UNCRYSTALLISED FUNDS PENSION LUMP SUM

AUGUST 2019

If you have a defined contribution we can pay this to you as a one-off lump sum.

This saves you having to use some or all your pot to provide a lifelong income in retirement. Instead, you can receive a cash lump sum up front. This is called an Uncrystallised Funds Pension Lump Sum, or UFLPS.

THE CHURCH OF ENGLAND

PENSIONS BOARD

Uncrystallised funds pension lump sum

How does it work?

When you take a defined contribution pension pot, you can usually take a quarter of it tax-free at the start.

You can then choose to use the rest to:

- provide a guaranteed incomed for life, known as an "annuity"
- receive regular or one-off payments, known as "drawdown"

Instead of deciding what to do with the rest, you can take your pot in one go as cash.

You will need to plan how to use your lump sum, so you do not run out of money during retirement.

Can I do this with any type of pension?

This only applies to defined contribution pensions. You will have a defined contribution pension with us if you are a member of:

- Pension Builder 2014
  (Church Workers Pension Fund)
- Defined contribution scheme
  (Church Administrators Pension Fund)

What are the rules?

If you have a defined contribution pension, we can pay this to you as cash if:

- you are 55 or over, or retiring due to health problems, and,
- you are not over your Lifetime Allowance.

If you have Lifetime Allowance protections, we cannot pay you an UFLPS.

How is it taxed?

A quarter of your cash sum is tax-free, and the rest is taxed as income.

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.

If you are a basic rate tax payer, or you do not pay tax then 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 tax return.

You can pay the charge by completing a self-assessment tax return and filling in the 'Pension savings tax charges' section. It is your responsibility to pay this. Fill out a return at:

gov.uk/self-assessment-tax-returns

Here is an example for Joe.

- Joe's defined contribution pension is worth £80,000.
- He is also earning £20,000 from employment this tax year.
- Joe takes 25% of his pension tax free, so he receives £20,000 untaxed
- He has £60,000 left which he takes as a taxed lump sum
- His earnings plus his taxed lump sum mean his income for this tax year is £80,000
- This pushes Joe into the 40% tax bracket meaning he will face a large tax bill

Does this affect my Annual Allowance?

An UFPLS counts as flexibly accessing your pension so you will trigger the Money Purchase Annual Allowance (MPAA).

This is designed to stop you taking a large amount of money out of a pension tax-free and putting it back into another pension and receiving more tax relief.

Read out **MPAA** leaflet to find out more.

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