



Trivial Commutation Lump Sum (TCLS)

May 2016

Relevant from:

Latest changes are effective from 27 March 2014.

Relevant for:

1. Members with small pensions in all registered pension schemes valued at less than £30,000 participating in the Teachers' Pension Scheme.
2. Employer and Member representative.

Key Points

- In the Teachers' Pension Scheme, you can't take a Trivial Commutation Lump Sum if your pension is already in payment.
- You have to be aged at least 55 (unless you have a qualifying ill-health condition).
- If you have a Guaranteed Minimum Pension, the earliest date you can take Trivial Commutation Lump Sum is 65 for a man and age 60 for a woman.
- All of your registered pension scheme entitlements (in total) must be valued at less than £30,000 using HMRC's definition (20:1).
- You have a 12 month window in which to commute your defined benefit pension benefits, such as your benefits in the Teachers' Pension Scheme.
- All future member and dependants benefits are extinguished.
- The Trivial Commutation Lump Sum can only be paid when the member has Lifetime Allowance available.

Introduction

Before April 2006, if you were aged between 60 and 75, it was possible to commute any pension that was coming in to payment for less than £260 pa or less for a lump sum.

The Finance Act 2004 ("the Act") introduced a new tax regime, designed to provide a single platform to apply to all types of pension arrangement.

The new tax rules split benefits paid out by a scheme or arrangement into 'authorised' and 'unauthorised' payments. Unauthorised payments are subject to additional tax charges.

2014 changes

With effect from 27 March 2014, the commutation limit was increased from £18,000 to £30,000. The age you can make use of these rules was lowered from 60 to 55 from 6 April 2015. The previous upper age limit of 75 was removed.

If you're a member of the Teachers' Pension Scheme (with no pensions elsewhere) with a Normal Pension Age of 65, or equivalent to the State Pension Age, you would receive a pension from us of £1,500 or less per annum. If you have a Normal Pension Age of 60, your pension from us would be less than £1,304 per annum.

Unlike small lump sum payments (see Briefing Note TC1); a Trivial Commutation Lump Sum can only be paid if the value of ALL of your pension benefits are below £30,000.

What constitutes a Trivial Commutation Lump Sum?

With effect from 27 March 2014, if the value of your pension benefits* from ALL sources (including any pensions in payment on 5 April 2006) is less than £30,000, you can apply for a Trivial Commutation Lump Sum.

If you have any defined contribution pension benefits, these need to be taken into account as they form part of your pension savings. However, defined contribution benefits can no longer be taken as a Trivial Commutation Lump Sum. Instead, a defined contribution pot may be withdrawn as an Uncrystallised Funds Pension Lump Sum, as a consequence of the additional flexibilities that were introduced in the Taxation of Pensions Act 2014.

(*excluding any state pension or dependent's pensions you're in receipt of).

When can a Trivial Commutation Lump Sum be taken?

A Trivial Commutation Lump Sum can't be taken in the Teachers' Pension Scheme where benefits are already in payment. With effect from 6 April 2015, if you're in normal health and have no Guaranteed Minimum Pension that will become payable at a future date, you can apply for a Trivial Commutation Lump Sum from the age of 55.

If you have an ill-health condition, you may be able to apply for a Trivial Commutation Lump Sum before the minimum age of 55, subject to medical verification by a registered medical practitioner. There's no longer an upper age limit to when you can apply for a Trivial Commutation Lump Sum.

Guaranteed Minimum Pensions

The Teachers' Pension Scheme was a 'contracted out' scheme up to 5 April 2016. This means that as a member of the Scheme, you paid lower National Insurance contributions but did not build up an entitlement to the additional State Pension. Consequently, with regard to pensionable service between 6 April 1978 and 5 April 1997, the Teachers' Pension Scheme provided a minimum level of pension known as a Guaranteed Minimum Pension.

A pension which contains an element of Guaranteed Minimum Pension can't be commuted until you have reached their minimum 'Guaranteed Minimum Pension age'. For women this is age 60, whilst for men it is age 65. This is because the value of the Guaranteed Minimum Pension that the scheme has to pay at Guaranteed Minimum Pension age can't be known until it comes in to payment.

If you are a women who elected prior to 1977 to pay the Reduced Married Woman's rate of National Insurance (reduced rate stamp), there'll be no Guaranteed Minimum Pension accrued rights up to 1988. Therefore the minimum Guaranteed Minimum Pension age will not be applicable and rights can be taken from age 55 if the other relevant criteria is satisfied.

Valuing pension rights

This is a two stage process.

Stage 1

The first stage is to establish whether the capitalised value of your entire pension rights in all registered pension schemes meets with the prescribed conditions that will allow you to commute your entitlement. A factor of 20:1 is used to convert pensions in a defined benefit scheme such as Teachers' Pension Scheme, into a capital sum that can then be compared to the £30,000 threshold. However it's not this value that will be actually received as a payment from the Scheme.

Stage 2

In the second stage if the value of all benefits is less than £30,000, a scheme specific actuarial factor is used to work out the actual sum that will be paid by the Teachers' Pension Scheme, before the deduction for any tax that is due. These factors can be found on our website.

Tax charge

Under HMRC rules, 25% of the lump sum payment will be tax-free and the remaining 75% will be taxed.

In the event that we have not received confirmation from HMRC of the correct tax code to use, when paying the Trivial Commutation Lump Sum, we'll use an emergency basic rate tax code. To reclaim any overpayment of tax you must complete online form P53, which can be found on the HMRC website.

Lifetime Allowance

When you decide to draw your pension benefits, the value of the benefits being taken are tested against the Lifetime Allowance. Whilst the payment of a Trivial Commutation Lump Sum does not use up any of your available Lifetime Allowance, you must have some Lifetime Allowance available at the point the lump sum is paid.

Extinguishing all future rights

A Trivial Commutation Lump Sum must extinguish all future rights and benefits in the Scheme. This will include the right for a dependent to receive a pension on your death.

Nomination Date

The nomination date is the date that your pension rights are valued for checking against the Trivial Commutation Limit. The date that the Trivial Commutation Lump Sum is first paid to you sets a 12-month window in which all pension rights that you want (and are allowed) to trivially commute must take place.

The nominated date can be the first day of the 12 month commutation period or any date selected in the three months prior to that date.

12 Month Window

Only one 12 month window is allowed in your lifetime. Any pension rights that are not commuted in this window can't be taken as a Trivial Commutation Lump Sum.

If you hold defined benefits under more than one scheme you don't have to commute those benefits under every scheme. You can commute your defined benefits held under one scheme, but not those under another.

Under what circumstances can a Trivial Commutation Lump Sum not be paid.

A Trivial Commutation Lump Sum can't be taken when your Teachers' Pensions benefits are already in payment. Similarly, if you have already been paid a trivial commutation lump sum more than 12 months previously from another registered pension scheme, (except where a trivial commutation occurred before 6 April 2006) you can't trivially commute any further pension benefits.

If there is a Guaranteed Minimum Pension payable by the Scheme, you can't elect to take a Trivial Commutation Lump Sum until the Guaranteed Minimum Pension becomes payable at 65 if you are a man and 60 if you are a woman.

Dependant's pension

A dependant's pension that is in payment on or after 6 April 2015, where the capital value of the pension that is in payment is less than £30,000, can be commuted for a lump sum. This is known as a Trivial Commutation Lump Sum Death Benefit.

The value of the pension for assessment against the £30,000 limit is calculated using the Teachers' Pension Scheme actuarial factors, as opposed to the fixed factor of 20:1 for Trivial Commutation Lump Sum. No account needs to be taken of any other pension benefits that the dependant is entitled to. Similarly, the minimum age restriction of 55 does not apply to a Trivial Commutation Lump Sum Death Benefit.

If a Trivial Commutation Lump Sum Death Benefit is taken, the whole of the benefits that are commuted are subject to tax under PAYE.

A word of warning

Teachers' Pensions are not aware of the other pension savings you may hold. We'll rely solely upon the information that you provide. If this information is subsequently found to be inaccurate or misleading and the actual value of all of your pension benefits was greater than the commutation limit, you may be fined up to £3,000 by HM Revenue and Customs (HMRC). Furthermore, the whole of the Trivial Commutation Lump Sum may be taxed at 40% as an unauthorised payment and potentially an additional 15% unauthorised payment surcharge.

The information in this Briefing Note is based on our understanding of the tax and legal position and does not allow for any changes that may be communicated after the date of publication. For more information on how your particular circumstances may be affected, please contact us. This document is for reference purposes only and does not constitute financial advice. It is the member's responsibility to ensure that they pay any tax due on their pension savings. We recommend that you take independent financial advice from a registered individual, who can assess and quantify the extent of any tax liability that is due. You can find a list of independent financial advisers at www.unbiased.co.uk