

Death grants exceeding the two-year discretion period

Background

The Local Government Pension Scheme makes provision for a lump sum death benefit (death grant) payable upon the death of a member where set criteria are met.

A death grant that is payable is paid to a recipient selected at the discretion of the administering authority (Kent County Council). In using this discretion, the death grant does not form part of the deceased's estate and is not subject to Inheritance Tax.

In order to exercise this discretion, HMRC requires that a death grant be paid within two years of the members death, or within two years of when the scheme could have reasonably known of the member's death,

If this two-year condition is not met, the death grant must be paid to the Personal Representative of the member, and it becomes subject to tax at a rate of 45%. This is known as a lump sum death benefit charge. This charge is deducted from the death grant payable and accounted for via the quarterly tax return.

Workload position

Kent has a process in place to exercise its discretion which involves assessing each case individually. This involves collating information from a number of sources and can be a time-consuming exercise, particularly when a scheme member does not have an easily identifiable next of kin, or where the member's death is notified through a tracing agency.

Following the excess deaths that occurred over the period 2020/2021, Kent also experienced a significant increase in workload in this area.

Project work

Due to this increase in workload, and the problems that can be experienced in contacting a next of kin, a backlog of death grant cases built up. A project commenced in April 2022 to investigate and clear these cases, and at that date the following casework was identified:

Category	Number of cases
Cases within the two-year period requiring chasing	81
Cases exceeding the two-year period	82
Total	163

To assist with the review of these cases, certain decisions were put in place over the course of the year to address issues connected with finding a contact to receive payment of the death grant:

- Where the death grant totals less than £250 and no contact has been made, the case is to be closed (but re-opened if any subsequent contact made)
- Where the death grant totals more than £250, searches must be made against the death registry and the address tracing agency used by Kent. If no contact has been made, the case is to be closed (but re-opened if any subsequent contact made)
- Where contact is made and the death grant is paid, the lump sum death benefit charge is to be deducted from the amount payable. In certain circumstances, compensation will be paid to the recipient to equal the value of the charge deducted.

This project has continued to date and, on 30 April 2023, the casework is in the following position:

Category	Number of cases
Cases within the two-year period requiring chasing	6
Cases exceeding the two-year period	77
Total	83

Of the cases within the two-year period, all 6 cases are at a final stage where payment information is awaited, or the case is awaiting a response from a final contact letter.

Of the cases exceeding the two-year period, 30 of the 77 cases have been reviewed and are awaiting return of information. The other 47 require further review.

Future plans

It is intended that this project continues to a conclusion over the coming months, to complete a review of the remaining 83 cases.

These 83 cases are currently ringfenced to be focused on as a set project. Over the period of this project, new cases have been dealt with under a 'business as usual' approach' and have been maintained within the two-year discretion period.