



**REPORT OF THE SERVICE DIRECTOR – HUMAN RESOURCES &  
CUSTOMER SERVICE**

**LOCAL GOVERNMENT PENSION SCHEME – TRIVIAL COMMUTATION**

**Purpose of the Report**

1. The purpose of this report is to inform the Pensions Sub-Committee on how the Trivial Commutation of small pensions may be made under the rules of the LGPS, the conditions that must be met, the method of calculation, and the tax position.

**Information and Advice**

2. Trivial commutation is where the value of a member's pension benefits fall below prescribed values and can be commuted into a one-off payment at the discretion of the administering authority.
3. It is not a right of the individual but an option that the scheme administrator may take where specific criteria are met.
4. Previously the administrators have used this to negate the costs of paying out small cyclical payments, but of recent years the complexities attached to complying with the rules have offset the perceived advantages.
5. Prior to 6th April 2006, trivial pensions were able to be commuted into a lump sum payment under the rules of the LGPS. At that time the rules permitted the administering authority to commute a pension if a member had attained state pension age and the pension was not more than £195 per annum, or in the case of a long-term spouse's, civil partner's or children's £260 per annum. The payment could be made alongside any retirement lump sum due, without the necessity to set the member up on the pensions payroll.
6. The Finance Act 2004, effective from 6 April 2006 introduced overriding rules governing the commutation of trivial pensions. They raised the limit for payment of trivial commutation lump sums, but also introduced a new set of requirements that had to be complied with for such a payment to be an authorised payment, including the requirement for the member to be set up on the pensions payroll before payment could be made.
7. Subsequently due to difficulties in interpreting and implementing the new rules and amendments needed to the LGPS regulations to comply with the new provisions the Pensions Office ceased offering trivial commutations.

8. Further changes in legislation from the 27<sup>th</sup> March 2014, often summarised as the ‘small pot’ rules, left us with the following criteria for trivial commutation.
- The total value of **all** pension pots (LGPS and non-LGPS) must not exceed £30,000, or £18,000 if the first trivial commutation lump sum payment from any pension scheme was made before 27th March 2014.
  - The member must be aged 60 or over (or, in the case of a man who has a Guaranteed Minimum Pension, aged 65 or over)
  - The member must have all or part of their lifetime allowance available ( £1m with effect from 6 April 2015) .
  - The member must take a lump sum in respect of **all** of their benefits within the LGPS in England and Wales. The payment must extinguish all their pension rights in the LGPS including any other active, deferred, pension or pension credit entitlement, whether or not in the same LGPS pension fund, as well as the contingent benefits that would be paid to dependants on the death of the member.
  - The member must not previously have been paid a trivial commutation lump sum from any registered pension scheme or, if such a lump sum has previously been paid, the trivial commutation lump sum from the LGPS must be paid within 12 months of the day on which a trivial commutation lump sum was first paid to the member (from any registered pension scheme),
  - The member must have their pension savings in all their pension schemes (LGPS and non-LGPS) valued on the same date (the nominated date) which must be no more than three months before they take their first trivial commutation lump sum. The nominated date can be a date specified by the member within that three month period or, if no date is chosen, it will be the date that a trivial lump sum commutation payment is first paid to the member.
  - If the member is taking a trivial lump sum commutation payment from more than one pension scheme they must take all the trivial lump sums within 12 months of the first trivial lump sum payment
9. Operation of these rules has been found to be problematic across LGPS pension funds in many areas, especially regarding the valuation of the fund, the intricacies of multiple benefits and difficulties in verifying a member’s total pension entitlement.
10. Currently all LGPS Funds in England & Wales are working together to operate a shared database containing basic details of all LGPS members. It is hoped that this database will be operational by this autumn and will be able to assist administrators in identifying other pension pots members have in the LGPS.
11. Since the changes under Pensions Freedoms were introduced in April 2015, the Local Government Pensions Committee is again looking at the rules that will now apply under the LGPS and the Pensions Office is currently awaiting guidance from them in this

respect. Once the guidance is received and considered the Pensions Office will again look at the operational benefits of offering trivial commutation of small pensions and detail the options available.

12. For information, the Nottinghamshire LGPS pensioner payroll has 943 pensioners who are paid a net pension of under £100 per annum, 4,034 who receive between £101 and £500, and 3,438 who receive between £501 and £1,000 per annum.

### **Statutory and Policy Implications**

13. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

### **Recommendation**

14. It is recommended that Pensions Sub Committee commission a full assessment of the available options and are provided with a further report once further guidance is available.

**MARJORIE TOWARD**  
**SERVICE DIRECTOR (HUMAN RESOURCES & CUSTOMER SERVICE)**

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### **Constitutional Comments (KK)**

This report is for noting only.

### **Financial Comments**

There are no financial implications

### **Background Papers**

None

### **Electoral Division(s) and Member(s) Affected**

All