WHIreland®
WEALTH MANAGEMENT

Case Study

Cascading pensions down the generations

Richard and Sarah had been married for 38 years when Richard passed away in November 2017 aged 73, they had three children and five grandchildren.

Richard retired in 2012 and took a regular income from his SIPP. Richard and Sarah met with a Wealth Planner in the Summer of 2017 and were advised of changes to pension death benefits that came into effect in April 2015; the changes were more tax efficient for passing on pension assets to dependents/beneficiaries and potentially future generations. Richard then updated his expression of wish form on his SIPP in favour of Sarah, in the event of his death.

After Richard's death the SIPP trustee's contacted Sarah as the nominated person on her late husband's pension fund to provide her with the options available to her; she could:

1. Enter dependant's flexi-access drawdown and draw tax-free income from the plan as and when required (this needs to be done within two years of notifying the pension provider of Richard's death)
2. Take the whole pot as a flexi-access drawdown lump sum death benefit, which will be paid tax-free
3. Buy an annuity or scheme pension, the income from which would be tax free
4. Request a tax free lump sum be paid directly to her children and/or grandchildren

As Sarah is classed as a dependant of the member, a charity lump sum death benefit would not be possible. It would also not be possible for the scheme to nominate a non-dependent to receive any income.

Sarah selects the first option, a dependant's flexi-access drawdown, this provides her a tax-free income while there are still funds remaining in the pension. At this stage she also completes an expression of wish to nominate her three children as 'successors' to the pension assets. If Sarah also dies prior to her 75th birthday, the pension provider could offer her children the same options as above. If Sarah survives past her 75th birthday, there would be two options available to her children as follows:

1. Enter successor flexi-access drawdown and receive an income taxed at their individual marginal rates of tax.
2. Take a flexi-access drawdown lump sum death benefit, which will be taxed at the beneficiaries' marginal rates.

Sarah's children may wish to consider the size of the remaining fund and the impact taking an income or a lump sum would have on their tax position. Alternatively, they also have the option of naming their own children and continued to cascade this down through the generations. Funds nominated to dependents/beneficiaries/successor remain outside of the estate for Inheritance Tax purposes, in the majority of cases.

It is vital to ensure your Expression of Wish form is up-to-date with the pension provider, they will rely on this form when making decisions regarding the payment of pension death benefits. This is especially important where the intended beneficiary dies before the member or the member's relationship with the beneficiary changes.

Speak to your Wealth Planner to ensure you have the right pension and tax planning solution for your individual situation.

At your service

Speak to us directly to find out how we can make a difference for you and your family

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