Fact Sheet - Taking pension benefits under triviality or small pension pots rules

Triviality rules (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 value of all the individual's pension rights from all registered pension scheme sources (including the value of existing pensions in payment) is no more than £30,000 (known as the commutation limit); and
- The individual has reached age 55; and
- The individual has some unused lifetime allowance left; and
- The payment eliminates the individual's rights to defined benefits under that scheme; and
- 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 'stranded pots' rules (occupational – defined benefit or defined contribution schemes)

In addition to the standard triviality rules, 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.

Occupational pension schemes which are being wound up (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 either:

- A winding up lump sum to the individual, that is, the member of the occupational scheme; or
- A winding up lump sum death benefit to a survivor.

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

- The occupational pension scheme is winding up; and
- The individual has some unused lifetime allowance left; and
- The value of the individual's pension rights under that scheme does not exceed the trivial commutation limit of £30,000 (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. It 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).

A winding up lump sum death benefit can be paid to a survivor where:

- The occupational pension scheme is winding up; and
- The lump sum does not exceed £30,000; and

The lump sum represents, and eliminates, all the survivor's rights to death benefits under the pension scheme.

It is worth noting that a winding up lump sum death benefit can be paid regardless of whether or not the individual died before or after age 75, and even where the survivor's benefits involve former protected rights or guaranteed minimum pension.

The whole lump sum is taxed as pension income of the survivor on death after 75 or is tax free on death before 75.

Commutation of small personal pension pots (although often referred to as personal pension commutation this rule actually applies to all non-occupational or non-public sector pensions such as personal pensions, SIPPs, section 32 buyouts, stakeholder plans and section 226 retirement annuity contracts).

Small funds held in non-occupational and non-public sector arrangements 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.

The following conditions must however be met:

- the member has reached the age of 55;
- 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 (ie. 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.

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.