

# CASH LUMP SUM GUIDE



This leaflet accompanies your Personal Statement that tells you about the pension you could receive from the Scheme under the different options available.

The two documents should be read together.

## What is a Cash Lump Sum?

When you retire from the Aircelle Pension Scheme (the Scheme), you can swap some of your annual pension for a tax-free cash lump sum.

You can currently take **up to** approximately 25% of your total pension value as a tax-free cash lump sum. The more cash you take up front, the lower your future pension (Residual Pension) will be.



### How is my Cash Lump Sum and Residual Pension worked out?

When taking a tax-free Cash Lump Sum, you are giving up higher regular pension payments which would be made over your lifetime, for a one-off payment now. The Trustees of the Scheme use a formula to work out how much cash you get for each £1 of pension you give up.

Typically, this formula is set so that the lump sum will be less valuable than the pension being given up. The calculation assumes an average life expectancy (i.e. reflecting the overall membership of the Scheme). The Scheme achieves a saving in respect of each member taking the Cash Lump Sum – this in turn would lead to an improvement to the funding position which will increase the security of members' benefits overall, including in relation to your Residual Pension.

On the other hand, the calculation of your lump sum ignores the impact of tax. As the cash is paid tax free, you may benefit from paying less tax on your Residual Pension.

Your Personal Statement shows the maximum amount this lump sum could be (Maximum Tax-Free Cash Lump Sum), but you can choose a lower lump sum if you wish.

If you have a small pension in the Scheme, you may be able to take all of your benefits as a one-off lump sum, however this will not all be tax free – if you are eligible for this option details will be included in your retirement pack.

### Does a Cash Lump Sum affect my other scheme benefits?

#### *Spouse's pension*

If you choose a Cash Lump Sum, the pension paid to your spouse or dependants **will not be affected**. This means that their pension will be calculated as if the option had not been taken.

#### *Income Levelling Option – available to members of the Main Scheme section (see purple Income Levelling Option Guide)*

The Levelling Pension **is not affected** by whether you then decide to take a Cash Lump Sum. This is because the Income Levelling Pension will be calculated first.

#### **Important information**

Your Scheme benefits are administered by Broadstone on behalf of the Scheme Trustees in line with the Scheme's formal Trust Deed and Rules and subject to any restrictions imposed by HM Revenue & Customs (HMRC) or by overriding legislation.

### What are the key things you should think about if considering a Cash Lump Sum?

Below are a few key aspects that you should think about before making this decision.

There are a lot of factors to consider, and the list below is not exhaustive. You should consider your personal circumstances in making your decision.

| Consideration   | Reasons to take a Cash Lump Sum   | Reasons not to take a Cash Lump Sum   |
|---|---|---|
| Do you value cash now or pension in the future?   | You would like to have cash now and place less importance on having more income in the future.  | You are in normal health and want to maximise your income from the Scheme throughout your retirement.   |
| What is your lifestyle?   | <p>You may wish to use the money now for leisure or to reduce your financial debt (e.g. paying off a loan or mortgage).</p> <p>You may prefer to have the cash now whilst you can enjoy it if you are in poor health.</p> | <p>You have a low retirement pension and would prefer to have a steady income over your retirement.</p> <p>In addition, you may feel that you have no immediate need for the additional cash.</p> <p>You may prefer having a higher pension to provide for your needs towards the end of your life.</p> |
| The terms offered when exchanging your pension for cash (known as the commutation factor) | You may feel that the commutation factor used to exchange your pension for cash offers fair value.  | You may feel that the commutation factor does not offer fair value.   |
| Are there any tax issues?   | You want to take advantage of the lump sum being tax-free and/ or your pension then falls into a lower tax band.  | Your retirement income may be low and so you feel the tax advantage is not a significant factor.  |

