What is full commutation?

If you are intending to retire due to incapacity and are suffering serious ill-health, Universities Superannuation Scheme Ltd (the trustee) has a discretion to allow you to convert (commute) the pension that would be payable to you into a one-off lump sum. This lump sum will be added to the lump sum you would normally receive as part of your retirement benefits. Income tax is not usually payable on a serious ill-health lump sum unless the value is in excess of the lifetime allowance set by HM Revenue & Customs.

Taking full commutation will mean that there won’t be any further lump sum payable on your death. And there won’t be any further benefits payable to you should the opinions of the medical advisers prove unduly pessimistic.

However, full commutation won’t affect the pensions that would be payable on your death to your spouse, civil partner, dependants or eligible children – these will be payable in the normal way.

Who can apply?

Full commutation is only permitted where the trustee’s medical advisers have given an opinion that your life-expectancy is less than 12 months. It is also only allowed where you haven’t yet retired and begun receiving benefits from USS.

How do I get a quote?

If you would like to find out how much the serious ill-health lump sum could be, please ask for a quote via your institution, or contact us direct if you’re a deferred member.

Is full commutation right for me?

The trustee can’t tell you whether full commutation is right for you, but we do strongly recommend that you seek financial advice from an appropriately qualified individual, to help you make the best decisions for your circumstances.

We suggest that the advice should consider all your USS benefit options and should take account of all your financial resources, not just your USS benefits. It should give consideration not only to your needs, but also the financial situation of your family and dependants, and should consider what would happen if the opinions expressed by the medical advisors should prove to be unduly pessimistic. We would recommend that the advice considers not only whether full commutation is the right option for you, but also how any lump sum should best be utilised and invested in the short and longer term.

If you need help finding a financial adviser, The Money Advice Service provides free and impartial guidance on money matters, including pensions, and has information about choosing a financial adviser. You can visit them at www.moneyadviseservice.org.uk or phone them on 0800 138 7777.
How do I apply?

If you decide that full commutation is the right option for you, and believe that you satisfy the criteria, you will need to:

- Provide evidence as to life expectancy from your medical advisers and confirm that you want the trustee’s medical advisers to give their opinion on your life-expectancy. You may have done this already if you’ve begun your application for incapacity retirement;
- Submit a completed “Application for full commutation of benefits” form. You can obtain a form from your institution, or direct from us if you are a deferred member.

On the application form you will be required to confirm that:

- You have read this factsheet;
- You satisfy the criteria for full commutation;
- You are aware of the alternatives to full commutation;
- You acknowledge that the trustee has recommended that you take financial advice;
- You have taken such financial advice as you consider appropriate;
- There will be suitable provision for ongoing financial support if the opinions expressed by the medical advisers should prove to be unduly pessimistic.

The application must be completed by you, or by your attorney. If the application is being made by your attorney, a certified copy of the power of attorney must be submitted with the application.

Will my application be successful?

Although your institution will usually submit the application, please note that the decision whether to grant full commutation lies with the trustee. Your institution cannot make any commitment to full commutation of benefits until the trustee has determined your application.

The trustee is required to consider each application for full commutation on its own merits and cannot, therefore, provide definitive guidance on whether an application will be successful. However, the trustee will usually approve an application where the requirements set out in this factsheet are met.

What happens if I die before my application has been determined?

Whilst we will always progress an application for full commutation as promptly as possible, a reasonable period of time is required to enable us to compile the evidence, obtain an opinion from the trustee’s medical advisers, and for the trustee to then determine the application.

In the unfortunate event of your death before the trustee’s medical advisers have given an opinion on your life expectancy, it will not be possible for the trustee to approve an application for full commutation. However, provided the medical opinion has been received during your lifetime, the trustee will still be able to consider an application should you die before it has been determined. If approved, the lump sum would be payable to your estate.

Who do I contact if I have any queries?

We know that this is a very difficult time for you and your family and recognise that you need to arrange many things which can be complicated and difficult to sort out. It’s our intention to make the commutation process as straightforward as possible, whilst at the same time ensuring that you have the information you need to make the decisions most appropriate for your circumstances. If you’re an active member of the scheme, you should get in touch with your institution’s pensions contact in the first instance. However, whether you’re an active member or a deferred member, our staff are fully prepared to explain any part of the process which seems unclear and you can contact us at any time and ask to speak to a member of the team.
Points to consider

- You can apply for full commutation regardless of age or marital status. However, it is only available if the trustee’s medical advisers have given an opinion that you are expected to live for less than 12 months and you have not begun receiving a USS pension;
- If full commutation is granted, no lump sum will be payable on death;
- Spouse’s or civil partner’s pensions, and other eligible dependants’ pensions, cannot be commuted and will be paid in the normal way;
- The trustee recommends that you take financial advice to help you decide whether full commutation is right for your circumstances;
- The trustee cannot assume any responsibility in initiating or progressing an application for full commutation and it is for you, together with your institution contact (where appropriate), to progress matters prior to making a formal application to the trustee;
- The trustee will always progress an application for full commutation as promptly as possible, but a reasonable period of time is required to enable us to compile the evidence, obtain an opinion from the trustee’s medical advisers, and for the trustee to then determine the application.

This publication is for general guidance only. It is not a legal document and does not explain all situations or eventualities. USS is governed by a trust deed and rules and if there is any difference between this publication and the trust deed and rules the latter prevail. Members are advised to check with their employer contact for latest information regarding the scheme, and any changes that may have occurred to its rules and benefits. For a glossary of our terms please see more information on our important terms page.