



The New Pension 2027 Trap

(Why drawing down early or staying unstructured could both be costly mistakes)

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We've talked about inheritance tax on property, on gifting, and even on trusts – but now we're circling back to where it all started: pensions.

Because for most people, a pension is their second-largest asset after their home. And from April 2027, that's exactly what HMRC is targeting.

If you think your pension is safe from inheritance tax, think again.

The 2027 Rule Change: The Pension Is Now Part of Your Estate

Until now, pensions sat outside of your estate for inheritance tax purposes.

That meant that even if you had £1 million sitting in a Self-Invested Personal Pension (SIPP), your children could inherit it tax-free, as long as you died before age 75.

But from April 2027, that changes.

Pensions will be brought inside the estate, meaning they'll be subject to 40% inheritance tax, just like your home or savings.

A £1 million SIPP could therefore generate a £400,000 tax bill the moment you pass away.

So yes – the “pension trap” is very real.

Should You Take the Money Out Before April 2027?

That's the question I'm hearing most often right now.

“Should I take my pension out before the rules change?”

It sounds tempting. But like most things that sound simple, it's not.



Let's run the numbers.

Say you've got a £500,000 SIPP.

- You can take **25% tax-free** – that's **£125,000**.
- The remaining **75% (£375,000)** is taxable income.
- Even at basic and higher rate bands, you'll likely pay around **£155,000 in tax** just to get that money out.

You're now left with around £345,000 in cash.

And that's where the next trap appears – because cash is part of your estate.

When you die, that £345,000 is subject to 40% inheritance tax, which means your children could end up with around £207,000.

So you started with £500,000 and, after income tax and inheritance tax, your children receive just over £200,000.

That's an effective tax rate of close to 60%.

The government never tells you this part.

Why Taking the Money Out Creates More Problems

The moment you move pension money into your personal name, it stops being protected.

Now you have to decide what to do with it.

- You can **gift it**, but that triggers the **seven-year rule** and loss of control.
- You can **invest it**, but you're back in the world of income tax, capital gains tax, and inheritance tax.
- You can **put it into a trust**, but that takes time, cost, and planning.

So in trying to “beat the system,” you can actually end up feeding it more.

Defined Benefit vs Defined Contribution – Two Very Different Worlds

Let's take a step back and clarify something crucial: not all pensions are the same.



There are two main types:

1 Defined Benefit (DB) – sometimes called Final Salary pensions.

2 Defined Contribution (DC) – which includes personal pensions, workplace pensions, and SIPPs.

Defined Benefit schemes are the old-fashioned kind – and in many cases, still the best kind.

They promise you a guaranteed income for life, often linked to inflation.

That's something money can't easily buy anymore.

If you're lucky enough to have one, hold onto it. In most cases, you can't transfer out anyway, especially if you're in the NHS, Teachers', or Police schemes.



Defined Benefit Pensions

Even when you can transfer, it rarely makes sense unless your health is poor or your life expectancy is short.

Why? Because the pension dies with you – but during your lifetime, it gives you an income you can't outlive.

It's safe. Predictable. And inflation-linked.



So as a general rule: don't touch your Defined Benefit pension.

Defined Contribution Pensions

Defined Contribution schemes – including SIPPs, personal pensions, and workplace DC schemes – are different.

You build up a pot over time, and what you end up with depends on how the investments perform.

These pensions give you maximum flexibility – and that's both their strength and their danger.

They let you:

- ✓ Control when and how to draw income
- ✓ Choose what you invest in
- ✓ Pass on unused funds to your beneficiaries

But that flexibility can also make you a target.





The Pension Freedoms Act – The Beginning of the Problem

Back in 2015, the government passed the Pension Freedoms Act, allowing anyone with a defined contribution pension to draw down their entire pot at once.

It was sold as empowerment. “Your money, your choice.”

In reality, it was one of the biggest financial own goals in modern history.

Suddenly, people had access to £300,000, £500,000 – sometimes over £1 million – overnight.

Many had never handled that kind of money before.

And what happened next was predictable: the scammers moved in.



Unregulated “advisers” promised incredible returns from carbon credits, fine wine, hotel developments, storage pods, and land banking schemes.

Billions were lost. People’s entire retirements disappeared.

And because these schemes weren’t FCA-regulated, there was no compensation.

So while the government claimed to be giving people freedom, it actually opened the door for exploitation.

SIPPs and the Problem of Unregulated Investments

Even today, SIPPs can hold a wide range of assets – including some that are unregulated or illiquid.

In theory, that freedom is positive. It lets sophisticated investors control their own destiny.

But for the average person, it’s a minefield.

A SIPP can legally hold:



- Offshore property
- Forestry projects
- Cryptocurrency
- Unlisted shares
- Even farmland or car parks

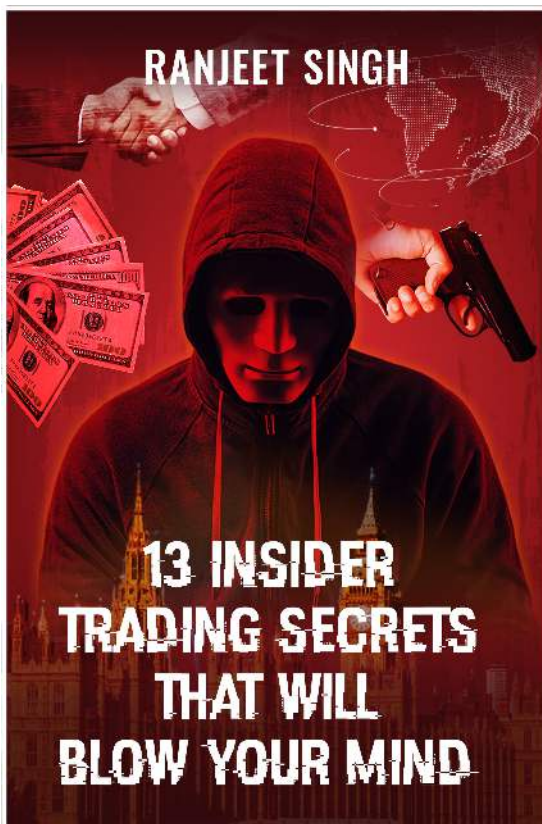
And while the returns might sound exciting, the risks are enormous. Many of these “alternative” investments are unregulated, meaning if they collapse, you have no protection.

Frankly, the government should have tightened these rules years ago.

I think allowing so much unregulated exposure within personal pensions was reckless – and it’s still costing people their futures.

If you want to dive deeper into how that all happened and what traps still exist, I’ve written about it extensively in my book, *13 Secrets the Financial Industry Doesn’t Want You to Know*.

You can find it on Amazon, or if you’d like a free copy, just drop me an email at info@privateinvestors.club and I’ll send one over.



Unused Pensions and the 2027 IHT Trap

But every case is different – and it's not about guessing. It's about planning.

The new rule coming in 2027 doesn't just affect how pensions are valued – it affects unused pension allowances too.

If you die with money still sitting in your pension, it's no longer tax-free to pass on. It now becomes part of your taxable estate.

That means even if you never touched it, your family could face a 40% bill on whatever's left.

This makes planning far more important than ever before.

For some people, it may make sense to:

- **Draw down gradually** and use those funds for structured investments or trusts.
- **Convert part** into an annuity if guaranteed income is needed.
- **Move or split** pensions strategically to diversify the inheritance tax exposure.



So What Should You Actually Do?

There's no one-size-fits-all answer. But here's the general rule of thumb:

- **Keep your Defined Benefit pension** unless there's a compelling reason to transfer.
- **Use your Defined Contribution schemes strategically** – particularly SIPP, which give you more control.
- **Don't rush** to draw down everything before April 2027 – you could create a tax bill bigger than the one you're trying to avoid.
- **Sit down with an IHT specialist** who can map out a tailored plan.

When done properly, your pensions can still be structured to protect your family – but it has to be done through the right channels and implemented by the right experts.

Conclusion: The Real Pension Freedom Is Knowledge

The government sold “pension freedom” as empowerment. But real freedom doesn't come from access to money – it comes from understanding how that money works.

April 2027 will mark the start of a new era in pension taxation. You can either be caught in the trap or plan your way around it.

For most families, that starts with knowing what kind of pension they have – and what options are available before it's too late.

The truth is, a well-structured pension can still be one of the most powerful IHT tools available.

But a poorly managed one can become one of the biggest tax bills your family will ever face.



Important Note

I'm not a qualified tax expert, and I'm not FCA regulated. Nothing in this report – or in any of the videos or materials in the Market Insider IHT series – should be taken as personal tax advice.

Everything here is purely educational, based on what I've personally seen work for families trying to protect their legacy.

If you'd like regulated guidance, I can connect you with one of our FCA-approved IHT specialists who can create a bespoke plan for your situation.

This report – like all others in the Market Insider IHT series – is designed to educate, not advise.



The New Pension...

In "The New Pension 2027 Trap," discover how impending rule changes could turn your pension into a significant inheritance tax liability, costing your family hundreds of thousands. With pensions transitioning from tax-free assets to taxable estates, the stakes have never been higher for financial planning. Uncover the hidden traps and strategic options to safeguard your legacy before it's too late.