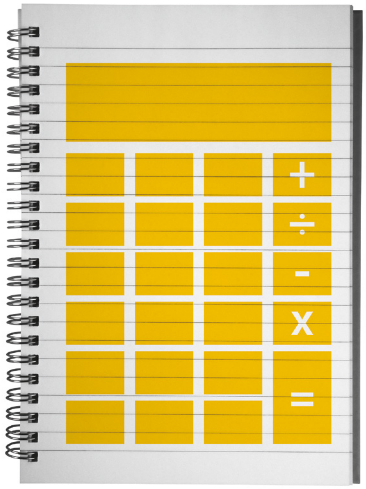
EVERSHEDS SUTHERLAND

Calculating the impact

Increasing the minimum pension age



The government has recently confirmed that minimum pension age (MPA) – the age from which people can access their pensions without a tax penalty – will increase from 55 to 57 in 2028. This blog considers what this might mean for pension savers, employers and pension plan trustees.

Why is this happening?

In 2014, the government first signalled its intention to increase MPA, saying it aimed to reflect trends in longevity, encourage individuals to remain in work and help to ensure pension savings provide for later life.

In September 2020, the government confirmed that the increase to MPA to age 57 will go ahead in 2028, and that it will legislate for it in due course.

Two important changes give context to this announcement. First, the increase to the state pension age. And secondly, the introduction of the pension freedoms – reforms which from April 2015 have broadly allowed people to use their pension pot how they want from MPA. (Previously, pension pots had to be used to purchase an annuity.)

The combination of these changes means there is a heightened risk that people use the pension freedoms to take their pension at an early opportunity, without leaving enough pension to see them through their retirement, or even until the state pension kicks in for them.

Increasing MPA reduces this risk. As the government put it in 2014, it's "an important signal" that "provides people with extra time to accumulate their pension savings".

The government has also indicated that, going forwards, MPA will be pegged at 10 years below state pension age.

How will the increase work?

The change is likely to only affect people currently aged 48 and under. Anyone over this age should reach the current MPA of 55 before the increase applies.

However, it's not yet clear whether the increase to MPA will apply from a specific date or whether it will be phased in.

If the government chooses to apply the full increase on a specific date, this would create a 'cliff edge' situation: individuals born a day apart would find that the day on which they can first take their pensions is two years apart.

Moreover – depending on how the legislation will work – there could be a strange situation where people aged between 55 and 57 on the date the increase is applied find that their ability to access their pension pot, which they gained when they turned 55, is then withdrawn from them, until they turn 57.

An alternative approach would be for the government to phase in the increase in MPA. However, this might risk making implementation more difficult and could lead to confusion.

What does this mean for individuals, employers and trustees?

For most people, the increase to MPA is likely to be irrelevant. Few people retire at MPA.

But, for those young enough to be affected by this change, and prudent, lucky or foolish enough to plan to retire at the very earliest opportunity, they will now have to wait a further two years to do so. Some savers may want to recalibrate their retirement plans accordingly.

Furthermore, if individuals in this position have saved their money in lifestyling funds based on the current MPA of 55, they may now want to update these to be based on retirement at age 57.

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Turning to trustees and employers, if their plan rules have hard-wired age 55 as MPA, they will need to update this. Likewise, they will want to update any member communications which refer to age 55 as shorthand for MPA.

DC trustees will also need to consider recalibrating any plan lifestyle strategies, and give some thought to how the increase to MPA will affect their disclosure obligations - regulations require trustees to give members with money purchase benefits certain information within four months of their MPA. Trustees will need to ensure their systems are set up to provide the required information at the correct time when MPA increases.

A final thought is that, however it chooses to implement the increase to MPA, the government will want to take care to communicate the change widely and in good time. Otherwise, it could risk people complaining that they weren't properly warned about changes to their pension – a prospect the government is likely to be particularly wary of in the light of the recent WASPI (women against state pension inequality) campaigns.

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