This document is for investment professionals only and should not be relied upon by private investors.

Rethinking estate planning

Pensions and inheritance tax

Adviser Solutions

Fidelity INTERNATIONAL

Introduction

Paul Squirrell
Head of Retirement and Savings Development

Making unused pensions and death benefits subject to inheritance tax is likely to have a significant impact on retirement planning. In our previous report 'A guide to inheritance tax' we outlined the exemptions and reporting requirements.

In this report, we consider how you can help your clients mitigate their inheritance tax exposure. While the change to pensions has increased interest in inheritance tax planning, advisers must take a holistic view across all client assets before making a recommendation. Nevertheless, media coverage has prompted clients to specifically review their pensions. The conventional wisdom of leaving the pension untouched and taking income from other sources (to preserve the current exemption from inheritance tax) is unlikely to apply from April 2027. What's more, the imposition of income tax on death after age 75 exacerbates the focus on pensions.

'Rethinking estate planning' explores the options advisers and clients should consider both now and after April 2027. While Government data suggests the number of people affected by the changes is modest, many of those are likely to be advised clients. Anecdotal evidence appears to support this view and many advisers are reporting a surge in enquiries on this subject.

This report also highlights that pensions remain an attractive proposition, even for those affected by the changes. There is a role for advisers to ensure clients don't react negatively to saving via a pension plan. There is still a strong case for believing that pensions are the best way to plan for retirement.

Exploring the data

There is understandable concern over the impact of the changes to pensions from April 2027. Government data suggests relatively few estates will be affected in the near term but is this true looking further ahead? And how likely is it that estates affected will also be subject to both inheritance tax and income tax at the beneficiaries' marginal rate? What's more, there is a risk that the changes will taint the attractiveness of saving into a pension after April 2027. Let's consider these issues:

“

The Government estimates that, out of around 213,000 estates with inheritable pension wealth in 2027 to 2028, 10,500 estates will become liable for inheritance tax for the first time

The potential impact of the changes

The Government estimates that, out of around 213,000 estates with inheritable pension wealth in 2027 to 2028, 10,500 estates – or around 1.5% of total UK deaths – will become liable for inheritance tax for the first time and roughly 38,500 estates will pay more inheritance tax than would previously have been the case[1]. Most people will be unaffected by the changes, but the numbers going forward are likely to increase. The nil-rate band has been frozen until April 2031 and more people are retiring with most, if not all, of their pension savings in defined contribution or money purchase schemes. The Government estimates that inheritance tax revenues will more than double over the period 2027/28 to 2029/30.

Chart 1: Exchequer impact

2024–25	2025–26	2026–27	2027–28	2028–29	2029–30
–	–	–	+£640m	+£1,340m	+£1,460m

Source: Inheritance Tax – unused pension funds and death benefits, HMRC, November 2025.

1. Inheritance Tax on pensions: liability, reporting and payment — Summary of responses, HMRC, July 2025.

Probability of a 65-year-old surviving to 75

The Government will continue to apply income tax at the beneficiaries' marginal rate of tax on death after age 75. This is in addition to levying inheritance tax. The data reveals that most 65-year-olds will live beyond age 75. This means the spectre of income tax and inheritance tax being applied to any unused pensions is real. Chart 2 shows that 9 out of 10, 65-year-old women will reach 75 and almost the same number for men. These figures are likely to be higher at State Pension age.

> **The data reveals that most 65-year-olds will live beyond age 75. This means the spectre of income tax and inheritance tax being applied to any unused pensions is real**

Chart 2: Likelihood of 65-year-old surviving to 75 by year

	2025 (born 1960)	2030 (born 1965)	2035 (born 1970)
Males	86%	87%	88%
Females	91%	91%	92%

Source: Longevity and Survival Probability In Retirement Income Modelling, Abraham Okusanya, FinalytiQ, June 2016 (based on ONS 2010 cohort data projections for the UK).

The overall effect of double taxation

The impact of double taxation over age 75 can be seen in chart 3. An effective tax rate of 52% where the beneficiary is a basic-rate taxpayer, 64% for higher-rate taxpayers and 67% for additional-rate taxpayers. In practice, an inheritance will often straddle more than one income tax band. If the inclusion of unused pensions pushes an estate over the £2m mark, part or all of the residence nil-rate band could be lost. In the example below, pension assets of £100,000 added to an estate worth £2m would erode the residence nil-rate band by £50,000 resulting in an extra £20,000 inheritance tax due. Overall, where the residence nil-rate band is eliminated, the effective tax rate could be over 90%[2].

Chart 3: Impact of inheritance tax and income tax on death after age 75

	Basic rate	Higher rate	Additional rate
Gross pension	£100,000	£100,000	£100,000
IHT	£40,000	£40,000	£40,000
Income tax	£12,000	£24,000	£27,000
Net pension	£48,000	£36,000	£33,000
Effective tax rate	**52%**	**64%**	**67%**

Note: The impact of any split of the nil rate band is excluded. Income tax bands and rates differ in Scotland which will alter the effective tax rate.

2. Case study: how new IHT rules may lead to 90%+ tax rates, Rachel Vahey, AJ Bell, October 2025.

Is it still worth investing in pensions?

Given most people will be unaffected by the changes being introduced in April 2027, the answer is almost certainly, yes. The tax advantages of pensions, both tax relief on contributions and the provision of a tax-free cash lump sum, will continue to be a major attraction. Even where inheritance tax and income tax
is payable on death after 75, pensions will continue to compare favourably with the alternatives.

> **It will still be worthwhile for most people to use pension plans to build their savings for retirement, even with the double taxation on death after 75**

Chart 4 shows the impact of both inheritance tax and income tax on death given the rate of tax relief received when the contribution was made. If we take the example highlighted and assume a £10,000 pension contribution is paid attracting 40% tax relief, the net cost is £6,000. If the same net amount was invested elsewhere, without tax relief, the investment would be £6,000. On death after 75, the beneficiary is a basic-rate taxpayer. Inheritance tax reduces the £10,000 pension contribution to £6,000 and basic-rate income tax reduces the £6,000 to £4,800. But this is still higher than an equivalent non-pension investment of £6,000 which would reduce to £3,600 after inheritance tax.

In some instances, largely where the initial contribution attracted lower rates of tax relief, and the beneficiary pays tax at an effective rate of 60% (between £100,000 – £125,140) or the additional rate of 45% – the amount is less under the pension fund, but in most cases it is equal to or greater than what would be received from a non-pension investment.

Chart 4: Impact of double taxation taking account of initial tax relief

Subject to full 40% IHT plus beneficiary rate of tax					
Tax relief	**No tax**	**20%**	**40%**	**60%**	**45%**
20%	-25.0%	-40.0%	-55.0%	-70.0%	-58.8%
40%	0.0%	$\boxed{-20.0\%}$	-40.0%	-60.0%	-45.0%
60%	50.0%	20.0%	-10.0%	-40.0%	-17.5%
45%	9.1%	-12.7%	-35.5%	-56.4%	-40.0%

Source: Does saving into a pension still make sense?, Paul Squirrell, Fidelity international, January 2026.

What actions can clients take?

It will still be worthwhile for most people to use pension plans to build their savings for retirement, even with the double taxation on death after 75. Nevertheless, clients will invariably be interested in what actions they can take to mitigate the impact of the proposed changes on their pension savings. Financial advisers will look holistically across all assets before making a client recommendation. At the same time, there will be an increased focus on measures that directly affect pensions and the remainder of this report will look at some of the options available to advisers and their clients.

Implications of pensions and inheritance tax

There are several aspects of pensions planning that should be reviewed. These include:

- Expression of Wish forms
- Bypass trusts and other trust options
- Charitable donations
- Taking the tax-free cash lump sum
- Increasing withdrawals from drawdown
- Buying an annuity
- Hybrid solutions

Expression of Wish forms

Clients should be advised to review their Expression of Wish forms both now and after April 2027 to ensure that they properly represent their requirements. For example, if they plan to pass their pension death benefits to their spouse, assuming their spouse will pass the payments on to the children on their death, it may make sense to leave the pension directly to the children now. This way, if the client dies before April 2027, the benefits could pass directly to the children free from inheritance tax (this does assume that the spouse does not need the money). In April 2027, when inheritance tax will become payable, the Expression of Wish form can be changed back to the spouse, so they receive the benefits using the spousal exemption.

Bypass trusts and other trust options

Originally, bypass trusts were discretionary trusts set up to receive pension death benefits and shield them from the assessable estate of the beneficiaries. The member nominates the bypass trust when completing an Expression of Wish form. The scheme has discretion over who to pay, but will usually pay the bypass trust (unless there are any reasons why the scheme feels it shouldn't). Some pension schemes allow binding nominations to be made, which provide assurance that the death benefits will be paid to the trust. The bypass trust will have its own trustees appointed by the member who will then distribute the funds in line with the member's instructions. The trust is usually established with a nominal amount of, say, £10 and once established is dormant until the member dies.

Since 'pension freedoms', bypass trusts became less popular as the proceeds on the death of a member could be distributed free of inheritance tax. However, they remain popular with clients who want to exercise control over how their assets are distributed. For example, in complex family situations where there are children from a previous relationship, a bypass trust can make payments to a spouse during their lifetime, but on the death of the surviving spouse the remaining funds can be distributed to the clients' children. Otherwise, the surviving spouse could make payment to their own children on their death or even to a new spouse if they remarried. It's also common to make payments to the spouse from the bypass trust by way of loans. This way the loan should be treated as a debt when the spouse dies if it's repaid to the trustees.

> **Since 'pension freedoms', bypass trusts became less popular as the proceeds on the death of a member could be distributed free of inheritance tax. However, they remain popular with clients who want to exercise control over how their assets are distributed**

In some instances, it may make sense to consider an interest in possession trust. Before March 2006, these trusts were considered potentially exempt transfers and not subject to periodic or exit charges. However, new trusts established since March 2006 are treated as chargeable transfers and subject to the same charges as other discretionary trusts.

From 6 April 2027, when unused pensions and death benefits are assessable for inheritance tax this will affect payments made to a bypass trust, which will also be assessed to inheritance tax even where the spouse is a potential beneficiary. The various tax and charges that apply to a spousal bypass trust are:

- On death before age 75, inheritance tax is assessable on funds paid into the trust.
- Where death occurs after age 75, funds are liable to inheritance tax and a 45% special lump sum death benefit charge.
- The 45% special lump sum death benefit charge can be treated as a tax credit against any income tax payable when payment is made to a beneficiary.
- Income and capital gains within the trust are taxed at 45% income tax, dividend income at 39.35% and capital gains at 24%.
- The trust will be subject to 10 yearly periodic and exit charges. However, if only a nominal amount is held there should be no tax to pay.

Unused pension funds can be paid into a bypass trust for a vulnerable person. This can protect vulnerable beneficiaries who may not be able to manage large sums or used to avoid impacting means-tested benefits. However, using a specific Vulnerable Person Trust (also known as a Disabled Person's Trust) may offer significant tax advantages if the beneficiary meets specific criteria, such as being in receipt of certain disability benefits like personal independence payment, attendance allowance or disability living allowance at the middle or higher rate. If the trust qualifies, the capital is treated as a potentially exempt transfer, so does not incur the 10 yearly and periodic and exit charges. Trusts for a disabled person can also qualify for preferential treatment of income and capital gains.

How relevant are spousal bypass trusts post April 2027?

From 2027 onwards, paying death benefits into a trust could help reduce inheritance tax for future generations, particularly where there is no surviving spouse, and the member dies before age 75. The age of the member can be critical. If death occurs on or after age 75, this could result in 40% inheritance tax liability, with the net amount then subject to 45% income tax (though some or all of the 45% charge may be reclaimable by beneficiaries).

While the spousal exemption can shield unused pensions on death from inheritance tax, inheritance tax is likely to apply on the death of the spouse. Where flexi access drawdown is used across multiple generations it could mean that an inheritance tax liability is incurred at each generational transfer. A spousal bypass trust only incurs inheritance tax on the death of the member.

There may still be a valuable role for spousal bypass trusts in the right circumstances, but the relevance will depend on the clients' particular circumstances and their objectives.

Charitable donations

Charity lump sum death benefit rules allow donations to be paid tax-free under certain circumstances. These are:

- there are no surviving dependants at the time of the client's death; and
- the client had nominated the charity during their lifetime.

If these conditions aren't met the lump sum will be tested against the lump sum and death benefit allowance on death before age 75. Any excess could be taxable if the charity is not exempt from tax. In the event of death after age 75, the lump sum death benefit charge of 45% would not apply.

For married couples, it may make sense for the unused funds to pass to the surviving spouse and subsequently nominated to a charity on the death of the surviving spouse.

Charitable donations from unused pensions can significantly reduce the tax payable on death after age 75. Where a donation is made from the free estate (assets and property that an individual owns in their own name), the estate value subject to inheritance tax falls, but more funds remain in the pension which could be liable to both inheritance tax and income tax. Using the pension to make the charitable gift instead can significantly reduce the prospect of double taxation. Where bequests to charities have already been made in someone's will, they may want to reconsider where the payments are made from.

Donating unused pension funds via a charity lump sum death benefit can also help meet the 10% threshold to trigger the reduced inheritance tax rate of 36%. For the 10% reduction to apply the charitable donation must be equal to 10% of the baseline amount. This is broadly the estate after deductions, exemptions and reliefs. The estate is divided into three components (settled property, survivorship, and general) and the test is applied separately to each component. It's anticipated that pensions will fall within the 'general component'. To qualify for the reduced rate the amount donated should be equal to 10% of the aggregate value of unused pensions and the free estate assets (excluding those jointly owned).

"

Charitable donations from unused pensions can significantly reduce the tax payable on death after age 75

Taking the tax-free cash lump sum

The tax-free cash lump sum is available from 55 (rising to 57 from April 2028) usually up to the lower of £268,275 or 25% of the pension fund. This can be taken beyond age 75. If tax-free cash isn't taken and the client dies after age 75, income tax is payable at the beneficiaries' marginal rate. Inheritance tax may also apply in some circumstances. This may be a consideration for some clients who want to retain the tax-free cash lump sum for as long as possible in a tax-free environment. The spousal exemption means there will be no inheritance tax liability, but income tax would still be payable.

As well as the loss of future tax-free growth, which may be a reason to defer taking the tax-free cash lump sum, there are other issues to bear in mind. For example, as a lump sum, it can't be used as 'income' to make gifts out of surplus income. It could be invested and then gifted using the various exemptions, including making gifts out of surplus income (the natural yield – interest, dividends – could count towards income), but this approach does not immediately remove all the lump sum from the estate. Alternatively, if it is phased, such as in an UFPLS arrangement, this could be included as income, but could also take several years to impact pension assets significantly.

Where it's considered beneficial to take the tax-free cash lump sum to reduce the value of pension assets, here are some of the ways it could be used:

Spend it

An obvious strategy to reduce the impact of the tax-free cash lump sum on a client's estate is simply to spend the money. Care should be taken that the impact of any expenditure doesn't increase the value of the estate elsewhere. For example, repaying the mortgage or other debt, or embarking on home improvements likely to improve the equity in the home.

Giving gifts

If the amount is greater than the ad hoc lifetime gift exemptions, it may take time to exhaust any tax-free cash lump sum. Similarly, investing the money and using the natural income, or phasing the withdrawal of tax-free cash, to provide gifts out of surplus income is unlikely to be an efficient strategy. An alternative would be to make a potentially exempt transfer, perhaps using some of the money to buy decreasing term assurance to protect against death during the seven-year period. A full list of the lifetime exemptions including the rules around gifts out of surplus income, can be found in our report 'A guide to inheritance tax'.

“

An obvious strategy to reduce the impact of the tax-free cash lump sum on a client's estate is simply to spend the money. Care should be taken that the impact of any expenditure doesn't increase the value of the estate elsewhere

Setting up a trust

Trusts may be the solution in many cases. They can reduce any inheritance tax liability but can be more complex to set up. There are also charges that may be levied. Two popular trusts that can provide some protection against inheritance tax, but still provide access to funds, include discounted gift trusts and loan trusts.

- In the case of a discounted gift trust, the funds are commonly used to purchase an investment bond. The settlor retains a right to an income for life, which is often the 5% tax deferred facility. The discounted income stream is immediately free of inheritance tax, while the balance is free after seven years. This is useful where the client is comfortable giving away capital but needs an income.
- With a loan trust, the settlor lends money to the trust. The trustees invest the money for the beneficiaries. The settlor can ask for part or full repayment of the loan at any time. This type of trust is helpful when a client doesn't feel comfortable about gifting capital. Investment growth on the loan is outside the estate, though the original loan still sits within the donor's estate. Loan repayments further reduce any inheritance tax liability.

Use business relief

For clients who are keen to take the tax-free cash lump sum, but may need access to the money, business relief can reduce their inheritance tax exposure. However, the rules changed from April 2026. Broadly, business relief of 100% is still available for investments in private companies and Enterprise Investment Schemes, while relief is limited to 50% for investments in AIM listed companies. There is also a £2.5 million cap for 100% relief from April 2026. Anticipating growth in the demand for business relief schemes, investment companies are adapting their propositions:

- Some companies are looking at developing portfolios of private companies for those investors who want to maintain 100% relief.
- As part of their proposition, some players in this market are packaging their investment with life assurance to cover the two-year qualifying period.

It's also worth noting that on death where the assets are only eligible for 50% business relief, or the overall cap of £2.5 million has been exceeded, any inheritance tax due can be paid in ten equal annual instalments interest free (provided the payments are made on time). This contrasts with the position on other assets where payment must be made by the end of the sixth month after the person died. After this, interest is charged at 4% above the Bank of England base rate.

If inheritance tax is of concern to a client, then almost invariably the tax-free cash lump sum is likely to be significant. In which case, clients may use more than one of these options. If taking the tax-free cash lump sum reduces the value of the estate significantly, this could be enough and no further action is required. However, some clients may want to go further.

"Where the assets are only eligible for 50% business relief or the overall cap of £2.5 million has been exceeded, any inheritance tax due can be paid in ten equal annual instalments interest free

Increasing withdrawals from drawdown

For most clients, even those with potential exposure to inheritance tax, the remaining pension fund is likely to be required to fund their income requirements in retirement. Nevertheless, there will be clients who have substantial other assets and would like to further reduce the size of their pension fund to mitigate any inheritance tax liability. This is particularly the case beyond age 75 where both inheritance tax and income tax become payable.

For drawdown clients, the key question is 'how much should I withdraw to reduce my pension fund?'. Conventional wisdom suggests that annual withdrawals of between 3% and 4% inflation-linked income should ensure funds last for at least 30 years. So higher withdrawal rates are likely to impact a fund's longevity. However, consider the following:

- A US study, looking over a 140-year period, showed that retirees withdrawing at the rate of 4%, would have only a 10% likelihood of ending up with less than their initial capital after 30 years and a 10% chance they would have 6 times their original capital[3].
- Morningstar data revealed that the starting safe withdrawal rate for 50% equity/50% fixed-income portfolios during rolling 30-year periods starting from 1927 through mid-1995 ranged from 3.9% for the worst 30-year period to 10.5% for the best. The average was over 6%[4].
- William P Bengen, the godfather of the 4% rule, also noted that while the first few people ran out of money after 30 years using a 4% withdrawal rate, most did not and the average safe withdrawal rate over the period under review was 7.1%[5].

It can be difficult to identify the right level of withdrawal. Advisers and their clients will need to review this regularly and adjust as required. Income tax can further complicate the issue. Taking more income from the pension fund will increase the tax payable and could push the client into a higher tax bracket. Nevertheless, given the overall rate of tax on death after 75 could be as high as 67%, it may still be worthwhile incurring a higher tax rate. And if the inclusion of pension assets erodes the residence nil-rate band the effective tax rate on death after 75 could be more than 90%.

This isn't an issue where assets are being passed to a spouse or civil partner on death. However, at older ages the number of people who are married or in a civil partnership is lower than at younger ages. Data suggests that only 54% of people over age 65 in England and Wales are married or in a civil partnership[6]. Even where wealth is transferred within a marriage or civil partnership this may simply postpone the problem.

If more money is withdrawn than is needed to meet normal expenditure, this needs to be spent, gifted, potentially into tax efficient investments such as Stocks and Shares ISAs or making pension contributions, or in some other way shielded from inclusion in the estate on death.

> **"Conventional wisdom suggests that annual withdrawals of between 3% and 4% inflation-linked income should ensure funds last for at least 30 years**

3. The Extraordinary Upside Potential Of Sequence Of Return Risk In Retirement, Michael Kitces, February 2019.
4. The State of Retirement income: 2025, Morningstar, December 2025.
5. He invented the 4% rule of retirement income — why he calls inflation retirees' 'greatest enemy', Lorie Konish, CNBC, September 2025.
6. Profile of the older population living in England and Wales in 2021 and changes since 2011, ONS, April 2023.

Buying an annuity

An alternative to withdrawing money from drawdown is to purchase an annuity. This will immediately move the purchase price outside of the estate. What's more, joint life annuities can provide an income for life for a spouse, partner or dependant while still sitting outside the estate for inheritance tax purposes.

Guaranteed periods or value protection benefits would be treated as part of the estate. It might be worth considering adding death benefits that expire by age 75, but the value may be marginal beyond this.

An annuity could also provide more income than is required. As with drawdown, any excess could be gifted, spent or used in other ways (see below). Likewise buying an annuity could push someone into a higher tax bracket. And with an annuity there is no flexibility to vary income either now or in the future.

Hybrid solutions

Rather than reducing the decision to a binary choice, annuity or drawdown, there is growing evidence that a hybrid approach can provide the optimal result. In the context of estate planning, an annuity could be used to provide gifts out of surplus income or fund life assurance premiums, while the drawdown component could be used for ad hoc gifts or larger potentially exempt transfers. This strategy may also help clients manage their tax position better as they still have flexibility within the drawdown element to control the income they take.

"Rather than reducing the decision to a binary choice, annuity or drawdown, there is growing evidence that a hybrid approach can provide the optimal result

Managing excess income from a pension

As with the tax-free cash lump sum, any extra income taken from the pension needs to be spent, gifted or used in some other way that takes part or all of it out of the estate for the purposes of inheritance tax planning. This could include ad hoc lifetime gifts or using the gifts out of surplus income exemption. Alternatively, it could fund life assurance premiums. Here are just some of the possible uses:

Paying school fees

Generally, gifts made from surplus income should be the same or similar each year, but where gifts are to cover specific expenditure, such as school fees, the amount may fluctuate from year to year. This could also include other educational expenses such as university fees.

Making gifts as investments

Child pensions and ISAs

Only a parent or guardian can set up a child pension, but anyone can contribute. Currently, grandparents or other family members can pay up to £2,880 into a child's pension, which is grossed up to £3,600 with tax relief. This could be paid using the gifts out of surplus income exemption or using the £3,000 annual exemption for a single child. Other options include junior ISAs. Grandparents can pay into a junior ISA up to the limit of £9,000.

Adult pensions and ISAs

A parent can make contributions to the pension of an adult child. Contributions are treated as if they had been made by the adult child, which means they will be eligible for tax relief. What's more, if they are affected by the 'high income child benefit charge' and earning broadly between £60,000 and £80,000 the money contributed by the parent is deducted from the adult child's income before the 'high income child benefit charge' is calculated. The amount that the parent can contribute is only constrained by the amount the adult child could contribute (the lower of their annual salary or £60,000). Other options include making ISA contributions up to the overall individual annual allowances.

> **The amount that the parent can contribute is only constrained by the amount the adult child could contribute (the lower of their annual salary or £60,000)**

Buy life assurance

Alternatively, any surplus income could fund life assurance premiums to meet an inheritance tax liability. This can be particularly helpful where the bulk of someone's wealth is held in illiquid assets like property, which can be difficult to sell within the time limits for payment of inheritance tax. Whole life assurance can be expensive at older ages. For example, £100,000 cover could cost between £200 and £280 per month for a couple both aged 65[7]. If the intention is to downsize at some point (or if it's a second property planned to be sold in the future) a level term assurance could be much less expensive. For a couple, both aged 65, a 10-year joint life level term assurance for £100,000 would be about half the cost – broadly between £110 and £120 per month[8].

This is not a definitive list of the options available. Regular donations to charities for example should also qualify under the gifts out of surplus income exemption. There's information on the requirements for the gifts out of surplus income exemption in 'A guide to inheritance tax'.

It's not just about pensions

It's worth repeating that advisers will look across all assets and any recommendations may or may not affect a clients' pension. For example, investment bonds, whether onshore or offshore, can play a valuable role, particularly when placed in trust. Another solution for some could be to use equity release. A client with significant wealth in property, where the inclusion of pension assets may erode the residence nil rate band, may choose equity release. This could reinstate their residence nil-rate band while releasing cash.

With a greater focus on inheritance tax as a result of the changes in April 2027, advisers will need to review retirement income strategies and their efficacy in the new environment. This is an opportunity for advisers to demonstrate the value they add and ensure that their clients' needs are met now and on their death.

7. Life Insurance Cost UK By Age Group, WCovr, February 2026.
8. Go Compare, February 2026.

Summary

- Government estimates suggest that the impact of the changes to pensions from April 2027 will only affect a relatively small number of people but, with allowances frozen until April 2031 and more people retiring with the bulk of their pension savings in defined contribution pots, this is only likely to increase over time. What's more, though the number of people affected in aggregate may be modest, the proportion of advised clients impacted by the changes could be substantial.
- Most 65-year-olds will die after age 75 when both inheritance tax and income tax become payable. This could result in tax rates of 67% where the beneficiary is an additional-rate taxpayer. This accentuates the need to review retirement strategies. Nevertheless, despite the spectre of double taxation, saving for retirement via a pension scheme is still, in most cases, the most effective way to plan for retirement.
- Clients should be encouraged to review their Expression of Wish forms now and after April 2027 to ensure that they still accurately reflect their objectives. Spousal bypass trusts and other trust options should also be considered. These aren't likely to be universally applicable but could mitigate inheritance tax liability in the right circumstances. Charitable donations via a pension scheme can reduce the value of the pension assets and help qualify for the 36% rate of inheritance tax.
- Taking the tax-free cash lump sum is an obvious measure to reduce pension assets, but this is not without its disadvantages. Notably, the tax-free growth enjoyed within the pension wrapper. Nevertheless, it might reduce the value of an estate significantly. It could be spent, placed into trust, used to invest in companies that qualify for business relief or gifted. Where there is a waiting period, term assurance could be purchased.
- There will be clients who have been advised to take income from other assets in retirement and leave the pension untouched, given the current preferential treatment of pension assets on death. This strategy will need to be reviewed. In some cases, the advice will be the opposite to the current position. Clients may be better advised to start to run down their pension. This could be particularly relevant beyond age 75. How much to withdraw will depend on personal circumstances.

- A further option is to buy an annuity. The purchase price will immediately be removed from the pension fund and a joint life annuity can provide a continuing income for a spouse, partner or dependant which will also fall outside of the estate (though any guaranteed period or value protection would still be subject to inheritance tax on death). An alternative is to combine drawdown and an annuity. A hybrid approach can potentially offer the best of both worlds.
- Additional income either from drawdown or annuity purchase over and above what is needed to meet normal expenditure could be used to make gifts out of surplus income. This could be used to pay school fees or set up children's or adult's pensions or ISAs. Alternatively, the extra income could be used to fund life assurance premiums to meet an inheritance tax liability or make donations to charities.
- While the catalyst for this heightened interest in inheritance tax planning may be the changes to pensions, advisers must take a holistic review across all of a clients' assets before coming up with a recommendation. Ultimately, the need to reconcile using a pension or other assets to provide income in retirement while also assessing the impact on any inheritance tax liability can be challenging. Advisers should take the opportunity to show their valuable role in shaping the finances of clients to meet their needs now and into the future.

Important information

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. The value of benefits depends on individual circumstances. The minimum age clients can normally access their pension savings is currently 55, and is due to rise to 57 on 6 April 2028, unless they have a lower protected pension age. Different options may have different effects for tax purposes, different implications for pension provision and different impacts on other assets and financial planning

The value of investments and the income from them, can go down as well as up, so clients may get back less than they invest.

More insights on tax and pensions

We're committed to providing you with technical support to help you keep pace with the latest rules and legislation. Our range of practitioner material is designed to help you keep on top of all aspects of retirement planning. Themes covered include death benefits, pensions and divorce, the State Pension, pension withdrawals taxation and much more.

Visit the Technical matters hub on our website
fidelityadvisersolutions.co.uk/technicalmatters

For further information on our pension and investment options, please visit:
adviserservices.fidelity.co.uk/our-services/about-us/flexible-investment-and-retirement-solutions

Adviser Solutions

Fidelity INTERNATIONAL