

**R04 2020/2021**  
**Decumulation phase**  
**Part 2: Taking benefits before MPA**

Pension funds and benefits aren't normally accessible until Minimum Pension Age (MPA) which is currently 55. This part will look at the occasions that funds can be accessed before then. One of these is the death of the member which will be looked at in a separate part.

The milestones are to understand:

- The rules regarding protected pension ages
- The requirements for paying an ill health pension
- The requirements for paying a serious ill health pension

### **Protected pension age**

Benefits can be taken before 55 if the member has a protected pension age. This could apply in three circumstances.

- The first is for certain occupational schemes such as the Police or the Armed Forces schemes.
- The second occurs when a member of an occupational scheme has the right rather than an option to take the benefits between 50 and 55. This right must have been contained in the scheme rules on December 10 2003. That was the date when the Green Paper outlining what would become the A-Day reforms was published. The member must have had that right on that date or if they joined at a later date, would have had the right had they been a member of the scheme on that date.

If the member exercises this right all their benefits must be taken. If only part is taken it would be an unauthorised payment. They must also leave employment so cannot take the pension and carry on working for the company. Once they reach 55 these restrictions are removed.

- The final one occurs where the member has an occupation such as a professional dancer where working life is much shorter than normal. Prior to A-Day HMRC allowed these individuals to take benefits before minimum pension age. Individuals who had that right on April 5 2006 retain their protected retirement age and as in the previous case must take all the benefits.

## Ill Health Pension

In order to qualify for an ill health pension, the member must have ceased work because of illness or accident and the trustees must have medical evidence that the member will be unable to return to work. This is a high threshold particularly for a younger member. The prognosis for a 30 year old who was involved in a car accident may be that he is unlikely to return to work for seven or eight years but a full recovery will be made. In those circumstances the member would not qualify for an ill health pension and if one were made it would be an unauthorised payment.

As the member gets closer to 55 it becomes easier to meet the requirements and once over 55 the ill health pension is no longer applicable as there would be no bar to taking benefits. Once an ill health pension is granted the member can use all the options available at minimum pension age.

## Serious Ill Health Lump Sum Payment

This allows an uncrystallised fund to be returned to the member as a cash sum. The administrator must obtain evidence from a registered medical practitioner that life expectancy is less than 12 months. This must be done before any payment is made otherwise it will be an unauthorised payment.

It can be paid before or after MPA provided that the payment is made from uncrystallised funds. The member must crystallise all the benefits in the arrangement but each arrangement is dealt with separately.

Jenny is an active member of her final salary scheme who also has a SIPP. She qualifies for a serious ill health lump sum so could take the payment from the SIPP and leave the final salary scheme intact.

If the payment was made after 16 September 2016 the lump sum can come from a part crystallised fund.

Toby crystallised part of his SIPP fund designating it a FAD when he was 58 and left part uncrystallised. Some years later the uncrystallised element has a value of £400,000. He is diagnosed with a terminal illness and decides to take a serious health lump sum. This can be paid from the uncrystallised fund of £400,000 but cannot be paid from the FAD fund. He must though take all the £400,000 from the uncrystallised SIPP.

Prior to 16 September 2016 this would have been an unauthorised payment since he had already crystallised part of his SIPP.

## **Taxation of serious ill health lump sum**

The basis of taxation follows the usual pattern. If the payment is made when the member is under 75 it is tax free. It is a Benefit Crystallisation Event and the member must have some of their Lifetime Allowance left. Should the lump sum exceed the available LTA it will be subject to a Lifetime Allowance Charge which will be 55%.

If a payment is made after 75 the whole amount will be taxed as the member's non-savings income. There are no BCEs after 75 and the only qualification is that the member must have some lifetime allowance left.

### **Should a serious ill health lump sum be taken?**

To qualify for this payment the member must be terminally ill. If the lump sum is taken, when the member dies any remaining money will be part of the deceased's estate. If the money isn't required it might be better to leave it uncrystallised so it will be outside the deceased's estate.

That concludes this part so you should now understand:

- The rules regarding protected pension ages
- The requirements for paying an ill health pension
- The requirements for paying a serious ill health pension