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# Making death benefits easier

May 2016

## Introduction

The death benefits for a member's family or dependants vary according to the rules of the scheme. The benefits will differ depending on whether the member died in pensionable service, as a deferred member, or as a pensioner.

Sometimes who gets what is automatic – but the trustees usually have a discretion to decide who receives any lump sum payment. This is because lump sum death benefits paid in this way are not part of the member's estate for inheritance tax purposes. In most schemes, members will have signed a death benefit nomination (or expression of wishes) form. Trustees do not need to follow it, but they do need to take it into account.

## 10 steps to paying death benefits

1. The trustees should establish a process for dealing with death benefit cases. This could include:
    - Ensuring that the employer or scheme administrator informs the trustees as soon as possible after a member dies.
    - Preparing, within a month of the death, a report showing what benefits are payable and who the potential recipients may be.
    - Considering the report at the next trustee meeting. They may agree to payment of the benefits, or decide that further investigations are necessary.
2. It is usually a good idea for the trustees to see a copy of the member's will. A member may have decided he has made provision for his spouse or partner in his will and that he can therefore name someone else in his expression of wishes form.
3. Trustees need to investigate the member's circumstances – his domestic, personal and financial situation. They could ask the member's immediate colleagues or those named in the expression of wishes form for information.
4. It may sound obvious, but Trustees need to be sensitive when writing to potential beneficiaries. The Pensions Ombudsman has forced trustees to apologise for writing to a widow in a 'casual, indifferent and unfeeling' way.
5. Trustees should think carefully before delegating decisions. There must be a power to do so in the scheme rules. Trustees will probably wish to retain control of all but the very straightforward cases. They should probably review delegated decisions at trustee meetings.
6. HM Revenue & Customs permits pension death benefits to be paid only to a restricted category of people. There are no similar restrictions in respect of lump sum death benefits (but there may be under the scheme rules). Lump sums must be paid within two years of the time the trustees learnt of the member's death. Otherwise, the payment may attract more tax.
7. Pensions are usually payable for life, but pensions paid to a child will usually need to stop by the time the child reaches age 23. Trustees should put arrangements in place to ensure pensions stop at the right time.
8. It may be possible to pay a child's benefit into a separate trust, or to someone on the child's behalf.
9. Trustees should seek advice on the options where a deceased member has exceeded the lifetime allowance.
10. Trustees need to give reasons for their decisions. These should be carefully worded so as not to infringe the right to privacy of potential beneficiaries.

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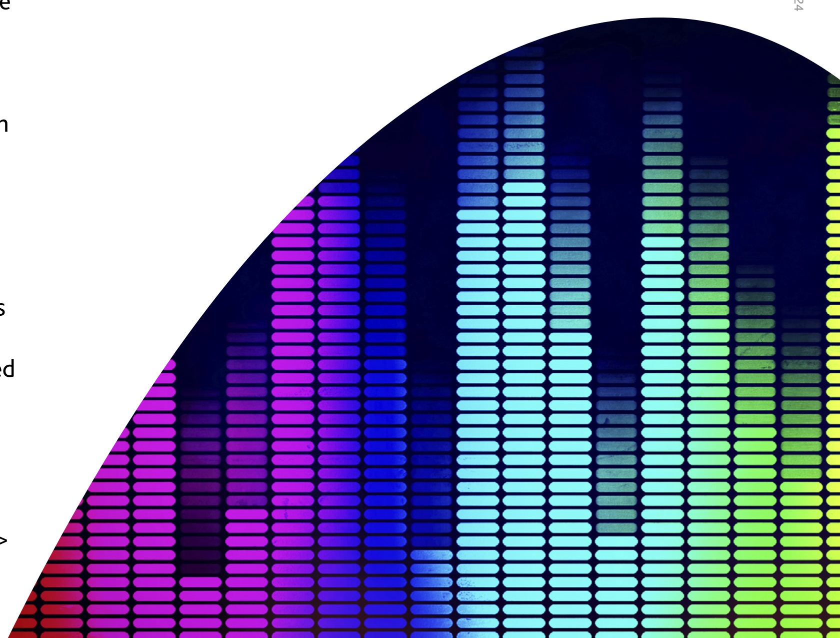

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## Further reading

The Pensions Advisory Service (**TPAS**) has published guidance on lump sum death benefits.

Pensions law can be tricky… but it doesn't have to be. These 'making it easier' guides explain key issues in simple terms, giving practical help to trustees and employers.

The series is growing; additional copies can be downloaded from www.pinsentmasons.com

Current topics include: Using advisers; Scheme changes and Becoming a trustee

Comments and ideas for further topics are welcome…

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