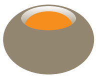

illuminate technical

Case study: death benefits

Anna is a barrister married to Philippe, a tennis coach. They're both in their mid 30s, live in Edinburgh, and have two-year-old twins, Luke and Marie.

Philippe misses France – especially the weather – and would eventually like to buy a property near his childhood home. Anna's mother died when she was young, and she is very close to her father John, 64, who lives nearby.

John, is the head of production at a large paint factory. He has built up various pension savings over recent years in a range of defined contribution schemes.

Year 1	John decides to take partial retirement from his job. His company offers him a position as a consultant working 20 hours a week. John's financial planner helps him to consolidate his defined contributions into a single Sipp.
Year 4	John decides to move his defined contribution pension funds into flexi-access drawdown (Fad) so he can take his tax-free cash to pay for a conservatory on his house. This leaves a Fad fund of £163,000.
Year 10	After a few years of searching, Anna and Philippe find a small villa in France that's the perfect second home. Unfortunately the pull of Phillippe's home country is too much, especially after bumping into his childhood sweetheart Margeaux, and he decides he'd rather live in France permanently. Anna and Philippe decide to split up.
Year 12	John unexpectedly dies after a short illness, aged 76. He has nominated that his daughter receives 50% of his pension fund, and his grandchildren 25% each. Anna, Luke and Marie all set up a beneficiary's drawdown pension plan each. Anna decides to withdraw £5,000 a year from her fund. She will pay tax on this at her marginal rate of income tax.
Year 16	Luke and Marie both decide to withdraw £10,600 from their beneficiary's pension pot to help fund their first year at university. This is lower than the personal allowance and as they don't have jobs, they can reclaim any tax paid.
Year 22	Unfortunately Anna inherits the same condition as her mother and sadly dies age 57. Because she passed away before age 75 the residual fund can be passed to the children for drawdown, and the income can be paid tax free.

What happened

John decided to split the fund between his family, and made several expressions of wish. The trustees are under no obligation to follow his wishes, but they have to take them into account. As John dies after the age of 75, his beneficiaries have to pay tax on the benefits they receive.

As his grandchildren – Luke and Marie – have no other income, they are able to take a pension withdrawal from their fund just below the personal allowance . Although the payments will be taxed, they can reclaim the tax from HMRC.

Anna, however, has to pay tax on her withdrawal. Anna is still able to contribute up to £40,000 a year to her own pension arrangements because taking her beneficiary's drawdown does not count as 'flexibly accessing' pension benefits.

When she dies, age 57, there is no tax for Luke and Marie to pay on the residual pot from their grandfather. Their mother's own pension arrangements are dealt with separately.

Summary

- Father consolidates defined contributions to a Sipp
- Father moves to flexi-access drawdown
- Daughter creates beneficiaries drawdown pension plan after father passes away
- Grandchildren inherit residual fund when mother dies aged 57

For more factsheets and product technical support, visit www.nucleusfinancial.com/technical-studio

producttech@nucleusfinancial.com @nucleuswrap www.nucleusfinancial.com/technical-studio

Nucleus Financial Services Limited is authorised and regulated by the Financial Conduct Authority, is registered in England with company number 05629686 and has its registered office at Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey KT13 0TS. Please note that telephone calls may be recorded in order to monitor the quality of our customer service and for training purposes.