

The pension revolution: Strategic responses to the 2027 Inheritance Tax changes



A wealth preservation guide for high-net-worth individuals

Building upon the significant changes to Business Property Relief and Agricultural Property Relief outlined in our previous analysis, the UK's inheritance tax landscape faces another fundamental transformation. From 6 April 2027, the government will include most unused pension funds and death benefits within individuals' estates for inheritance tax purposes. For high-net-worth families with substantial pension provision, this represents the most significant shift in retirement and estate planning strategy in decades.

At Heligan Wealth Management, we recognise that successful wealth preservation extends beyond business assets and agricultural holdings. The forthcoming pension changes demand immediate strategic attention, particularly for individuals whose retirement wealth has been carefully structured around

the current inheritance tax exemptions. The convergence of these reforms – affecting both business assets and pensions – requires a comprehensive reassessment of multi-generational wealth transfer strategies.



Understanding the fundamental change

The current landscape

Under existing legislation, unused pension funds generally fall outside an individual's estate for inheritance tax purposes. This has made pensions not only valuable retirement savings vehicles but also highly effective estate planning tools. Currently, substantial pension wealth can pass between generations without triggering inheritance tax charges.

The 2027 transformation

From 6 April 2027, this privileged position ends. Most unused pension funds and death benefits will be included within the value of a person's estate for inheritance tax calculations. This fundamental shift aligns pension treatment with other inherited assets, subjecting them to the standard 40% inheritance tax rate on amounts exceeding the available nil-rate bands.

Scope of the changes

The reforms will affect:

- 1. Defined contribution pensions:**
Uncrystallised funds and unused drawdown amounts will form part of the taxable estate.
- 2. Death benefits:** Most pension death benefits, including lump sum payments and beneficiary drawdown options, will be subject to inheritance tax.
- 3. Multiple pension arrangements:**
All qualifying pension wealth will be aggregated for inheritance tax purposes, potentially pushing estates well above current thresholds.
- 4. Importantly excluded:** Death in service benefits from registered pension schemes will remain outside the inheritance tax net.

The compliance framework

The government has confirmed that personal representatives, rather than pension scheme administrators, will bear responsibility for reporting and paying inheritance tax on pension assets. This decision follows extensive consultation and places the administrative burden on estate executors, requiring careful coordination between pension providers, beneficiaries, and HMRC.

Strategic implications for high-net-worth families

The Compounding Effect

For individuals and families with substantial pension wealth, the 2027 changes create a compounding effect when combined with the business and agricultural relief reforms. Consider a single person with a business worth £2 million, £1 million in pension provision, other cash/investments worth £500,000 and a main residence worth £500,000. A total net worth of £4,000,000.

Under current rules, only the £500,000 cash/investments would be exposed to inheritance tax considering the individuals Nil Rate Band

(£325,000) and Residential Nil Rate Band (£175,000) assuming they left their main residence to a direct descendant. This would equate to an estimated Inheritance Tax Liability of £200,000.

Post-2027, the combined impact of reduced business relief, pension inclusion and reduction of RNRB due to the uplift in qualifying assets (the business and pension now within scope for IHT), could result in an estimated Inheritance Tax Liability of £1,000,000.

Asset	Value	
Business	£2,000,000.00	
Pension	£1,000,000.00	
Cash/Investments	£500,000.00	
Main Residence	£500,000.00	
£4,000,000.00		
Less allowances		IHT Payable
Nil Rate Band	£325,000.00	
Residence Nil Rate Band extinguished		Business asset @ 20% £200,000.00
£1m Business Relief allowance	£1,000,000.00	Remaining estate @ 40% £800,000.00
Estate exposed to IHT	£3,000,000.00	Expected IHT liability £1,000,000.00



The "double taxation" concern

A particularly acute issue emerges where pension withdrawals are required to fund inheritance tax liabilities. Beneficiaries may face income tax on pension withdrawals at their marginal rate, while simultaneously bearing inheritance tax on the underlying pension fund. This can result in combined tax rates approaching 67% in extreme circumstances.

Action plan framework

With the changes taking effect for deaths occurring on or after 6 April 2027, families have a narrow but valuable window for strategic action. Those who take professional advice sooner will benefit from having more time to understand how the changes affect them and, importantly, act.

Key considerations:

Immediate Actions (2025)

High net worth families should prioritise:

- Comprehensive pension and estate valuation
- Beneficiary nomination reviews across all arrangements
- Professional advice engagement for strategic planning
- Insurance needs analysis and preliminary underwriting

Medium-Term Implementation (2025-2026)

The transition period offers opportunities for:

- Strategic pension withdrawals and gift programmes
- Trust structure establishment under current rules
- Insurance policy implementation and trust settlement
- Will and estate plan updates reflecting new inheritance tax landscape

Long-Term Adaptation (2027 onwards)

Post-implementation planning will require:

- Regular inheritance tax exposure monitoring
- Pension withdrawal strategy optimisation
- Family wealth education and succession preparation
- Ongoing professional advice coordination



Strategic mitigation approaches

Comprehensive Estate Valuation: High net worth individuals should assess their total pension provision across all arrangements. This includes:

- Workplace Pensions:
Current and deferred benefits from employment
- Personal Pensions:
SIPPs and stakeholder arrangements
- Drawdown Plans:
Crystallised and uncrystallised funds
- Inherited Pensions:
Previously received pension death benefits

Understanding the total pension exposure enables informed decision-making about inheritance tax liabilities and mitigation strategies.

**Beneficiary nominations review:**

Current nominations may no longer be optimal under the new inheritance tax regime. Families should consider whether direct beneficiary appointments to children or grandchildren remain appropriate, or whether spousal inheritance followed by strategic planning offers superior outcomes.

Enhanced pension drawdown strategies:

The traditional approach of preserving pension wealth for inheritance purposes requires fundamental reconsideration. Strategic pension withdrawals before 2027 can reduce the inheritance tax-exposed pension fund, provided the withdrawn amounts can be deployed effectively.

Accelerated consumption:

Using pension funds to support enhanced lifestyle choices or family financial assistance reduces taxable estate directly

Asset substitution:

Withdrawing pension funds to purchase inheritance tax-qualifying investments or assets may preserve wealth transfer efficiency in specific circumstances

Gift funding:

Pension withdrawals can fund lifetime gifts, subject to the seven-year survival rule and available annual exemptions

Annuity conversion:

Purchasing annuities removes capital from the estate while providing guaranteed income streams. The income generated can then fund inheritance tax planning

arrangements, including whole of life insurance policies written in trust. This approach effectively converts inheritance tax-exposed pension capital into inheritance tax-exempt insurance proceeds.

Surplus income gifting:

The "normal expenditure out of income" exemption offers powerful planning opportunities. Regular pension withdrawals that exceed lifestyle requirements can be gifted to family members without inheritance tax implications, provided they constitute genuine surplus income that doesn't impair the donor's standard of living.

This strategy becomes particularly attractive where pension income replaces employment income, creating scope for systematic wealth transfer without reducing personal financial security.

Whole of life insurance planning:

Whole of life insurance policies written in trust provide inheritance tax-efficient replacement for pension death benefits. Premium funding can come from pension withdrawals or surplus income, effectively converting taxable pension wealth into exempt insurance proceeds.

Discretionary trust settlements:

For individuals with multiple pension arrangements, settling some pension funds into discretionary trusts before 2027 may preserve inheritance tax advantages. However, this strategy requires careful analysis of the lifetime transfer implications and the seven-year survival requirement.

The key lies in early action, comprehensive planning, and acceptance that the era of pension-based inheritance tax planning is ending.

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Embracing the new reality

The inclusion of pensions within inheritance tax scope represents a watershed moment for UK wealth planning. Combined with the restrictions on business and agricultural relief outlined in our previous analysis, these changes fundamentally alter the landscape for high net worth families.

However, this challenge also creates opportunity. Families who respond strategically, with appropriate professional guidance, can minimise the impact while potentially improving their overall wealth transfer efficiency. The key lies in early action, comprehensive planning, and acceptance that the era of pension-based inheritance tax planning is ending.

The pension revolution is upon us. For high net worth families, the question is not whether to adapt, but how comprehensively and strategically they can reshape their wealth

transfer arrangements for the new reality. Those who act decisively will find that while the planning landscape has changed, the fundamental objective – preserving wealth for future generations – remains achievable.



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Note: This bibliography reflects sources available as of Sept 2025. Given the evolving nature of tax legislation and ongoing consultation processes, readers should verify the current status of any proposed changes and seek current professional advice. All government publications are available through the official gov.uk website.

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