

Trivial commutation for small pensions

Personal tax

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www.litr.org.uk provides an overview of trivial commutation rules for defined benefit pensions, and in-house defined contribution that are in payment

With the introduction of pensions flexibility in April 2015, it might have been hoped that ‘trivial commutation’ and ‘small pots’ rules for taking pension savings as a lump sum could have been forgotten. However, as pensions flexibility applies only to defined contribution schemes, the trivial commutation rules do still apply in some instances so that prospective pensioners can look to take a lump sum without first transferring to a defined contribution scheme (which may not always be possible).

The Low Incomes Tax Reform Group (LITRG) therefore continues to publish a guide to the trivial commutation rules, and indeed the group’s website still gets enquiries from the public about them.

So to what kinds of pension do the ‘trivial commutation’ rules still apply? There are two possibilities:

- final salary (defined benefit) pension plans; and
- certain employers’ defined contribution schemes where a small pension is already being paid out. Note that the pension scheme has to be paying the pension ‘in house’ – that is, the pot of savings has not been used to buy an annuity.

Those aged 55 and over can, broadly, cash in the above kinds of pension in full if their overall pension provision amounts to less than £30,000. If taking trivial commutation, each pension fund has to be encashed in its entirety; though if you have more than one pension you could choose to cash in one or more and leave the other(s). If taking lump sums under the trivial commutation rules, all encashments have to be made within 12 months of the first.

In addition to trivial commutation, prospective pensioners may cash in certain other pension funds as lump sums if the ‘small pots’ rule applies – that is, the value of the individual pension pot is under £10,000.

The LITRG website guide also warns readers of potential knock-on impacts of taking pension lump sums, which must be taken into account in any form of planning. Alongside the obvious tax planning considerations (for example, the timing of taking withdrawals in order to minimise the income tax liability), readers are warned to think about the knock-on effect to:

- tax credits claims (the 75% taxable element of the lump sum is also income for tax credits); and
- other state benefits (for example, once funds are withdrawn from untouched pensions, they are likely to move from being ‘disregarded’ for means-tested benefits to being included in the benefits assessment).

Care also needs to be taken for claimants of Child Benefit, for whom a High Income Child Benefit Charge could be triggered if income is pushed above the £50,000 limit. This is perhaps increasingly possible now that pensions flexibility and trivial commutation rules allow lump sum withdrawals from age 55 (previously, trivial commutation applied from age 60 onwards).

LITRG's full guides to [trivial commutation](#) and [pension flexibility](#) can be found on the LITRG website.