Protected Pension Age

Please read this important information about Protected Pension Age. This guide covers:

- Background information
- What is a Protected Pension Age (PPA) and how do I know if I have one?
- Can a PPA50 be lost?
- How does this affect how I take my benefits? This includes if you have DB benefits in more than one section or both DB and DC benefits.
- How does this affect me staying in work?
- Tax Consequences of breaching PPA50 conditions
- Opting out and PPA50
- NMPA on and from 6 April 2028

Background information

You can take your benefits without them being reduced once you reach your Normal Retirement Age (NRA). In most pension schemes, including the Railways Pension Scheme (RPS), you can also request to take your benefits before your NRA with a reduction applied to your Defined Benefit (DB) benefits as they would be paid earlier and therefore for longer. For Defined Contribution (DC) benefits, the value of your pot at your earlier age would apply.

In April 2010, government legislation under the Finance Act 2004 increased the earliest age from which benefits could be taken, known as the Normal Minimum Pension Age (NMPA), to age 55 for members who joined their pension scheme on or after 6 April 2006.

Legislation under the Finance Act 2022 increases the NMPA from age 55 to 57 with effect from 6 April 2028.

The legislation does allow members to take benefits from an earlier age than their NMPA under certain circumstances, which are:

- The member has a Protected Pension Age (PPA),
- Ill-health retirement, or
- Serious ill-health retirement.

What is a Protected Pension Age and how do I know if I have one?

Certain members of the RPS may be eligible for a Protected Pension Age (PPA) of age 50 (PPA50), as follows:

If you were an active member of any RPS Section or a deferred member of the IWDC Section, on 5 April 2006, you may be able to apply for your RPS pension benefits from age 50.

If this does not apply to you, or you joined the RPS as a new entrant on or after 6 April 2006, then you will not have a PPA50.

Once you have a PPA50 in the RPS this cannot be lost or removed other than in specific circumstances listed below. Your PPA50 applies to all periods of membership in the RPS, including for benefits built up after 6 April 2006.

Can a PPA50 be lost?

You may lose your PPA50 if you do not meet certain conditions when taking your benefits. The legislation refers to these conditions collectively as, the *'retirement condition'*.

It states that if you want to use a PPA50 to take benefits before NMPA, then you must:

- leave your current employment and not return to that employment or 'connected' employment for a set period (see 'How does this affect me staying in work?' below).
- become 'entitled' to all your benefits from the RPS on the same date, unless you have both DB and DC benefits, in which case a six month period may apply depending on how you choose to take your DC benefits (see 'I have DB and DC benefits - How does this affect how I take my benefits?').

If you do not meet these conditions, you will lose your PPA50 and a significant tax charge will apply, as explained in the 'Tax Consequences' section below.

A PPA of 50 can also be lost if you transfer your pension rights to another pension scheme. That is unless you already have a protected pension age in the scheme you are transferring into.

How does this affect how I take my benefits?

The retirement condition includes the need to become 'entitled' to all your benefits in the RPS on the **same date**. In practice when retiring early, this generally means:

- For DB benefits and BRASS funds used to provide your tax-free cash sum, entitlement generally arises at the date of your retirement OR the date we receive all of the information needed to pay your pension, whichever comes later.

- For DC funds (including IWDC or AVC Extra funds) when you become entitled depends on how you choose to take payment of your funds:
    - If you take all your funds as a cash lump sum, entitlement will arise on the date the lump sum is paid to you.
    - If you purchase a lifetime annuity from an external annuity provider with your funds, entitlement will arise on the date funds are transferred to purchase the annuity. This will also apply to any tax-free cash you choose to take from the Scheme in combination with buying an annuity.
    - If you transfer all your DC benefits to an alternative provider in order to access other options, such as drawdown or an annuity (not a lifetime annuity) then entitlement within the RPS would not arise at all. In most cases, you would lose your PPA50 and won't be able to take these benefits under your new arrangement until after 55 (rising to 57 from 6 April 2028).

I have DB benefits in more than one RPS section – how does this affect how I take my benefits?

If you have DB benefits in more than one section of the RPS, you need to become entitled to all sets of benefits on the same date to keep your PPA50.

I have DB and DC benefits – how does this affect how I take my benefits?

If you have both DB and DC (IWDC and AVC Extra) benefits, you need to decide how you want to take your DC benefits **BEFORE** you claim your DB benefits, otherwise you're unlikely to become entitled to benefits on the same date. You should contact us to discuss your options as early as possible.

If you choose to take your DC (IWDC and AVC Extra) benefits as a lifetime annuity with an external annuity provider, then the retirement condition applies differently. You must become entitled to all your benefits within a period of six months in order to keep your PPA50. We will make every effort to complete your annuity purchase within the six months, however this cannot be guaranteed. If you choose this option and you do not become entitled to your lifetime annuity and your DB benefits in the required timeframe, you will be liable for a tax charge of up to 55%. If you are considering this option, please contact us as early as possible to discuss it in detail and reduce the risk of missing the required timeframe.

If you choose to transfer your DC benefits out to another provider to access other options such as drawdown or an annuity (not a lifetime annuity), you will need to transfer out your DC benefits before you become entitled to your DB benefits. We will not be able to put your DB benefits into payment before NMPA, until the transfer is complete.

If you have any questions about your options or the process that needs to be followed, please contact us directly.

How does this affect me staying in work?

In line with the 'retirement condition', a PPA50 can be lost if, within a set period of time after taking benefits, you are employed by:

- The same RPS employer that employed you at any point in the six months before you became entitled to your benefits;
- Another employer in the same corporate group or controlled by the same or connected person*; or
- Any sponsoring employer you are connected to*.

*Connected persons are defined in Section s1122 of Corporation Tax Act 2010. For individuals, this broadly includes spouses or civil partners (and their relatives), relatives (and their spouses or civil partners) and the spouse or civil partner of a relative of your spouse or civil partner. It also includes companies controlled by either you alone or with another connected person.

This means that if you rely on a PPA50 in order to take your benefits in the RPS before NMPA, then you must stop all employment with any of the above employers for the time periods explained below when you take your benefits. Otherwise, you will lose your PPA50 and tax charges will apply to all benefits paid up to NMPA, as explained in the Tax Consequences of breaching PPA50 conditions section below.

If you leave work and claim your benefits using a PPA50, then return to employment with any of the employers listed above, then your PPA50 will be lost from the date you are re-employed. That is unless you meet one of the following conditions:

- A break in employment of at least six months; or
- A break in employment of at least one month and the re-employment is materially different in nature to your previous role.

In practice this means that if you are not employed by any of the employers mentioned above after you take your benefits or there is a break in employment of at least six months, you will not lose your PPA50, as long as the other conditions for taking benefits at a PPA50 are met.

HMRC's tax guidance states that for employment to be a materially different a simple change in hours is not sufficient but rather the duties and/or the level of responsibility in the new employment must be different from those in the old employment. This will depend on the facts of each case.

Once you reach NMPA, the above PPA50 conditions will no longer apply to you regardless of any subsequent employment, so tax consequences will not arise due to these conditions being breached on and from NMPA.

Tax Consequences of breaching PPA50 conditions

If you rely on a PPA50 in order to take payment of your benefits before NMPA and you don't satisfy the legal conditions, or you lose or subsequently lose the right to a PPA50, then every payment (pension and lump sum) made before you reach NMPA will be an unauthorised payment.

The tax on unauthorised payments can be as high as 55%.

Opting Out and PPA50

Generally, if you voluntarily end your pensionable service in the RPS by opting out, the Rules state the earliest age you are able to take payment of your benefits is age 55 regardless of whether you have a PPA50 or not (this does not apply to benefits taken from the IWDC or 1994 Pensioner Section).

If you came to a special agreement with your employer prior to opting out it may still be possible to take your benefits before age 55.

If you have previously taken your benefits from the RPS under age 55 and relied on a PPA50, you will not be able to rejoin the RPS and take any newly built up RPS benefits whilst under NMPA.

NMPA on and from 6 April 2028

Legislation under the Finance Act 2022 increases the NMPA from age 55 to 57 with effect from 6 April 2028.

On and from 6 April 2028, the earliest you can claim your RPS benefits is age 57 (unless you reach 55 AND became entitled to your benefits before 6 April 2028, or you have a PPA50).

Whether you might qualify for a protected pension age of 55 on and from 6 April 2028 depends on when you joined the RPS and your specific Section rules.

If you wish to know more, please contact us for further information.