

Healthcare Services: Pension Allocation

Giving up part of your entitlement to the pension payable to you on retirement

Pension Allocation (PA) is when you decide to draw your benefits to give up a certain amount to provide a pension for someone else after your death. That person may be a spouse, civil partner, nominated partner or somebody else who is dependent upon you.

It should be noted that the amount given up is in addition to the normal spouse or dependent survivor pension rights. The maximum that can be given up is one third of your pension, but the beneficiary cannot have a larger pension than you.

Your pension benefit is £30,000. After your death there would be a normal spouse pension of 50%, so £15,000. You can give a maximum of one third away, which would be £10,000, leaving you with £20,000. Your spouse's pension would therefore be £25,000 (£15,000 plus £10,000). This is more than the amount you have retained and therefore above the maximum.

The limit of allocation in the above case is therefore £7,500, meaning your spouse will end up with £22,500 and you will receive £22,500.

It is generally of limited use as the numbers don't seem to stack up. Let us take the preceding figures. You have allocated £7,500 and receive £22,500 and survive 20 years. Total received £450,000. Had you not allocated, you would have received £150,000 more i.e. £600,000.

Your spouse now begins to receive the spouse and allocated pensions of £22,500 but dies five years later having received £112,500. There is therefore an overall net 'loss' of pension of £37,500.

The donor must be in good health and be medically examined.

When can PA be effective?

Perhaps in these situations:

- There is a significant difference in ages between spouses and you expect your spouse to survive you for a considerable period after you die.
- You may perhaps have a disabled dependent child that requires long term care after you die.
- You have Lifetime Allowance exposure. The reduction to your benefits is effective as a way of reducing its value.



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