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NAVIGATING PENSION CHANGES
PLANNING AHEAD

By April 2027, unused pension funds and death benefits will become liable to inheritance tax (IHT). Here's why that matters and what you should be doing now to prepare.

For years, pensions have served not only as a vehicle for retirement savings but also as a valuable estate planning tool. Traditionally, unused pension funds could be passed on to beneficiaries free of inheritance tax in many circumstances, especially if the pension holder died before the age of 75.

However, from April 2027, this favourable treatment is set to change. Unused pension funds and associated death benefits will become subject to inheritance tax (IHT) a change that could significantly impact your legacy planning.

WHAT'S CHANGING IN 2027?

Currently, pension funds are usually held outside of your estate for IHT purposes. This has made pensions a powerful strategy to pass on wealth tax-efficiently, especially compared to other assets like property or savings.

But under the new rules coming into force in April 2027, unused pension pots and death benefits will be included in your estate and subject to inheritance tax typically charged at 40% on estates over the £325,000 nil-rate band (or £500,000 if the residence nil-rate band applies and you're passing your home to direct descendants).

WHY THIS MATTERS

This change could drastically reduce the amount your loved ones receive when you pass away. For example:

- A pension pot of £500,000 left untouched and passed to heirs could now attract a £200,000 tax bill.
- Many people rely on pensions not just for retirement income but as a tool for wealth preservation—this strategy will become far less effective after 2027.

WHAT SHOULD YOU BE DOING NOW?

1. Review Your Pension Strategy

Now is the time to rethink the role your pension plays in your financial and estate plan. Instead of preserving your pension while drawing income from ISAs or other savings, you might consider using your pension more actively in retirement.

Key Questions to Ask:

- Should I start drawing down my pension earlier?
- Can I structure withdrawals more tax-efficiently before 2027?
- Should I prioritise other assets for inheritance?

2. Revisit Your Beneficiaries

Ensure your nomination of beneficiaries is up to date and aligned with your new estate planning goals. If your pension provider allows, consider setting up a pension bypass trust to retain more control, although these too could be affected by changing rules.

3. Make Use of Pension Lifetime Planning

You may want to explore the option of gifting or spending other taxable assets now while drawing income from your pension. With the inheritance tax rules tightening, the earlier you take action, the more flexibility you'll have.

Additionally, consider:

- Pension consolidation to simplify management.
- Financial gifting strategies, like making use of your £3,000 annual IHT exemption or larger gifts if you can survive seven years post-transfer.

4. Speak to us

The implications of the 2027 pension changes are complex and could vary based on individual circumstances. We can help you:

- Model various scenarios
- Structure your retirement income
- Protect more of your estate from IHT
- Understand how the new rules intersect with other changes in taxation, such as income tax or capital gains tax

ACT SOONER RATHER THAN LATER

The longer you delay planning, the harder it hits. Many people put off retirement and estate planning, thinking they have plenty of time. But waiting until the changes are in place or until ill health forces decisions will limit your options and potentially increase the tax burden on your estate.

FINAL THOUGHTS

The April 2027 changes to pension inheritance rules mark a significant shift in how pensions will be treated for estate planning. They serve as a crucial reminder that pension planning isn't just about funding your retirement it's about protecting your legacy. Act now to ensure your wealth goes where you intend.

WE CAN HELP

If you need assistance with any issues raised in this Broadcast, please call us on **01753 888 211** or email **info@nhllp.com**. We are here to help.