**How can the University of Sheffield benefit from my pension arrangement?**

Most individuals will be aware of the important financial benefits that can be built up in a pension scheme. Many, however, may not appreciate the important financial benefits that are provided should an individual die. There are three main financial benefits that could be provided by a pension scheme on an individual’s death:-

1. A spouse, civil partner’s, child’s or dependent’s pension.
2. A defined lump sum payable on death, often described as a multiple of salary for example, four times salary.
3. In some cases, a return of any accumulated investment fund.

It is, of course, a very sad event when someone passes away and the first priority will be to ensure that your loved ones are catered for. For some, however, the lump sum benefits provided under 2 and 3 above could be gifted to an organisation with full charitable status such as the University of Sheffield, much in the same way as bequests are made through wills.

**How do I nominate the University of Sheffield to receive a benefit on my death?**

It is a relatively simple matter. You need to let the trustees of your pension scheme know of your wishes, or, if you have a personal pension, the pension provider or insurance company. Many trustees will have pre-printed forms that will allow you to nominate a charity in a very simple and easy way.

**If I nominate the University of Sheffield but change my mind or my circumstances change can I change my nomination?**

Yes, you will be able to change your nomination simply by contacting your scheme trustees’ administrator or pension provider.

**Do I have to allocate all of any death benefit to the University of Sheffield or other charitable organisation/s?**

No, you will be able to gift whatever proportion you feel is appropriate. For example, you may word your nomination so that your spouse receives 90% of any benefits and the University (or other charitable organisation/s) receives 10%.

**Should I let the University of Sheffield know?**

It would help the University to know what nominations or bequests have been made as it will mean that it will be able to be proactive in contacting your pension scheme trustees once it is notified of your death. You should also let your executors, your solicitor and or financial adviser know and place a note with your will so that the gift is not inadvertently missed.

**What other matters should I consider?**

Your dependants must come first when you are planning for what happens should you die. It would also be sensible to take financial advice in order to be sure that the route you are following is a sensible one.
Is this a good way of giving to the University?

One of the advantages of this method from the charities point of view is that any gift would be able to be passed on quickly after death as the trustees of the pension scheme would not have to wait for probate.

Furthermore, if you have a self invested personal pension and/or are using income withdrawal (sometimes called unsecured pension) to provide pension benefits, there are considerable tax advantages in bequeathing the remaining capital to a charitable institution such as the University of Sheffield, as any gift of this kind would be completely free from Inheritance Tax, as opposed to an 82% tax burden if the capital were to be passed on to your children’s pension funds.

More about this is available in our other fact sheet "Using Income Withdrawal Pension Benefits to help the University of Sheffield".

Consider these two examples:

- Jo, Trainee Chartered Accountant

Jo has recently graduated and is now on a training contract with a major accountancy firm. As part of her employee benefits package, Jo is provided with a life assurance benefits through her pension scheme of four times her salary.

Jo has no dependants, is young, free and single and her parents are comfortably well off. During her time at university Jo appreciated how difficult it was for some of her fellow students to cope with the financial demands of a university education. A few of them were lucky recipients of scholarships and bursaries, which kept them focused on their studies. Jo very much appreciated her own financial freedom and would like to enable other less well off students to benefit from the same opportunities she had. One small way that Jo can turn her commitment into financial support is to nominate the University of Sheffield as a beneficiary under her pension scheme. In the highly unlikely event of Jo dying, she would be able to pass on some benefit to the University to provide hardship bursaries for talented students of low financial means.

- Neil and Annie, Civil Servants

Neil and Annie met during their time at Sheffield, are married and in their 50’s. Their children are now independent and following promising careers. Both Neil and Annie are Annual Fund donors and have made further commitments by making small bequests to the University of Sheffield via their will. The Civil Service pension scheme will provide a lump sum death benefit whilst they are working of twice salary. Neil and Annie have done their sums and have worked out that they can nominate the university as beneficiary on their deaths before retirement without jeopardising each other’s financial security.
Introduction

Individuals with personal pension plans have certain options concerning how they release their benefits at retirement. Traditionally, annuities have been used to provide pension benefits. In this instance, after an individual has received their tax free lump sum at retirement, the remaining capital is sent off to a life office who in return will pay that individual an income stream, or annuity, for the remainder of their life.

Using this method to provide pension benefits has a number of advantages, principally that it is a secure, simple and certain way to release benefits. It does, however, have a number of drawbacks. Recognising these drawbacks, a new method of releasing benefits was introduced in 1995 called Income Withdrawal. This allowed an individual to release their benefits directly from the pension fund without the need to purchase an annuity. In this instance, rather than giving the capital to an insurance company, the capital remains intact and continues to earn investment growth. The individual draws pension directly from the fund. One of the principal attractions of this method is that the fund is still available as a death benefit should the individual die in retirement. Recognising this advantage in relation to death benefits, many individuals use income withdrawal as a way of preserving capital for the next generation. This situation can assist until an individual reaches age 75.

What changes at age 75?

For someone using Income Withdrawal (or Alternatively Secured Pension as it is now called) after age 75 there are three methods for dealing with death benefits. These are as follows:-

• Firstly, if an individual spouse or dependent survives them, the fund must be used to provide an ongoing income for the spouse.

• If there is no spouse or dependent in place then the trustees can:

  Pass the benefits to somebody else’s pension arrangement (most likely a child of the original individual).

  Pass the benefits directly to a charity. This facility became available in April 2006 and represented an exciting development in relation to pension schemes as it allowed individuals to build up capital in their pension schemes, knowing that, should they die early, rather than losing their capital they would be able to use it for the benefit of the next generation.

Unfortunately, in December 2006 the Government altered its approach to this matter. Now any movement of benefits from one generation’s pension scheme to another generation’s pension scheme would incur a tax charge of 82%. This was an unwelcome development and left many scratching their heads in terms of what they should do in these circumstances.
What about gifting to charity?

The option to gift to charity however, still remains. This means that for some individuals who die after age 75 without a spouse, the choice would be to trickle the benefit onto the next generation with an 82% tax charge, or to gift to charity with no tax deduction at all.

What should individuals using “Income Withdrawal” do?

Different considerations will apply depending upon whether they are under, or over, age 75. In either case they may wish to consider nominating a charity to receive a portion of any death benefit paid from their pension scheme. Individuals considering following this course of action will of course wish to ensure that their nearest and dearest are catered for and this will probably need to be their priority.

For individuals over age 75 it may be worthwhile considering altering their wills so that any gifts to charity are rescheduled to their family and then put in place a nomination from the pension scheme in favour of that charity. This could have the effect of saving a significant amount of tax but would also be of advantage to the charity in that, generally, benefits would be released much quicker after death.

Consider the following example:

Jane studied medicine at Sheffield and, after a rewarding career as a GP, has £1m in her pension plan which is providing her an income through an unsecured pension. Jane is 76, has fond memories of her time at Sheffield, and is very grateful of the opportunities that her degree provided for her during her career. Her husband Jim has predeceased her and she wants to review how she can use her pension fund to maintain her security but also to benefit either her family or give something back to the University of Sheffield.

Jane has a number of options in terms of how she may provide income for the future but one of them would involve keeping the fund intact and continuing to receive an income from the fund. On her death, the fund would be trickled down to the arrangements of her children. This would on the face of it, appear attractive since it would contribute towards their long term security, but, following recent Government changes, any cascading of funds down to the next generation would involve a tax charge of 82%.

Alternatively, Jane could pass the funds directly to the University of Sheffield with no tax charge at all. Jane may feel that she may not wish to do this since her children would receive less from her pension arrangements, however, by reviewing her will, she may change the charitable bequests under her will in favour of her children to compensate them for this. The fact that she has saved 82% tax on her pension fund should mean that there is more than enough to compensate the children and also to make a sizeable legacy to her chosen charity.

What should individuals do if they wish to make a gift out of death benefits to the University of Sheffield?

In the first instance, they should contact their financial adviser or the trustees of their personal pension/self invested personal pension plan. Many pension providers have standardised forms allowing members to make a nomination, which would make it a relatively easy task to gift either all or a proportion of your death benefits to the University of Sheffield and/or other charitable organisations.