



TAKING SMALL PENSION POTS AS A LUMP SUM: QUICK GUIDE

This is a very condensed summary. If you would like more in-depth information, please see 'Spotlight on taking small pension pots as a lump sum – detailed guide'.

'Trivial commutation' is where you may have an opportunity to take a small benefit as a lump sum and this fact sheet explains what rules you have to meet to do this.

You should be aware that a pension provider is under no obligation to offer you trivial commutation.

Key Rules Summary

- You have to be aged at least 60. (Trivial commutation is now allowed for those people who are over age 75.)
- You have to add all the benefit values of all company pensions/personal pensions/stakeholder pensions/retirement annuities/buy-out plans (but not any State Pension) together and if they do not exceed 1% of the lifetime allowance in total £18,000 for the 2011/12 tax year), trivial commutation may be a possibility.
- All the benefits in the pension scheme must be extinguished.
- It will only be possible if the pension arrangement's rules allow trivial commutation (some may not).

You do not have to commute all your pension arrangements. You can commute some and leave others to provide you with retirement income – however, all transactions must be completed within 12 months of the first one.

Special Rule for Occupational Schemes Only

If you have small benefits in an occupational pension, it may be possible for you to cash them in under triviality rules, even if the main rules above have not been met.

The following are the main qualifying criteria:

- You must be 60 or over;
 - You must not be a controlling director of the sponsoring employer;
 - The payment must not exceed £2,000;
 - The payment extinguishes your right to benefits under the scheme; **and**
 - There must not have been a transfer-out of the scheme in the 3 years preceding the date of payment; **and**
 - The first 25% of the payment is tax-free, with the remaining 75% taxable under PAYE.
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Special Rule for non-Occupational Schemes Only

If you have small benefits in a non-occupational pension, such as a personal pension, SIPP, section 32 buyout, stakeholder plan or section 226 contract (retirement annuity contract), it may be possible for you to cash them in under triviality rules, even if the main rules above have not been met.

The rules are:

- You must have reached the age of 60;
- The payment does not exceed £2,000;
- It extinguishes all your rights under the arrangement; and
- You have not previously received more than one payment under one of these types of schemes. This excludes any separate 'lump sum under the special rule for occupational schemes only'.

The first 25% of the payment is tax-free, with the remaining 75% taxable under PAYE.

Lump sum on scheme wind-up

If your pension scheme is winding up, it might be possible for you to take all your benefits as a 'winding-up' lump sum. In order to be eligible for this, your total benefit value must be less than 1% of the lifetime allowance for that tax year (i.e. less than £18,000 for 2011/12).

There are restrictions on future contributions – please see our fact sheet 'Spotlight on taking small pension pots as a lump sum – detailed guide'.

Taxation

If you are giving up a pension in payment, or a pension which is not yet in payment, the lump sum will be deemed as income for tax purposes. The first 25% of the lump sum payment will be tax free and the remaining 75% will be deemed as income for tax purposes.

Pension providers have been told by HM Revenue & Customs to deduct tax at source and pay you the balance.

If you would like more information about these rules, together with example calculations, please see our fact sheet 'Spotlight on taking small pension pots as a lump sum – detailed guide'.

About Us

The Pensions Advisory Service has been providing help and guidance to members of the public on pension matters since 1983 either by telephone or written advice. We can also help people who have a pension complaint or dispute.

Our service is free and sustained by a nationwide network of volunteer advisers, who are supported and augmented by technical and administrative staff based in our London office.

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