DG FINANCIAL SERVICES LIMITED

WEALTH PRESERVATION

Reconsidering how to use pension savings and pass wealth to the next generation



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Imagine a couple sitting down to review their finances as they approach retirement. Between them, they have a pension portfolio built up over decades, a family home, and savings and investments. They have worked hard and saved consistently, and now want two things: enough money to enjoy a comfortable retirement and the ability to leave something meaningful for their children and grandchildren.

For many people, pensions have traditionally been seen primarily as a source of retirement income. Other assets, such as the family home, savings and investments, have often been regarded as the wealth that will eventually be passed to the next generation. But this way of thinking may need to change. With the tax treatment of pensions on death changing, it is increasingly important to consider pension savings alongside the rest of an estate. This is where DG Financial Services can help guide you through this increasingly complex area.

RETHINKING THE RETIREMENT EQUATION

The traditional approach to retirement planning was relatively simple. Build a pension, retire, draw an income, and use other assets as necessary. Once the pension was exhausted, the remaining assets could form part of an inheritance.

Today, pension freedoms offer considerably more flexibility. Depending on the type of pension and individual circumstances, retirees can choose how and when to take their benefits. They may opt for flexible drawdown, take lump sums, purchase an annuity, or combine several approaches. This flexibility creates opportunities, but it also means that decisions made during retirement can affect the wealth eventually passed to beneficiaries.

LOOKING AT WEALTH AS A WHOLE

Rather than considering a pension in isolation, it can be helpful to look at the whole financial picture. Someone might have a pension, an Individual Savings Account (ISA), cash savings, investments, property and perhaps a business interest. Each asset serves a different purpose and may have different tax implications.

This raises an important question: which assets should be used in retirement, and which might be better retained for the future? There is no universal answer. The appropriate strategy will depend on income requirements, investment objectives, health, life expectancy, family circumstances, tax position and the types and values of assets held.

WHY PENSIONS DESERVE ANOTHER LOOK

Pensions have long played a particularly attractive role in estate planning because, under the previous rules, unused pension funds could often sit outside the estate for Inheritance Tax purposes. This meant some people deliberately preserved pension savings while using other assets to fund their retirement.

The position is changing. From 6 April 2027, most unused pension funds and pension death benefits are expected to fall within the scope of Inheritance Tax. This does not necessarily mean that pension savings will become an unattractive asset, but it does mean that the assumptions underpinning some existing estate plans may no longer hold.

QUESTION OF WHEN TO SPEND

For someone with substantial pension savings and other investments, the instinct might be to preserve the pension for as long as possible. After all, pensions offer valuable tax advantages and are designed to provide income throughout retirement.

However, the most tax-efficient strategy is not necessarily to preserve the pension



at all costs. If pension assets are eventually included in the calculation of an estate's value, there may be circumstances in which using some pension savings during retirement and retaining other assets for beneficiaries produces a more appropriate overall outcome.

BALANCING INCOME WITH INHERITANCE

The difficulty lies in finding the right balance. Taking too much from a pension too quickly could leave someone without sufficient income later in life. Retirement can last 20, 30 years or more, and financial needs can change considerably over that period.

Early retirement may involve travel, hobbies and other discretionary spending, while later life could entail higher spending on healthcare, support or care. A retirement strategy therefore needs to allow for uncertainty. Protecting an inheritance should never come at the expense of maintaining an appropriate standard of living.

UNDERSTANDING THE TAX IMPLICATIONS

Tax is only one part of the equation, but it is an important one. Pension withdrawals may be subject to Income Tax, depending on how benefits are taken and the individual's circumstances. Taking a large amount in one tax year could push someone into a higher tax band.

The tax position of beneficiaries also needs to be considered. The treatment of inherited pension benefits can depend on the pension holder's age at death and the circumstances in which the benefits are received. A beneficiary with substantial income of their own could have a very different tax position from one with little or no taxable income.

DON'T FOCUS ON ONE ASSET

It can be tempting to focus on the largest asset in an estate, which for many households will be the family home or the pension. But effective estate planning involves looking at everything together.

Cash may provide security and immediate access, while investments can offer long-term growth.

Property can represent substantial wealth but may be difficult to divide or realise without selling. Pensions can provide flexible retirement income but come with their own rules and tax considerations. The challenge is to make these assets work together rather than making decisions about each one in isolation.

FAMILY HOME AND THE WIDER ESTATE

For many families, the home remains the most emotionally and financially significant asset they own. Parents may want to ensure that their children ultimately benefit from it, while also needing the reassurance that they can remain in their home throughout retirement.

The interaction between property, pensions and other assets can therefore be particularly important. In some circumstances, spending other assets while retaining pension wealth might once have seemed the obvious approach. As the rules change, however, the balance may need to be reconsidered.

REVIEWING PENSION BENEFICIARIES

At DG Financial Services, we explain to clients that effective planning is about more than deciding how much to spend in retirement. It is also about ensuring that the wealth you have built ultimately benefits the people who matter most to you.

That is why it is important to regularly review your pension beneficiary nominations and expressions of wish. These can quickly become outdated as circumstances change. Marriage, divorce, births, deaths, or changes in family relationships can all affect who you would want to benefit from your pension. Keeping these arrangements under regular review can help ensure your wishes remain clear and reflect your circumstances.

KEEP YOUR WILL AND PENSION PLAN ALIGNED

A Will and a pension nomination are separate components of an estate plan and should be considered together. It is important to understand how pension benefits are expected to be handled and how that aligns with the wishes expressed in a Will.

A change in family circumstances can also prompt a review of the wider estate plan. Someone who wrote their Will 15 years ago may now have a very different pension, property portfolio and family situation. What was appropriate then may no longer achieve the desired outcome.

THINKING BEYOND THE IMMEDIATE INHERITANCE

Passing wealth to the next generation need not wait until death. Some people may wish to provide financial assistance during their lifetime, perhaps helping children with a property purchase, supporting grandchildren with education costs, or making other substantial gifts.

Giving money during someone's lifetime can be rewarding and may allow the donor to see the impact of their gift. However, significant gifts require careful consideration. There can be tax implications, and giving away too much could compromise the donor's financial security.

IMPORTANCE OF LIFETIME GIFTING

Lifetime gifting can form part of a broader intergenerational wealth strategy, but it should not be undertaken solely to reduce a potential tax bill. Circumstances can change, and money that appears surplus today may become important later.

Before making a substantial gift, it is worth considering future living costs, inflation, investment returns, possible care needs, and the financial resilience of the person making the gift. A sensible plan should provide flexibility rather than leaving someone dependent on family members later in life.

PLANNING FOR LONGEVITY

One of the biggest challenges facing today's retirees is uncertainty about how long their savings will need to last. People are living longer, and retirement is no longer necessarily a brief period between stopping work and old age.

This makes longevity planning particularly important. Someone retiring at 60 or 65 may need their assets to support them for several decades. Preserving too much wealth for inheritance could unnecessarily restrict spending today, while spending too freely could create difficulties in later life.

A STRATEGY THAT CAN EVOLVE

There is no requirement for a retirement and estate plan to remain unchanged. In fact, the most effective plans are likely to evolve as circumstances change.

Investment performance, pension values, changes to tax rules, family circumstances, health and spending patterns can all affect the appropriate strategy. A review every few years, or following a significant life event, can help ensure the plan remains relevant.

CONSIDER THE NEXT GENERATION

There is also a broader conversation to be had within families. Intergenerational wealth planning is not simply about the person leaving the money. It is about understanding what the next generation may need and when they may need it.

For some families, an inheritance received at 60 may be less transformative than financial support provided at 30 or 35, perhaps helping with a first home or family expenses. That does not mean everyone should give away their wealth early, but it does highlight the importance of considering the purpose of an inheritance rather than simply its eventual value.

AVOID MAKING DECISIONS BASED ON TAX ALONE

Tax efficiency is important, but it should not be the sole objective. The best financial decision is rarely the one that produces the lowest immediate tax bill if doing so creates other problems.

For example, taking money from a pension purely because of concerns about future tax could leave the individual with less money available for retirement. Equally, refusing to spend pension assets simply because they may benefit beneficiaries could result in a less comfortable retirement than necessary.

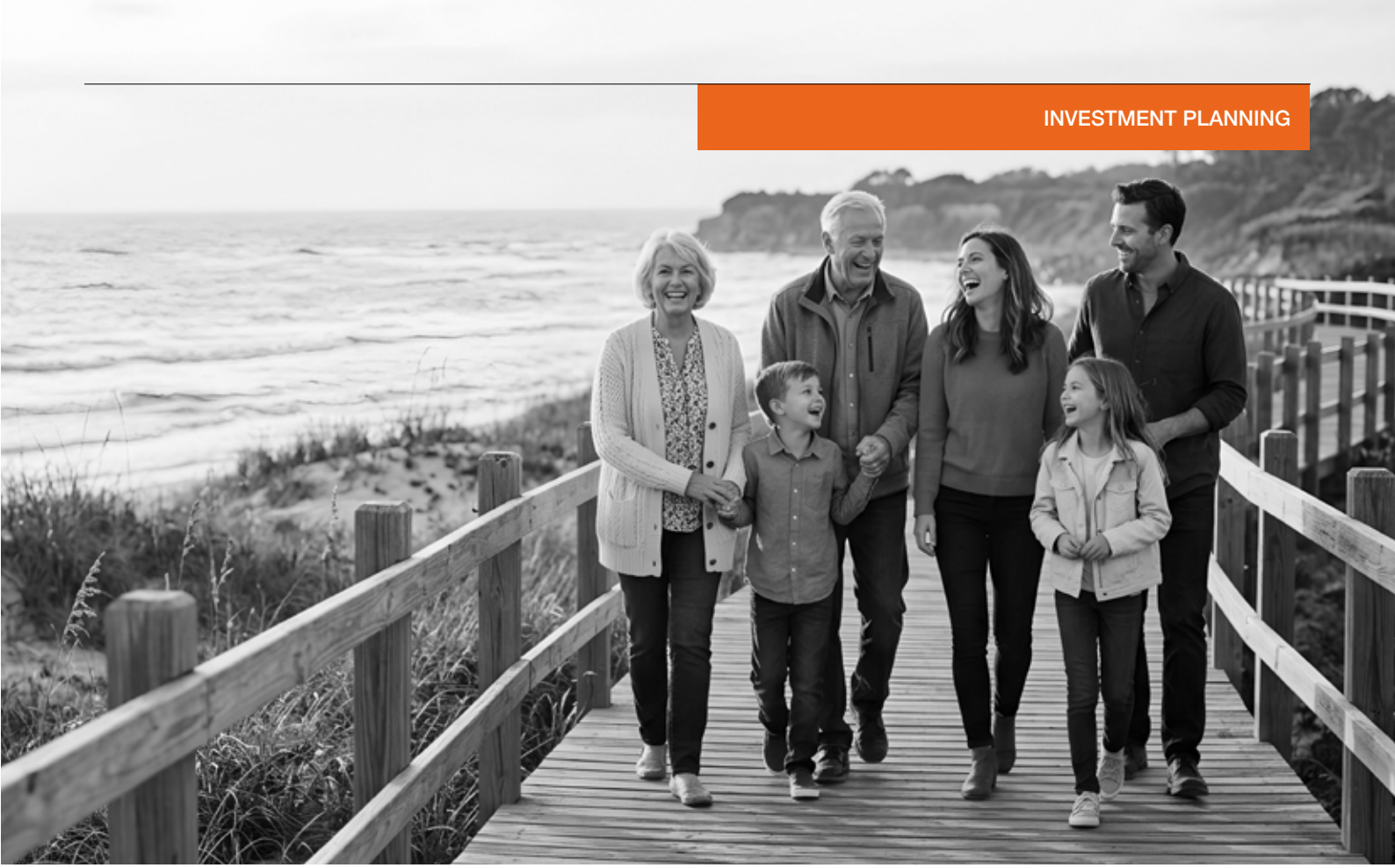
BRINGING EVERYTHING TOGETHER

The evolving treatment of pensions offers a useful opportunity for anyone approaching or already in retirement to step back and reconsider their overall financial strategy.

Instead of simply asking, "How much can I leave my children?", it may be more helpful to ask a series of broader questions. How much do I need to live comfortably? Which assets should provide my income? Which assets might be most suitable to pass on? How might tax affect my beneficiaries? Are my pension nominations up to date? Does my will reflect my current wishes?

A MORE CONSIDERED APPROACH

The answers will vary from family to family. Someone with a modest pension and a valuable home may have very different priorities from someone with substantial pension savings and relatively few other assets. Similarly, a couple with adult children who are financially secure



may have different objectives from those of parents supporting younger children or grandchildren.

The key is to view pensions as part of the wider picture. The days of treating a pension purely as a retirement-income vehicle, with everything else as an inheritance, may no longer be the most effective way to think about family wealth.

PLANNING FOR TOMORROW, TODAY

For those who have spent decades building their wealth, the objective is often about more than simply maximising the size of an estate. It is about having enough to enjoy life, maintaining financial independence and ensuring the people they care about can benefit from what they have built.

That requires a balance between today's needs and tomorrow's legacy. Reviewing how different assets are used, understanding the changing tax landscape and keeping Wills and pension nominations up to date can all be part of that process. ■

Ready to discuss your requirements?

The evolving role of pensions in estate planning makes it increasingly important to consider retirement income and intergenerational wealth together. A decision that seems sensible when a pension is considered in isolation may look very different when the family home, investments, savings and potential tax liabilities are taken into account as part of the same picture. If you would like further information on how your pension savings and other assets could work together to support your retirement and pass wealth to the next generation, consider speaking to a suitably qualified financial adviser. A comprehensive review can help you understand your options, assess potential tax implications, and ensure your retirement and estate-planning arrangements continue to reflect your priorities and those of your family. To find out more, contact DG Financial Services.

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THE VALUE OF INVESTMENTS AND ANY INCOME FROM THEM CAN GO UP OR DOWN. YOU MAY GET BACK LESS THAN YOU INVEST. GIFTING MAY AFFECT YOUR LONG-TERM FINANCIAL SECURITY AND SHOULD BE CONSIDERED CAREFULLY BEFORE ANY DECISION IS MADE.

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If you wish to register a complaint, please write to **russell.golledge@dgfs.biz** or telephone **01379 454508**

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