

Spouse Pension Inheritance: What the April 2027 Changes Mean for You

The Rule Change That Could Reshape Your Family's Finances

If you are married or in a civil partnership, your pension is likely one of the most valuable assets you own. Yet most people rarely think about what happens to it after they die. The assumption is usually simple: if I pass away, my spouse gets the pension. But the reality is more nuanced, and the rules are about to change in a way that could have significant tax consequences.

From April 2027, the way pensions are treated for inheritance tax is shifting. Under current rules, most unused pension pots pass to beneficiaries free of inheritance tax. That has made pensions a powerful estate planning tool, particularly for couples. But the new regime will bring pensions into the fold of inheritance tax in a way that many families have not prepared for. Understanding spouse pension inheritance now, before the changes take effect, could save your partner a substantial amount of money later.

What Exactly Is Changing in April 2027?

The key change is that unused pension funds will become part of your estate for inheritance tax purposes. This means that if your total estate, including your pension pot, exceeds the nil-rate band, your beneficiaries could face a tax bill on the excess. The nil-rate band is currently £325,000, and there is also a residence nil-rate band for those passing on a home to direct descendants, but the pension inclusion is a major shift.

For a couple, this is particularly important. The transfer of a pension to a surviving spouse or civil partner has traditionally been free of inheritance tax, and any unused pension benefits could be passed on without triggering a charge. After April 2027, that may no longer be the case. The value of your pension pot will be added to your estate for IHT purposes, and if the total exceeds the available nil-rate bands, the excess will be taxed at 40%.

This does not mean every pension will be taxed. If your estate is below the threshold, there is no issue. But for those with larger pension pots, especially if you also own a home or have other savings, the impact could be substantial. The key is to plan ahead, not to panic.



How Spouse Pension Inheritance Works Now

Under the current rules, if you die before age 75 and you have not yet taken your pension benefits, your beneficiary, typically your spouse or civil partner, can receive the pension pot entirely tax-free, provided they do so within two years. If you die after age 75, the beneficiary will pay income tax at their marginal rate when they withdraw money, but there is no inheritance tax.

This has made pensions a very tax-efficient way to pass wealth to a partner. Many couples name each other as the primary beneficiary on their pension scheme nomination forms, and the process is straightforward. The pension provider pays the death benefits directly to the spouse, often without needing to go through probate. That is a huge advantage compared to other assets like property or bank accounts, which can be tied up for months.

But the April 2027 change will alter this picture. The pension pot will be included in the estate for IHT purposes, which means that even if the death benefits go to your spouse, they could be subject to inheritance tax before they reach them. The good news is that there is a specific exemption for transfers between spouses and civil partners, which is unlimited. So, if you leave your pension directly to your spouse, it may still be exempt from IHT, but the rules are not yet fully clear on how this will interact with the new pension inclusion.

What the New Rules Could Mean for Your Partner

Let us walk through a practical example. Suppose you have a defined contribution pension worth £400,000, a house worth £300,000, and savings of £50,000. Your total estate is £750,000. Under current rules, the pension would not count for IHT, so your taxable estate would be £350,000, which is below the £325,000 nil-rate band plus any residence nil-rate band. No IHT would be due.

After April 2027, your pension pot is added to the estate, making it £750,000. After the nil-rate band and residence nil-rate band (assuming your house passes to direct descendants), the taxable amount could be around £50,000, leading to a tax bill of £20,000. If your spouse is the beneficiary, they might have to pay this out of other assets, or the pension provider might deduct it before paying out.

This is why [spouse pension inheritance](#) requires careful thought. The tax treatment of pensions on death is changing, and it is no longer safe to assume that your partner will receive the full value of your pension tax-free. You may need to consider using a trust or other estate planning strategies to protect your pension from IHT, but those come with their own complexities and costs.

Defined Benefit vs Defined Contribution Pensions

The changes affect different types of pensions in different ways. A defined contribution pension is essentially a pot of money that you build up over time, and it is straightforward to value. The entire pot will be included in your estate for IHT purposes.

A defined benefit pension, often called a final salary pension, is more complex. It provides a guaranteed income for life, and on death, it may pay a spouse's pension or a lump sum. The value of a defined benefit pension for IHT purposes is not always clear. The scheme may have a death benefit that is a multiple of your salary, or it may pay a reduced pension to your spouse. These benefits are often not considered part of your estate, but the lump sum death benefits might be. You need to check the rules of your specific pension scheme, and this is where a financial adviser can be invaluable.



Practical Steps to Prepare for April 2027

There are several actions you can take now to prepare for the changes. First, review your pension beneficiary nomination. This is a form that tells your pension provider who you want to receive your death benefits. It is not legally binding, but it is usually followed. Make sure your spouse or civil partner is listed, and consider naming a contingent beneficiary in case your spouse dies before you.

Second, think about the overall size of your estate. If your pension pot, combined with your other assets, is likely to exceed the nil-rate band, you may need to consider gifting money to reduce your estate, or setting up a trust. Gifting can be effective, but there are rules about gifts within seven years of death, and you must be careful not to give away assets you might need later.

Third, consider whether you should take benefits from your pension earlier. For example, if you have a drawdown pension, you could draw a lump sum and gift it to your spouse, which might reduce the IHT liability. But this could push you into a higher income tax bracket, so it is a balancing act.

Finally, talk to a financial adviser. The rules are complex, and they are not fully settled. HMRC has yet to publish detailed guidance on how the April 2027 changes will work in practice. An

adviser can help you model different scenarios and make the best decisions for your family.

What about Annuities and Other Pension Types?

An annuity provides a guaranteed income for life, and on death, it may continue to pay a pension to your spouse, often at a reduced rate. Annuities are generally not included in your estate for IHT purposes, because the income stops on your death, but if you have a joint-life annuity, the value of the continuing payments might be considered. Again, the specifics matter.

If you have a pension pot that you have already started drawing down, the remaining funds are still part of your estate. The same rules apply as for an untouched pot, so you cannot avoid IHT by simply starting to withdraw money. You need to plan how much you withdraw and when.

The Role of Trusts and Estate Planning

One way to mitigate the impact of the new rules is to place your pension in a trust. This can take the pension pot out of your estate for IHT purposes, but it is not a simple solution. Trusts have their own tax rules, and you will need to consider income tax and capital gains tax on the trust's income and gains. Also, you lose control over the pension assets, which may not be suitable for everyone.



Another option is to use life insurance to cover the potential IHT bill. A life insurance policy written in trust can pay out on your death, and the proceeds can be used to pay the IHT, so your

spouse receives the full pension. This is a common strategy, but premiums can be costly, especially as you get older.

The key is to make a plan now, well before April 2027. The changes are not a reason to panic, but they are a reason to be proactive. The phrase spouse pension inheritance is going to become more important as the deadline approaches, and those who have prepared will be in a much stronger position than those who wait.

Final Thoughts

The April 2027 changes to pension taxation on death are a significant shift in how pensions are treated for inheritance tax. For married couples and civil partners, the impact could be substantial. By reviewing your pension beneficiary nominations, considering the size of your estate, and seeking professional advice, you can ensure that your spouse pension inheritance is handled in the most tax-efficient way possible. Do not leave it to chance. The time to act is now.