



# Basic information about Small Lump Sums at retirement

May 2016

## Relevant from:

1 December 2009, with further changes in 2014.

## Relevant for:

1. Members with small pensions in the teachers' Pension Scheme with an actuarial value less than £10,000.
2. Employer and member representatives.

## Key Points

- 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 is 65 for a man and 60 for a woman.
- Applies to single scheme entitlements with an actuarial value of £10,000 or less.
- 25% of the actuarial value is tax free. The remaining funds are taxed under PAYE.
- You don't have to take in to account any other pensions savings.
- All yours and your dependants future benefits are extinguished.
- Although it is not a 'crystallisation event' you do need to have sufficient Lifetime Allowance available to cover the payment.

## Introduction

The Finance Act 2004 introduced a new tax regime, designed to provide a single platform for all types of pension arrangement.

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

From 6 April 2006, a trivial commutation had to take account of benefits from all other registered pension schemes. This was initially set at 1% of the lifetime allowance.

The Registered Pension Schemes (Authorised Payments) Regulations 2009 came in to force so that pensions with less than £2,000 from a single source could be commuted as an authorised lump sum, regardless of total pension wealth. This applied if you were over 60 but under 75.

The aim was to lessen the administration burden on pension schemes paying out small pensions regularly. If you were a member of a defined contribution scheme with small pots you were offered low annuity rates by insurance companies to purchase a pension for life.

## 2014 Changes

From 27 March 2014, the amount for benefits from a single source increased from £2,000 to £10,000. The age at which you can make use of these rules lowered from 60 to 55 from 6 April 2015, if you have no 'guaranteed minimum pension'. The previous upper age limit of 75 was also removed.

## What constitutes a Small Lump Sum?

From 27 March 2014, if the actuarial value of your pension benefits from a single source is less than £10,000, you can apply to take them as a Small Lump Sum. You don't need to take in to account any other pension rights that you hold, whether they're in payment or are still accruing.

There's no restriction to the number of Small Lump Sums you can take if you're a member of several Occupational Pension Schemes, all with benefits below £10,000. If you have any personal pension plans, the anti-avoidance measures prescribed by HM Treasury allow you to take up to 3 'small pots' as a Small Lump Sum.

## When can a Small Lump Sum be taken from?

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

If you have an ill-health condition you may be able to apply for a Small Lump Sum before the minimum age of 55. This would need confirmation by a registered medical practitioner. There isn't an upper age limit to when you can apply for a Small 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 includes a Guaranteed Minimum Pensions can't be commuted until the minimum 'Guaranteed Minimum Pensions age' has been reached. This is 60 for women and 65 for men.

If you're a woman 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 Pensions accrued rights. The minimum Guaranteed Minimum Pensions age will not apply in these circumstances.

## Tax charge

If you're exchanging a pension which is not being paid, then 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 Small 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**

If you decided to draw your pension benefits, the value of the benefits being taken are measured against the Lifetime Allowance. Whilst the payment of Small Lump Sum doesn't use up any of your available Lifetime Allowance, you must have some available Lifetime Allowance at the point the lump sum is paid. If you have used up your Lifetime Allowance, the benefits in excess of the Lifetime Allowance will be subject to the Lifestyle Allowance charge.

## **Extinguishing all future rights**

A Small Lump Sum stops all future rights and benefits in the scheme. This includes the right for your dependant to receive a pension upon your death.

## **Under what circumstances can a Small Lump Sum not be paid?**

Where there's been any additional benefits acquired from the Teachers' Pension Scheme by virtue of a transfer in received during the previous five years (or from any personal pension plan at any time), or if there has been any partial transfer paid from us to another scheme in the previous three years, a Small Lump Sum can't be paid.

## **Small Lump Sum for 'transitional members'**

If you have a small pot in the career average 2014 scheme, you can take a Small Lump Sum even though you qualify for benefits in the previous final salary 2010 scheme. Similarly, if you have a small pot in the final salary scheme but have qualified for benefit in the career average scheme, you may take a Small Lump Sum in relation to the final salary scheme. If you have small pots in both schemes, the final salary and the career average schemes, the application will cover the Small Lump Sum in both schemes.

## **Relevant Accretion**

If you have previously transferred out of the scheme, but found that through a mistake or a subsequent event that there has been an accretion of further benefits (e.g. an equalisation exercise), then as long as the value of the accretion is below £10,000 and payment is made within 6 months of the accretion occurring, a Small Lump Sum can be made to the member as an authorised payment.