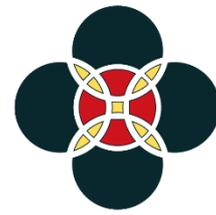


lgps

Local Government
Pension Scheme



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CLWYD
Pension Fund

Local Government Pension Scheme

Taking a Tax Free Lump Sum when you Retire

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Introduction

When you retire from the Local Government Pension Scheme (LGPS), the Pension Fund will calculate your standard benefits. Your Standard Benefits are made up of an annual pension, paid in 12 equal monthly payments and adjusted to keep up with the cost of living every year, plus an automatic tax-free cash lump sum if you were a member of the LGPS on or before the 31st March 2008.

If you became a member on or after 1st April 2008, you will not have built up an automatic tax-free cash lump sum, but you will have the option to swap some annual pension for a tax-free cash lump sum. This is called Commutation.

How does it work?

For every £1 of annual pension you choose to give up, you will increase your tax-free cash lump sum by £12. HM Revenue & Customs (HMRC) rules mean that most people can take up to 25% of the Capital Value of their pension benefits as a tax-free cash lump sum. This includes any automatic tax-free cash lump sum you may have if you were a member on or before 31st March 2008. This is called your Maximum Benefits.

You can either choose to:

- take payment of your standard benefits (annual pension and any automatic tax-free cash lump sum); or
- take payment of your maximum benefits (lower annual pension and highest amount of tax-free cash available, including any automatic tax-free cash lump sum); or
- give up an amount of annual pension, which is in between your standard and maximum benefits

What if you had paid Additional Voluntary Contributions (AVCs)?

If you paid into an AVC using the Pension Fund's in-house AVC provider(s), the value of your AVC pot will be included when calculating the Capital Value of your LGPS benefits.

Can you take all of your in-house AVC pot as tax-free cash?

You may be able to take all of your in-house AVC pot as tax-free cash in the LGPS, alongside your main LGPS benefits when you retire. This will depend on whether doing so will take you over the Lifetime Allowance set by HMRC.

You will be able to take all of your in-house AVC pot as tax-free cash in the LGPS, if your in-house AVC pot, when added to any lump sum taken from your main LGPS benefits, does not:

- go over 25% of the Capital Value of your LGPS benefits.
- take you over the maximum tax-free cash amount which is set at £268,275.
- take you over 25% of your remaining Lifetime allowance if you have previously taken payment of any pension benefits (not just in the LGPS).

There is an example in this factsheet to show you how this works.

What if you had paid Additional Pension Contributions (APCs), Additional Regular Contributions (ARCs), or bought added years?

If you bought extra pension through an APC / ARC arrangement or added years, these will be included in the calculation of your standard annual pension.

When do you choose your tax-free cash lump sum?

The Pension Fund will send you a retirement pack which you need to complete before your pension can be paid to you. This will include your standard and maximum benefit figures. You need to make your choice about your tax-free cash lump sum before your LGPS benefits can be paid to you. Remember, when you have made your choice it cannot be changed once your LGPS benefits are paid to you.

If you want to choose an amount in between the standard and maximum benefits, you should contact the Pension Fund to discuss your choice.

Will your Survivors' Benefits be reduced?

If you choose to swap some of your annual pension for an extra tax-free cash lump sum, it will not reduce any Survivors' Benefits paid to your spouse, civil partner, co-habiting partner, or any eligible children when you die.

The Pension Fund is unable to provide you with any financial advice, therefore please consider seeking independent financial advice when you retire to ensure that the most appropriate option is taken.

Example 1: Converting annual pension into lump sum when there is no AVC

Step 1: Calculating the Capital Value of LGPS Benefits

- $120 \times \text{Annual Pension} + 10 \times \text{Automatic Lump Sum (if any)} \div 7 = \text{Capital Value of LGPS Benefits}$
- $120 \times \text{Gareth's annual pension } \pounds 10,000 + 10 \times \text{Gareth's lump sum } \pounds 24,000 \div 7 = \pounds 205,714.28$
- The Capital Value of Gareth's LGPS Benefits is **£205,714.28**

Step 2: Calculating the Maximum tax-free cash lump sum

- $\text{Capital Value} \times 25\% = \text{Maximum tax-free Lump Sum}$
- $\pounds 205,714.28 \times 25\% = \pounds 51,428.57$
- Gareth's Maximum Lump Sum is **£51,428.57**

Step 3: Reducing Annual Pension for Maximum tax-free cash lump sum

- $\text{Maximum tax-free cash lump sum} - \text{Automatic tax-free cash lump sum} \div 12 = \text{Annual Pension swapped for Maximum Lump Sum}^*$
- $\text{Annual Pension} - \text{Annual Pension swapped} = \text{Lower Annual Pension}$
- $\pounds 51,428.57 - \pounds 24,000 \div 12 = \pounds 2,285.71$
- $\pounds 10,000 - \pounds 2,285.71 = \pounds 7,714.29$
- Gareth's Lower Annual Pension is **£7,714.29**

* (Rate £12 lump sum for £1 of Annual Pension)

When Gareth retires, his Standard Benefit and Maximum Benefit choices are:

Option 1 - standard benefits		Option 2 - maximum benefits	
Annual Pension:	£10,000	Lower Annual Pension:	£7,714.29
Automatic Lump Sum:	£24,000	Maximum Lump Sum:	£51,428.57

However, Gareth can choose Option 3, where he would choose to give up an amount of annual pension, which is in between Option 1 and Option 2 i.e., his standard benefits and maximum benefits.

This could be a tax-free cash lump sum between £24,000 and £51,428.57, with a proportionately lower annual pension due to the swap.

Example 2: Taking all of your in-house AVC pot as tax-free cash

When he retires, Jim also has an in-house AVC pot of £27,000, which he wants to take as tax-free cash, if possible.

To assess if this is possible, the Capital Value of his benefits would need to be calculated to find out his maximum tax-free lump sum.

Step 1: Calculating the Capital Value of LGPS Benefits

- $120 \times \text{Annual Pension} + 10 \times \text{Automatic Lump Sum (if any)} + 10 \times \text{in-house AVC pot} \div 7 = \text{Capital Value of LGPS Benefits}$
- $120 \times \text{Jim's annual pension } \pounds 10,000 + 10 \times \text{Jim's lump sum } \pounds 24,000 + 10 \times \text{Jim's AVC pot } \pounds 27,000 \div 7 = \pounds 244,285.71$
- The Capital Value of Jim's LGPS Benefits and his in-house AVC pot is **£244,285.71**

Step 2: Calculating the Maximum tax-free cash lump sum

- $\text{Capital Value} \times 25\% = \text{Maximum tax-free Lump Sum}$
- $\pounds 244,285.71 \times 25\% = \pounds 61,071.42$
- Jim's Maximum tax-free Lump Sum is **£61,071.42**

Step 3: Reducing Annual Pension for Maximum tax-free cash lump sum

- $\text{Maximum tax-free cash lump sum} - \text{Automatic tax-free cash lump sum} - \text{in-house AVC pot} \div 12 = \text{Annual Pension swapped for Maximum Lump Sum}$
- $\text{Annual Pension} - \text{Annual Pension swapped} = \text{Lower Annual Pension}$
- $\pounds 61,071.42 - \pounds 24,000 - \pounds 27,000 \div 12 = \pounds 839.28$
- $\pounds 10,000 - \pounds 839.28 = \pounds 9,160.72$
- Jim's Lower Annual Pension is **£9,160.72**

Jim's retirement options with his in-house AVC pot would be:

Option 1 - standard benefits	
Annual Pension:	£10,000
Tax-free cash Lump Sum (automatic lump sum of £24,000 + in-house AVC pot of £27,000)	£51,000*
*Jim can choose to take the combined value of his automatic lump sum and in-house AVC pot as tax-free cash, as it is less than his maximum tax-free cash lump sum option is £61,071.42.	

Option 2 - maximum benefits

Annual Pension: (standard annual pension of £10,000 - annual pension swapped of £839.28)	£9,160.72
Maximum tax-free cash Lump Sum (automatic lump sum of £24,000 + in-house AVC pot of £27,000 + scheme commutation of £10,071.42)	£61,071.42**

**To take the maximum tax-free cash lump sum, Jim will need to lower his annual pension by £839.28 to generate the extra tax-free cash of £10,071.42, which is the difference between the tax-free cash available under Option 1 (standard benefits) and this option.

Plus, Jim would still be able to choose Option 3, where he would choose to give up an amount of annual pension, which is in between Option 1 and Option 2 i.e., his standard benefits and maximum benefits.

Example 3: When your in-house AVC pot is too much to take it all as tax-free cash

Sometimes, a member's in-house AVC pot may be so much in value that when added to any automatic lump sum, it is more than their allowable maximum tax-free cash lump sum. In this case, the limited amount of AVC that can be taken as tax free cash can be added to the maximum tax-free cash lump sum, but the rest then must be used to buy extra pension in the LGPS or buy an annuity with another provider.

Example:

On retirement, Susan has the same LGPS annual pension and automatic lump sum value as Jim but her in-house AVC pot is £45,000. So added together her automatic lump sum of £24,000 and her AVC pot would be (£45,000 + £24,000 = £69,000). She would not be able to take it all back as tax-free cash, as her maximum tax-free cash lump sum allowance would be £67,500, which means there would be an excess of £1,500 (£69,000 - £67,500 = £1,500).

Note that Susan retires on her 67th birthday, which is her Normal Pension Age (NPA) under the LGPS, and she started her in-house AVC pot before 1st April 2014.

Step 1: Calculating the Capital Value of LGPS Benefits

- $120 \times \text{Annual Pension} + 10 \times \text{Automatic Lump Sum (if any)} + 10 \times \text{in-house AVC pot} \div 7 = \text{Capital Value of LGPS Benefits}$
- $120 \times \text{Susan's annual pension } £10,000 + 10 \times \text{Susan's lump sum } £24,000 + 10 \times \text{Susan's AVC pot } £45,000 \div 7 = £270,000$
- The Capital Value of Susan's LGPS Benefits and her in-house AVC pot is £270,000

Step 2: Calculating the Maximum tax-free cash lump sum

- $\text{Capital Value} \times 25\% = \text{Maximum tax-free Lump Sum}$
- $£270,000 \times 25\% = £67,500$
- Susan's Maximum tax-free Lump Sum is **£67,500**

Step 3: Reducing Annual Pension for Maximum tax-free cash lump sum

As Susan's in-house AVC pot (£45,000), when added to her automatic lump sum (£24,000) is £69,000 in total, there is no reduction to be made to her standard annual pension of £10,000, as her maximum tax-free cash lump sum (£67,500) has been exceeded.

Susan's retirement options after using the excess of her in-house AVC pot (£1,500) to buy extra LGPS pension would be:

Option - maximum benefits

Annual Pension: (standard annual pension of £10,000 + added annual pension of £88.05, bought from the excess of her in-house AVC)***	£10,088.05
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Maximum tax-free cash Lump Sum (automatic lump sum of £24,000 + £43,500, which is the balance of Susan's in-house AVC pot to the maximum tax-free cash lump sum allowance)	£67,500
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***The excess of Susan's in-house AVC pot (£1,500) has been used to buy £88.05 of extra annual pension, which is then added to her standard annual pension (£10,000).

The added annual pension has been calculated by using guidance published by the Government Actuary's Department (GAD), which is reviewed from time to time. The relevant factor is dependent on a member's age and whether they decide that the added pension bought is to benefit their survivor's following their death.

In this example, it has been assumed that Susan does not want the added pension bought to benefit her survivor's benefits.

The equation is:

In-house AVC pot excess ÷ 100 x GAD factor based on member's age = **added annual pension**

£1,500 ÷ 100 x Susan's GAD factor of 5.87 = **£88.05 added annual pension**

Please note

The Pension Fund will inform a member at the earliest opportunity if there is an excess to their in-house AVC pot and the options available to them, to avoid any unnecessary delay to the payment of their benefits.

Where can you find more Information?

This factsheet gives general guidance only, if you need further information, please contact the Pension Fund:

Tel: 01352 702980 / 01352 702950

Email: pensions@flintshire.gov.uk

Disclaimer

The Pension Fund is unable to provide any financial advice. After reading this factsheet, you may want to seek independent financial advice to make an informed decision.

These bodies may be able to help you:

Unbiased:

<https://unbiased.co.uk>

MoneyHelper:

<https://www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser?source=mas>



mss.clwydpensionfund.org.uk

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Please note that Flintshire County Council is the administrative authority of the Clwyd Pension Fund and we use your personal data in accordance with Data Protection legislation to provide you with a pension administration service. For more information about how we use your data, who we share it with and what rights you have in relation to your data, please visit the Privacy Notice on our website.