

Treatment of Lump Sum Death Benefits

Once a member has died and a lump sum death benefit has been calculated, reference should be made to the scheme rules to check how the benefit should be treated. It may be that the scheme rules specify that any lump sum death benefit should be paid directly to a specific beneficiary (or class of beneficiaries). Alternatively, the scheme rules may indicate that any lump sum death benefit should be paid to the deceased member's estate or that it should be paid under discretionary trust provisions.

For many schemes, lump sum death benefits will be paid under discretionary trust provisions to prevent the payment potentially being subject to an inheritance tax charge.

Members are normally asked to complete a death benefit nomination form (also known as an expression of wish form) on joining a scheme to indicate the person(s) they would like to be the recipient(s) of any lump sum death benefit payable in the event of their death. Nomination forms are not binding on the trustees but are used for guidance and, more often than not, are followed through.

Once the decision has been made regarding who should receive the benefits, the recipient(s) should be informed and asked to provide proof of identity.