

Taking cash from your AVC fund

Background

It is very important when talking about taking cash from the Scheme that we are clear which legislative rule is being used as we are required to treat each payment differently.

Pension Commencement Lump Sum (PCLS) Since 2006 legislation has allowed members to take broadly 25% of the value of all their benefits under a scheme as tax free cash at the time their pension is put into payment. This is sometimes referred to as “tax free cash” but from now on will be known as PCLS to distinguish it from other forms of lump sum payments.

Our Scheme has allowed Members to take their AVCs as part of their PCLS, subject to the Scheme specific limit of the full value of your AVCs up to a maximum of £50,000 (or 25% of the value of their AVC benefits if higher).

Uncrystallised Funds Pension Lump Sum (UFPLS) From 6 April 2015 there will be a new flexibility which will enable members to take defined contribution benefits (i.e. their AVCs) as cash. We would expect that some members who have AVCs remaining after having taken their PCLS from the Scheme may wish to explore this option. This payment is known as an “Uncrystallised Funds Pension Lump Sum” or UFPLS.

25% of the UFPLS will be paid free of tax (even if the member has already opted to use a proportion of his AVC fund for the purpose of taking a PCLS). The remaining 75% of the UFPLS will be taxable as normal pension income at the individual's marginal rate of tax.

More information about UFPLS

An UFPLS is:

- available to individuals who are over normal minimum pension age (55) (or under that age if the ill-health condition specified in the Finance Act 2004 is met);
- in respect of benefits in a “money purchase arrangement” i.e. your AVCs. It is not available to defined benefit pension (unless you transfer your benefits out of the Scheme to a personal pension first); and
- if the member is under the age of 75, the individual has available lifetime allowance.

Certain members cannot be paid an UFPLS including:

- members entitled to either primary or enhanced protection who had a right to a tax-free lump sum greater than £375,000 on 5 April 2006; or
- members entitled to a lifetime allowance enhancement factor if the available portion of their lump sum allowance is less than 25% of the amount of the proposed lump sum payment.

There is no limit on the amount that can be taken as an UFPLS, subject to lifetime allowance limits.

Payment of an UFPLS will trigger the money purchase annual allowance. The government is keen to ensure that this new flexibility is not abused by individuals to obtain unintended tax advantages. In particular, the concern with the UFPLS is that an individual over the age of 55 could each tax year pay part of their salary into a money purchase or cash balance pension arrangement (and obtain tax relief at their marginal rate) then withdraw 25% as a tax-free UFPLS. To prevent (or at least to restrict) this abuse, the annual allowance regime will be amended so that (among other things) an individual who flexibly accesses their DC pension rights (including taking an UFPLS) will then be restricted to a money purchase annual allowance of £4,000 (i.e. they will only be entitled to obtain tax relief on

further contributions to a money purchase or cash balance arrangement of up to £4,000 each year). Pension savings are still subject overall to a £40,000 annual allowance, including DC contributions.

What does this mean for you?

In connection with the main benefits coming into payment, you may take a PCLS and may use up to the full value of your AVCs up to a maximum of £50,000, (or 25% of the value of your AVC benefits if higher).

You may also use funds in your AVC fund to take a further one-off cash payment (an UFPLS).

If you would like to take a UFPLS, care must be taken when calculating your PCLS that you do not take yourself outside the remit of the UFPLS legislation. However, it should not alter the maximum amount of money you can bring into payment tax free (although it may be labelled differently). The examples below show your options.

This Information Sheet has been produced by the Leonardo Pensions Department. It is intended to provide you with information on taking cash from the Scheme, but you should note that it is not a legal document and is not intended as financial advice.

If you do decide to take cash from the Scheme, any benefits payable will depend upon the legislation in force and the Rules of the Scheme.

If you are uncertain of what action to take it is strongly recommended that you contact an Independent Financial Adviser.

Examples

A member has a defined benefit (DB) benefit worth £180K and an AVC pot of £60K.

Member not wishing to take an UFPLS	Member wishing to take an UFPLS
<p>Calculating the PCLS</p> <p>Add value of DB benefits and AVC pot $(£180k + £60k) = £240k$</p> <p>Broadly 25% of the total value can be taken as a PCLS $25\% \text{ of } £240k = £60k$</p> <p>The Scheme limits provide that a maximum of £50k can be used from AVCs for the PCLS. The remainder must be taken from the DB benefits.</p> <p>PCLS consists of £50k from AVCs and £10k from DB benefits.</p>	<p>Calculating the PCLS</p> <p>Only £50K of the member's AVCs may be used for the purpose of taking a PCLS, with the remainder coming from the DB benefits.</p> <p>Therefore, the overall value of benefits being brought into payment initially is the value of the DB benefits and £50k of the AVC pot $(£180K + £50K) = £230K$</p> <p>Broadly 25% of the total value can be taken as PCLS $25\% \text{ of } £230k = £57.5K$</p> <p>PCLS consists of £50K from AVCs and £7.5K from DB benefits.</p>
<p>The member's DB benefits are reduced to take account of £10k being taken as PCLS.</p>	<p>The member's DB benefits are reduced to take account of £7.5k being taken as PCLS.</p>
<p>£10k remaining in AVCs can be used for an annuity.</p>	<p>£10K of "uncrystallised rights"¹ remains in the member's AVC pot. This could be used for an annuity or drawdown or UFPLS.</p>
	<p>UFPLS</p> <p>The member can choose to take this £10K as a UFPLS. 25% could be taken tax-free; 75% would be subject to tax at the member's marginal rate. Tax would be deducted by the Scheme administrator before payment is made to you.</p>
<p>Summary</p> <p>£50k PCLS from AVCs</p> <p>£10k PCLS from DB benefits</p> <p>Must use £10k left in AVCs for an annuity</p>	<p>Summary</p> <p>£50k PCLS from AVCs</p> <p>£7.5k PCLS from DB benefits</p> <p>£2.5k tax-free element of the UFPLS</p> <p>£7.5k taxed element of UFPLS</p> <p>A total cash amount of £60K can be brought into payment <u>tax-free</u> (which equates to 25% of the value of all of the member's benefits in the Scheme).</p>

¹ This has not been used in the first calculation and therefore not used to justify the PCLS. If it had been used to in the calculation for the PCLS, it could only be taken as a lifetime annuity or drawdown.

A member has a defined benefit (DB) benefit worth £125K and an AVC pot of £75K.

Member not wishing to take an UFPLS	Member wishing to take an UFPLS
<p>Calculating the PCLS</p> <p>Add value of DB benefits and AVC pot $(£125k + £75k) = £200k$</p> <p>Broadly 25% of the total value can be taken as a PCLS $25\% \text{ of } £200k = £50k$</p> <p>The Scheme limits provide that a maximum of £50k can be used from AVCs for the PCLS. The remainder must be taken from the DB benefits.</p> <p>PCLS consists of £50k from AVCs and £nil from DB benefits.</p>	<p>Calculating the PCLS</p> <p>Up to £50k of the member's AVCs may be used for the purpose of taking a PCLS. However, in this example the DB benefits are smaller. We do not want to use the excess amount in the AVC funds to calculate the PCLS or it would not be possible to take it as a UFPLS.</p> <p>Therefore, we would add the value of the DB benefits and £41.7k² of the AVC pot $(£125k + £41.7k) = £166.7k$</p> <p>Broadly 25% of the total value can be taken as PCLS $25\% \text{ of } £166.7k = £41.7k$</p> <p>PCLS consists of £41.7k from AVCs and £nil from DB benefits.</p>
<p>£25k remaining in AVCs can be used for an annuity.</p>	<p>£33.3K of "uncrystallised rights"³ remains in the member's AVC pot. This could be used for an annuity or drawdown or UFPLS.</p>
	<p>UFPLS</p> <p>The member can choose to take this £33.3K as a UFPLS. 25% could be taken tax-free (i.e. £8.3k); 75% would be subject to tax at the member's marginal rate (i.e. £25k). Tax would be deducted by the Scheme administrator before payment is made to you.</p>
<p>Summary</p> <p>£50k PCLS from AVCs</p> <p>Must use £25k left in AVCs for an annuity</p>	<p>Summary</p> <p>£41.7k PCLS from AVCs</p> <p>£8.3k tax-free element of the UFPLS</p> <p>£25k taxed element of UFPLS</p> <p>A total cash amount of £50K can be brought into payment <u>tax-free</u> (which equates to 25% of the value of all of the member's benefits in the Scheme).</p>

² This is calculated by dividing the DB value by three.

³ This has not been used in the first calculation and therefore not used to justify the PCLS. If it had been used to in the calculation for the PCLS, it could only be taken as a lifetime annuity or drawdown.