



# The NDA group Pension Reform

## Exchanging pension for tax-free lump sum

February 2024

### Is this for you?

If you are a member of the:

- CNPP CPS Benefit Structure; or
- CNPP GPS Benefit Structure and do not have any AVCs or SPPPs or do not wish to take a tax-free lump sum from them when you access your pension benefits; or
- MEG ESPS and do not have any AVCs or do not wish to take a tax-free lump sum from them when you access your pension benefits.

# Taking some of your pension as a tax-free lump sum when you retire – 5-minute read

You can take some of your pension as a tax-free lump sum when you retire. How the amount of tax-free lump sum you can take is calculated is changing with the introduction of CARE from 1 April 2024. The following provides indicative examples of the new calculations and an illustration of the value of the tax-free lump sum and pension received.

When you come to access your benefits, the administrators will support you in providing all the information for you to decide how you want to access your benefits.

Note: the following are for example purposes only, if there is any discrepancy between these examples and the Scheme Rules, the Scheme Rules are overriding.

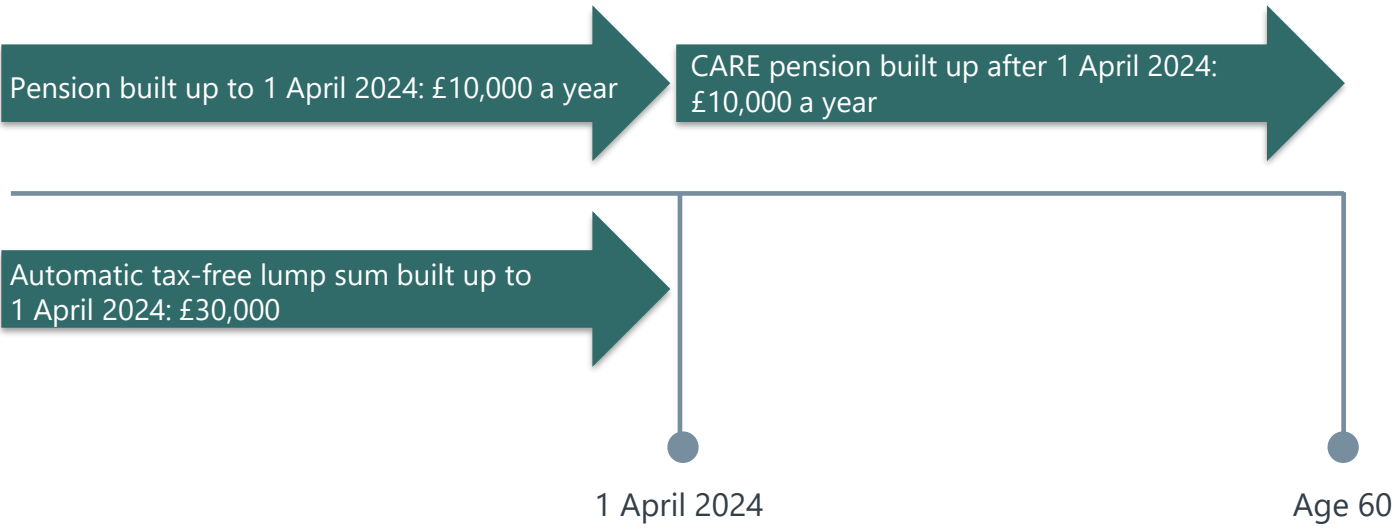
## Who is this for?

These examples apply to you if you are in the

- CNPP CPS Benefit Structure; or
- CNPP GPS Benefit Structure or MEG ESPS and are not choosing to take a tax-free lump sum from your Additional Voluntary Contributions (AVCs) or Shift Pay Pension Plan (SPPP) when you retire.

Please refer to the separate examples if you are in the CNPP GPS Benefit Structure or MEG ESPS and have AVCs or SPPP from which you wish to take a tax-free lump sum at retirement.

# Let's start here... imagine this is you, retiring from the CNPP – CPS Section at age 60



By taking the automatic tax-free lump sum, at age 60, you would receive

A pension of: £10,000 + £10,000 = **£20,000 a year**

A tax-free lump sum of: **£30,000**

If you are in the CNPP CPS Benefit Structure you can also take 25% of any AVCs and Shift Pay Pension Plan funds you have as a tax-free lump sum.

## But wait... you can take more than the automatic tax-free lump sum

First, you need to decide how much tax-free lump sum you wish to take. We then calculate where that tax-free lump sum comes from and the reduction in pension. Remember, the lump sum is tax free, while your regular pension income is taxable!



## By taking a greater tax-free lump sum, you will need to give up some of your pension

The maximum amount of tax-free lump sum you can take will be calculated for you. In this example, the total extra tax-free lump sum you can take from your pension built up to 1 April 2024 is **£27,923** and **£42,857** for the CARE pension built up after 1 April 2024.

After taking your £27,923 additional tax-free lump sum, your pension built up to 1 April 2024 is reduced to **£8,688** a year.

After taking your £42,857 additional tax-free lump sum, your CARE pension built up from 1 April 2024 is reduced to **£6,429** a year.



## By taking the maximum lump sum, you would receive

A pension of: £8,688 + £6,429 = <b>£15,117 a year</b>	(Compared to <b>£20,000</b> )
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A tax-free lump sum of: £30,000 + £27,923 + £42,857 = <b>£100,780</b>	(Compared to <b>£30,000</b> )
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If you are in the CNPP CPS Benefit Structure you can also take 25% of any AVCs and Shift Pay Pension Plan funds you have as a tax-free lump sum.

Also... you don't have to take the maximum tax-free lump sum, you can take a smaller amount and have more pension!

Lets say you want a total tax-free lump sum of £60,000. You already have a £30,000 automatic tax-free lump sum, so you need to take an additional £30,000. This amount will be taken in proportion to the maximum amount that you could take for pension built up before and after 1 April 2024.

In this example, the tax-free lump sum you take from your pension built up to 1 April 2024 is **£11,835** and **£18,165** for the CARE pension built up after 1 April 2024.

After taking your £11,835 additional tax-free lump sum, your pension built up to 1 April 2024 is reduced to **£9,444** a year.

After taking your £18,165 additional tax-free lump sum, your CARE pension built up from 1 April 2024 is reduced to **£8,486** a year.



By taking a tax-free lump sum of £60,000, you would receive

A pension of: £9,444 + £8,486 = <b>£17,930 a year</b>	(Compared to <b>£20,000</b> )
A tax-free lump sum of: £30,000 + £30,000 = <b>£60,000</b>	(Compared to <b>£30,000</b> )

If you are in the CNPP CPS Benefit Structure you can also take 25% of any AVCs and Shift Pay Pension Plan funds you have as a tax-free lump sum.

# If you are interested... this is how we calculate how much you pension is reduced by when taking additional tax-free lump sum

Each £1 of pension you give up will be converted into a tax-free lump sum amount. The rate of this conversion is known as a 'commutation factor'. The commutation factor used will depend on your age, gender and scheme.

For example, for your pension built up to 1 April 2024, if the commutation factor is 21.29 it means that for every £1 of pension you give up, you will get **£21.29** of tax-free lump sum.

The commutation factor for your CARE pension built up after 1 April 2024 is fixed at 12. For every £1 of pension that you give up, you will get **£12** of tax-free lump sum

The commutation factor used for your pension built up to 1 April 2024 may change from time-to-time depending on the economic conditions. As a result, the amount of pension you receive for a given tax-free lump sum could be higher or lower in the future.



## A little bit more detail on the maximum lump sum you can receive

The maximum tax-free lump sum you can receive is calculated based on the value of the pension you have built up and the commutation factor. The calculation is different for your pension built up to 1 April 2024 and for your CARE pension built up after 1 April 2024. In total, your maximum tax-free lump sum cannot be more than £268,275. If your tax-free lump sum was to be greater, it would be restricted to this maximum.