

This leaflet is solely for the use of financial and other professional advisors

DEATH BENEFITS

Death before drawing retirement benefits

i) Non-Protected Rights

If you die before taking any retirement benefits (and if you just take a tax free cash sum that means you are treated as having taken retirement benefits), the whole of your uncrystallised fund can usually be paid as an **uncrystallised funds lump sum death benefit**. It is paid free of Inheritance Tax. The Trustees decide who receives the benefit (it has to be at the discretion of the Trustees' to ensure that there will be no liability to IHT). Normally the Trustees will pay the lump sum to those nominated on your Expression of Wish form. It must be paid within two years of the member's death. Alternative options, although rarely taken up, are for the whole fund to be used to provide:

either

a) a potentially taxable pension from the assets to your dependants;

or

b) an annuity could be purchased for your spouse or dependants.

Payment of an **uncrystallised funds lump sum death benefit** is a **benefit crystallisation event** that triggers a test against the member's available **lifetime allowance**. Where the payment is less than the member's available lifetime allowance the uncrystallised funds lump sum death benefit can be paid tax free.

Where the payment is more than the member's available lifetime allowance the amount of the uncrystallised funds lump sum death benefit that is over the member's available lifetime allowance will be a chargeable amount. A chargeable amount will give rise to a lifetime allowance charge at the rate of 55%. This charge falls on the recipient of the payment.

ii) Protected Rights

If you are married or in a civil partnership or have financial dependants, your fund will be used to provide an income to the surviving spouse or partner or dependant, either via income drawdown or annuity purchase. Otherwise, your fund will be paid out as a cash sum normally either to the person on your Nomination Form or to your Estate.

Death whilst in receipt of income drawdown

Let us first look at **non-Protected Rights**. There are three options available to the Trustees:

1. The remaining fund can be paid as an **unsecured pension fund lump sum death benefit**, less 55% tax.
2. The spouse or dependants could continue with the income drawdown, from the whole fund. On the death of the last surviving spouse/dependant the residual fund at that time is subject to tax of 55%
3. The whole of the fund can be used to purchase an annuity for the surviving spouse or dependant(s).

Under Option 1, the remaining fund becomes part of the recipient's estate and, therefore, when they die, their dependants (children/grandchildren etc) inherit a fund which will again be reduced by Inheritance Tax charges.

If, following death, a lump sum is however paid to a pre-nominated charity, zero tax is payable.

You may wish to take advice from your financial advisor and/or lawyer on any potential IHT issues.

Protected Rights must be used to provide income (via drawdown or annuity purchase) to any surviving legal spouse, civil partner or dependant. If you have no dependant then the fund is paid out to a nominated beneficiary as a tax free cash lump sum, outside your estate for IHT purposes. If there is no nominated beneficiary, the fund is paid to your Estate. **Important note:** The special requirements for Protected Rights will cease to apply from 6th April 2012.

Death whilst in phased retirement

Phased Retirement is the term used to describe partial drawdown of funds. Each fund can be split into 1,000 segments. A member may be in a situation where just a small amount of retirement income is needed, perhaps because they are still in some sort of employment. In this case, a proportion of the segments will be "crystallised" for retirement purposes.

If you have opted to take Phased Retirement, the "crystallised" segments are dealt with as described under the three options above for "Death whilst in Income Drawdown" and the remaining "uncrystallised" segments are distributed in the same manner as used for "Death before Drawing Retirement Benefits". There is no time limit as to when an unsecured pension fund lump sum death benefit can be paid following the death of the member.

Who decides who gets any lump sum payment on my death?

The Trustees of your SIPP will have this responsibility.

Notes

A **dependant** means:

1. A person who was married to the member at the date of the member's death
2. A child of the member is a dependant of the member if the child has not reached the age of 23, or having reached age 23, in the opinion of the **scheme administrator**, was at the date of the member's death dependent on the member because of physical or mental impairment.
3. A person who was not married to the member at the date of the member's death and is not a child of the member, is a dependant of the member if, in the opinion of the **scheme administrator**, at the date of the member's death the person was financially dependant

This leaflet sets out the options available. We do not give inheritance planning or financial advice. You should consult your IFA and solicitor, so as to ensure your planning is in line with your own circumstances and desires.

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