Press release
17 March 2017

Salvus Master Trust calls for NEST to urgently review its policy on death benefits

- The lifting of NEST's minimum contribution cap from £4,900 to £40,000 per annum from April 2017 could see members' pots at risk of inheritance tax charges of up to 40%.
- Pension pots held with NEST could be classed as part of members' estates for inheritance tax purposes.
- All other registered pension schemes are exempt from inheritance tax (IHT) on death while benefits do not form part of a member's estate.
- Restrictions on transfers in have also been lifted, with NEST offering a rate of 0.3% annual charge and no contribution charge.

Salvus Master Trust has called on NEST, the tax-payer backed auto-enrolment scheme, to urgently review its treatment of death benefits. Under the new NEST rules, set to come into force from April 2017, members' estates could be hit by taxes of up to 40% in the event that a member dies.

The maximum contribution cap will be lifted in April, allowing members to contribute the full annual allowance of £40,000pa. In addition, NEST will also open its doors for the first time to transfers in with a 0.3% annual charge. However, Salvus is concerned these new policies on contributions and transfers give rise to an unintended consequence of exposing NEST pension pots to IHT.

NEST was restricted in the amount of contributions it could accept as a compromise to meet anti-competition rules. NEST was set up to avoid market failure with a £460m loan facility from DWP[1].

Steve Goddard, the founder of Salvus Master Trust, commented:

"NEST is not a discretionary trust and death benefits paid to beneficiaries may be subject to Inheritance Tax (IHT). Virtually all occupational schemes including master trusts operate as a discretionary trust and therefore would usually pay-out death benefits IHT free."

Whilst NEST has, until now, largely been viewed as the "workplace pension provider of last resort" for those on lower incomes and with fewer assets, the lifting of these restrictions, coupled with the fact that funds held under NEST count as part of an individual's estate on death, means many more members could fall into the inheritance tax trap. With the potential for £40,000 contribution and unlimited transfers in from other pension benefits, built up, attracted by the market leading 0.3% annual charge and no contribution charge, there is a real concern that members or more accurately their beneficiaries could lose a significant amount of the value of their pension pot to IHT on death. Conversely, pension pots of all registered pension schemes are not usually classed as part of an individual's estate and are therefore not subject to inheritance tax.

[1] http://resources.nao.org.uk/pensions_landscape/the-nest-loan.html (correct to March 2016)

According to Salvus, intermediaries, such as IFAS and accountants could also be affected by the rules. Currently, many firms routinely recommend NEST as the auto-enrolment provider of choice, given its backing by the government and policy of accepting all employers. However, the new policy means that recommending NEST may not be in the best interests of clients, potentially putting introducers in danger of legal repercussions further down the line.

Commenting, Graham Peacock, Managing Director at Salvus, said:

“As the government-backed provider of workplace pensions in the UK, it is incumbent upon NEST to ensure all its members are treated fairly. Over 200,000 employers and 3m members are already using NEST as their workplace pension. Low pension contributions have long been seen as an issue in retirement planning. Whilst it is laudable that NEST has taken steps to boost contributions and make the scheme more attractive for those with greater assets, it has opened a whole new can of worms – and it is essential this policy oversight is corrected as soon as possible.

“It is completely inappropriate that members should face inheritance tax whilst using a DWP backed workplace pension. It completely flies in the face of industry-wide efforts to create an auto-enrolment landscape that is simple, transparent and trustworthy. While the likelihood is that many within the scheme will not amass enough to come under the tax’s scope, our concern is that hard working people could take advice to transfer into NEST in good faith from finance professionals and end up considerably worse off than they might have been under another scheme. We also feel it is crucial that all those recommending Nest as a workplace pension provider of choice are made aware of this unprecedented issue as a matter of urgency, if they are not to face recriminations in the future.”

ends

Media contacts:

For media enquiries please contact:

- Sophie Robson, MRM – 020 3326 9908 / 07825 163675 / sophie.robson@mrm-london.com
- Graham Peacock, Managing Director of Salvus – 07484 073900 / graham.peacock@goddardperry.com
- Steve Goddard, Founder, Salvus Master Trust – 0208 603 3700/ steve.goddard@goddardperry.com

Notes to editors:

Table of selected master trusts and their status on death benefits

Provider	**Status on Death Benefits**
Smart Pension	Trustees have complete discretion.
The People’s Pension	Trustees have discretion and outside estate for IHT purposes.
Now:Pensions	Trustees have full discretion.

About Salvus Master Trust:

- Salvus Master Trust was founded by Goddard Perry Group in 2009 to provide Occupational DC services to the PPF

- HS Admin a subsidiary of Goddard Perry Group has a 30 year history of administering DB and DC pensions and has £2.75bn AUA and 65000 members
- Goddard Perry Group has itself been consulting and administering occupational pensions for over 30 years. Goddard Perry Actuarial offers pensions actuarial services to Trustees and employers across the UK