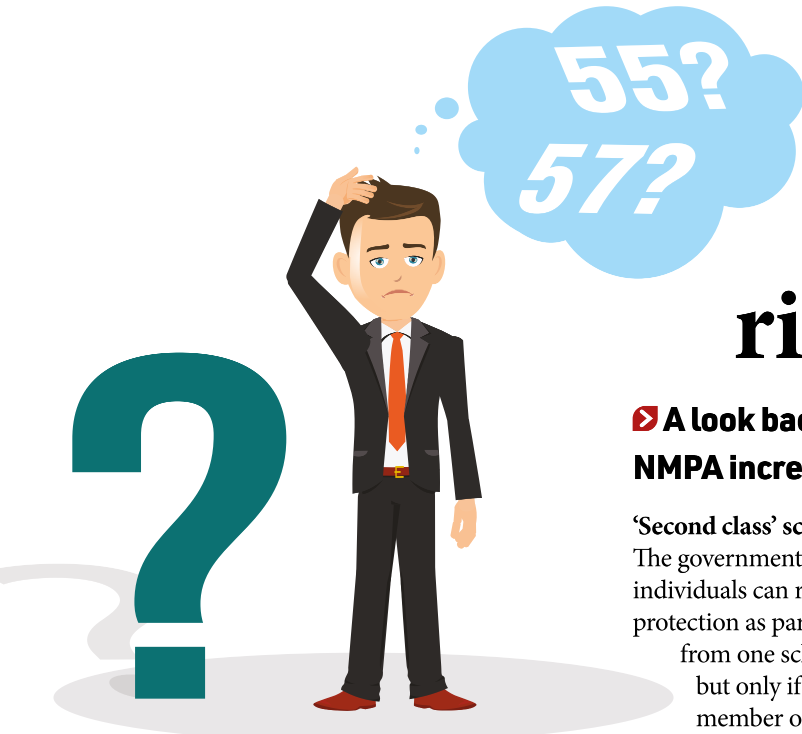

Rising age, rising confusion

A look back on the complexities surrounding the NMPA increase

Plans to raise the normal minimum pension age (NMPA) that people can access their pension without a tax penalty from 55 to 57 finally came into being this year.

A move that generated controversy throughout 2021; not for the rise itself, which was first proposed in 2014 by the coalition government, but for its 'overly complex proposals' for protected pension ages.

This complexity began in February, with the government publishing a consultation setting out its proposals for the increase from 6 April 2028. It will not apply to members of the armed forces, police or fire service though.

Under the proposals, pension schemes would be allowed to decide how and when to move to the new NMPA by 2028, meaning that some schemes may decide to raise the minimum age in their rules before 2028.

However, it stated that individual scheme members who have a right under their current scheme rules at the date of the consultation to access their pension below the age of 57 will be protected from the increase in 2028.

'Second class' schemes

The government proposed that individuals can retain their protection as part of a transfer from one scheme to another, but only if they become a member of another pension scheme as a result of a block transfer, usually defined as when two or more members transfer from the same scheme, at the same time, to the same scheme.

LCP partner and former Pensions Minister, Steve Webb, warned that the proposals risked creating "second class" pension schemes.

"Whilst the increase in the normal minimum pension age from 55 to 57 had been widely trailed, the way in which the change will be implemented could be complex for savers and for schemes and risks creating 'second class' pensions with tougher access rules depending on when they were opened," he stated.

"There will be a need for clear communication with members to make sure they understand the different rules that may apply to their different pensions. As we move towards an era of pension consolidation, members will have to be careful not to accidentally throw away protected rights to access a pension at 55."

In response to the government consultation, AJ Bell senior analyst, Tom Selby, warned that the current proposals risk creating a "retirement lottery" based on how their scheme rules have been written.

He explained: "Specifically, those who are deemed to have an 'unqualified right' to access their retirement pot at age 55 as at 11 February 2021 would be able to retain it, provided they do not transfer to another scheme from that date, unless special circumstances apply.

"This would, entirely arbitrarily, create a world where some people can access their pension from age 55 and others from age 57. Many people would find themselves in the ludicrous position of having two otherwise similar pension pots which can be accessed from different ages."

Opening a window

In July, the government confirmed its plans to legislate for the NMPA increase in the Finance Bill.

But, as a result of the industry feedback to the consultation, the government proposed some changes to the transfer rules for members to retain their protected pension age (PPA) following block and individual transfers to another provider.

Yet it clarified that the PPA is not intended to apply to the other rights members accrue in the receiving scheme, explaining that the aim is to protect transferred pension rights, "not enhance them".

The draft legislation was also expected to allow individuals, until 5 April 2023, to move to a new pension scheme where the scheme rules on 11 February 2021 already confer an unqualified right to take pension benefits below age 57.

Despite the increased clarity provided by the latest proposals, industry experts warned of potential issues, with Canada Life technical director, Andrew Tully, arguing that "what should have been a simple process has turned into a hugely complex mess".

He explained: "The process to decide which individuals retain a right to an earlier pension age is completely arbitrary, being based on the specific wording within scheme rules, which may have been written many years ago.

"It also leaves open the possibility that people will hunt around for a scheme which gives them the right to take benefits at age 55 and transfer to that before 2023. So expect frantic transfer activity over the next few years as people look to secure age 55 as their minimum pension age, irrespective of their birth date."

In addition to this, he stated that it was "disappointing" to see a continuation of the existing block transfer rules, warning that these were "complex" and could effectively stop savers from transferring to a more modern, flexible, cheaper contract "simply because they want to hang onto this right to take benefits at age 55".

U-turn

Therefore, in a Treasury U-turn, the government announced in November that it had shortened and closed the window of time during which people can either join or transfer into a scheme that can offer a protected pension age of 55 or 56, in light of stakeholder concerns.

In a parliamentary statement, Economic Secretary to the Treasury, John Glen, confirmed that the government is pushing ahead with a clause to increase the NMPA from 55 to 57 from 6 April 2028 in the Finance Bill 2021/22.

However, he announced that the window of time during which people could either join or transfer into a scheme that can offer a protected pension age has been shortened in light of industry feedback, and was closed at 23:59 on 3 November 2021.

He stated: "Stakeholders have subsequently expressed their concerns about this window running until 5 April 2023 as originally proposed, including possible adverse impacts on the pensions market and on pension savers.

"The government believes it is right to offer a protected pension age to those whose scheme rules give them an unqualified right to take their pension before age 57.

"The government also believes it is right that those in the process of transferring their pension do not unexpectedly lose the right to a protected pension age.

"However, after listening to stakeholder views on the draft clause, the government has decided to shorten the window. The window closed at 23:59 on 3 November 2021.

"Those who have already made a substantive request to transfer their pension to a pension scheme with a protected pension age of 55 or 56 will still be able to keep or gain a protected pension age assuming the transfer is completed in accordance with the current regulations.

"This shorter window will help address the issues raised by stakeholders whilst also being fair for pension savers."

Glen clarified that prior notice was not given in an effort to reduce the risk of pension scams.

"On this occasion, giving prior notice of the shorter window ahead of its closure on 3 November 2021 could have led to unnecessary turbulence in the pensions market and led to some consumer detriment," he explained.

"Some pension savers could find themselves with poorer outcomes (or even be the victim of a pension scam) if they were rushed by rogue advisers to make a quick transfer in the short time period before the window closed."

Industry experts broadly welcomed the changes made by the Treasury, with Association of British Insurers director of long-term savings and protection, Yvonne Braun, suggesting it will help tackle some of the industry's principal concerns about an orderly implementation and help reduce the risks to savers.

"The changes stop scammers from exploiting uncertainty, and also prevent market distortions as there are now no incentives to transfer purely to access a pension at age 55," she continued.

"However, most savers have more than one pension pot and millions will now have a mix, with some pots they can access at age 55, and others where they need to wait to 57, making it harder to plan for retirement."

This was echoed by Quilter head of retirement policy, Jon Greer, who said: "This complexity is all for a two-year increase in the pension age, which for the overwhelming majority isn't going to make a jot of difference. And it will still add complexity to the future pension dashboard system, and 'simpler' pension statements.

"The government should grasp this opportunity to simplify the pension system, and a good place to start is on the rules around block transfers."

Adding to this, Selby argued that the government has made a "colossal meal out of increasing the minimum pension access age", stating that whilst the change is "good news and should reduce the risk of scammers taking advantage of this government-induced confusion", other concerns persist.

"We are left with the ludicrous situation that those people who are today in a scheme with a protected pension age and later transfer might end up in a scheme with two different minimum pension access ages," he warned. "As such, the complexity created by this change will remain."

Written by *Pensions Age* team