Normal minimum pension age to increase from 55 to 57, from April 2028

Personal tax

07 May 2021

The Low Incomes Tax Reform Group responded to a consultation on implementing the increase to normal minimum pension age.

The normal minimum pension age is the earliest point at which most people can access their pensions without incurring an unauthorised payment tax charge. However, there are exceptions for those who have a protected pension age or who take their pension due to serious ill-health.

The government's intention to increase the normal minimum pension age from 55 to 57 with effect from 2028 has been known for some time. To allow people to plan ahead, in February 2021, the Treasury and HMRC issued a joint consultation on implementing the change (see tinyurl.com/bjep9ut4).

The LITRG response to this consultation focuses on transitional issues arising when implementing the proposed change.

The increase in normal minimum pension age is due to take effect from 6 April 2028 as a single-step change. That is, someone who reaches age 55 on 5 April 2028 would be able to withdraw pension funds on that day; however, if they take no action, from the following day they would have to wait almost two years before they could do so. To avoid this situation, it might be fairer to make the change gradually (in the same way as increases to the state pension age were phased). However, this would arguably be complex to implement.

It is therefore vital that people are aware of and understand the change. Clear guidance, proactively promoted to pension savers, is essential. Otherwise, we are concerned that people reaching age 55 in the run up to 6 April 2028 will take ill-advised actions. For example, they might cash in a pension in full and put the money in the bank so that they crystallise access to the funds. This may well leave them worse off in the long term – having likely incurred an unnecessarily large tax liability on the encashment, and potentially affecting means-tested benefit entitlement (for example, bringing the funds within the capital assessment once they are removed from the protected status of the pension framework).

The LITRG response also queries how people exercising pension freedoms at age 55 around the time of the change will be affected. They might, for example, take part of their fund on reaching age 55 in March 2028, but will they be able to continue drawing down from 6 April 2028, or will they then have to wait until March 2030 when they reach 57? The last time the normal minimum pension age was increased (from 50 to 55) was in April 2010, before the advent of pension freedoms in April 2015. This point will therefore need to be addressed in the legislation and made clear in the guidance.

The full submission will be posted on the LITRG website at www.litrg.org.uk/submissions.