Taking cash from your Voluntary Savings

Background

This note covers cash payments out of Additional Voluntary Contributions (AVCs), Selected Benefit Scheme (SBS) and the 100+ Retirement Account (known collectively as 'Voluntary Savings')

It is very important when talking about taking cash from the Scheme that it is clear which legislative rule is being used as we are required to treat each payment differently.

Pension Commencement Lump Sum (PCLS) Since 2006 legislation has allowed members to take broadly 25% of the value of all their benefits under a scheme as tax free cash at the time their pension is put into payment. This is sometimes referred to as "tax free cash" but is now known as PCLS to distinguish it from other forms of lump sum payments.

Our Scheme has allowed Members to take their Voluntary Savings as part of their PCLS, subject to the Scheme specific limit of up to 25% of the value of the Voluntary Savings fund, or £50,000 (whichever is higher). The £50,000 limit does not apply to 100+ Retirement Accounts.

Uncrystallised Funds Pension Lump Sum (UFPLS) From 6 April 2015 there is a flexibility which enables members to take defined contribution or cash balance benefits (i.e. their Voluntary Savings) as cash. Members who have Voluntary Savings remaining after having taken their PCLS from the Scheme may wish to explore this option. This payment is known as an "Uncrystallised Funds Pension Lump Sum" or UFPLS.

25% of each payment of UFPLS will be paid free of tax (even if the member has already opted to use a proportion of his Voluntary Savings fund for the purpose of taking a PCLS). The remaining 75% of each payment will be taxable as normal pension income at the individual's highest marginal rate of tax.

More information about UFPLS

An UFPLS is:

- available to individuals who are over normal minimum pension age (55) (or under that age if the ill-health condition specified in the Finance Act 2004 is met);

- in respect of benefits in a "money purchase arrangement" i.e. your AVCs, SBS or 100+ Retirement Account. It is not available to defined benefit pension (unless you transfer your benefits out of the Scheme to a personal pension first); and

- if the member is under the age of 75, the individual has available lifetime allowance.

Certain members cannot be paid an UFPLS including:

- members entitled to either primary or enhanced protection who had a right to a tax-free lump sum greater than £375,000 on 5 April 2006; or

- members entitled to a lifetime allowance enhancement factor if the available portion of their lump sum allowance is less than 25% of the amount of the proposed lump sum payment.

There is no limit on the amount that can be taken as an UFPLS, subject to lifetime allowance limits.

Payment of an UFPLS will trigger the money purchase annual allowance. The government is keen to ensure that this flexibility is not abused by individuals to obtain unintended tax advantages. In particular, the concern with the UFPLS is that an individual over the age of 55 could each tax year pay part of their salary into a money purchase or cash balance pension arrangement (and obtain tax relief at their marginal rate) then withdraw 25% as a tax-free UFPLS. To prevent (or at least to restrict) this, the annual allowance regime has been amended so that (among other things) an individual who flexibly accesses their DC pension rights (including taking an UFPLS) will then be restricted to a money purchase annual allowance of £4,000 (i.e. they will only be entitled to obtain tax relief on further contributions to a money purchase or cash balance arrangement of up to £4,000 each year). Pension savings are still subject overall to a £40,000 standard annual allowance, including DC contributions.

What does this mean for you?

In connection with the main benefits coming into payment, you may take a PCLS, and may use up to 25% of the value of your Voluntary Savings benefits, or £50,000 (whichever is higher), for this purpose.

You may also use funds in your Voluntary Savings fund to take a further one-off cash payment (an UFPLS).

If you would like to take a UFPLS, care must be taken when calculating your PCLS that you do not take yourself outside the remit of the UFPLS legislation. However, it should not alter the maximum amount of money you can bring into payment tax free (although it may be labelled differently). The examples below show your options.

You may be charged for the costs associated with calculating and implementing an UFPLS – the Scheme Administrator will advise you in advance if any charge will be incurred.

Where can you obtain further information?

An information guide provided by the Money Advice Service called "Your Pension – it's time to choose" can be downloaded from our website, www.lepensions.co.uk.

Pension Wise is a free & impartial service provided by the Government to help you understand the options in relation to the increased flexibility of defined contribution benefits. You should consult Pension Wise, which can be accessed online, by phone or face to face before making any decisions in relation to how you draw your Voluntary Savings. Visit www.pensionwise.gov.uk for more information, or call 0300 330 1001 to book a free appointment.

Pension Wise is a guidance and information service only. Neither the Trustee nor Pension Wise can provide you with advice or recommendations about the best options for you.

Therefore, if you wish to consider the suitability of any retirement options, including taking a cash lump sum, it is strongly recommended that you speak to an independent financial adviser (IFA). Contact details for IFAs in your area can be found at www.unbiased.co.uk.

This Information Sheet is intended to provide you with information on taking cash from the Scheme, but you should note that it is not a legal document and is not intended as financial advice.

If you do decide to take cash from the Scheme, any benefits payable will depend upon the legislation in force and the Rules of the Scheme.

Examples – these are <u>simplified</u> calculations to broadly illustrate how the cash provisions work. We have illustrated AVCs, but SBS and Retirement Account would work in a similar way

A member has a defined benefit (DB) benefit worth £180k and an AVC pot of £60k.

Member wishing to take a PCLS but no UFPLS	**Member wishing to take a PCLS and an UFPLS**
Calculating the PCLS Add value of DB benefits and AVC pot (£180k + £60k)= £240k Broadly 25% of the total value can be taken as a PCLS 25% of £240k = £60k The Scheme limits provide that a maximum of £50k can be used from AVCs for the PCLS. The remainder must be taken from the DB benefits. PCLS consists of £50k from AVCs and £10k from DB benefits.	Calculating the PCLS Only £50K of the member's AVCs may be used for the purpose of taking a PCLS, with the remainder coming from the DB benefits. Therefore, the overall value of benefits being brought into payment initially is the value of the DB benefits and £50k of the AVC pot (£180k + £50k) = £230k Broadly 25% of the total value can be taken as PCLS 25% of £230k = £57.5k PCLS consists of £50k from AVCs and £7.5k from DB benefits.
The member's DB benefits are reduced to take account of £10k being taken as PCLS.	The member's DB benefits are reduced to take account of £7.5k being taken as PCLS.
£10k remaining in AVCs can be used for an external annuity.	£10k of "uncrystallised rights"[1] remains in the member's AVC pot. This could be used for an external annuity or drawdown or UFPLS.
	UFPLS The member can choose to take this £10k as a UFPLS. 25% could be taken tax-free (£2.5k); 75% would be subject to tax at the member's highest marginal rate (£7.5k). Tax would be deducted by the Scheme administrator before payment is made to you.
Summary £50k PCLS tax free from AVCs £10k PCLS tax free from DB benefits Must use £10k left in AVCs for an annuity	**Summary** £50k PCLS tax free from AVCs £7.5k PCLS tax free from DB benefits £2.5k tax-free element of the UFPLS from AVCs £7.5k taxed element of UFPLS from AVCs A total cash amount of £60K can be brought into payment <u>tax-free</u> (which equates to 25% of the value of all of the member's benefits in the Scheme).

[1] This has not been used in the first calculation and therefore not used to justify the PCLS. If it had been used to in the calculation for the PCLS, it could only be taken as a lifetime annuity.

A member has a defined benefit (DB) benefit worth £100k and an AVC pot of £40k.

Member wishing to take a PCLS but no UFPLS	**Member wishing to take a PCLS and an UFPLS**
Calculating the PCLS Add value of DB benefits and AVC pot (£100k + £40k)= £140k Broadly 25% of the total value can be taken as a PCLS 25% of £140k = £35k The Scheme limits provide that a maximum of £50k can be used from AVCs for the PCLS. The remainder must be taken from the DB benefits. PCLS consists of £35k from AVCs and £nil from DB benefits.	Calculating the PCLS Up to £50k of the member's AVCs may be used for the purpose of taking a PCLS. However, in this example the DB benefits are smaller. We do not want to use the excess amount in the AVC funds to calculate the PCLS or it would not be possible to take it is a UFPLS. Therefore, we would add the value of the DB benefits and £33.33k[2] of the AVC pot (£100k + £33.33k) = £133.33k Broadly 25% of the total value can be taken as PCLS 25% of £133.33k = £33.33k PCLS consists of £33.33k from AVCs and £nil from DB benefits.
£5k remaining in AVCs can be used for an external annuity.	£6.67k of "uncrystallised rights"[3] remains in the member's AVC pot. This could be used for an external annuity or drawdown or UFPLS.
	UFPLS The member can choose to take this £6.67k as a UFPLS. 25% could be taken tax-free (£1.67k); 75% would be subject to tax at the member's highest marginal rate (£5k). Tax would be deducted by the Scheme administrator before payment is made to you.
Summary £35k PCLS tax free from AVCs Must use £5k left in AVCs for an external annuity	**Summary** £33.33k PCLS tax free from AVCs £1.67k tax-free element of the UFPLS from AVCs £5k taxed element of UFPLS from AVCs A total cash amount of £35k can be brought into payment tax-free (which equates to 25% of the value of all of the member's benefits in the Scheme).

[2] DB benefit value ÷ 3.
[3] This has not been used in the first calculation and therefore not used to justify the PCLS. If it had been used to in the calculation for the PCLS, it could only be taken as a lifetime annuity.

A member has a defined benefit (DB) benefit worth £125k and an AVC pot of £75k.

Member wishing to take a PCLS but no UFPLS	**Member wishing to take a PCLS and an UFPLS**
Calculating the PCLS Add value of DB benefits and AVC pot (£125k + £75k)= £200k Broadly 25% of the total value can be taken as a PCLS 25% of £200k = £50k The Scheme limits provide that a maximum of £50k can be used from AVCs for the PCLS. The remainder must be taken from the DB benefits. PCLS consists of £50k from AVCs and £nil from DB benefits.	Calculating the PCLS Up to £50k of the member's AVCs may be used for the purpose of taking a PCLS. However, in this example the AVC benefits are greater. We do not want to use the excess amount in the AVC funds to calculate the PCLS or it would not be possible to take it is a UFPLS. Therefore, we would add the value of the DB benefits and £41.7k[4] of the AVC pot (£125k + £41.7k) = £166.7k Broadly 25% of the total value can be taken as PCLS 25% of £166.7k = £41.7k PCLS consists of £41.7k from AVCs and £nil from DB benefits.
£25k remaining in AVCs can be used for an external annuity.	£33.3k of "uncrystallised rights"[5] remains in the member's AVC pot. This could be used for an external annuity or drawdown or UFPLS.
	UFPLS The member can choose to take this £33.3k as a UFPLS. 25% could be taken tax-free (i.e. £8.3k); 75% would be subject to tax at the member's highest marginal rate (i.e. £25k). Tax would be deducted by the Scheme administrator before payment is made to you.
Summary £50k PCLS tax free from AVCs Must use £25k left in AVCs for an external annuity	**Summary** £41.7k PCLS tax free from AVCs £8.3k tax-free element of the UFPLS from AVCs £25k taxed element of UFPLS from AVCs A total cash amount of £50k can be brought into payment tax-free (which equates to 25% of the value of all of the member's benefits in the Scheme).

[4] DB benefit value ÷ 3.

[5] This has not been used in the first calculation and therefore not used to justify the PCLS. If it had been used to in the calculation for the PCLS, it could only be taken as a lifetime annuity.