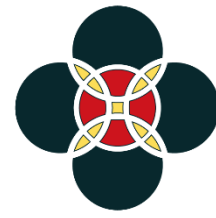


lgps

Local Government
Pension Scheme



Cronfa Bensiynau
CLWYD
Pension Fund

Local Government Pension Scheme

Taking a Lump Sum when you Retire

April 2026

Contents

Introduction	3
How does it work?	3
What if you paid additional voluntary contributions (AVCs)?	4
Can you take all of your in-house AVC pot as a tax-free lump sum?	4
What if you paid additional pension contributions (APCs), additional regular contributions (ARCs), or bought added years?	4
When do you choose your tax-free lump sum?	4
Will your survivors' benefits be reduced?	4
Example 1: Turning annual pension into lump sum when there is no AVC.....	5
Example 2: Taking all of your in-house AVC pot as tax-free cash.....	6
Example 3: When your in-house AVC pot is too much to take it all as tax-free cash	8
Where can you find more information?	10
Disclaimer.....	10

Introduction

When you retire from the Local Government Pension Scheme (LGPS), your LGPS fund will work out your standard benefits. Your standard benefits are made up of:

- an annual pension, paid in 12 equal monthly payments and increased to keep up with the cost of living
- an automatic lump sum that is usually tax free (if you were a member of the LGPS on or before 31st March 2008)

If you became a member on or before 31st March 2008, you'll have the option to turn some of your annual pension into extra one-off lump sum at retirement. This means you can make your automatic lump sum amount bigger.

If you became a member on or after 1st April 2008, you won't have an automatic lump sum at retirement, but you will have the option to turn some of your annual pension into a one-off lump sum.

How does it work?

For every £1 of annual pension you choose to give up, you will increase your lump sum by £12.

HM Revenue & Customs limits the amount of tax-free lump sum you can take when your pension is paid to you. This limit is called a lump sum allowance (LSA). Currently, the maximum lump sum is the lowest of:

- 25% of the capital value of your benefits
- £268,275*
- £268,275* less the total lump sums you have already taken

*If you hold a valid Lifetime Allowance protection, you may be able to take a lump sum that is larger than £268,275.

The lump sum will usually be tax-free, but if you go over the lump sum allowance, you will have to pay tax on the excess at your marginal rate.

You can either choose to receive:

- your standard benefits (annual pension and any automatic lump sum); or
- your maximum benefits (lower annual pension and highest amount of lump sum allowed, including any automatic lump sum); or
- give up an amount of annual pension, which is in between your standard and maximum benefits

There are examples in this factsheet to show you how this works.

What if you paid additional voluntary contributions (AVCs)?

If you paid into an AVC using your LGPS fund's in-house AVC provider, the value of your AVC pot will be included when we work out how much maximum lump sum you can take.

Can you take all of your in-house AVC pot as a tax-free lump sum?

When you retire, you may be able to take all of your in-house AVC pot as tax-free cash. This is only if your AVC pot, when added to any lump sum taken from your main LGPS benefits, does not go over the HM Revenue & Customs limits in place (explained on [page three](#) of this factsheet).

What if you paid additional pension contributions (APCs), additional regular contributions (ARCs), or bought added years?

If you bought extra pension through an APC, ARC or added years, this will be included when we work out how much your standard and maximum pension benefits are.

When do you choose your tax-free lump sum?

When you retire, your LGPS fund will send you a retirement pack which you need to complete before your pension can be paid to you. This will include your standard and maximum figures. You need to make your choice about your lump sum before your LGPS benefits can be paid to you. When you have made your choice, it cannot be changed once your LGPS benefits are paid to you.

If you want to choose an amount in-between the standard and maximum benefits, you can let us know by completing the forms which are part of your retirement pack.

Your LGPS fund is unable to give you any financial advice, so please think about getting independent financial advice when you retire to make sure that you choose the right option for you.

Will your survivors' benefits be reduced?

If you choose to turn some of your annual pension into extra lump sum, it will not reduce any survivors' benefits paid to your husband, wife, civil partner, co-habiting partner, or any eligible children when you die.

Example 1: Turning annual pension into lump sum when there is no AVC

When Gareth retires, he has £10,000 annual pension and £24,000 automatic tax-free lump sum.

Step 1: Working out the capital value of LGPS benefits

$120 \times \text{annual pension} + 10 \times \text{automatic lump sum (if any)} \div 7 = \text{capital value of LGPS benefits}$

- $120 \times \text{Gareth's annual pension } \pounds 10,000 + 10 \times \text{Gareth's lump sum } \pounds 24,000 \div 7 = \pounds 205,714.28$

The capital value of Gareth's LGPS Benefits is **£205,714.28**

Step 2: Working out the maximum tax-free lump sum

$\text{Capital value} \times 25\% = \text{maximum tax-free lump sum}$

- $\pounds 205,714.28 \times 25\% = \pounds 51,428.57$

Gareth's maximum lump sum that he can have is **£51,428.57**

Step 3: Turning annual pension into maximum tax-free lump sum

$\text{Maximum tax-free lump sum} - \text{automatic tax-free lump sum} \div 12 = \text{annual pension Gareth can turn into maximum lump sum}$

- $\pounds 51,428.57 - \pounds 24,000 \div 12 = \pounds 2,285.71$ annual pension Gareth can turn into lump sum

$\text{Annual pension} - \text{annual pension Gareth can turn into lump sum} = \text{lower annual pension}$

- $\pounds 10,000 - \pounds 2,285.71 = \pounds 7,714.29$ lower annual pension

If Gareth takes the maximum tax-free lump sum, his annual pension would be **£7,714.29**.

When Gareth retires, his standard benefit and maximum benefit choices are:

Option 1: standard benefits		Option 2: maximum benefits	
Annual pension:	£10,000	Lower annual pension:	£7,714.29
Automatic lump sum:	£24,000	Maximum lump sum:	£51,428.57

Gareth can also choose option 3, where he could choose to turn an amount of annual pension into lump sum which is in-between option 1 and option 2. This means the annual pension would be an amount between £10,000 and £7,714.29. This would give him a tax-free lump sum between £24,000 and £51,428.57.

Example 2: Taking all of your in-house AVC pot as tax-free cash

When Jim retires, he has the same pension benefits as Gareth but he also has an in-house AVC pot of £27,000 which he wants to take as tax-free cash.

To see if it is possible to take all of the AVC as tax-free cash, the capital value of his benefits would need to be worked out to find out his maximum tax-free lump sum.

Step 1: Working out the capital value of LGPS benefits

$120 \times \text{annual pension} + 10 \times \text{automatic lump sum (if any)} + 10 \times \text{in-house AVC pot} \div 7 =$
capital value of LGPS benefits

- $120 \times \text{Jim's annual pension } \pounds 10,000 + 10 \times \text{Jim's lump sum } \pounds 24,000 + 10 \times \text{Jim's AVC pot } \pounds 27,000 \div 7 = \pounds 244,285.71$

The capital value of Jim's LGPS benefits including his in-house AVC pot is **£244,285.71**

Step 2: Working out the maximum tax-free lump sum

Capital value $\times 25\%$ = maximum tax-free lump sum

- $\pounds 244,285.71 \times 25\% = \pounds 61,071.42$

Jim's maximum lump sum that he can have is **£61,071.42**

Step 3: Turning annual pension into maximum tax-free lump sum

Maximum tax-free lump sum - automatic tax-free lump sum - in-house AVC pot $\div 12 =$
annual pension Jim can turn into maximum lump sum

- $\pounds 61,071.42 - \pounds 24,000 - \pounds 27,000 \div 12 = \pounds 839.28$ annual pension Jim can turn into lump sum

Annual pension - annual pension Jim can turn into lump sum = lower annual pension

- $\pounds 10,000 - \pounds 839.28 = \pounds 9,160.72$ lower annual pension

If Jim takes the maximum tax-free lump sum, his annual pension would be **£9,160.72**

Jim's retirement options with his in-house AVC pot would be:

Option 1: standard benefits	
Annual pension:	£10,000
Tax-free lump sum (automatic lump sum of £24,000 + in-house AVC pot of £27,000)	£51,000*
*Jim can choose to take the combined value of his automatic lump sum and in-house AVC pot as tax-free cash, as it is less than his maximum tax-free cash allowed of £61,071.42.	

Option 2: maximum benefits	
Annual pension: (standard annual pension of £10,000 - annual pension of £839.28 which has been turned into lump sum)	£9,160.72
Maximum tax-free lump sum (automatic lump sum of £24,000 + in-house AVC pot of £27,000 + lump sum of £10,071.42 created from annual pension)	£61,071.42**
**To take the maximum tax-free lump sum, Jim will need to lower his annual pension by £839.28 to give him the extra tax-free cash of £10,071.42.	

Jim would also still be able to choose option 3, where he could choose to turn an amount of annual pension into lump sum which is in-between option 1 and option 2. This means the annual pension would be an amount between £10,000 and £9,160.72. This would give him a tax-free lump sum between £51,000 and £61,071.42 (including the AVC).

Example 3: When your in-house AVC pot is too much to take it all as tax-free cash

Sometimes the value of a member's in-house AVC pot may be too big to take it all as tax-free cash as it is more than their maximum tax-free lump sum allowed. If this happens, the amount of AVC that is allowed to be taken as tax-free cash can be included in the maximum tax-free lump sum. The rest of the AVC must be used to buy extra pension in the LGPS or to buy a pension, known as an annuity, with another pension provider.

Example:

When Susan retires, she has the same LGPS annual pension and automatic lump sum value as Jim but her in-house AVC pot is £43,000. Added together, her automatic lump sum of £24,000 and her AVC pot is (£43,000 + £24,000 = £67,000). You can see in the example below that she would not be able to take it all as tax-free cash as the maximum lump sum allowed is £66,785.72. This means there would be an excess of £214.28 (£67,000 - £66,785.72 = £214.28).

Step 1: Working out the capital value of LGPS benefits

$120 \times \text{annual pension} + 10 \times \text{automatic lump sum (if any)} + 10 \times \text{in-house AVC pot} \div 7 =$
capital value of LGPS benefits

- $120 \times \text{Susan's annual pension } \pounds 10,000 + 10 \times \text{Susan's lump sum } \pounds 24,000 + 10 \times$
 $\text{Susan's AVC pot } \pounds 43,000 \div 7 = \pounds 267,142.86$

The capital value of Susan's LGPS benefits and her in-house AVC pot is **£267,142.86**

Step 2: Working out the maximum tax-free lump sum

Capital value $\times 25\%$ = maximum tax-free lump sum

- $\pounds 267,142.86 \times 25\% = \pounds 66,785.72$

Susan's maximum lump sum that she can have is **£66,785.72**

Step 3: Turning annual pension into maximum tax-free lump sum

As Susan's in-house AVC pot (£43,000), when added to her automatic lump sum (£24,000) is £67,000 in total, she cannot turn any of her £10,000 annual pension into extra tax-free lump sum. This is because she has already gone over her maximum tax-free lump sum limit of £66,785.72.

Susan's retirement option after using the excess of her in-house AVC pot (£214.28) to buy extra LGPS pension would be:

Option:

Annual pension: (standard annual pension of £10,000 + extra annual pension of £10.71 bought from the excess £214.28 in-house AVC)***	£10,010.71
---	------------

Maximum tax-free lump sum (automatic lump sum of £24,000 + £42,785.72 of Susan's AVC pot that she can take to be within her maximum tax-free lump sum allowed)	£66,785.72
---	------------

***The excess of Susan's in-house AVC pot (£214.28) has been used to buy £10.71 extra annual pension, which is then added to her standard annual pension of £10,000.

The extra annual pension has been worked out by using factors from the Government Actuary's Department. These factors are reviewed from time to time. The factors used is dependent on age and whether the member decides that the extra pension bought with the AVC is for their annual pension only or for their annual pension and any future survivor's pension payable.

In this example, Susan has chosen to buy the extra pension for her annual pension only.

Your LGPS fund will let you know at retirement if there is an excess to your in-house AVC pot and what options you have.

Where can you find more information?

This factsheet gives general guidance only. If you need more information, please contact the Clwyd Pension Fund:

Phone: 01352 702950

Email: pensions@flintshire.gov.uk

Address: Clwyd Pension Fund, Ty Dewi Sant, St. Davids Park, Ewloe, Flintshire, CH5 3FF

Website: <https://clwydpensionfund.org.uk>

Disclaimer

The Clwyd Pension Fund is unable to provide any financial advice. After reading this factsheet, you may want to seek independent financial advice to make an informed decision.

These bodies may be able to help you:

Unbiased:

<https://unbiased.co.uk>

MoneyHelper:

<https://www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser?source=mas>



clwydpensionfund.org.uk

Clwyd Pension Fund, Ty Dewi Sant, St. Davids Park, Ewloe, Flintshire, CH5 3FF

Please note that Flintshire County Council is the administrative authority of the Clwyd Pension Fund and we use your personal data in accordance with Data Protection legislation to provide you with a pension administration service. For more information about how we use your data, who we share it with and what rights you have in relation to your data, please visit the Privacy Notice on our website.