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Pension Triviality Fact Sheet

CLAIRVILLE YORK FINANCIAL SERVICES

If the value of your pension rights is below a certain level, it may be possible to give up those rights in exchange for a cash sum. From 6 April 2006, this option is only possible where the total of **all** your pension rights does not exceed 1% of the Lifetime Allowance. For the tax year 2009/10 this equates to £17,500.

There are different ways of valuing existing pension rights to test against this threshold.

- **Pension rights (not yet in payment) from a Defined Benefit Scheme** – The accrued pension is valued using a factor of 20:1. For example, if you have a pension of £10,000, its value is £200,000 (£10,000 x 20).
- **Pension rights (not yet in payment) from a Defined Contribution Scheme (including Personal and Stakeholder schemes)** – The market value of the fund is used.
- **Pension already in payment before 6 April 2006** – The pension in payment as at 5 April 2006 is valued using a factor of 25:1 and then up-rated against the Lifetime Allowance in the year of the test. For reference, the Lifetime Allowance is £1.5m for the 2006/07 year and rises to £1.75m for 2009/10 and £1.8m from 6th April 2010.

  For example, you start receiving a pension of £1,200 in 2001. As at 5 April 2006 it has increased to £1,500. Its value at 5 April 2006 was £37,500 (£1,500 x 25).

  If the test for triviality purposes is carried out in 2010/11 when the Lifetime Allowance is £1.8m, its true value is £45,000 (£37,500 x £1.8m/£1.5m).
- **Pension put into payment on or after 6 April 2006** – The pension is valued against the Lifetime Allowance in the year of payment. That value is then assessed against the Lifetime Allowance in the year the triviality test is carried out.

  For example, you receive a lump sum of £2,000 and a pension of £500 a year in May 2006. The value of these benefits is £12,000 (£500 x 20 for the pension and £2,000 for the lump sum). That is 0.8% of the Lifetime Allowance in that year.

  If the test for triviality is carried out in 2010/11 when the Lifetime Allowance is £1.8m, its true value is £14,400 (0.8% x £1.8m).

The option to cash-in a small pension can only be exercised between the ages of **60 and 75**.

If you wish to cash-in more than one pension, assuming you meet the qualifying criteria above, you must do so within 12-months of cashing-in the first one. You will not be able to cash-in any pensions after that 12-month period has expired.

The cashing-in of rights under an Occupational Pension Scheme will be subject to the agreement of the scheme's trustees.

If you do cash-in a pension under triviality rules, a quarter of the cash paid is tax-free with the remainder treated as taxable income in the year it is received.

Reclaiming Tax Deducted From Your Trivial Pension Lump Sum

If you've received one or more lump sum payments it is possible that the tax deducted was at a higher rate than you were due to pay over the tax year.

If you complete a Self Assessment tax return each year you should declare any lump sum payments and the tax deducted on your next Self Assessment return.

Otherwise if you want to apply for a refund before the end of the tax year you'll need to:

- ask your Tax Office for form P53 Trivial pension/annuity in-year repayment claim
- complete the form with details of your estimated income for the year – the form will be tailored to your individual circumstances so you'll only have to provide information that is relevant to you
- send it to your Tax Office with Part 2 and Part 3 of your form P45, if applicable
- keep Part 1A as a record of your income

Because this refund is based on estimated figures HMRC will have to check it at the end of the year, so they'll send you another P53 Trivial pension/annuity year end check after 5 April so you can tell them the actual details of your income.

In both cases, if you are due a refund HMRC will pay it directly into your bank or building society account.

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New Rules From 1 December 2009 (Occupational Pension Schemes only)

These new rules apply to Occupational Pension Schemes only. They do not apply to Personal Pensions, Stakeholder Pensions and Self Invested Personal Pensions.

They allow small Occupational Pensions to be cashed-in under triviality rules even if the main rules above have not been met.

The following are the main qualifying criteria:

- You must be between 60 and 75;
- 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;
- There must not have been a transfer-into 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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When does the 12-month period start?

The 12-month period runs from the date the first small pension is given up for cash. No further small pensions can be given up for cash once this 12-month period ends.

I have pension plans worth £12,000 and £15,000. As they are both under £17,500 can I cash them in?

No. As both plans together exceed 1% of the Lifetime Allowance, the maximum level of cash that can be taken is limited to 25% of the total capital value. If a cash sum of more than 25% of the capital value is paid, the payment will be unauthorised and will be subject to a 40% tax charge on the member and other tax charges on the scheme.

I held benefits in an Occupational Scheme that wound up, which were cashed-in because they were trivial. Do I need to take these into account if I want to cash-in other benefits?

If your benefits were cashed-in on a non-voluntary basis it will not affect your ability to cash-in other benefits on trivial grounds and will not count towards your 1% limit or Lifetime Allowance.

Whilst the payment of a winding up lump sum does not need to be tested against your Lifetime Allowance, it is necessary that you have some Lifetime Allowance left at the time of payment

But there is no need to take account of other pension benefits when testing whether a lump sum can be treated as a winding up lump sum

I have an Occupational Scheme with a pension of £900 per annum, due in 2010, and a small Personal Pension plan in which I have only £3,000. Can I just cash in the £3,000?

No. The value put on the occupational scheme is £18,000 (£900 X 20) which when added to the £3,000 gives a total in excess of £17,500.

I have a small Personal Pension which only has Contracted Out rebates paid into it and is worth £6,000. I have no other pensions. Can I encash this contracted out plan?

Yes, even protected rights pensions can be taken as trivial lump sums.

I want to cash in a small Occupational Pension of £600 p.a. I thought they had to value this at 20:1 but the lump sum they are offering me is much smaller.

The 20:1 is only a valuation factor used for the purposes of testing whether all your pension plans together add up to no more than £17,500 (for the tax year 2009/10). The actual cash value offered by the trustees is on whatever basis is recommended by the scheme actuary.

My former Occupational Pension Scheme is being wound up and they are paying out my pension as a cash sum because it is small. I am only aged 45 and I have a Personal Pension plan worth £30,000. Can they do this?

Yes, on wind-up of an occupational pension, the lower age limit of 60 is waived and there is no aggregation with other pension benefits to test against 1% of the lifetime allowance.

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