

# FACT SHEET

## DEATH BENEFITS

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**The death benefits rules can be complex. We have case studies demonstrating how some of these rules work in practice which you may also wish to read.**

### Definitions

#### What are death benefits?

This is the term given to any money which is payable from your pension after you die. With defined contribution pensions such as SIPPs, paying death benefits will involve distributing any money which is left in your pension when you die.

#### What is a beneficiary?

A beneficiary is any person (or charity, trust, organisation etc.) who may be able to receive death benefits from your pension.

#### What is an expression of wishes?

In most pensions, the scheme administrator has the final say over who receives the death benefits of your pension.

However, the scheme administrator still wants to distribute the death benefits in the way you would have wanted. An expression of wishes is your way of telling your scheme administrator who you would like your beneficiaries to be.

#### What are dependants, nominees and successors?

Some death benefits options are only available to beneficiaries if they fit into one of three categories.

The first category is a dependant. A dependant is a beneficiary who had any of the following relationships with a deceased pension scheme member:

- Spouse or civil partner
- Child under age 23
- A child 23 or over and dependent on the deceased due to physical or mental impairment
- Another individual dependent on the deceased due to physical or mental impairment
- Another individual who was financially dependent on the deceased, or in a mutually dependent financial relationship.

The second category is a nominee. A nominee is a beneficiary of a deceased pension scheme member who is not a dependant but has been chosen to be a nominee by the deceased (i.e. named on their expression of wishes). Beneficiaries can also be chosen to be nominees by pension scheme administrators, but only if the deceased hadn't made an expression of wishes and didn't have any dependants.

The third category is a successor. A successor is a beneficiary of someone who died holding a pension made up of death benefits, who has been chosen to be a successor by the deceased on their expression of wishes. Beneficiaries can also be

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chosen to be successors by pension scheme administrators, but only if the deceased hadn't made an expression of wishes.

For example, if Mr A died and his pension passed to Mrs A, Mrs A would be a dependant. If she then died and there were still some funds remaining, she could pass the funds to her daughter, Mrs B. Mrs B would be a successor. If Mrs B then died and there were still funds remaining which passed to Mr B, Mr B would also be a successor, because the funds he receives weren't originally Mrs B's.

## Rules

### What kinds of death benefits are there?

In defined contribution schemes such as SIPPs, there are normally three types of death benefits: lump sums, annuities, and drawdown.

### How do lump sum death benefits work?

Lump sums are available to any beneficiary (including entities such as trusts and charities) and in any situation. A lump sum death benefit simply involves making a one-off payment to the beneficiary of their share of the death benefits. The funds are removed from a pension environment and are held by the beneficiary. If the beneficiary is a person, this means that the funds would count towards their estates for inheritance tax purposes if they were to die, unless they made other arrangements for the funds following death under age 75.

From 06 April 2024, a Lump Sum and Death Benefit Allowance (LSDBA) applies which limits the amount that can be taken as a tax-free lump sum during a member's lifetime or following death under age 75. Relevant lump sum death benefits will be tested against the lump sum and death benefit allowance.

Lump sum death benefits paid from funds that were crystallised pre 6 April 2024 will not be tested against the lump sum and death benefit allowance.

### How do beneficiaries' annuities work?

An annuity is a regular income which is normally paid for life. In a defined contribution pension, where the death benefits involve distributing the

remaining funds in the pension, a beneficiary may have the option to use their share of the funds to purchase an annuity.

Annuities are not available to beneficiaries which are trusts, charities or other organisations: they are only available to individuals. They also may not be available if the beneficiary was not a dependant or wasn't named on the deceased's expression of wishes.

### How does beneficiaries' drawdown work?

Beneficiaries' drawdown allows a beneficiary to keep their share of the death benefits within a pension. They can invest the funds as they choose and take income payments as and when required, much as they would be able to do with their own pension benefits except there is no minimum age for withdrawing the income.

Beneficiaries' drawdown is only available to individuals: it can't be set up for trusts, charities or other organisations. It may not be available if the beneficiary was not a dependent or wasn't named on the deceased's expression of wishes.

### How are death benefits taxed if I die before age 75?

If you die before age 75, any lump sums paid to your beneficiaries which are within your remaining lump sum and death benefit allowance (LSDBA) will be tax free.

If you die under Age 75 and the claim is settled before the two year deadline, any death benefits designated into beneficiary drawdown are not tested against the LSDBA so benefits will be entirely tax free.

Any lump sum paid in excess of this allowance is taxed. If benefits are not distributed within a two year period following notification of death, then the entire lump sum will be subject to tax as outlined under 'How are death benefits taxed if I die age 75 or over?'

### How are death benefits taxed if I die age 75 or over?

If your beneficiaries are individuals, they will pay tax at their marginal rate of income tax. Lump sums will be taxed in one go when the beneficiary

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receives the payment. Where a beneficiary opts to take income, they will only pay tax on each income payment as it is made. This means a beneficiary could end up paying less tax by opting for an annuity or drawdown and spreading the payments over a period of time.

If a taxable lump sum is paid other than to an individual (for example, to a trust), there will normally be a flat charge of 45%. However, if you had named a charity on your expression of wishes and had no dependants, the payment to the charity will be tax free.

If a taxable lump sum is paid to a trust, individuals who receive payments from the trust are able to claim tax paid as a tax credit, and account for tax at their marginal rate on the gross amount received (the amount paid by the trustees plus the attaching tax credit). This means they should end up in a similar position as if they had received a taxable payment directly from a pension.

Please note: the inheritance tax treatment of benefits is changing in 2027; funds remaining in your pension will be part of your estate for Inheritance Tax purposes. We recommend that you speak with a financial adviser for more details on how this will impact you.

### **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 on this fact sheet, please contact us on:

**T 0370 414 7000**

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

**E [enquiries@curtisbanks.co.uk](mailto:enquiries@curtisbanks.co.uk)**