First Briefing, October 2026
Impact of inheritance tax changes on DB schemes

From April 2027, some 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 the trustees and sponsoring employers of Defined Benefit (DB) schemes.

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.

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.

Currently, most pension benefits paid after death on a discretionary basis are outside the estate of a deceased individual. This means they are exempt from IHT. However, the changes will eliminate the distinction between discretionary and non-discretionary payments. In particular, money purchase funds which are unused 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 qualifying charities and registered clubs.

The deadline for paying IHT is relatively short – typically, it must be paid within six months of the end of the month in which death occurs. Late payment interest is charged.

This contrasts with the current pensions tax regime, where, in certain cases, there is a two-year window in which lump sum death benefits must be paid otherwise they may incur tax (or more tax).

The responsibility for paying IHT on pensions will largely fall on the Personal Representatives (PRs). However, pension scheme administrators will be required to provide information to PRs in certain situations, often with tight timescales. In certain circumstances, the PR can require them to either pay the IHT directly or to withhold paying up to 50% of the death benefits for a period of time.

Death cases can sometimes take a long time to resolve, for example when needing to trace beneficiaries or understand more about their circumstances. It may not be possible for PRs to pay IHT until it has been decided who will receive death benefits, since some beneficiaries will be exempt from IHT (e.g. spouses/civil partners) and others may not be (e.g. dependent children, unmarried partners).

When paying death benefits, trustees may have to consider how to balance satisfying themselves they have fulfilled their duties with the possibility of complaints from PRs or beneficiaries if IHT is not paid within the 6-month deadline.

Impact on DB schemes

Benefits in scope of IHT

In practice, for many DB schemes, many of the death benefits they provide will be outside the scope of IHT. Certain benefits may fall in-scope, for example:

- Guarantees on pensions in payment (whether paid as a lump sum or as a continuing pension)
- Any other lump sum death benefits paid on deaths that are not in-service e.g. refunds of contributions paid on death in deferment.

In addition, only a minority of estates pay any IHT, so in practice the changes from April 2027 will only have a limited impact in most death cases.

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Our understanding is that the exemption for death-in-service benefits may not apply where the benefit in question is payable to individuals who are not in-service, such as a refund of contributions paid on death of both current employees and deferred members. However, HMRC have said in a technical note (which they state is not draft guidance) that individuals who receive continued life cover on redundancy might still be treated as being in service.

Impact on DC AVCs

If a DB scheme provides members with the option to pay Additional Voluntary Contributions (AVCs) into a Defined Contribution (DC) arrangement, any unused AVC funds may fall within the scope of Inheritance Tax (IHT) on the member's death. Trustees may want to work with their lawyers to determine whether unused DC funds on death are in scope of IHT.

If unused DC funds on death are in scope of IHT, this might mean where a member dies before retirement leaving a partner (and possibly young children), there could be a significant difference in IHT treatment depending on whether the member was married to (or in a civil partnership with) their partner, or not.

New requirements for administrators

The changes will increase the administrative burden on scheme providers and trustees.

New requirements include:

- Providing a valuation of the death benefits in scope of IHT within 28 days of the PR requesting it. For a DB scheme, in many cases no death benefits will be in scope.
- Where a PR has to file an IHT account, provide further information, including details of any death benefits that are out of scope of IHT. This must be provided within 28 days of the PR's request.
- PRs and beneficiaries can require administrators to pay IHT and interest to HMRC directly under a new pensions direct payment scheme. This can **only** be used where IHT is due on pension death benefits, so it will not be an option in most cases for DB schemes. The administrator has 35 days to pay the IHT.
- Where a PR knows (or reasonably believes) that IHT will be payable on pension death benefits, they can, by notice, require an administrator to withhold up to 50% of in-scope death benefits for up to 15 months. This is also unlikely to be an option in most cases for DB schemes.

Administrators will have to determine whether an individual is a PR. HMRC has published draft guidance on how they should do this.

Trustees should ensure that their scheme will be ready to comply with the new requirements.

What happens next?

HMRC has published some technical information and draft materials. However, the pensions industry is still grappling with unanswered questions.

A further technical note, further regulations and final guidance are still awaited. The final guidance is not expected until spring 2027.

Next steps for DB scheme trustees

Trustees may wish to consider:

- Reviewing their scheme rules to determine what benefits are potentially in-scope of IHT. Trustees of open DB schemes should determine whether their scheme's lump sum death-in-service benefit(s) are excluded from IHT or not.
- Whether and how to communicate the changes to members, including whether any changes are needed to the member booklet.
- Ensuring their scheme administrator is preparing for the new requirements.
- Whether any redesign of death benefits, such as removal of discretion, is appropriate

Further information

If your DB scheme is administered by First Actuarial, we will provide further information in the coming weeks, including details of the changes we are making to our administration processes, the information we will need from trustees and personal representatives, and any actions trustees will need to take to prepare for the new requirements.

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