MES PENSIONS

Ill-health and Serious Ill-health Pension Benefits Guide

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Normally, you can't access your pension benefits until you reach the minimum pension age of 55 (57 from 2028).

If you can't do your job due to physical or mental illness, you may be eligible to take ill health early retirement which means you can take a tax-free cash lump sum and income payments.

To be eligible for ill health early retirement, you will need to provide medical evidence of your illness and how it impacts your employment.

Before we can consider whether you are eligible, you will need to meet the following conditions:

- You must not currently be working due to your physical or mental health condition;
- You must not be able or intend to return to work;
- We must receive written confirmation from a qualified medical practitioner that you are incapable of working now or in the future in any job due to your physical or mental health impairment.

Ill health and state pension
If you are eligible for the state pension, this works differently to your SIPP. Regardless of ill health, you can't get an early state pension before you're a certain age. Please use the governments calculator to see your up-to-date state pension age.

Check your State Pension Forecast: https://www.gov.uk/check-state-pension.

Impaired Life Annuity
A pension annuity is designed to pay you an income for a fixed period or for the rest of your life. Some annuity providers offer an impaired life annuity which is for people with a shortened life expectancy due to their illness. To qualify, you'll need to complete a medical history questionnaire, and in some cases provide further information from your doctor or attend a medical retirement examination.

Using the information you've provided, your provider will then offer an annuity rate based on an estimate of your life expectancy.

If you decide to use some or all of your pension pot to purchase an annuity to provide a guaranteed income, an enhanced annuity may give you a higher level of income.

The annuity rate the provider will offer you is based on an estimate of your life expectancy which is based on the medical information you have provided.

If your life expectancy is less than a year due to serious illness, you might be able to take your uncrystallised funds as a cash lump sum (known as a serious ill-health lump sum) if you have sufficient lump sum and death benefit allowance available. A serious ill-health lump sum paid before you reach age 75 will be paid tax-free. If you are over age 75, the lump sum will be taxed as income.

You may not initially be eligible for a serious ill-health pension but could become eligible if your health continues to deteriorate.

Potential IHT implications
Whilst a tax-free lump sum may appear very attractive to someone in serious ill-health, care is needed. Whilst it will be paid tax-free, that doesn't mean there won't be any tax consequences.

Anything left unspent would be within your estate and could be subject to IHT, if total assets exceed your nil rate band. Where IHT is an issue, and the funds are not needed, you may want to consider not taking a serious ill-health lump sum if you are under 75 as following death, your beneficiaries could receive the funds tax-free.

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If you die beyond age 75, your beneficiaries will pay income tax on any funds taken, which could be less than the IHT bill. This would depend on the size of the pension fund, how the payments were taken and the tax position of your beneficiaries.

Ill health benefits and allowances
The Lifetime Allowance was abolished on 6 April 2024 and replaced with 2 new allowances which limit tax-free lump sums paid from pension schemes – the 'lump sum allowance' and 'lump sum death benefit allowance'.

Lump sum allowance
The Lump Sum Allowance limits the amount of tax- free cash that can be taken during the member's lifetime, typically as a pension commencement lump sum (PCLS) or the taxable element of an uncrystallised funds pension lump sum (UFPLS) payment.

Serious ill-health lump sums do not count toward the lump sum allowance. There is no reduction in the Lump Sum Allowance when benefits are taken early on ill-health.

When calculating the remaining lump sum allowance available, any relevant lump sums previously taken since 6 April 2024 are first deducted. Transitional rules apply where benefits have been taken before 6 April 2024.

Please see our Lump Sum Allowance Guide for more detailed information.

Any lump sum paid in excess of the available lump sum allowance will be subject to tax at your marginal rate of income tax.

Lump Sum and Death Benefit Allowance
The Lump Sum and Death Benefit Allowance has been set at £1,073,100 for those without transitional protection.

Firstly, any lump sums which use up Lump Sum Allowance also count towards Lump Sum Death Benefit Allowance, so they will reduce the available Lump Sum Death Benefit Allowance. Like the Lump Sum Allowance, transitional rules apply where benefits have been taken before 6April 2024. This includes any serious ill-health lump sums paid.

If a serious ill-health sum is paid before age 75, the full amount will also count towards the Lump Sum Death Benefit. There is no reduction when benefits are taken early on ill-health or serious ill health.

If the serious ill-health lump sum is more than the remaining Lump Sum Death Benefit available, the excess will be subject to income tax at the individuals marginal tax rate.

Laws and regulations
UK laws and regulations aim to ensure people retiring due to ill health are treated fairly. The law provides guidance on how pension benefits should be calculated for ill health early retirement. As the legal aspects of taking ill health early retirement can be complicated, we would strongly suggest you seek advice from an FCA regulated adviser if you are resident in the UK before applying.

Where you are not resident in the UK, we would strongly suggest you seek the advice of a qualified adviser in your country of residence. We would also suggest you read the information available through Money Helper using the link below.

Ill-health retirement: early medical retirement | MoneyHelper: https://www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/early-retirement-because-of-illness-sickness-or-disability.

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Other considerations
The decision to retire on the grounds of ill health can be difficult and there are a number of things that should be taken into consideration. Retiring early can lead to feelings of loss, especially where your job provides a sense of routine and a social connection.

Looking after your mental health during this time is important.

Ill health early retirement can result in significant lifestyle changes as you will have more free time. It may also result in a reduction of income so it is important that you seek guidance on what financial support may be available to you.

A strong support network is important whether this is friends or family members, or support groups related to your health condition. Joining a support group creates an environment where you can ask questions and receive support.

What medical conditions may qualify for ill health early retirement?
The list below is a broad example of the medical conditions that may quality for ill health retirement. Any application is considered on a case-by-case basis taking into consideration medical information provided.

- Multiple sclerosis
- Parkinsons disease
- Significant brain trauma
- Severe heart failure
- Coronary artery disease that does not respond to treatment
- Uncontrolled severe hypertension
- Severe osteo or rheumatoid arthritis
- Chronic severe back conditions that have not responded to treatment
- Chronic obstructive pulmonary disease (COPD) in advanced stages
- Severe depression or bi-polar disorder that is resistant to treatment
- Schizophrenia or other psychotic disorders where control is not achieved
- Severe post- traumatic stress disorder (PTSD)
- Advanced cancers
- Advanced liver or kidney disease
- Chronic conditions leading to recurrent hospital visits
- Disability injuries

Any reference to legislation and tax is based on our understanding of UK law and HMRC practice. These are subject to change in future and any tax rates and reliefs may be altered.

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