



DEATH LUMP SUMS: DEFINED BENEFIT SCHEMES

What is a defined benefits lump sum death benefit?

Broadly a defined benefits lump sum death benefit is one that is paid from a defined benefits arrangement (such as a final salary scheme) following the death of a member. A common example of this type of lump sum is where a member dies whilst still in employment and their pension scheme pays out a lump sum of a multiple of their salary following their death, e.g. 4 times salary.

When can a defined benefits lump sum death benefit be paid?

If the person died on or after 6 April 2011 a defined benefits lump sum death benefit can be paid whatever age they were when they died.

If they died before their 75th birthday the defined benefits lump sum death benefit must be paid within two years of the earlier of the following dates:

- The date the pension scheme administrator first knew of the member's death, **or**
- The date the scheme administrator could reasonably have been expected to know of the member's death.

If they were 75 or over when they died this two year time limit for paying the lump sum does not apply.

Who can receive a defined benefits lump sum death benefit?

The tax rules do not set any conditions on who can be paid this type of lump sum. However the rules of the pension scheme may limit to whom the benefit can be paid.

How much can be paid as a defined benefits lump sum death benefit?

The tax rules do not set a limit on how much can be paid as a defined benefits lump sum death benefit. However the rules of the pension scheme may set a limit on how much it will pay out.

How is a defined benefits lump sum death benefit taxed?

It depends on how old the member was when they died.

If the member was under 75 when they died this lump sum will be tax free unless the lifetime allowance charge is payable (see below).

If the member was aged 75 or more the lump sum will be taxed at 55 per cent. So if a £100,000 lump sum is payable the amount of tax due is £55,000. The name of the tax charge is the 'special lump sum death benefits charge'. The scheme administrator is responsible for paying this tax.

Spotlight on: Death Lump Sums: Defined Benefit Schemes

Where a defined benefits lump sum death benefit is paid in respect of a member who died aged 75 or over who is responsible for paying the tax due?

The special lump sum death benefits charge is due on any defined benefits lump sum death benefit paid in respect of a member who died aged 75 or over. The rate of the special lump sum death benefits charge is 55 per cent. The scheme administrator is responsible for paying this tax charge. The person who received the lump sum is not liable to this tax charge. The scheme administrator can deduct the tax due before paying the lump sum.

Is a defined benefits lump sum death benefit tested against the lifetime allowance?

It depends on how old the member was when they died.

If the member was aged under 75 when they died the lump sum will be tested against the lifetime allowance. If the total benefits taken in respect of the member are more than their lifetime allowance the excess is liable to the lifetime allowance charge. The tax rate of the lifetime allowance charge will be 55 per cent. The lifetime allowance is £1.8 million. It is reducing to £1.5 million on 6 April 2012.

If the member was aged 75 or over when they died, the defined benefits lump sum death benefit is not tested against the lifetime allowance.

Is Inheritance Tax due on payment of a defined benefits lump sum death benefit?

Inheritance tax will not normally apply.

About Us

The Pensions Advisory Service has been providing help and guidance to members of the public on pension matters since 1983 either by telephone or written advice. We can also help people who have a pension complaint or dispute.

Our service is free and sustained by a nationwide network of volunteer advisers, who are supported and augmented by technical and administrative staff based in our London office.

Contacting us

The Pensions Advisory Service

11 Belgrave Road
London SW1V 1RB

We regret that we are unable to accept visitors at our office.

Helpline 0845 601 2923
General Office 020 7630 2250
Fax 020 7592 7000

enquiries@pensionsadvisoryservice.org.uk

www.pensionsadvisoryservice.org.uk

Please note that this guide is for information only. The Pensions Advisory Service cannot be held responsible in law for any opinion expressed, nor should any such opinion be regarded as grounds for legal action.

