TAKING PENSION BENEFITS UNDER TRIVIALITY OR SMALL PENSION POTS RULES

Trivial commutation lump sums (defined benefit schemes only)

The triviality rules allow benefits from defined benefit occupational pension schemes to be commuted and paid as a one-off lump sum payment (known as a trivial commutation lump sum) where:

- The total value of the individual's pension rights from all registered pension scheme sources (defined benefit and defined contribution, including the value of existing pensions in payment) is no more than £30,000 (known as the commutation limit).
- The individual has reached age 55, this will be 57 from 2028.
- The trivial commutation lump sum doesn't use up lump sum allowance or lump sum and death benefit allowance but in order to take a trivial commutation lump sum there must be some available lump sum allowance (this doesn't need to cover the trivial commutation payment but there must be some lump sum allowance available)..
- The payment eliminates the individual's rights to defined benefits under that scheme.
- Where applicable, the payment is made within 12 months of the first trivial commutation lump sum. Where an individual has trivial benefits spread across more than one pension scheme, any trivial commutation lump sums to be taken must be paid within a single 12 month period. The clock starts ticking when the first scheme pays its lump sum. After the 12 months have expired, no further trivial commutation lump sums can be paid to the individual. Trivial commutations that took place before 6 April 2006 do not count for this purpose.

The triviality rules can be used for both crystallised rights and uncrystallised rights, including former protected rights and guaranteed minimum pension (GMP).

Small pots / stranded pots rules (occupational – defined benefit or defined contribution schemes)

In addition to the trivial commutation lump sum rules for defined benefit schemes described above, there are rules to allow small 'stranded pots' of £10,000 or less to be paid as a lump sum in certain, limited, situations. For example, a trivial commutation lump sum of up to £10,000 may be paid from a registered pension scheme if:

- The member has taken a protected tax free lump sum leaving a small fund to provide a pension or
- The member was discovered to be entitled to a higher level of benefit under the scheme after a pension had been bought or benefits transferred, or
- It is an occupational pension scheme and the member is not a controlling director (or connected to a controlling director) of the sponsoring employer

There is no limit on the number of small pots that can be taken from occupational schemes, unlike those from non-occupational schemes, described below.

The small pots lump sum doesn't use up lump sum allowance or lump sum and death benefit allowance and there don't have to be any allowances available in order to take a small pot.

Small pots / stranded pots rules (non-occupational schemes)

Small non-occupational pension pots (for example personal pensions, SIPPs, section 32 buyouts, stakeholder plans and section 226 retirement annuity contracts) can be paid out as lump sum payments to individuals aged 55 or over, as authorised payments. The amount that can be withdrawn in this way must not exceed £10,000 per arrangement.

The following conditions must however be met:

- The member has reached the age of 55, this will be 57 from 2028
- The payment does not exceed £10,000
- The payment extinguishes the member's entitlement to benefits under the arrangement, and
- The member has not previously received more than two such payments (i.e. is limited to three in total)

These payments can be made regardless of the value of the individual's total pension savings and can be made in addition to any trivial commutation lump sum payments or occupational pension scheme small stranded pot or winding up lump sum payments the individual may have received.

The small pots lump sum doesn't use up lump sum allowance or lump sum and death benefit allowance and there don't have to be any allowances available in order to take a small pot.

Winding up lump sums (these rules are to enable the scheme trustees to deal with smaller funds)

A variation on the triviality rules can be used, subject to certain conditions, where occupational pension schemes are being wound up, to enable the scheme trustees to deal with smaller funds by paying a winding up lump sum to the member of the occupational scheme,

A winding up lump sum can be paid to an individual where:

- The occupational pension scheme is winding up
- The winding up lump sum doesn't use up lump sum allowance or lump sum and death benefit allowance but in order to take a winding up lump sum there must be some available lump sum allowance (this doesn't need to cover the winding up lump sum payment but there must be some lump sum allowance available).
- The value of the individual's pension rights under that scheme does not exceed the winding up lump sum limit of £18,000 (benefits from other pension schemes can be ignored), and
- The payment eliminates the individual's rights under that scheme

Unlike trivial commutation lump sums, benefits from other pension schemes can be ignored and there is no minimum age requirement. A winding up lump sum also does not impact on the individual's ability to take a trivial commutation lump sum from other schemes at a later date.

In addition to the above conditions, the employer must:

- Have made payments to that scheme for the individual, and
- Not be making payments to any other registered pension scheme for the individual (and agree not to do so for at least a year after the winding up lump sum is paid)

Taxation

With regard to taxation of a trivial commutation, winding up or small pension pot lump sum, if the individual has not previously taken benefits from the scheme paying the lump sum, only 75% of the lump sum will be taxable (as pension income). The other 25% will be paid tax free. If the lump sum is being paid from pension savings that the individual has already put into payment the whole lump sum will be taxable as pension income.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.