

This factsheet is designed for the use of the National Health Service Superannuation Scheme (Scotland) and the Scottish Teachers' Superannuation Scheme and can be read in conjunction with the member's guides

Introduction

The purpose of this factsheet is to help you make a choice about the lump sum you want to receive and to complete your retirement application form. To reduce potential delays, you should consider certain issues before you complete the retirement application. This factsheet applies to both Normal Pension Age (NPA) 60 and 65.

NPA 60 refers to members of the Scottish Teachers' Superannuation Scheme (STSS) who were contributing prior to 1 April 2007 and to members of the NHS Superannuation Scheme (Scotland) (NHSSS(S)) who were contributing prior to 1 April 2008.

NPA 65 refers to members of the STSS who joined on or after 1 April 2007 and to members of the NHSSS(S) who joined on or after 1 April 2008.

Members of the NHSSS(S) who opted in after the Choice Exercise have different arrangements and more information on this can be found within the NHS Choice section of our website.

Lump sum choice (also known as commutation)

'Commutation' (or making a choice to give up some of your pension, including Additional Pension, to increase the amount of your tax free lump sum) is available to members who contributed to the STSS on or after 1 April 2007 or to the NHSSS(S) on or after 1 April 2008.

If you have a NPA 60, you have an automatic lump sum and also have the choice to give up part of your pension to increase your tax free lump sum. If you have an NPA 65, you do not have an automatic lump sum but you have the choice to give up part of your pension to obtain a tax free lump sum.

If you choose to give up some of your pension for a bigger lump sum, it will not affect your short term survivor's benefits

If you are a member of the STSS and are retiring on premature retirement grounds you cannot make a lump sum choice on the element paid by your employer. This can only be made on the amount due to be paid by SPPA.

You should be aware that once you have made your choice and your pension and lump sum have been calculated, this cannot be revoked or changed. Therefore, it is in your own interests to ensure that you are fully aware of what this means to you prior to completing your retirement application. To assist with this choice, a calculator is available on our website at www.sppa.gov.uk

How your lump sum choice is calculated

To increase your tax free lump sum, or to obtain a tax free lump sum, there will be a subsequent reduction in your annual pension. You will need to give up £1 of annual pension for every £12 received as a lump sum. There is a maximum lump sum that can be taken, as allowed by HM Revenue & Customs, of 25% of the fund value. Please see the examples below.

The formula for calculating the maximum amount of lump sum benefit that can be paid to you if you have a NPA of 60 is as follows:

$$\frac{(\text{Pension} \times 20) + (\text{Lump sum} \times 20/12)}{4.6667}$$

There is no automatic entitlement to a lump sum if you have a NPA 65. The formula for calculating the maximum amount of lump sum available is as follows:

$$\frac{\text{Pension} \times 20}{4.6667}$$

Example 1

If you have an annual pension of £20,000 and a lump sum of £60,000, choose to give up £1,500 of your annual pension, your retirement lump sum would increase by £18,000.

Your benefits would be:

Pension: £20,000 - £1,500 = £18,500 per year
Retirement lump sum: £60,000 + £18,000 = £78,000

Example 2

If you do not have an entitlement to an automatic lump sum, and have an annual pension of £26,666.67, you could give up part of your pension in order to receive a lump sum. If you choose to give up £1,500 of your pension your benefits would be as follows:

Pension: £26,666.67 - £1,500 = £25,166.67 per year
Retirement lump sum: £1,500 x 12 = £18,000