PENSIONS AND LIFETIME SAVINGS ASSOCIATION

INCREASING THE NORMAL MINIMUM PENSION AGE: CONSULTATION ON IMPLEMENTATION

APRIL 2021

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DISCLAIMER

EXECUTIVE SUMMARY

- The PLSA welcomes the intention to uphold existing protected pension ages within schemes as the new Normal Minimum Pension Age (NMPA) is brought in. We are supportive of the additional flexibilities enabling savers to take benefits at protected ages, while being able to continue working, alongside the ability to crystallise benefits on different dates. We are also supportive of individuals retaining their protection as part of a transfer where they become a member of another pension scheme as a result of a block transfer. However, there are some concerns and unintended consequences from the consultation's proposals that should be addressed.

- While the PLSA is supportive of protecting existing pension ages, views within the PLSA membership are mixed on the government's proposal to have the protected pension age apply to benefits accrued prior to 2028, as well as to those accrued after this date. This may be driven by various reasons. There may be unintended consequences whereby individuals are incentivised to consolidate or transfer into a scheme with a lower protected age, but that may not be the optimal destination scheme. This may also have implications for small pots that have a lower protected age.

- For some schemes there will be an increase in administrative burden and communication challenges, as well as an increase in costs, to implement the NMPA – in particular for the proposals around protected pension ages and crystallisation at different dates.

- The government's protected pensions age proposal needs clarity on how to prioritise multiple sets of rules during transfers into consolidation vehicles, as well as during the transfer of employer contracts through mergers and acquisitions.

- There are concerns that this change in NMPA is additional "tinkering" with the system that may fuel confusion and mistrust in the pensions industry by schemes' members. This may increase opportunities for scams during decumulation, whereby savers transfer out into entities promising scheme rule simplicity and earlier access to their pension.

- While the 2028 deadline is reasonable and the implementation flexibility is welcomed, it would be preferable for the Government to provide a consistent set of phasing-in guidance, as allowing schemes to choose how to phase in the NMPA might cause additional confusion to schemes' members.

- The PLSA also asks that guidance be given on: the rules for protecting pension age and its interaction with the new NMPA; block transfers that are taking place now; new joiners and opt-outs; and on how to combat related scams, such as from entities promising individuals a chance to bypass the new complexities.

CONSULTATION QUESTIONS

The PLSA conducted a survey[1] with its membership across the DB, LGPS, Single employer schemes, Hybrids, and Master Trust landscape. The results are reflected in our responses below.

(Q1) Are there any specific considerations that should be taken into account regarding the government's proposed framework for the increase to the NMPA?

1. Schemes identified the need for extra communication as a key area that the new NMPA will impact. Additional areas affected include the following: system changes; changes to scheme rules; implementation costs; updating data records; and making changes to actuarial assumptions.

2. There are mixed views on how easy it would be to implement the new NMPA, with a third of respondents (33%) saying it will be easy and one in five (18%) saying it will be difficult. Half of the respondents feel that it will be neither easy nor difficult (50%).

3. There is concern that constant change and "tinkering" more broadly within pension scheme rules may undermine trust in pensions. Pension rules need to be kept as simple as possible so that people can understand and engage with their pensions to make the right financial decisions for themselves.

4. Increasing the NMPA, as well as the proposals around protected pension age, and not requiring all scheme benefits to be crystallised on the same day as a condition for a protected pension age, does introduce additional complexity into an already intricate pensions system. As a result, two-thirds (66%) of respondents feel that it would be better for the Government to provide a consistent set of phasing-in guidance, as allowing schemes to choose how to phase in the NMPA might cause additional confusion amongst LGPS and private pension scheme members.

5. However, most believe the 2028 deadline is reasonable (80%), with half of respondents (50%) planning to implement the NMPA in 2028, while one in ten say they will implement prior to 2028 (13%). A third were unsure when they will implement it (33%).

6. Additional guidance is needed to assist schemes in making the transition to the new NMPA. Two-thirds would like guidance on the rules for the protection of existing NMPA and its interaction with the new NMPA (66%); half would like rules for block transfers that are taking place now, after the issuance of the consultation but before the consultation proposals are decided (47%); two in five would like guidance on schemes for new joiners and opt-outs after the issuance of the consultation (43%); and some would like guidance on how to combat scams

[1] The PLSA survey had 70 responses, received between 22 and 31 March 2021.

as it relates to the new NMPA, such as from entities that promise individuals a chance to bypass the new complexities being introduced (40%).

7. While we are supportive of allowing multiple crystallisation events for individuals with a protected age, adding complexity through different crystallisation dates could increase confusion amongst scheme members, which would in turn create additional risks for scams. Savers may be lured into transferring their funds into an entity that promises simplicity and ease in accessing their pension.

8. An unintended consequence is that individuals with long-term disabilities may lose out in situations where insurance coverage for pension payments do not accommodate the new NMPA - whether it does will depend on the original insurance contract details.

(Q2) Are there any particular issues that the government should consider in the way NMPA is defined in pension scheme rules?

9. N/A

(Q3) The government proposes that the protected pension age will apply to all the member's benefits under the scheme (if the conditions for a protected pension age are met), not just those benefits built up before 2028. Are there any other alternative options or issues the government should consider around the treatment of accrued and future pension savings?

10. While the PLSA is supportive of keeping existing protected pension ages, views are mixed on the government's proposal to have the protected pension age apply to benefits accrued prior to 2028, as well as accrued after this date, with 46% saying they agree/strongly agree and 42% saying they disagree/strongly disagree.

11. Protected ages could have unintended consequences for the consolidation of small DC pots and the ongoing work in that area. Where certain pots have a protected age, it may have consequences on transfers during decumulation, and incentivise consolidation into a scheme with a lower protected age, which may not be the optimal destination scheme. If a significant number of small pots have a protected age it may conflict with other government policy in this area to consolidate these pots. Trustees may be averse to automatically moving a small pot where it has a protected age.

12. The suggested protected pension age also creates unanswered questions around mergers and acquisitions, where schemes have different minimum pension ages. During the transfer of employer contracts, clarity is needed on which set of employment contract rules take dominance, or, if two or more different sets of contract rules are allowed to co-exist.

Reconciling different scheme rules on minimum pension ages will also become an increasingly important issue as the consolidation market grows.

Additional views on the protected pension age

13. The PLSA is supportive of the government's approach to remove the retirement condition for a protected pension age, with the vast majority of respondents (89%) agreeing that individuals should be able to continue working after drawing benefits at the NMPA.
14. Views are mixed on whether individuals should retain their protection as part of a transfer where they become a member of another pension scheme as a result of a block transfer. 37% agree/strongly agree with this proposal versus 49% who disagree/strongly disagree.
15. Views are also mixed on whether the new NMPA should apply to members of the armed forces, police and the fire service. 36% agree/strongly agree that it should not apply versus 45% who took the opposite view.

(Q4) Are there any issues associated with schemes informing members who meet the conditions of their rights to a protected pension age?

16. Communicating information in a simplified way may be challenging where individuals have different NMPA across different schemes. Two in five (44%) believe it will be easy to communicate the new NMPA.
17. Most schemes will inform members of the change via their website (63%). Around half intend to inform members in their annual pension statement (49%). Nearly half of members in our survey also said they would inform members through bespoke communication (45%).

(Q5) Are there any circumstances why the increase in NMPA may impact on pension flexibility (which was introduced following the 2014 consultation on "Freedom and Choice in Pensions")?

18. There are concerns that given the principles of freedom and choice, people may feel that the option to retire earlier – if they are able to – is being taken from them. However, restricted earlier access may be beneficial to prevent people running out of money sooner; though the certainty of this outcome as a result of the new NMPA is an unknown.
19. The potential confusion from a higher NMPA, alongside a lower protected pension age that not everyone is entitled to, may increase opportunities for scammers, as some unscrupulous individuals may try to lure savers into transferring their pension pot for the false promise of simpler scheme rules and easier access to their pension pot at a lower age.

20. As discussed in Q3, there is strong support that schemes' members should be able to continue working after drawing benefits at the protected pension age. Though care must be exercised to not trigger the MPAA if one does continue to work after accessing their pension, so a communications exercise around this might need to be done to remind people of this potential danger. For consistency and to avoid additional confusion, we would also ask that the government looks at extending this right to continue working after drawing benefits to those who currently have a protected age of 50 or below, as a consequence of the 2010 rise to age 55.

(Q6) Are there any implications the government should consider by not requiring that all scheme benefits must be crystallised on the same day as a condition for a protected pension age?

21. While 62% of respondents say they agree/strongly agree that schemes' members should not have to take all of their pensions on the same date and should be able to access their pension in different ways – for example through drawdown and annuity after the NMPA – 72% also say that this proposal will cause them problems.

22. Many cite administrative burdens (44%) or both administrative burdens and costs (41%) as the main issues.

23. We would ask that the government also consider extending the relaxation to crystallising of benefits to those who are covered by the protected age relating to the increase from age 50 to 55 in 2010. This would help to support the idea of flexible retirement and provide consistency in approach.

24. There might be implications for savers who partly crystallise their pot (where they have a protected age) and subsequently transfer individually to another scheme (where they might not have a protected age), which means they will not be able to access the remaining amount until they reach the higher NMPA. This may complicate scheme communications around transfers, to ensure that savers fully understand the implications of moving away from a scheme with a protected age.