

Pension Death Benefit Nominations – A key part of any Financial Plan

Pension funds in the UK are **growing** and they can be a very **effective way of passing on wealth**.

*In the latest study of Household Total Wealth by the Office for National Statistics (ONS), private pension funds are now the largest component of total wealth in Great Britain at 42%.
(source: Household total wealth in Great Britain: April 2018 to March 2020).*

As a result of the pension freedoms introduced on 6th April 2015 there were some major changes to pension death benefit options and taxation. Under current legislation, **anyone** can be nominated as a beneficiary of a pension fund, with benefits held in a pension scheme **not usually forming part of the deceased's estate**.

If you die before you've taken everything from your pension pot, its value will normally be paid to your beneficiaries. The beneficiary could be a **dependant or a nominee**.

A **dependant** is someone who is financially dependent on you such as your spouse, child under 23, civil partner or long-term unmarried partner. A **nominee** can be any other person, even if they are not your dependant and they can also be a charity.

As pension funds do not usually form part of an individual's estate, a **will** does not have any bearing on how pension benefits are distributed on death. Instead, you should let your pension provider know who you would like to leave your pension savings to by completing a death benefit nomination form.

A death benefit nomination (or a letter of wishes) allows the pension scheme member to tell the pension scheme trustees who they would like to benefit from their pension fund on their death.

Whilst non-binding, a death benefit nomination allows you to make the pension scheme aware of your wishes and, in normal circumstances, **they will usually follow them**.

Ensuring there is an up-to-date nomination is therefore a **hugely important** part of any financial plan because without it trustees may end up distributing the pension fund in a way that is very different from what you had in mind.

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There could also be some significant **tax implications** of not having an up-to-date nomination in place, particularly where pension funds are to be inherited by a non-financial dependant (nominee), such as adult children. In these instances, unless the non-financial dependant (nominee) has been nominated, the inherited pension fund cannot continue as a tax efficient pension and any lump sum death benefits could potentially be subject to income tax at 45%.

Pension clients of MGP Investment Management will be aware of the regular updates sent out by our Client Relationship Team regarding their pension nominations. Even if you've already completed a nomination, it's important to regularly review it to make sure it's still in line with your wishes and you can submit an updated nomination at any time.

If you have pension plans and you would like to review your death benefit nominations, or you'd like to talk in more detail about passing on pension funds when you are no longer here, please do get in touch by contacting the office on 0161 839 8229 or rob@mgp-financialplanning.com.

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