Suitable for financial advice professionals

How multiple pensions after 5 April 2027 can trigger family conflict, delay, and avoidable tax

Let's look at an example:

Mr Harper

Case studies used are fictional and for illustrative purposes only.

- Mr Harper dies unexpectedly in May 2027 at age 78.
- He has an ex-wife with three adult children from his first marriage.
- He has a second wife, with whom he has a further two children.
- Mr Harper has accumulated a substantial amount of wealth making his estate liable for IHT.

After Mr Harper's death, things start to get complicated

Mr Harper's current spouse and children assume his pension benefits will pass smoothly to them in line with his current wishes. However, when his personal representatives review his arrangements, they find three separate pensions, each with a different death benefit structure and nomination position.

Because Mr Harper dies after age 75 and after 5 April 2027, the family have to deal with **who will receive each benefit**, and with the **inheritance tax and income tax consequences** for different beneficiaries.

The structure of Mr Harper's three pension arrangements

Mr Harper dies in May 2027 (age 78)

Three pensions, three different outcomes

Pension 1
Discretionary pension
Expression of wish on file

- Current spouse
- Two children from this marriage

- Provider has ultimate discretion
- Spouse will be IHT exempt
- Children will face IHT

Pension 2
Directional pension
Binding nomination

- Ex-spouse
- Three children from first marriage

- Provider has no discretion
- Historic instruction followed
- Likely IHT exposure for all beneficiaries especially his ex-spouse

Pension 3
No nomination
No nomination or expression of wish on file

- Provider identifies beneficiaries
- Delay and uncertainty

- Tax outcome depends on provider decision
- Delay and uncertainty around beneficiaries

Let's look at what happens to each pension arrangement following Mr Harper's death

Pension 1

A modern personal pension written on a discretionary basis. The expression of wish names Mr Harper's current spouse and two youngest children.

- Because the nomination is not binding, the **scheme administrator retains discretion** and is able to consider the recent expression of wish alongside the wider family circumstances.
- This **provides flexibility**, and helps support the evidence gathering, family contact, and decision-making process needed before benefits can be distributed.

Tax impact

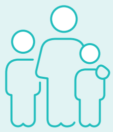
From 6 April 2027, the discretionary nature of the benefits no longer keeps them outside the inheritance tax framework.

This means:

- If benefits from this arrangement are paid to Mr Harper's current spouse, who is long-term UK resident, that part will be **exempt from inheritance tax** under the spousal exemption.
- However, any amount paid to any of the children or any other non-exempt beneficiary **will fall into the inheritance tax calculation**.

Impact on the family

Although this pension is structured in a more flexible way, allowing Mr Harper to update his wishes during his lifetime, it does not remove the family's requirement to understand the different tax outcomes depending on who benefits.



Pension 2

An older pension operated on a directional basis, naming Mr Harper's ex-spouse for 50% of the death benefits, with the remainder to his first three children.

- Unfortunately, the arrangement **has never been revisited after Mr Harper's divorce** and remarriage.
- Because the arrangement **contains a binding (non-revocable) beneficiary nomination**, there is no discretion for the provider to adapt to the new family position.
- The scheme **has to pay the death benefits in line with the historic instruction**, even though it is unlikely these reflect Mr Harper's recent intentions.
- The beneficiaries under pension 1 **feel entitled to challenge** why they won't receive any amount.

Tax impact

Mr Harper's former spouse is not an exempt beneficiary, and neither are their children.

As a result, the full value of this arrangement passing under the binding direction is exposed to inheritance tax, with no spousal exemption available.

What looked like an outdated nomination issue is therefore also a direct tax issue, because value that might otherwise have passed to an exempt current spouse is instead directed to non-exempt beneficiaries.

Impact on the family

Tension and conflict is increased between all the bereaved. Mr Harper's second family feel aggrieved that they believe his wishes aren't being followed, and the wealth he leaves to his first family is exposed to inheritance tax – which would not have been his wish either.

Pension **3**

A legacy pension with no nomination or expression of wish on file. The provider has discretion over who receives the death benefits.

- The provider has to start from first principles, **identify possible beneficiaries**, including whether they are exempt or non-exempt and request supporting documents to help decide who should benefit under the scheme rules.
- **The absence of any nomination causes delays**, additional correspondence, and a more intrusive fact-finding exercise at precisely the worst time for the family. Given the different recipients under pensions 1 and 2, this leads to competing claims on pension 3.

Tax impact

The lack of nomination also creates immediate inheritance tax uncertainty. If the provider concludes that the current spouse should receive the benefits, that outcome would be exempt from inheritance tax. If benefits are instead paid to any of his children or any other non-exempt beneficiary such as his ex-wife, that value would be exposed to inheritance tax.

Impact on the family

The family is left in a state of uncertainty and powerlessness. The lack of nomination does not simply slow the process; it leaves the eventual tax result dependent on a provider decision after death.

Why this became so difficult

The problem is not simply that Mr Harper has three pensions. It's that each scheme operates its own rules on concluding who receives the death benefits. In this case, it will lead to different inheritance tax outcomes.

Impact on the personal representatives

Alongside the other tasks they must perform, Mr Harper's personal representatives have to:

- deal with multiple pension providers
- understand different scheme rules – they may be asked to explain these to beneficiaries
- identify exempt and non-exempt beneficiaries
- reconcile pension benefits with the estate administration process
- consider the proportionate allocation of any available nil-rate bands and residence nil-rate bands across all schemes
- manage the growing risk of delay and dispute
- decide whether to issue withholding notices, or consider using payment notices, and explain to potential beneficiaries why part of an expected pension benefit may be held back or paid directly to HMRC before the balance is released.

Mr Harper's situation is not unusual, but the outcome is far from straightforward

From 6 April 2027, when pension wealth must also be considered within the inheritance tax framework (unless it is an excluded benefit), this kind of fragmented structure becomes much harder to administer.

The family's stress is driven not just by the value of the pension wealth, but by **the inconsistency across the arrangements.** This was only fully understood when it was far too late.

The added complication: withholding notices and payment notices

Withholding notices

From 6 April 2027, personal representatives may also need to consider whether to issue **withholding notices** to pension scheme administrators.

Where they reasonably expect inheritance tax to be due on pension death benefits, they may instruct an administrator to **withhold up to 50% of a non-exempt beneficiary's pension entitlement for a maximum period of 15 months** while the inheritance tax position is established. This creates a practical safeguard for tax collection, but it also introduces a new point of friction for families who may be expecting pension benefits to be paid quickly.

Payment notices

Payment notices add a further administrative step. Instead of simply releasing pension benefits to non-exempt beneficiaries, the personal representatives or beneficiaries may ask the scheme administrator to pay the inheritance tax directly to HMRC before the remaining benefit is released.

This can help ensure tax is settled, but it requires clear communication between the estate, the scheme administrator, HMRC, and the beneficiaries. **Any disagreement over who should bear the tax, whether the withholding is proportionate, or when the balance should be paid could increase delay and family tension.**

What could this mean for Mr Harper's estate?

In Mr Harper's case, this could mean different administrators receiving different instructions at different times:

Pension 1

may involve a discretionary decision across an exempt spouse and non-exempt children.

Pension 2

has a binding direction to non-exempt beneficiaries.

Pension 3

has no nomination at all. The personal representatives may therefore feel forced to delay or restrict payments while they gather valuations, identify who is ultimately taxable, and decide whether funds need to be retained to meet the estate's inheritance tax liability.

Impact on the family

For the family, the emotional impact is obvious. A beneficiary who has been told they may be entitled to a pension benefit may not understand why up to half of it is being held back. **The current spouse may argue that benefits should have been structured to pass to her tax efficiently.** The children from the first marriage may see withholding as a challenge to their entitlement. The absence of a single consolidated pension arrangement makes the process harder to explain, harder to administer, and more likely to create distrust between different branches of the family.

The additional income tax problem after age 75

Because Mr Harper died after age 75, the tax position doesn't end once any inheritance tax has been calculated and settled.

Any beneficiary who receives any benefits from an inherited pension arrangement will normally do so subject to income tax at their own marginal rate. This creates the prospect of **two layers of tax applying to the same pension wealth:** inheritance tax on the value at date of death, then income tax when benefits are withdrawn.

For the current spouse, the spousal exemption removes the inheritance tax charge on benefits passing to her, but it will not remove the income tax consideration when she is paid any inherited pension benefits.

For the children and any other non-exempt beneficiaries, including the former spouse named under pension 2, the tax position is even more stark. The inherited benefits first contribute to an inheritance tax liability and then could still give rise to income tax when accessed. In practice, this makes beneficiary choice, structure, and timing critically important.

The risks of not acting

In a post 5th April 2027 world, leaving multiple pension arrangements untouched may create exactly the kind of friction, uncertainty, and family conflict or difficulty that good advice aims to prevent. Critically, personal representatives must settle any inheritance tax due with HMRC within six months after the end of the month in which their loved one died, otherwise interest and further complications may arise.

Under Consumer Duty, one of the cross-cutting rules is to consider and act to prevent foreseeable harm. In the example of this case study, much of the difficulty could have been avoided through earlier discussion and planning with Mr Harper. This may have formed part of a decision to seek consolidation and simplification, with proper regard to the new tax rules. Put simply, the scope for fixing these issues after death is limited, costly, and time consuming, and would likely involve legal proceedings.

If no action is taken, the consequences may only become clear after the client's death, at which point there are limited remedies available. Outdated nominations, inconsistent scheme structures, and unnecessary fragmentation can lead to delay, dispute, avoidable inheritance tax exposure, and further income tax consequences for beneficiaries.

The withholding and payment notice process also means potential beneficiaries may not receive the amount they expected, when they expected it. Even where the tax position is ultimately resolved correctly, the process can feel punitive, opaque, and slow. For advice firms, this creates a foreseeable operational and client communication risk: families may blame the adviser, provider, or personal representatives for a delay that could have been reduced through earlier consolidation, clearer nominations, and better lifetime planning.

Issues that could have been resolved during the client's lifetime may instead become a source of distress for the family, operational difficulty for personal representatives, and foreseeable harm that good advice should have prevented.

Learnings to take into your planning

This case study shows why pension consolidation and nomination reviews are no longer routine housekeeping. They are core estate planning actions.

1 Consider consolidation and update plans

Where appropriate, bringing legacy arrangements together into a modern structure, reviewing whether benefits are held on a discretionary or directional basis, and ensuring every nomination reflects current wishes can materially reduce delay, confusion, and foreseeable harm to beneficiaries.

2 Know a client's beneficiaries

It also helps if advisers and personal representatives understand in advance which beneficiaries are exempt and non-exempt for inheritance tax purposes, and where age-75-plus income tax consequences may later arise.

3 Explain the impact of decisions before it's too late

Advisers should also discuss the practical consequences of withholding notices and payment notices with clients who are likely to leave pension wealth to mixed groups of exempt and non-exempt beneficiaries. The planning issue is no longer just who receives the pension. It is also who has to report it, who may need to fund the inheritance tax, whether benefits could be withheld, and how easily the family will understand the process at the point of death.

All of these points help to mitigate any delay and family difficulty after 5 April 2027. In many cases, the opportunity to prevent potential foreseeable harm will be lost once the client has died. They also reduce the risk that bereaved beneficiaries first encounter the new regime through withheld pension payments, unexpected HMRC payments, or difficult conversations about why benefits cannot be released immediately.

Call to action for advisers

Advisers should act now to identify clients with:

- *multiple pension arrangements*
- *outdated nominations*
- *legacy scheme structures that may create avoidable tax*
- *unclear beneficiary nominations*
- *a potential need for consolidation as an appropriate strategy*
- *a need to understand the inheritance tax and post-age-75 income tax implications of leaving fragmented arrangements in place.*

A final sobering thought

The example we've looked at covers a client with three pensions; the reality is, many clients will have numerous additional plans that they have accumulated over the years as their careers and lives have changed.

For clients who die with five, six, seven, or even eight pension arrangements (or more), the complexity and family stress goes up, along with the risk to advisers of not securing good client outcomes.

To learn more about pension consolidation considerations and suitability, please take a look at our separate factsheet available.

Inheritance Tax planning is not regulated by the Financial Conduct Authority.

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