

Case Study. Cascading pensions down the generations:

Current position:

John and Sarah had been married for 40 years when John passed away in July 2015 aged 72, leaving three children and six grandchildren. John had taken retirement in 2012; drawing a regular income from his self-invested personal pension under the rules that applied at the time. In May 2014 he wanted to draw additional funds from his pension and so he designated to the new flexi-access drawdown regime, where the restrictions on income are lifted and at that time he also completed an expression of wish form in favour of Sarah, in the event of his death. Sarah needs to know what the future holds for her income and her late husband's pension fund. Sarah is also concerned about how the fund will be treated on her death, whenever that may occur.

Answer: As Sarah was nominated on John's expression of wish form, the pension scheme will likely contact her asking what she would like them to do – they are not obliged to follow John's wishes. Sarah could:

1. Enter dependant's flexi-access drawdown within two years of notifying the pension provider of John's death and draw a **tax-free** income from the plan as and when required;
2. Take a flexi-access drawdown lump sum death benefit, which will be paid **tax-free**;
3. Buy an annuity or scheme pension, the income from which would be **tax free**;
4. Request a **tax free** lump sum be paid directly to her children and/or grandchildren.

As there are dependants of the member alive (Sarah and her children) a charity lump sum death benefit would not be possible. For the same reason it would also not be possible for the scheme to nominate a non-dependent to receive any income (although, as above, the scheme could elect to pay a lump sum to a non-dependent).

Sarah chooses flexi-access dependants drawdown, giving her a tax-free income for life. She then completes an expression of wish in favour of her three children. If Sarah also dies prior to her 75th birthday, the pension provider could offer her children the same options as above, had Sarah also nominated her grandchildren, the trustees would have additional flexibility to provide a tax free income (rather than just lump sum) to them also. If Sarah survives past her 75th birthday, then upon her death, the trustees could offer her beneficiaries the following choices:

1. Enter successor flexi-access drawdown and receive an income taxed at their individual marginal rates of tax;
2. Take a flexi-access drawdown lump sum death benefit, which will be taxed at the beneficiaries' marginal rates (post April 2016).

Sarah's children may wish to consider the size of the remaining fund and the impact this would have on their tax position if taken as a lump sum. Additionally, funds within successor drawdown remain out of the estate for IHT purposes, unless a binding nomination in favour of a non-dependant is made.

The children nominate the pension to go to a named charity on their death. The scheme can choose to follow this nomination, or they can pay a flexi-access drawdown lump sum to another beneficiary (but they couldn't set up successor drawdown due to the nomination in favour of a charity). Alternatively, they could have nominated their own children and continued to cascade this down through the generations.

The choices and options are many and the outcomes complex, therefore professional advice is recommended prior to making any irrevocable decisions.