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Will you make the right decisions around your pension pot?

Why defined contribution pensions are even more appealing for wealth transfer

The announcement of the removal of the Lifetime Allowance (LTA) from the 2024/25 tax year in March's Spring Budget 2023 has made defined contribution pensions even more appealing for wealth transfer. This benefits individuals over 55 who intend to leave their tax-free lump sum intact with their pension to maximise their benefits.

There may be further changes to pension allowance rules. However, removing the LTA charge allows for an unlimited sum tax-free for individuals who pass away before age 75. After the age of 75, the sum will be subject to taxation at the beneficiary's marginal rate. It is important to note that although the charge has been removed, an LTA check still takes place to work out available tax free cash and the taxation of certain lump sum payments.

Without incurring Inheritance Tax (IHT)

New research reveals that almost a fifth of those aged over 55 (18%) do not plan to access their tax-free pension cash, to enable them to pass on more wealth to loved ones without incurring Inheritance Tax charges^[1]. Men are more likely to do this than women, and 38% of workers also plan to leave their tax-free pension cash where it is.

Pensions usually don't count towards a person's estate for IHT purposes, and can be passed on completely tax-free if someone dies before the age of 75. With no LTA charge and an increased annual pension allowance, pensions have become attractive for those looking to mitigate IHT. However, nearly three in ten over-55s say they were unaware of this.

Pension as a tax-free lump sum

The research also found that almost half of all consumers (46%) believe that the amount that can be taken out of a pension as a tax-free lump sum should increase in line with inflation.

It is worth noting that since the LTA has been abolished, the amount that can be taken out of a pension as a tax-free lump sum has also been capped at 25% of the old LTA. This means that individuals are currently limited to withdrawing a maximum of 25%

of the previous LTA as a tax-free lump sum from their pension, unless any protection is in place.

HERE ARE SOME TIPS TO HELP ENSURE YOUR LOVED ONES BENEFIT FROM YOUR PENSION:

Check if your pension offers death benefits:

Not all pensions provide the same level of flexibility when it comes to death benefits. Check with your provider to see if your pension plan allows you to nominate beneficiaries who will inherit your pension savings, as beneficiary drawdown may not be an option.

Specify your beneficiaries:

While making a Will can be beneficial in many ways, it usually doesn't control who inherits your pension savings. Your pension provider or trustees have the final say in where your pension savings go. Name your beneficiaries directly with your pension provider or employer to ensure your wishes are considered.

Regularly review your beneficiaries:

Life circumstances change, and reviewing and updating your beneficiaries as needed is essential. Major life events like the birth of children, marriages or divorces can impact who you want to receive your pension savings. Ultimately the trustees of a scheme have discretion. So although there are no guarantees, by keeping your beneficiaries up to date, you can ensure that your desired beneficiaries are considered first when it comes to your pension savings should you pass away.

Consider the tax implications:

Pensions can be a tax-efficient way to pass on your wealth since they are not typically subject to Inheritance Tax. With the removal of the lifetime allowance charge, pensions offer an even more

attractive option for passing on your wealth to your loved ones. However, it's essential to consider any potential tax liabilities your beneficiaries may face when receiving your pension funds.

Remember, seeking professional advice tailored to your specific circumstances regarding financial planning and pension matters is essential.

Do you want to discuss creating a retirement plan to give you the confidence to enjoy later life?

Retirement should be the golden age of your life. It's when you finally relax, enjoy new hobbies, travel or spend time with loved ones. But retirement can only be fully enjoyed if you have financial freedom. To discuss your options or to find out more, please get in touch with us. ■

Source data:

[1] Opinium conducted research for Standard Life among 2,000 UK adults aged 18+ between 12-16 May 2023. Results have been weighted to be nationally representative.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.