

## FACT SHEET

# ILL-HEALTH AND SERIOUS ILL-HEALTH

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### Definitions

#### What is the 'ill-health condition'?

In pension terms, a person is considered to be in ill-health if he or she:

- Is, and will continue to be, medically incapable of continuing his or her occupation (as confirmed by a registered medical practitioner).
- Has stopped working in his or her occupation.

#### What is 'serious ill-health'?

In pension terms, a person is considered to be in serious ill-health if a registered medical practitioner has confirmed that he or she is expected to live for less than one year.

#### What is 'normal minimum pension age'?

Normal minimum pension age is the age at which most people can choose to start accessing their pension benefits. Normal minimum pension age is currently 55 and is due to rise to 57 in 2028.

There are normally heavy tax penalties for people who access their pensions earlier, unless they are not subject to the normal minimum pension age - for example, due to their health.

#### What are uncrystallised funds?

Uncrystallised is the term used to describe pension funds which have not yet been accessed.

### Rules

#### What happens if someone meets the ill-health condition?

A person who meets the ill-health condition can access their pension benefits before normal minimum pension age (currently 55) without incurring the normal tax penalties for doing so.

#### Are there any tax implications of accessing a pension early due to ill-health?

Pensions accessed early due to ill-health are treated in the same way as those accessed from normal minimum pension age. For example:

- Individuals will still be entitled to a pension commencement lump sum (PCLS, also known as tax-free cash).
- The funds accessed will still be tested against the individual's Lump Sum Allowance (LSA) and Lump Sum and Death Benefit Allowance (LSDBA).
- Income payments will still be subject to income tax.

#### I meet the ill-health condition, but my provider still says I can't access my pension early. Why might that be?

The rules of some pension schemes have stricter criteria when it comes to retiring early due to ill-health. Most common is a requirement for individuals to be medically incapable of undertaking any occupation, rather than just

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their own. This is more common in schemes which offer pension benefits which are difficult to 'switch off' once they've been started.

For example, with a drawdown pension, where income payments are taken directly from the person's savings and can be changed as needed, it would be very simple to stop the payments if the person began a new job. On the other hand, with an annuity, where the pension savings are used to purchase an income which is normally payable for life, it would be problematic if the income was no longer required.

## **What happens if someone is considered to be in serious ill-health?**

When a person is in serious ill-health, they are entitled to a particular form of benefit called a serious ill-health lump sum.

## **Are there any other conditions for a serious ill-health lump sum?**

A serious ill-health lump sum can only be taken from uncrystallised (or unused) funds. If a pension contains both crystallised and uncrystallised/unused funds, a serious ill-health lump sum can be taken from the uncrystallised/unused element.

A serious ill-health lump sum must use up all of the uncrystallised/unused funds within the pension arrangement.

A person must have sufficient Lump Sum and Death Benefit Allowance remaining to take a serious ill health lump sum under the age of 75.

If a person takes a serious ill health lump sum over the age of 75, the payment is automatically taxable at the member's marginal income tax rate but will not reduce the LSDBA.

## **How is a serious ill-health lump sum taxed?**

If the serious ill-health lump sum is paid from uncrystallised funds to an individual under age 75 then the lump sum is tested against the lump sum and death benefit allowance (LSDBA).

Any payment made in excess of the remaining LSDBA is subject to income tax at the client's marginal rate.

If the serious ill health lump sum is paid from crystallised funds or to an individual age 75 or over, then the entire lump sum is subject to income tax at the clients' marginal rate and the client's LSDBA would not be reduced.

## **Important points to consider**

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice.

## **Contact Details**

If you'd like to speak to us about anything on this fact sheet, please contact us on:

**T 0370 414 7000**

We may record and monitor calls. Call charges will vary.

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