

Puzzled By Pensions?

Money Purchase Annual Allowance Explained



Does This Affect Me?

Currently if you are age 55 or over and you are thinking of accessing a previous Defined Contribution pension pot and wish to continue contributing to your current Defined Contribution (DC) scheme, the amount of tax relief you receive from the Government may be restricted by the Money Purchase Annual Allowance (MPAA).

If you exceed the MPAA you may also be liable for a tax charge.

This could affect the level of contributions you may want to make.

If you think this could affect you, carry on reading...

Types of Pension Schemes

There are basically two types of pension arrangement in the UK at present.

Defined Benefit (DB) eg Final Salary or CARE

DB pensions are calculated by taking into account your salary and years of membership in the pension scheme. Contributions are paid into and benefits are paid out of one large pension fund.

DB schemes are unaffected by the MPAA.

Defined Contribution (DC) also known as Money Purchase

DC pensions are different. You and your employer pay fixed contributions into your own individual pension pot. How large your pot is when you retire will depend on many things and the size of your pot will determine how much your pension will be.

DC schemes are affected by the MPAA.

What Is Tax Relief?

When you pay in to your workplace pension you are not taxed and the Government will allow the tax you would normally have paid, to be used to top up your pension pot.

This process is known as receiving tax relief.

Receiving the tax relief top-up is one of the main reasons contributing to a pension is still the best way to save for your retirement.

Annual Allowance

The amount of tax relief you can normally receive on your contributions each year is restricted to £60,000 (2023/24) or 100% of your taxable income (if less). This is known as your annual allowance.

However if you have money paid to you from a Defined Contribution pension (currently you can only access your pension from age 55, but this is set to rise to 57 from 2028, unless your pension scheme rules have a protected retirement age), and wish to continue saving into another Defined Contribution arrangement, tax relief may be the same or restricted to what is known as the Money Purchase Annual Allowance.

What Is the Money Purchase Annual Allowance? (MPAA)

Only DC schemes are affected by the MPAA.

If you start to take money from a DC pension, the amount you can continue to pay into another DC pension, and the amount you continue to receive in tax relief reduces significantly.

In this situation the amount of contributions which apply for tax relief will no longer be subject to the Annual Allowance but the Money Purchase Annual Allowance or MPAA.

How Much Is the Current MPAA?

The MPAA limit is £10,000 (2023/24) each year.

When Is the MPAA Triggered?

As a basic guide the main situations when you will trigger the MPAA are:

- If you take your entire pension pot as a lump sum or start to take ad-hoc sums from your pension pot.
- If you put your pension pot money into a 'drawdown' scheme and start to take an income from it.
- If you convert your pension pot into a regular income (ie purchase an annuity) and it is a **flexible or investment linked** annuity where your income is not guaranteed and could go down.
- If you have a pre-April 2015 capped drawdown plan and start to take payments that exceed the cap.

When Might the MPAA Not Be Triggered?

The MPAA won't normally be triggered if:

- You take a tax free lump sum and convert the rest of your pension pot to a regular guaranteed income (annuity) for life that either stays level or increases.
- You take a tax free cash sum and put the rest of your pension pot into a drawdown scheme but don't take any income from it.
- You cash in any small pension pots valued under £10,000.

Remember the MPAA only applies to contributions to DC and not DB pension schemes.

The MPAA is reviewed every year by Government.

Summary

- If you take money out of a Defined Contribution (DC) pension pot and continue to contribute into another DC arrangement you may be subject to the Money Purchase Annual Allowance
- Tax relief will only be available on your contributions of up to £10,000 a year
- For more information Usdaw members can contact a member of the Union's Pension Section on **0161 224 2804**, email pensions@usdaw.org.uk or at: www.usdaw.org.uk/pensions

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