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Research Briefing

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By James Mirza-Davies

# Pension FAQs: Occupational and personal pensions

Summary

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## Feedback

# Content

# Summary

This paper covers frequently asked questions about occupational and personal pensions:

- What are the different types of occupational and personal pensions?
- How are pensions regulated?
- Where can people find pensions advice and guidance?
- How can people complain about pensions?
- Who provides compensation when things go wrong?
- How are pensions taxed in the UK?
- How old do people need to be to receive a pension?

Information about state pensions is available in the Commons Library briefing State Pensions: FAQs.

# 1 What are the different types of occupational and personal pensions?

This paper covers occupational pensions which are provided through an employer and personal pensions which are either provided through an employer or which people set up for themselves.

Information about state pensions is available in the Commons Library briefing State Pensions: FAQs.

## 1.1 What are the main types of pension schemes?

There are two main types of pension schemes in the UK. These are:

- Defined benefit schemes pay a promised pension which is based on factors such as salary and length of service. A sponsor, which is usually an employer, guarantees the promised benefits are paid. The pension provides an income for life and may also include a retirement lump sum.
- Defined contribution schemes do not provide a guaranteed pension and instead provide a pot of money which can be used in retirement. The value of the pension pot can increase or decrease depending on factors, including investment returns and contributions made.

A third type of scheme, collective defined contribution, was introduced by the Pension Schemes Act 2021. See section 1.4 below for further detail.

## 1.2 Defined benefit pension schemes

### How are defined benefit schemes paid for?

Defined benefit schemes can either be funded or unfunded.

- Funded schemes invest contributions from employers and employees to pay the pension benefits the scheme has promised.
- Unfunded schemes operate on a pay-as-you-go basis. This means the sponsor pays the promised pension benefits directly when they are due.

Many public service pension schemes in the UK are unfunded and the pensions they provide are paid for by current member and employer contributions, and taxation.[1] Private defined benefit schemes are required to be funded.[2]

## What pension benefits do defined benefit schemes provide?

Defined benefit schemes pay a regular income for life and may also pay a guaranteed lump sum at retirement. The amount that a defined benefit scheme pays will depend on factors such as salary and length of service.

Defined benefit pension benefits might be based on a final or career average salary:

- Final salary schemes pay a pension which is based only on the amount someone is earning at the point when they leave employment with the sponsoring employer. This may be the date they retire.

- Career average schemes pay a pension which is based on someone's average salary while they work for an employer. These are sometimes called "Care" schemes. "Care" stands for career average revalued earnings, because the average earnings are revalued (increased) to account for inflation.

## Does the value of pension benefits provided by defined benefit schemes increase with inflation?

There are statutory minimum requirements for defined benefit schemes to increase the value of the pensions they provide:

- Pensions in payment must be increased (indexed) annually in line with inflation for any pension benefits built up (accrued) since April 1997. This is capped at 5% for pension benefits accrued between April 1997 and April 2005 and at 2.5% for benefits accruing since then.[3]

- Pensions of people who have stopped contributing to a scheme but are not yet receiving a pension must be increased (revalued) annually in line with inflation. This is capped at 5% for pension benefits accrued up to April 2009 and at 2.5% for pension benefits accrued after this.[4]

These are minimum requirements and there is nothing to prevent pension schemes making more generous increases.

More information is available in the Commons Library briefing Occupational pension increases.

1 See Commons Library Briefing CBP-8478 Public service pensions – facts and figures
2 Pensions Act 2004, Part 3
3 Pensions Act 1995, s51
4 Pension Schemes Act 1993, Part IV, Chapter II

### What pensions does the public sector provide?

The main public service pension schemes in the UK are defined benefit schemes. Of the six largest schemes only the Local Government Pension Scheme is funded, the others – the Armed Forces, the Civil Service, NHS, Teachers, Police and Firefighters – are unfunded.[5]

People building up a public service pension in the main schemes will receive pension benefits based on career average earnings following reforms in 2015 and 2022.[6] Some members of public service pension schemes retain a link to final salary for the pensions they built up prior to the reforms, but any new pension benefits are based on career average earnings.[7]

More information is available in the Commons Library briefing Public service pensions – facts and figures.

## 1.3 Defined contribution schemes

### How are defined contribution schemes paid for?

Defined contribution schemes can either be a workplace scheme, where both the employer and employee make contributions, or an individual personal pension scheme which someone has set up and contributes to themselves. Workplace schemes can be either an occupational pension scheme or a workplace personal pension scheme.

### What pension benefits do defined contribution schemes provide?

Defined contribution schemes aim to build up a pot of money (pension pot) to be used in retirement.

### Does the value of a defined contribution scheme increase with inflation?

The contributions into a defined contribution scheme are invested and the value of a pension pot will depend on the performance of these investments and the costs of running the scheme. There are no requirements for a defined contribution scheme to increase with inflation. Unlike in a defined benefit scheme, employers are not responsible for guaranteeing the value of the pension benefits the scheme provides.

5 For details see Commons Library briefing CBP-8478 Public service pensions – facts and figures

6 Public Service Pensions Act 2013 and Public Service Pensions and Judicial Offices Act 2022

7 For details see Commons Library briefing CBP-9177 Public service pensions – response to McCloud

## How can people use their defined contribution pension pot?

The broad options available to a person accessing their defined contribution pension pot are outlined below:

- Annuities provide a guaranteed regular income for life or a set period. The income from an annuity will depend on a number of factors. An annuity is bought from an insurance company and provides a guaranteed income. Normally a tax-free lump sum of 25% of the pot size can be taken before an annuity is purchased.

- Drawdown can provide a regular income by keeping the pension pot invested. The income is not guaranteed and varies depending on investment performance. Taking too much income could result in the pot running out of money. The pension freedoms removed the limits on the income which can be taken through drawdown. Normally a tax-free lump sum of 25% of the pot size can be taken before someone enters drawdown.

- Cash lump sums can be taken straight from a pension pot after age 55 with the remainder left untouched with the potential to benefit from further investment growth. The first 25% of the lump sum taken is normally tax free whilst the remaining 75% is taxed the same as the member's other income.

People can choose one or more of the options above. It is not always possible to change the option once a pension has been accessed.[8]

## What are the pension freedoms?

The pension freedoms, introduced in April 2015, gives people aged 55 and over more flexibility about when and how they accessed their defined contribution pension savings.[9] Whereas previously most people had to buy an annuity which provided a guaranteed income, they now have more freedom to enter drawdown arrangements (from which they can make withdrawals while leaving the rest invested) or to draw cash lump sums.

More information on the pension freedoms is available in the Commons Library briefing Pension flexibilities: the freedom and choice reforms.

8 HMRC, Pension Tax Manual, PTM063300 - Member benefits: lump sums: uncrystallised funds pension lump sum (UFPLS), 6 October 2023

9 Taxation of Pensions Act 2014

## 1.4 Other types of pension scheme

### What are hybrid schemes?

Hybrid or mixed benefits schemes offer a combination of defined benefit and defined contribution pension benefits.[10] Examples include:

- Schemes which provide both defined benefit and defined contributions under a single trust
- Schemes which will pay the better of their defined benefit or defined contribution benefit
- Defined benefit schemes with a defined contribution top-up

### What are collective defined contribution schemes?

Collective defined contribution (CDC) schemes were introduced by the Pension Schemes Act 2021.[11] The Royal Mail Collective Pension Plan is the only scheme in the UK which has been granted CDC authorisation.[12]

In a CDC scheme, both the employer and employees contribute to a collective fund which provides an income in retirement. Unlike in a defined benefit scheme the employer does not need to guarantee the benefits paid by the scheme. CDC schemes provide a target pension, if the scheme is under (or over) funded then the pensions it pays can be decreased (or increased).

More information on CDC schemes is available in the Commons Library briefing Pensions: Collective Defined Contribution (CDC) schemes.

## 1.5 Automatic enrolment

### What is automatic enrolment?

Auto-enrolment requires employers to enrol eligible employees into a workplace pension scheme. Unless those employees opt-out, they and their employer will contribute to the workplace scheme.

To be eligible for auto-enrolment employees must be:

- At least 22 years old

10 The Pensions Regulator, Mixed benefit scheme management [accessed 1 November 2023]
11 Pension Schemes Act 2021, pts 1 and 2
12 The Pensions Regulator, List of authorised collective defined contribution schemes [accessed 1 November 2023]

- Not yet at State Pension age
- Earning more than the auto-enrolment threshold (£10,000)
- Normally working in the UK under a contract of employment.[13]

Auto-enrolment contributions are paid on qualifying earnings. In 2023/24 this is between £6,240 and £50,270 a year. Any employee earning above the lower level of qualifying earnings (£6,240) can ask to be auto-enrolled even if they are not yet 22 years old or do not earn over the auto-enrolment threshold (£10,000).[14]

## Can people opt-out of auto-enrolment?

Employees can opt-out of auto-enrolment by giving their employer an opt-out notice. A decision to opt-out must be taken freely by the employee and employers must not actively encourage their staff to opt-out.[15] Employers are required to re-enrol eligible employees every three years.[16]

## How much must be contributed?

For defined contribution schemes, minimum contributions are 3% from employers and 5% from employees on eligible earnings.[17]

However, rather than contributions defined benefit schemes used for auto-enrolment are normally tested against the pension benefit they provide or the cost of providing those benefits to qualify.[18]

## Does every employer need its own pension scheme?

Every employer must put eligible employees into a workplace pension scheme. The scheme does not have to be run by the employer. For example, employers can enrol their employees into a master trust or a workplace personal pension provided by an insurer. A master trust is an occupational defined contribution pension scheme which is intended to be used by two or more unconnected employers.[19]

13 Pensions Act 2008, ss 1 and 3
14 The Pensions Regulator, Automatic enrolment earnings thresholds [accessed 1 November 2023]
15 The Pensions Regulator, Automatic enrolment detailed guidance for employers no. 7 [accessed 11 August 2022]
16 Under section 5 of the Pensions Act 2008
17 The Occupational and Personal Pension Schemes (Automatic Enrolment) 2010 (SI 2010/772), reg 32E
18 The Pensions Regulator, Automatic enrolment detailed guidance for employers no. 4 [accessed 1 November 2023]
19 The Pensions Regulator, Master trust pension schemes [accessed 1 November 2023]

# 2 How are pensions regulated?

Regulation can vary depending on the type of pension scheme or the type of service provided to a scheme or saver.

## 2.1 What is the difference between trust-based and contract-based schemes?

Trust-based pension schemes are overseen by a board of trustees, or a company known as a corporate trustee.[20] Trustees act separately from the employer and are responsible for ensuring that the scheme is run properly and acting in the best interests of the scheme's beneficiaries.[21]

Contract-based pension schemes are personal contracts between individual scheme members and a pension provider. Contract-based pensions can be either workplace and arranged by an employer, or individual pensions set up by a person themselves, often with advice.

## 2.2 Who regulates pension schemes?

Pension schemes are either regulated by the Pensions Regulator which regulates occupational pensions, including employer compliance with auto-enrolment duties, or the Financial Conduct Authority which regulates financial services firms and financial markets in the UK.[22] Trust-based pension schemes are regulated by the Pensions Regulator and contract-based schemes by the Financial Conduct Authority.

Table 1 on the following page gives a summary of the main types of pension schemes and which body is responsible for their regulation.

20 Pensions Act 2004, s252

21 Pensions Act 2004, ss244-249

22 The role of the Pensions Regulator is set out in the Pensions Act 2004, pt 1 and the role of the Financial Conduct Authority is set out in the Financial Services and Markets Act 2000

## Table 1: Regulation of pension schemes

<table>
<tr><td colspan="5">The Pensions Regulator</td><td colspan="4">Financial Conduct Authority</td></tr>
<tr><td colspan="5">Trust-based pension schemes<br>A pension scheme governed by a board of trustees with a duty towards scheme beneficiaries</td><td colspan="4">Contract-based pension schemes<br>A pension scheme with a contract between the individual scheme member and the provider</td></tr>
<tr><td colspan="6">Workplace pension schemes<br>A pension scheme provided by an employer through which the employer and employee make contributions</td><td colspan="3">Personal pension schemes<br>A pension scheme taken out directly with the provider</td></tr>
<tr><td colspan="2">Defined benefit schemes</td><td>CDC schemes</td><td colspan="6">Defined contribution schemes</td></tr>
<tr><td>Final salary<br>Pays pension benefits based on salary at the end of employment</td><td>Career average<br>Pays pension benefits based on average salary during employment</td><td>Collective defined contribution<br>Provides a target pension income which can increase or decrease</td><td>Single employer DC trust<br>Run by a single employer</td><td>Master trust schemes<br>Run by a provider and open to multiple employers</td><td>Group personal pension<br>Run by a provider and arranged by a single employer for their employees</td><td>Stakeholder pensions<br>Offered by employers or providers meeting a minimum set of standards</td><td>Self-invested personal pension (SIPP)<br>Designed for a single individual to allocate their investments</td><td>Individual personal pension<br>Run by a provider and designed for a single individual.</td></tr>
</table>

Source: Adapted from Pension Policy Institute, The Future Book: Unravelling workplace pensions 2016 Edition, September 2016, p5

## 2.3 How are other pension services regulated?

Services provided to pension schemes and savers may also be regulated by the Pensions Regulator, the Financial Conduct Authority or another body. Table 2 shows some key services and their regulation.

**Table 2: Regulation of services provided to pension schemes and savers**

| | The Pensions Regulator | Financial Conduct Authority | Other |
|---|---|---|---|
| **Advice and distribution** | | • Financial advice to individuals and small & medium enterprises | • Advice from lawyers and accountants |
| **Investment** | | • Authorised funds and investment products<br>• Unit-linked with-profit investments | |
| **Other products and services** | | • Bulk annuities<br>• Equity release | • Actuarial services |
| **Providers and distributors** | • Master trust providers<br>• Defined benefit superfunds<br>• Trustees<br>• Public service scheme managers<br>• Employer compliance with auto-enrolment | • Financial advisers and intermediaries<br>• Banks and building societies<br>• Credit institutions<br>• Life insurers<br>• Pension scheme operators<br>• Some fintech firms<br>• Asset managers | • Investment consultants<br>• Pension comparison websites<br>• Accountants and lawyers<br>• Payroll bureaux<br>• Technology providers<br>• Third party administrators |
| **Pension prudential regulation** | • Master trusts (indirectly)<br>• Defined benefit superfunds | • Other credit institutions<br>• Pension scheme operators other than life insurers<br>• Asset managers<br>• Financial advisers and intermediaries<br>• Fintech firms | • Banks and building societies<br>• Life insurers |

Note: This table is not exhaustive and shows only a selection of key services

Source: Adapted from The Pensions Regulator and Financial Conduct Authority, Regulating the pensions and retirement income sector: Our strategic approach (PDF), March 2018, pages 7-8

# 3 Where can people find advice and guidance?

## 3.1 What is the difference between pensions advice and guidance?

People can receive advice or guidance about their pensions:

- **Advice** is a personalised recommendation and can only be provided by Financial Conduct Authority regulated firms on the Financial Services Register.
- **Guidance** is a broader term including general information and signposting about pensions. Guidance does not include a recommendation but can be offered by any organisation.

## 3.2 Where can people find pensions guidance?

Pensions guidance can be provided by any organisation and may be offered by employers, pension schemes and other pension providers.[23]

Free pensions guidance is also provided by MoneyHelper. MoneyHelper is a service provided by the Money and Pensions Service, an arm's length body sponsored by the Department for Work and Pensions. People aged 50 and over with a defined contribution pot are also entitled to a guidance session with MoneyHelper's Pension Wise service.

It has also published a beginners guide to scams.

## 3.3 Where can people find pensions advice?

Advice can only be provided by Financial Conduct Authority regulated firms on the Financial Services Register. MoneyHelper has published a guide on choosing a financial adviser.

23 Money and Pensions Service, Advice and guidance [accessed 1 November 2023]

# 4 How can people complain about pensions?

Complaints about pensions can be received by many bodies including the courts. Some key organisations are covered below.

MoneyHelper also produces a guide dealing with pension problems and making a complaint which provides information on the organisations people can complain to.

## 4.1 What is the Pensions Ombudsman?

The Pensions Ombudsman can look at complaints about how personal and occupational pension schemes are run.[24] The Pensions Ombudsman can consider complaints from scheme members and beneficiaries, employers and scheme trustees or managers. It can also consider complaints about the Pension Protection Fund and Financial Assistance Scheme.

Complaints usually need to be brought to the Pensions Ombudsman within three years of the event or within three years of when the person became aware, or should have been aware, of the event.[25] Before a complaint is investigated, the complainant must have tried to resolve matters with the party they believe to be at fault. For example, employees of a workplace pension scheme should first make a complaint through the internal dispute resolution procedure.

Further information is available on the Can I complain? section of the Pensions Ombudsman's website.

## 4.2 What is the Financial Ombudsman Service?

The Financial Ombudsman Service can look at complaints about businesses regulated by the Financial Conduct Authority, including some pension schemes and their services.[26] The Financial Ombudsman Service can help if the complaint is about the advice received when taking out a pension, when

24 The legal framework is summarised on The Pensions Ombudsman, What we do [accessed 1 November 2023]

25 As above

26 Financial Conduct Authority, FCA Handbook, DISP 2.1, 29 July 2022

transferring between pension schemes or when investing pension funds. It can also help if the complaint is about the administration of a personal pension scheme, both self-invested pensions and group personal pensions provided in the workplace.

Further info for consumers is available on the Complaints we can help with section of the Financial Ombudsman Service's website.

## 4.3 Can complaints be considered by both the Financial Ombudsman Service and the Pensions Ombudsman?

Both the Pensions Ombudsman and the Financial Ombudsman Service can deal with complaints about pensions. The two organisations have different remits, but there are overlaps between the two. Both ombudsmen can determine complaints on the administration of workplace pensions and individual personal pensions. However, once a complaint has been decided by one ombudsman it cannot be considered by the other.[27]

Due to the difference in the legislation for the two ombudsmen the two bodies may reasonably reach different conclusions on the same case.[28] The Pensions Ombudsman decides complaints on the basis of what a court would decide, whereas the Financial Ombudsman Service makes determinations based on what is considered 'fair and reasonable'.[29]

There is a memorandum of understanding between the two ombudsmen that if a complaint is made to one which is more suitable to be dealt with by the other ombudsman then the first will transfer the case if the complainant consents.[30] If the complainant does not consent the first ombudsman may consider or dismiss the complaint in the usual way.[31]

## 4.4 Can determinations be challenged?

Ombudsman decisions and determinations can be challenged in the courts. Further information is available from the Pensions Ombudsman and Financial Ombudsman Service's websites.

27 Department for Work and Pensions, Tailored Review of the Pensions Ombudsman, 27 August 2019
28 As above
29 As above
30 The Pensions Ombudsman, Memorandum of Understanding with the Financial Ombudsman Service, 1 December 2017
31 As above

## 4.5 What complaints can be dealt with by the Pensions Service?

The Pensions Service is part of the Department for Work and Pensions. It can respond to complaints about the State Pension. This does not include complaints about National Insurance contributions records, which should be made to HMRC.[32]

32 MoneyHelper, Dealing with pension problems and making a compliant [accessed 1 November 2023]

# 5 Who provides compensation when things go wrong?

When something goes wrong with a pension there are a variety of routes for compensation, including through the organisations which deal with complaints in the previous section of this paper. The main additional routes of compensation are covered below, although these are not exhaustive.

## 5.1 The Pension Protection Fund

### What is the Pension Protection Fund?

The Pension Protection Fund (PPF) is a statutory fund to protect members of defined benefit schemes if the scheme's sponsor becomes insolvent. [33] In these cases, the scheme would be assessed by the PPF. The scheme may then enter the PPF with pension payments to members typically being reduced. If it had sufficient assets then members' pension benefits could be secured at a level above the compensation level offered by the PPF.[34]

### What compensation does it pay?

The level of compensation someone receives from the PPF depends on whether or not they had already passed their normal pension age when the sponsoring employer became insolvent. PPF members receive:

- 100% of the scheme pension if the person is at or above normal pension age or if they retired through ill-health before the insolvency date.
- 90% of the scheme pension for others.[35]

### Is compensation from the Pension Protection Fund capped?

Following a court ruling in July 2021, the PPF's statutory compensation cap on the compensation it pays no longer applies.[36]

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33 Pensions Act 2004 and Gov.uk, Pension Protection Fund [accessed 1 November 2023]
34 Pension Protection Fund, An overview of the assessment process [accessed 1 November 2023]
35 Pension Protection Fund, What being a PPF member means [accessed 1 November 2023]
36 [2021] EWCA Civ 1093 (PDF) further information about the cap is available from Pension Protection Fund, Compensation cap factors [accessed 1 November 2023]

## 5.2 Financial Services Compensation Scheme

### What is the Financial Services Compensation Scheme?

The Financial Services Compensation Scheme (FSCS) pays compensation to people where a financial services firm is no longer in business and unable to pay the claims made against it.

More information is available from the FSCS under Pension protection.

### What compensation does the Financial Services Compensation Scheme provide?

For claims against financial firms which provided or advised on pensions and failed after the 1 April 2019 the FSCS can pay:

- 100% of a claim against a pension provided by a UK-regulated insurer, including annuities, with no upper limit
- Up to £85,000 per eligible person, per firm if the operator of a Self-Invested Personal Pension (SIPP) fails
- Up to £85,000 per person, per firm for bad pension advice.[37]

## 5.3 Other sources of compensation

### What is the Financial Assistance Scheme?

The Financial Assistance Scheme (FAS) provides financial assistance to members of defined benefit pension schemes who lost all or part of their pension following their scheme coming to an end between 1 January 1997 and 5 April 2005. It is administered by the PPF.

The PPF provides more information on What being a FAS member means.

### What is the Fraud Compensation Fund?

The Fraud Compensation Fund pays compensation to occupational pension schemes which have lost out due to dishonesty. It is managed by the PPF.[38] A High Court ruling on 6 November 2020 clarified that the fund could compensate members of occupational schemes set up as part of a scam.[39]

37 Financial Services Compensation Scheme, Pensions [accessed 1 November 2023]
38 Fraud Compensation Fund, About us [accessed 1 November 2023]
39 Fraud Compensation Fund, Fraud Compensation Fund eligibility criteria confirmed, 28 June 2021

# 6 How are pensions taxed in the UK?

In the UK, private pension saving is taxed on an "exempt, exempt, taxed" model (EET). This means:

- When people and their employers pay into a pension the contributions are **exempt** from taxation. Both the saver and any contributing employer receive tax relief, up to set limits.
- If the pension savings grow through investments this is **exempt** from taxation.[40]
- When the savings are withdrawn as pension payments these are **taxed** like other income. People are allowed access up to 25% of their pension savings tax free.[41]

Further information is available in the Commons Library briefing, Pension tax relief – the annual and lifetime allowances.

## 6.1 What are the main pensions tax allowances?

There are limits on the amount of tax relief someone can receive when they are contributing to their pension. In 2023/24:

- A person can receive tax relief on pension contributions of up to 100% of their annual earnings. Someone earning less than £3,600 a year can make contributions up to £3,600 including tax relief.[42]
- An annual allowance limits the amount someone can pay into a pension pot to £60,000 each year before they pay tax. This allowance is tapered (reduced) for people earning more than £260,000 including pension contributions. The minimum annual allowance someone with tapering can retain is £10,000.
- A money purchase allowance is intended to prevent people using the pension freedoms to avoid tax on their employment income by paying it

40 There are tax charges on some types of investments outlined in HMRC, Pensions Tax Manual, PTM121000 - Investments: essential principles, 6 October 2023

41 HMRC, Pensions Tax Manual, PTM024100 – General principles: overview of pensions taxation: the basics, 6 October 2023

42 Finance Act 2004, s190

into a pension before immediately withdrawing it with 25% tax free.[43] Once someone withdraws savings from a defined contribution pension, the amount that they can contribute to defined contribution schemes and receive tax relief on in the future is reduced to the money purchase annual allowance of £10,000. [44]

A lifetime allowance was the amount which someone can usually build up in pension pots without paying tax.[45] Since 6 April 2023 there has been no tax charge for exceeding the lifetime allowance.[46] The Government has announced that the lifetime allowance will be abolished completely in a future Finance Bill.[47]

43 HM Treasury, Freedom and choice in pensions: Government response to consultation, Cm 8901, July 2014, para 2.27

44 HM Treasury, Reducing the money purchase annual allowance, 23 November 2016

45 Finance Act 2004, pt4

46 On 20.11.23 we edited sentences in section 6.1. It previously read “This was abolished on 6 April 2023.” and now reads “Since 6 April 2023 there has been no tax charge for exceeding the lifetime allowance. The Government has announced that the lifetime allowance will be abolished completely in a future Finance Bill.” This was to better reflect that the lifetime allowance tax charge was abolished rather than the lifetime allowance itself.
Finance (No. 2) Act 2023, s18

47 HM Revenue and Customs, Policy Paper: Pension Tax Limits, 15 March 2023

# 7 How old do people need to be to receive a pension?

## 7.1 What is the state pension age?

From the 1940s, the state pension age was 60 for women and 65 for men. Since then:

- The state pension age for women increased from 60 in April 2010, to reach 65 in December 2018
- The state pension age then increased to 66 for men and women between December 2018 and October 2020
- The state pension age will then rise to 67 between 2026 and 2028.[48]

Under current legislation, the state pension age will increase to 68 between 2044 and 2046.[49]

Further information is in the Commons Library briefing State Pensions: FAQs.

## 7.2 Normal minimum pension age

### What is the Normal minimum pension age?

The normal minimum pension age (NMPA) is the earliest age that someone can access their workplace or personal pension, other than due to ill-health or if they have a protected pension age.[50] It is separate from the State Pension age, which is the earliest age someone can receive their State Pension.

Generally, pension scheme rules should not allow members to access their pension before they reach the NMPA. Pension schemes are not required to pay pension benefits at the NMPA if the scheme rules have a higher minimum age for the payment of pension benefits.[51]

Further information is in the Commons Library briefing Minimum pension age.

48 Pensions Act 1995, sch4, as amended by the Pensions Act 2011 and Pensions Act 2014
49 Pensions Act 2007, s13 and sch3, Table 4
50 Section 279(1) Finance Act 2004
51 As above

## What age is the normal minimum pension age?

The NMPA has been 55 since 2010. The NMPA was 50 when it was introduced in April 2006.[52]

## Can people receive a pension before their normal minimum pension age?

When the NMPA was introduced, there were two forms of protection, with different conditions for their use:

- Some individuals in certain professions with low retirement ages (such as sports people), who had a right before April 2006 to draw their pension before age 50, may have a protected pension age.
- Members of occupational pension schemes on 5 April 2006 may have a protected pension age if on 5 April 2006 they had a right to take benefits before age 55.

The right is unqualified, so does not need the consent of a trustee or employer. Protection could be lost in certain circumstances, for example, if the individual transferred to another scheme, or where member of an occupational scheme was employed by certain bodies after taking benefits.[53]

People can also receive a pension before their normal pension age on ill-health grounds.[54]

## Is the normal minimum pension age changing?

The Government will increase the NMPA from 55 to 57 in 2028.[55]

## Will anyone be exempt from the increase in the normal minimum pension age to 57?

Some schemes can retain a NMPA of 55 for their members.[56] Members of pension schemes who before 4 November 2021 have a right to take their benefits at or before age 55 are protected and the increase will not apply to members of the firefighters, police and armed forces public service schemes.[57]

52 Section 279(1) Finance Act 2004
53 HMRC, Pension Tax Manual, PTM062205 - Member benefits: pensions: protected pension age: basic principles, 6 October 2023
54 HMRC, Pension Tax Manual, PTM062100 - Member benefits: pensions: pension age, 6 October 2023
55 Section 279(1) Finance Act 2004
56 Finance Act 2004, schedule 36, 23ZB
57 As above

## Is the normal minimum pension age different to the normal pension age?

A normal pension age is scheme specific. In a defined benefit scheme, it is the earliest age that a scheme member can access their pension benefits without having them reduced. Members who access their pension before their scheme's normal pension age will usually see the benefits they receive reduced, unless it is for a reason such as ill-health. In public service schemes, the normal pension age is often 60, 65 or the member's state pension age.

For workplace defined contribution schemes, whilst the employer may set a retirement age, members still have the right to start taking benefits from the NMPA.

For further information about the normal retirement age in public service pensions, see the Commons Library briefing, Public service pension age.

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