

# The Local Government Pension Scheme

## Notes about commutation

(i.e. how part of your pension can be converted to a lump sum)



## **Commutation – giving up part of your pension for a (bigger) lump sum**

The standard package of retirement benefits under the Local Government Pension Scheme ("LGPS") is as follows:

### **For membership up to 31 March 2008**

- a retirement pension of 1/80th of final pay for each year of membership – this is an annual amount which is paid in 12 instalments over each year; plus
- a lump sum retirement grant – this is a single lump sum payment made shortly after retirement and is usually an amount equal to 3 times the annual pension; plus
- death benefit cover for a surviving spouse or civil partner (or for a nominated cohabiting partner if you have been a LGPS member on or after 1 April 2008 and have made a valid nomination). There is also cover for any eligible children and possibly a death grant, depending upon how long the pension has been in payment.

### **For membership between 1 April 2008 and 31 March 2014**

- a retirement pension of 1/60th of final pay for each year of membership – this is an annual amount which is paid in 12 instalments over each year; plus
- death benefit cover for a surviving spouse or civil partner, or for a nominated cohabiting partner. There is also cover for any eligible children and possibly a death grant, depending upon how long the pension has been in payment.

### **For membership after 1 April 2014**

- a retirement pension of 1/49th of pay for each year of membership (or 1/98th if you have been a member of the 50/50 Section) – this is an annual amount which is paid in 12 instalments over each year; plus
- death benefit cover for a surviving spouse or civil partner, or for a (nominated) cohabiting partner. There is also cover for any eligible children and possibly a death grant, depending upon how long the pension has been in payment.

However, on retirement, you can vary this standard package; you have the option to give up part of your retirement pension in order to provide a lump sum retirement grant (or larger lump sum retirement grant if you have membership before 1 April 2008). This is called "commutation".

Each £1 of your annual pension that you give up would provide you with £12 lump sum.

The benefit figures issued to you with this Retirement Pack will show both the standard package of benefits and the benefits that would be payable if you elect to give up the amount of pension needed to achieve the maximum lump sum retirement grant allowable.

HM Revenue and Customs limits the amount of tax-free lump sum you can take when your pension is paid to you. From 6 April 2024, the maximum lump sum is the lowest of:

- 25% of the capital value of your benefits (as assessed in line with guidance issued by the Government Actuary),
- £268,275, or
- £268,275 less the total lump sums you have already taken.

If these limits are exceeded, tax may be due.

It may be that you would like an apportionment of pension and lump sum which differs from the figures you have been quoted. You may have a particular amount of lump sum or pension in mind (but remember the tax limit mentioned above). If so:

- to provide a particular amount of lump sum you would need to work out the difference between that figure and the standard lump sum, then divide that difference by 12 to find out how much pension you would need to give up;
- to reduce your pension to a certain amount, multiply by 12 the difference between that and the standard amount to find out how much extra lump sum you would get.

## Examples

Mr A receives the following illustration of the benefits payable to him on retirement:

Standard benefits		Benefits after maximum commutation	
Pension:	£ 8,760.00 a year	Pension:	£ 7,040.00 a year
Lump sum:	£26,280.00	Lump sum:	£46,940.00

This shows that if he gives up £1,720 of his standard pension (£8,760 - £7,040) he can get the maximum lump sum retirement grant allowable as part of his benefit package.

### He decides he would like a lump sum retirement grant of £36,000

This is £9,720 more than the standard lump sum. On the basis that he gets £12 extra lump sum for every £1 of pension he gives up:  $£9,720 \div 12 = £810$

If he reduces his standard pension by £810 he will receive:

Pension: £ 7,950.00 a year (£8,760 - £810)  
 Lump sum: £36,000.00 (£26,280 + (£810 x 12))

### He decides he would like to take a pension of £8,000 and to convert the difference between that and the standard pension to an additional lump sum retirement grant

He would be giving up £760 of his pension. If he proceeds with this, he will receive:

Pension: £ 8,000.00 a year (£8,760 - £760)  
 Lump sum: £35,400.00 (£26,280 + (£760 x 12))

## Points to consider before making your decision

- If you do choose to commute part of your retirement pension in order to provide a bigger lump sum it will not affect the death benefit cover for a surviving spouse, civil partner or nominated cohabiting partner.
- Your lump sum retirement grant is normally paid tax free, whereas your pension is treated as taxable income.
- Your pension is inflation proofed in line with Pensions Increase Acts and Orders to help maintain its value.
- If you have been paying additional voluntary contributions ("AVCs") into an arrangement set up by the Staffordshire Pension Fund – e.g. with Scottish Widows, Standard Life, or Utmost (formerly Equitable Life) – please read the notes accompanying your benefit illustration before making a decision regarding commutation of your LGPS pension.

Your decision should be notified to Pension Services by completing the section of the single page retirement form entitled "Choice of Pension" or, if you have received multiple separate pages of retirement forms, the enclosed Form "Commutation of Part of Pension to provide (Additional) Lump Sum". **But note that:**

**For tax reasons, you are unable to amend an election to commute part of your retirement pension for a lump sum retirement grant once we have received your completed retirement forms. Consequently, if you wish to receive further illustrations of your commutation options, please get in touch with Pension Services right away so that you have all the information you need before completing any of the forms.**

## Further information

If you require further information about the areas covered by these notes, you can get in touch as follows:



[www.staffspf.org.uk](http://www.staffspf.org.uk)



[pensions.enquiries@staffordshire.gov.uk](mailto:pensions.enquiries@staffordshire.gov.uk)



Staffordshire Pension Fund, 2 Staffordshire Place, Tipping Street, Stafford,  
ST16 2DH



01785 278222

**If a copy of this information is needed in large print, Braille, another language or on cassette or disc, please contact Pensions Services.**