

What happens to my pension when I die?

A pension plays a vital role in most of our financial plans with its main aim being to provide us with a source of income once we have ceased to earn. But what happens to our pensions when we die?

For future planning, it is important to have as clear an understanding as possible about what benefits might be payable on death.

In this newsletter, we hope to provide a simple summary of the benefits payable on death so that we can all plan for the future based on information, which is as accurate as possible.

We will start by looking at what happens in the event that death occurs before retirement and then consider what happens once we have started to take our pension benefits.



Pre-retirement

Whilst we are working and paying our National Insurance Contributions, we will all be accumulating a State Pension. In addition, some of us may have a defined benefit or final salary pension (DB), some of us may have a defined contribution or money purchase pension (DC) and some of us may have both.

Many of us will now have 'workplace' pensions, which are DC pension schemes provided by employers.

If we die before State Pension Age, our entitlement to any **State Pension** will stop. But sometimes, if we are married or in a civil partnership, our partner could inherit some of our State Pension entitlement. This depends on the amount of National Insurance contributions we have both made and when we will reach State Pension age. It is difficult to forecast what benefit there will be, if any, so it is probably best to assume the worst when planning our finances.

DB pension schemes are less common these days with few businesses outside the public sector still offering them to their employees. Most of the schemes will offer a lump sum death benefit equivalent to a multiple of salary, e.g., four x salary. They will also offer a dependant's pension equivalent to a percentage or fraction of the member's pension entitlement at the time of death, e.g., 50% or 2/3rds. However, it is worth noting that, if there is no dependant such as a spouse, civil partner or young child, there will be no dependant's pension paid.

For most of us, the likelihood is that we will have some form of **DC pension** where a fund is being accumulated from contributions paid by ourselves and our employer (if we are employed). If we die before we are 75 and our fund is 'uncrystallised' (in other words, we have not started to withdraw any benefit from our fund), then our beneficiaries can either take the whole fund as a lump sum, or they can transfer it into their own pension or they can use the fund to buy an annuity.

The benefit they will receive from their chosen option will be paid tax free.

Importantly, pension benefits are distributed by the DB or DC scheme administrators and do not form part of the deceased's estate. As a result, pension benefits are dealt with separately from any bequests in the deceased's Will. Therefore, it is vital that we complete an **Expression of Wish** or **Nomination** form which we give to the pension scheme administrators to let them know to whom we would like the pension benefits to be paid in the event of our death.

Post-retirement

The age at which we can start to receive our **State Pension** has now been equalised between men and women and is gradually being increased and will reach age 67 by 2028. If we are in receipt of a State Pension and we die, there may be further State Pension benefits paid to a spouse or civil partner depending on our age and National Insurance contribution history. However, as with pre-retirement, it is difficult to calculate what this may be and it is probably best to assume that no additional benefit is paid.

For **DB pensions**, the scheme rules will state what benefit will be paid to a surviving spouse or civil partner. This will be a percentage or fraction of the pension that the deceased was receiving immediately prior to their death, typically between 50% to 2/3rds.

Schemes may also offer a guarantee that if death occurs shortly after retirement, say, within, 5 years, there will be a lump sum payment made equivalent to the pension income payments due for the remainder of the guaranteed period.

When we start to draw benefits from a **DC pension**, typically, at or around our retirement, this is now referred to as 'crystallisation.' If we use the crystallised funds to purchase an annuity, the benefits on death are similar to those paid from a DB pension.

Alternatively, we can choose to invest the crystallised funds into an 'income drawdown pension' from which we can flexibly withdraw our pension income. In the event of death, our nominated beneficiaries have the same three options as they would have if the funds had not been crystallised: 1) take the fund as a lump sum or 2) use the funds to buy an annuity or 3) move the pension fund into their own name and draw income as required.

If death occurs prior to age 75, the beneficiaries will have no liability to tax on any of the benefits, however they choose to take them. If death occurs after 75, then the beneficiaries would have to pay tax on the benefits at their highest marginal rate.

As with pre-retirement death benefits, it is important to ensure that we have completed an Expression of Wish or Nomination form to ensure that the provider of the income drawdown pension knows who we would like to benefit in the event of our death.

Action

We hope that the above information helps to clarify what might happen to our various sources of pension in the event of death and that this information helps with future planning.

Most importantly, as time goes by and circumstances change, we should regularly assess what benefits will be paid to our loved ones from our pensions in the event of our death and make sure that our pension provider has received our Expression of Wish or Nomination form clearly stating who the beneficiaries should be.



Market data

Market	2021	Current situation	Comments
Interest Rates (BOE base rate)	Increased from 0.1% to 0.25% in December	1.75% at 31/08/22	The official bank rate is 1.75%.
House Prices (Nationwide)	House prices increased by 10.4%	House prices up 0.8% at 31/08/22	Annual house price growth up 10%.
UK Share Prices (FTSE 100)	Closed at 7384.5. An annual rise of 924 points	7284.15 at the close on 31/08/22	The FTSE 100 fell by 143.92 points in August.

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