



Government Actuary's
Department

The Local Government Pension Scheme (England and Wales)

Actuarial guidance:
Limit on Additional Cash Commutation

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Navigating risk | Cutting through complexity

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Contents

Contents	2
1. Introduction	3
2. Background and Guidance.....	5
3. HMRC limits.....	8
4. Examples of commutation calculations	10
Appendix A – Limitations	15



1. Introduction

- 1.1 The Secretary of State for Housing, Communities and Local Government is required to issue guidance in respect of the Local Government Pension Scheme (England & Wales) on calculating the capital value of a member's accrued rights, for the purposes of determining the maximum lump sum the member may take at retirement.
- 1.2 This introductory section provides details of the interpretation of this guidance and sets out how the guidance should be implemented – including the transitional arrangements relating to this latest update of the note. The remainder of the note provides:
 - The second section of the note provides background information and actuarial guidance which describes how the capital value of the member's accrued rights should be calculated. It also provides further information on the application of this guidance.
 - The third section of the note provides information about HMRC limits.
 - The fourth section of the note contains examples.
 - Appendix A to this note sets out some important limitations.

Implementation and Review

- 1.3 The Secretary of State is required to consult with GAD before issuing actuarial guidance under the Local Government Pension Scheme Regulations 2013 ('the 2013 Regulations') [Regulation 2(3) of the 2013 Regulations].
- 1.4 As part of this consultation the Ministry of Housing, Communities and Local Government (MHCLG) has asked GAD to recommend actuarial guidance in respect of the regulations detailed below. This document forms GAD's recommendation for the actuarial guidance required by these regulations.
- 1.5 This note has effect only when this guidance is issued by the Secretary of State in accordance with Regulation 2(3) of the 2013 Regulations and is subject to the implementation instructions provided at that time.
- 1.6 This guidance relates to commutation of a member's pension benefits at retirement for a lump sum, regardless of whether the member has been an active member of the 2014 scheme, or whether the pension benefits were earned before or after 1 April 2014. It also applies in relation to councillors and pension credit members awarded a credit under the 2013 Regulations (though see paragraph 2.13). It replaces the previous guidance dated 26 March 2014.
- 1.7 This guidance has been written for pension administrators and assumes some knowledge of general pensions terminology, and some familiarity with retirement calculations for the Local

Government Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to MHCLG.

Transitional arrangements

- 1.8 This guidance note is being reissued to coincide with the enactment of The Local Government Pension Scheme (Miscellaneous Amendments) (Member Benefits) Regulations 2026, which amends the scheme rules. Changes are being made to the scheme to reflect the abolition of the Lifetime Allowance ('LTA') tax regime and to implement consequential policy decisions.
- 1.9 It is necessary to update this guidance so that the limits it defines for additional cash commutation remain appropriate considering the revised pensions tax regime and consequential changes to the scheme. GAD is also simultaneously withdrawing its actuarial guidance "Limit on total amount of benefits – Lifetime allowance" published 14 April 2016 because of these new regulations.
- 1.10 The updated guidance should be used to calculate cash commutation limits for all lump sums paid on, or after, the date of this guidance (and so also the date of enactment for the new regulations). For lump sums paid prior to this date, the previous guidance, published 26 March 2014 should be used.

Use of this note and third-party reliance

- 1.11 This guidance has been prepared for the use of MHCLG and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on MHCLG and the scheme administrator's website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.
- 1.12 Other than MHCLG and the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.
- 1.13 When issued by the Secretary of State in accordance with paragraph 1.5 above, this note should be used as the actuarial guidance required under the regulations cited. Other than for this purpose, no person or third party is entitled to place any reliance on the contents of this note, except to any extent explicitly stated herein.

2. Background and Guidance

Background

- 2.1 For the purposes of Regulation 33(3) of the 2013 Regulations, the capital value of the member's accrued rights should be calculated in accordance with guidance issued by the Secretary of State. The following section of this note "Actuarial guidance: Capital value" provides the required formal actuarial guidance.
- 2.2 Regulation 33(2) of the 2013 Regulations requires that the total amount of the member's commuted sum shall not exceed 25% of the capital value of the member's accrued rights. Further details of how the capital value of benefits is then applied in this context are provided in the "Application of guidance" section below.
- 2.3 We note that the guidance must recognise the overriding requirements of the Finance Act 2004, associated regulations, and guidance from HM Revenue & Customs ('HMRC'). Further details of the HMRC limits are provided in section 3 of this note. The information in that section of this note has been simplified to refer to HMRC guidance where applicable. Nothing in these paragraphs or elsewhere in the guidance overrides any prevailing HMRC restrictions.

Actuarial guidance: Capital value

- 2.4 A factor of 20 should be used to value a member's pension in determining the capital value ('CV') of a member's accrued rights for the purposes of Regulation 33.
- 2.5 The capital value of the member's accrued rights can therefore be calculated generally as follows:

$$CV = LS + (20 \times P)$$

Where:

LS = Retirement Grant + Additional lump sum by commutation of pension

P = Pension after commutation

Sections 2.6 to 2.17 provide further details and outline the modifications to the formula applicable where members hold an AVC arrangement.

Application of guidance

- 2.6 This section provides information intended to support administrators as they apply the actuarial guidance provided. It does not form part of the formal actuarial guidance, as defined by the scheme regulations, and does not override the scheme rules or wider pensions legislation.
- 2.7 Once the capital value of a member's benefits is known, it is then possible to determine the maximum additional lump sum that a member can commute, ensuring this does not exceed the 25% limit outlined in section 2.2 above. Section 4 includes three examples illustrating the capital value calculation and showing how it is then possible to calculate the maximum allowable lump sums in these situations.

- 2.8 Regulation 33 determines which benefits should be included in the assessment of the member's capital value, and the resulting maximum lump sum. The regulation indicates that the assessments should include all of a member's accrued rights payable across all local government pension provision in relation to that relevant Benefit Crystallisation Event ('BCE': the benefit payment date defined in accordance with the amended scheme regulations). It is therefore expected that this definition will include most benefits paid by the scheme, including any added pension, or shared-cost added pension arrangements that are drawn by the member at the time of the relevant BCE.
- 2.9 Members may have contributed to an AVC arrangement under Regulation 17 of the 2013 Regulations, or equivalent previous provisions. These members may decide to also elect, or may be required, to draw upon their accumulated fund to provide benefits at the BCE. Under Regulation 17(7) of the 2013 Regulations, a member may use the accumulated value of his or her AVCs to provide additional benefits under the Scheme (see the guidance documents "Use of accumulated AVCs to provide additional pension under the Scheme"). These can be in the form of a lump sum or a pension, or a combination of the two. Alternatively, the member can take their AVC benefits outside the fund and can receive an annuity paid by an insurance company.
- 2.10 Where a member elects to receive a lump sum in respect of their AVC arrangement, then this amount should be included in the assessment of the maximum lump sum. For the purposes of the calculation, this amount will increase both the overall lump sum payable and also the capital value of benefits (calculated in accordance with section 2.5 above).
- 2.11 Similarly, where an AVC arrangement is used by a member to provide additional pension in the scheme, this should be included in the assessment of the capital value of benefits. The annual rate of the pension purchased will be included in the formula in section 2.5 above, alongside other scheme pension amounts (in line with section 2.8 above).
- 2.12 We understand that where a member uses all or part of their AVC fund to purchase an annuity from an insurance company, this amount should be added to the capital value of the benefits calculated in the formula in section 2.5 above. The amount added to the capital value should be the value of the fund used to purchase the annuity (i.e. the actual rate of annual payment of the annuity is not used in the calculation). This is because MHCLG have confirmed to us that for the purposes of regulation 33(2) of the 2013 Regulations, 'local government pension provision' should include AVCs used to purchase annuities with insurance companies, where those annuities are arranged as part of the member's retirement benefits under the LGPS.
- 2.13 This guidance applies to all forms of retirement benefits within the scope of Regulation 33. This includes retirements on early, late, or flexible grounds. In these, and any other scenarios where an adjustment is applied to a benefit at retirement, commutation takes place after that adjustment has taken place.
- 2.14 For the avoidance of doubt, this guidance should also apply to members who left before 1 April 2014, and to any councillor members, where the capital value is being calculated under the corresponding provisions of earlier LGPS regulations (with references to Regulation 33 being interpreted in that wider context).

- 2.15 In some circumstances Regulation 33(4) of the 2013 Regulations prevents a pension credit member from commuting pension for a cash sum when the pension credit comes into payment. The Finance Act 2004 may also restrict a pension credit member's ability to commute pension for a cash sum.
- 2.16 More generally, whilst we would not typically expect wider tax rules (or the classification of lump sums as either PCLS or PCELS) would restrict maximum lump sums beyond Regulation 33's limits. We are aware that there may be rare scenarios where certain elements of a pension cannot be converted into a PCELS, which could limit the size of the lump sum payable. Further details on the HMRC limits are provided in the next section of this note.
- 2.17 For the avoidance of doubt, we note that the previous bullets indicate that there may be circumstances where the scheme may not be able to pay the full amount of the lump sum that has been calculated in accordance with Regulation 33.

3. HMRC limits

- 3.1. Once a scheme member has made a commutation election, and the fund administrator has determined that this is in accordance with Regulation 33, it will be necessary to determine the pensions tax status of the lump sum. This will determine if, and how, the payment should be taxed.
- 3.2. In many cases the payment will be classed as a Pension Commencement Lump Sum ('PCLS'). Further details on the limits applicable to PCLSs are provided below.
- 3.3. However, where a member cannot receive the full lump sum as a PCLS, some or all of the payment will therefore be classed as a Pension Commencement Excess Lump Sum ('PCELS'). Further details on PCELSs are provided below.

Pension Commencement Lump Sum

- 3.4. A pension scheme may pay a member a Pension Commencement Lump Sum ('PCLS') which will be tax-free. Full guidance on how to calculate the maximum PCLS available can be found on the HMRC website. However, our understanding is that the maximum PCLS will typically be calculated as the lesser of:
 - 25% of the total value of the pension and lump sum entitlements arising at a particular time
 - The member's remaining Lump Sum Allowance
 - The member's remaining Lump Sum and Death Benefit Allowance (this will usually only be relevant where a member has died, as this Allowance will generally be larger than the Lump Sum Allowance)

The following list links HMRC guidance pages which administrators may find useful when considering PCLSs. The list is not intended to provide comprehensive guidance on PCLSs, and administrators should ensure they are compliant with underlying pensions tax legislation when paying scheme benefits.

[PTM063220 - Member benefits: lump sums: Pension commencement lump sum \(PCLS\): conditions and entitlement - HMRC internal manual - GOV.UK](#)

[PTM063230 - Member benefits: lump sums: Pension commencement lump sum \(PCLS\): general limits information - HMRC internal manual - GOV.UK](#)

[PTM063240 - Member benefits: lump sums: Pension commencement lump sum \(PCLS\): applicable amount - HMRC internal manual - GOV.UK](#)

[PTM171000 - Lump sum allowance and lump sum and death benefit allowance: lump sum allowance - HMRC internal manual - GOV.UK](#)

- 3.5. In many cases the maximum PCLS payable under HMRC guidance, and the maximum lump sum calculated under Regulation 33, will be equivalent. However, in some circumstances Regulation 33 may allow the scheme to pay a larger lump sum than the maximum PCLS, for example where a member's PCLS is restricted by their Lump Sum Allowance.



Pension Commencement Excess Lump Sum

- 3.6. Where a member's retirement lump sum payment cannot be paid in full as a PCLS, any excess amount will generally be treated as a PCELS. Our understanding of pensions tax legislation is that PCELSs are subject to income tax at a member's marginal rate.
- 3.7. Under pensions tax legislation, not all benefits may be converted into a PCELS. For example, GMPs or section 9(2B) pension benefits, related to periods of contracting-out, cannot generally be commuted into PCELSs. Similarly, we understand that lump sums relating to AVC arrangements cannot be paid as PCELSs. It is therefore important for administrators to consider the eligibility of benefits for payment as a PCELS when commuting and paying lump sums to scheme members. This guidance is not intended to permit the payment of any part of the lump sum as an unauthorised payment and administrators should ensure that any payments are in accordance with the scheme regulations and general pensions tax legislation.

The following link provides HMRC guidance which administrators may find useful when considering PCELSs. This guidance is not intended to provide comprehensive explanation of PCELSs, and administrators should ensure they are compliant with underlying pensions tax legislation when paying scheme benefits.

[PTM177000 - Lump sum and lump sum and death benefit allowance: Pension commencement excess lump sums - HMRC internal manual - GOV.UK](#)

4. Examples of commutation calculations

In all the examples that follow, it is assumed that the Lump Sum and Death Benefit Allowance is greater than the Lump Sum Allowance and so it is that limit that is considered.

4.1 Example 1

Pension (before commutation) = £5,000 pa
Retirement Grant = £15,000

In addition, the member has an AVC fund which he uses by taking:

- a lump sum of £5,000,
- and a pension through the Scheme of £1,000 pa

Commutation factor = 12

The member chooses to commute £500 pa of pension, to obtain an additional lump sum of £6,000 (= 500 x 12)

Pension after commutation = 5,000 + 1,000 – 500 (including AVC pension)
= £5,500

Lump sum after commutation = 15,000 + 5,000 + 6,000 (including AVC cash)
= £26,000

Capital value of benefits = (20 x Pension) + total lump sum including AVC lump sum
= (20 x 5,500) + 26,000
= £136,000

Proportion of benefits taken as lump sum = Total lump sum after commutation / Capital value of benefits
= 26,000 / 136,000
= 19.1%

This is less than the limit of 25%, so the member is able to take this level of lump sum.

In this case the member had a Lump Sum Allowance greater than the total £26,000 lump sum, and the other PCLS requirements were also met, and so the lump sums payable from the scheme were all classed as PCLSs.



In the example above, we assume the member's AVC fund at retirement had a value of £23,083.18. They chose to convert £18,083.18 into a pension (with attaching dependents' pension) using an illustrative conversion rate of £5.53 of pension for every £100 of the fund used. This resulted in a £1,000 p.a. pension and a £5,000 lump sum payable from the scheme in respect of the AVCs.

The member could instead have looked to maximise their lump sum using only their AVC arrangement (i.e. not commuting any of their main LGPS benefits). In that case the member would elect to receive £19,612.76 of their AVC fund as a lump sum. This would leave £3,470.42 of their AVC remaining, which if converted using the example rate would result in an annual pension of £191.91 p.a.

The following calculation shows this is within the permissible scheme limits:

Pension (no commutation) = 5,000 + 191.91 (including AVC pension)
= £5,191.91

Lump (no commutation) = 15,000 + 19,612.76 (including AVC cash)
= £34,612.76

Capital value of benefits = (20 x Pension) + total lump sum including AVC lump sum
= (20 x 5,191.91) + 34,612.76
= £138,450.96

Proportion of benefits taken as lump sum = Total lump sum after commutation / Capital value of benefits
= 34,612.76 / 138,450.96
= 25.0%

There are a range of approaches a member can use to maximise their lump sum, if they have access to both a commutation option and have an AVC arrangement. Where a member selects their preference to use one of these, it is then possible to optimise the maximum lump sum permissible. Further information on that process can be found on the Administrator Resources section of the Local Government Association's website for LGPS administrators and employers (www.lgpsregs.org).

4.2 Example 2

Pension = £5,000 pa
No automatic retirement grant.
The member has no AVCs.

Commutation factor = 12

The member wishes to commute part of their pension in order to receive the maximum allowable lump sum under Regulation 33 of the scheme rules.

They elect to take a lump sum of £21,428.52 by commuting £1,785.71 of their pension. These amounts were selected to maximise the lump sum (using the approach below).

Pension after commutation = 5,000 – 1,785.71
= £3,214.29

Lump sum after commutation = 1,785.71 x 12
= £21,428.52

Capital value of benefits = (20 x Pension) + total lump sum
= (20 x 3,214.29) + 21,428.52
= £85,714.32

Proportion of benefits taken as lump sum = Total lump sum after commutation / Capital value of benefits
= 21,428.52 / 85,714.32
= 25.0%

This shows that the member has selected the maximum lump sum that is permitted under Regulation 33 of the scheme rules. Again, in this case the member has sufficient Lump Sum Allowance, and is also otherwise eligible, and so the full lump sum is paid to the member as a PCLS.

We note that in many cases where **there is no retirement grant** it will be possible to calculate the maximum lump sum directly using the formula:

$$20 \times P \times CF / (20 + (3 \times CF))$$

Where: P is the pension before commutation
And CF is the commutation factor (which is 12 in the LGPS).

This means, for LGPS, the formula can be simplified to: $P \times 240 / 56$

This approach would have allowed an administrator to calculate the maximum lump sum of £21,428.57. This equates to commuting a pension of £1,785.71416. As it is not possible to commute partial pennies, this needs to be rounded down to **£1,785.71**. The maximum lump sum possible is then 12 times £1,785.71 = **£21,428.52**, which are the amounts used above.



4.3 Example 3

Pension = £55,000 pa
 Retirement Grant = £165,000
 The member has no AVCs

Commutation factor = 12
 Lump Sum Allowance = £268,275

The member wishes to commute further pension in order to receive the maximum lump sum allowable under Regulation 33. They elect to receive a lump sum of £129,642.84 by commuting £10,803.57 of their pension (the maximum lump sum, as calculated below).

Pension after commutation = 55,000 – 10,803.57
 = £44,196.43

Total Lump sum after commutation = 10,803.57 x 12 + 165,000
 = £294,642.84

Capital value of benefits = (20 x Pension) + total lump sum
 = (20 x 44,196.43) + 294,642.84
 = £1,178,571.44

Proportion of benefits taken as lump sum = Total lump sum after commutation / Capital value of benefits
 = 294,642.84 / 1,178,571.44
 = 25.0%

This shows that the member has selected the maximum lump sum that is permitted under the regulations.

As the total lump sum payable is larger than this member's Lump Sum Allowance of £268,275, then the excess lump sum over that amount will be payable as a PCELS (subject to the benefits meeting the other requirements necessary for payment of a Pension Commencement Excess Lump Sum).

Again, we note that in many cases where **there is a retirement grant** it will be possible to calculate the maximum lump sum that can be commuted under the regulations directly using the formula:

$$((20 \times P \times CF) - (3 \times RG \times CF)) / (20 + (3 \times CF))$$

For LGPS, with a commutation factor of 12, this simplifies to: $((240 \times P) - (36 \times RG)) / 56$

This approach would have allowed an administrator to calculate the maximum commuted lump sum of £129,642.857 directly. This equates to commuting a pension of £10,803.571. As it is not possible to commute partial pennies, this needs to be rounded down to **£10,803.57**. The maximum lump sum possible is then 12 times £10,803.57 = **£129,642.84**, which are the amounts used above.

4.3 Example 4

Pension = £70,000 pa
Retirement Grant = £10,000

The member has a £100,000 AVC fund and wishes to take £25,000 as a lump sum and use the remaining £75,000 to purchase an annuity with an insurance company.

Commutation factor = 12
Lump Sum Allowance = £268,275

The member also wishes to commute further pension to receive an additional lump sum. They elect to receive a lump sum of £240,000 by commuting £20,000 of their pension.

Pension after commutation	= 70,000 – 20,000 = £50,000
Lump sum after commutation	= 20,000 x 12 + 10,000 + 25,000 (including AVC cash) = £275,000
Capital value of benefits	= (20 x Pension) + total lump sum including AVC lump sum + value of AVC fund used to purchase annuity = (20 x 50,000) + 275,000 + 75,000 = £1,350,000

Proportion of benefits taken as lump sum = Total lump sum after commutation / Capital value of benefits
= 275,000 / 1,350,000
= 20.4%

This is less than the limit of 25%, so the member is able to take this level of lump sum under the LGPS regulations.

In this case the lump sum is greater than the member's Lump Sum Allowance and so only £268,275 of the lump sums is classed as PCLS. The remaining £6,725 of the lump sum would need to be paid as a PCELS.

It is our understanding that the lump sum related to an AVC arrangement cannot be paid as a PCELS. In order to pay the full lump sum, the scheme administrator would need to check that the AVC lump sum could be paid within the PCLS allocation, with the PCELS being made up only of main scheme benefits.



Appendix A – Limitations

- A.1 This note should not be used for any purpose other than to support administrators in ensuring that a member's total lump sum at retirement, including any retirement grant, is paid in accordance with the scheme regulations.
- A.2 The guidance is based on GAD's understanding of the Finance Act 2004. Nothing in this guidance can override any prevailing HM Revenue & Customs (HMRC) restrictions.
- A.3 This note should be considered in its entirety as individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect.
- A.4 This note only covers the actuarial principles around the calculation to determine whether a member's total lump sum at retirement, including any retirement grant, exceeds 25% of the capital value of the member's accrued rights. Any legal advice in this area should be sought from an appropriately qualified person or source.
- A.5 Administrators should satisfy themselves that any additional lump sum taken complies with all legislative requirements including, but not limited to, taxation requirements.
- A.6 This guidance note is being reissued to coincide with the enactment of The Local Government Pension Scheme (Miscellaneous Amendments) (Member Benefits) Regulations 2026, which come into force on 1 April 2026. It is possible that future changes to the Regulations might create inconsistencies between this guidance and the Regulations. If users of this guidance believe there to be any such inconsistencies, they should bring this to the attention of MHCLG. In no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.