

THE BRITISH STEEL PENSION SCHEME

Trivial Commutation Explanatory Leaflet

This leaflet is designed to help explain the process for applying for a 'defined benefit' British Steel Pension Scheme small pension to be paid as a one-off lump sum (generally known as trivial commutation).

Any figures used throughout this guide are simply illustrative.

Trivial commutation payments will be paid in accordance with the Rules of the Scheme in force from time to time and the appropriate actuarial factors, subject to any relevant statutory or regulatory provisions which may apply at the time.

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How can I take my small pension as a lump sum payment (trivial commutation)?

Many pension providers offer the opportunity to convert 100% of a 'small' pension into a one-off cash payment. This is known as 'trivial commutation' and the cash received as a 'trivial commutation lump sum'.

This leaflet sets out the rules and issues to consider in relation to British Steel Pension Scheme trivial commutations.

Taking a small pension as a lump sum

In most cases 25% of the value of accrued pension benefits can be converted into tax-free cash at the time the pension commences and the same applies to trivial commutation lump sums taken before a pension commences. So 25% will be free of tax and the remaining 75% will be taxable as normal income in the year in which it is paid.

If a trivial commutation lump sum payment is made in exchange for a pension that is already in payment, however, then all of that payment will be taxable as normal income in the year in which it is paid.

In all cases, there are rules about how much you can receive as a trivial commutation lump sum, and when you can receive it.

What are the rules of trivial commutation?

The rules that must be taken into account to see if trivial commutation is available are:

- the commutation must be made at any time on or after your 55th birthday¹;
- the total capital value of the pension that you wish to cash in, plus the total value of **all** of the other pensions under UK-registered schemes² to which you are entitled, must be within the definition of 'trivial', which currently means not more than £30,000. See the section on page 4 'What is the £30,000 limit?' for an explanation of how this is worked out;
- all trivial commutations that you wish to make must be made within 12 months of the date on which you cash in the first of them. You do not need to cash in all of the pensions you have, but if you take a trivial commutation lump sum from a particular pension you must cash in the whole of that individual pension;
- the member must have available Lifetime Allowance³ to pay the lump sum;
- members must complete a declaration confirming their total benefits before any trivial commutation lump sum payment can be made.

If these conditions are not all satisfied it may be possible to commute to a lesser amount (currently £10,000). See the section on page 5 'What is the £10,000 limit?' for more details.

1. This minimum age will rise in line with the increase in the state pension age so that the age at which you can take a trivial commutation lump sum remains ten years below the state pension age. This minimum age criteria does not apply in respect of a widow/widowers' pension.
2. Not including any state pension or pension income you receive as a widow/widower/surviving civil partner/dependant of a deceased pension scheme member.
3. Lifetime Allowance is the overall limit on an individual's tax privileged pension savings and is currently set at £1,030,000 (2018/19). Unless certain protections apply, benefits in excess of the Lifetime Allowance will be subject to an additional tax charge when they come into payment.

Trivial commutation limits

What is the £30,000 limit?

In order to decide whether you are within the £30,000 limit, you must add the value of all your UK registered pension entitlements together. How this works will depend on the type of pension scheme you belong to and whether or not you are already receiving an income from the pension scheme.

How are my benefit values calculated?

For pensions not yet in payment:

- **'Defined benefit' arrangement**

The value of your pension pot in a 'defined benefit' arrangement, such as the British Steel Pension Scheme, is your current annual pension multiplied by 20⁴.

In some pension schemes you may receive a tax-free lump sum without having to give up ('commute') part of your pension. You need to add on the value of this separate lump sum.

For example, if you've built up a pension of £500 a year and your scheme also gives you a lump sum of your pension multiplied by 3, your lump sum will be £1,500. Your pension pot is valued as £11,500. i.e. $(£500 \times 20) + £1,500 = £11,500$.

- **'Defined contribution'⁵ arrangement**

The value of pension savings held under a 'defined contribution' arrangement is the fund value held in your pension pot. Your pension scheme administrator can tell you how much your pension pot is worth.

For pensions already in payment:

- **If your pension payments started before 6 April 2006**

1. Your gross annual pension at 5 April 2006 is multiplied by 25⁴.
2. Any tax-free cash taken before 6 April 2006 is ignored.

- **If your pension payments started on or after 6 April 2006**

1. Your gross annual pension at the time you took it is multiplied by 20⁴.
2. Any tax-free cash sum you may have taken is added to this amount.

4. A HM Revenue & Customs conversion rate. There may be additional requirements if you have a Guaranteed Minimum Pension.

5. Also known as a 'money purchase' arrangement.

What if I want to commute, or have already commuted, another pension?

There is a 12-month trivial commutation period which applies only where you are trivially commuting benefits from more than one pension arrangement.

The trivial commutation period starts on the date when the first trivial commutation lump payment is made. You then have 12 months from that date to trivially commute any remaining pension arrangements. If you fail to do this within the 12-month window, you will lose the opportunity to trivially commute your remaining pension arrangements at a later date.

You do not have to trivially commute all your pension arrangements. You can trivially commute some and leave others to provide you with retirement income.

What is the £10,000 limit?

If you have small benefits in an occupational pension, it may be possible for you to cash them in under triviality rules, even if the main rules above have not been met.

You are allowed one-off cash payments of up to £10,000 from certain occupational pension schemes, such as the British Steel Pension Scheme, in exchange for the pension.

The rules that must be taken into account to see if this £10,000 trivial commutation is available are:

- the trivial commutation must be made at any time on or after your 55th birthday⁶;
- you are not a controlling director of one of the sponsoring employers of the Scheme;
- the total capital value of the pension that you wish to cash in must not be more than £10,000. This amount must represent all of the benefits that you are entitled to under the Scheme;
- the trivial commutation must extinguish all of your entitlement to benefits under the Scheme;
- you have not made any transfers out of part of your benefits within the three years before the date of commutation.

Please note that the valuation that you get for a Scheme trivial commutation lump sum payment will be different to the valuation for taking a pension.

6. This minimum age will rise in line with the increase in the state pension age so that the age at which you can take a trivial commutation lump sum remains ten years below the state pension age. This minimum age criteria does not apply in respect of a widow/widowers' pension.

Trivial commutation lump sum death benefit

What is a trivial commutation lump sum death benefit?

Where an individual is entitled to a small dependant's pension from a pension scheme, this can be taken as a lump sum instead. This is a 'trivial commutation lump sum death benefit'. If a trivial commutation lump sum death benefit is taken, all the dependant's rights to death benefits under the scheme will be given up.

How much can be paid as a trivial commutation lump sum death benefit?

The maximum capital value of any trivial commutation lump sum death benefit that can be paid from any scheme is currently £30,000. This is a maximum amount per scheme.

When can a trivial commutation lump sum death benefit be paid?

A trivial commutation lump sum death benefit can be paid regardless of the age of the member when they died. There is no time limit for making the payment.

Who can be paid a trivial commutation lump sum death benefit?

A trivial commutation lump sum death benefit can only be paid to a dependant entitled under the Scheme to a pension in respect of the member.

Is a trivial commutation lump sum death benefit tested against the Lifetime Allowance?⁷

No.

Is income tax deducted from the payment of a trivial commutation lump sum death benefit?

Yes, the full amount is taxable as pension income of the dependent receiving the payment.

Is inheritance tax due on the payment of a trivial commutation lump sum death benefit?

No.

7. Lifetime Allowance is the overall limit on an individual's tax privileged pension savings and is currently set at £1,030,000 (2018/19). Unless certain protections apply, benefits in excess of the Lifetime Allowance will be subject to an additional tax charge when they come into payment.

Taxation

Do I have to pay tax on trivial commutation lump sum payments?

Pension providers are told by HM Revenue & Customs (HMRC) to deduct tax at source and pay you the balance.

The Scheme will initially deduct tax under Pay As You Earn (PAYE) from the lump sum at the time of making the payment to you. How much tax is taken will depend on your circumstances. Commonly the situation will be:

1. For pensions not yet in payment, the Scheme must deduct tax from the trivial commutation lump sum using a 'basic rate' tax code⁸.
2. For pensions already in payment, the trivial commutation lump sum is normally subject to tax on the basis of the tax code that applied to your pension immediately before trivial commutation.

For pensions not in payment, the Scheme will operate the tax code on a non-cumulative basis – in other words, the tax code takes no account of any balance of unused tax allowances to which you may be entitled or the cumulative tax you have paid so far in the tax year. As a result, the amount of tax deducted from your lump sum may need adjusted. A basic rate code should produce broadly the right tax deduction in many cases, but you may still need to check your position carefully.

The Scheme will provide you with a form P45, as if you were leaving a job, showing the amount of trivial commutation and the amount of tax deducted.

8. Currently a flat rate of 20%.

How do I claim a refund from HMRC?

HMRC will check whether you have paid the right amount of tax under PAYE when you receive a trivial commutation lump sum payment based upon what they know about you at the end of each tax year and make any repayment due to you then. You should take care and check that any tax calculation and refund you receive from HMRC is correct.

If you are certain that you have paid too much tax, you can apply to have a tax refund before the end of the tax year. To do this, you should contact HMRC and ask them to send you a form P53 for completion. Or you can complete form P53 online on HMRC's website and then print out to send to HMRC.

Form P53 asks you to provide details of your income for the whole of the tax year in which you received the trivial commutation lump sum.

You should return the form to HMRC, together with parts 2 and 3 of the form P45 given to you by the British Steel Pension Scheme at the time you received the trivial commutation lump sum.

If you do not complete a self assessment tax return, HMRC may ask you to complete a second form P53 after the end of the tax year to show actual figures and will make any necessary adjustments thereafter.

HMRC can be contacted at:

HM Revenue & Customs

Centre 1 East Kilbride

Glasgow G79 1AA

Tel No: 0300 200 3300

Please ensure that you have a note of your National Insurance number ready and the Scheme Reference number which is 961/084181X.

What if I am not resident in the UK for tax purposes?

If you are not resident in the UK for tax purposes, for example if you have retired abroad, the above arrangements will not be applicable to you.

Instead you should contact HMRC and ask to be sent a form R43. Alternatively you can download a form R43 from the HMRC website. You may be able to claim relief under a double taxation agreement. There is more information on how to do this on HMRC's website.

Other considerations

What other issues do I need to consider before applying for trivial commutation?

Interaction with state benefits

If you are in receipt of a means-tested state benefit – for example, housing benefit or council tax reduction – receipt of a trivial commutation lump sum will increase the level of capital you possess. This might affect your ability to continue claiming that benefit. There is more information on means-tested state benefits on the Government's website GOV.UK⁹.

Similarly, additional capital can reduce or extinguish your entitlement to pension credit – again there is more information on GOV.UK. You should consider the position carefully before making the decision to take a trivial commutation payment and may need to take advice from a tax adviser. You can find a tax adviser on the Chartered Institute of Taxation website (www.tax.org.uk).

When to take a trivial commutation payment

It is possible to take a trivial commutation lump sum at any time from age 55¹⁰ onwards.

Delaying the decision to take a trivial commutation lump sum to a later tax year could produce a saving in taxes. For example, in the tax year in which you retire, you are likely to have higher taxable income and therefore potentially fall into a higher tax band, than you might in the tax year following retirement.

If you have a number of small pension policies it may be advantageous to cash them in over two tax years, but it is important to remember the 12-month rule (see page 5).

Payments just outside the trivial commutation lump sum limits

There is no provision allowing payments that exceed the cash limits to be partly tax free; a scheme cannot make a payment which takes you over the limit.

So be very careful, because if, as a result of receiving several trivial commutation payments, your total lump sum exceeds the £30,000 limit – and assuming none are 'allowed' under the tax rules relating to the £10,000 limit (see page 5) – then all of the trivial commutation lump sum payments you receive may become subject to a penalty rate of taxation of 40%.

This is particularly important to be aware of when commuting several pensions on separate occasions within the 12-month commutation period.

9. The online site to find government services and information.

10. This minimum age will increase - see footnote 1.

Contacting the Pensions Office

For queries about the technical issues surrounding trivial commutation in the Scheme, your first contact should be with the Pensions Office.

When contacting the Pensions Office, please quote your National Insurance number and indicate whether your enquiry relates to membership of the former Corus Engineering Steels Pension Scheme.

Email: pension.enquiries@bspensions.com

Fax: 0141 248 5299

Website: www.bspensions.com

The British Steel Pension Scheme website is regularly updated with relevant topics of likely interest to Scheme members. We invite you to visit the site regularly and provide us with feedback regarding its effectiveness or additional information that you would like to see included.



If you own a smartphone with a barcode reader installed, you can scan the Quick Response (QR) barcode (left) to gain access to the site directly from your mobile device. Barcode readers are usually free to download and allow an increasing number of people to access websites while they are on the move.

Telephone:
0330 440 0844

Writing from the UK (no need for a stamp)

British Steel Pension Scheme
Freepost RLXS-ZXKT-AUER
Glasgow G2 7BW

Writing from outside the UK

British Steel Pension Scheme
Sentinel
105 Waterloo Street
Glasgow G2 7BW
Scotland
United Kingdom

Standard office hours are 8.45 am to 4.45 pm Monday to Friday. Outside these times, and during office holidays, there is a telephone answering service.

Please note that the Scheme Trustee and the Pensions Office cannot give you financial advice. If you are considering taking a trivial commutation lump sum then you may wish to take advantage of the options summarised in the section on page 11 'Where can I find more help?'

Where can I find more help?

How to deal with your tax matters

Tax Help for Older People

There are a number of charitable organisations available that provide free professional help on tax issues for people on modest incomes who may not be able to afford to pay for professional advice. One such organisation is Tax Help for Older People. For help on the tax aspects of trivial commutation, including filling in forms, if you are aged 60 or over and cannot afford to pay for tax advice, you can contact Tax Help for Older People for assistance.

Tax Help for Older People's contact details are as follows:

Tax Help for Older People
Unit 10
Pineapple Business Park
Salway Ash
Bridport
Dorset DT6 5DB

Telephone:

01308 488066 or 0845 6013321

You can contact Tax Help for Older People

by email: taxvol@taxvol.org.uk

For more information you can visit their website at: www.taxvol.org.uk

HM Revenue & Customs

HMRC has a section on trivial commutation at: www.gov.uk/tax-on-pension/tax-free

Citizens Advice Bureau

For benefits issues, you might be able to get help from an advice agency such as your local Citizens Advice Bureau. You can find contact details on their website: www.citizensadvice.org.uk

The Money Advice Service

The money advice service website provides guidance on various matters, including how you can find an independent financial adviser: www.moneyadviceservice.org.uk

