



# TRIVIAL PENSIONS:

## THE RULES & REGULATIONS

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Following is a summary of the rules and regulations surrounding trivial pensions that were introduced as part of Pensions Simplification in the United Kingdom on 6 April 2006. It provides guidance to determine whether a pension would be considered trivial and options if it is.

### TRIVIAL PENSIONS

In some circumstances a member may be entitled to access their pension directly from a registered UK pension scheme under the trivial pensions rules. Trivial pension rules exist to assist those with small pension values where the administration of the pension and work involved would in all likelihood outweigh the weekly payments that would be received if an annuity were purchased.



#### **First, combined pensions must have a total valuation of less than £18,000 to be deemed trivial**

Under the trivial pensions rule all UK pensions and entitlements must be assessed and the sum of these pensions and benefits cannot exceed £18,000. If they exceed £18,000 then the member cannot apply for commutation based on trivality. This is defined in the legislation under <http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM09104910.htm>.

In order to define Trivial Pensions first all the members benefit crystallisation events must be added together to ensure that they do not exceed the £18,000 limit.

Where an event has occurred prior to the introduction of benefit crystallisation events then there are formula for defining the value of pensions. Such for example a pension that is already in payment (where the commencement of the pension was prior to the 6 April 2006) – this will be valued at £25 for every £1 that the member receives annually. So if the members pension pays £500 annually the value of that pension for trivial purposes is £12,500.

#### **DISCLAIMER**

We believe the information contained hereafter is accurate to the best of our knowledge at the time of writing; Charter Square Services does not take responsibility for omissions or errors due to updates and changes in legislation and general information. The information contained hereafter is for general use only and should not be regarded as specific financial or other advice.





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## CONSIDER 2 SEPARATE EXAMPLES:



**Jenny**

She has a company pension paying out and a personal pension.

Jenny is currently receiving a pension from an old employer of £600 a year. Jenny also has a personal pension that she was paying into that she has not purchased an annuity with, her latest statement shows that pension has a value of £5,500.

The total value of Jenny's pensions is £20,500 which is above the trivial pensions limit. This is made up of £15,000 for the old employer pension (£600 times 25) and the value of her personal pension of £5,500.



**Phil**

He also has a company pension and a personal pension.

Phil's company pension has yet to come into annuity and the latest statement shows that it has a value of £7,500 his personal pension has a value of £5,500. So the total value of Phil's pensions is £13,000 which is within the trivial pensions limit, meaning that Phil has some options with his pensions.





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### > If a pension(s) is trivial then it can be commuted and paid out directly

If a members pension(s) meet the requirements for being trivial the member may apply to their pension provider to have them commuted (paid to you in full) provided that they are older than 60. If the pension is paid out of a registered UK pension fund then the member will receive 25% of the trivial pension as a tax free lump sum, the remaining 75% will be treated as income and taxed accordingly.

Assuming that it was taxed at the basic rate the following table demonstrates what a member would get at different values for the pension

Trivial pension(s) value in £'s	£10,000	£12,000	£14,000	£16,000	£18,000
Tax free proportion @ 25%	£2,500	£3,000	£3,500	£4,000	£4,500
Tax @ 20% on remainder	£1,500	£1,800	£2,100	£2,400	£2,700
Remainder after tax	£6,000	£7,200	£8,400	£9,600	£10,800
<b>Total payment</b>	<b>£8,500</b>	<b>£10,200</b>	<b>£11,900</b>	<b>£13,600</b>	<b>£15,300</b>

REMAINDER AND TAX FREE PROPORTION

A QROPS (Qualifying Registered Overseas Pension Scheme) may also offer trivial commutation. In many instances a transfer to a QROPS and then having the pension taken out under the triviality rules may be beneficial especially if the QROPS is located in a jurisdiction such as New Zealand where no tax would be payable on the withdrawal. Therefore, an assessment needs to be made on whether the transfer fees incurred would be lower than the tax payable in the United Kingdom on the payment.

### > Tread carefully with trivial pensions...

There is a penalty of up to £3,000 for individuals who negligently or fraudulently obtain an unauthorised payment – including trivial commutation payments when the value of benefits from all schemes exceeds the £18,000 threshold.