Pension Death Benefits

Aon Client Briefing

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Prepared for: Aon Clients
Prepared by: Aon UK Limited

Pensions and Death Benefits

The tax treatment of benefits payable following the death of a pension plan holder and the availability of pension for beneficiaries is dependent upon the type of pension in place and actions that have already been taken.

Usually, the plan holder will have completed a form nominating a beneficiary(s) to receive any benefits due in the event of death. Forms are often referred to as 'Expression of Wish' or 'Nomination of Beneficiary'.

This form is not legally binding, so benefits are distributed under the pension scheme's or pension provider's discretionary powers. This means that, from His Majesty's Revenue and Customs (HMRC's) perspective, the funds are outside the control of the pension holder, meaning they are normally currently considered to be outside the estate for inheritance tax purposes* – see below for more information.

Plan holders should ensure these forms are kept up to date. If there are no nominated beneficiaries or these are not updated, the benefits could end up going to someone other than who the plan holder would have wished. There could also be more paperwork required from the next of kin, at a time when they will be dealing with their loss. It also means the pension provider will need longer to assess who the beneficiaries should be and, of course, can't take the deceased's wishes into account when settling the death benefits.

***Please Note**

From 6 April 2027 most unused pension funds and some lump sum death benefits will be included within the value of a person's estate for IHT purposes.

Type of Pension and actions already taken:

Personal and Workplace Pension Schemes through a Pension Provider when Benefits have not been accessed

These schemes are personal contracts between the plan holder and the pension provider and where no benefits have been accessed, they are known as "uncrystallised".

Upon confirmation of a death the pension provider will review its records to ascertain whether the plan holder "nominated" any beneficiaries to receive the benefits from the scheme. The pension provider will then usually pay the value of the benefits to the nominated beneficiary(s), or next of kin if they have not made a nomination, in the form of a lump sum payment, although the beneficiaries may request to move some or all of the fund into a Beneficiary Flexi Access Drawdown plan, to draw pension income from, or may alternatively use some or all of the fund to purchase an annuity to provide a regular income.

When Benefits have been designated for Flexi-Access Drawdown

Where the plan holder has already moved into a Drawdown arrangement these funds are known as "crystallised benefits". In the event of death, the value of the fund is usually passed to the nominated beneficiary(s), or next of kin if they have not made a nomination, who can then choose to take the value of the fund as a lump sum or take regular or ad-hoc income from the fund. It should be noted the nominees or next of kin do not have to have reached the statutory minimum pension age, currently 55, to take these benefits.

When Benefits have been accessed using an Annuity

Where a single life annuity has been purchased by the plan holder and is in payment, the payments being received will cease in the event of death. If a spouse's or dependant's pension was included at the point the annuity was purchased this will commence on the death of the plan holder and will continue to be paid in accordance with the terms of the contract.

Defined Benefit Pension Schemes

A Defined Benefit Pension Scheme (also known as a Final Salary Scheme) provides a guaranteed pension in retirement and is usually dependent upon the length of time within the scheme and the salary earned. Each scheme may be different and the benefits due are dependent upon the scheme rules; however, in very broad terms, once the pension has started to be paid, in the event of the death of the scheme member, usually a spouse's or dependant's pension is then payable.

Where the death has occurred prior to the pension coming into payment schemes may provide a lump sum payment, particularly where death occurs when the individual is still accruing benefits in the scheme, and could also provide a spouse's or dependant's pension. The definition of a spouse or dependant is specific to each scheme and the scheme administrators will be able to confirm who is entitled to receive any ongoing pension payments due.

Any ongoing pension paid would be subject to income tax at the recipient's marginal rate of income tax irrespective of the age of the deceased.

State Benefits

In the event of death, the State may provide benefits to a husband, wife or civil partner of the deceased which are in addition to the benefits attributable to their own National Insurance contributions. Details of these benefits can be found at: www.gov.uk/death-spouse-benefits-tax-pension/pensions

Taxation of these Benefits

A high-level overview of the taxation of these benefits is set out below. For the avoidance of doubt, we have not attempted to cover all aspects of taxation in this overview.

Inheritance Tax (IHT)

Pension plan benefits are currently usually not included in the deceased's estate, so there is currently usually no IHT liability. However, IHT is a complex area. Learn more at www.gov.uk/hmrc-internal-manuals/inheritance-tax-manual/ihtm17072

In the 2024 Autumn Budget, the Chancellor announced plans for 'unused' pension benefits to be subject to IHT for deaths from 6 April 2027. The Finance Act 2026, confirming most of the details, received Royal Assent in March 2026.

Income Tax

If, at the date of death, the plan holder was aged below 75, any lump sums received by the beneficiary(s) are generally free of income tax liability, provided the total tax-free lump sums payable in respect of the individual do not exceed the Lump Sum and Death Benefit Allowance* (currently £1,073,100). Lump sums in excess of that amount will be subject to income tax. However, no income tax will be payable if the benefit is taken in the form of a Beneficiary Drawdown.

If, upon death, the plan holder was aged 75 or older all benefits taken from these pensions by the beneficiaries will be subject to income tax.

Where income tax is payable, taxation will be at the recipient's marginal rate of income tax. Therefore, the rate of income tax applicable is dependent upon the total income the beneficiary has from all sources.

*There is a separate Aon Client Briefing covering the Tax-free lump sum allowances.

The information explained in this document is intended as a general guide only and is based on current UK legislation and HM Revenue & Customs (HMRC) practice for the 2026-27 tax year. Tax treatment depends on individual circumstances and tax rules, both of which may be subject to change in the future.

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