Your Pension Could Soon Be Part Of Your Estate: What The 2027 Inheritance Tax Changes Mean

For many years, pensions have been viewed as one of the more tax-efficient ways to pass wealth on to the next generation. That picture is changing.

From **6 April 2027**, most unused pension funds and pension death benefits will be brought within the value of an individual's estate when calculating Inheritance Tax (IHT).

That doesn't necessarily mean everyone with a pension will suddenly have an IHT bill. But it does mean that, for some people, the role their pension plays in their wider estate planning deserves a second look.

Why Is This Important?

Traditionally, pensions have often been an effective way of passing wealth to beneficiaries because unused pension funds could sit outside the estate for IHT purposes.

That made it possible for someone to use other assets during retirement while preserving pension funds for their family.

The new rules change this approach.

From April 2027, most unused pension funds and death benefits will generally form part of the estate for IHT purposes. There are specific rules and exemptions, including for certain death-in-service benefits, so individual circumstances will matter.

The change is particularly relevant for people who have accumulated significant pension savings but don't expect to need all of their pension during their lifetime.

Does This Mean You Should Take Money Out Of Your Pension?

Not necessarily.

This is where financial planning becomes particularly important.

It can be tempting to hear about a tax change and immediately conclude that the solution is to withdraw money from a pension or move it elsewhere. But taking money out of a pension can create other tax consequences and may mean losing some of the benefits of keeping money invested within a pension.

The right approach depends on your age, income, retirement plans, other assets, expected expenditure and the amount you ultimately want to leave to your family.

For example, someone who expects to spend most of their pension during retirement may be largely unaffected by the change. Someone else with substantial pensions, ISAs, property and other investments may need to consider how all those assets fit together.

Estate Planning Is Becoming More Important

The changes are a useful reminder that retirement planning and estate planning shouldn't necessarily be treated as separate exercises.

Your retirement plan should answer questions such as:

- How much income will I need?
- When should I start taking my pension?
- How much can I sustainably withdraw?
- Which investments should I use to fund my lifestyle?
- How much capital do I want to preserve?

Your estate plan should then consider:

- What assets might I leave behind?
- Who do I want to benefit?
- Could my estate be liable for IHT?
- How can I pass wealth on efficiently?
- Are my Will and pension beneficiary nominations up to date?

The answers need to work together

Don't Let Tax Drive The Whole Decision

Tax is important, but it shouldn't be the only consideration.

A retirement strategy designed solely around minimising IHT could potentially leave you with less financial flexibility during your lifetime.

After all, your wealth is there to support the life you want to live.

The objective should be to strike the right balance between enjoying your wealth, protecting your financial security and passing on what you don't need.

What Should You Do Now?

If you have a sizeable pension and are concerned about the upcoming changes, there is value in reviewing your overall financial position before April 2027.

That doesn't necessarily mean making immediate changes. It means understanding what the new rules could mean for you and whether your existing retirement and estate-planning strategy still makes sense.

The important point is that your pension shouldn't be viewed in isolation. It is one part of your overall wealth – and increasingly, retirement planning and estate planning need to work hand in hand.

If you would like to discuss these upcoming changes further then please contact our team at ML and we will be delighted to assist you.