



Ill-health and early retirement

Introduction

Sometimes people need to stop working due to ill-health and accessing their pension can be an option when certain conditions, which are set by the HMRC, are met.

Serious ill-health lump sum

Clients may have the option to take their uncrystallised pension funds as a lump sum, if they are diagnosed with a terminal illness and a registered medical practitioner confirms they have less than 12 months to live. There is no minimum age for the payment of a serious ill-health lump sum.

The following conditions must be met in order for a payment to be treated as a serious ill-health lump sum.

1. The pension plan administrator must receive written evidence from a registered medical practitioner confirming the client is expected to live for less than one year.
2. The client must not have used up all their lifetime allowance.
3. The payment must extinguish all uncrystallised rights that could reasonably have been known about at the time of the payment, under the arrangement. If some benefits have previously been crystallised, then the full remainder of uncrystallised rights under the arrangement must be taken as a lump sum.

If the client is 75 or over, then the lifetime allowance test on unused pension funds (either defined benefit or defined contribution) which was carried out when the client reached age 75 should be ignored, when considering if the pension funds are uncrystallised (to meet the conditions above) and when calculating if the client has used all of their lifetime allowance.

Lifetime allowance

The payment of the serious ill-health lump sum is a benefit crystallisation event (BCE6) for lifetime allowance purposes if it is paid to a client under age 75. While the client must have available lifetime allowance for a serious ill-health lump sum to be paid, the level of lump sum paid is not limited by the level of lifetime allowance available. From the 6th April 2023, where the amount crystallising exceeds the available lifetime allowance, the excess is available lifetime allowance, normal PAYE rules will apply for the excess, and it will be treated as pension income, taxed at the client's marginal tax rate. The pension plan administrator deducts this tax charge before paying the serious ill-health lump sum to the client.

Taxation

A serious ill-health lump sum payment is tax free if the client is under age 75. If 75 or over, the lump sum is taxed at the client's marginal rate (there is no tax-free proportion).

Early retirement

Clients can take their pension benefits at any age if they are physically or mentally unable to continue with their current employment. In practice, some pension plan rules may have stricter ill-health criteria, and, for example, may state clients must be incapable of carrying out any occupation. To consider an early retirement request, the pension plan administrator will require:

- Written evidence from a registered medical practitioner confirming the client is unable to return to their current employment because of physical or mental ill-health.
- Confirmation they have stopped their current employment from the medical practitioner or the former employer (e.g. a P45).

If an early retirement request is granted, the client can choose to access all or part of their pension. If the client initially opts for partial drawdown and makes a subsequent request to crystallise more monies, no evidence of continued ill-health is required. Income withdrawals can be reduced, increased or stopped at any time.

Normal taxation and lifetime allowance limits apply.

If you only read one thing

- Clients can take all their uncrystallised pension funds as a lump sum before age 55 if the pension plan administrator receives written evidence from a registered medical practitioner confirming the client is expected to live for less than one year, they have not used up all their lifetime allowance, and the payment extinguishes all uncrystallised pension benefits.
- This is a benefit crystallisation event if the client is under age 75. Any excess over the lifetime allowance is taxed at the client's marginal tax rate.
- If the client is under age 75 the lump sum is paid out tax free. If the client is 75 or over, then the lump sum is taxed at the client's marginal rate.
- Clients can take their pension benefits at any age if they are physically or mentally unable to continue with their current employment. The pension plan administrator will require written evidence from a medical practitioner and confirmation they have stopped their current employment.

www.nucleusfinancial.com

"Nucleus" and "James Hay Partnership" are the trading names of Nucleus Group Services Limited (NGSL) (registered in England number 02538532); James Hay Services Limited (JHS) (registered in Jersey number 77318); IPS Pensions Limited (IPS) (registered in England number 2601833); James Hay Administration Company Limited (JHAC) (registered in England number 4068398); James Hay Pension Trustees Limited (JHPT) (registered in England number 1435887); James Hay Wrap Managers Limited (JHWM) (registered in England number 4773695); James Hay Wrap Nominee Company Limited (JHWNC) (registered in England number 7259308); PAL Trustees Limited (PAL) (registered in England number 1666419); Sorum Trustees Limited (SorumTL) (registered in England number 1003681); The IPS Partnership Pie (IPS Pie) (registered in England number 1458445); Union Pension Trustees Limited (UPT) (registered in England number 2634371).

