Serious Ill-health Commutation, Ill-health Retirement or Death Grant

April 2023



Your options

If you've been accepted for Ill-health Retirement and have a life expectancy of less than 12 months, you may wish to consider commuting your pension to a lump sum – known as serious ill-health commutation of pension – so that you can choose to spend it how you wish.

However, you may also want to ensure that you leave as much as you can for your loved ones, in which case the Serious Ill-health Commutation may or may not provide the maximum amount of lump-sum.

Your decision will depend on your personal circumstances and wishes. At Teachers' Pensions we're not authorised to provide financial advice, which is why we would always recommend that you seek independent financial advice from a Financial Conduct Authority (FCA) registered advisor before making any decisions, but when faced with a difficult decision it may help to know what options are available to you.

This factsheet provides an overview of the options, depending on whether you're accepted and choose to take Ill-health Retirement, choose to remain in work or leave pensionable employment. It also provides an overview of the differences and similarities in the benefits that each option will provide. We've also included an example illustration of the differences.

More detailed information can be found in our 'Ill- health Retirement guide'. If you need additional support you can also call us on 0345 606 6166, wait for the hold menu options and then select option 1.

If you have a My Pension Online (MPO) account you can view your latest Benefit Statement to get an idea of your current estimated benefits and how your benefit entitlement options may shape up.

Please note that in order to become entitled to the Serious Ill-health Commutation, you will need to submit an Ill-health application requesting commutation and be accepted for the payment by Teachers' Pensions. Otherwise, a death grant or retirement benefits may come into payment, depending on your circumstances.

Death grants payable from the Teachers' Pension Scheme are discretionary. Once an individual is accepted for Serious Ill-health Commutation by Teachers' Pensions, the amount payable will form part of the member's estate and will no longer be discretionary.

If you left pensionable service (i.e. sick leave which is equal to at least half-pay) due to incapacity, you will remain covered for an in-service death grant for one year, unless you attain Normal Pension Age during that period, or apply for other retirement benefits such as Early Retirement AAB (actuarially adjusted benefits), with the exception of Phased Retirement where you remain in pensionable service.

Please ensure that you take independent financial advice on the options available to you.

Teachers' Pensions

Using the example of a member with final salary and career average benefits, what are the options and how do the benefits differ?

Award type	Benefits payable where Ill-health accepted before death	Benefits payable at death where no Ill-health application accepted	Survivor's pension	
			For Spouse, Civil-Partner or Qualifying Partner (surviving adult)	For Qualifying Children
Serious Ill- health Commutation (SIHC)	5 x the Ill-health Pension and any enhancement plus maximum lump sum	No further award	Final salary Average Salary x family benefits service / 160 or / and Career average 37.5% of the member's pension + enhancement (if applicable)	If no surviving adult, equivalent of 50% of member's pension divided by the number of children (or 2 if only 1 child) If there's a surviving adult, equivalent to the surviving adult pension divided by the number of children (or 2 if only 1 child)
Ill-health Pension	Accrued benefits + enhancement (if applicable)	If within 5 years, a Supplementary Death Grant of 5 times pension less pension paid to date		
Remain working and in-service up to death	N/A	Career average Death Grant of 3 x annual full time rate of pensionable earnings	Final Salary Average Salary x family benefits service / 160 or / and Career Average 37.5% of member's pension	
Out-of- service death grant if under Normal Pension Age (NPA)*	N/A	Final Salary Death Grant of 3 x accrued pension and Career Average Death Grant of 2.25 x accrued pension	Final Salary Average Salary x family benefits service / 160 or / and Career Average 37.5% of member's pension	
Die after NPA, but yet to receive retirement benefits NB, you can only apply for Age Retirement pension after reaching NPA	If Serious Ill Health Commutation accepted after Normal Pension Age, automatic lump sum (if eligible) + conversion of pension plus 5 x annual pension On acceptance, the lump sum is payable to the member's estate rather than as a discretionary death grant	Final Salary Balance of 5 years pension and Career Average Balance of 5 years pension	Final Salary Average Salary x family benefits service / 160 or / and Career Average 37.5% of member's pension	

*If you leave service due to ill-health and die within 12 months, as a result of that illness, the case will be treated as an in-service death, unless you become entitled to retirement benefits on Age.

Example case

Award type	Benefits payable where Ill-health accepted before death	Benefits payable at death where no Ill- health application accepted	Survivor's pension	
			For Spouse, Civil-Partner or Qualifying Partner	For Qualifying Children (per child)
Serious Ill- health Commutation	£146,545.86 lump sum		£7,546.05 p.a. (This includes enhancement on the basis that the member qualifies for 'in-service' ill-health benefits)	£3,773.03 p.a. (This includes enhancement on the basis that the member qualifies for 'in-service' Ill-health benefits)
Ill-health Retirement	£83,740.26 (A) lump sum £12,561.12 annual pension	£50,244.48 (B) Assuming no increase on the pension in payment		
	This would give a total lump sum of £133,984.74 i.e. (A)+(B)			
Remain working and in-service up to death	N/A	£90,000 Assuming Average salary unchanged at date of death	£7,546.05 p.a. (This includes 'in-service' enhancement)	£3,773.03 p.a. (This includes 'in-service' enhancement)
			Comment: If enhancement is not awarded, benefits will be based on the member's accrued benefits only	

Please note that each case will be different and individuals and their advisors should take account of the member's personal circumstances and data.

All illustrations above are based on a member who became a lecturer on 1 August 1996 and joined the Teachers' Pension Scheme with a Normal Pension Age of 60. The member moved from the Final Salary to Career Average arrangement in 2015 (a 'transitional' member) and died on 30 September 2024 aged 54.

The member was married with two children in full-time education. At the time of death he was aged 54 with pensionable earnings of £30,000 per annum and service in the NPA60 section of the Final Salary arrangement of 18 years 243 days and 9 years 183 days in the Career Average scheme.

The Final Salary arrangement gave rise to an accrued pension of £7,000 per annum and the Career Average arrangement (NPA 67) had an accrued pension of £5,000 per annum.

In the case of the ill-health pensioner death, it is assumed the pension member dies after receiving one year of pension.

If applicable, the 'in-service' enhancement amounts to £30,000 x 12.5/57 x 0.5 = £3,289.47 per annum. Both the Serious Ill-health Commutation and the Ill-health Pension include the maximum conversion of pension to lump sum permitted under HMRC rules.

Please be aware that no account is taken of the potential tax which may occur in respect of these payments. Lump sums are usually paid free of tax, but income (such as a pension) may be taxable. We recommend that you liaise with an independent financial adviser before any decision is taken.

NB. For the purpose of this illustration, it is assumed that there is no pensions increase or Career Average revaluation.