

Combined Pension Scheme United Kingdom Atomic Energy Authority

Maximum Tax Free Cash

Introduction

The UKAEA pension schemes provide benefits based on service which is reckonable in the scheme and pensionable earnings on the following basis:

Pension: $1/80^{\text{th}} \times \text{Reckonable service} \times \text{pensionable final earnings}$

Lump sum: $3/80^{\text{th}} \times \text{Reckonable service} \times \text{pensionable final earnings}$

Reckonable service

This is the number of years earned during pensionable service with your employer. It will be

- service you have earned whilst employed and a member of the scheme,
- service which you may have transferred from another pension scheme
- added years you may have purchased
- enhanced service granted to you on either premature or ill health retirement

Pensionable Final Earnings (PFE)

The pensionable final earnings used in the calculation of benefits is the best 12 months pensionable earnings in the last three years of service.

The administrators will adjust the pensionable final earnings for those who were in the CPS before 1997 when pensions were calculated using 93.5% of pensionable final earnings for service accrued before that date.

Example

Jennie has earned 25 years in the scheme and has pensionable final earnings of £30,000. She would receive

Pension: $1/80^{\text{th}} \times 25 \times £30,000 = £9,375$ a year

Lump sum: $3/80^{\text{th}} \times 25 \times £30,000 = £28,125$

Maximum tax free cash

HMRC allow pension scheme members to receive 25% of their pension fund as tax free cash. The $3/80^{\text{th}}$ lump sum is less than the 25% maximum allowable tax free cash and members can choose to increase the value of their tax free cash up to the maximum allowed by HMRC and reduce their pension to pay for the increased lump sum. For every £1 of pension given up, £12 of additional lump sum is payable.

Example

Jennie decides she wants to receive the maximum tax free cash available under the HMRC limits. The calculation of the additional lump sum and reduced pension is as follows:

Additional Lump Sum

$£9,375$ (original pension) $\times 33/14 = \mathbf{£22,098.21}$, paid in addition to the £28,125 lump sum

(the factor 33/14 is specified by actuaries).

Reduced Pension

Cost of additional lump sum = $£22,098.21 / 12 = £1,841.52$ pension given up

Reduced pension = $£9,375 - £1,841.52 = \mathbf{£7,533.48}$

We can check that this is within the 25% maximum as follows:

$$\begin{aligned} \text{Pension fund} &= \text{reduced pension} \times 20 + \text{original lump sum} + \text{additional lump sum} \\ &= £7,533.48 \times 20 + £28,125 + £22,098.21 = £200,892.81 \end{aligned}$$

25% of this is £50,223.21

Jennie's total lump sum after she reduces her pension is £28,125 + £22,098.21 = £50,223.21, which is equivalent to 25% of her fund.

Jenny can instead decide not to receive the full 25% tax free cash but instead chooses to receive £12,000 in addition to the £28,125 lump sum. Her standard pension will be reduced by £1000 a year and her benefits from the scheme will be:

Pension	£8,375 a year
Lump Sum	£40,125

Pensions increases will be added to Jennie's lower annual pension which in the examples would either be £7,533.48 or £8,375 depending on her choice of additional lump sum.

The spouse pension is not affected Jennie's decision to increase her tax free lump sum from the scheme and lower her annual pension.

Restrictions

There are HMRC restrictions on making this conversion for example the total amount of tax-free lump sums that may be taken is restricted by reference to the Lifetime Allowance (which is the total pension funds accumulated from all registered pension schemes. The current limit is £1.25 million although this is changing to £1 million from 2016.) This information will be gathered and confirmed with you when you retire.

You must take sufficient pension to cover any Guaranteed Minimum Pension (GMP). You will only have a GMP if any of your pension was built up before April 1997 and reflects the pension you would have built up if you had been in the State Earnings Related scheme (SERPS) rather than an occupational pension.

There are also some exclusions, eg a pension commencement lump sum may not be paid at all in respect of pension credits that are awarded to the ex-spouse of a member whose benefits are already in payment.

If you are single and eligible for a refund of family benefit contributions on full retirement, you will have less scope to give up pension for an additional lump sum. This is because the total of any refund plus any additional lump sum you choose to take cannot exceed the maximum permitted lump sum. Thus there may be circumstances in which we cannot pay your refund as a cash lump sum. If that is the case, we will convert some or all of the refund into extra pension and a smaller lump sum.

The decision to lower the value your annual pension for life and convert it to additional tax free cash is a significant one and a choice about which you think carefully and if necessary tax financial advice.

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