# Media Q&A

### Consumer Question:

I'll be retiring in a few years and I've decided that an Approved Retirement Fund (ARF) is a better option for me than an annuity. One of my main reasons for choosing an ARF is that any money remaining in my ARF after my death can be left to my next of kin. I've heard I need to be careful to include my ARF in my will though – is this true and what else do I need to do to ensure that my ARF will meaningfully benefit my loved ones after I die?

### Answer from Mark Reilly, Pension Proposition Lead at Royal London Ireland:

As you say, one of the main advantages of ARFs is that any money remaining in your ARF after your death can be left to your next of kin. However, you need to specify in your Will that you want your ARF left to your spouse or other family members. Otherwise, your ARF will slide into the residue of your estate and it may not be distributed as you would like it to be.

When planning your estate, it is important to do what you can to reduce the inheritance tax liability for your family and any others you are planning to leave an inheritance to.

The tax treatment of inheritances from ARFs is somewhat complicated and, unless you're careful, you could land someone with a higher tax bill than you expect.

You don't mention in your letter if your spouse or partner is still alive. If he or she is, the most tax-efficient way to pass on your ARF is for it to transfer into an ARF in the name of your spouse or civil partner. Neither Capital Acquisitions Tax (CAT – inheritance tax) nor income tax is triggered for the spouse or civil partner in this instance, though he or she will pay income tax on any withdrawals from the ARF.

Should you leave some or all of your ARF to a child, the tax treatment varies, depending on the age of the child.

- ARF benefits payable to a child under the age of 21 may be subject to CAT, though no income tax will be due.
- ARF benefits payable to a child over the age of 21 are subject to income tax at a rate of 30pc, regardless of the size of the fund. However, CAT is not payable.

You may also consider taking out a Section 72 life assurance policy to ensure your children can afford any tax bills which arise after inheriting an ARF, or indeed any other assets, from you. Section 72 life assurance policies are specifically designed to cover inheritance tax bills. You will need to weigh up the costs of such a policy against the benefits.

In the event that your ARF is inherited by anyone else apart from your children or surviving spouse or civil partner, the ARF is subject to the deceased's marginal rate of income tax (which could be up to 41pc), as well as CAT.

Ideally, discuss your plans to leave your ARF - and indeed any other assets - with your family or any other potential beneficiaries so they understand your intentions. You could for example find that your spouse or civil partner would prefer not to inherit the ARF. If you decide to leave your ARF to your spouse or civil partner on death, they will need to set up an ARF in their own name and transfer the proceeds of your ARF into this. If they have an existing ARF, they can arrange for the proceeds of your ARF to be transferred into that. Your surviving spouse could also take the assets of your ARF in cash, though the tax treatment won't be as favourable in this instance as would be the case if your ARF is transferred into an ARF in their name.

We always recommend talking to a Financial Broker to discuss your options further, and the possible implications from an inheritance perspective, to choose what best meets your needs.

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**ENDS**

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