

NHS Pensions - Trivial commutation

Background

Paying small pensions as a one off payment (known as trivial commutation) is subject to HM Revenue and Customs (HMRC) rules. The current commutation limit applies to pension benefits not exceeding a capital value of £30,000. The procedure for assessing whether NHS benefits can be trivially commuted is as follows:

- Where the capital value of the benefits built up within the NHS Pension Scheme and with any other pension providers is £6,000 or less, the member will be sent a choice letter and it is their decision to either take their normal benefits or to have the pension benefits trivially commuted into a once and for all payment.
- Where the capital value of the benefits built up within the NHS Pension Scheme and with any other pension providers is more than £6,000 but not more than £30,000, normal benefits will be paid unless the member asks for their pension benefits to be trivially 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.

1995 Section: The capital value = Annual Pension x 20 + Lump Sum using the actual benefits payable.

2008 Section: The capital value = Annual Pension x 20 of the actual benefits payable. As there is no entitlement to a lump sum in the 2008 Section, the capital value is calculated on the member's pension before commutation of any pension to lump sum.

2015 Scheme: The capital value = Annual Pension x 20 of the actual benefit payable.

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

Where the total value of a trivially commuted pension excluding any pension commencement lump sum does not exceed £10,000, the member may elect at awarding stage to trivially commute their pension. This is regardless of whether the capital value of all

their pension benefits, including those outside the NHS Pension Scheme, is more than the commutation limit of £30,000.

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. More information is available on our website: www.nhsbsa.nhs.uk/nhs-pensions.

Pension commutation

1995 Section: If a member retires and their last day of pensionable membership is on or after 1 April 2008 and the capital value of the benefits payable is £30,000 or less, a member can still choose to exchange part of their pension to give a lump sum or bigger lump sum. The reduced pension will then be trivially commuted and taxed through PAYE and the lump sum will be paid tax free. More information is available on our website: www.nhsbsa.nhs.uk/nhs-pensions.

2008 Section: Members of the 2008 Section are normally entitled to a pension only, however some of the pension can be exchanged to provide for a lump sum or bigger lump sum. More information is available on our website: www.nhsbsa.nhs.uk/nhs-pensions.

2015 Scheme: Members of the 2015 Scheme are entitled to a pension only, however some of the pension can be exchanged to provide a lump sum. More information is available on our website: www.nhsbsa.nhs.uk/nhs-pensions.

Adult dependant's pension

When a member chooses to commute their benefits into a one off lump sum, the adult dependant's pension is included in the calculations and all liabilities for an adult dependant's pension are discharged. Any lump sum on death benefit will be discharged once the trivially commuted payment has been made.

Restrictions

There are circumstances when it is not possible to pay a small pension as a one off payment. These circumstances are:

- If you have chosen to allocate part of your pension
- If it is more than 12 months since the date on which you were first paid a trivial commutation lump sum by another pension provider unless the trivially commuted pension does not exceed £10,000
- If you have Guaranteed Minimum Pension (GMP) rights and you have not reached your GMP pension age. GMP pension age is different to State Pension Age and has not changed. It remains 60 for women and 65 for men

- If you have not reached the minimum age to take trivial commutation, which as of 6 April 2015 is 55
- If you are a deferred member still under your Normal Pension Age who left the Scheme before 31 March 2000
- If you reached age 75 before 6 April 2011.

If any of the above apply your pension benefits will be paid as a pension and any mandatory lump sum that you may be entitled to.

State Pension Age and Guaranteed Minimum Pension (GMP) age

From 6 April 2010 changes were introduced to equalise the State Pension Age between females and males, which amended the State Pension Age 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 State Pension Age 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 if appropriate.

Pension arrangements elsewhere

The payment of a one off lump sum depends on whether a member has pension arrangements elsewhere and the capital value of those benefits. If the total capital value of all pension benefits exceeds £30,000, then only a pension and lump sum if appropriate can be paid unless the value of the trivially commuted NHS pension only does not exceed £10,000.

When a member completes their application form AW8 they will inform us whether they have any pension arrangements other than the NHS Pension, the State Pension or any survivor benefits. If a member does have arrangements elsewhere then we will send them an additional form AWTC4 asking for further information about their other pension benefits.

The form AWTC4 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 have been in payment prior to 6 April 2006.

- We require the percentage of Lifetime Allowance that these benefits have used if the benefits have been 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 provider.

If a 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 were 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 unless the trivially commuted pension does not exceed £10,000.

Substitute awards

Where NHS Pensions 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 NHS Pensions has paid a trivial commutation award on or after 6 April 2006, only one trivial commutation lump sum is permitted from the same 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 pension amount does not exceed £10,000.

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 commuted pension, excluding any pension commencement lump sum does not exceed £10,000, the extra pension benefits can be commuted outside this period and will not result in an unauthorised payment.