From April 2027 your pension is set to become part of your estate for inheritance tax purposes

A must-read guide for anyone with total assets over £325,000

WILLOWHURST
FINANCIAL PLANNING

When Your Pension Becomes Too Big to Ignore

From your very first job, you were probably encouraged to start saving into a pension — with the hope that, one day, it would be just enough to support a reasonable standard of living in retirement.

And like many people, you've probably spent time wondering: *Will I have enough?*

But here's what you might not have expected to be thinking about...

What to do when your pension becomes too large.

It's a good problem to have — but it still needs careful thought.

The first thing to know is this:
There's no need to rush.

No matter what the headlines say or what anyone tells you, take your time. You don't need to make any big decisions today.

Yes, inheritance tax changes are being proposed — but they're still in consultation and not yet finalised. Things could change. They often do.

Still, if your pension is growing significantly, now is the time to start thinking ahead.

In the pages ahead, we'll explore what the proposed rule changes mean, the options available to you, and how to start planning wisely — so your pension benefits your family, not the taxman.

So Much For “Simplification”

I started working with pensions around 20 years ago, just as the Government launched what was called *“pension simplification.”*

And while things may technically be simpler than they were before 2006, let’s be honest — they’re still far from simple.

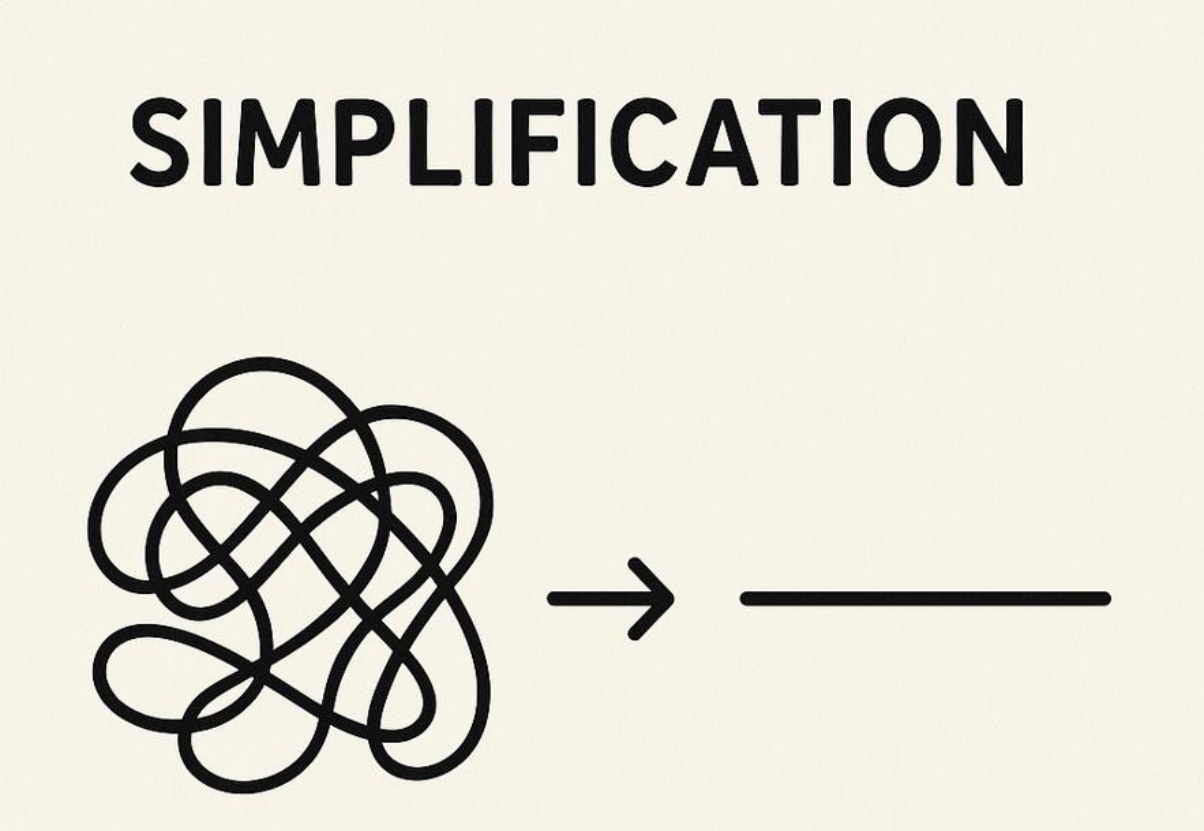
For over a decade, I spent much of my time talking about the **Lifetime Allowance** — how to avoid it, how to protect against it and how to plan around it.

Now? It’s been abolished.

At the same time, for the past 10 years or so, people have been told to **spend their pensions last** — because of the inheritance tax advantages they offered.

But from **6 April 2027**, that’s proposed to change too.

Just when we thought the rules were settling down, we’re entering a new era. Again.



What's Changed So Far

The **Lifetime Allowance (LTA)** has been scrapped. In its place, we now have two new limits:

- **LSA** – Lump Sum Allowance
- **LSDBA** – Lump Sum and Death Benefit Allowance

What does this mean in practice?

The amount of tax-free cash you can usually take from your pension is now **capped at £268,275** — unless you have existing protections in place.

Any lump sums taken **above this limit** will be taxed at your **marginal rate of income tax**.

Likewise, **lump sum death benefits** paid from your pension **above the LSDBA** are also taxable — but *only if they're paid as a lump sum*.

Some key questions to consider:

- **Have you already taken any lump sums?**
  This could reduce how much tax-free cash you can still access.
- **Do you have any transitional protections?** (formerly known as Lifetime Allowance Protections)
  These could preserve a higher tax-free entitlement — but you may need to act to have them recognised.
- **How does your scheme handle death benefits?**
  If your pension scheme only allows death benefits to be paid as a lump sum, your beneficiaries may face unnecessary tax charges. Some schemes allow more flexible options, such as beneficiaries' drawdown. A lump sum through drawdown is not a lump sum for LSDBA purposes!

Transitional Protection and Tax-Free Cash Certificates

If you have **transitional protection** — such as **Lifetime Allowance (LTA) protection** — you may be entitled to a **higher Lump Sum Allowance (LSA)** and **Lump Sum and Death Benefit Allowance (LSDBA)** than the standard limits.

To make sure your higher allowances are recognised, it's important your protections are properly recorded and up to date.

What if you've already taken some tax-free cash?

If you took tax-free cash from your pension **before 6 April 2024**, you might also benefit from applying for a **Transitional Tax-Free Amount Certificate (TTFAC).**

This certificate doesn't increase your allowances —
it simply provides an accurate record of how much tax-free cash you've already taken.

Without it, HMRC will assume you took 25% of any crystallised funds as tax-free cash — even if you actually took less. That could reduce your remaining allowance unnecessarily.

You may want to apply for a TTFAC if:

- You took **less than 25%** tax-free cash from crystallised pensions before April 2024 (perhaps a final salary pension)
- You have **any form of LTA protection**
- You want to ensure **maximum clarity** for future planning
- You're approaching or exceeding the standard **£268,275 limit**

Once you take your first tax-free cash under the new rules, it's too late to apply — so it's worth checking now whether a certificate is right for you.

The 2027 Inheritance Tax Shock

For years, pensions have been seen as one of the most inheritance-tax-friendly assets available. Many people have been advised to **spend other money first** and leave their pension untouched — so it could pass on tax-free to the next generation.

But from **6 April 2027**, this is all proposed to change.

What's changing?

Under current government proposals, from April 2027, **unused pension funds will be included in your estate for inheritance tax purposes**.

That means, on death, any unspent pension could be subject to **up to 40% IHT**, depending on the size of your estate and how it's structured.

This is a major shift — and it will fundamentally change how pensions should be viewed in estate planning.

What stays the same (for now)?

- The **Lump Sum Allowance (LSA)** and **Lump Sum and Death Benefit Allowance (LSDBA)** are already in place.
- Lump sums paid from pensions **above these allowances** are already taxed at the beneficiary's marginal income tax rate.
- If pensions are **in drawdown**, beneficiaries can continue to receive income — taxed at their own income tax rate (age 75 rule still applies).

Why this matters:

The traditional advice to "spend your ISA first and leave the pension" may no longer be right for everyone.
If you have a large pension, **you now need to consider inheritance tax**, not just income tax, in your planning.

For example, a married or civil partner couple could have:

A £1m home
Partner 1 - £500,000 pension pot
Partner 2 - £500,000 pension pot

Current Situation - On death, they potentially may not pay inheritance tax.

Post 6 April 2027, with the same assets and scenario could have an IHT bill of £400,000.

Some people are very happy to pay inheritance tax and others want to reduce the bill, so you have to think about how you feel about this. As mentioned, this change is set to come in from 6 April 2027 and is subject to change, so need to start thinking, but don't need to panic.

Tax-free cash post age 75

Regardless of changes, if you have uncrystallised funds that could generate tax-free cash, provided your Lump Sum Allowance (LSA) hasn't been used and pass away after age 75, any remaining funds — including those amounts that could have generated tax-free cash during your lifetime — will be fully taxable as income when taken by your beneficiaries. From April 2027, these unused pension funds may also be included in your estate for IHT purposes. So this remains a key planning point either way!

The Three Jumpers: A Fresh Way to Think About Your Money & Your Pensions.

Before you start making decisions about inheritance tax planning, take a step back.

Rather than rushing to rearrange assets or explore trusts, ask yourself:
What is the purpose of the money I have?

Let's use your pension as an example — and bear with me, because I'm going to explain it using *jumpers*.

The Three Jumpers

🟦 **Jumper 1: The Everyday Jumper**
This one's your go-to. You wear it all the time.
In financial terms, it's the money you **need to live on**. It funds your lifestyle. You wouldn't be comfortable without it.

🎄 **Jumper 2: The Christmas Jumper**
You don't wear it often — but you like knowing it's there.
This is the money you **want to keep for flexibility**. You might need it if plans change, if you live longer than expected, or if care costs arise. It's your financial security blanket.

👕 **Jumper 3: The One That No Longer Fits**
You've had it for 20 years. It's too tight. It's not really "you" anymore.
This is the money you **don't need** — and probably won't ever spend. If you do nothing, it may simply become part of your estate and be taxed unnecessarily.

Why this matters

Before you can plan effectively, you need to sort your “jumpers.”

Start by understanding:

- **How much you need** for your lifestyle (your everyday jumper)
- **How much you want to keep back** for peace of mind (your Christmas jumper)
- **What’s left over** (the too-tight jumper that needs a plan)

That leftover portion — the excess — is where thoughtful planning can make the biggest impact, both for you and for your family.

Next, we’ll explore what your options are for that third jumper — the assets you don’t need for yourself, but want to make sure are used wisely.

What Can You Do With The Money You Don't Need?

Once you've worked out what you need to live on — and what you want to hold back for security — you're left with the "excess."

These are the assets in your pension that you **don't expect to need** for your own lifetime.

This is your opportunity.

Because if you do nothing, this money could be hit with up to **40% inheritance tax** from April 2027.

But if you plan ahead, you have choices. Here are a few examples:

✅ Spend it

It's your money. If your health allows, consider living more fully.

Fly business class. Replace the car. Take the holidays you used to postpone. You've saved and invested for the future — now it might be time to enjoy it.

✅ Good for: **Lifestyle satisfaction**, naturally reducing your estate
⚠️ Watch for: Overspending — make sure you know how much you *can* afford to spend. Most people fear overspending and are actually cautious.

🎁 Gift it

You can:

- Use your annual gift allowances
- Make larger gifts and accept (or insure against) the potential IHT liability should you die within 7 years.
- Gift from excess income using the **"normal expenditure out of income" exemption** — which means **no IHT**, even if you die within 7 years

✅ Good for: Those with **strong income** and a desire to help family now

⚠️ Watch for: Income tax on pension withdrawals, affordability, and the need to keep good records to ensure exemptions apply

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🛡️ Insure against the IHT

You could take out a **life insurance policy** to cover the expected inheritance tax bill.

Premiums can be paid from excess income (potentially IHT-free), and the policy could be written in trust to keep it out of your estate.

✅ Good for: Peace of mind — knowing the IHT is covered

⚠️ Watch for: You're still **paying** the IHT, just not from your estate. And it's important to insure the *right amount*

Don’t Panic, But Do Start Thinking

This guide is designed to help you start thinking — **not panicking**.

As things stand today, **your pensions remain outside your estate for inheritance tax purposes until 5 April 2027**. So there’s no immediate impact.

There’s No One-Size-Fits-All Solution

What you should do with your pension depends entirely on your personal circumstances.

- Someone with a **£1 million pension** and a **£20,000 per year lifestyle** will face very different decisions to someone spending **£100,000 per year**.
- Age, health, other assets, family dynamics, and long-term goals all play a role.

There are lots of adverts out there offering advice on larger pensions, make sure whoever you speak to is thinking about all these things and more. Where to invest your funds, although considered, should be fairly low down the priority list.

That’s why all planning — especially now — needs to be **tailored to you**.

Final Thoughts & Next Steps

This guide is designed to get you thinking — and to help you start making informed, intentional decisions.

What should you do next?

- ✅ **Work out what you actually need** for your lifestyle
- ✅ **Decide what you want to hold back** for security or care
- ✅ **Identify what's truly excess** — the money that needs a plan

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If you're not sure what to do with that excess — or how to protect it from unnecessary tax — that's exactly where I can help.

I also have many years of experience helping people use the "needed" parts of their pension to fund their lifestyle in a sustainable, tax-efficient way.

💬 Your Story Comes First

Everyone's situation is different, and I'm here to listen before anything else.

If you'd like to talk things through, just email me at **James@willowhurst.co.uk** and we'll set up a Zoom or Teams call.

You can share what's on your mind, and then decide — in your own time — whether I might be of interest or benefit to you, and whether you'd like to take things further.

The Financial Conduct Authority (FCA) does not regulate Inheritance Tax Planning or Trust Advice.

This guide is for information purposes and does not constitute financial advice, which should be based on your individual circumstances.

The value of pensions and any income from them can fall as well as rise. You may not get back the full amount invested.

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