



The NDA group Pension Reform

Explaining your tax-free lump sum

February 2024

Is this for you?

If you are a member of the:

- MEG ESPS and choose to take a tax-free lump sum from your AVCs when you access your pension benefits.

Taking some of your pension as a tax-free lump sum when you retire – 10-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 them.

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?

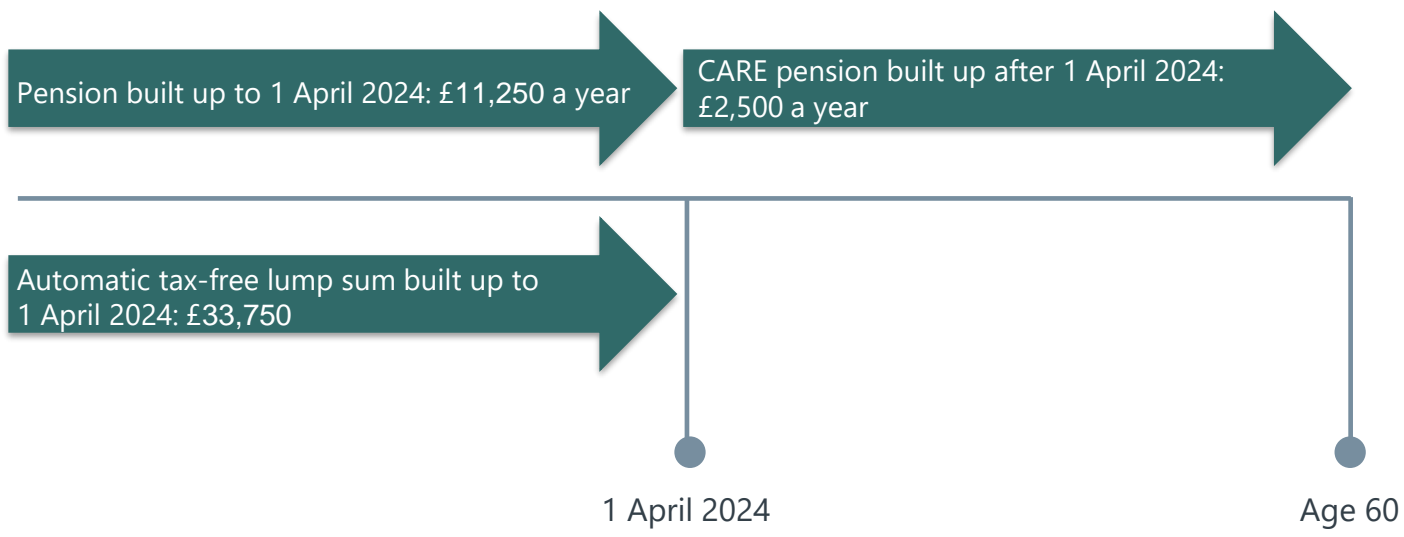
These examples apply to you if you are in the

- MEG ESPS and are choosing to take a tax-free lump sum from your Additional Voluntary Contributions (AVCs) when you retire.

Please refer to the separate examples if you are in the CNPP CPS Benefit Structure or CNPP GPS Benefit Structure or MEG ESPS and are not choosing to take the tax-free lump sum from your AVCs when you retire.

Let's start here... imagine this is you, retiring from the **MEG ESPS** at your Normal Pension Age (NPA).

This example assumes your NPA is 60, the answers would be slightly different for an NPA of 63.



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

A pension of: $£11,250 + £2,500 =$ **£13,750 a year**

A tax-free lump sum of: **£33,750**

But wait... you can take more than the automatic tax-free lump sum by giving 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 **£29,118** and **£10,714** for the CARE pension built up after 1 April 2024.

After taking your £29,118 additional tax-free lump sum, your pension built up to 1 April 2024 is reduced to **£9,775 a year**.

After taking your £10,714 additional tax-free lump sum, your CARE pension built up from 1 April 2024 is reduced to **£1,607 a year**.



By taking the maximum lump sum, you would receive

A pension of: £9,775 + £1,607 = £11,382 a year	(Compared to £13,750)
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A tax-free lump sum of: £33,750 + £29,118 + £10,714 = £75,878	(Compared to £33,750)
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In addition, if you have Additional Voluntary Contributions (AVCs), you can use them to reduce the amount of pension given up, let's look at how that works....

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!

Before we look in a bit more detail of how the tax-free lump sum is calculated, lets quickly run through what the calculations look to achieve. The approach is designed to allow you to use your AVCs to the same extent as before the introduction of CARE. However, it does require a mandatory amount of CARE pension to be given up for the tax-free lump sum, equivalent to the automatic tax-free lump sum you would have built up in final salary had CARE not been introduced.

Beyond that, your AVCs can be used up to the maximum allowed tax-free lump sum. If your AVCs are less than the maximum allowed tax-free lump sum you can choose to give up more pension (in proportion, from your pension built up before and after 1 April 2024) in order to take the maximum tax-free lump sum benefit.

Using that approach, these are the steps taken to calculate your tax-free lump sum benefit

1 Our starting point is to work out the maximum tax-free cash you can take. As a general rule, this is up to a quarter of the total cash value of all of your pension benefits.

2 Before you can take any of your AVCs as a tax-free lump sum, you first need to take the mandatory tax-free lump sum from your CARE pension. If this amount is greater than your maximum tax-free lump sum, no AVCs are used.

3 If you can take a larger tax-free lump sum than is covered by your mandatory CARE pension tax-free lump sum, we first use your AVCs to cover this, where possible.

If the additional tax-free lump sum **can** be taken wholly from your AVCs

If the additional tax-free lump sum **cannot** be taken wholly from your AVCs

4a

You take all the remaining additional tax-free lump sum from your AVCs. Any remaining AVCs can be used flexibly – for example, to buy an annuity or as taxable cash.

4b

You will need to give up further pension, in proportion, from your pension built up before and after 1 April 2024, in order to take the maximum tax-free lump sum amount.

It's pretty complicated! How does it look in practice for this example but with **£30,000** in AVCs....

1

Our starting point is working out the maximum tax-free cash you can take. In this example, the maximum tax-free lump sum is **£82,687**.

You already have an automatic tax-free lump sum of £33,750 leaving you **£48,937** still to take.

2

The amount of mandatory tax-free lump sum you need to take from your CARE pension is **£5,625**. As a result, your CARE pension is reduced to **£2,031**.

This leaves you **£43,312** still to take.

3

As your remaining tax-free lump sum allowance is greater than your AVCs of £30,000 you can use the whole of your AVCs as tax-free lump sum.

This leaves you **£13,312** still to take.

4

As your AVCs have already been used, further pension will need to be given up to take the total maximum tax-free lump sum.

The resulting pension amounts are **£10,557** and **£1,846** respectively.

As a result of taking the maximum tax-free lump sum:

Your total tax-free lump sum will be **£82,687** (compared to **£33,750**)

Your total pension will be **£12,403 a year** (compared to **£13,750**)

Your remaining AVCs will be **£0** (compared to **£30,000**)

If you have more AVCs, say £100,000, this is how the calculation would look for you...

1

Our starting point is working out the maximum tax-free cash you can take. In this example, the maximum tax-free lump sum is **£101,249**.
You already have an automatic tax-free lump sum of £33,750 leaving you **£67,499** still to take.

2

The amount of mandatory tax-free lump sum you need to take from your CARE pension is **£5,625**. As a result, your CARE pension is reduced to **£2,031**.
This leaves you **£61,874** still to take.

3

As your remaining tax-free lump sum allowance is less than your AVCs of £100,000 you can take the whole of your tax-free lump sum from your AVCs.
This leaves you **£0** tax-free lump sum still to take and remaining AVCs of **£38,126**

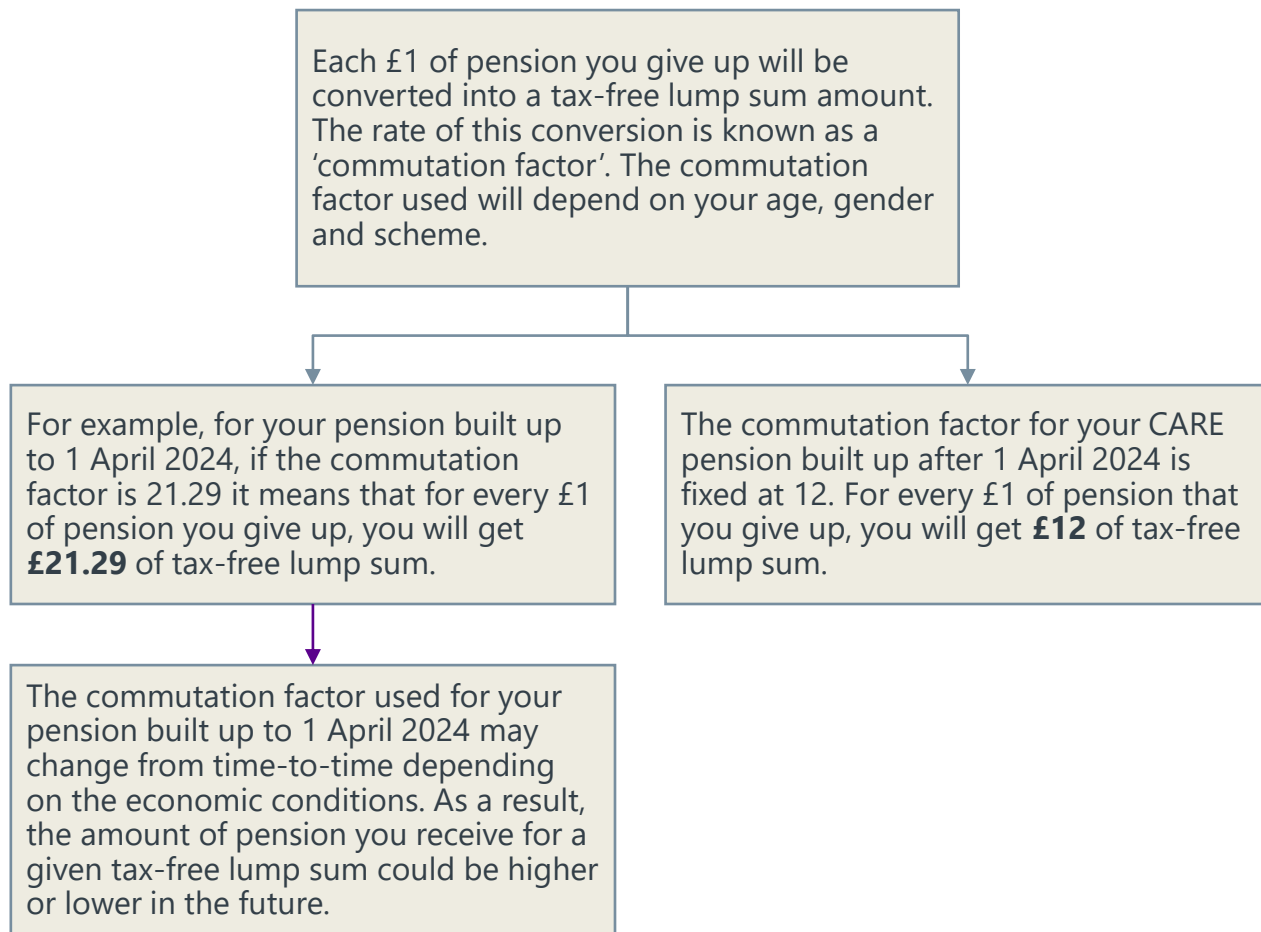
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No further pension will need to be given up to take the total maximum tax-free lump sum.
The resulting pension amounts are **£11,250** and **£2,031** respectively.
As a result of taking the maximum tax-free lump sum:
Your total tax-free lump sum will be **£101,249** (compared to **£33,750**)
Your total pension will be **£13,281 a year** (compared to **£13,750**)
Your remaining AVCs will be **£38,126** (compared to **£100,000**)

We've run through quite a lot of examples, here's a quick summary of them all together

Example	Pension	Tax-free lump sum	Remaining AVCs
Automatic tax-free lump sum only	£13,750 a year	£33,750	n/a
Maximum tax-free lump sum, no AVCs	£11,382 a year	£75,878	n/a
Maximum tax-free lump sum, £30,000 AVCs	£12,403 a year	£82,687	£0
Maximum tax-free lump sum, £100,000 AVCs	£13,281 a year	£101,249	£38,126

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



A little bit more detail on the maximum tax-free 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.