

## HSC Pension Scheme: Finance Act – Trivial Commutation Factsheet

### Background

From 6 April 2006 HM Revenue & Customs (HMRC) have changed the criteria for paying small pensions as a one off payment. This is known as Trivial Commutation. From 27 March 2014 the commutation limit was amended to a fixed amount of £30,000 therefore where the capital value of all a members' pension savings is less than £30,000 they may be able to trivially commute their pension. The procedure for assessing this is as follows:

- For amounts less than 0.48% of the standard lifetime allowance the member will be sent a choice letter and it is their decision to either take a pension only (2008 section), pension and pension commencement lump sum or to have the pension commuted into a once and for all payment.
- For amounts 0.48% to 2.4%\* of the standard lifetime allowance the benefits are automatically paid as a pension and lump sum (or a pension only in the 2008 section), unless the member asks for their pension to be commuted. This request should be made at awarding stage; however there is no statutory provision to prohibit the cancelling of an award and replacing the pension with a trivially commuted payment, if that is the member's wish.

\*The percentage may change depending on the current lifetime allowance but the capital value limit will remain at £30,000. Currently this equates to:

Fixed capital value £30,000 / current LTA £1,250,000 x 100 = 2.4%

**1995 Section:** For HSC Pension Scheme the capital value = Pension x 20 + Lump Sum of the actual benefits payable.

**2008 Section:** For HSC Pension Scheme the capital value = pension x 20 of the actual benefits payable. As there is no actual entitlement to a lump sum in the 2008 section the capital value is based on the member's pension before commutation of pension to lump sum.

If trivial commutation applies, the member can receive their normal benefit entitlement to a lump sum tax free. However, any pension commuted is taxed through PAYE for the tax year in which the payment is made.

From 27 March 2014 where a member's total payment, trivial commutation pension plus pension commencement lump sum, is less than £10,000 they may elect at awarding stage to commute their pension. This is regardless of whether the capital value of all their pension benefits, including those outside the HSC Pension Scheme, is less than the commutation limit of £30,000 (2.4% of the standard lifetime allowance of £1.25m).

A trivially commuted pension and pension commencement lump sum may be payable to a member who is over age 75 at the time of the payment. Please see the Lump Sum Payments after age 75 factsheet:

<http://www.hscpensions.hscni.net>

### **Pension Commutation**

**1995 Section:** If a member retires and their last day of pensionable membership is 1 April 2008 onwards and a member's actual entitlement to benefits falls below 2.4%\* of the standard lifetime allowance, under the HSC Pension Scheme (Amended 2008) regulations a member can still choose to reduce their pension to give a bigger lump sum. The reduced pension will then be commuted and taxed through PAYE and the increased lump sum will be paid tax free. Please see the Factsheet on Pension Commutation for more information about this:

<http://www.hscpensions.hscni.net>

**2008 Section:** Members of the 2008 section are normally entitled to a pension only, however the pension can be commuted to provide for a lump sum. Further information can be found in the Pension Commutation Factsheet:

<http://www.hscpensions.hscni.net>

### **Survivor Pension**

When a member chooses to commute their benefits into a one off lump sum, the survivor pension is also taken into account with the calculations and all liabilities for a survivor pension are discharged. Any death benefit lump sum will be discharged once the payment has been made.

Where there is prospective entitlement to a child's allowance a member cannot commute their pension and their scheme benefits must be taken in the form of a pension and lump sum or pension only (2008 section).

## Pensions Increase

As the pension benefits are being paid as a one off lump sum any pensions increase that will become due after payment will be included with the state pension.

## State Pension Age and GMP Age

From 6 April 2010 changes were introduced to equalise the State Pension Age (SPA) between females and males, which amended the SPA gradually from 60 to 65 for females born on or after 6 April 1950. The Guaranteed Minimum Pension (GMP) age however remains unchanged, this being 60 for females and 65 for males. From December 2018 to October 2020 the SPA will gradually increase to 66 for both females and males.

## Male member under age 65

A member who retires before age 65 and has entitlement to a GMP cannot elect to trivially commute their pension benefits. If this applies we will automatically pay the member their standard pension and lump sum.

## Pension arrangements elsewhere

The payment of a one off lump sum depends on whether they have pension arrangements elsewhere and the value of these benefits. If the total value of the other benefits takes them over 2.4% of the standard lifetime allowance then only a pension and lump sum can be paid regardless of the amount.

When a member completes their application form AW6 they will inform us in Part 5 whether they have any other pension arrangements other than the HSC Pension, the State Pension or any survivor benefits. If a member does have arrangements elsewhere then we will send them an additional form to complete, which will ask for further information about their other pension benefits with the options letter.

The form will ask for values of their pension benefits that a member has elsewhere. The information required is dependent on whether the benefits are in payment or not and if they are in payment, when they were first put into payment.

- We require the Gross Annual Pension before income tax is deducted if the benefits are in payment prior to 6 April 2006.
- We require the percentage of lifetime allowance that these benefits have used if the benefits are in payment after 5 April 2006.

- We require the Capital Value of these benefits on the date nominated by the member if the benefits are not yet in payment. This information must be provided by the other pension arrangements.

If the member was in pensionable employment after the nominated date, then a trivial commutation cannot be paid.

If a member has received pension benefits from another pension provider that was converted to a one-off lump sum and paid after 6 April 2006, we need to know what the nominated date is and any subsequent payable dates. This is because a one-off lump sum can only be paid up to 12 months after a nominated date, any benefits after this date must then be paid as a separate pension and lump sum.

If all of the member's other arrangements and their HSC Pension benefits are above 2.4%\* of the standard lifetime allowance, we will have to pay the benefits as a separate pension and lump sum. However, it is possible for a member to trivially commute their benefits if their total payment, trivial commutation pension plus pension commencement lump sum is less than £10,000.

### Substitute Awards

Where HSC Pension Service has paid a trivial commutation award before 6 April 2006, the member is permitted one further trivial commutation payment after 6 April 2006 provided they meet the trivial commutation conditions

Where HSC Pension Service has paid a Trivial Commutation Lump Sum on or after 6 April 2006, only one trivial commutation lump sum is permitted from the Scheme. The payment of an additional trivial commutation lump sum would be an unauthorised payment, with the member and the Scheme subject to tax charges.

If a revision to a trivial commutation award is received any additional pension entitlement must be paid as a separate pension and lump sum unless the additional commuted amount is £10,000 or less.

A member normally has only one 12 month period in which to commute any trivial benefits commencing with the nominated date. However, if the total of the additional trivial commutation and pension commencement lump sum is £10,000 or less the extra pension benefits can be commuted outside this period and will not result in an unauthorised payment.