Increasing the normal minimum pension age: consultation on implementation
HM Treasury/HM Revenue & Customs consultation
Response from the Low Incomes Tax Reform Group (LITRG)

1 Our response

1.1 We focus our response on transitional issues arising when implementing the proposed change of normal minimum pension age.

1.2 *A step-change versus gradual change*

1.2.1 The proposal is that, from 6 April 2028, the normal minimum pension age will increase from 55 to 57. As we understand it, this is to be an 'overnight' change (or single 'step-change') – that is, someone who reaches age 55 on 5 April 2028 would be able to withdraw pension funds on that day, but if they take no action, from the following day, they would have to wait almost two years before they could do so.

1.2.2 It might therefore be considered fairer for taxpayers in the above example situation if the change were instead made gradually over a two-year period (to match the two-year increase in the normal minimum pension age). This could be done in a similar way as for gradual changes to the state pension age. However, we appreciate that such a gradual change might be difficult and costly for pension providers to administer and more complicated to communicate to the public than a single step-change. For these reasons, a single step-change from 55 to 57 is perhaps the simpler route, though we highlight below some areas of complexity for those reaching age 55 in the run up to 2028.

1.2.3 We also appreciate that confirming this change now gives people time to plan ahead for the change. However, people will need to know what is going to happen and when so we do not see a rush of last-minute, ill-thought-through actions in the run up to the change. It is therefore essential that government and pension providers provide clear guidance about the changes and that both are proactive in alerting pension savers to the change.

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1.2.4 For example, we note that when the normal minimum pension age increased from 50 to 55 with effect from 6 April 2010, HMRC published a frequently asked questions document on 11 January 2010.[1] Similar communications will be required once the rules are confirmed for the increased to age 57, but well in advance of 6 April 2028 – not just in the final few months before it happens.

1.2.5 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). They might also have triggered the money purchase annual allowance and therefore have restricted (perhaps unwittingly) their ability to make further contributions.

1.3 ***Areas of complexity for those reaching age 55 in the run up to 2028 – pensions freedom***

1.3.1 Clarity will be needed as to what happens in the situation where someone reaches age 55, say in January 2028, and decides to take 25% of their pension pot as a tax-free pension commencement lump sum then earmarks the rest for flexible drawdown. Having crystallised the full pot before the change in normal minimum pension age, will they be able to continue drawing down after April 2028 when they will then be below age 57? We understand this was the case when the normal minimum pension age increased from 50 to 55 – i.e. those funds that had been subject to a benefit crystallisation event before the increase to age 55 on 6 April 2010 had the normal minimum pension age for those funds 'frozen' at the age when the event occurred.[2]

1.3.2 Presumably, however, someone who chooses to take an uncrystallised funds pension lump sum (UFPLS) with part of their pension pot at age 55 would not be able to take a further such sum after 6 April 2028 if they are then below the revised normal minimum pension age of 57? We assume this would be the case as a benefits crystallisation event would not have taken place in respect of the full pension pot, and consequently the normal minimum pension age would have to be applied at each point of flexible access, rather than being fixed by the first such withdrawal. However, we are basing this assumption on the rules in place when the normal minimum pension age increased from 50 to 55 on 6 April 2010, but of course pensions freedom was not introduced until five years later. How UFPLS

[1] See https://webarchive.nationalarchives.gov.uk/20100202120858/http://www.hmrc.gov.uk/pensionschemes/min-pen-age.pdf

[2] See HMRC Pension Schemes Newsletter 38, 16 December 2009: https://webarchive.nationalarchives.gov.uk/20100513080135/http://www.hmrc.gov.uk//pensionschemes/ps-newsletter38.htm

withdrawals are to be treated is therefore a new consideration in the move from age 55 to 57.

1.3.3 The above areas of potential confusion need to be addressed in the legislation, and clear guidance on these issues will need to be provided well in advance of the changes.

2 About Us

2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.

2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT’s primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

LITRG
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