

## Introduction

When you retire from the Local Government Pension Scheme (LGPS), the Pension Fund will calculate your standard benefits; an annual pension (paid per calendar month) and an automatic tax-free lump sum if you became a member of the scheme on or before 31 March 2008.

If you became a member on or after 1 April 2008, you will NOT be entitled to an automatic tax-free lump sum, but you will have the option of **Commutation**. (You will also have this option if you have an entitlement to an automatic tax-free lump sum).

## What is Commutation?

When you retire, you will have the option to convert up to 25% of the **Capital Value** of your pension benefits to receive a tax-free lump sum payment (inclusive of any automatic tax-free lump sum entitlement). For every £1 of pension you decide to give up, you will receive £12 of tax-free cash in return, subject to your 25% limit, which is set by Her Majesty's Revenue & Customs (HMRC).

Please note that this option is by no means compulsory. You can either choose to receive a full annual pension or you can elect to receive a lower annual pension with tax-free cash (which means a higher lump sum if you already have an automatic tax-free cash entitlement). However, you do not have to elect to receive the maximum tax-free cash option, as you can choose to receive an 'in-between value' if you so wish.

## What if I pay additional contributions?

If you have paid Additional Voluntary Contributions (AVC) under the Scheme's in-house arrangement, your AVC fund upon retirement will be taken into account when calculating the Capital Value of your pension benefits. For further information on how your AVC fund is included within this calculation, please contact the Pension Fund.

Any extra pension purchased via an Additional Pension Contribution (APC) arrangement (or Additional Regular Contribution - ARC contract) or any 'added years' purchased, is included in the calculation of your standard benefits.

## How is my 'Capital Value' calculated?

The Capital Value of your pension benefits is calculated as:

$120 \times \text{Annual Pension} + 10 \times \text{Automatic Lump Sum (if applicable)}$   
 $\div 7 = \text{the Capital Value of your Benefits}$

Capital Value  $\times$  25% = **Maximum Lump Sum** payable under LGPS

## Example

Upon retirement, Ruth's **standard benefits** have been calculated as:

Annual Pension: £10,000  
Automatic Lump Sum: £24,000

Ruth now has the option to either receive her standard benefits (as above) **OR** the **maximum tax-free cash option** (as shown below) and remaining annual pension, or alternatively she can elect to receive an **in-between value**.

Maximum Lump Sum: **£51,428.57**  
 $(120 \times £10,000 + 10 \times £24,000 \div 7 =$   
 $£205,714.28 \times 25\% = £51,428.57)$

Remaining Annual Pension: **£7,714.29**  
 $(£51,428.57 - £24,000 \div 12 = £2,285.71)$   
 $(£10,000 - £2,285.71 = £7,714.29)$

## When do I elect for Commutation?

The Pension Fund will provide you with a retirement pack at the point of retirement, which will include your maximum tax-free cash option. Your election must therefore be made before your benefits become payable and once you have made your election, it **CANNOT** be withdrawn. Should you wish to explore an 'in-between value', you are advised to contact the Pension Fund at that time.

## Will my Survivor's Benefits be less as a result?

If you do elect for Commutation, it will **NOT** reduce any subsequent Survivor's Benefits payable to your spouse, registered civil partner or eligible co-habiting partner, and / or any eligible children in the event of your death.

## Please Note

The Pension Fund is unable to provide you with any financial advice, therefore please consider seeking Independent Financial Advice when you retire to ensure that the most appropriate option is taken.

## Further Information

This factsheet gives general guidance only and does not confer any statutory rights. For further information, please contact:

Tel: **029 2087 2334**

Email: [pensions@cardiff.gov.uk](mailto:pensions@cardiff.gov.uk)



# Commutation