

M
&G

Pensions and IHT

What the new rules will mean for
paraplanners.



This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

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Learning objectives

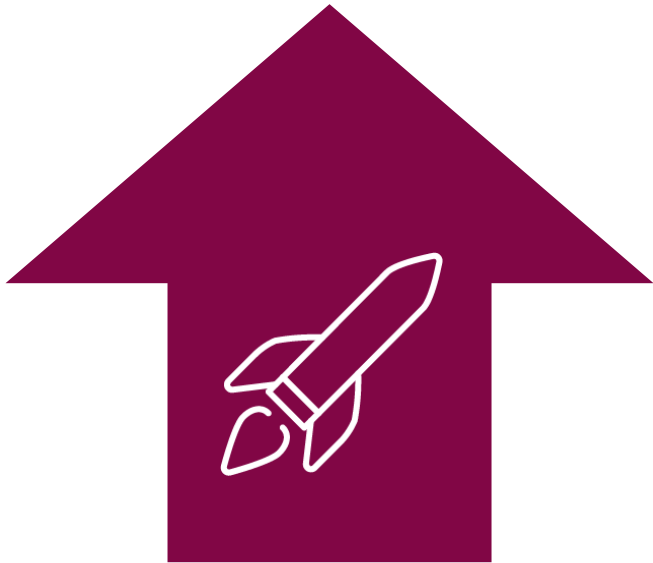
By the end of this session, you will be able to:

Explain the changes to pension death benefit taxation from April 2027

Describe the fundamental elements of an IHT plan

Evaluate different options to mitigate a pension driven IHT liability

"A voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue..."



RECEIPTS



ESTATES

Segmentation (RAGing) of client's assets...

Green Money

Expected to be used to
meet needs

Amber Money

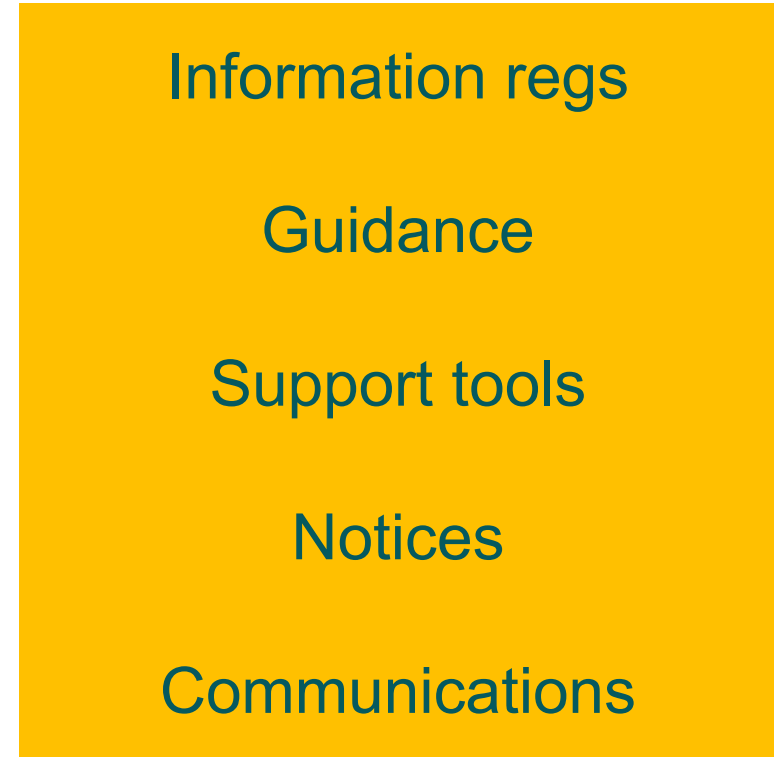
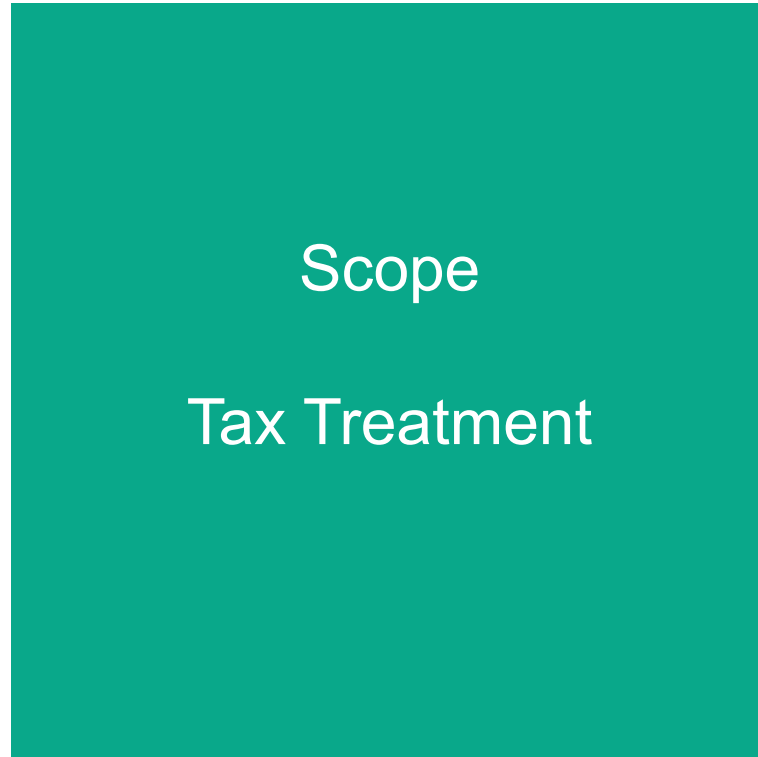
May be required to meet
needs

Red Money

Expected to be unused
with an IHT and/or
Income Tax liability

It's the law...

... but more to come

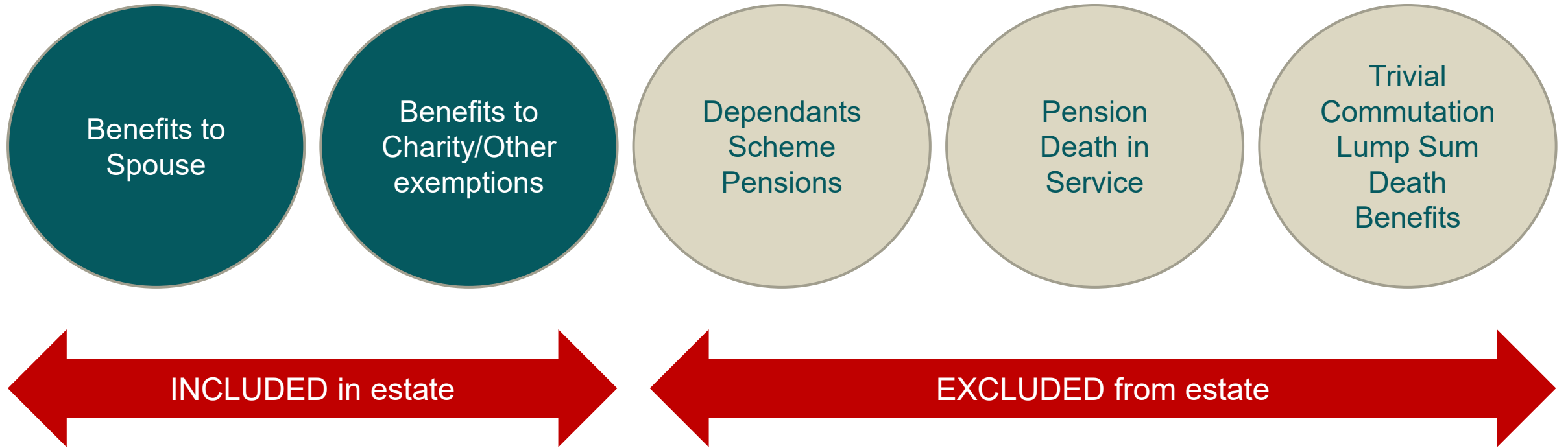


Spring 2027

Rules apply to transfers of value on or after 6 April 2027

"Notional Pension Property"

... IHT free doesn't mean IHT free



Everything else is in scope (incl Unauthorised Payments)

Annuity Death Benefits

... one of the answers to the pensions and IHT issue?

Joint Life
Spouse /
Civil Partner

Joint Life
NOT Spouse
/ Civil
Partner

Value
Protection
Lump Sums

Guarantee
Periods

Excluded benefits on death
BUT Transfer of Value on purchase

Notional Pension property
Exemptions available

There is no annuity in a Fixed Term Annuity

IHT

Establishing the tax bill



General component (after liabilities)*

+

settled property*

+

jointly held property

+

GWR property*

-

Exemptions

-

Reliefs

-

Available NRB/RNRB(s)

=

Taxable estate

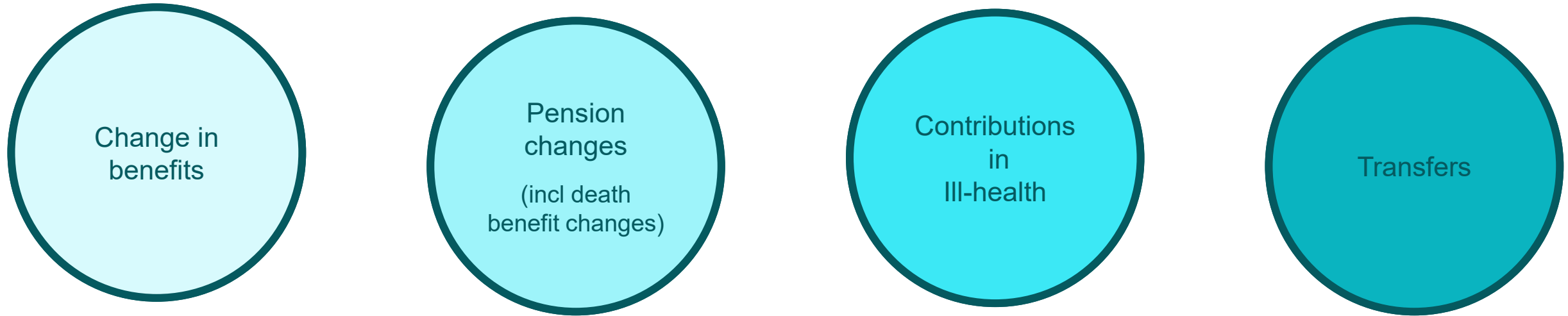
← Notional Pension Property

← RNRB Taper

* where there is more than one component and tax due the bill is proportioned between the components based on their chargeable value

Transfers of value

Almost gone?



a transfer of value is a disposition made by a person (the transferor) as a result of which the value of his estate immediately after the disposition is less than it would be but for the disposition; and the amount by which it is less is the value transferred by the transfer.

S3(1) IHTA1984

What about pre April 2027 events with post April 27 deaths?

Bits and bobs

... about IHT?

Charity
10%



Quick
Succession
Relief



Double
Charge
Relief



Agricultural/
Business
Relief



Loss Relief



The IHT liability

Paying the bill

Personal
Reps

Recovery
from
beneficiaries

Pension
Scheme

“Scheme
Pays”
PRs & Bens

Beneficiary

Requests
benefits /
own
resources

Hold on and can you pay it

The new notices

	WITHOLDING	PAYMENT
Purpose	To retain funds within the scheme to cover a potential IHT liability	To settle IHT directly with HMRC from pension funds
Who issues it	Personal representatives (PRs)	PRs or Beneficiary
Effect on benefits	Delays part of the death benefit	Reduces benefits by paying IHT before payment
Amount involved	Up to 50% of taxable death benefits withheld	IHT due on pension only (plus interest)
Timing	Can apply for up to 15 months after death while IHT is finalised	Triggered once the IHT liability is known or crystallised
Function in process	A protective / holding mechanism	A tax settlement mechanism
Scheme administrator role	Must retain funds and not pay out that portion	Must pay HMRC from scheme funds
Failure to comply	Scheme administrator jointly and severally liable for IHT	Scheme administrator jointly and severally liable for IHT
When used	Early-stage uncertainty (before IHT is calculated)	Later-stage (once IHT due is established)

A quicker way to get values, 14 days (28 normally).

Double taxation

... it isn't.

“If Inheritance Tax is paid in relation to death benefits, the portion of the benefits corresponding to the Inheritance Tax (and interest) paid does not count towards the beneficiary’s taxable income”

HMRC technical note 11 May 2026

	Scheme Pays	Beneficiary Pays
Death Benefit Value	£100,000	£100,000
IHT paid by scheme	£40,000	£0
Taxable Pension Income	£60,000	£100,000
IHT / Income Tax offset*	£0	£40,000
Beneficiary Tax Bill	£60,000 x 40% £24,000	£60,000 x 40% £24,000

*may need spread over multiple tax years



RIP

PENSIONS

Died Autumn Budget 2024

First in?

... still the best way to fund retirement?



Marginal
rate tax
relief

Employer
Matching

Tax free
cash

Tax
Deferral

Tax free
growth

First in...

... but when out

Current Wealth

+

Growth

-

Lifetime Taxes

-

IHT

-

Beneficiary taxes

=

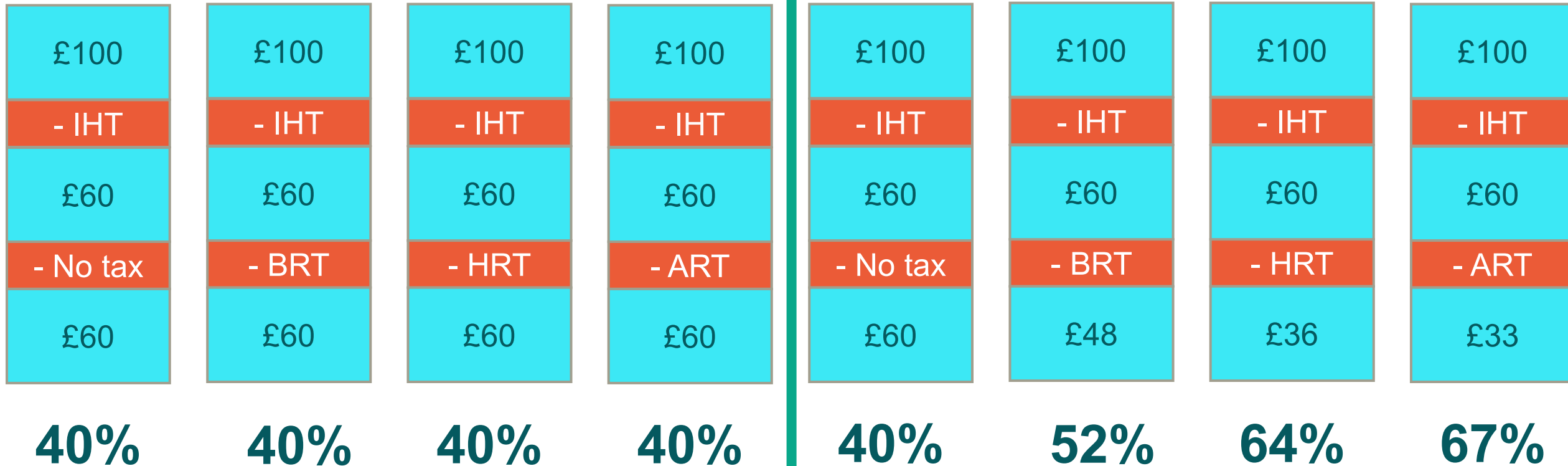
Net legacy

£100 of pension

Beyond April 2027.

Non pension assets

Pension assets



Spend the one with the highest tax on death first?

First in...

... but when out

Current Wealth

+

Growth

-

Lifetime Taxes

-

IHT

-

Beneficiary taxes

=

Net legacy

Members lifetime taxes > Beneficiary
Taxes = Pension Last

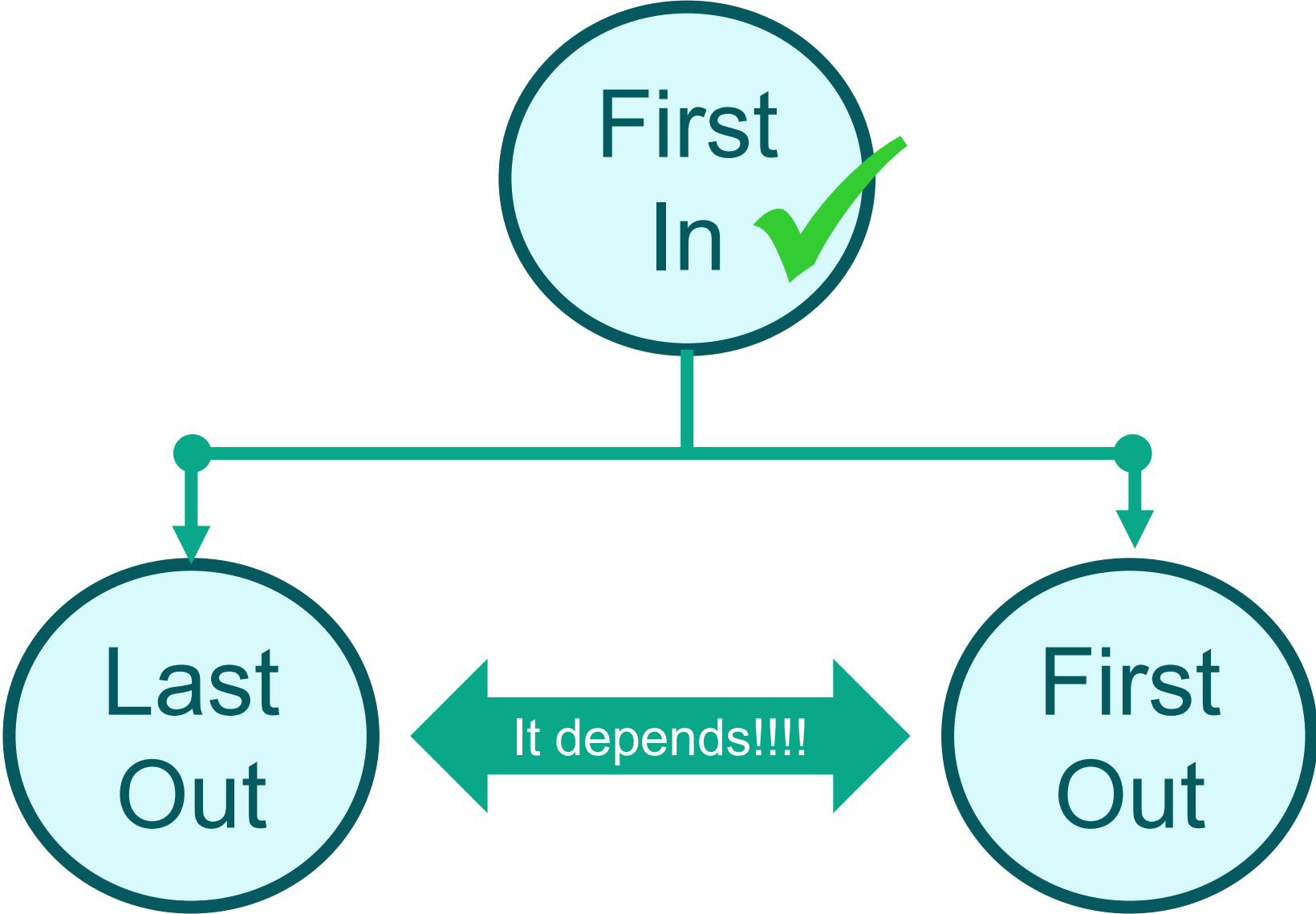
Members lifetime taxes < Beneficiary
Taxes = Pension First

Members lifetime taxes = Beneficiary
Taxes = It depends

Sensitivity to growth assumptions!

Pensions are dead

... or are they?



Spend the one that leaves the highest net legacy!

Planning matters



Tell me when you're
going to die
and I'll tell you what to
buy!

Age

- 74 +

Sex

Male Female

Calculate average life expectancy

Average life expectancy

89 years

Chance of female aged 74 years living to...

● **94 years**

1 in 4 chance

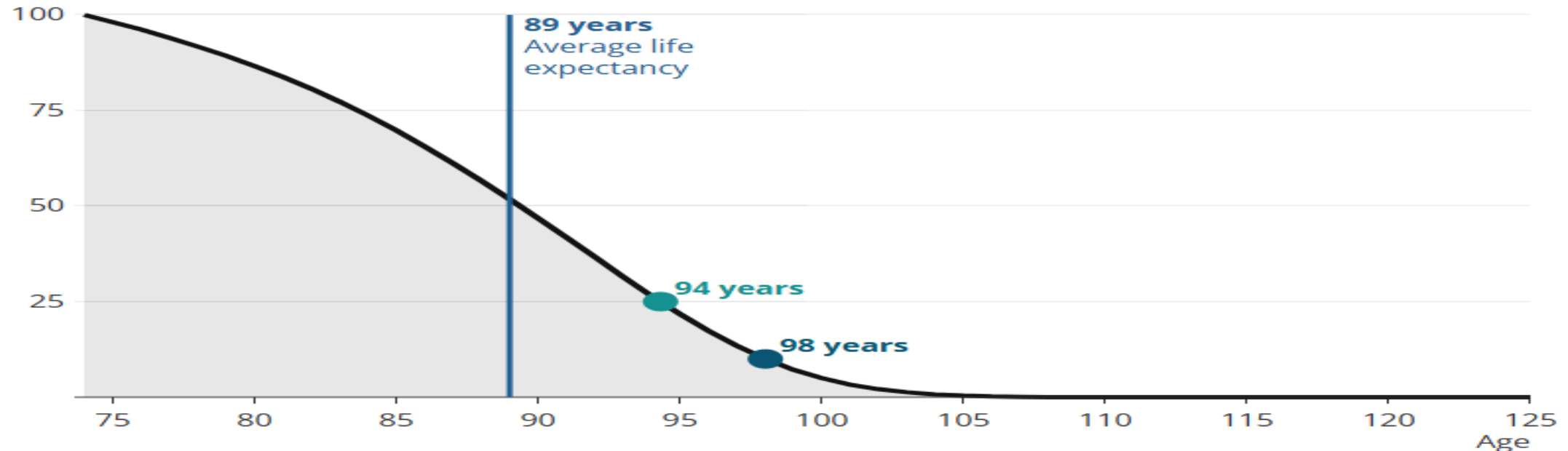
● **98 years**

1 in 10 chance

● **100 years**

5.0% chance

Chance of reaching age (%)



One size fits all process?

But no one size fits all answer.

- 01 Establish objectives (needs & wants)

- 02 Model the issue – current and future

- 03 RAG assets – Access, needs and tax (lifetime & death)

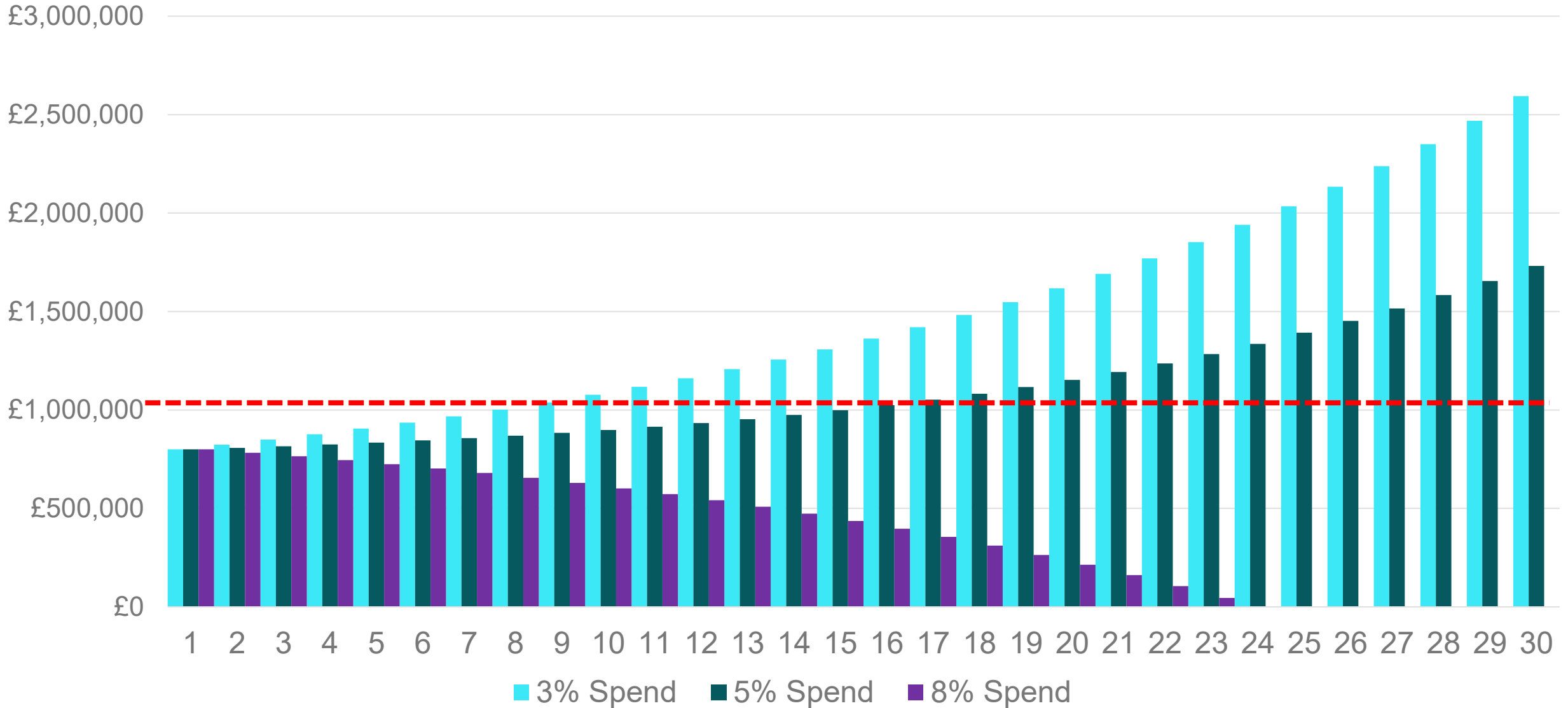
- 04 Identify and exclude unsuitable options – gift spend relief insure

- 05 Choose suitable option from those remaining – pros/cons/modelling/trade offs

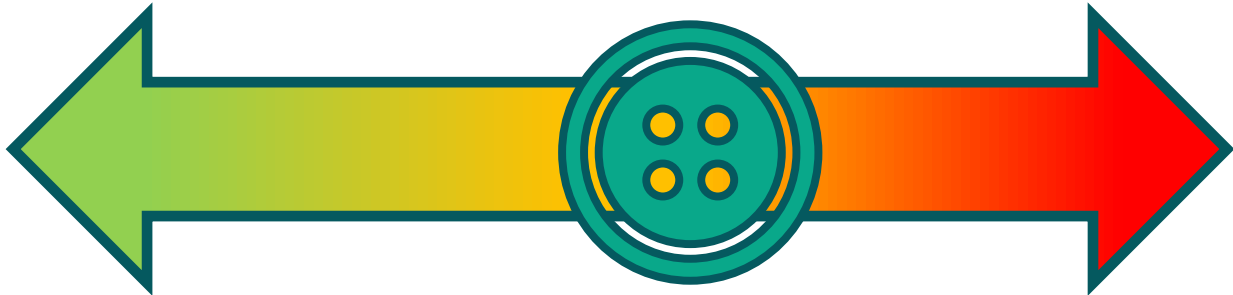
- 06 Implement and monitor

Identifying the problem

3% income yield, 3% capital growth, £800,000 startline....



Balancing needs and wants...



Retirement Income
(NEED)

Fund Care
(NEED)

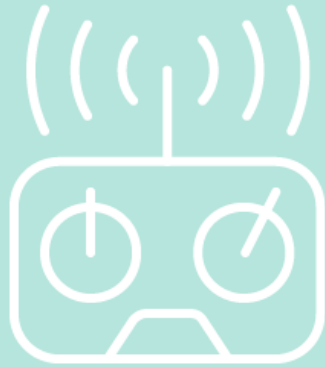
Increase Legacy
(WANT)

3 Key Pillars

IHT planning hasn't changed



Access



Control



Tax

What to do...

... when you're above the bands?

Spend

Protect

Relief

Gift

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Spend



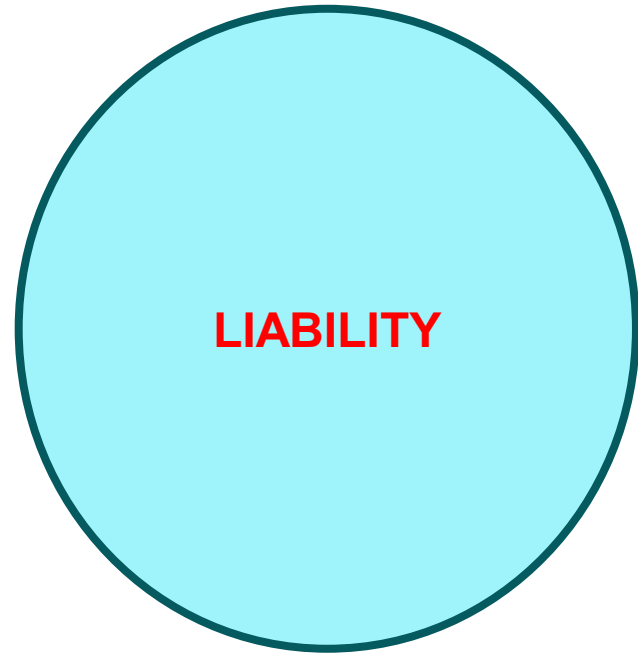
SPEND?

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Protect

Protect

What, when and why?



At what point are you covering your liability?

Just pension liability, whole estate liability?



Financial underwriting?

Whole of Life

Considerations

Can you get it?

Place in trust!

IHT treatment of premiums

Gifts!

Periodic Charges
(discretionary trust)

Guaranteed or reviewable?

Can attorney continue to fund it?

Is there a risk of lapse?

Protect

Giving up growth...

Age

- 74 +

Sex

Male Female

Calculate average life expectancy

Average life expectancy

89 years

Chance of female aged 74 years living to...

● **94 years**

1 in 4 chance

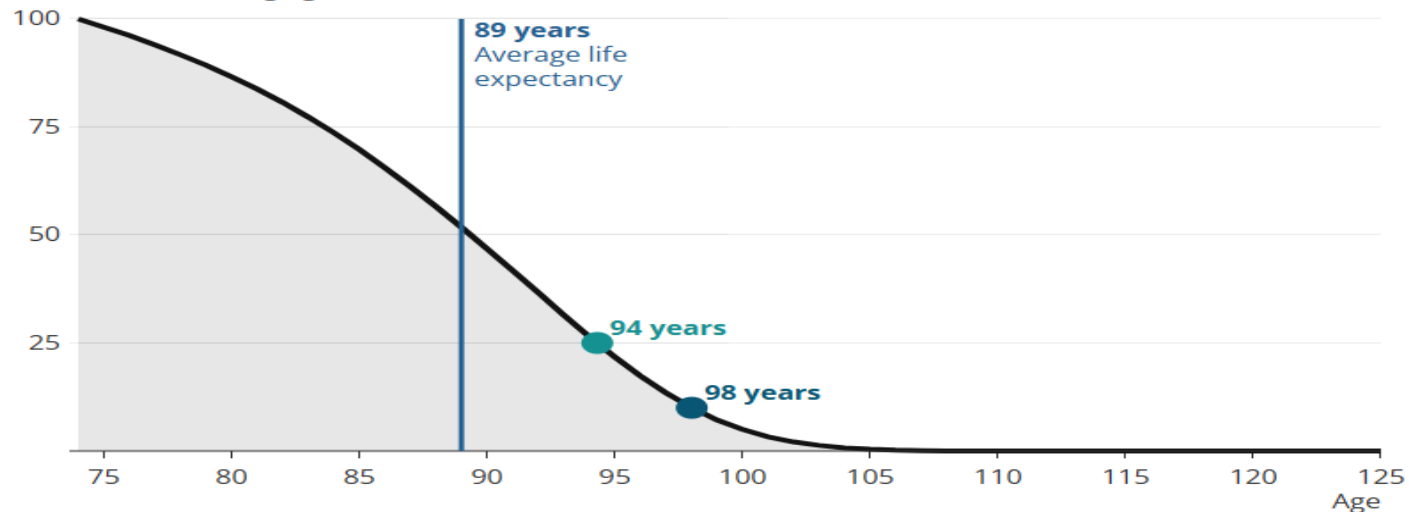
● **98 years**

1 in 10 chance

● **100 years**

5.0% chance

Chance of reaching age (%)



£1,472 p.m

Sum Assured*
£450,000
(October 27 liability)

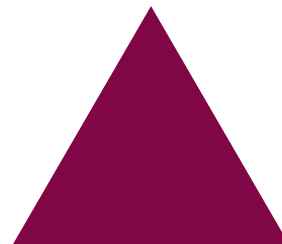
“You’ll be 99 before you’ll have paid over £450,000!”

Protect

What might the growth do for your legacy?.

“You’ll be 99 before you’ll have paid over £450,000!”

“But if you make it beyond? 85/90 your legacy will be smaller”



*5.1% net growth

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Relief

They've left it too late

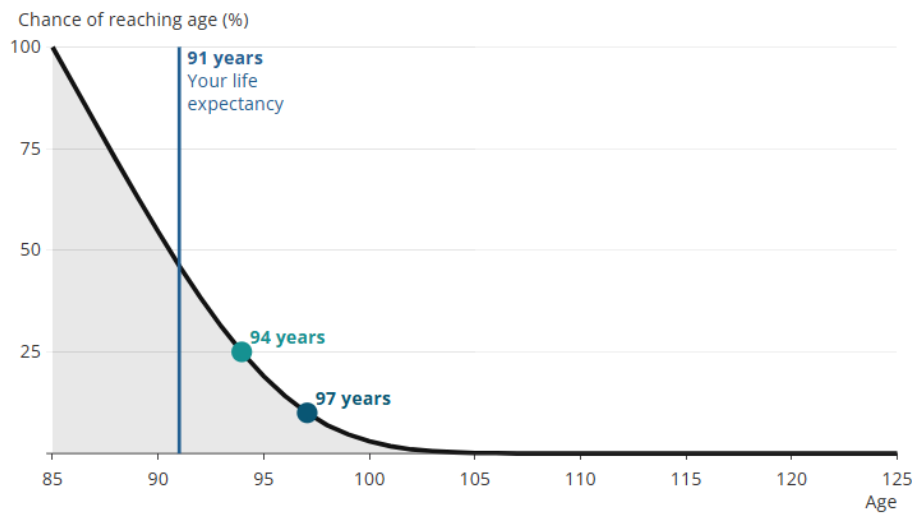
Age: Sex:

Calculate your life expectancy

Your average life expectancy is **91 years**

However there's a chance you might live longer...

- **94 years**
1 in 4 chance
- **97 years**
1 in 10 chance
- **100 years**
3.0% chance



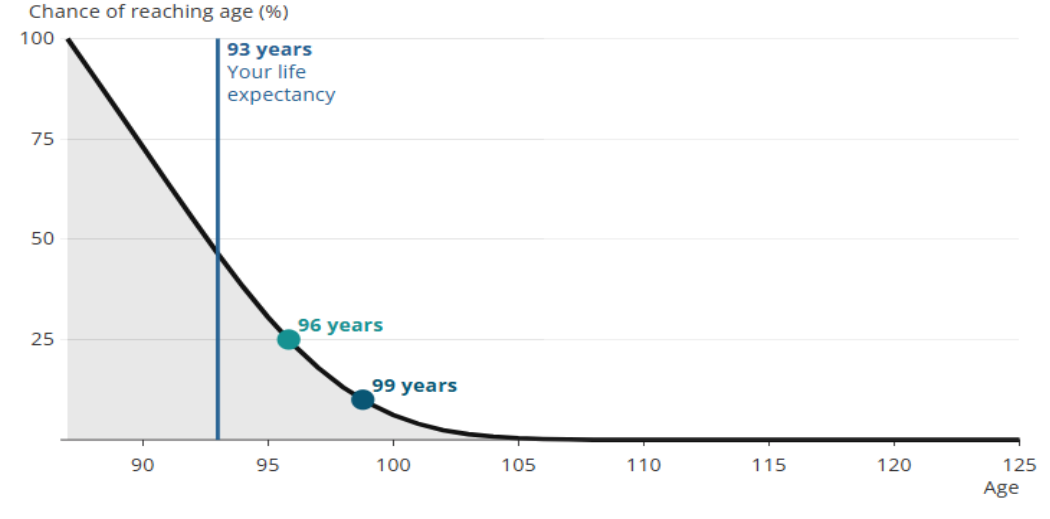
Age: Sex:

Calculate your life expectancy

Your average life expectancy is **93 years**

However there's a chance you might live longer...

- **96 years**
1 in 4 chance
- **99 years**
1 in 10 chance
- **100 years**
6.2% chance



Mid 80s before non exempt gifts likely to fail!

Timeline – Reliefs v gifting

Business Relief

Asset becomes eligible for relief

IHT based on asset being eligible AND relief available.

0
years

2
years

3
years

7
years

10
years

RIP

Gift

Gifts leave estate

Growth on gifts “leave estate”.

Non-exempt gifts become eligible for taper relief on any tax due if death <7yrs

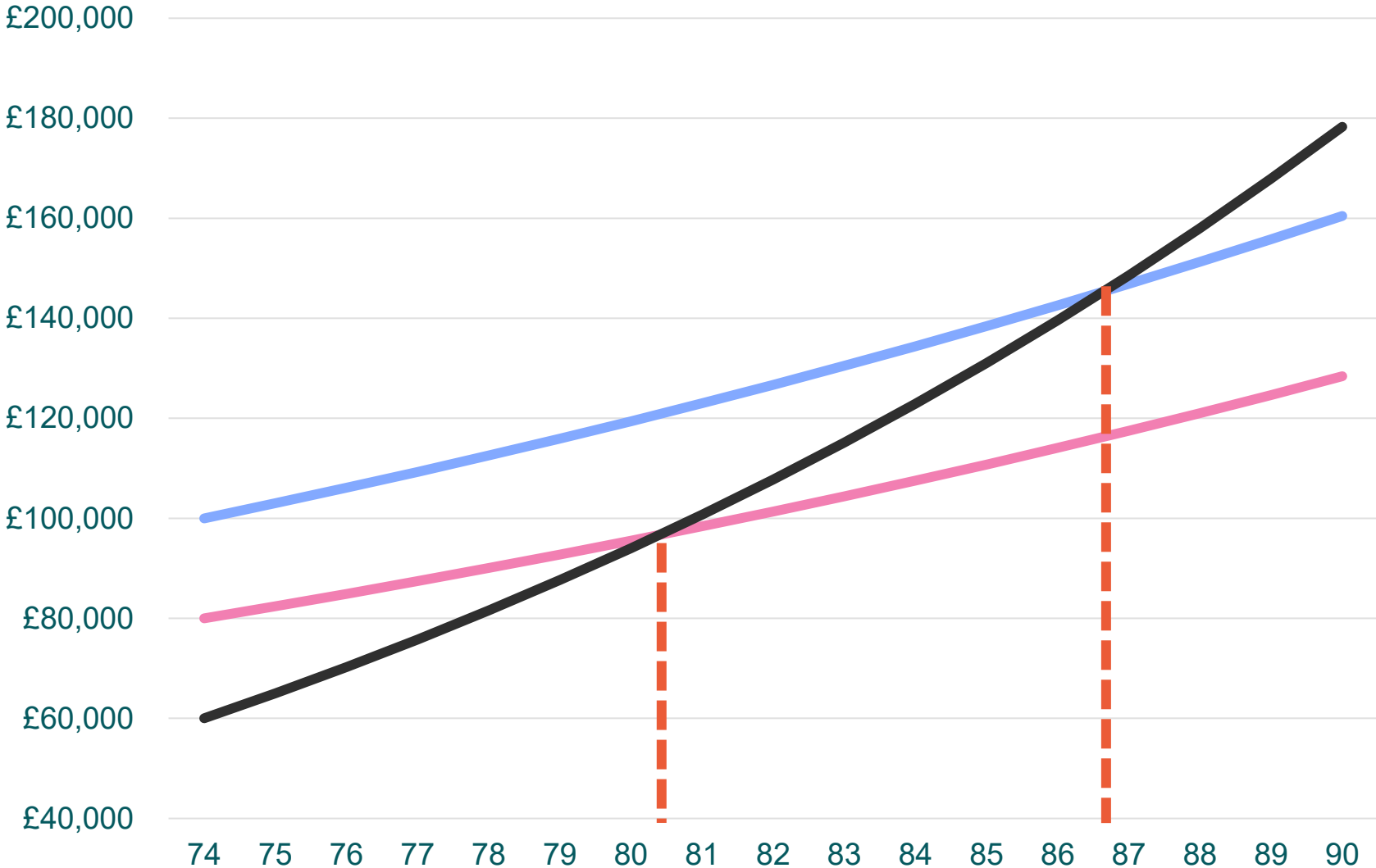
Non-exempt gifts no longer added back into estate.

CLTs may have periodic and exit charges

No IHT

Business Relief 3% v Loan Trust 5%

- £100,000 invested**
- 20% tax on bond gain
 - No tax on BR
 - 40% IHT on Loan
 - 50% IHT relief on BR
 - 100% IHT relief on BR



100% BUSINESS RELIEF

50% BUSINESS RELIEF

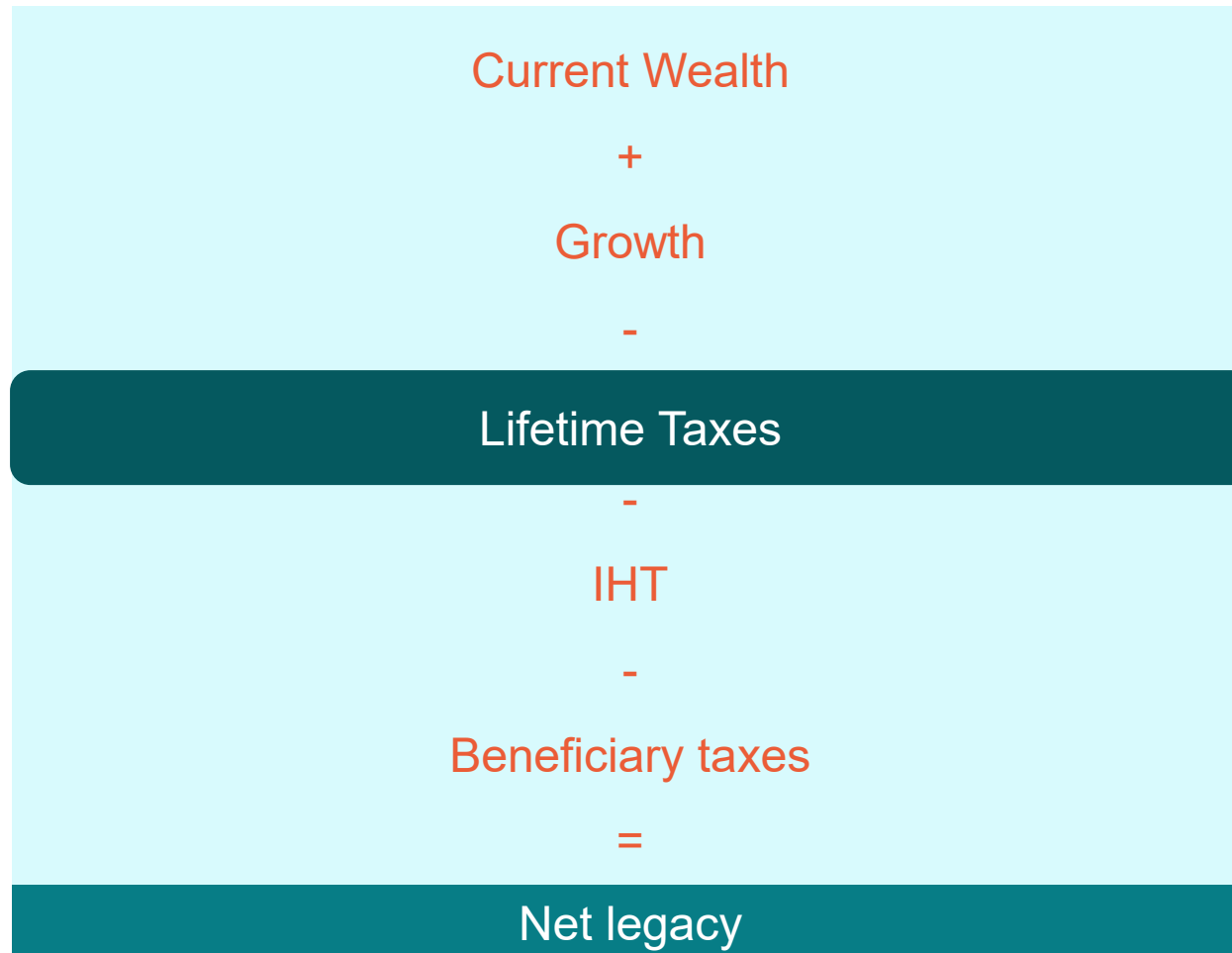
LOAN TRUST

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Giftg
(moving money)

What to move?

Some things are harder than others



Tax free?

or

Taxable?



Pension Legacy Modelling Tool

Built by M&G

Inputs

Value of pension being withdrawn	£325,000
Pensionholder tax rate	0.00%
Beneficiary tax rate	20.00%
Term (years)	15
IHT	40%

Net growth

Pensions	6.00%
Loan Trust and Gifts	6.00%
Business Relief	3.00%

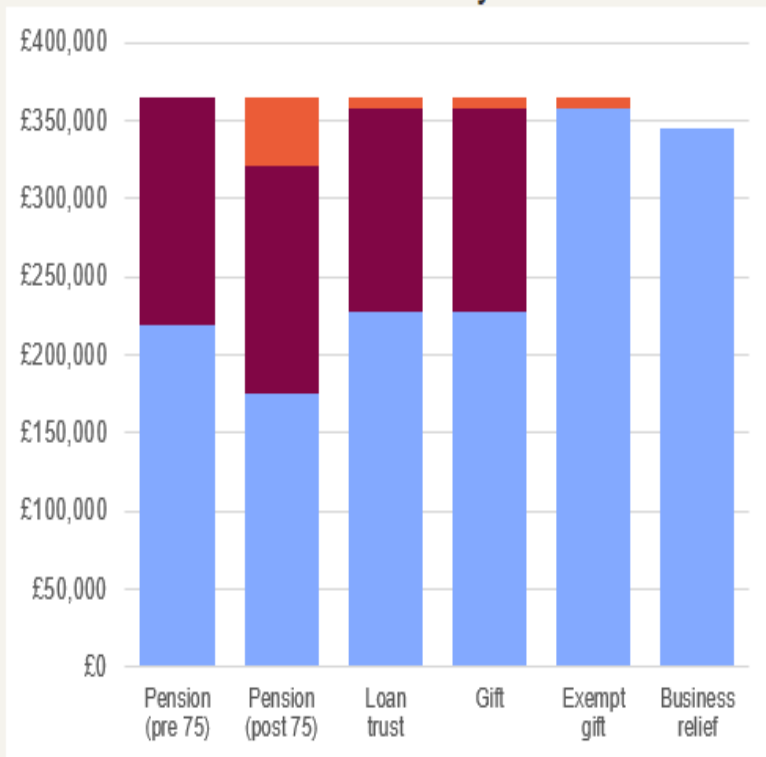
RESET

Key

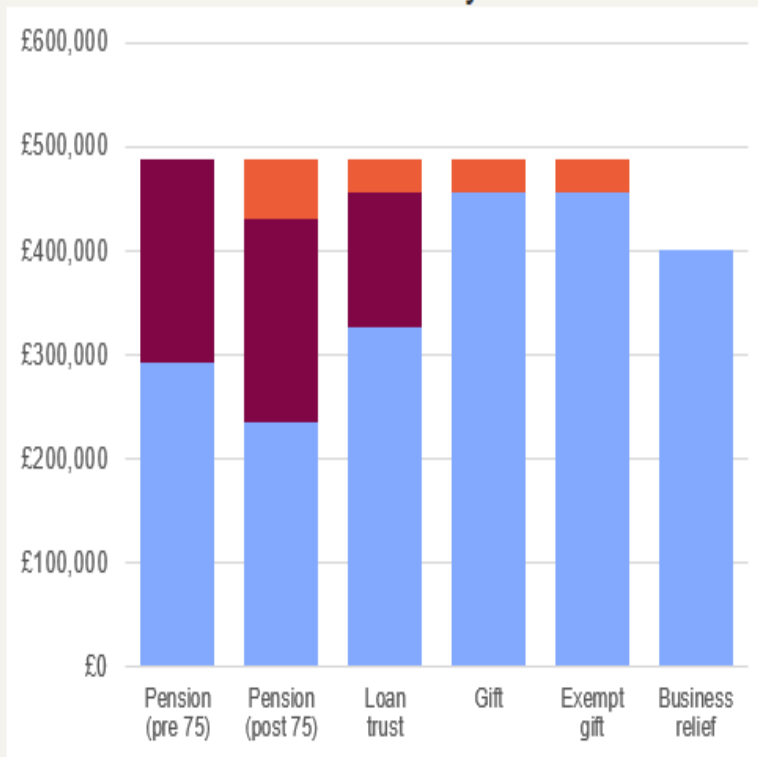
- █ Net Legacy
- █ Inheritance Tax
- █ Beneficiary Income Tax

Tax and Net Legacy Breakdown by Term

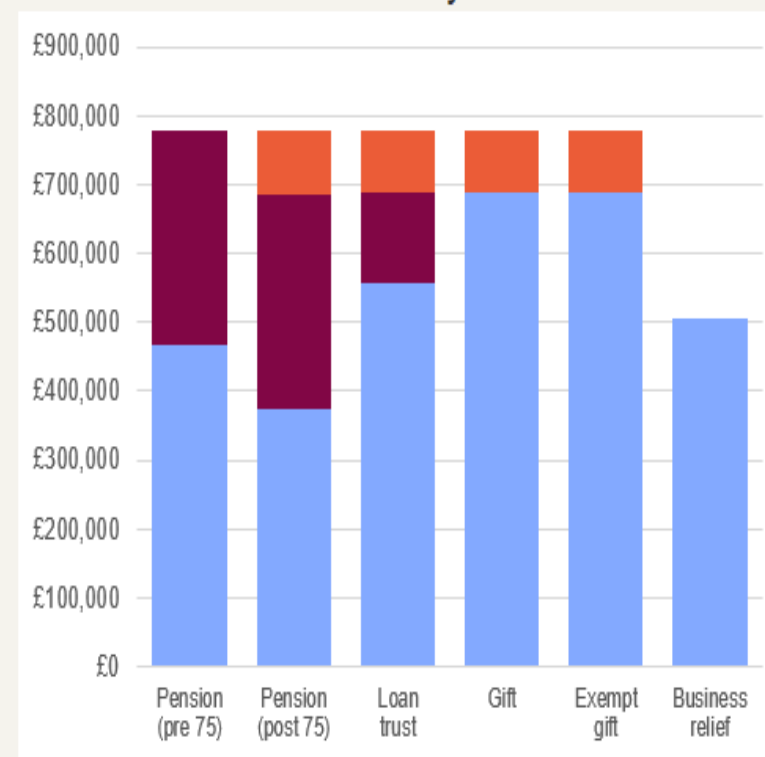
Values after 2 years



Values after 7 years



Values after 15 years



Red money

0% on withdrawal, 20% on beneficiary

Scenario		In pension death pre 75	In pension death post 75	Gift
Pension value		£100,000	£100,000	£100,000
Tax on withdrawal		£0	£0	£0
Net value		£100,000	£100,000	£100,000
2 years time				
Gross value		£110,250	£110,250	£110,250
IHT (assume no NRB)	40%	£44,100	£44,100	£40,000
Beneficiary Income tax	20%	£0	£13,230	£2,050
Net legacy		£66,150	£52,920	£68,200

All growth 5% net

Red money

0% on withdrawal, 20% on beneficiary

Death in 2 years

Rank	Scenario	Net legacy
1	Exempt gift	£108,200
2	Business Relief	£106,090
3=	Gift	£68,200
3=	Loan Trust	£68,200
5	Pension pre 75 death	£66,150
6	Pension post 75 death	£52,920

Death in 7 years

Rank	Scenario	Net legacy
1=	Exempt gift	£132,568
1=	Gift	£132,568
3	Business Relief	£122,987
4	Loan Trust	£92,568
5	Pension pre 75 death	£84,426
6	Pension post 75 death	£67,541

All growth 5% net except business relief 3%

Moving money

...on the drip or in a oner?

REGULAR

More admin

Lower legislative confidence

Ability to redirect

Still got access to future payments

Growth on remaining capital will be in your estate
(unless annuity)

Potentially immediately exempt

LUMP SUM

Less admin

Greater legislative confidence

Loss of access

Immediate reduction in estate
(only for RNRB)

All growth in capital outside estate

7-year clock

Moving money

Annuity v drawdown.

ANNUITY

Immediate reduction in estate

Transfer of value if ill health / Death benefits in estate

Inflexible

NO death benefits if from beneficiary drawdown pots

No ambiguity over NEOOI!

DRAWDOWN

Residue still in estate

Gifting higher amounts possible

Flexible

May outperform annuitisation

NEOOI ambiguous

\$64,000 question – will the drawdown pot outlive the annuity?

Annuity v Drawdown

IHT meets objectives.

74

Annuity	
Probate value	£281,764
IHT	£112,708
G'tee payments still to be made	£617,420
G'tee payments less IHT	£504,712

Drawdown	
Probate Value	£400,000
IHT	£160,000
Residual pot	£240,000

£400,000 fund standard annuity rates, 74 yr old, 20yr gtee - £30,871 per annum

Moving money regularly

Doing what?.

WHOLE OF LIFE

Immediate reduction in estate

No beneficiary access prior to death

Inflexible

May need to stop = lapse risk?

Can you get cover?

Liquid for IHT bill

REGULAR GIFT

May outperform, especially if rated

Beneficiary access pre death

Flexible

May need to stop = fund still available.

No need for underwriting

Could be liquid for IHT bill

Discounting

Not objective aligned.

Protection?

Not if they want pre death access for beneficiaries

Reliefs?

Not if they are risk averse / reasonable investment horizon

Spend?

Lifetime of prudence may be hard to change

Outright Gifts?

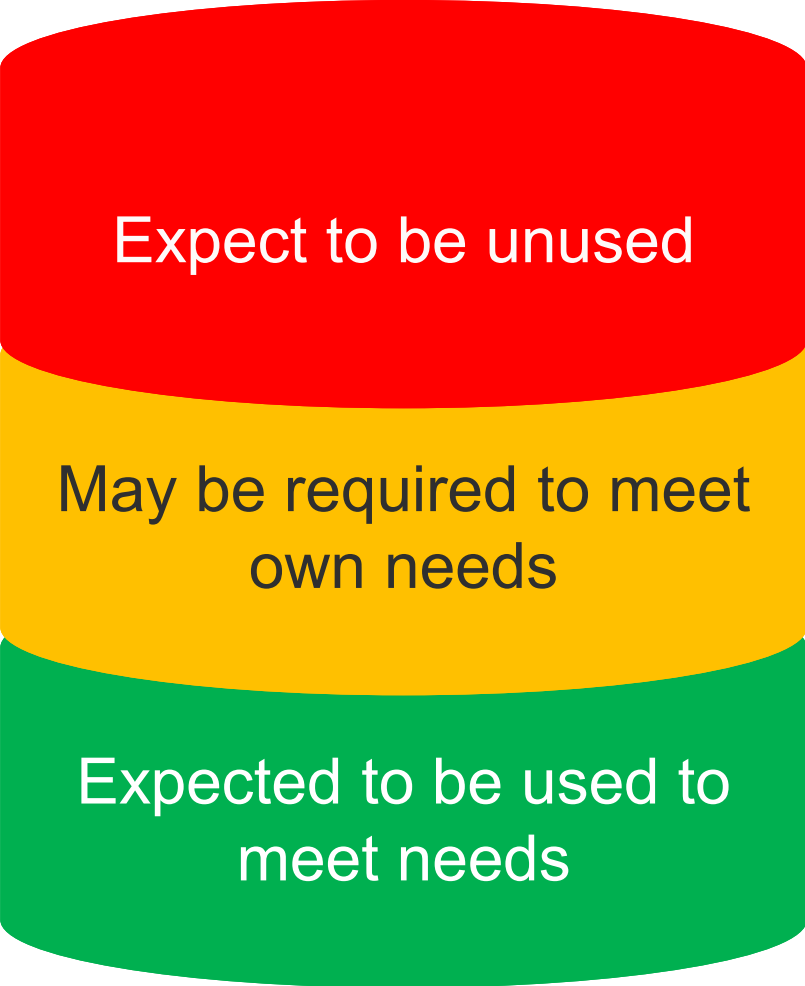
Want to keep control

Want total access?

Protection only option?

Post segmentation

High level thoughts.



Outright Gift

Yes

No*

No*

Business Relief

Yes

Yes

No

Insure

Maybe

Maybe

No

*IHT efficient methods of providing are available

One size fits all process?

But no one size fits all answer.

- 01 Establish objectives (needs & wants)

- 02 Model the issue – current and future

- 03 RAG assets – Access, needs and tax (lifetime & death)

- 04 Identify and exclude unsuitable options – gift spend relief insure

- 05 Choose suitable option from those remaining – pros/cons/modelling/trade offs

- 06 Implement and monitor

Any
questions?



Thank
you

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