FINANCIAL FOCUS

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Who will inherit your pension? Find out now!

Understanding the importance of nominating a beneficiary

A new study reveals a startling insight. As many as one in six (15%) individuals with a partner are unclear about who will receive their pension savings if they pass away before accessing them[1]. Even more concerning, this figure rises to nearly one in five (18%) among the Silent Generation (aged 79 and older). Such statistics highlight the urgent need for improved awareness and planning regarding pension inheritance.

Equally concerning is the 3% of respondents who believe their current pension beneficiary may still be an ex-partner. While the majority (65%) of individuals name their spouse or partner as their beneficiary, others have chosen family members (20%), charities (4%) or friends (3%). However, a significant proportion remain uncertain about who will inherit their pension. This lack of clarity can lead to legal complications and emotional distress for loved ones when the time comes to distribute these assets.

Impact of relationship status and age on pension nominations

Relationship status plays a pivotal role in pension nomination trends. Alarmingly, one in four (25%) individuals living with a partner but not married or in a registered civil partnership are uncertain about their pension beneficiaries. This may be due to their partner not being officially recognised as their next of kin, which leaves their pension distribution vulnerable to unintended outcomes.

Age is another key factor influencing awareness regarding pension beneficiaries. Among younger adults aged 16 to 24, nearly a third (30%) claim not to know who will inherit their pension. This could be attributed to workplace pension auto-enrolment schemes, where younger individuals often give little thought to long-term financial planning. Regardless of age or marital status, the inconsistency across demographic groups underscores the importance of regularly reviewing and updating pension beneficiary details.

Why keeping your pension nominee updated matters

Your pension pot is a significant financial asset, comparable to your savings or other valuable possessions. Keeping its inheritance aligned with your wishes is crucial for providing financial security to your loved ones and avoiding unnecessary complications. When life events like marriage, divorce or job changes occur, it's easy to lose track of previous nominations. This can lead to outdated beneficiaries who may no longer reflect your wishes.

It is essential to understand that, while pension providers are not legally bound by your stated nomination, they do take it into account when determining the distribution of a pension. Regularly updating your nomination can help ensure that your wishes are honoured.

How to check and update your pension beneficiary information

One of the simplest ways to protect your retirement savings is by keeping your pension beneficiary information up to date. Most pension providers offer online methods to review and amend these details, making the process quick and straightforward. Whether online or through a paper form, it typically takes just a few minutes to confirm or update your nominee information. A small effort now can prevent emotional distress for your loved ones in the future. ■

CONTACT US TODAY

If you are uncertain about your pension nominations or require guidance, we are here to assist. Contact us today to discuss your needs or to learn more about securing your family's financial future.

Source data:

(1) The research was conducted by Censuswide among a sample of 2,000 general consumers who have a partner, whether married, in a relationship, or a civil partnership. The data was collected between 07/02/25 and 10/02/25.

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Reassessing strategies to minimise Inheritance Tax liabilities

What crucial transformation is poised to reshape estate planning?

Estate planning has always been pivotal in managing how wealth is passed on, but changes to pension rules from 6 April 2027 will reshape the landscape. Historically, pensions have served as both a source of retirement income and a tax-efficient tool for intergenerational wealth transfer.

However, as pensions will, from 2027, form part of the taxable estate upon death, some individuals may need to reassess their strategies to minimise Inheritance Tax (IHT) liabilities. The era of relying on tax advantages to preserve pensions as the last untouchable asset in decumulation is nearing its end. Instead, a reimagined approach to wealth-building and distribution will be necessary.

Why April 2027 is a game-changer for estate planning

From 6 April 2027, the inclusion of pensions in the IHT calculation signifies a significant turning point. Until now, it has been common practice to access other assets first, leaving pensions untouched to take advantage of an exemption from IHT.

This has incentivised families to maximise the value of their pensions across generations. However, with the Autumn 2024 Budget announcement introducing this change, it is clear that traditional strategies are no longer sufficient.

Passing wealth to future generations

While those in the decumulation phase reconsider how to draw down their assets, the impact is equally significant for individuals in accumulation phases. For people in their accumulation years (30s to 50s), during which the focus is on building wealth for retirement, pensions must now be assessed within the broader context of estate planning.

While pensions still provide immediate tax relief on contributions and secure long-term retirement income, their implications for IHT upon death in certain situations may make them less attractive for passing wealth to future generations.

Diversification: The emerging strategy

Given the changing tax priorities, diversification beyond pensions becomes an essential strategy. Individual Savings Accounts (ISAs), which offer tax-efficient growth and income, are one example. ISAs provide incredible flexibility, allowing individuals to access funds at any time without penalty. However, post-April 2027, ISAs will remain part of the taxable estate for IHT purposes, just like pensions.

For those looking to break free from traditional estate planning tools, Business Relief (BR)-qualifying investments can offer appealing alternatives. Investments in private trading businesses or certain AIM-listed companies qualify for significant IHT relief after two years, helping to avoid or reduce tax charges.

Considerable risk tolerance strategies

With the introduction of a £1m Individual Business Relief Allowance in April 2026, unlisted investments or agricultural property gain an IHT-free cap, while investments exceeding this figure receive 50% relief.

Qualifying AIM-listed company shares also attract 50% IHT relief but do not benefit from the £1m allowance. While these benefits are enticing, BR investments carry high risks. Their value can fluctuate, and any tax relief depends on the invested businesses maintaining their status as qualifying assets. This makes such strategies suitable only for those with considerable risk tolerance.

Re-evaluating traditional solutions

The urge to maintain pensions as a central pillar of financial planning is understandably strong. However, it has become abundantly clear that the post-2027 estate planning landscape requires a more balanced and multifaceted approach. Although pensions are valuable for retirement income due to upfront tax savings, many innovative financial tools and investment vehicles are likely to be considered to develop flexible, efficient strategies that also protect long-term generational wealth.

For families with larger estates, combining approaches such as BR investments with various other strategies could unlock more nuanced opportunities. The earlier you explore these options, with our assistance, the better the potential you will have to minimise your tax burdens and maximise your family's inheritance.

ARE YOU READY FOR WHAT'S TO COME?

The landscape of estate planning is evolving, and timely action is crucial. From understanding the implications of the April 2027 pension changes to exploring tailored alternatives, the choices you make now will determine the legacy you leave behind.

If you're ready to reconsider your estate planning or wish to explore alternative strategies, we're here to assist. Contact us today to discuss your specific needs or to learn more about the best approach for your family's future. Take charge of your estate planning to ensure peace of mind for you and your loved ones.

To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 224888.

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