How accessing your pension could reduce your annual allowance

MONEY PURCHASE ANNUAL ALLOWANCE

If you are thinking about accessing your pension savings, you need to consider whether you plan to continue paying money into any savings-related pensions (also known as money purchase or defined contribution pensions) you have, or whether you might do so in future.

IN THIS GUIDE WE COVER:

- **What is Money Purchase Annual Allowance (MPAA)?**
- **How the MPAA works and when it applies**
- **What to consider if you are affected by the MPAA**
- **What happens if you save more than the MPAA into your pension**

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What is MPAA?

When you take any money from a savings-related pension that's taxable, the amount you can then save into any savings-related pension you have and still benefit from tax relief is very often reduced. This lower amount is called the MPAA, and is normally £10,000 each year.

Once applied, this reduction in your annual allowance is permanent, so it's important to understand how this might affect you before you make any decisions about how and when you access your pension savings. This is especially important if you plan to continue regular savings into your pension or if you might be in a position to do this in future, for example if you move to a new job.

The minimum age you can normally access your pension savings is currently 55, but this is due to rise to 57 on 6th April 2028. Though generally this is the earliest you can take your savings; in certain circumstances, like serious ill health, you may be able to take them earlier.

How it works

The money purchase annual allowance (MPAA) is a limit on the amount of money that you can pay into a savings-related pension in any year and still benefit from tax relief. For most people the MPAA is £10,000 compared with the full annual allowance of £60,000. This includes money paid in by you, your employer or by somebody else.

If you pay more than the MPAA into your pension savings during the tax year, you'll have to pay a tax charge on the amount above the MPAA at a tax rate that's linked to the rate of income tax you pay. This tax charge claws back the value of any tax relief that may have been received on contributions that you or someone else has made above the MPAA limit.

Note: The value of tax benefits from a pension depends on your circumstances and all tax rules may change in the future.

What is a money purchase pension?

A money purchase pension is designed to provide you with a retirement income based on contributions from you and/or your employer and the returns from investments made with those contributions. The amount available in your pension pot depends on how much has been paid in and how well the investments have performed, less any charges. Its value will go up and down depending on changes in the value of investments. A money purchase pension is often known as a savings-related or defined contribution pension.

When does the MPAA apply?

The MPAA will apply from the date you first take taxable flexible benefits from your pension savings to the end of that tax year and in every tax year after that. A tax year starts on 6 April each year and finishes on 5 April the following year.

For instance, if you took benefits flexibly on the 10 June, contributions of up to £10,000 could be paid in between 10 June and 5 April the following year.

Contributions made before 10 June, when you triggered the MPAA, are ignored, although the total of your contributions during the tax year must still be less than your Annual Allowance (normally £60,000).

What triggers the MPAA?

Taking taxable flexible benefits from any one of your savings-related pensions means that the MPAA then applies to all your pension savings. Here are the most common examples:

✔ **Yes**

- If you move your pension into flexi-access drawdown and start to withdraw other money as well as your tax-free cash
- Taking some or all of your pension savings as a taxable lump sum (also known as Uncrystallised Funds Pension Lump Sums, UFPLS)
- If you use some of your pension savings to buy a short term annuity, or one where the income may go up or down
- If you take an income from a pre-2015 capped drawdown arrangement and the payments are more than the limit

✘ **No**

- Taking tax-free cash only, even if the remainder is set aside for drawdown
- Income from a lifetime annuity bought with your pension savings
- Remaining in a pre-2015 capped drawdown arrangement – as long as your income payments aren't more than the limit
- Small pot withdrawals on accounts worth less than £10,000
- Income from a defined benefit (or final salary) pension scheme

This is not an exhaustive list and there are a number of other events which could trigger the MPAA. Your pension provider must tell you if you have triggered the MPAA.

This is a complicated topic so please call the Workplace Investing Service Centre if you need help or further information. You can call them on 0800 368 6868.

What if I have a defined benefit pension too?

Different rules apply if you have a defined benefit pension (such as final salary or career average pensions). If this applies to you, it's a good idea to speak to a pension adviser as this is a more complex scenario.

What to consider and how it might affect you

If you haven't yet taken money from any of your pension savings

Nothing changes for you immediately, though it's a good idea to plan ahead, especially if you're thinking about taking benefits from a pension scheme and are likely to still be in a position to save into one afterwards. This might be the case if you intend to continue working and you or your employer may pay more than £10,000 a year into your pension.

This can be a very complex area and if you aren't sure how taking money from one of your pension savings pots might affect you, you should consider taking advice from a specialist pension adviser.

If you're fairly sure you want to take money from your pension savings but haven't yet done so

If you are still working, you should think about making any planned pension contributions for the current tax year **before** you take any benefits which would trigger the MPAA. This will allow you to make tax-efficient pension contributions up to the full annual allowance available to you before any reduction applies.

If you or your employer is currently contributing more than £10,000 a year to your pension savings, you should think carefully about how this affects future contributions once you've started taking any benefits that trigger the MPAA. Remember, any contributions over the £10,000 MPAA limit are subject to a tax charge which you're responsible for.

As before, you should consider taking advice from a specialist pension adviser and you may also want to talk to your employer about making alternative arrangements for these contributions, if relevant.

If you have already taken money from a pension pot and have triggered the MPAA

If the total contributions to all your savings-related pension pots, made by you or someone else each year are £4,000 or less, then good news, you don't need to do anything.

If the total contributions to your savings-related pension pots each year, made either by you or someone else, are more than £10,000, then you may have a tax charge to pay on the contributions above the £10,000 limit. Remember, the MPAA only relates to contributions made in a tax year after the MPAA is triggered, so if you only recently took money from your pension scheme, you may still be able to reduce your contributions to avoid a tax charge.

If you belong to a workplace pension, you should talk to your employer before taking any action that would reduce the contributions they make to your pension scheme. The value of these contributions may be more than any tax charge that becomes payable, although they may consider alternative arrangements for you in these circumstances.

What happens if I save more than the MPAA into my pension?

If you save more than your allowance you will normally have to pay an annual allowance tax charge on the difference between the amount saved and £10,000. Unlike the normal Annual Allowance, you can't carry forward any unused MPAA from previous years.

The tax charge you will have to pay is broadly equivalent to the amount of tax relief you would have benefited from and is linked to the rate of income tax you pay. The charge must be declared to HMRC on your self-assessment return or by calling or writing to them. There are situations where the charge could be paid by the pension scheme but specific conditions apply. For details of whether it is possible for the scheme to pay the charge you should contact your pension scheme administrator.

Note: It is your responsibility to check if the MPAA applies and to tell HMRC if this is the case. If you save more than the MPAA into your pension and a tax charge is due, you must tell HMRC and arrange to pay the charge.

In addition, you must also notify any other money purchase pension schemes you belong to that you have triggered the MPAA. You could be fined by HMRC if you don't do this. Your pension administrator will provide details of what you need to do if this applies.

For more information on the **annual allowance** you can visit: **retirement.fidelity.co.uk/allowances**

The information in this guide is correct as at April 2023.

HOW CAN FIDELITY HELP?

If you would like to discuss your pension account, simply call the Workplace Investing Service Centre on 0800 368 6868. You can also visit retirement.fidelity.co.uk or speak to an authorised financial adviser.

Workplace Investing

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