HM Treasury

HM Revenue & Customs

Increasing the normal minimum pension age: consultation on implementation

February 2021

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

ISBN 978-1-911680-34-5 / PU 3074

Contents

Chapter 1

Context and rationale for change

Saving for later life

1.1 The government is committed to ensuring that older people are able to live with the dignity and respect they deserve, and the state pension is the foundation of state support for older people. In total, the government will spend around £100 billion on the state pension in 2020-21, and £124 billion on overall benefits for pensioners in the same period.[1]

1.2 The government will always provide a safety net for those who need it in later life. However, the government's intention is that as many people as possible have adequate private savings over and above the state pension to support the standard of living to which they aspire in retirement.

1.3 This is why the government provides generous tax incentives for both individuals and employers to save into pensions and savings for later life. In 2017-18, these incentives (relief on income tax and National Insurance relief on employer contributions) totalled £53.7 billion.[2] Alongside these tax incentives, the government also rolled out automatic enrolment into workplace pensions from 2012. This has improved saving into workplace pensions and has significantly increased participation rates. In 2017 £90.3 billion was saved into workplace pensions in the UK by employees eligible for automatic enrolment, with 84% of those eligible saving into a workplace pension in 2017, up from a low of 55% in 2012.[3] Additionally, and for the first-time, pension participation rates among eligible employees have broadly equalised between men and women.

1.4 Incentives in private pensions have also been complemented by changes to savings policy, such as the introduction of the Lifetime ISA, which is a longer-term tax-free savings account that offers a 25% government bonus on up to £4,000 of savings per year. Individuals can withdraw the money without a charge either to buy their first home or after they turn 60. As of July 2019, over 330,000 Lifetime ISA accounts had been opened since the scheme was launched in April 2017.[4]

---

1 'DWP benefit expenditure and caseload tables', DWP, September 2020

2 'Registered pension schemes: cost of tax relief': PEN6 statistics, HMRC, September 2019

3 'Workplace Pension Participation and Saving Trends of Eligible Employees Official Statistics: 2007 to 2017', DWP, June 2018

4 HC Deb, 18 July 2019, cW – 275729 (Internal KAI data, HMRC, July 2019)

Adequacy in retirement

1.5 The government is also clear that it is right to give more freedom to people in how they use their retirement savings. Before 6 April 2015, most people used their defined contribution (DC) pension funds to purchase an annuity or had a cap on the amount they could draw down each year (unless they met the minimum income requirements for flexible drawdown). At Budget 2014 it was announced these restrictions would be relaxed and there would be legislation to "*allow those with a defined contribution pension to draw down from it after age 55 from April 2015, subject to their marginal rate of income tax*." The coalition government then legislated for this change in the Taxation of Pensions Act 2014. The reforms have proven very popular with over £42bn accessed by over one and a half million individuals to date.[5]

1.6 While the government believes in the principle that individuals should have freedom and choice in how they use their money, it is also necessary to balance this with ensuring that people use their retirement savings for their intended purpose: income and security in later life. This is why the government has set rules around the reliefs to incentivise accumulation and decumulation. This is why in 2006 the government introduced a normal minimum pension age[6]. As another example, it is also why individuals who wish to access their Lifetime ISA funds before age 60 are subject to a 25% withdrawal charge (unless they are buying their first home).

Factors to consider when setting the level of normal minimum pension age (NMPA)

1.7 The NMPA is the minimum age at which most pension savers can access their pensions without incurring an unauthorised payments tax charge (unless they are retiring due to ill-health). The NMPA is currently age 55. Having an NMPA helps to ensure that tax relieved pension savings are used to provide benefits in later life. The NMPA was introduced in 2006 to ensure a balance between the generous tax relief that the government provides to enable people to save for retirement and setting the right incentives for them to accumulate sufficient pension savings and not fall back on state support in retirement. Raising NMPA from age 50 to age 55 in 2010 was "*intended to encourage people to work and to save for their retirement for longer*."[7]

1.8 The decision to retire is a very personal one, and evidence shows that, since the default retirement age was abolished in 2011, individuals retire both before and after state pension age for a variety of financial and non-financial factors (including their health and interest in working longer).[8] Therefore, in determining where best to set the NMPA, given that there is no one 'trigger' for retirement, the government considers state pension age is the best proxy

5 'Flexible Payments from Pensions data', HMRC, 29 January 2021

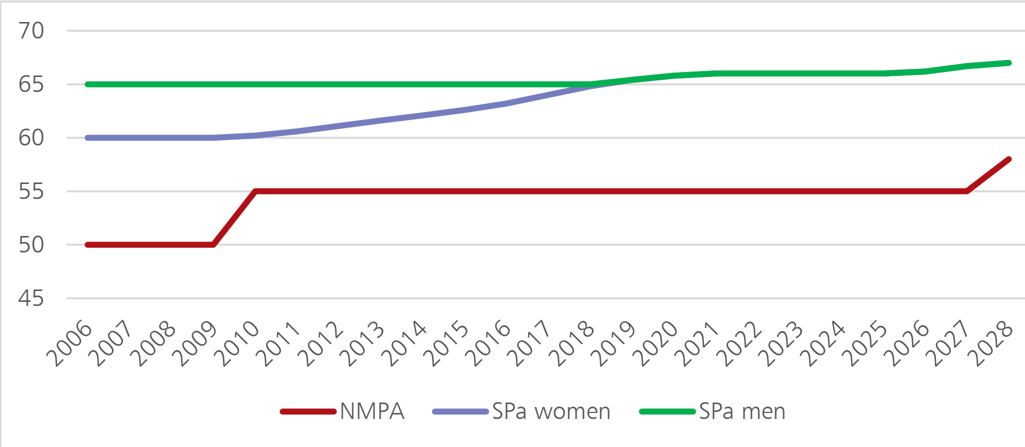
6 A minimum retirement age of 50 was also generally required under the former Inland Revenue rules: 'Practice Notes on the Approval of Occupational Pension Schemes', IR12 (2001)

7 'Simplifying the Taxation of Pensions', HM Treasury / Inland Revenue, December 2002

8 'Fuller Working Lives: Evidence Base', DWP, February 2017

available. In 2014 the coalition government announced that it would be appropriate for the NMPA to be set at 10 years below state pension age.

Chart 1: The state pension age and the NMPA



Source: Analysis of DWP data

1.9 Chart 1 shows the NMPA and the state pension age. Since its introduction, the NMPA has increased broadly in line with the state pension age, generally being around 10 years below the state pension age. The NMPA rose from 50 to 55 in 2010 (as legislated for in Finance Act 2004).

1.10 In 2014, as part of the consultation on Freedom and Choice in Pensions, the coalition government consulted on raising the NMPA further to 57 in 2028 to coincide with the rise of state pension age to 67[9]. In response to the consultation, almost half of the respondents agreed with the rise. Following the consultation, the coalition government announced that the NMPA would rise to 57 in 2028 and that it would seek to link future rises to increases in state pension age[10].

This consultation

1.11 Through this consultation, the government is reconfirming the announcement that the NMPA will rise to 57 on 6 April 2028. The government believes that increasing the minimum pension age reflects increases in longevity and changing expectations of how long people will remain in work and in retirement. In the response to the 2014 consultation, many respondents argued that the change to NMPA should be proportionate to the increase in state pension age, with a majority opposing the suggestion that the minimum pension age could be increased beyond this. The government's position remains that it is, in principle, appropriate for the NMPA to remain around 10 years under state pension age, although

9 'Freedom and choice in pensions' HM Treasury, March 2014

10 'Freedom and choice in pensions: government response to the consultation' HM Treasury, July 2014

the government does not intend to link NMPA rises automatically to state pension age increases at this time.

1.12 The government recognises the special position of members of the armed forces, police and fire services. In relation to the increase in NMPA to age 57, where members do not already have a protected pension age, the government proposes not to apply the increase in the NMPA to individuals in those pension schemes.

1.13 This consultation seeks views on the implementation of the rise and protections for pension scheme members (chapter 2). It will run until 22 April 2021. Following that date, the government will carefully consider all the responses it has received and will respond in due course.

Interaction with the FCA's Retirement Outcomes Review

1.14 In June 2018, the Financial Conduct Authority (FCA) published its Retirement Outcomes Review, which considered how the retirement income market has evolved since the introduction of pension freedoms[11]. In response to its findings, the FCA is introducing a package of remedies, including a requirement for providers to send more frequent 'wake-up packs' which set out retirement income choices from age 50[12]. This is in addition to the pack already required at age 55. Following this consultation, we shall work with the FCA to consider the impact of the increase in the NMPA on the FCA's findings and remedies.

[11] MS 16/1.3 Retirement Outcomes Review Final Report, Financial Conduct Authority, June 2018

[12] PS 19/1 Retirement Outcomes Review: feedback on CP18/17 and our final rules and guidance, Financial Conduct Authority, January 2019

Chapter 2

Implementation and protections

2.1 This section outlines a proposed framework to be applied to members of registered pension schemes when the normal minimum pension age (NMPA) increases from age 55 to 57 in 2028. The government would welcome views on this framework.

Background

2.2 Before April 2006 certain individuals who were members of approved occupational or personal pension schemes, or who had approved retirement annuity contracts, had a protected pension age of less than 50. Retaining this right to a protected pension age was specific to the scheme under which the member had the rights to payment of benefits before age 50 at the point the NMPA was introduced in April 2006. This was dependent on an individual having a prescribed occupation as set out in the regulations[1]. The payment conditions that apply to an individual with a protected pension age reflect the particular tax rules that applied before April 2006.

2.3 In 2010 the NMPA was increased from age 50 to 55. Protections were applied to members of occupational pension schemes who before April 2006 had the right to take benefits before age 55 where certain conditions are satisfied.

2.4 Having protection ensures that members retain their pre-existing minimum pension age in accordance with their rights within their specific scheme rules. By "right", throughout this consultation document, we mean an unqualified right under which individuals do not need the consent of any other person (such as an employer or trustee) before they can take their benefits at a particular age.

Proposal relating to the increase in NMPA to age 57

Protection of existing scheme rights

2.5 The government proposes to offer a protection regime for the increase to the NMPA in 2028 for all types of registered pension scheme. This would mean that an individual member of any registered pension scheme (occupational or non-occupational) who has a right under the scheme rules

[1] The Registered Pension Schemes (Prescribed Schemes and Occupations) Regulations 2005 (SI 2005/3451).

at the date of this consultation to take pension benefits at an age below 57 will be protected from the increase in 2028.

2.6 The protected pension age will be specific to an individual as a member of a particular scheme. Protection will not apply to other schemes where there was no existing right held, so an individual could have a protected pension age in one scheme where they have a right to take pension benefits at an age below 57, but for schemes where no such right exists the new NMPA of 57 will apply from 2028.

2.7 The government has considered the option of protecting only accrued pension benefits up to 2028, after which any benefits accrued would be subject to the new NMPA. However, this would effectively split a pension scheme benefit into two parts and the government believes this approach would create unnecessary complexity for both individuals and schemes.

2.8 For members who meet the conditions for a protected pension age, the proposed protection will therefore apply to all the member's benefits under the relevant scheme, not just those benefits built up before 2028.

Previous protected pension ages

2.9 Those individuals with an existing protected pension age will see no change in respect of their current protections. The protection regime outlined within this document will apply specifically to the increase in NMPA planned for 2028.

2.10 As stated above, the government recognises the special position of members of the armed forces, police and fire services. In relation to the increase in NMPA to age 57, where members do not already have a protected pension age, the government proposes not to apply the increase in the NMPA to individuals in those pension schemes.

When protection does not apply

2.11 Individuals who do not have a protected pension age but take scheme benefits before age 57 after 5 April 2028 would be subject to unauthorised payments tax charges.

2.12 Protection from the increase in NMPA will only apply to those individuals who have an existing right within their scheme rules at the date of this consultation to take pension benefits before age 57. In other words, a member's protected pension age will be the age from which they currently have the right to take their benefits. For members of a registered pension scheme (active, pensioner or deferred members) who do not have such a right, they will retain the current NMPA (age 55) until April 2028, from which point the NMPA will increase to age 57.

Application of protection

2.13 There will be no need for individuals or schemes to apply for a protected pension age. This is in line with the previous approach for having a protected pension age.

Pension flexibility

2.14 In 2015 the government introduced changes to the pension tax rules to give individuals who have reached the NMPA greater flexibility to access their money purchase pension savings. This is known as pension flexibility and includes taking funds as income for life, for example by purchasing a lifetime annuity or taking a scheme pension, or flexibly accessing as much of the funds as are required through a combination of drawdown payments and lump sums. Other than an increase in the NMPA, the government does not intend for the changes introduced in 2015 as part of the pension flexibilities to be affected.

Ill-health

2.15 The government does not propose making any changes to the current pension tax rules on ill-health as part of this NMPA increase.

Retirement condition

2.16 For individuals with a protected pension age relating to the increase from age 50 to 55 in 2010, one of the conditions that had to be met was the 'retirement condition.' The retirement condition broadly reflected the conditions required for early payment of benefits under occupational style schemes before 6 April 2006, one of which was that was that the member had to actually retire for early payment of benefits. By contrast, where individuals are entitled to a protected pension age in relation to the increase in NMPA from 2028, they will be able to draw benefits under their scheme even if they are still working. The government believes that this approach provides more flexibility and better reflects how individuals now combine work and retirement in ways that suit their circumstances.

Drawing scheme benefits

2.17 Currently, if an individual wants to use their protected pension age, then all their benefits under the scheme must be taken (crystallised) on the same date. Considering the pension flexibilities introduced in 2015, the government proposes that this requirement will not be a condition of the 2028 protected pension age regime. For example, an individual with a defined contribution pension with a protected pension age of 55 would be able to allocate some of their pension to a drawdown fund, and at a later date use the remainder to purchase an annuity, without losing their protected pension age.

Transfers

2.18 The government proposes that individuals should retain their protection as part of a transfer where they become a member of another pension scheme as a result of a block transfer.

Phasing in the increase

2.19 The NMPA is the minimum age under the legislation at which most pension savers can access their pension savings. Pension schemes and providers are permitted to have a higher minimum age under their individual scheme rules. The government therefore believes that schemes should be free to decide how and when to move to the new NMPA (age 57) by 2028. For example, some schemes might decide to increase the minimum age in their rules before 2028. The government expects trustees and managers of schemes to notify members of the increase in NMPA when it is practicable to do so and in any event in line with usual disclosure of information requirements.

Questions

1. Are there any specific considerations that should be taken into account regarding the government's proposed framework for the increase to the NMPA?
2. Are there any particular issues that the government should consider in the way NMPA is defined in pension scheme rules?
3. The government proposes that the protected pension age will apply to all the member's benefits under the scheme (if the conditions for a protected pension age are met), not just those benefits built up before 2028. Are there any other alternative options or issues the government should consider around the treatment of accrued and future pension savings?
4. Are there any issues associated with schemes informing members who meet the conditions of their rights to a protected pension age?
5. Are there any circumstances why the increase in NMPA may impact on pension flexibility (which was introduced following the 2014 consultation on "Freedom and Choice in Pensions")?
6. Are there any implications the government should consider by not requiring that all scheme benefits must be crystallised on the same day as a condition for a protected pension age?

Chapter 3
Next steps

Responding to the consultation

3.1 The government would welcome comments on this consultation by 11pm on 22 April 2021.

3.2 Responses can be sent by email to nmpaconsultation@hmtreasury.gov.uk

Following the closure of the consultation

3.3 Once the responses to the consultation have been considered, the government plans to publish draft legislation in summer 2021 and to legislate for the increase in normal minimum pension age in the subsequent Finance Bill.

Processing of personal data and confidentiality

HMT consultations – processing of personal data

3.4 This notice sets out how we will use your personal data, and your rights under the Data Protection Act 2018 (DPA).

Your data (Data Subject Categories)

3.5 Your personal information relates to members of the public, Parliamentarians, and representatives of organisations or companies.

The data we collect (Data Categories)

3.6 Information may include the name, address, email address, job title, and employer of the correspondent, as well as their opinions.

3.7 It is possible that respondents will volunteer additional identifying information about themselves or third parties.

Purpose

3.8 The personal information is processed to obtain the opinions of members of the public and representatives of organisations and companies about departmental policies, proposals, or generally to obtain public opinion data on an issue of public interest.

Legal basis of processing

3.9 The processing is necessary for the performance of a task carried out in the public interest or in the exercise of official authority vested in HM Treasury.

The task is consulting on departmental policies or proposals, or obtaining opinion data, to develop good effective policies.

Who we share your responses with (Recipients)

3.10 Information provided in response to a consultation may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004 (EIR).

3.11 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.

3.12 Where someone submits special category personal data or personal data about third parties, we will endeavour to delete that data before publication takes place. Where information about respondents is not published, it may be shared with officials within other public bodies involved in this consultation process to assist us in developing the policies to which it relates. As the personal information is stored on our IT infrastructure, it will be accessible to our IT contractor NTT. NTT will only process this data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we will hold your data (Retention)

3.13 Personal information in responses to consultations will generally be published and therefore retained indefinitely as a historic record under the Public Records Act 1958.

3.14 Personal information in responses that is not published will be retained for three calendar years after the consultation has concluded.

Special data categories

3.15 Any of the categories of special category data (for example, racial or ethnic origins or health details) may be processed if such data is volunteered by the respondent.

Basis for processing special category data

3.16 Where special category data is volunteered by you (the data subject), the legal basis relied upon for processing it is: the processing is necessary for reasons of substantial public interest for the exercise of a function of the Crown, a Minister of the Crown, or a government department.

3.17 This function is consulting on departmental policies or proposals, or obtaining opinion data, to develop good effective policies.

Your rights

3.18 You have the right to request information about how your personal data are processed, and to request a copy of that personal data.

3.19 You have the right to request that any inaccuracies in your personal data are rectified without delay.

3.20 You have the right to request that your personal data are erased if there is no longer a justification for them to be processed.

3.21 You have the right in certain circumstances (for example, where accuracy is contested) to request that the processing of your personal data is restricted.

3.22 You have the right to object to the processing of your personal data where it is processed for direct marketing purposes.

Complaints

3.23 If you have any concerns about the use of your personal data, please contact us via this mailbox: privacy@hmtreasury.gov.uk

3.24 If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner, who is an independent regulator. The Information Commissioner can be contacted at:

Email: casework@ico.org.ouk

Post: Information Commissioner's Office; Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF

Telephone: 0303 123 1113

3.25 Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

Contact details

3.26 The data controller for your personal data is HM Treasury. The contact details for the data controller are:

Email: privacy@hmtreasury.gov.uk
Post: HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Consultation principles

3.27 This consultation is being run in accordance with the government's consultation principles.

3.28 The government will be consulting for 10 weeks.

Annex A
List of consultation questions

1. Are there any specific considerations that should be taken into account regarding the government's proposed framework for the increase to the NMPA?

2. Are there any particular issues that the government should consider in the way NMPA is defined in pension scheme rules?

3. The government proposes that the protected pension age will apply to all the member's benefits under the scheme (if the conditions for a protected pension age are met), not just those benefits built up before 2028. Are there any other alternative options or issues the government should consider around the treatment of accrued and future pension savings?

4. Are there any issues associated with schemes informing members who meet the conditions of their rights to a protected pension age?

5. Are there any circumstances why the increase in NMPA may impact on pension flexibility (which was introduced following the 2014 consultation on "Freedom and Choice in Pensions")?

6. Are there any implications the government should consider by not requiring that all scheme benefits must be crystallised on the same day as a condition for a protected pension age?