XPS Pensions Group

XPS Insights
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Normal minimum pension age to rise to 57 in 2028

What you **need to know**

- The normal minimum pension age (NMPA), currently 55, is the earliest age that members of a registered pension scheme can draw their benefits without incurring an unauthorised payments tax charge, other than in cases of ill health or where they have a protected pension age.
- Back in 2014, the government stated that it would increase the NMPA from 55 to 57 in 2028 to coincide with the increase in State Pension age (SPA) to 67.
- On 4 November 2021, the Finance No. 2 Bill 2021/22 (the Bill) was published. This contains draft legislation to increase the NMPA from 55 to 57 with effect from 6 April 2028. The Bill is currently progressing through parliament.
- There will be a protection regime available for members who had an unqualified right to take their benefits at an age below 57 immediately before 4 November 2021, provided certain conditions are met. This will also include members who transferred into a scheme on or after 4 November 2021 provided the request to transfer was made before that date (and that other conditions are met, including, broadly speaking, that the scheme provided benefits with such a right).

Actions you can take

Although the rise in the NMPA to 57 is not due to take place for some time, there are things that can be considered now:

- **Member communications**, including member booklets, will need to be reviewed and possibly revised.
- Trustees may need to put in place procedures to **identify cases** that could qualify for protection.
- **Trust deeds and rules** will need to be reviewed and potentially amended in light of the change.

Background to the rise in the NMPA

What is the NMPA?	For registered pension schemes, the NMPA is the earliest age at which pension benefits can normally be accessed without incurring an unauthorised payments tax charge, except on the grounds of ill health or where the member has a protected pension age. The NMPA is currently set at age 55.
What is a protected pension age?	A member with a protected pension age can still take benefits before NPMA without triggering a tax charge provided certain conditions are met. There are currently two forms of protected pension age. One dates back to the introduction of the NMPA (at age 50) in 2006, as part of the current pensions taxation regime. The other dates back to 2010 when the NMPA was raised to age 55.
What increase to the NMPA is being proposed?	In November 2021, the government published the Finance No.2 Bill 2021/22 which will, amongst other things, increase the NMPA for registered pension schemes from age 55 to 57 with effect from 6 April 2028. This is to coincide with the rise in SPA from age 66 to 67, which is legislated to take place between 2026 and 2028. On 7 January 2022, the Department for Work and Pensions launched the next review of SPA.

The finer detail: the proposed NMPA increase

Does the proposed increase to the NMPA apply to all members?

No, there are some exceptions.

The proposed increase will not apply to members of a 'uniformed services pension scheme', which includes members of the armed forces, the firefighters and police schemes.

It will also not apply to members who either:

- qualify for a new form of protected pension age to be introduced by the Bill; or
- have one of the two pre-existing forms of protected pension age.

There will be no changes to the two pre-existing forms of protected pension age.

How does a member qualify for the new protected pension age?

Broadly speaking, a member qualifies for the new form of protected pension age (which will be between age 55 and 57) if:

- immediately before 4 November 2021, they were entitled to benefits before age 57 under a scheme where the rules provided for this entitlement on 11 February 2021; and
- either they had such a right on 11 February 2021, or would have done had they been a scheme member on that date.

A member who transferred into a scheme on or after 4 November 2021 might still qualify for a protected pension age if certain conditions are met, including that the transfer is made in execution of a request made before 4 November 2021.

HMRC have issued some provisional information on the rise in the NMPA, including the protection regime, and intend to publish guidance in their pensions tax manual. In particular it sets out that, broadly speaking, a member is 'entitled' to a benefit where there is no requirement for consent to take that benefit, from either the employer or trustee. Furthermore, HMRC note that there might be transitional issues for some members. Work is underway on transitional arrangements, which are likely to require legislative changes through regulations so that they work as intended.

Will the new protected pension age be lost on transfer?

Not necessarily.

The Bill contains provisions that would allow the new protected pension age to be preserved on a block transfer (i.e. one where the benefits of more than one member are transferred at the same time), provided certain conditions are met.

There are also provisions that allow a protected pension age to be preserved in the case of individual transfers (again, provided certain conditions are met).

Where the new protected pension ages are protected by a block transfer, it appears that this would apply to future benefit accrual as well as past accrued benefits. On the other hand, the protection provided in the case of an individual transfer only applies to past benefits that have been transferred. Trustees may therefore have to 'ring-fence' transferred-in benefits that have a different NMPA.

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