

## **LONDON BOROUGH OF HACKNEY PENSION FUND**

# **Exchanging your pension for a one-off payment**



**A guide for members of the Local Government  
Pension Scheme (LGPS)**

## Introduction

If you are receiving a relatively small pension from the Hackney Pension Fund, or the pension benefits that are due but are not yet being paid to you (your deferred benefits) are small you may be able to convert them into a one-off lump sum instead of receiving a pension for the rest of your life. This includes pension credit members where you have received a pension within the Fund following a divorce from your ex-partner.

If you are receiving a relatively small survivor's pension from the Hackney Pension Fund following the death of a loved one then you may also be able to convert that pension into a one-off lump sum.

Whether you are entitled to do this will depend on the amount of your pension benefits, your age, and the level of other pension benefits you are entitled to.

If you satisfy the criteria and choose to take the one-off payment then the payment will be taxable. As a general rule of thumb, if you are already receiving a pension then the entire one-off lump sum will be subject to tax. If you are not yet receiving your pension then at least 75% of the one-off lump sum will be subject to tax.

It's important to note that if you choose to take a one-off lump sum then any potential survivors pensions that would normally apply upon your death will no longer be paid. This is because the one-off lump sum takes these potential pensions into account when calculating the value of your one-off lump sum.

There are two types of one-off payments with different rules applying. You can find out more information about these in the next section which will hopefully help you work out which type of payment may apply to you.

## Trivial Commutation

**To be eligible for a trivial commutation lump sum payment you will need to fulfil the following criteria (not including those who are receiving a survivor's pension):**

- 1 Aged 55 or over, or if you are at an earlier age, you should be retiring because of ill-health, but if you paid into the Hackney Fund between 6 April 1978 and 5 April 1997 or you transferred pension rights into the Fund where you paid into that scheme between those dates, then it is likely that you must be over 65 (male) or 60 (female).
- 2 The **capital value** of all of your retirement benefits (LGPS and non-LGPS, but not including your state pension) does not exceed £30,000.
- 3 Your **lifetime allowance** has not been exceeded.

- 4 Upon receipt of your one-off payment, all other LGPS benefit entitlements in respect of your membership must also be taken as a one-off payment (so if you have an LGPS pension entitlement from another Pension Fund in England or Wales then you will need to take a one off payment of those benefits too).
- 5 A trivial commutation payment must not have been paid by another scheme (unless it was received within the past 12 months).

If you receive a survivor's pension from the Fund, then to be eligible to receive a trivial commutation lump sum payment you will need to fulfil the following criteria:

1. The calculated lump sum value of all of your survivor benefits (in the Hackney Fund and any other LGPS Fund) does not exceed £30,000.
2. Upon receipt of your one-off payment, all other LGPS survivor's pensions you are receiving in respect of your loved one must be taken as a lump sum.

## "Small Pot" Payments

Alternatively, if your LGPS pension is very small you might choose to exchange your entire pension benefits for a one-off lump sum. This option is only relevant to your LGPS benefits where the value does not exceed a lump sum payment of £10,000.

The main difference in the rules between the Trivial Commutation payment and the "small pot" payment is that you do not need to consider any other pension savings that you have apart from your LGPS benefits in England or Wales.

"Small pot" payment rules do not apply to members who are receiving a survivor's pension.

**To be eligible for a one-off payment of a "small pot" you will need to fulfil the following criteria:**

- 1 Aged 55 or over, or if you are at an earlier age, you should be retiring because of ill-health, but if you paid into the Hackney Fund between 6 April 1978 and 5 April 1997 or you transferred pension rights into the Fund where you paid into that scheme between those dates, then it is likely that you must be over 65 (male) or 60 (female).
- 2 You must have been contributing to the LGPS on or after 1 April 2008, or, if you are a pension credit member where your pension benefits were awarded to you after a divorce, the date of the pension sharing order must be dated

after 31 March 2014, and your former partner must have paid into the LGPS after 31 March 2014.

- 3 You must not have transferred out of the LGPS within the last 3 years.
- 4 Upon receipt of your one-off payment, all LGPS benefits entitlements must be withdrawn.
- 5 Must not be a controlling director of an employer that participates in the LGPS in England or Wales.

## Next steps

The rules around exchanging your pension for life for a one-off lump sum are complicated and it is not always the best option for every member so we encourage you to speak to the Fund's administrators, Equiniti, before you make a decision. They won't be able to provide you with financial advice or tell you what the best decision is for you but they will be able to provide you with clarification on the rules based on your situation.

If you would like to understand if you would be eligible for a one-off payment, you can contact Equiniti for a valuation of your benefits, letting them know that the purpose of this check is to assess whether you qualify for a trivial commutation lump sum or "small pot" pension payment. Equiniti may need further information from you about the value of any other pension benefits you have.

If you wish to commute your pension, you will need to request commutation offers from all of the pensions you wish to commute within a specific period of time (usually three months).

## Calculation of Amount

Once the eligibility criteria have been satisfied, the calculation of the lump sum amount that can be paid is calculated using the appropriate LGPS factors set by the Government Actuary's Department as follows:

### All members apart from those receiving a survivor's pension

Lump Sum = Annual Pension accrued x Age factor applied to member's pension  
+  
Spouse's pension accrued x Age factor for applied to the partner's pension payable on the member's death

### Members receiving a survivor's pension

Lump Sum = Annual Pension accrued x Age factor applied to survivor's pension

Please note that the above is a simplistic representation of the calculations required. All trivial commutation or "small pots" payments are subject to tax but the amount of tax will depend whether the benefits were already in payment.

## Glossary

- **Capital Value of Pensions:**  
If a pension was in payment on 5 April 2006 the capital value is 25 x value of pension on 5 April 2006  
If a pension came into payment on or after 5 April 2006 the capital value is 20 x value of pension + value of any lump sum on the date those benefits became payable  
If a pension isn't currently in payment, the capital value is 20 x value of current pension + current value of any lump sum.
- **Lifetime allowance:**  
This is the limit on the total amount of pension benefit that an individual can receive from all of their registered pension schemes without triggering an additional tax on their benefits. This limit is currently £1,073,100.
- **Deferred benefits:**  
The benefits that are being revalued of a former employee who has left active membership but has not yet received any benefits from the Fund and is prospectively entitled to receive a deferred pension from his/her normal pension age.
- **Pension Credit:**  
A pension credit is a share of an ex-spouse's or ex-civil partner's pension benefits, as awarded by a Court under a Pension Sharing Order, or by a qualifying agreement in Scotland, following a divorce or a dissolution of a civil partnership.

## FURTHER INFORMATION

### London Borough of Hackney Pension Fund team:

Pensions Administration  
London Borough of Hackney  
Financial Services  
4th Floor, Hackney Service Centre  
1 Hillman Street  
London E8 1DY

pensions@hackney

**Telephone: 020 8356 2521**

**E-mail: [pensions@hackney.gov.uk](mailto:pensions@hackney.gov.uk)**

### Pension Administrators – Equiniti

London Borough of Hackney Pension Fund  
Equiniti  
Russell Way  
Crawley  
West Sussex  
RH10 1UH

# EQUINITI

**Telephone: 0371 384 2369**

**E-mail: [hackney.pensions@equiniti.com](mailto:hackney.pensions@equiniti.com)**

**Website: [www.hackneypension.co.uk](http://www.hackneypension.co.uk)**

#### Disclaimer

This booklet is up-to-date at the time of publication. This booklet is for general use and cannot cover every personal circumstance, nor does it cover specific protected rights that apply to a very limited number of members. In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this booklet does not confer any contractual or statutory rights, and is provided for information purposes only.