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Research Briefing

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Pension FAQs: Occupational and personal pensions

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Content

1 What are the different types of occupational and personal pensions?

1.1 What are the main types of pension schemes?

There are two main types of pension schemes in the UK:

- Defined benefit schemes pay a promised pension based on factors, such as salary and length of service. A sponsor, usually an employer, guarantees the payment of the promised benefits. The pension provides an income for life and may include a lump sum.
- Defined contribution schemes provide a pot of money for retirement instead of a guaranteed pension. The value of the pension pot can increase or decrease depending on factors, including investment returns and contributions made.

A third type of scheme, collective defined contribution, was introduced by the Pension Schemes Act 2021. See section 1.4 below for further details.

1.2 What are defined benefit pension schemes?

How are defined benefit schemes funded?

Defined benefit schemes are either funded or unfunded.

- Funded schemes invest contributions from employers and employees to pay the pension benefits the scheme has promised.
- Unfunded schemes operate on a pay-as-you-go basis. This means the sponsor pays the promised pension benefits directly when they are due.

Many public service pension schemes in the UK are unfunded and provide pensions paid for with current member and employer contributions, and taxation.[1] Private defined benefit schemes must be funded.[2]

1 See Commons Library Briefing CBP-8478 Public service pensions – facts and figures
2 Pensions Act 2004, Part 3

What do defined benefit pension schemes provide?

Defined benefit schemes pay a regular income for life and may also pay a guaranteed lump sum at retirement. The amount that a defined benefit scheme pays will depend on factors such as salary and length of service.

Defined benefit pension benefits might be based on a final or career average salary:

- Final salary schemes pay a pension which is based only on the amount someone is earning at the point when they leave employment with the sponsoring employer. This may be the date they retire.

- Career average schemes pay a pension which is based on someone's average salary while they work for an employer. These are sometimes called "Care" schemes. "Care" stands for career average revalued earnings because the average earnings are revalued (increased) to account for inflation.

Does the value of a defined benefit scheme pension increase with inflation?

There are statutory minimum requirements for defined benefit schemes to increase the value of the pensions they provide:

- Pensions in payment must be increased (indexed) annually in line with inflation for any pension benefits built up (accrued) since April 1997. This is capped at 5% for pension benefits accrued between April 1997 and April 2005 and at 2.5% for benefits accruing since then.[3]

- Pensions of people who have stopped contributing to a scheme but are not yet receiving a pension must be increased (revalued) annually in line with inflation. This is capped at 5% for pension benefits accrued up to April 2009 and at 2.5% for pension benefits accrued after this.[4]

These are minimum requirements and there is nothing to prevent pension schemes from making more generous increases.

More information is available in the Library briefing on Occupational pension increases.

What pensions does the public sector provide?

The main public service pension schemes in the UK are defined benefit schemes. Of the six largest schemes only the Local Government Pension

3 Pensions Act 1995, s51
4 Pension Schemes Act 1993, Part IV, Chapter II

Scheme is a funded scheme, the others – the Armed Forces, the Civil Service, NHS, Teachers, Police and Firefighters – are unfunded.[5]

People building up a public service pension in the main schemes will receive pension benefits based on career average earnings following reforms in 2015 and 2022.[6] Some members of public service pension schemes retain a link to their final salary for the pensions they built up before the reforms, but any new pension benefits are based on career average earnings.[7]

More information is available in the Library briefing Public service pensions – facts and figures.

1.3 What are defined contribution schemes?

How are defined contribution schemes paid for?

Defined contribution schemes can either be a workplace scheme, where both the employer and employee make contributions, or an individual personal pension scheme which someone has set up and contributes to themselves. Workplace schemes can be either an occupational pension scheme or a workplace personal pension scheme.

What do defined contribution pension schemes provide?

Defined contribution schemes aim to build a pot of money (pension pot) for retirement.

Does the value of a defined contribution scheme pension increase with inflation?

Defined contribution schemes invest contributions, and the value of a pension pot will depend on the performance of these investments and the costs of running the scheme. There are no requirements for a defined contribution scheme to increase with inflation. Unlike in a defined benefit scheme, employers are not responsible for guaranteeing the value of the pensions in defined contribution schemes.

How can I use my defined contribution pension pot?

The broad options available to a person accessing their defined contribution pension pot are:

5 For details see Commons Library briefing CBP-8478 Public service pensions – facts and figures
6 Public Service Pensions Act 2013 and Public Service Pensions and Judicial Offices Act 2022
7 For details see Commons Library briefing CBP-9177 Public service pensions – response to McCloud

- Annuities can be bought from insurance companies to guarantee regular incomes for life or a fixed period. The income from an annuity depends on several factors. Typically, people can withdraw a tax-free lump sum of 25% of the total amount before purchasing an annuity.

- Drawdown provides a regular income by keeping the pension pot invested. Drawdown does not guarantee income, which can vary depending on investment performance. Taking too much income could result in the pot running out of money. The pension freedoms removed the limits on the income people can take through drawdown. Typically, people can withdraw a tax-free lump sum of 25% of the total amount before entering drawdown.

- People can take cash lump sums straight from a pension pot after age 55 with the remainder left untouched with the potential to benefit from further investment growth. People can normally take the first 25% tax-free and pay tax on the remaining 75% in the same way as other income.

People can choose one or more of the options above. Changing the option once someone has accessed a pension is not always possible.[8]

What are the pension freedoms?

The pension freedoms, introduced in April 2015, gave people aged 55 and over more flexibility about when and how they accessed their defined contribution pension savings.[9] Whereas previously most people had to buy an annuity which provided a guaranteed income, they now have more freedom to enter drawdown arrangements (from which they can make withdrawals while leaving the rest invested) or to draw cash lump sums.

More information on pension freedoms is available in the Commons Library briefing Pension flexibilities: the freedom and choice reforms.

1.4 Are there other types of pension scheme?

What are hybrid schemes?

Hybrid or mixed benefits schemes offer a combination of defined benefit and defined contribution pension benefits.[10] Examples include:

- Schemes which provide both defined benefit and defined contribution.

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8 HMRC, Pension Tax Manual, PTM063300 - Member benefits: lump sums: uncrystallised funds pension lump sum (UFPLS), 13 May 2024

9 Taxation of Pensions Act 2014

10 The Pensions Regulator, Mixed benefit scheme management [accessed 5 July 2024]

- Schemes which will pay the better of their defined benefit or defined contribution benefit.
- Defined benefit schemes with a defined contribution top-up.

What are collective defined contribution schemes?

Collective defined contribution (CDC) schemes were introduced by the Pension Schemes Act 2021.[11] The Royal Mail Collective Pension Plan is the only scheme in the UK which has been granted CDC authorisation.[12]

In a CDC scheme, both the employer and employees contribute to a collective fund which provides an income in retirement. Unlike in a defined benefit scheme the employer does not need to guarantee the benefits paid by the scheme. CDC schemes provide a target pension, if the scheme is under (or over) funded then it can decrease (or increase) the pensions it pays.

More information on CDC schemes is available in the Library briefing Pensions: Collective Defined Contribution (CDC) schemes.

1.5 What is automatic enrolment?

Auto-enrolment requires employers to enrol eligible employees into a workplace pension scheme. Unless those employees opt out, they and their employer will contribute to the workplace scheme.

To be eligible for auto-enrolment employees must be:

- At least 22 years old
- Not yet at State Pension age
- Earning more than the auto-enrolment threshold (£10,000)
- Normally working in the UK under a contract of employment.[13]

Employers and employees pay auto-enrolment contributions on qualifying earnings. In 2024/25 this is between £6,240 and £50,270 a year.[14] Any employee earning above the lower level of qualifying earnings (£6,240) can ask their employer to auto-enrol them even if they are not yet 22 years old or do not earn over the auto-enrolment threshold (£10,000).[15]

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11 Pension Schemes Act 2021, pts 1 and 2
12 The Pensions Regulator, List of authorised collective defined contribution schemes [accessed 5 July 2024]
13 Pensions Act 2008, ss 1 and 3
14 The Pensions Regulator, Automatic enrolment earnings thresholds [accessed 5 July 2024]
15 The Pensions Regulator, Automatic enrolment earnings thresholds [accessed 5 July 2024]

Can I opt out of auto-enrolment?

Employees can opt out of auto-enrolment by giving their employer an opt-out notice. Employees must decide to opt out freely and employers must not actively encourage their staff to opt out.[16] Employers need to re-enrol eligible employees every three years.[17]

How large are pension contributions in auto-enrolment?

For defined contribution schemes, minimum contributions are 3% from employers and 5% from employees on eligible earnings.[18]

To qualify for auto-enrolment, defined benefit schemes normally assess against the pension benefit they provide or the cost of those benefits, rather than against contributions.[19]

Does every employer need its own pension scheme?

Every employer must put eligible employees into a workplace pension scheme. The employer does not have to run the scheme. For example, employers can enrol their employees into a master trust, or a workplace personal pension provided by an insurer. A master trust is an occupational defined contribution pension scheme intended for two or more unconnected employers.[20]

16 The Pensions Regulator, Automatic enrolment detailed guidance for employers no. 7 [accessed 5 July 2024]
17 Under section 5 of the Pensions Act 2008
18 The Occupational and Personal Pension Schemes (Automatic Enrolment) 2010 (SI 2010/772), reg 32E
19 The Pensions Regulator, Automatic enrolment detailed guidance for employers no. 4 [accessed 5 July 2024]
20 The Pensions Regulator, Master trust pension schemes [accessed 5 July 2024]

2 How are pensions regulated?

Regulation can vary depending on the type of pension scheme or the type of service provided to a scheme or saver.

2.1 What is the difference between trust-based and contract-based schemes?

Boards of trustees or companies known as corporate trustees oversee trust-based pension schemes.[21] Trustees act separately from the employer and are responsible for acting in the best interests of the scheme's beneficiaries and ensuring that the scheme runs properly.[22]

Contract-based pension schemes are personal contracts between individual scheme members and a pension provider. Contract-based pensions can be either workplace and arranged by an employer, or individual pensions which someone sets up themself, often with advice.

2.2 Who regulates pension schemes?

Pension schemes are either regulated by the Pensions Regulator which regulates occupational pensions, including employer compliance with auto-enrolment duties, or the Financial Conduct Authority which regulates financial services firms and financial markets in the UK.[23] The Pensions Regulator regulates trust-based pension schemes, and the Financial Conduct Authority regulates contract-based schemes.

Table 1 on the following page summarises the main types of pension schemes and which body is responsible for their regulation.

21 Pensions Act 2004, s252

22 Pensions Act 2004, ss244-249

23 The role of the Pensions Regulator is set out in the Pensions Act 2004, pt 1 and the role of the Financial Conduct Authority is set out in the Financial Services and Markets Act 2000

Table 1: Regulation of pension schemes

<table>
<tr><td colspan="5">The Pensions Regulator</td><td colspan="4">Financial Conduct Authority</td></tr>
<tr><td colspan="5">Trust-based pension schemes
A pension scheme governed by a board of trustees with a duty towards scheme beneficiaries</td><td colspan="4">Contract-based pension schemes
A pension scheme with a contract between the individual scheme member and the provider</td></tr>
<tr><td colspan="7">Workplace pension schemes
A pension scheme provided by an employer through which the employer and employee make contributions</td><td colspan="2">Personal pension schemes
A pension scheme taken out directly with the provider</td></tr>
<tr><td colspan="2">Defined benefit schemes</td><td>CDC schemes</td><td colspan="6">Defined contribution schemes</td></tr>
<tr><td>Final salary
Pays pension benefits based on salary at the end of employment</td><td>Career average
Pays pension benefits based on average salary during employment</td><td>Collective defined contribution
Provides a target pension income which can increase or decrease</td><td>Single employer DC trust
Run by a single employer</td><td>Master trust schemes
Run by a provider and open to multiple employers</td><td>Group personal pension
Run by a provider and arranged by a single employer for their employees</td><td>Stakeholder pensions
Offered by employers or providers meeting a minimum set of standards</td><td>Self-invested personal pension (SIPP)
Designed for a single individual to allocate their investments</td><td>Individual personal pension
Run by a provider and designed for a single individual.</td></tr>
</table>

Source: Adapted from Pension Policy Institute, The Future Book: Unravelling workplace pensions 2016 Edition, September 2016, p5

2.3 How are other pension services regulated?

The Pensions Regulator, the Financial Conduct Authority, and other bodies may also regulate services provided to pension schemes and savers. Table 2 shows key services and their regulation:

Table 2: Regulation of services provided to pension schemes and savers

	The Pensions Regulator	Financial Conduct Authority	Other
Advice and distribution		• Financial advice to individuals and small & medium enterprises	• Advice from lawyers and accountants
Investment		• Authorised funds and investment products • Unit-linked with-profit investments	
Other products and services		• Bulk annuities • Equity release	• Actuarial services
Providers and distributors	• Master trust providers • Defined benefit superfunds • Trustees • Public service scheme managers • Employer compliance with auto-enrolment	• Financial advisers and intermediaries • Banks and building societies • Credit institutions • Life insurers • Pension scheme operators • Some fintech firms • Asset managers	• Investment consultants • Pension comparison websites • Accountants and lawyers • Payroll bureaux • Technology providers • Third party administrators
Pension prudential regulation	• Master trusts (indirectly) • Defined benefit superfunds	• Other credit institutions • Pension scheme operators other than life insurers • Asset managers • Financial advisers and intermediaries • Fintech firms	• Banks and building societies • Life insurers

Note: This table is not exhaustive and shows only a selection of key services

Source: Adapted from The Pensions Regulator and Financial Conduct Authority, Regulating the pensions and retirement income sector: Our strategic approach (PDF), March 2018, pages 7-8

3 Where can I find advice and guidance?

3.1 What is the difference between pension advice and guidance?

People can receive advice or guidance about their pensions:

- Advice is a personalised recommendation and can only be provided by Financial Conduct Authority regulated firms on the Financial Services Register.
- Guidance is a broader term including general information and signposting about pensions which does not include a recommendation. Any organisation can offer guidance.

3.2 Where can I find pension guidance?

Any organisation can provide pension guidance and employers, pension schemes, and other pension providers may offer guidance.[24]

Free pension guidance is also provided by MoneyHelper. MoneyHelper is a service provided by the Money and Pensions Service, an arm's length body sponsored by the Department for Work and Pensions. People aged 50 and over with a defined contribution pot are also entitled to a guidance session with MoneyHelper's Pension Wise service.

It has also published a beginner's guide to scams.

3.3 Where can I find pension advice?

Advice can only be provided by firms which are regulated by the Financial Conduct Authority and on the Financial Services Register. MoneyHelper has published a guide on choosing a financial adviser.

[24] Money and Pensions Service, Advice and guidance [accessed 5 July 2024]

4 How can I complain about pensions?

Many bodies can receive complaints about pensions including the courts. The section below covers some key organisations.

MoneyHelper also produces a guide dealing with pension problems and making a complaint which provides information on the organisations people can complain to.

4.1 What is the Pensions Ombudsman?

The Pensions Ombudsman can look at complaints about how personal and occupational pension schemes are run.[25] The Pensions Ombudsman can consider complaints from scheme members and beneficiaries, employers and scheme trustees or managers. It can also consider complaints about the Pension Protection Fund and Financial Assistance Scheme.

Complaints usually need to be brought to the Pensions Ombudsman within three years of the event or within three years of when the person became aware, or should have been aware, of the event.[26] Before a complaint is investigated, the complainant must have tried to resolve matters with the party they believe to be at fault. For example, employees of a workplace pension scheme should first make a complaint through the internal dispute resolution procedure.

Further information is available on the Can I complain? section of the Pensions Ombudsman's website.

4.2 What is the Financial Ombudsman Service?

The Financial Ombudsman Service can look at complaints about businesses regulated by the Financial Conduct Authority, including some pension schemes and their services.[27] The Financial Ombudsman Service can help if the complaint is about the advice received when taking out a pension, when transferring between pension schemes or when investing pension funds. It can also help if the complaint is about the administration of a personal pension

25 The legal framework is summarised on The Pensions Ombudsman, What we do [accessed 5 July 2024]

26 As above

27 Financial Conduct Authority, FCA Handbook, DISP 2.1, 29 May 2024

scheme, both self-invested pensions and group personal pensions provided in the workplace.

Further information for consumers is available on the "Complaints we can help with" section of the Financial Ombudsman Service's website.

4.3 Can both the Financial Ombudsman Service and the Pensions Ombudsman consider my complaint?

Both the Pensions Ombudsman and the Financial Ombudsman Service can deal with complaints about pensions. The two organisations have different remits, but there are overlaps between the two. Both ombudsmen can determine complaints on the administration of workplace pensions and individual personal pensions. However, once one ombudsman has decided on a complaint the other cannot consider it.[28]

Due to the difference in the legislation for the two ombudsmen, the two bodies may reach different conclusions on the same case.[29] The Pensions Ombudsman decides complaints based on what a court would decide, whereas the Financial Ombudsman Service makes determinations based on what is considered "fair and reasonable".[30]

There is a memorandum of understanding between the two ombudsmen that if a complaint is made to one that is more suitable to be dealt with by the other ombudsman, then the first will transfer the case if the complainant consents.[31] If the complainant does not consent the first ombudsman may consider or dismiss the complaint in the usual way.[32]

4.4 Can I challenge a determination?

Ombudsman decisions and determinations can be challenged in the courts. Further information is available from the Pensions Ombudsman and Financial Ombudsman Service's websites.

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28 Department for Work and Pensions, Tailored Review of the Pensions Ombudsman, 27 August 2019
29 As above
30 As above
31 The Pensions Ombudsman, Memorandum of Understanding with the Financial Ombudsman Service, 1 December 2017
32 As above

5 Who provides compensation when things go wrong?

When something goes wrong with a pension there are a variety of routes for compensation, including through the organisations which deal with complaints in the previous section of this paper. This briefing covers the main additional routes of compensation below, although these are not exhaustive.

5.1 What is the Pension Protection Fund?

The Pension Protection Fund (PPF) is a statutory fund to protect members of defined benefit schemes if the scheme's sponsor becomes insolvent. [33] In these cases, the PPF would assess the scheme. The scheme may then enter the PPF which would typically reduce pension payments to members. If it had sufficient assets, then the scheme could secure members' pension benefits at a level above the compensation level offered by the PPF.[34]

What compensation does the PPF pay?

The level of compensation someone receives from the PPF depends on whether they had already passed their normal pension age when the sponsoring employer became insolvent. PPF members receive:

- 100% of the scheme pension if the person is at or above normal pension age or if they retired through ill-health before the insolvency date.
- 90% of the scheme pension for others.[35]

Is compensation from the PPF capped?

Following a court ruling in July 2021, the PPF's statutory compensation cap on the compensation paid out no longer applies.[36]

[33] Pensions Act 2004 and Gov.uk, Pension Protection Fund [accessed 5 July 2024]
[34] Pension Protection Fund, An overview of the assessment process [accessed 5 July 2024]
[35] Pension Protection Fund, What being a PPF member means [accessed 5 July 2024]
[36] [2021] EWCA Civ 1093 (PDF) further information about the cap is available from Pension Protection Fund, Compensation cap factors [accessed 5 July 2024]

5.2 What is the Financial Services Compensation Scheme?

The Financial Services Compensation Scheme (FSCS) pays compensation to people where a financial services firm is no longer in business and unable to pay the claims made against it.

More information is available from the FSCS under Pension protection.

What compensation does the Financial Services Compensation Scheme provide?

For claims against financial firms which provided or advised on pensions and failed after 1 April 2019 the FSCS can pay:

- 100% of a claim against a pension provided by a UK-regulated insurer, including annuities, with no upper limit.
- Up to £85,000 per eligible person, per firm if the operator of a Self-Invested Personal Pension (SIPP) fails.
- Up to £85,000 per person, per firm for bad pension advice.[37]

5.3 Are there other sources of compensation?

What is the Financial Assistance Scheme?

The Financial Assistance Scheme (FAS) provides financial assistance to members of defined benefit pension schemes who lost all or part of their pension following their scheme ending between 1 January 1997 and 5 April 2005. The PPF administers the FAS.

The PPF provides more information on What being a FAS member means.

What is the Fraud Compensation Fund?

The Fraud Compensation Fund pays compensation to occupational pension schemes that have lost out due to dishonesty. The PPF manages the Fraud Compensation Fund.[38] A High Court ruling on 6 November 2020 clarified that the fund could compensate members of occupational schemes set up as part of a scam.[39]

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37 Financial Services Compensation Scheme, Pensions [accessed 5 July 2024]
38 Fraud Compensation Fund, About us [accessed 5 July 2024]
39 Fraud Compensation Fund, Fraud Compensation Fund eligibility criteria confirmed, 28 June 2021

6 How is my pension taxed?

6.1 How are pensions taxed?

The UK taxes pension savings using an "exempt, exempt, taxed" (EET) model:

- When people and their employers pay into a pension the contributions are exempt from taxation. Both savers and employers receive tax relief.
- Pension savings growth through investments is exempt from taxation.[40]
- People pay tax on payments from pensions like other income. People can access up to 25% of their pension savings tax-free.[41]

6.2 What are the main pension tax allowances?

There are limits on the amount of tax relief someone can receive. Further information is available in the Library briefing, Pension tax relief – the annual and lifetime allowances.

A person cannot usually receive tax relief on pension contributions worth more than their annual earnings. However, people can still contribute £3,600 a year into a pension with tax relief even if they earn less than this.[42]

An annual allowance limits the amount someone can pay into pension schemes each year before they must pay tax. It is £60,000 in 2024/25. The annual allowance tapers (reduces) for higher earners. It reduces by £1 for every £2 someone earns over £260,000 (including pension contributions). Tapering stops when the annual allowance reaches £10,000.

If someone withdraws money from a defined contribution scheme, then the amount that they can contribute to these schemes in future – and still receive tax relief – permanently reduces. The lower allowance, known as the money purchase annual allowance, is set at £10,000 a year.[43]

[40] There are tax charges on some types of investments outlined in HMRC, Pensions Tax Manual, PTM121000 - Investments: essential principles, 13 May 2024

[41] HMRC, Pensions Tax Manual, PTM024100 – General principles: overview of pensions taxation: the basics, 13 May 2024

[42] Finance Act 2004, s190

[43] Finance Act 2004, s227ZA as amended by Finance (No. 2) Act 2023

7 How old do I need to be to receive a pension?

7.1 What is the state pension age?

From the 1940s, the state pension age was 60 for women and 65 for men. Since then:

- The state pension age for women increased from 60 in April 2010, to reach 65 in December 2018
- The state pension age then increased to 66 for men and women between December 2018 and October 2020
- The state pension age will then rise to 67 between 2026 and 2028.[44]

Under current legislation, the state pension age will increase to 68 between 2044 and 2046.[45]

Further information is in the Library briefing State Pensions: FAQs.

7.2 What is the normal minimum pension age?

The normal minimum pension age (NMPA) is the earliest age that someone can access their workplace or personal pension, other than due to ill health or if they have a protected pension age.[46] It is separate from the State Pension age, which is the earliest age someone can receive their State Pension.

Usually, pension scheme rules should not allow members to access their pension before they reach the NMPA. Pension schemes do not have to pay pension benefits at the NMPA if the scheme rules have a higher minimum age for the payment of pension benefits.[47]

Further information is in the Library briefing Minimum pension age.

[44] Pensions Act 1995, sch4, as amended by the Pensions Act 2011 and Pensions Act 2014
[45] Pensions Act 2007, s13 and sch3, Table 4
[46] Section 279(1) Finance Act 2004
[47] As above

What age is the normal minimum pension age?

The NMPA has been 55 since 2010. The NMPA was 50 when it was first introduced in April 2006.[48]

Can I receive a pension before my normal minimum pension age?

The introduction of the NMPA included two forms of protection, each with different conditions for use:

- Individuals in certain professions with low retirement ages (such as sports people), who had a right before April 2006 to draw their pension before age 50, may have a protected pension age.
- Members of occupational pension schemes on 5 April 2006 may have a protected pension age if, on 5 April 2006, they had a right to take benefits before age 55.

The right is unqualified, so does not need the consent of a trustee or employer. People can lose their protections in certain circumstances. For example, if the individual transferred to another scheme, or where a member of an occupational scheme was employed by certain bodies after taking benefits.[49]

People can also receive a pension before their normal pension age on ill-health grounds.[50]

Is the normal minimum pension age changing?

The NMPA will increase from 55 to 57 in 2028.[51]

Am I exempt from the increase in the normal minimum pension age to 57?

Some schemes can retain an NMPA of 55 for their members.[52] People keep the right to take their pension benefits at or before age 55 if they were part of a pension scheme with this right before 4 November 2021. Additionally, the increase will not apply to members of the firefighters, police, and armed forces public service schemes.[53]

48 Section 279(1) Finance Act 2004
49 HMRC, Pension Tax Manual, PTM062205 - Member benefits: pensions: protected pension age: basic principles, 13 May 2024
50 HMRC, Pension Tax Manual, PTM062100 - Member benefits: pensions: pension age, 13 May 2024
51 Section 279(1) Finance Act 2004
52 Finance Act 2004, schedule 36, 23ZB
53 As above

Is the normal minimum pension age different from the normal pension age?

A normal pension age is scheme specific. In a defined benefit scheme, it is the earliest age that a scheme member can access their pension benefits without having them reduced. Members who access their pension before their scheme's normal pension age will usually see the benefits that they receive reduced unless it is for a reason such as ill health. In public service schemes, the normal pension age is often 60, 65 or the member's state pension age.

For workplace defined contribution schemes, whilst the employer may set a retirement age, members still have the right to start taking benefits from the NMPA.

For further information about the normal retirement age in public service pensions, see the Library briefing, Public service pension age.

8 What happens to pensions on divorce or separation?

8.1 How can I divide a pension on divorce?

Couples can divide pensions on divorce or dissolution in three main ways. This can apply to personal pensions, workplace pensions, and the earnings-related additional State Pension (or the 'protected element' for people entitled to the new State Pension). The different options include:

- Pension sharing order: One person gets a percentage share of their ex-spouse or civil partner's pension(s). They can transfer this into a new pension or join their ex-partner's pension scheme.
- Pension offsetting: Other assets offset the value of a pension. For example, one person might get a bigger share of the family home in return for their ex-partner keeping a pension.
- Pension earmarking: One person receives a portion of their ex-partner's pension when they start receiving it. This could be a pension income, lump sum, or both. Payments cannot start before the ex-partner has started taking the pension.

What exactly couples can divide depends on where in the UK the divorce or dissolution is taking place. Further information is available in the Library briefing Pension sharing on divorce.

8.2 Am I entitled to a share of my ex-partner's pension if we were unmarried?

There is no automatic right for unmarried couples to share pensions at the end of a relationship. The legal rights of unmarried couples are different in the different parts of the UK.

A Library briefing has further information on "Common law marriage" and cohabitation. The briefing 'Legal help: where to go and how to pay' has further information about sources of legal advice and help.

9 Who can inherit my pension?

9.1 Who can inherit my defined contribution pension?

Defined contribution schemes aim to build up a pension pot for retirement, which people nominated by the deceased can inherit. They can usually receive the inheritance as a lump sum or to set up a guaranteed income. They may also have the option to access the pension through flexible drawdown.[54]

9.2 Who can inherit my defined benefit pension?

Defined benefit schemes pay a promised income for life and may include a retirement lump sum. Each scheme has different rules for what a member's beneficiaries might receive when they die. Most defined benefit schemes provide pension benefits to surviving spouses, civil partners, and dependent children.[55] Someone receiving an income from an inherited pension pays tax under normal income tax rules.

9.3 Does my age matter when my pension is inherited?

If someone dies before their 75th birthday most lump sums paid from their pension are tax-free up to a limit of £1,073,100.[56] If someone dies after their 75th birthday the person receiving a lump sum pays tax like they would on other income.

Gov.uk provides a summary Tax on a private pension you inherit. Further guidance is available from MoneyHelper's What happens to my pension when I die?

54 Gov.uk, Tax on a private pension you inherit [accessed 5 July 2024]

55 Office for National Statistics, Occupational pension schemes in the UK,13 January 2021

56 HMRC, PTM172000 - Lump sum allowance and lump sum and death benefit allowance: Lump sum and death benefit allowance, 13 May 2024