

Estate Architect

Pension Wealth and the 2027 Inheritance Tax Change

Why many High-Net-Worth Investors are
reviewing their Pension Strategy



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For many years pensions have been among the most tax-efficient structures available to UK investors, allowing capital to grow free from capital gains tax and income tax while held within the wrapper.

However, this long-standing tax treatment is expected to change.

From 6 April 2027, assets held within a pension are expected to form part of an individual's estate for inheritance tax purposes. When combined with income tax payable by beneficiaries on withdrawals, this could materially reduce the amount ultimately transferred to the next generation.

For investors with substantial retirement assets, this raises an important question:

Is Your Pension Structure Ready for 2027?

A Real-World Illustration

Consider a simplified example.

John is 74 and holds a £1.2 million Self-Invested Personal Pension (SIPP) managed by a professional investment firm. He is married and has two adult children.

He already receives sufficient income from property and other investments and therefore withdraws only £30,000 per year from his pension. Taking larger withdrawals would push him into the higher-rate income tax bracket.

Meanwhile, the portfolio continues to grow. At an assumed annual return of 10%, the fund would increase by approximately £120,000 per year.

Even after withdrawing £30,000 annually, the pension still grows by around £90,000 per year. In simple terms, the pension grows faster than John can spend it.

Illustration – Annual Pension Growth

Pension value:	£1,200,000
Growth at 10%:	£120,000
Income withdrawn:	£30,000
Net annual growth:	£90,000

The pension continues to increase in value, which increases the potential **inheritance tax exposure over time**.

The Risk of Double Taxation

Pension wealth can become exposed to two separate layers of taxation when passed to the next generation.

Firstly, the pension itself is expected to form part of the taxable estate for inheritance tax purposes. Secondly, beneficiaries may still be subject to income tax on withdrawals from the inherited pension, depending on their marginal tax rate.

This creates the possibility that the same pool of capital is taxed twice before it reaches the family.

Illustrative Outcome

Pension value at death:	£1,200,000
Inheritance Tax (40%):	£480,000
Remaining pension value:	£720,000
Income tax on withdrawals (40%):	£288,000
Total tax paid:	£768,000
Total received by the family:	£432,000

In this simplified illustration, less than half of the original pension wealth ultimately reaches the next generation once both layers of taxation are applied.



Many high-net-worth investors are surprised to learn that a pension does not necessarily have to remain within the traditional UK SIPP structure.

A Different Approach to Structuring Retirement Wealth

In response to these developments, many investors are reviewing whether assets held within a traditional SIPP remain the most appropriate long-term arrangement.

In certain circumstances, pension holdings can be repositioned within specialist investment structures designed to support **intergenerational wealth transfer and long-term estate planning**.

In practical terms, this involves transitioning capital from the conventional SIPP environment into an alternative arrangement designed with succession planning in mind.

The underlying investments typically remain allocated to market-based securities and are managed on a discretionary basis by professional investment managers.

The objective is not simply to preserve the pension wrapper, but to place the capital within an ownership structure that is better aligned with long-term tax efficiency and estate planning objectives.

The Limitation of a Traditional SIPP

A traditional SIPP is fundamentally an investment account operating within the UK pension system. Because the assets remain held within the pension wrapper, the treatment of those assets on death is determined by pension legislation and the tax rules in force at that time.

In structural terms, the vulnerability arises from the fact that the capital remains contained within the pension wrapper itself.

Certain specialist arrangements address this by reorganising the structure through which the underlying portfolio is held.

Rather than remaining solely within a pension account, the portfolio can be positioned within an arrangement where economic ownership is represented through shares or comparable ownership interests linked to the underlying investments.

Once ownership exists at the share level, additional estate planning options can become available, including the potential use of trust structures or structured transfers during lifetime.

In effect, this converts retirement wealth from a pension balance into an ownership structure that can be incorporated into a broader intergenerational planning framework.

Key Structural Features

Certain specialist pension arrangements incorporate a range of characteristics designed to support long-term tax efficiency and asset protection.

International Investment Framework

These arrangements are typically established in recognised international financial centres such as the Isle of Man, Guernsey, Jersey, Gibraltar or similar jurisdictions operating under well-developed financial services legislation.

Segregated Asset Protection

Client portfolios may be held within segregated investment compartments, ensuring that each investor's assets remain legally ring-fenced and separate from those of other participants.

Tax-Efficient Investment Environment

Portfolio income and capital growth can accumulate within the framework in a tax-efficient manner under prevailing legislation.

Professional Discretionary Management

Assets are generally managed on a discretionary basis by professional investment managers, allowing portfolios to remain actively positioned across global markets.

Broad Investment Mandate

Unlike many traditional offshore investment bonds that limit portfolios to collective funds, certain arrangements allow exposure to a wider range of securities, including direct equities and diversified investment strategies.

Inheritance Tax Planning Considerations

Subject to the applicable legal framework and individual circumstances, some arrangements can provide favourable inheritance tax treatment following a qualifying holding period.

Flexible Funding Options

Assets may be introduced in cash or, where appropriate, through the transfer of existing securities such as shares or funds, subject to the relevant regulatory and tax considerations.

Why Many Investors Have Never Heard About This

It is entirely natural to assume that your long-standing accountant or financial adviser would already have raised options of this nature. Many investors have worked with the same trusted advisers for years and quite reasonably expect them to identify relevant planning opportunities.

In practice, most professionals operate within a defined area of expertise, whether taxation, pensions or investment management. Approaches that sit across several disciplines are therefore not always encountered within a traditional advisory relationship.

For this reason, many investors only become aware of these types of arrangements through specialist inheritance tax advisers such as Estate Architect.

Until recently, approaches of this nature were relatively unknown outside specialist circles. However, following the proposed pension inheritance tax changes announced in the Autumn Budget 2024, investor awareness has increased significantly.

Greater visibility inevitably creates its own challenges. Strategies that become widely adopted often attract closer scrutiny from policymakers, and it is difficult to predict how long current legislative frameworks will remain unchanged.

As a result, many high-net-worth investors are implementing changes to their pension arrangements while the current rules remain in place.

Implementation and Coordination

Inheritance planning involving retirement assets sits at the intersection of several specialist disciplines, including pension regulation, tax planning, estate law, discretionary investment management and, in certain cases, trust legislation. Where pension assets are incorporated into trust structures, additional considerations may arise, including the interaction of trust law and, in some circumstances, lifetime gifting rules.

Arrangements of this nature cannot be implemented simply by selecting an investment product. The structure must be carefully designed in alignment with an individual's wider estate planning objectives, income requirements and long-term financial strategy.

Estate Architect coordinates the process by working alongside a network of specialist professionals involved in the implementation. This typically includes pension providers, estate planning solicitors, tax advisers and discretionary investment managers. Our financial planning partners help determine a client's objectives and ensure the structure is appropriate for their circumstances.

We also review income requirements to ensure that pension access and drawdown remain aligned with the client's lifestyle needs while the broader estate planning framework is established. Our role is to bring the relevant specialists together and oversee the coordination required to ensure the structure is implemented correctly.

Availability and Market Access

Arrangements of this nature are not typically available through standard retail investment channels, and most private investors cannot access them directly. In many cases, access is only available through established agency frameworks where introductions are made via authorised intermediaries.

As a result, these arrangements are not products that can simply be purchased or implemented independently. Entry is generally facilitated through specialist introducers who work within the relevant provider networks.

It is also important to recognise that these structures are subject to their own internal approval processes. Providers will typically conduct detailed due diligence, including know-your-client procedures and suitability assessments, before determining whether an arrangement is appropriate for a particular investor. Participation is therefore elective, and acceptance cannot be assumed.

In addition, the implementation process itself can take several months, as it often involves legal structuring and pension transfers. For this reason, investors considering this type of approach typically begin reviewing their options well in advance to allow sufficient time for the structure to be established.

Final Note

This briefing highlights potential developments in pension taxation and outlines one structural approach currently being considered by some investors.

The information provided is for general educational purposes only and should not be interpreted as a recommendation to enter into any specific investment, pension or estate planning arrangement. Estate Architect does not provide regulated financial, tax or investment advice.

Tax treatment depends on individual circumstances and legislation may change in the future. Any strategy should be reviewed with appropriately qualified professional advisers before any action is taken.

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