSDBA for the 2024/2025 tax year is £1,073,100.

As Nate passed away before age 75, any death benefits paid as a lump sum will be tested against the LSDBA.

Navid explains that as long as the death benefits are distributed within 2 years of the scheme being notified of his death, and the lump sums are within the remaining LSDBA, the lump sum to Polly should be tax free. If the lump sum exceeds the LSDBA, then tax would be payable on any excess at Polly's marginal income tax rate.

The Results

Although Polly's situation is not ideal, the three beneficiaries each receive their share of the death benefits from Nate's pension. Lexie and Fiona keep their shares in drawdown, and Polly receives her lump sum. Polly makes an appointment with Navid to discuss the best way to make use of her lump sum, and Lexie makes an appointment to review her own expression of wishes arrangements.

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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Please remember not to send any personal, financial or banking information via email as it is not a secure method of communication.