Protected Pension Age

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

- Background information
- What is a Protected Pension Age and how do I know if I have one?
- Can a Protected Pension Age be lost?
- Tax Consequences
- Opting out

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 benefits as it will be paid earlier and therefore for longer.

From 6 April 2010, government legislation under the Finance Act 2004 increased the earliest age from which reduced 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.

The legislation does allow members to take benefits from an earlier age (under 55) 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?

You will have a PPA where you had an unqualified right to take your benefits from that age on 5 April 2006. An unqualified right to take benefits is where there is no need to obtain the consent of anybody before you can take your benefits.

Under rules of the RPS, members have a right to take their benefits early if they do so immediately on leaving pensionable service and they are above NMPA.

This means that if you were an active member in the RPS on the 5 April 2006 regardless of which employer you were working for then you will have a PPA and can apply for your benefits from age 50.

Once you have a PPA in the RPS this cannot be lost or removed, other than in specific circumstances listed below, and applies to all periods of membership in the RPS.

Can a Protected Pension Age be lost?

There are a number of circumstances where a PPA may be lost, which could have serious tax consequences as a result, for details please read the 'Tax Consequences' section below.

In order to rely on a PPA, all your benefits within the Scheme must be taken at the same time. Therefore, if you rely on a PPA to take benefits before age 55 you have to take payment of all your benefits from any other Sections you may have in the RPS.

A PPA can be lost if after taking benefits you are employed by:

- The same employer;
- Another employer in the same corporate group; or
- Any sponsoring employer with which you are connected*.

*Connected persons are defined in Section s993 of Income Tax Act 2007 and include spouses or civil partners, relatives, spouses or civil partners of relatives and companies controlled by either you alone or with another connected person.

This means that if you are rely on a PPA in order to take payment of your benefits in the RPS before 55 you must cease all employment with any of the above employers at the time you take your benefits. If you remain in employment with these employers, you will lose your PPA and you could face an 'unauthorised payment' tax charge.

If you leave work and claim your benefits having relied upon a PPA to do so and return to employment with any of the employers listed above, then your PPA is lost from the date you are re-employed unless you meet one of the following conditions:

- A break in employment of at least six months
- 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 or there is a break in employment of at least six months you will not lose your PPA.

If you are employed by an employer mentioned above then there has to be a break in employment of at least one month or six months if the role is not materially different.

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.

Once you reach the NMPA (age 55), the above conditions no longer apply so the following tax consequences will not apply regardless of any subsequent employment.

The right to a PPA obtained whilst a member in the RPS will generally no longer apply if you transfer your pension benefits in the RPS to another pension provider.

Tax Consequences

If you rely on a PPA in order to take payment of your benefits before age 55 and you lose or subsequently lose the right to a PPA then every payment (pension and lump sum) made from the scheme before you reach age 55 will be treated as an unauthorised payment.

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

Opting Out

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 PPA or not.

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.
