Industry Policy Committee

Preparing for the change to Normal Minimum Pension Age (NMPA)

Sept 2024

PASA

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Acknowledgements

PASA is grateful to the authors of the Guidance and members of the PASA Industry Policy Committee (IPC) and their employers.

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Grant England	**Mercer**
Rosie Kwok	**LCP LLP**
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1 Introduction

The Normal Minimum Pension Age (NMPA) was introduced as part of the 'A-Day' pension reforms in 2006 and is the earliest age people can access their benefits from a registered pension scheme without incurring tax charges. Although other minimum age restrictions applied before A-Day, introduction of the NMPA meant there would be a consistent approach, irrespective of occupation or the type of pension arrangement. However, there are still some important exceptions, including Protected Pension Age (PPA) and ill health. This Guidance concentrates on PPA.

Originally set at age 50, NMPA rose to age 55 in 2010 and from 6 April 2028, the NMPA will increase again to age 57. Although this is three and a half years away, trustees and administrators should take action now to prepare for the change and ensure people with a PPA are treated fairly.

2 Protected Pension Age (PPA)

Some pension scheme members might have a PPA. This is the right to take benefits before NMPA if the Scheme Rules grant an 'unqualified right' to take benefits before age 57, and have done so since at least 11 February 2021. This will usually be from age 55.

An unqualified right is one which doesn't need anyone's consent, like the employer or trustees. The Scheme Rules (or contract terms) must have hard-coded this age e.g. 'members may elect to take their benefits from age 55'. If Scheme Rules refer to 'NMPA' or 'the lowest age possible in legislation', this wouldn't be an unqualified right.

PPAs only apply to people who joined schemes (not necessarily the current scheme) with unqualified PPA rights before 4 November 2021. If the Rules didn't give every membership category the unqualified right, the member must have belonged to one of the categories which did.

An exception applies where someone transferred into a scheme on or after 4 November 2021 but requested the transfer before this date. This must have been a formal request to settle the transfer; a quotation request before 4 November 2021 isn't eligible. If this exception applies, it covers all scheme benefits including all future contributions, accrual and transfers in.

If someone has a PPA they can take their benefits before age 57, provided it's at or after their PPA, and it won't be classed as an unauthorised payment. Trustees aren't obliged by legislation to recognise a PPA but may find their Scheme Rules require this.

Scheme Rules must be reviewed to determine whether any members will be entitled to a PPA. Trustees must also decide what to do about those who transfer in with a PPA, even if their own Scheme Rules don't grant an unqualified right. This is because a PPA can be carried over from another arrangement through a transfer.

3 Transferred in PPAs

PPAs can be transferred in one of two ways as set out below:

1. Individual transfers

The most common source of a transferred PPA is when benefits are independently transferred benefits from a previous scheme benefitting from a PPA. This scenario is likely to be straightforward if the member already has a PPA in the receiving scheme and the benefits they transfer in have the same PPA.

However, the transferred benefit could have an earlier PPA. For example, the scheme might have a PPA of 56, and a member might transfer a PPA of 55. Care should be taken to identify and record the exact PPA of transferred benefits and benefits already within the scheme.

Where members have different benefits with different NMPAs, they shouldn't be put into payment earlier than the respective ages. This could mean benefit tranches coming into payment at different times or waiting for the latest NMPA (e.g. if all the benefits must be brought into payment simultaneously).

To avoid losing their PPA on an individual transfer, usually all benefits must be transferred from the ceding 'arrangement'. A scheme might have several arrangements (for example, a defined contribution arrangement and a defined benefit arrangement), so it doesn't have to be all benefits in a scheme.

Unlike a block transfer (see below), the PPA only applies to the transferred benefits on an individual transfer. Therefore, if a scheme is going to honour such PPAs, they should be ringfenced from other benefits in the member's record. Then any benefits members subsequently transferred from a scheme with PPAs may need to be ringfenced in the new scheme in the same way. This includes qualifying recognised overseas pension schemes (QROPS). Trustees should consider providing this information as standard in their transfer information packs.

2. Block transfers

The other source of a transferred PPA is a 'block transfer', also known as a 'buddy transfer'. There are slight differences in the conditions for a block transfer depending on whether it was made before or after 4 November 2021. As a result, people may have transferred to a scheme over two years ago and potentially have a PPA. A transfer made before 4 November 2021 is a block transfer if:

- Two or more scheme members are transferring their benefits from the same transferring scheme into the same scheme
- The transferring members had an actual or prospective right to take benefits from age 55 or 56
- All benefits are transferred from the original scheme (not partial transfers)
- The transfer is a single transaction (not piecemeal)

- On 11 February 2021, the transferring scheme's Rules granted its members an unqualified right to take benefits before age 57
- When the transfer was made, the member was one of those who had an unqualified right

If the member joined the transferring scheme after 11 February 2021, they must have joined a category which gave them an unqualified right on that date. There's a debate about whether all a scheme's members must have an unqualified right. For example, two members might transfer, but only one brings a PPA. If this situation applies, trustees should consider taking legal advice.

A transfer made on or after 4 November 2021 is a block transfer if:

- Two or more scheme members are transferring their benefits from the same transferring scheme into the same scheme
- The members are transferring all their benefits
- The transfer is a single transaction
- One of/at least two scheme members (see the point above) has a PPA in one of the ways described above

4 Differences in the PPA regimes

It's important to note there are some differences between the last NMPA increase in 2010 and the one due in 2028, which means a different approach may be called for.

Differences in eligibility conditions for PPA		
	2010 - NMPA was raised from 50 to 55	**2028 - NMPA will rise from 55 to 57***
Right to take benefits before the NRA	• Unqualified right • Rules as of 10 December 2003	• Unqualified right • Rules as of 11 February 2021
Transfers	• The transfer must be within one year of joining the new scheme • Only following block transfers • All benefits in the receiving scheme	• Transfers can be at any time during membership • Individual full transfer – transferred benefit only within the receiving scheme • Individual partial transfer – as above and for retained benefits in the original scheme • Block – all benefits in the receiving scheme
Buyout	• Only if it's part of a wind-up	• On an individual transfer basis • Pensioners

Accessing benefits	• Only if all benefits are taken at the same time	• All at the same time or phased
After accessing and returning to work for the same employer	• Scheme member could lose PPA	• Scheme member keeps PPA

* for all schemes except uniformed services schemes)

5 What can be done now? – Checklist

☐ Benefit Statements

Consider reviewing and updating templates to reflect the new NMPA and provide clear information to scheme members about how the changes may impact their retirement plans.

☐ Scheme Rules/Booklets

Review Scheme Rules and booklets to consider impacts and revisions required for the new NMPA requirements. Consider if updates are necessary, explaining the changes and any options available to scheme members.

☐ Transfer Packs

Ensure transfer packs include updated information on the NMPA and call out any implications for transferring benefits.

☐ Wake up Packs

Consider reviewing and updating wake-up packs to include information on the changes to the NMPA and how they may affect retirement planning.

☐ Pension Scheme websites

Ensure references to NMPA are updated and review retirement modelling and projection tools to account for the changes and any associated restrictions.

☐ Communication exercise

Consider a communication exercise to notify those directly affected. Provide information on how the changes may impact their retirement plans and any available options.

☐ Admin Systems

Consider how different tranches with different NMPAs can be recorded on systems and how to record those with existing entitlements based on previous rules. Review and update target retirement ages where appropriate.

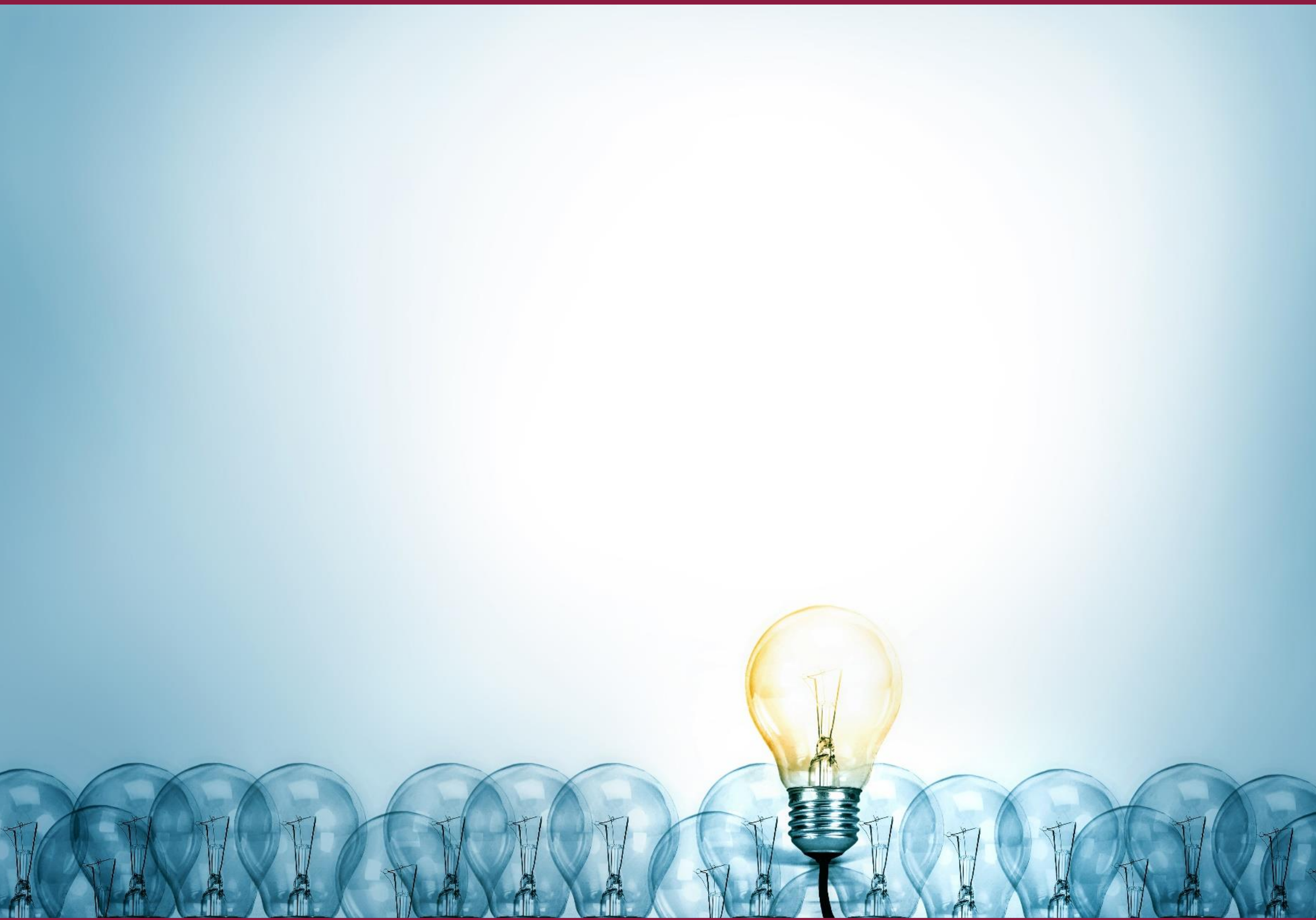
☐ Checklists and procedures

Review and consider updating checklists and processes to prevent unauthorised early retirement and ensure compliance with the new NMPA requirements.

6 Summary

The Government plans to publish further 'transitional regulations' to address minor inconsistencies created by increased NMPA. For example, to ensure those who apply to bring their benefits into payment between age 55 and 57 don't breach the rules if NMPA increases before their retirement is settled. These are likely minor process changes but should still be taken on board. These are expected at some point in the this tax year (2024/25).

PASA will continue to keep a watching brief and update this Guidance as required when more information becomes available.



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