

ADVICE NOTE

Information & advice for members of the
Scottish Secondary Teachers' Association



Taking Additional Lump Sum on Retirement

From 1 April 2007 the new pension arrangements allow greater scope to take a higher tax-free lump sum and a lower level of pension. The worked example below explains the new regulations.

The calculation assumes:

Normal Pension Age	60
Years of service	33
Final Salary	£37,000

Rules of Commutation

As a generality, a teacher can commute an amount between the current 3/80th and up to a maximum of 25% of the fund value after commutation into lump sum.

In effect, this means that the maximum that can be commuted is therefore 19.64% of annual pension (calculated on a 1/80th basis). The 19.64% maximum figure has been calculated by Government Actuary Department. Like the lump sum, this amount is tax free.

For every £1 reduction in annual pension the amount of lump sum available is increased by £12.

Before Commutation

Pension per year	£37,000 x 33/80	=	£15,263
Lump Sum	3 x pension	=	£45,789
Notional "pension pot"	pension x 20 + lump sum £15,263 x 20 + £45,789	=	£351,049
Lump sum as % of notional "pension pot"	£45,789/351,049	=	13%

Commutation Limit

maximum commutable	pension x 9.64% £15,263 x 9.64%	=	£2,998
Additional lump sum	£2,998 x 12	=	£35,976
Total lump	£35,976 + £45,789	=	£81,765

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0131 313 7300, visit our website www.ssta.org.uk or email us at info@ssta.org.uk

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Impact on Annual Pension

The commutation of pension to lump sum will cause the annual pension to fall.

Pension prior to commutation	£15,263	£1,272 a month*
Reduction in pension due to commutation	£2,998	£250 a month*
Pension after commutation	£12,265	£1,022 a month*

* The figure has been rounded to the nearest £. There may also be a small reduction in pension as a result of NI modification for those in employment prior to 1 April 1980.

The above example shows illustrates the maximum scope of commutation. It is possible to commute a smaller amount.

Note

It is important to remember when considering the commutation of pension for additional lump sum that annual pension is increased each April in line with cost of living increases. This index linking is lost on that part of the pension pot which is commuted.

Getting Advice

The SSTA can give you information but, in law, may not give advice on such financial matters. You can, however, obtain full independent advice from the Association's advisers,

L-Life Ltd

Enquiries@llife.co.uk

or by contacting another independent financial adviser.



Want more info? Call to speak to one of our professional officers on 0131 313 7300, visit our website www.ssta.org.uk or email us at info@ssta.org.uk