SMALL PENSION LUMP SUMS
AUGUST 2019

If your pension is "worth" less than £10,000 we can pay this to you as a one-off lump sum.

This can save you receiving a small pension each year, or you having to buy a small guaranteed income for life (known as an annuity). Instead, you can receive a cash lump sum up front.

THE CHURCH OF ENGLAND
PENSIONS BOARD

Small pension lump sums

How does it work?

Instead of receiving a small pension for life, we can pay you a one-off lump sum up front.

If we do this, we will pay no further benefits to you or your dependents in the future.

We can pay your pension as a lump sum if:
- your pension is "worth" less than £10,000

- you are 55 or over, or retiring due to health problems

- you have not transferred benefits into our schemes in the last 5 years

- you have not transferred benefits out of our schemes in the last 3 years

How do I know if my pension is 'worth' less than £10,000?

Typically, the value of your pension is your "transfer value". Get in touch with us and we can let you know if your pension is worth less than £10,000.

If your transfer value is more than £10,000 we can pay this to you as a small pension lump sum.

Will I have to pay tax?

This depends on whether you give up part of your pension to receive a tax-free lump sum.

If you do not give up pension for a tax-free lump sum (or extra tax-free lump sum)
We can pay 25% to you tax-free and the rest is taxed as income.

Here is a broad example for Kate.

Kate's pension is £350 a year, plus an automatic tax-free lump sum of £1,050.

Here is how much her pension is worth:
- the transfer value of her pension is £7,000
- plus her lump sum of £1,000
- her pension is worth **£8,000**

We can pay £2,000 tax free and the rest is taxed as income.

If you give up pension for a tax-free lump sum (or extra tax-free lump sum)
As we have already paid you the maximum amount we can pay tax-free your whole small pension lump sum will be taxed as income.

Here is a broad example for Simon.

Simon's pension is £700 a year. The transfer value of his pension is £12,000. He cannot take this as a 'small pension lump sum'.

He gives up £150 a year to receive a one off, tax-free lump sum of £3,000. His pension is now £550 a year. Simon's new pension of £550 a year is worth £9,000.

After giving up part of his pension for a tax-free lump sum, Simon's new reduced pension is worth less and £10,000 and he can take this as a 'small pension lump sum'. He will pay income tax on all of it.

How is it taxed?

As we do not know your tax code, we use a basic rate tax code (BR) to work out your income tax. This may mean you pay too little or too much tax.

In practice, if you are a basic rate tax payer, or you do not pay tax you could end up paying too much tax. If you are a higher rate tax payer, you might not have paid enough tax as it will only be taxed at the basic rate of 20%.

If you have paid too much tax you can claim tax back. You can find out how to do this at:

gov.uk/claim-tax-refund/overview

If you have not paid enough tax you can pay more through your self-assessment.

How many small pension lump sum payments am I allowed?

You can take up to 3 small pension lump sum payments in your lifetime.

What about Annual Allowance and Lifetime Allowance?

A small pension lump sum does not count as flexibly accessing your benefits, so you will not trigger the Money Purchase Annual Allowance (MPAA) rules.

It also does not count as a 'crystallisation event' so it's not tested against your Lifetime Allowance.

What if I am already receiving a pension?

We can still pay you a one-off lump sum. We will convert your pension into a lump sum but the whole amount will be taxed as income.

All of this will be taxed. We will use the PAYE code we already have for you. If you do this, we will pay no further benefits to you or your dependants in the future.

This reflects our understanding of current legislation and practice. You should talk to a financial or legal adviser if you need specific guidance or advice