



FPS Guide

Commutation and Inverse Commutation

Cash Now or Pension Later? Understanding Commutation and Inverse Commutation

So what is it?

Commutation involves exchanging one pension benefit for another.

Depending on your scheme and circumstances, this could mean giving up part of your pension to receive a larger lump sum, or giving up some of your lump sum to increase your pension income.

There are different options available for each pension scheme.

Understanding how these options work can help you make an informed decision about balancing immediate financial needs with long-term income.

This guide explains the key principles, the impact on your benefits, and the factors you may wish to consider before making your choice.



FPS Guide

Commutation and Inverse Commutation

AFPS 75 Resettlement Commutation

Resettlement commutation on AFPS 75 means that you will have the option to receive an increased tax-free lump sum at discharge in return for a reduced taxable pension until you reach 55 years of age, when it will revert to the full rate.

AFPS 05 (Inverse Commutation):

The only commutation option for AFPS 05 is inverse commutation on the pension. This option would be available to you if you are a member of that scheme and are at least 55 years of age at the point of discharge.

Inverse commutation means that you will have the option to surrender some or all of the AFPS 05 pension tax-free lump sum in return for an increased annual taxable pension. Those leaving with an AFPS 05 Early Departure Payment rather than pension do not have any commutation options on that scheme at discharge.

AFPS 15 (Inverse Commutation) The Inverse Commutation option is also available on the AFPS 15 EDP lump sum at discharge. If you're completing your AFPS Form 1 on discharge it is here where mistakes can be made.

If this option is taken, it means that you will **give up the entire AFPS 15 EDP tax-free lump sum at the point of discharge** in return for an increased taxable annual EDP income from discharge until State Pension Age (SPA).

There are some benefits to this, but it is most often the case that individuals prefer to receive an increased tax-free lump sum at discharge and a lower annual taxable income, particularly if they will be going on to seek further employment.

Your pension is with you for life; wherever you are on that journey, we're here to help you better understand it.