



DIFFICULT: The death of a loved one can have its effects financially

How to exert control over your pension after death

Leaving a pension pot to loved ones is no easy decision. **Richard Wadsworth**, a chartered financial planner with Carbon Financial Partners, with offices in Aberdeen, Edinburgh and Perth, answers some common queries

If you want to pass wealth down the generations, there are a few things you really should be thinking about.

For those people who die before they reach 75, provided they have a defined contribution pension – for example, a personal pension, stakeholder pension or self-invested personal pension – their remaining fund can be passed on tax-free to anyone.

But there are important issues for people of all ages to consider, depending on where they want their funds to go after their death.

So, let's have a look at

some of the typical questions you may have.

● What if I want to pass some funds to charity?

Making a charitable donation from your pension funds on death will mean that the funds pass tax-free to the charity.

But if the rest of your estate is likely to suffer inheritance tax, this is perhaps not the best solution. Instead, making charitable donations via your will would reduce the size of your taxable estate and the inheritance tax payable. Pension funds, meanwhile, can be paid tax-free to family members.

● What if I want to pass



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some funds to specific individuals?

If you know for sure who you want to benefit from your pension fund, then funds can be paid to them as a tax-free lump sum. Alternatively, you can have the funds paid into a pension in the recipient's name. Under the

new pension rules, funds can be withdrawn from an inherited pot at any time, without any tax and at any age. Once the funds are in the pension, they secure income, capital gains and inheritance tax advantages.

Even if some of the funds are required for spending immediately, there seems little downside in directing them via a pension as a tax-efficient "holding bay".

● What if I don't know who I want to pass my pension funds to when I die? You might be minded to pass your funds to your children but what if they are not financially mature

enough? What if your spouse might need some of the funds?

If there is uncertainty about who should receive the funds, one option is to pay the death benefits to a discretionary trust.

Under such an arrangement funds would pass tax-free to the trust, which could hold and invest the capital. The trustees would have discretion to pass capital or even lend it to your spouse, children, grandchildren or any other beneficiary.

To protect your spouse it may be sensible to appoint him or her as a trustee, giving them some control over the funds.

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