AJBell Investcentre

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Death benefits – nomination issues

Points covered: Nominations; lump sum death benefits; pension death benefits; role of the scheme administrator.

Mr Williams passed away at the age of 85.

His wife had predeceased him and he had nominated his only child, John to receive his benefits.

John is 55 and a higher rate tax payer, so would pay at least 40% tax on any benefits he took as income (or 45% if he took the fund as a lump sum). John has two children who are 18 and 20 and are currently at university with no income.

John does not need the income and would rather the fund was used to provide an income to support his children whilst they are at university and starting their careers. This would be more tax-efficient, as they could receive the first £10,600 each year tax-free (2015/16 threshold), and pay basic rate tax on any income above this up to the higher rate threshold.

Even though all parties are in agreement, and John believes his father would have supported this change, because Mr Williams nominated John as the sole beneficiary of his pension the scheme administrator cannot override this to designate the funds to provide an income for John's children.

The scheme administrator does have the ability to pay the funds to John's children, but this can only be as a lump sum and would therefore be taxed at 45% (2015/16 rate).

The above scenario could be avoided had Mr Williams completed our new nomination and expression of wish form. This form nominates a wide class of beneficiaries who are eligible to receive benefits in the form of a pension, whilst still allowing the member to set out their wishes as to how they want the fund to be distributed following their death. If Mr Williams had named John on the new style form then the scheme administrator would have had the ability to pay an income to John's children.

The new form can be found here.

Important information

This information is based on our current understanding of the pension changes. This is provided for information only, we do not provide advice.

Please note that the value of investments, and any income from them, can go down as well as up, and you may not get back your original investment. Tax rules can change in the future and the tax treatment depends on your personal circumstances. We do not offer advice about the options available, or the suitability of our products and services. Taking income from your SIPP instead of buying an annuity can be complex. You need to consider the investment returns that you may be able to achieve and the level of income that you wish to take.

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