Pension consolidation considerations

in light of proposed IHT changes

Suitable for financial advice professionals

Purpose of this note

This note is intended to support advisers in considering how the proposed changes to the inheritance tax (IHT) treatment of pensions, from 6 April 2027, may be relevant when assessing pension consolidation.

It does not constitute suitability guidance or a recommendation to consolidate.

The IHT changes may be one relevant factor, but should always be considered alongside a full client-specific suitability assessment.

Background – proposed IHT changes

From April 2027, the government will bring pension death benefits into closer interaction with the IHT regime. While further detail is awaited on the practical processes, the policy has been made and will create:

- increased interaction between pension death benefits and estate planning
- potential for greater administrative complexity following death
- an increased role for personal representatives and scheme administrators

Advisers should ensure any advice reflects the most up-to-date legislation and HMRC guidance as it continues to develop.

Why this may matter in a consolidation assessment

Where a client holds multiple pension arrangements, the proposed changes may increase the practical complexity of:

- Administering benefits on death, particularly where multiple schemes and processes are involved
- Coordinating information requests and valuations across different providers
- Aligning beneficiary nominations with wider estate planning intentions
- Managing the involvement of personal representatives and scheme trustees/providers
- Avoiding delays where multiple decision-making processes are required

In some cases, having fewer arrangements may help reduce this complexity. However, this will depend on the features and administration of the schemes involved.

Importance of a balanced suitability assessment

The proposed IHT changes should be considered as one factor in the assessment.

A recommendation to consolidate pensions should always be based on a holistic comparison, including (where relevant):

- Charges and overall cost to the client
- Investment options and suitability of the proposition

- Availability of retirement income options and flexibility
- Death benefit options and beneficiary flexibility
- Service levels and administration
- Any safeguarded benefits
- Exit costs, penalties or market value reductions
- Any loss of scheme-specific features or protections

These factors should be carefully assessed and documented.

In many cases, these factors will be the primary drivers of suitability, with IHT-related considerations providing additional context which will certainly move consolidation up the agenda.

Illustrative wording themes (for adviser use)

The following are examples of how IHT related considerations may be reflected in suitability reasoning. These are intended as prompts only and should be adapted to reflect the client's specific circumstances.

1. The client has expressed a preference for simplifying the administration of their estate, particularly in light of the proposed changes to the IHT treatment of pensions.
2. The new arrangement simplifies having to keep multiple arrangements under review each with their own processes for beneficiary nominations.
3. Modern arrangements typically offer more choice in how benefits are used and passed on. For example, by offering easy movement of money to other tax wrappers and trusts as required or beneficiary flexi-access drawdown.
4. Consideration has been given to the potential administrative complexity of multiple pension arrangements following death, including interactions between providers and personal representatives.
5. Fewer pensions means fewer moving parts, reducing the risk of hold-ups and fragmented outcomes for beneficiaries.
6. Consolidation has been assessed as one way of potentially reducing this complexity, alongside other available options.
7. The proposed consolidation has been considered in conjunction with a full assessment of charges, benefits, features and risks.
8. The recommendation reflects a view that, overall, the receiving arrangement better meets the client's objectives, with IHT related administrative considerations forming part of that assessment.

Key message

The proposed IHT changes increase the importance of joined-up pension and estate planning.

To see an example of why pension consolidation is so important in preparation for the pension IHT changes, please see our case study looking at an example client, Mr Harper.

Important note

This material is intended for use by financial advisers only and reflects Quilter's understanding of legislation and HMRC guidance at the time of writing. It should not be relied upon as a substitute for client-specific advice or suitability analysis.

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