



Countdown to 57: Navigating the 2028 NMPA change for pension schemes

PMI's Insight Partner



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With the increase in the Normal Minimum Pension Age (NMPA) to age 57 now less than four years away, schemes should start planning for the impact this will have on their scheme and on those members wishing to retire early as of 6 April 2028.

In August 2024, the Pensions Administration Standards Association (PASA) helpfully published a guide for schemes titled 'Preparing for the change to Normal Minimum Pension Age'. This guide includes practical ideas on what schemes can do now to help them and their members prepare for the next change to the NMPA.

The change in NMPA to age 57 in April 2028 coincides with the end of the phased increase in state pension age (SPA) from age 66 to age 67. So, subject to scheme rules, this will normally allow members to take retirement benefits up to 10 years earlier than the SPA. Given that the SPA is currently due to increase to age 68 by 2046 (although this date may change), it will be interesting to see whether the NMPA maintains that 10-year differential in line with future changes to the SPA.

Below we recap on the NMPA, outline the protected pension age and ill-health exceptions, highlight some of the related changes due to the abolition of the lifetime allowance and summarise some of the next steps that schemes should start to consider.

A recap of the NMPA

NMPA is the lowest age that members can normally take their pension benefits from a registered pension scheme without incurring HM Revenue & Customs (HMRC) unauthorised payment tax charges. Scheme rules may allow retirement benefits to be taken from the scheme from NMPA or may not allow pension benefits to be taken until a higher minimum age.

In summary, NMPA was introduced in 2006 and has changed over time:

- **Before 6 April 2010, schemes could allow members to retire any time after age 50. Some schemes for specialist occupations (such as sportspeople) had a retirement age of less than 50.**
- **From 6 April 2010, the minimum retirement age increased to 55.**
- **From 6 April 2028, the minimum retirement age is due to increase to 57. This will not apply to certain uniformed services, such as the armed forces, police or fire service.**

In limited circumstances, members may be able to take pension benefits before NMPA without incurring an HMRC unauthorised payment tax charge. This includes when they have a protected pension age (PPA) or when they meet the required HMRC conditions to retire due to ill-health.



Protected pension age



Where certain conditions are met, members may be entitled to a PPA under a particular scheme of earlier than the NMPA in force at the time they wish to early retire.

Broadly speaking, currently, a member of an occupational pension scheme keeps the minimum pension age they had at 5 April 2006 if they had an unqualified right under the scheme rules (i.e. consent from either the trustees or company is not required) to retire between age 50 and 55 as of 5 April 2006, subject to certain conditions:

- **The right must be under the scheme rules at 10 December 2003.**
- **The member must leave employment and usually not return to employment with any employer connected with the scheme.**
- **All benefits in that scheme must be taken at retirement.**

Protection is lost if the member voluntarily transfers their benefits after 5 April 2006 but can be retained in certain circumstances, where that transfer is part of a 'bulk transfer'.

Different rules apply to retirement annuity contracts and personal pension plans, where they can retain a retirement age lower than 50 in respect of special occupations (such as sports people), as long as the right existed before 6 April 2006. There is no protection available for retirement ages between 50 and 54.

From 6 April 2028 a new, additional, PPA regime will be introduced for those with a protected minimum pension age of between 55 to 57. While additional regulations are expected to deal with some further transitional issues arising in connection with this increase in NMPA, broadly, the conditions include:

- **On 3 November 2021 the member had an unqualified right under the pension scheme to take their benefits between age 55 and 57.**
- **The right must be included in the scheme rules at 11 February 2021.**
- **The member either had such a right under the scheme on 11 February 2021 or would have had such a right had the member been a member of the scheme on 11 February 2021.**

Where certain conditions are met, this new PPA will be retained on transfer, on either an individual or block transfer basis, if the receiving scheme agrees to allow this option. In such cases the transferred-in benefits will need to be ringfenced so only those benefits are payable before NMPA. The only exception is where an individual is already a member of the receiving scheme and a 55-57 PPA applies to all their benefits in that scheme.

Impact on HMRC allowances where the PPA is lower than age 50

From 6 April 2024 a member with a PPA lower than 50 who takes their pension or lump sum before they reach NMPA will have a 2.5% reduction applied to their lump sum allowance (LSA) and lump sum and death benefit allowance (LSDBA) for each complete year between NMPA and the date on which the relevant benefit crystallisation event occurs.

The reduction does not apply where the pension is paid before NMPA because the member is in ill-health. Certain public service pension schemes are also exempt from this reduction.

Between 6 April 2006 and 5 April 2024, this 2.5% reduction was applied to a member's lifetime allowance at a benefit crystallisation event.



Early retirement due to ill-health



As mentioned above, a member can take retirement benefits before NMPA without incurring an unauthorised payment tax charge, if they meet HMRC's requirements for ill-health or serious ill-health.

The HMRC conditions that must be met, and the benefit options available from the scheme (subject to scheme rules), depend on whether the member is in 'ill-health' or 'serious ill-health'.

Ill-health

From HMRC's perspective, members may take benefits at any age where the scheme administrator accepts qualified medical evidence to the effect that the member satisfies the ill-health condition, and so is and will continue to be, medically incapable (either physically or mentally) as a result of injury, sickness, disease, or disability of continuing their current occupation and as a result of the ill-health, ceases to carry on that occupation.

While the legislation refers to being incapable of carrying on the member's current occupation, scheme rules may be stricter in determining the ill-health criteria. For example, they may state the member must be incapable of carrying out any occupation, rather than the current occupation they are in.

The retirement benefits available from the scheme on ill-health will depend on the scheme rules and will generally include a regular pension (perhaps adjusted to reflect it is an ill-health retirement) and a tax-free lump sum option, as would generally be available for a standard retirement.

Serious ill-health

If a member meets HMRC's requirements to retire on the grounds of serious ill-health, the scheme may, subject to scheme rules, commute any pension entitlement that member holds under the scheme and pay the member their entire benefit entitlement under an arrangement as a lump sum. This recognises that the individual has a very short life expectancy.

There are three conditions that must all be met for a payment to be treated as a serious ill-health lump sum and therefore avoid any HMRC unauthorised payment tax charge. Broadly speaking, these are as follows:

- **Before making the payment, the Scheme Administrator has received written evidence from a registered medical practitioner confirming that the member is expected to live for less than one year.**
- **The payment is made in respect of uncrystallised benefits, i.e. pensions in payment cannot be commuted for a serious ill-health lump sum.**
- **The payment extinguishes the member's entitlement to benefits or uncrystallised rights under the arrangement. Any attaching spouse benefit entitlement (e.g. in relation to any GMP benefit) must be kept separately under the scheme, for that person's own right.**

The payment of a serious ill-health lump sum from 6 April 2024 is a relevant benefit crystallisation event for LSDBA purposes. This is the only lump sum paid during a member's lifetime which reduces LSDBA availability and not LSA availability, which could result in the member having a lower amount of LSDBA available than LSA.

There is no charge to income tax on payment of a serious ill-health lump sum if it is paid when the member is under age 75, although any part of the payment that exceeds the available LSDBA will be taxable at the member's marginal rate of income tax.

Steps that schemes could start considering in preparation for the increase in NMPA

While the change in NMPA is still some time away, schemes can start thinking about what steps should be taken in advance of April 2028.

Initially this is likely to focus on ensuring members are made aware of the change well in advance of April 2028.

This may include updating member communications, determining whether scheme rules need updating and ensuring plans are in place to update administration services in advance of April 2028.

PASA published a guide titled '**Preparing for the change to Normal Minimum Pension Age**' which provides more information, including a helpful checklist.






Find out more

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