



HOUSE OF LORDS

Economic Affairs Committee

Finance Bill Sub-Committee

Corrected oral evidence: Draft Finance Bill 2025–26

Monday 3 November 2025

4 pm

Watch the meeting

Members present: Lord Liddle (The Chair); Lord Altrincham; Baroness Bowles of Berkhamsted; Baroness Fairhead; Lord Leigh of Hurley; Lord Pitkeathley of Camden Town.

Evidence Session No. 7

Heard in Public

Questions 65 - 77

Witnesses

[I](#): Mark Plewes, Head of Pension Technical, WBR Group Limited; Renny Biggins, Head of Retirement, The Investing and Saving Alliance (TISA); David Gallagher, Chair, Association of Pension Lawyers; Kirsty Cotton, Chair, Pensions Taxation Committee, Association of Consulting Actuaries (ACA).

Examination of witnesses

Mark Plewes, Renny Biggins, David Gallagher and Kirsty Cotton.

Q65 **The Chair:** Good afternoon, everybody, and welcome to this meeting of the Economic Affairs Committee's Sub-Committee on the Finance Bill, where we are addressing the question of the Government's proposals on inheritance tax and how they should be implemented most fairly and successfully. We have four witnesses. Explain who you are to the audience.

David Gallagher: I am a partner and head of pensions at the international law firm, Fieldfisher. I am currently chair of the Association of Pension Lawyers, and it is in that role that I am attending today to assist the committee.

Mark Plewes: I am head of pensions technical for WBR Group. We are a scheme administrator and independent trustee for a large number of small self-administered schemes.

Kirsty Cotton: I work for WTW, but I am here today representing the Association of Consulting Actuaries. I am the chair of the pensions taxation committee.

Renny Biggins: I am head of retirement for the Investing and Saving Alliance, also known as TISA. We are a consumer-focused membership association.

The Chair: I should have emphasised in my introduction that the focus of today's session is on the proposals of IHT on pensions. That is what we will be focusing on today. I will start proceedings off with an initial question. The Government initially proposed that pension scheme administrators would be responsible for accounting for IHT on unused pensions. Can you explain to us why this was not seen as sensible by pension interests, if I might put it in those terms to you?

David Gallagher: You are correct. We see it as an improvement in the proposals for personal representatives to be primarily responsible for reporting and accounting for inheritance tax that may be levied on unused pension funds. There are a number of reasons for that. It is more consistent with the current system. Pension funds are currently reported as part of the IHT400 form that personal representatives complete. It is just that there is no tax then levied normally.

Another point is inherently practical. The average person has membership of six pension schemes, with rights under those schemes, which could all be under a duty to report. It seems to us much more sensible and practical for HMRC, among others, for the personal representative to be the focal point for those pension schemes to report through. Then the personal representatives are collating that information and reporting in respect of all pension schemes, along with the rest of the estate.

It is also true that the value of the estate in total is counted towards deciding whether allowances have been met, and pension scheme administrators themselves do not have access to that. If someone has six pensions, they do not have access to the other five. They do not have access to the rest of the estate. We think that the personal representatives are the correct body. They will need help from the pension schemes, and pension schemes will have to help them.

Renny Biggins: I will provide a bit of background context to it. We should not forget that industry was never consulted in the first place about whether pensions should be included within the IHT framework. If we were consulted and listened to, we probably would not be having this discussion today, because I do not think pensions would be going into IHT.

TISA strongly believes the inclusion of pensions within IHT is like trying to hammer a square peg into a round hole. The two things really do not mix, just like oil and water. This is going to be a bumpy ride for everybody involved, but our job is to try to reduce those bumps and make it as bump-free as possible. It is a little bit like driving down a road full of potholes. We are trying to fill in as many potholes as possible now to make this as smooth as possible.

In particular, my focus would be on making this a smoother journey for the beneficiaries who are going to be involved, because these are people who are going to be in a vulnerable state. They have just lost loved ones. They are going to be waiting, perhaps for a significant length of time, to receive some of the money that they are entitled to, and potentially reliant on as well. We really need to keep the beneficiary at the centre of the process.

Mark Plewes: As well, there is the point that, with the original proposals, all pension scheme administrators would have had to, in every case, provide information on the beneficiaries at an early stage in the information exchange. That in itself was problematic. We are talking primarily here about bringing discretionary death benefits into the scope of IHT and one of the main focal points that we see with discretionary benefits is that it can take quite a while to get those decisions made. In our view, PSAs would not have been in a position to provide information on who was going to receive those death benefits in probably the majority of cases within two months.

That would have led to potential situations with delays in payment of IHT, or potentially even pension scheme administrators getting to, say, the six-month stage, having a potential liability there and ultimately opting to pay an amount on account to HMRC that would be the maximum amount, because they were not in possession of all of the final facts and figures in relation to what needed to be paid. That in itself would have overly complicated both information exchange and transactions with HMRC, in terms of the fact that then there would presumably need to be a large number of adjustments and/or reclaims as well.

Kirsty Cotton: I agree very much with the comments that have been raised about the problems with intermingling the responsibilities of the pension schemes and the personal representatives. There is the point you made about the six-month deadline being a real problem, which I think we are going to flesh out in later questions anyway.

There are two other quick points. One is that pension schemes are quite often notified of deaths not through the personal representatives, but through other processes they have, or through other people. We were really concerned about the process being slowed down, particularly in cases of financial hardship, by needing to locate the PRs before we could make a payment. We also felt that the administration would be disproportionate for small pots, of which there are quite a few.

Q66 **Baroness Bowles of Berkhamsted:** Mark, you said it would be difficult for the schemes to identify the beneficiaries and so on and so forth, but it is going to be just as difficult, or even more difficult, for the PRs to do that, because they do not have the information the schemes do. The schemes also have discretion as to where it is going and do not have to follow the will. You have saved yourself trouble, but you have just put it somewhere else for somebody else who is less capable. Is that not the case?

Mark Plewes: I do not think so. At the end of the day, under the original proposals, the pension schemes were going to have to provide a value and confirmation of who that value was going to, or how that was going to be split, within two months. The new proposals are, from a pension scheme administrator's perspective, much easier in terms of the fact that all we are going to have to do is provide values.

We are talking about a binary situation now, where the PRs are going to be able to go away and say, "Okay, with all of the values together, yes, that is going to lead to a situation where IHT is payable". With the new proposals, that means that, if no IHT is payable, pension scheme administrators are just going to follow the process that we have now. In terms of administrative change, that is very small.

The original proposals were not that. The original proposals were almost, "You are going to have to tell us this information within two months, including who is getting it". I have worked on a good number of discretionary death benefit cases. Within two months you will be in a position to potentially identify who ultimately the beneficiaries could be, but you are not going to be in a position, in the majority of cases, to say, "It is going to be this person and they are getting 100% of the pension", purely because of the questions that we have to ask and the amount of information that we have to process to get there.

Q67 **The Chair:** What changes are you proposing to make to your arrangements as a result of this measure?

Mark Plewes: We very much have to see what we can do to ensure that people are aware of all of and engaged with their pension arrangements and make sure that people are contacting us as early as possible. There

is a point around valuation of assets. There may be another question that we come on to in relation to that. From our perspective, there are particular difficulties there as well, certainly for small self-administered schemes, such as the schemes that we administer, to look at.

We are currently discussing how we will go with that. We obviously need to see the information exchange regulations in detail, which have not been published yet. It is likely that there will be significant changes to the way that we operate. There will be significant pressure from both sides, PRs and PSAs, in terms of that information exchange and making sure that deadlines are met.

The Chair: You are not in a position to tell us what those changes might be.

Mark Plewes: No, but at this point we have not seen the draft regulations, so to answer that point may be a little bit premature.

Q68 Lord Pitkeathley of Camden Town: The Government have said that they will legislate through regulations for information sharing between personal representatives and pension schemes before probate is granted, so that inheritance tax can be both calculated and paid within six months of death. What issues, if any, do you see in practice with this proposal? Also, how confident are you that pension schemes will be able to provide all relevant information to PRs within those timescales?

Renny Biggins: From a PR perspective, there are two aspects to distinguish here. The first is that they are going to have to be able to identify unused pension funds that are within the scope of IHT. That can be quite complicated, particularly for a lay personal representative.

Secondly, it is going to be about gathering the information about the deceased person's pension affairs. When you consider that there are over 3.3 million lost pension pots in the UK alone, worth over £31 billion, it is going to be extremely challenging for PRs to locate these pots if the deceased person did not even know they had one.

With everything moving more to an online digital journey now, it is not going to be a case of just being able to rifle through paperwork to find old pension policies that someone had. These are quite often now going to be stored online behind password-protected portals and things. It is going to be very challenging there to locate lost pension pots.

You might think that the pension dashboard is coming down the line and that is going to help, but the personal representative is not going to be able to access the deceased person's pension dashboard. There is no delegated access there for day one. Also, you would assume that, for most people who have passed, they are going to have accessed their pension pot in some way, even if it is just to take their tax-free cash. That means that, for day one, those pensions will not be appearing on the pensions dashboard either. It is going to be challenging for PRs, particularly lay PRs who do not have any particular knowledge of financial services, to locate all these pension pots to start with.

David Gallagher: We have the full range of human activity here. It is quite easy to think of somebody who has a financial adviser and has scheduled all their pension schemes to their will and everything is in apple-pie order. I was literally this morning dealing with a client who cannot remember who he worked for, let alone whether he had a pension with those employers. We are talking about using subject access requests to HMRC to retrospectively build up an employment record for that one individual. Many people who pass away will have had a period of dementia or other memory problems in the run-up to their passing, so it is not that easy on the families to pull together all of that information.

Kirsty Cotton: My understanding is that there are actually three new proposed stages to the disclosure. The first is that the total assets, which might be relevant death benefits, are disclosed. That has a four-week deadline. Subject to assets being possible to value, provided the PRs and PSAs get together in time, that should be able to be provided within the six months. The next stage is to split that between exempt and non-exempt beneficiaries. That should enable a PR to calculate what inheritance tax is due.

The Chair: I did not understand. What are exempt and non-exempt beneficiaries?

Kirsty Cotton: It is the spousal exemption or charity, so they would be falling outside of inheritance tax. The third stage, on request, is to provide detailed information on beneficiaries. My understanding is that there is no timeline to provide the second and third parts of that information.

We think that, in a lot of cases, that will not be provided within the six months, because, as already pointed out, most occupational pension schemes operate a discretionary policy, which takes some time. They are not notified of the death immediately, so that is eating into that six-month period. We think that—the point has already been made—the inheritance tax deadline of broadly six months and the pension scheme processes are incompatible. That is likely to mean that late payment interest will arise by default in a significant number of cases, and that is not good. That is not a well-designed tax system.

Renny Biggins: Liquidity is going to be an issue as well if an IHT payment is due. For certain types of pension schemes, it is going to be quite hard to realise any cash. I am thinking of commercial property here. There is a very active commercial property market for SIPP and SSASs. There are thousands of properties out there that are invested in pensions. Some of these are owned by hundreds of people in the syndicates and things. If that forms the main part of a person's pension assets, it is going to be very difficult to realise the cash to pay any IHT.

If you have the same pension beneficiaries as the main estate, perhaps that is okay, because perhaps the main estate can cover the pension side IHT liability, but it is not uncommon for pension beneficiaries to differ from the main estate. You have a big problem there.

When you also consider the Government's drive for pension schemes to invest more into UK private assets, some of those are going to be more illiquid as well and harder to value. You have to bear in mind the current direction of travel and what Government are looking to do for pension investment. It conflicts slightly here and creates a bit more of that liquidity issue.

Q69 Baroness Bowles of Berkhamsted: Could I ask a very quick follow-on? You say that it is a factor that the beneficiaries for the pension and the main estate may be different. How often is that by design and how often is that by default because they have forgotten, perhaps, how it would work for the pensions?

Renny Biggins: It is about 40% of cases, I think. As a bit of a finger in the air, about 40% of the cases have a case where the beneficiary might well be different to the main estate.

The pension scheme has the duty of care to make sure that it is paying out to the correct beneficiaries. Even if a beneficiary has been nominated and that is different from the main estate, the pension scheme still has the discretion to pay out. If it is felt appropriate that the beneficiaries of the main estate should be the people who are inheriting the pension, that is the way it would go. When a pension scheme undertakes its due diligence in working out who the beneficiaries it should be paying are, in a lot of cases that will differ from the main estate beneficiaries, either in whole or in part.

Baroness Bowles of Berkhamsted: We do not know whether that is by default or plan.

Q70 Lord Leigh of Hurley: You have touched on an issue, which is how you anticipate valuations will be calculated, particularly within SIPP's and SSASs. There is a commercial property, where you might have a minority stake, but, perhaps more relevantly, a private business, in which valuations can be very much the subject of negotiation. I do not know how you see things panning out. If that takes more than six months, the estate suffers, does it? How do you see it working?

Renny Biggins: Yes, absolutely. You can do it on a best endeavours basis, where you will be providing a valuation that you think is the most appropriate. In order to meet that deadline, it may well mean that that is not an up-to-date valuation.

Lord Leigh of Hurley: What happens if HMRC does not accept the PR's estimate of valuation? Does the clock stop ticking or it just carry on? I think it carries on, but you are the expert.

Renny Biggins: I think that it is a TBC, is it not?

David Gallagher: That would perhaps be an issue more for specialist estate practitioners, who I think may have given evidence two weeks ago, such as John Bunker. This is one big challenge that we and HMRC have had with these proposed changes. The Association of Pension

Lawyers is apolitical. We are not commenting on the policy decision, but we are looking at the implementation of it.

It requires a body of expertise that is not there at the moment, in terms of people who combine both pensions and inheritance, apart from maybe a very small number of barristers. This is an issue that we have had with HMRC itself. It has been excellent in terms of our engagement with it on the technical level of detail that we have had to go into, but it has needed to staff those meetings with two teams, one from its IHT team and one from its pensions team.

Renny Biggins: On the liquidity part, many schemes will have these rules in place where, if a beneficiary has not been determined yet, there is not anybody with any authority to sell down the assets to realise any cash if there is an IHT charge due and you are coming up to that six-month point. You have that problem as well in some cases. If there is no cash held in the pension, or very little and not enough to meet that liability, and a beneficiary has not been determined and you are getting up to that six-month point, a lot of schemes say, "We do not have the authority to sell down assets that we think should be sold. It is going to be the beneficiary's authority and responsibility to do that". That is another problem that you have.

David Gallagher: The current rule for pension schemes is two years from the administrators being informed of the date of death for payment of death benefits.

Kirsty Cotton: That is for under age 75, who have tax advantages. There is no deadline above that age.

Mark Plewes: Discretionary cases can go beyond two years, particularly where you have complex family relationships and disagreements within the family, particularly in a SSAS perhaps, where you may have family members who are the trustees. Ultimately, those trustees have to make that decision. They may be conflicted and have to stand aside from that decision, but, ultimately, that is a difficult situation to be able to navigate yourself through and come to a decision that may ultimately end up going somewhere such as the Pensions Ombudsman.

Q71 **Lord Altrincham:** Back on liquidity, given the difficulties for personal representatives in paying IHT in respect of an asset they do not control, one potential solution is for the pension beneficiaries to pay or to ask the scheme to pay any IHT instead. What, if any, practical issues could arise in such a case? Do you have any suggestions for changes that could help mitigate these issues?

Kirsty Cotton: On the first part of that question, we are unclear at what point, under the current proposals, payment can be requested and whether it can be requested before probate. That is something we are not clear on. It does not help with the liquidity to pay inheritance tax earlier if that is not possible.

If the pension scheme has already paid the death benefit out, obviously they do not have the funds to pay the inheritance tax any more. The beneficiary might have used those funds. They might have spent them. They might have spent them on a good thing, such as debt. They might have spent them to buy an annuity, or you could say the pension scheme has bought the annuity, in which case you have transferred from a lump sum to a series of payments. That is not very readily changing back into a lump sum for inheritance tax. At the moment it is only the beneficiary who can request the pension scheme to pay the inheritance tax, and they might not co-operate.

David Gallagher: The amount of inheritance tax could change after that payment has been made because of changes in value of other assets within the estate.

Renny Biggins: PRs could ask the scheme to pay, absolutely, but they could not force the scheme to pay at the moment. Maybe there is a change needed there, where PRs have a little bit more control and can mandate a scheme to make payment. If they asked a scheme to make the payment, at the end of the day they have to go back to the beneficiary and ask them, and the beneficiary may say no.

The other problem we have is, if a scheme is going to be making payment, particularly if it goes past the six-month window when interest starts to get charged, which we think is not going to be an insignificant number of cases—there are probably going to be quite a few cases where that would be the case—the beneficiary would have to supply a form to the pension scheme providing the authority to make the payment. The late payment interest accrues daily, so, by the time the pension scheme has made the payment, there is more interest being accrued. You are always going to be playing catch-up in that that instance. Unless late payment interest can be suspended or does not become chargeable until, say, a period of a year, rather than six months, to acknowledge that pensions act very differently to other assets within IHT, you are going to have that problem. There are a couple of ways you could mitigate that.

Q72 **Baroness Fairhead:** Could I follow up on that? It seems to be this six months, which, to David's point, is better than two. It is six months, when it is often two years or more before probate is granted. How are the PRs expected to make the payment? I understand why the PSAs do not want that obligation and the penalties, but how on earth can the PRs, when they do not control the money and have no ability to force beneficiaries to even reply?

Renny Biggins: It is incredibly challenging. As I mentioned at the beginning, the whole inclusion of pensions within IHT is going to be a bumpy ride. These are some of the challenges that we need to consider. Maybe providing some more control for PRs in the process is a way to, like I say, mitigate some of those challenges.

Kirsty Cotton: There are some mitigations we could consider. I mentioned the annuity point. If you consider a DB recipient and they get

this stream of income, that is going to be outside inheritance tax. For a DC recipient, who is the same recipient, receiving exactly the same income payments, our understanding is that that is going to fall within inheritance tax. That anomaly seems wrong and causes a problem when people have done the right thing, in a way. They have used a pension fund to buy a pension. It would help if annuities were out.

The Chair: Can you explain a bit more about the difference between DC and DB? Which is in and which is out?

Kirsty Cotton: Defined benefits are outside inheritance tax. They will still be outside inheritance tax. Our understanding is that—it is not crystal clear, but we think—regardless of how you use your defined contribution fund, whether you take it as a lump sum or use it to buy a pension, that pot will still be subject to inheritance tax.

Baroness Fairhead: Can you understand, from a technical point of view, why there is a difference? If you are the Government, why is there that difference?

Baroness Bowles of Berkhamsted: The civil servants are still—

Baroness Fairhead: I know. I was not going to go there, but why?

Kirsty Cotton: My understanding, from what I have read, is that it is because the beneficiary has the option to take it as a lump sum. I am not really an expert on that. You would probably be better asking HMRC.

Lord Leigh of Hurley: Can you amplify that? I did not understand. I did not understand that reason for the differential.

Kirsty Cotton: I think that that is what it comes back to, but I do not think that it is a good reason. The defined benefit recipient cannot choose a lump sum. They can only have the pension.

Lord Leigh of Hurley: They have the same material benefit. You could calculate the discounted cash flow or net present value of that benefit and put inheritance tax on it.

Kirsty Cotton: You could do it that way round, yes. That is the opposite to what we are hoping for.

Lord Leigh of Hurley: If we are all going down, let us go down together.

Mark Plewes: There is also the point there that defined benefit pensions are more likely to be paid to a dependant and are more likely therefore, when the dependant dies, to finish at that point. There is not this multi-generational passing on through drawdown that there otherwise would be.

Kirsty Cotton: Sorry, yes, so the annuity is only payable to a financial dependant, so it is the same people. That is a good point.

Mark Plewes: You effectively have a situation where this endless passing on of this money outside of IHT does not happen in those circumstances. For the DC parts, as a by-product of the 2015 legislation changes, that is very much part of the problem.

Lord Leigh of Hurley: Your point is that it is the same as the spousal exemption, essentially.

Mark Plewes: Yes, almost, if you viewed it that way, I suppose.

David Gallagher: It is the abolition of the rule that DC pensions had to be converted into an annuity that has created scope for this intergenerational passing on.

The Chair: Yes, I understand the point.

Kirsty Cotton: There are quite a few mitigations. Can I raise one more that the PRs were quite keen on and is worth commenting on? It is the expansion of one we put in our response, which is the idea of keeping 50% of the fund back. That one is worth exploring. It is certainly not ideal, but, as we have all mentioned, there is no ideal solution while we are trying to intermingle.

There are four particular quick things, other than the general point that that is going to delay payments or at least part-payments for a lot of people. One is small pots. There are some statistics out there that there are 20 million small pots of less than £10,000. Over half of those are less than £1,000. You are probably talking tens of thousands of those relating to death benefits each year. It is small pots, but not a small issue.

The Chair: Presumably they are small pots because the amounts of money in them are pretty small.

Kirsty Cotton: Yes, that is right.

The Chair: Splitting them into two would not be terribly relevant to inheritance tax.

Kirsty Cotton: No, but if the default is to split them into two, that seems disproportionate. That is the point. We would like the small pots to be exempt from the idea of splitting into two because it seems disproportionate when there they are such small funds and unlikely, in many cases, to belong to people who are going to be subject to inheritance tax.

Q73 Baroness Bowles of Berkhamsted: The changes mean that pension scheme administrators will be subject to a number of new obligations, whether in dealing with the PRs or with the pension beneficiaries. Does a start date of April 2027 give sufficient time for schemes to prepare for the changes? I have three points in connection with that that I would like to raise. I will do them all at once so that you can choose the bits you want to respond to.

The first one is a bit of a follow-up to some of the things we have already

been discussing. Among the obligations is this factor about best interests and where there is discretion and who you are going to pay out to. Is it the best interests of who the schemes deem to be the beneficiaries to be unco-operative and say, "No, you have to pay the inheritance out of the rest of the pot?" How do you overcome that, or does that need legislation?

What guidance and support is required from HMRC ahead of these changes? Is there anything else, other than clarifying this best interest point, for example? Although there are some details yet to be finalised, do you have any sense of the likely costs that pension schemes will face in getting ready for this change? What is the effect of those costs going to be?

David Gallagher: There is a lot there, I realise, and there is a lot here, which is what we are here to give evidence about today. In terms of the actual costs, I do not have numbers, but we are able to say what categories of work will be created by this. There will need to be processes drafted for pension scheme administrators and training for their staff. For a lot of schemes with an outsourced commercial provider delivering administrative services to the trustees, they are likely to need to amend their administration contracts. That is going to involve legal work. Larger schemes may have their own in-house teams, but that is going to involve quite a bit of training.

The training on those processes and the drafting of the documents that will need to go out to the nearest and dearest of the person who has died will all have to be done and quality assured in advance of the go-live date. This is not a technical tax in the way that some of the previous pensions taxes have been, where the industry is able to work with HMRC and get very close to the day.

This is going to be involving a lot of people for whom this will be the only time they go through this process. The family members will not be administering estates every month or every year, I hope. They will only be doing this once every 10 or 15 years, so we are not dealing necessarily with professionals. Where we are dealing with professional estate practitioners, things would be a bit smoother and we would expect that there would be much more of a working practice developed. It feels as though there is a lot that has to get done by April 2027.

I will add one point on the implementation dates. I know that this committee has looked at the agricultural changes and there are some concerns there about a tax that applies on 6 April 2026 in that case that does not apply on 5 April and what that might do to people's behaviours. The same thing is going to happen here with 6 April 2027. The Government's estimates are that it is over £30,000 of tax in each case where tax might be collected here. That is going to place families in unimaginably difficult situations where they have a loved one who is seriously ill. There is a point in the calendar at which there is over £30,000 of impact to the family depending on whether the date of death is before or after that one day.

Baroness Bowles of Berkhamsted: It is unfortunate that we are dealing with the assisted dying Bill at the same time.

Renny Biggins: I would echo what was said there in terms of the timescale. The introduction of pensions into IHT is a major change. It is going to impact on all scheme members, pretty much, in one way or another. For some people, it is going to have a significant impact on their retirement and estate planning.

This needs to be introduced at a future date, which enables everyone to have full certainty and clarity on exactly what the process is. If that means the 2027 date has to slip back, that has to be a preferable outcome to bringing in something that is rushed and not fully understood. TISA membership would recommend at least a year's pushback to enable the policy to be smoothed out and all people's responsibilities and roles understood and so that beneficiaries and the members understand the policy as well.

In terms of the guidance and support from HMRC, I made reference to lay personal representatives earlier and the challenge that they are going to have in managing a deceased person's estate when they do not have too much knowledge of these affairs themselves. Some sort of centralised database or access point to help them navigate through the whole process of IHT is going to be really crucial for lay PRs. Something such as the Money and Pensions Service would be very well set up to do this. It would be appropriate for it to be able to put detailed stuff on its website to help lay PRs navigate that.

The costs will be significant. We have yet to see the changes that we expect to mitigate some of the challenge raised by LPRs recently, but we have things such as system build, communications, training and literature updates. The TISA membership thinks that the costs are going to be higher than what has been estimated to date.

Kirsty Cotton: We were wanting a year, but that includes from final regulations. That is not impossible at this stage, but it is getting tight.

Mark Plewes: That is the point I would make as well. Recently we have gone through the abolition of the LTA and successive sets of regulations issued to try to correct that legislation. Seeing final regulation in this will help PSAs hugely. It is urgently needed if that deadline is to be met. If that cannot happen sooner rather than later, we would want there to be a pushback on that date. 12 months seems to be, certainly within industry, a sensible suggestion.

In terms of costs, we have significant concerns around how that is going to impact on systems, training and all the things that have already been mentioned. Also, the point about lay trustees is a huge one. We are dealing with personal representatives who are very often the widow. They have no idea about the pensions, are not financially savvy and will be classed as a vulnerable customer. They have been recently bereaved and will need significant amounts of support to help them through this

process and to allow them to understand things such as the information exchange regulations.

At the moment, if that support cannot come from places such as MoneyHelper money advice and there is not increased access to things such as financial advice, we feel that there will be a significant burden on pension scheme administrators there that will be looked to. That is difficult. We want to support our members in their lifetime and to support their personal representatives to get to a decision on those death benefits, so that we can ultimately resolve those queries, but we do not think that people will necessarily have the wherewithal in those circumstances without a significant amount of support.

Baroness Bowles of Berkhamsted: You are saying that the schemes will not have enough wherewithal.

Mark Plewes: No, personal representatives. From my perspective, if the personal representative is the widow of the deceased member, without significant professional support I do not think necessarily that they will understand what their legal obligations in that respect are. There will be an increase in costs there, because I suspect that those people will have to seek support from professionals to help them file their IHT returns and for that whole process. At the same time, there will probably be a disincentive for there to be professional PRs, because they will not want to be liable for IHT on assets in pension schemes that they do not control.

Baroness Bowles of Berkhamsted: How easy is it going to be for the widows or vulnerable PRs to be able to get hold of and talk to the pension schemes, the insurance companies or whatever? It is hard enough at the moment. You hang on the phone for an hour or so. If you are lucky, you get a phone back, but it might not be when you are available and then they cannot answer the questions because the question is a bit more complicated. It has to be somebody else. Then they start all over again the next day that they feel well enough to do so. How are we going to deal with those kinds of scenarios?

Renny Biggins: That is all part of the planning of the timeline of when this comes in. That is one of the things that needs to be considered: that you are providing enough time for pension schemes to put their propositions in place and get robust consumer-focused processes in place to help people. We are expecting there to be quite a spike in phone calls caused by this, with people phoning up to query about it. That timeline, like I say, needs to be sufficiently long to allow schemes to put those robust processes in place.

David Gallagher: That highlights one of the impacts of this. In the Government's proposals and in HMRC data, they will look at the impact on the Treasury's receipts of inheritance tax from these cases. What it does not show is, at the other end of the funnel, how many people are going through administrative processes that end up in no inheritance tax being payable. All of those are cases where there will be an impact on the

personal representatives and the pension schemes, their administrators and the teams there.

Q74 Lord Leigh of Hurley: On that point, do you see a growth in a mini-industry of people who specialise in advising PRs on small and medium-sized estates?

Mark Plewes: I think that that will be one of the things that we see. There will be a need and a demand for it. I do not think that those people will be in a position to be PRs. They will not want to be, but I suspect that that will be something that happens, yes.

David Gallagher: Talking to a colleague, who is a private client specialist and deals in wills and inheritance work, this morning, she was saying that they are already hearing that people who specialise in personal representative work as professionals are getting pressure from their insurers as to defining the scope of their liabilities and to being careful about taking on pension responsibilities.

Renny Biggins: It is going to be well recognised that there is going to be a great deal of support needed for an awful lot of lay PRs. Scammers are going to be aware of this as well and will be looking to any opportunities that they can get. We need to be mindful that we are creating this need for support, but scammers will be looking to exploit that. That is something that we need to be aware of and try to shut that down in any way that we can.

Q75 Baroness Fairhead: Given what Renny said earlier, I think I know the answer to this one too. What are your views on the Government's approach to consultation about bringing pensions within the probate process? Have they engaged both effectively and with the right stakeholders to address the industry concerns? My view seems to be that the PSAs have pushed back. I do not know who was going to push back on the behalf of PRs. Even you are saying that they have not consulted effectively or appear to have taken your views into account. As a tiny follow-up, do you think the Government's estimate of the expected number of estates that are affected by this is realistic?

Renny Biggins: I have mentioned already that we were not consulted on the policy. On the consultation process that HMRC has undertaken in how to implement the policy, it has been very collaborative with industry. It is happy to have bilaterals as well as wider industry sessions. I think that it has actually helped HMRC more than industry, in fairness, because it was apparent early on in the discussions that perhaps HMRC did not have a full grasp of the process that pension scheme administrators or PRs have to follow in these cases. It has been helpful for it. It has an incredibly challenging job to do here, but it has been very open in the way it has gone about this and is in listening mode.

Did you mention the impact of this? I do not have anything specific here, but, if you think of the direction of travel we have for DC at the moment, we are talking about trying to improve pensions adequacy. There is talk about increasing minimum contribution levels. People are going to be

auto-enrolled for longer and contribution levels will go up. Pension pots will increase in the future for DC.

I did some modelling on this. For a median earner, if they are working from 18 to 68—I know that that is a 50-year working career, but Government want people to work for longer and that is not out of the question—a person on an 8% contribution would have a pension pot of around £280,000. With a 10% contribution, it would be £350,000. With that magic 12% figure, it would be £423,000. You are getting to the point where people's pension pots are going to be hitting or above the IHT threshold. This is for just median earners, and do not forget that a lot of people pay in more than 12%. That is let alone when you take into account their other assets, maybe property wealth and other savings and things.

IHT was originally targeted for the ultra-rich. More recently, it has been the moderately wealthy being caught. In the future, it is going to become much more mainstream with this policy. It is going to catch an awful lot of employees who are just doing the right thing and saving diligently for their future.

Kirsty Cotton: Building on that point, our particular concern is that you have the spousal exemption for quite a few people, but it is those who are true financial dependants, so the partners and the minor children with the DC pots, who are going to be caught by this. The point was made earlier that it is really the drawdown, going down the generations, that we think is the target. These true financial dependants have been caught in the crossfire and we are very concerned that no provision has been made for them.

Q76 Baroness Bowles of Berkhamsted: I would like to go back to the point that I raised before. I am quite obsessed by this notion of the conflict of interest that exists between beneficiaries under the will and beneficiaries under the pension. I have some personal experience of such an instance already, in terms of who gets what and lack of co-operation, so I know that it is not all sweetness and light.

This is now, instead of possibly being relatively a rarity, maybe going to be something that is very frequent. How is that legitimately going to be coped with? Can there be legislation that resolves it? The pension world seems to be very much saying, "This is all in trust. It is all discretionary". It is discretionary in case there is not enough money there. A lot of widows' benefits are always said to be discretionary. Is that sustainable when you have this issue of conflict of interest because of this discretionary aspect?

David Gallagher: It is a really important point. One thing that we would like to get clear is exactly where the legislation is going to land, so that people can then work backwards and see whether things need to change, for instance if the pension scheme might instead pay the death benefit to the estate, which, up until now, would not have been done because of the impact of inheritance tax. If inheritance tax is going to sit on top of the

pension benefit anyway, maybe the pension trustees would be best advised to pass that on to the personal reps in the first place and leave them to distribute the benefit.

The current system has all been built on the discretionary trust. There are some public sector schemes where it is an automatic entitlement. I am not talking about those. I am talking about the private sector occupational schemes, of which there are thousands, and there are millions of members. They are all built around the discretionary trust model, primarily because of the way in which it works so well for inheritance tax.

Kirsty Cotton: Potentially, but, in our view, one reason for a pension scheme is not just to provide a retirement income to the member, but also to protect their dependants on death. The ability of trustees to take that discretionary decision means that they can override an out-of-date nomination form to make sure that the right people, as far as they can judge, get that protection. It is not solely for inheritance tax.

Mark Plewes: There is obviously an onus on pension scheme administrators to make sure that their membership are keeping their death benefit nominations up to date. Invariably, you see situations where people do not do that. From a non-discretionary perspective, an out-of-date form that is legally binding will force you to pay that to XYZ.

It is not necessarily the case that the will and the death benefit nomination are going to be one and the same. There was quite a lot of discussion when this legislation was first introduced about whether pension schemes would move away from a discretionary basis to a more non-discretionary basis. Although it is not included, legally, if I am correct, in their actual estate, because we are talking about the value of their benefits for their estate, as opposed to assets that are within the estate, there was discussion around whether people would start to stipulate more in their will about what they wanted to happen to their pension scheme.

All that, because of the history of the way that these pension schemes have arisen, not necessarily just because of the benefits that that brought with inheritance tax, has led to these two systems. These two systems crossing over and coming together, from what we are seeing from the points that have been raised here, is a very complex thing to try to tie together.

Baroness Bowles of Berkhamsted: Would it have been better if the tax was left as two separate things to be dealt with?

Kirsty Cotton: Yes.

David Gallagher: One of our suggestions was to have a separate freestanding pensions inheritance tax.

Q77 **The Chair:** This has been very valuable, but it is time for us to wrap up. Is there anything that you have not said that you wanted to say?

David Gallagher: I wanted to say thank you for the opportunity to be involved in influencing the committee's decisions.

Renny Biggins: Indeed, thank you. Coming back to that last point again, if you are thinking about having to make changes to the way in which pensions work and operate to fit in with IHT, it shows the incompatibility between pensions and IHT, if you are having to change pensions to shoehorn it in. We certainly would prefer a standalone tax. TISA conducted some research with Oxford Economics earlier this year. We showed that, through a standalone tax, you could still generate exactly the same amount of tax revenue as what is being expected to be generated through including pensions in IHT. It would be a much simpler way to do this, much easier to understand and much easier to implement. It allows people to plan with certainty for their retirements as well. It is how it used to work back before 2015, so you could just go back to that.

The Chair: Thank you very much.