Open letter from WBR Group to Torsten Bell MP

Torsten Bell MP
Parliamentary Under-Secretary (Department for Work and Pensions)
House of Commons
London
SW1A 0AA

Monday 10 March 2025, by email only.

ENSURING FAIRNESS: WHY IHT ON PENSIONS IS A STEP BACKWARD

Dear Mr Bell,

We write to you in your capacity as Parliamentary Secretary in HM Treasury and Parliamentary Under Secretary of State in the Department for Work and Pensions to respectfully ask you to reconsider the proposed changed to IHT rules which would see unused pension savings included in an individual's estate and therefore taxed.

For a considerable amount of time, there has been concern from the pensions industry that UK adults are not saving sufficiently for their retirement. Drivers for this include a lack of engagement with pensions, and insufficient education on financial matters as well as constant changes in pension rules. These challenges are exacerbated by misinformation that is being spread on various social media channels and sensationalism by some media outlets about pension saving.

Consumers who have complied with the rules and responsibly saved towards retirement are being negatively affected by the lack of a long-term pension strategy.

We acknowledge that as a result of Pension Freedoms in 2015, and last years' abolition of the lifetime allowance, that the tax treatment of pensions on death has become considerably more generous. Whilst this has undoubtedly led some individuals to use their pensions as a multi-generational tax planning tool, we believe that for the majority of individuals, a pension remains a key part of their financial planning for income in retirement. Any alteration to pension and tax legislation must be carefully balanced to avoid disincentivising adequate pension saving.

We do not believe that the proposals to bring unused pension funds on death within the scope of IHT meet this careful balance.

As the largest provider of SSAS solutions in the UK, we wanted to share with you our response to the recent technical consultation – Inheritance Tax on pensions: liability, reporting and payment. Whilst we appreciate the ability to provide our feedback on the Government's proposals, we are fundamentally concerned with the proposal to bring 'unused funds' into scope for IHT. We would like to take this opportunity to share some of our key concerns with you:

- The timescales suggested are unworkable, and do not acknowledge or appreciate the intricacies and complexities of discretionary death benefits. There is presently a 2-year timescale, beginning from the date that the Scheme Administrator is made aware of the death, to pay out death benefits before tax

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charges are levied. This timescale can already present challenges in complex cases and where esoteric investments are held.

- There are several steps that we, as a Scheme Administrator, need to take to assess the beneficiaries' entitlement to the benefits, and in which proportions they should be paid. In the case of blended families, or the absence of a valid Expression of Wishes, this can be challenging and is not without risk for the Scheme Administrator.

- Shortening this timescale to 6-months increases the possibility that Scheme Administrators will no longer offer discretionary death benefits due to the risks presented. Additionally, this deadline increases the risk that incorrect decisions will be made, with financial Implications for beneficiaries.

- The Personal Representative may also be the beneficiary, or someone close to the deceased client. Imposing strict, unaccommodating and unrealistic deadlines on those that may be experiencing vulnerability is likely to provide poor outcomes. This would be at odds with the FCA's Consumer Duty regulations.

- There is also a consideration of vulnerability. For those individuals playing multiple roles as referenced above, they may be experiencing vulnerabilities having lost a loved one. Adding in additional complexities may exacerbate vulnerabilities and increase the possibility of poor outcomes.

- The additional processing required for IHT payments is going to significantly increase administration for Trustees and providers. The increased cost of providing this administration will be passed down to consumers, which may act as a further driver for reduced pension engagement and pension saving.

It is our suggestion that the pension system is viewed as complex, which acts as a disincentive to engage with pensions. Adding this new layer of complexity with inheritance tax will further perpetuate this perception.
The consultation relies on fundamental principles that Personal Representatives will have the key information required to pay discretionary death benefits immediately following the member's death, and that the pension has sufficient liquidity to pay any inheritance tax due. In our experience, neither of these principles can be relied upon.

It is apparent from the proposals that pensions are being forced into an IHT regime which does not accommodate the practicalities of pension rules or administration. There are other ways in which the Government could look to achieve to disincentivise the use of pensions as IHT avoidance vehicles, which we have explored in our consultation.

In addition, we would like to draw your attention to a survey that we conducted over the last two weeks with pension industry professionals and client-facing advisers, which has revealed overwhelming opposition to the proposed introduction of IHT on unused pensions. The survey highlights significant concerns about the fairness and practicality of the proposals.

- **90.41%** agreed or strongly agreed that the introduction of IHT on unused pensions is both retrospective and unfair

- **97.26%** agreed or strongly agreed that the proposals force pensions into an IHT regime that does not accommodate the practicalities of current pension rules or administration processes

- **97.26%** strongly agreed that trustees and providers will incur additional costs to administer the proposals, which are likely be passed on to consumers

- **100%** agree or strongly agree that the proposals assume the estate of a deceased pension scheme member has the timely information and liquidity to cover any IHT due

- **98.63%** agree or strongly agree that the proposals will act as a major disincentive for consumers to engage with pensions

As part of this survey we also asked for comments people wanted to make, these made for interesting reading and we would like to also share as selection of those with you.

- "Our strategy over many years has been to leave our home and pension so that our son can look after his severely disabled brother. These plans are ruined and at our age, there is no time to make effective alternative arrangements. Our IHT bill has gone from around £100k to around £800k as a result of the budget. The impact on our family is catastrophic and if our son cannot afford to be a 24/7 carer his brother will have to go into care, where he is likely to be miserable, and the cost will end up with the local authority. This has not been properly thought through for families with caring responsibilities."

- "A change of this nature and in the manner proposed undermines the merits of undertaking long-term personal financial planning. Which does not serve the interest of individuals or the state."

- "The proposals are terrible and have not been thought through. All client feedback has been negative and the retrospective nature of this is unreasonable."

- "The pension/IHT proposals are highly retrospective and consequently potentially Ultra Vires and subject to future legal challenge and the biggest mis-selling of pensions proffered by UK governments since pension simplification in 2006."

We hope that you can appreciate the significant concerns that the Government's plans have generated for the pension industry, and the potential ramifications of the proposals acting as a further disincentive to responsible pension savings. We would be supportive of working with the Government to find a suitable alternative to the proposal that would minimise impact on Trustees, administrators and pension members.
We look forward to hearing from you.

Yours sincerely,

Caitlin Southall, Head of SSAS Proposition at WBR Group