First Briefing, June 2026 – Inheritance tax on pensions

From April 2027, unused pension and death benefits will be subject to inheritance tax.

In this briefing, we explain the changes, describe the impact, and provide key takeaways for employers and pension scheme trustees.

Background and changes

The Finance Act 2026 has received royal assent and will bring unused pension funds and death benefits into an individual's estate for inheritance tax (IHT) purposes. This applies to deaths on or after 6 April 2027, barring some exemptions.

Currently, most pension funds paid on a discretionary basis are outside the estate of a deceased individual. These new rules will eliminate the distinction between discretionary and non-discretionary payments. Of particular note, the gross value of unused money purchase funds immediately before death will now fall within the scope of IHT.

The following will remain outside the scope of IHT:

- Death-in-service benefits from registered pension schemes and standalone group life assurance schemes
- Dependants' scheme pensions and joint life annuities
- Death benefits passing to surviving spouses and civil partners, and registered charities.

The underlying rationale is to prevent pension schemes being used and marketed as a tax-planning vehicle to transfer wealth rather than to fund retirement.

The Government has said that most estates will continue to pay no IHT. There is a nil rate threshold of up to £325,000 (or £500,000 if including a family home). The standard rate of IHT is 40%. However, government figures estimate that in the first year, 10,500 extra estates will now be subject to IHT, and 38,500 will pay more IHT.

Impact on employees and scheme members

For some individuals, pension saving may become less attractive as a means of passing on wealth compared to other vehicles. Employers and trustees should consider whether to communicate the changes and make use of support services such as financial wellbeing.

Increased burden on pension administration

The changes will increase the administrative burden on scheme providers and trustees, in particular through requirements to:

- Provide a valuation of the death benefits within four weeks of being notified of the death
- Determine who the benefits will be paid to and in what proportions, which may require the exercise of discretion
- Pay the IHT to HMRC directly under a new *pensions direct payment scheme*, under certain circumstances.

Employers and trustees should ensure that their provider/scheme has plans in place to be able to comply with their new duties.

Key takeaways for employers and trustees

Employers and trustees may wish to:

- Support employees and members proactively, for instance with financial education, guidance and communication of the changes
- Ensure their scheme/provider is preparing to take on the increased administrative burden
- Consider whether any redesign of death benefits, such as removal of discretion, could ease this burden and potentially save costs.

Further information

For further information, contact First Actuarial or your usual consultant.

© First Actuarial LLP 2026 all rights reserved.

The information contained in this bulletin is, to the best of our knowledge and belief, correct at the time of writing. However, First Actuarial cannot be held liable for any errors contained herein and the recipient accepts that the information stated is provided on an "as is" basis. This briefing is for general information only. It does not and is not intended to constitute advice. Specific advice should always be sought from the appropriate professional on all individual cases.

First Actuarial LLP is a limited liability partnership registered in England & Wales. Number OC348086. Registered address: First Actuarial LLP, Mayesbrook House, Lawnswood Business Park, Leeds, LS16 6QY. First Actuarial LLP is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of insurance and investment services to clients because we are licensed by the Institute and Faculty of Actuaries. We can provide these services if they are an incidental part of the professional services we have been engaged to provide