



DEATH LUMP SUMS: DRAWDOWN ARRANGEMENTS

What is a drawdown pension fund lump sum death benefit?

If a member receiving a drawdown pension (or a dependant getting a dependant's drawdown pension) that is not a short term annuity dies, the remainder of the fund may be paid out as a lump sum. Broadly this is a drawdown pension fund lump sum death benefit.

This payment was previously called an unsecured pension fund lump sum death benefit.

The member's dependant(s) can choose to continue to receive a drawdown payment as an alternative to a drawdown pension fund lump sum death benefit.

When can a drawdown pension fund lump sum death benefit be paid?

If the member (or dependant) died on or after 6 April 2011 the lump sum can be paid whatever the age of the member (or dependant) when they died. There is no time limit for the payment of this lump sum. Prior to 6 April 2011, a lump sum could only be paid if the member was under the age of 75 when they died.

Who can be paid a drawdown pension fund 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 set limits on to whom it will pay this type of benefit.

How much can be paid as a drawdown pension fund lump sum death benefit?

A drawdown pension fund lump sum death benefit cannot be more than the value of the drawdown pension fund held in the arrangement when the member died, at the point of the lump sum payment.

Where the lump sum is paid in respect of a dependant it cannot be more than the value of the dependant's drawdown pension fund when the dependant died at the point the lump sum is paid. Any growth of that drawdown pension fund (or dependants drawdown pension fund) up to the point of payment may be covered in the payment. This limit is referred to in the legislation as the 'permitted maximum'.

The definition of 'drawdown pension fund' excludes any amount that may have been used to buy a short-term annuity. The legislation only covers the payment of the residual unsecured pension fund held in the arrangement. The only payment that may be made from a short-term annuity contract following the death of the annuitant is any continuing annuity payments under any term-certain guarantee attached to the contract.

Is a drawdown pension fund lump sum death benefit tested against the lifetime allowance?

No.

How is a drawdown pension fund lump sum death benefit taxed?

The special lump sum death benefits charge is due on the payment of this lump sum. 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.

Where the member died before 6 April 2011 the rate of the tax charge is 35 per cent.

Where the member died on or after 6 April 2011 the rate of the tax charge is 55 per cent.

Is Inheritance Tax due on payment of a drawdown pension fund lump sum death benefit?

Inheritance tax will not normally apply. All the inheritance tax charges that arose before 6 April 2011 on pension funds left over on death no longer apply. Similarly, the inheritance tax charges that were due when a person chose not to take any benefits from their scheme no longer apply.

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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.

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