Technical session –Revised Death Benefits Case Studies

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OLD MUTUAL WEALTH

For financial advisers only

DEATH BENEFITS :FLOW CHART

DEATH OF MEMBER /DEPENDANT / NOMINEE*/ SUCCESSOR**

DEATH UNDER 75

LUMP SUM

paid within 2 years is tax free. LTA test on the lump sum only where it originates from Uncrystallised funds.

paid after 2 years regardless of whether crystallised or uncrystallised is subject to income tax. No test against the LTA.

FLEXI-ACCESS DRAWDOWN OR ANNUITY***

Set up within 2 years is paid tax free. LTA test only if it originates from Uncrystallised funds.

Set up after 2 years that originates from uncrystallised funds is subject to income tax. No test against the LTA.

Set up from crystallised funds is paid tax free. No test against the LTA. No 2 year rule.

DEATH OVER 75

LUMP SUM

is subject to income tax via PAYE. No test against the LTA.

FLEXI-ACCESS DRAWDOWN OR ANNUITY

is subject to income tax via PAYE. No test against the LTA.

LUMP SUM PAYMENTS TO TRUSTS, ESTATE OR CHARITY.

Lump sum payments can be paid to someone other than an individual. The tax treatment of these payments will be the same regardless of the age of the deceased. **If the lump sum is subject to income tax:**

- If paid to a trust the payment will be taxed at 45%. However on subsequent payment to a beneficiary it may be possible to claim back some tax depending on the beneficiaries marginal rate of tax.
- Payment to a clients estate will be subject to 45% tax and have no reclaim option
- Payment to charity that meets the conditions of being a charity lump sum death benefit will be free of tax
- Payment to a charity that does not meet the conditions of being a charity lump sum death benefit will be subject to 45% tax

* A nominee is anyone nominated by the member, or nominated by the scheme administrator (but a nomination by the scheme administrator cannot overrule a nomination made by the member or take precedence over a dependent if one exists).
** A successor is a person nominated by the dependant or nominee to receive flexi access drawdown. When the successor dies their remaining drawdown fund can be passed onto another successor that they choose. Where no nomination was made by the time the beneficiary died, a scheme administrator may nominate a successor.
*** Annuity where the member died on or after 3rd December 2014.

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It is important to note that if the deceased member's remaining fund was tested against the LTA whilst alive, it won't be tested after death. Any pension wealth a person inherits won't count towards their own LTA .

DEATH BENEFITS: WHO CAN RECEIVE BENEFITS ON MEMBER'S DEATH?*

LUMP SUM	ANNUITY	FLEXI-ACCESS DRAWDOWN
A dependant, including spouse/ civil partner, a child under 23** dependent on the member because of physical or mental impairment, a financial dependant		
Any other beneficiary nominated by the member		
Any other beneficiary chosen at the discretion of the scheme administrator.	The scheme administrator cannot use their discretion to give an annuity or flexi access drawdown to anyone else if there is a nomination on file or a dependant exists.	
	If a member does not make a nomination, the scheme administrator cannot use their discretion to provide for an annuity or flexi-access drawdown to anyone other than a 'dependant' if a dependant exists. If no dependant exists the scheme administrator can use their discretion to nominate anyone	

* Death benefits payable from uncrystallised fund or a drawdown fund that came into payment after 2006.
** A child under age 23 and classed as a dependent when starting to take benefits can continue to receive the annuity and/or flexi-access drawdown after they cease to be a dependent.

CASE STUDIES

CASE STUDY ONE: JACK AND DIANE

- Jack and Diane run a successful farming business
- They are both age 60 and have pensions worth £500,000 each
- They have a nephew Ben, age 35, who is gradually taking over the running of the farm
- Jack dies in a farming accident

The adviser requests that Jack's death benefits should be paid to Ben as Diane doesn't need it due to her own pension wealth and the income from the farm.

CRUCIALLY, THE ADVISER ONLY SUGGESTED NOMINATING DIANE AS A BENEFICIARY WHEN JACK'S PLAN WAS SET UP

CASE STUDY ONE: JACK AND DIANE

The adviser calls the provider and asks for nominee drawdown to be set up for Ben

Trustees check the nomination form - Ben isn't on it so nominee drawdown can't be set up for him

The trustees could pay a lump sum death benefit to Ben using their discretionary powers

CASE STUDY ONE: JACK AND DIANE

IF BEN **DOESN'T NEED** EXTRA INCOME

- Ask trustees to make a discretionary death benefits lump sum payment to Ben so it is tax-free
- Invest this in a tax-efficient investment (e.g. offshore bond)
- Future income can be taken if needed
- There is potential to place in trust to provide income for Ben's children while retaining control
- Depending on set up, could be IHT free on Ben's death
- Ben has full control

IF BEN **DOES** NEED EXTRA INCOME

- Diane can extract income from dependant's FAD tax-free
- This can then be passed to Ben under the surplus income rules (so no IHT)
- Ben can choose to spend or save the extra income
- Ben could save any surplus income in a tax-efficient wrapper
- Ben has no control until he gets the money

CASE STUDY ONE: JACK AND DIANE

After detailed discussions it is decided that Diane will receive Jack's pension as a dependant's flexi-access drawdown plan and pay regular income to Ben.

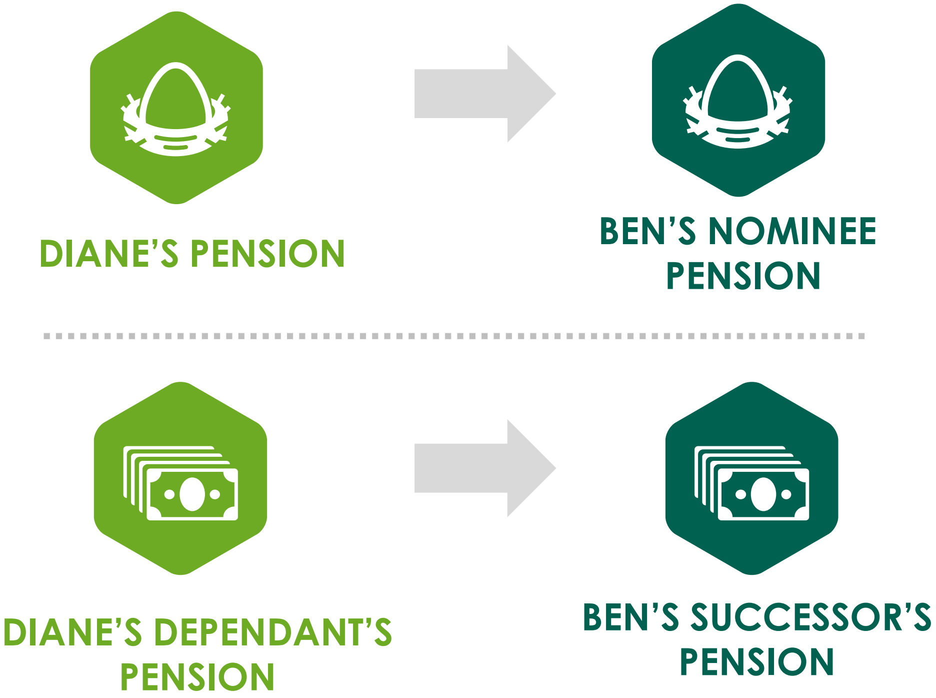
DIANE'S PENSION + DIANE'S DEPENDANT'S PENSION = £1m

THE ADVISER MAKES SURE BEN IS NOW ON DIANE'S NOMINATION FOR BOTH HER PENSIONS.

CASE STUDY ONE: JACK AND DIANE

16 years later, Diane passes away

- Ben can choose lump sums or flexi-access drawdown from Diane’s pensions
- However as Diane was over age 75, **all** will be **taxed at Ben’s marginal rate**
- Ben could have received income and retained complete control of Jack’s pension **tax-free** had he been nominated



THE IDEAL SCENARIO

2 BENEFICIARIES' DETAILS

Use this section to nominate your preferred beneficiary(ies); the percentages allocated must total 100%.

▶ *Tick whether the beneficiary is an individual, a trust or a charity and complete the details as appropriate:*

1. Full name of beneficiary Diane Smith

Proportion 1 0 0 %

Their address 14 Anystreet, Anytown

Postcode AA1 1AA

○ Individual

Date of birth *(ddmmyyyy)* 0 2 0 2 1 9 5 9

Relationship to you Wife

○ Trust

Date of trust *(ddmmyyyy)*

Name of lead trustee

○ Charity

Registered charity number

Nomination priority†

In the event that Diane does not need all, or some of the money, please consider my nephew, Ben Jones.

CASE STUDY TWO: BRENDA

- Brenda is 46 and an active member of her employer's defined benefits scheme – current CETV £546,000
- Brenda is divorced and has a 15 year-old daughter, Emma
- Brenda is diagnosed with terminal cancer with a life expectancy of less than a year.
- On Brenda's death, Emma's guardians will be her Grandmother and her Aunt.

WHAT WOULD YOU DO?

CASE STUDY TWO: BRENDA

Brenda seeks advice as to whether she should opt-out then transfer out of the scheme

The employer offers separate Death-In Service cover

Advice is to transfer out even though there could be an IHT charge

CASE STUDY TWO: BRENDA

If Brenda DOES NOT transfer the benefits from the scheme:

OPTION ONE

- Four times salary death-in-service lump sump death benefit **= £200,000**

PLUS

- **1/3rd children's pension of £5,700 p.a.** payable until age 18 or 23*

PLUS

- Return of contributions of **£25,000**

OPTION TWO

- Four times salary death-in-service lump sump death benefit **= £200,000**

PLUS

- Serious ill-health lump sum -15 x the member's pension of £17,100 p.a. - **£256,500** (this would be paid tax-free while she is alive)

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*Children with mental/physical disabilities can receive a pension beyond age 23

CASE STUDY TWO: BRENDA

If Brenda DOES transfer the benefits from the scheme:

OPTION THREE

- Four times salary death-in-service lump sump death benefit **= £200,000**

PLUS, EITHER

- **£546,000** tax free as either a lump sum or a flexi-access dependant's drawdown on her death

OR

- All of the **£546,000** as a withdrawal (early access before age 55 possible because of serious ill-health).

OLDMUTUAL WEALTH

*Children with mental/physical disabilities can receive a pension beyond age 23

CASE STUDY TWO: BRENDA

As Brenda died within 2 years of the transfer, this must be reported to HMRC on IHT form IHT409. This might result in an IHT charge:

HMRC will seek to place a value on the **loss to the estate**, based on:

1. The value which **could have** been directed to the estate, taking account of growth/discount rates from date of transfer to date of death

MINUS

2. The value of the rights **retained** by the member immediately before death - essentially on a UFPLS basis.

CASE STUDY TWO: BRENDA

VALUE OF DEATH BENEFITS

Assume:

- 4% growth rate from date of transfer to assumed life expectancy (1 year)
- 13% discount rate to reflect investment growth

VALUE OF DEATH BENEFITS

(£546,000 x 1.04)/1.13 = **£507,345**

VALUE OF RETAINED RIGHTS

PCLS = £546,000/4 = £136,500

Remaining fund = £409,500

Tax on £409,500 = £169,271

Balance after tax = £240,229

VALUE OF RETAINED RIGHTS:

£136,500 + £240,229 = **£376,729**

OUR UNDERSTANDING OF THE VALUE OF LOSS TO ESTATE

£507,345 - £376,729 = £130,616 within the estate

IHT @ 40% = £52,246.40

CASE STUDY TWO: BRENDA

Summary of position on death

	OPTION ONE (DIS/CHILDREN'S PENSION, RETURN OF CONTRIBUTIONS)	OPTION TWO (DIS/SIHLS)	OPTION THREE (TRANSFER)
Total lump sums	£225,000	£456,500	£200,000
Dependant's flexi-access drawdown	n/a	n/a	£546,000
Dependant's scheme pension	£5,700 pa (payable for up to 8 years)	n/a	n/a
Income tax	£0	£0	£0
Inheritance tax	£0	Potentially, as £256,500 within estate	Potentially, as £546,000 could be within the estate

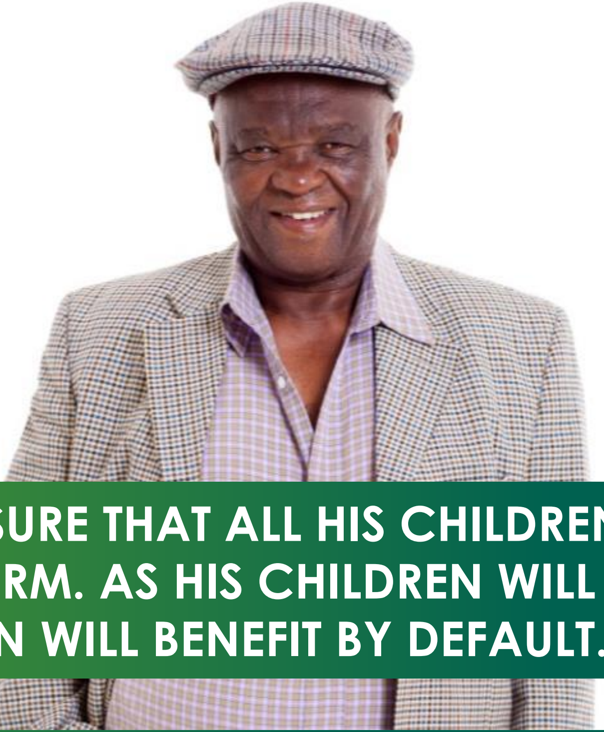
CASE STUDY TWO: BRENDA

How option three produced excellent customer outcomes:

- Brenda has the flexibility to access her pension to fund private treatment if needs be.
- Emma's guardians have complete, tax-efficient control over a total fund to provide for her until she is old enough to take control herself.
- Even if HMRC pursue an IHT charge of £52,246 Emma is still in a better position than if her mum stayed in the scheme.

CASE STUDY THREE: JIM

- Jim is a widower age 76 with a pension worth £800,000
- He has 4 grown up children and 3 grandchildren all under age 18
- Jim has already spent his PCLS



JIM'S ADVISER TELLS JIM TO MAKE SURE THAT ALL HIS CHILDREN ARE MENTIONED ON THE NOMINATION FORM. AS HIS CHILDREN WILL GET THE MONEY, THE GRANDCHILDREN WILL BENEFIT BY DEFAULT.

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CASE STUDY THREE: JIM

The trustees can pay a lump sum and/or drawdown to nominees, but:

Jim's children are all higher rate taxpayers and in future plan to send their own kids to private schools

On death, as Jim is over age 75, any death benefits will be taxed at the recipient's marginal rate

CASE STUDY THREE: JIM

Jim's adviser should have made sure all potential beneficiaries were named for tax-efficiency:

- Nominate **each** of the grandchildren to allow £12,500 p.a. towards school fees to be paid over 7 years from age 11 to 18 from nominee FAD (£87,500 each)
- This makes use of the grandchildren's personal allowances so some or all school fees are paid **tax-free**
- Remaining fund can be split between grown up children or grandchildren for **legacy** planning or lump sums or withdrawals if tax circumstances change

IF JIM HADN'T CHANGED HIS NOMINATION, HIS CHILDREN WOULD HAVE PAID £175,000 IN TAX
(£20,833 @40% = £12,500 net, so £8,333 tax x 3 x 7)

CASE STUDY FOUR: BRIAN

- Brian is 45, married to Margaret and has 3 children
- He has been a member of his employer's group personal pension since 1992 with a current fund value of £360,000

BRIAN HAS A HEART ATTACK WHILE OUT RUNNING AND DIES A FEW DAYS LATER

CASE STUDY FOUR: BRIAN

Margaret requests dependant's drawdown for her and her children

Although the nomination is completed properly, only a lump sum is payable

The group personal pension rules have not been updated to provide nominee drawdown

MARGARET COULD HAVE HAD FULL DEPENDANT'S DRAWDOWN HAD BRIAN SWITCHED TO A MODERN CONTRACT. REMEMBER PARTIAL TRANSFERS MIGHT BE POSSIBLE

FINAL THOUGHTS

HOW MUCH RISK IS WITHIN YOUR BUSINESS?

AT RETIREMENT PENSION HEALTH CHECK
ENSURING GOOD CUSTOMER OUTCOMES

RETIREMENT OUTCOMES

D. Legacy planning	YES	NO	CRA
• Does the current pension plan offer a lump sum death benefit?	○	○	✓
• Does the current pension plan offer dependant, nominee and successor flexi-access drawdown with no minimum age of entry?	○	○	✓

S226 RETIREMENT ANNUITY CONTRACTS

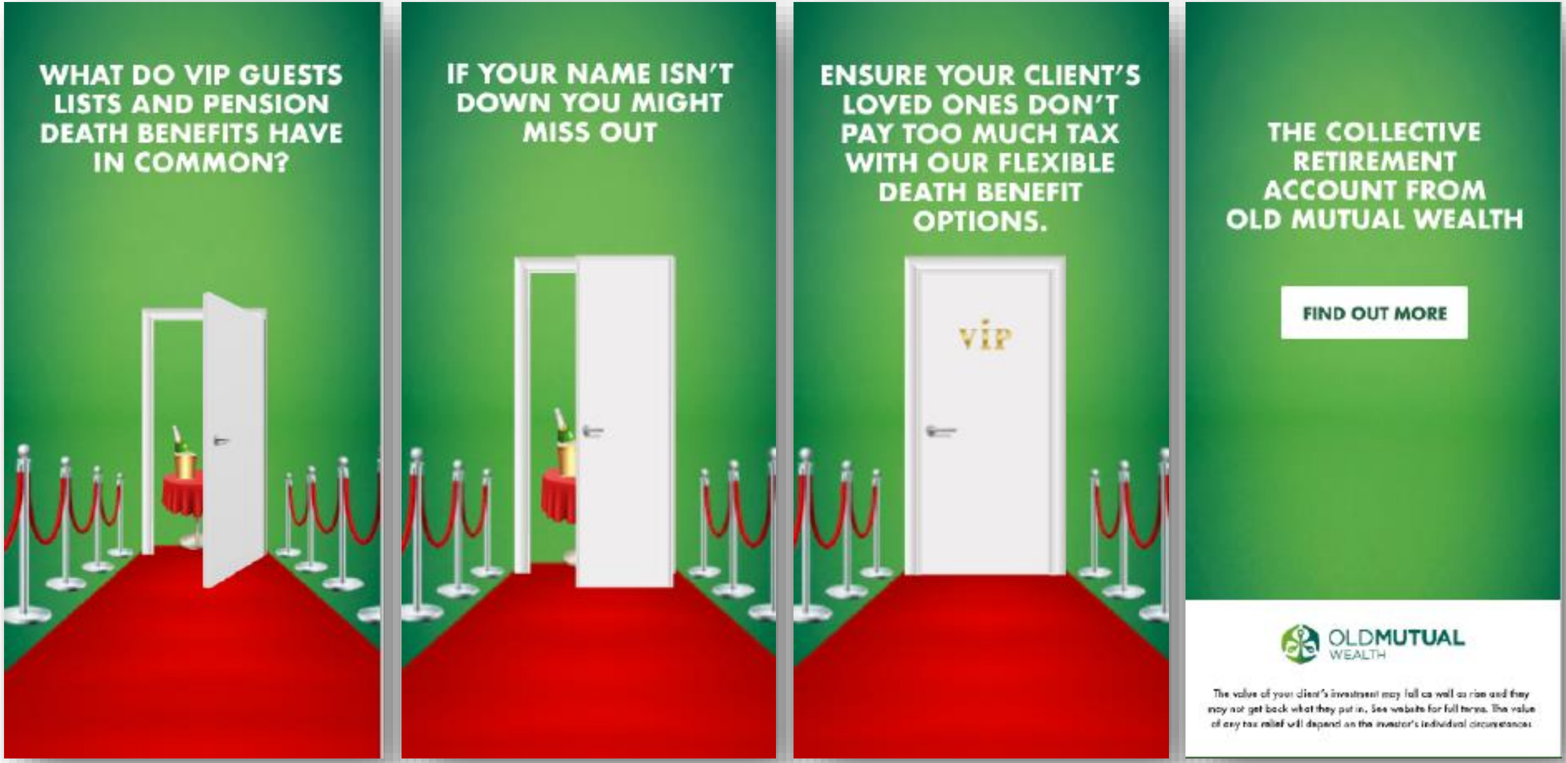
S32 BUY-OUT PLANS

MOST MONEY PURCHASE OCCUPATIONAL PENSION SCHEMES (i.e CIMP)

FSAVCs

GPPs

STAKEHOLDER


WHAT DO VIP GUESTS LISTS AND PENSION DEATH BENEFITS HAVE IN COMMON?
IF YOUR NAME ISN'T DOWN YOU MIGHT MISS OUT
ENSURE YOUR CLIENT'S LOVED ONES DON'T PAY TOO MUCH TAX WITH OUR FLEXIBLE DEATH BENEFIT OPTIONS.
vip
THE COLLECTIVE RETIREMENT ACCOUNT FROM OLD MUTUAL WEALTH
FIND OUT MORE
OLDMUTUAL WEALTH
The value of your client's investment may fall as well as rise and they may not get back what they put in. See website for full terms. The value of any tax relief will depend on the investor's individual circumstances.

WHEN A CLIENT DIES, MAKE SURE THEIR PENSION DOESN'T DIE WITH THEM

Key messages and immediate actions:

Asset values are increasing while tax bands/allowances are static or decreasing

The tax treatment of pension death benefits has never been so good

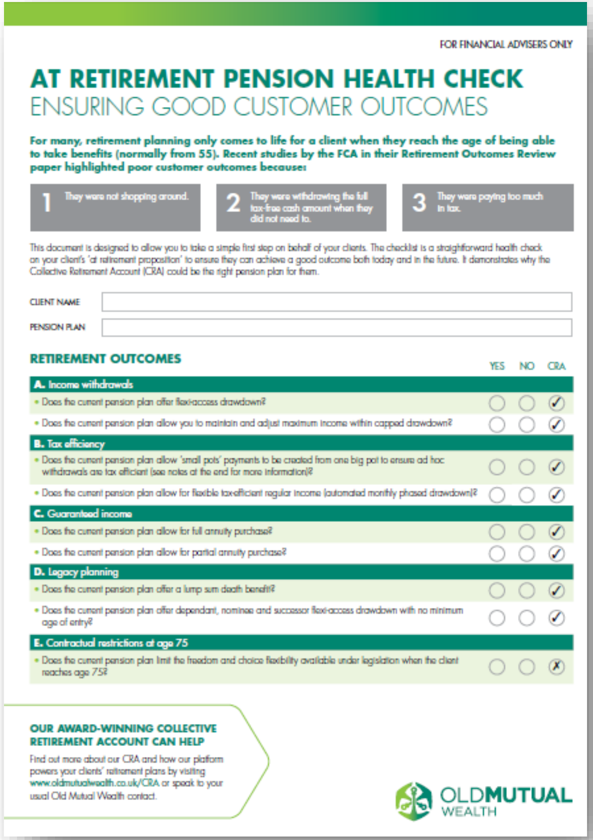
Making nominations on expressions of wish is key

The family cascade of pension benefits is now possible

You need to be in a modern pension like the CRA to make the most of the opportunity

Old Mutual Wealth can help

NEXT STOP?



FOR FINANCIAL ADVISERS ONLY

AT RETIREMENT PENSION HEALTH CHECK
ENSURING GOOD CUSTOMER OUTCOMES

For many, retirement planning only comes to life for a client when they reach the age of being able to take benefits (normally from 55). Recent studies by the FCA in their Retirement Outcomes Review paper highlighted poor customer outcomes because:

1 They were not shopping around.

2 They were withdrawing the full tax-free cash amount when they did not need to.

3 They were paying too much in tax.

This document is designed to allow you to take a simple first step on behalf of your clients. The checklist is a straightforward health check on your client's 'at retirement proposition' to ensure they can achieve a good outcome both today and in the future. It demonstrates why the Collective Retirement Account (CRA) could be the right pension plan for them.

CLIENT NAME

PENSION PLAN

RETIREMENT OUTCOMES

	YES	NO	CRA
A. Income withdrawals			
• Does the current pension plan offer flexi-access drawdown?			✓
• Does the current pension plan allow you to maintain and adjust maximum income within capped drawdown?			✓
B. Tax efficiency			
• Does the current pension plan allow 'small pots' payments to be created from one big pot to ensure ad hoc withdrawals are tax efficient (see notes at the end for more information)?			✓
• Does the current pension plan allow for flexible tax-efficient regular income (automated monthly phased drawdown)?			✓
C. Guaranteed income			
• Does the current pension plan allow for full annuity purchase?			✓
• Does the current pension plan allow for partial annuity purchase?			✓
D. Legacy planning			
• Does the current pension plan offer a lump sum death benefit?			✓
• Does the current pension plan offer dependant, nominee and successor flexi-access drawdown with no minimum age of entry?			✓
E. Contractual restrictions at age 75			
• Does the current pension plan limit the freedom and choice flexibility available under legislation when the client reaches age 75?			✗

OUR AWARD-WINNING COLLECTIVE RETIREMENT ACCOUNT CAN HELP

Find out more about our CRA and how our platform powers your clients' retirement plans by visiting www.oldmutualwealth.co.uk/CRA or speak to your usual Old Mutual Wealth contact.

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Help give your clients the flexible retirement they want.

Download our pension health checklist: http://bit.ly/2Ob6tcK

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Questions ?/Discussion

Additional Age 75 considerations ?

- Last test against the LTA (BCE
- Implications of not drawing PCLS ?
- No further Tax Relievable Contributions
- Spousal by pass Trusts ?

- You also asked about Pensions and Divorce –
- https://www.oldmutualwealth.co.uk/Adviser/literature-and-support/knowledge-direct/pensions/planning-solutions/divorce-and-pension-sharing-process-in-the-uk/.

PENSION SPECIALIST TEAM

Let our pension gurus help you to make the complex clear, so your clients can have the income they need for the retirement they want.

www.oldmutualwealth.co.uk/pension-specialists/

TECHNICAL HELP LINE

Our Trusts & Technical Solutions helpdesk provides valuable service to advisers providing support on technical matters in relation to pensions, trusts and taxation as it relates to our products.

02380 726 010

ONLINE TOOLS & CONTENT

Giving you the tools you need to help you give great advice to your clients.

RETIREMENT
www.oldmutualwealth.co.uk/Adviser/platform-and-products/Retirement/

TOOLS
www.oldmutualwealth.co.uk/Adviser/tools

IAN BROWNE'S BLOG ON LINKEDIN
www.linkedin.com/in/ian-browne-88550a29/recent-activity/posts/

Please remember that past performance is not a guide to future performance. The value of your client's investments may fall as well as rise and they may not get back what they put in.

This document is based on Old Mutual Wealth's interpretation of the law and HM Revenue and Customs practice as at 06/2019. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

The value of any tax relief will depend on the investor's individual circumstances.

The tax treatment and efficiency of these options will depend on the individual circumstances of each customer. Tax rules and their application may change in the future.

www.oldmutualwealth.co.uk

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