



## Death benefit options

### Introduction

The content of this factsheet reflects the changes to pension tax legislation that came into force as from 6 April 2015.

The options open to the recipients of death benefits paid from a registered pension scheme are normally governed by the rules of the pension scheme and the category of beneficiary the recipient falls into.

The tax treatment of death benefits is not covered in this factsheet. For the tax treatment of these benefits please consult our Pension Death Benefits Factsheet.

## Money purchase arrangements

On the death of the pension scheme member i.e. the original holder of the pension funds, the categories of beneficiary are as follows:

Dependant, nominee and other.

Following the death of the member, where pension funds have been passed on and in the event of a second or subsequent death involving the holder of the pension funds there is a further category of beneficiary: successor.

The Appendix contains definitions of each of the categories of beneficiary.

Death benefits paid from a registered pension scheme come in two forms, lump sum or pension. With the exception of collective money purchase arrangements, and subject to scheme rules, the pension death benefit options are drawdown, annuity and scheme pension. A dependants' scheme pension is the only pension death benefit option available from a collective money purchase arrangement. There are different types of lump sums that may be paid on death and the type will be dictated by the scheme rules and the circumstances. The following table sets out the potential options for each category of beneficiary.

	Pension death benefits			Other death benefits
	Drawdown	Annuity	Scheme pension	Lump sum
Dependant	Yes	Yes	Yes	Yes
Nominee	Yes	Yes	No	Yes
Successor	Yes	Yes	No	Yes
Other	No	No	No	Yes

The death benefits for a dependant or nominee can be paid from uncrystallised and crystallised funds. Whereas the death benefits for a successor can only come from a drawdown fund.

Following the death of the member, if a recipient is not a dependant of that member and was not nominated by the member, then unless the recipient is capable of being nominated by the scheme administrator and has been, only a lump sum death benefit can be paid. In other words a pension death benefit is not an option for the recipient. Likewise on a second or subsequent death,

where the holder of the pension rights dies and unused drawdown funds remain, only someone nominated by the holder or scheme administrator (where possible) can use these funds to provide a pension death benefit.

The circumstances under which a scheme administrator can make a nomination in respect of unused pension funds on death can be found within the definitions of nominee and successor contained in the Appendix.

The types of Lump Sum Death Benefits (LSDB) potentially available are listed in the following table.

## Types of Lump Sum Death Benefits Available

Uncrystallised funds LSDB	Annuity protection LSDB
Drawdown pension fund LSDB	Trivial commutation LSDB
Flexi-access drawdown pension fund LSDB	Life cover lump sum
Charity LSDB	

The lump sums listed in the left column of the table are the most common.

With the exception of a Charity LSDB and a trivial commutation LSDB derived from a dependant's pension death benefit, legislation does not set any conditions on who may receive a LSDB. However, scheme rules may do so.

A description of each of the lump sums can be found at <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm073000>.

### Defined benefit arrangements

Under these types of arrangements for death benefits there are only two categories of recipient, dependants and others. Death benefits again come in two forms, lump sum and pension. However, the only pension death benefit available is a dependants' scheme pension. Recipients that are not dependants therefore may only benefit from a lump sum. The potential lump sum options are:

- Defined benefits LSDB
- Pension protection LSDB
- Trivial commutation LSDB
- Life cover lump sum

Other than where a trivial commutation LSDB is derived from a dependant's scheme pension, legislation does not set any conditions on who may receive a LSDB. However, scheme rules may do so.

A description of each of the lump sums can be found at <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm073000>.

Following the death of the member, if a dependant's scheme pension was set up and the dependant subsequently died, it may be possible for a dependant's scheme pension to be paid to another dependant of the member. An example of this would be where a dependant's scheme pension was paid to the member's spouse and on the death of the spouse a dependant's pension was then paid to a child of the member. The availability of such an option would depend on the scheme rules.

### Nominations

Many pension providers, including James Hay, make available expression of wish forms so that the member (or the holder of the pension funds in the case of second and subsequent deaths) may record what they would like to happen with the pension fund on their death. Where the provider has discretion over the payment of death benefits the form acts as a non-binding nomination. The non-binding nature of the nomination is important as a binding nomination where the provider is obliged to comply with the nomination made by the member can have repercussions for the member's IHT position.

The completion of a new expression of wish form by the member cancels and supersedes any earlier one.

Members with a James Hay SIPP are not bound to use the expression of wish form provided. However, if a bespoke form of nomination is to be used by the member then it is essential that they take the appropriate advice from their tax and legal adviser(s).

## Appendix

### **“Dependant of the member” means:**

- A person who was married to, or a civil partner of, the member at the date of the member’s death is a dependant of the member.
- If the rules of the pension scheme so provide, a person who was married to, or a civil partner of, the member when the member first became entitled to a pension under the pension scheme is a dependant of the member.
- A child of the member is a dependant of the member if the child:
  - has not reached the age of 23, or
  - has reached that age and, 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.
- A person who was not married to, or a civil partner of, 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 dependent on the member,
  - the person’s financial relationship with the member was one of mutual dependence, or
  - the person was dependent on the member because of physical or mental impairment.

For dependants’ drawdown purposes only, where a child of the member:

- qualifies as a dependant because they are aged under 23 (rather than through mental or physical impairment)
- first designated funds into a drawdown fund or flexi-access drawdown fund before age 23 and
- reaches age 23 on or after 16 September 2016

they can continue to receive dependants’ drawdown as authorised payments regardless of their age.

This class of dependant is excluded from the definition of dependant used for the purpose of defining a nominee.

### **“Nominee of the member” means an individual:**

- nominated by the member, or
- nominated by the scheme administrator,

who is not a dependant of the member, but see the next paragraph.

In relation to any particular benefits under an arrangement, no individual nominated by the scheme administrator counts as a nominee of the member at any time when there is:

- a dependant of the member, or
- an individual, or charity, nominated by the member in relation to the benefits.

### **“Successor of the member” means an individual:**

- nominated by a dependant of the member,
- nominated by a nominee of the member,
- nominated by a successor of the member, or
- nominated by the scheme administrator.

However, for exceptions to this see next paragraph.

In relation to any particular benefits under an arrangement relating to a dependant, nominee or successor of the member (“the beneficiary”) in that capacity, no individual nominated by the scheme administrator counts as a successor of the member at any time after the beneficiary’s death when there is an individual, or charity, nominated by the beneficiary in relation to the benefits.

Note that, where a successor of the member is an individual who is also a dependant of the member, the individual should be treated solely in the capacity of a successor to the member.

## Other

This category of beneficiary includes all individuals not covered by the categories set out above. For example trustees of a trust, individuals in their capacity as directors of companies and individuals in their capacity as office holders for charities.

**Important Information:** This factsheet is issued by the Nucleus Technical Support Team for use by financial advisers in connection with products provided by the Nucleus Group. The Nucleus Group does not accept any liability if the information provided in this document is used for any other purpose. This factsheet is based on our understanding of current UK legislation and HMRC practice at the date this document was produced. The tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

[www.nucleusfinancial.com](http://www.nucleusfinancial.com)

"Nucleus" and "James Hay Partnership" are the trading names of Nucleus Group Services Limited (NGSL) (registered in England number 02538532); James Hay Services Limited (JHS) (registered in Jersey number 77318); IPS Pensions Limited (IPS) (registered in England number 2601833); James Hay Administration Company Limited (JHAC) (registered in England number 4068398); James Hay Pension Trustees Limited (JHPT) (registered in England number 1435887); James Hay Wrap Managers Limited (JHWM) (registered in England number 4773695); James Hay Wrap Nominee Company Limited (JHWNC) (registered in England number 7259308); PAL Trustees Limited (PAL) (registered in England number 1666419); Sorum Trustees Limited (SorumTL) (registered in England number 1003681); The IPS Partnership Pie (IPS Pie) (registered in England number 1458445); Union Pension Trustees Limited (UPT) (registered in England number 2634371).

"Nucleus", "NFS" and "Nucleus Financial Services" are the trading names of Nucleus Financial Services Limited (NFS) (registered in England 05629686); and Nucleus Financial Limited (NF) (registered in England number 05522098); Nucleus Trustee Company Limited (NTC) (registered in Scotland number SC312652); and NFS (Nominees) Limited (NFSN) (registered in England number 07621355). NF, NFS, NFSN, NGSL, IPS, JHAC, JHPT, JHWM, JHWNC, PAL, SarumTL, IPS Pie, and UPT have their registered office at Dunn's House, St Paul's Road, Salisbury, SP2 7BF. NTC has its registered office at 12 Blenheim Place, Edinburgh EH7 5JH. JHS has its registered office at Aztec Group House, 11-15 Seaton Place, St Helier, Jersey, JE4 0OH. JHAC, JHWM, IPS, IPS Pie and NFS are authorised and regulated by the Financial Conduct Authority.