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RETIREMENT INCOME

MONEY PURCHASE ANNUAL ALLOWANCE (MPAA) GUIDE

Summary

There's currently no limit on the amount of money that you can contribute into a pension each tax year and you can normally receive tax relief on contributions up to 100% of your earnings.

But if your contributions are more than £60,000* a year (known as the Annual Allowance), tax charges apply that effectively recoup the tax relief you receive on contributions over this amount. This includes all contributions made by other people, such as your employer.

If you have accessed your pension savings flexibly, then the amount you can contribute each tax year to a money purchase or certain hybrid pension scheme(s) without incurring tax charges reduces to £10,000**. This is called your Money Purchase Annual Allowance (MPAA).

MPAA was introduced to stop excessive recycling of pension monies for tax relief purposes. This could have a hidden residual impact for many retirees who've accessed their pensions flexibly, but who haven't 'retired'.

Purchasing a guaranteed income for life (GIfL), provided by a pension annuity, doesn't normally trigger an MPAA.

The contribution restrictions may mean that someone who's taken taxable lump sums (or income) from their drawdown plan to fund a short term need, could struggle to accumulate a big enough future pension pot to provide for their longer term retirement income requirements.

*A tapered Annual Allowance will apply to those with income over certain levels. To find out more, visit: gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance

**The MPAA is £10,000 for the 2025/2026 tax year. This figure may change in the future.

What triggers the MPAA?

There are several ways it can be triggered, such as:

- Accessing income through a flexi-access drawdown plan.
- Exceeding the Government Actuary's Department (GAD) limit (150%) on income for capped drawdown plans.
- Converting a capped drawdown to a flexi-access drawdown, and taking income.
- One-off or regular cash withdrawals from a pension (also known as Uncrystallised Fund Pension Lump Sum, or UFPLS).
- Where an individual had received a flexible drawdown payment prior to 6 April 2015 from their pre-6 April 2015 flexible drawdown arrangement (it automatically becomes flexi-access drawdown).
- Receiving income from a scheme pension, where entitlement occurs on or after 6 April 2015, with fewer than 12 members.
- Taking a stand-alone lump sum payment from a pension pot, where primary protection applies, and the lump sum protection exceeds £375,000.
- Payments from certain overseas pension schemes.
- Taking a taxable lump sum payment from pension annuity. This can happen where an initial taxable lump sum payment (over and above the 25% tax free cash lump sum) is taken from the plan. Where the facility exists the initial taxable lump sum is treated as an income payment, where the subsequent income level then reduces.

What doesn't trigger the MPAA?

There are a few situations where the MPAA doesn't come into effect:

- Taking a Pension Annuity including where tax free cash is paid. (No initial taxable lump sum taken).
- Taking a tax free cash lump sum from a flexi-access drawdown plan, but no income.
- Taking an income from a beneficiary's flexi-access drawdown plan.
- Taking a lump sum under the 'small pots' rules.
- Taking an income from an existing capped drawdown arrangement which is within the GAD limit.
- Taking an income from a defined benefit or final salary pension.
- Taking a Pension Commencement Excess Lump Sum.

These lists aren't exhaustive, but will cover many circumstances your clients face when using pension freedoms.

Carry Forward

Clients may be able to carry forward any unused Annual Allowance from the previous three tax years, if they've exceeded the Annual Allowance, to reduce the applicable tax charge. If the MPAA is triggered however, carry forward can't be used to increase it.

Carry forward, however, can still be used to increase the Alternative Annual Allowance for any defined benefit accrual.

Alternative Annual Allowance

If the MPAA is triggered, and future defined contribution scheme (DC) contributions are reduced to £10,000 per tax year, then the balance of the Annual Allowance can be used through a defined benefit (DB) scheme, if your client has the opportunity.

This means they'll still have £50,000 of DB 'contributions' that can be made in the tax year without incurring a tax charge. This is called the 'Alternative Annual Allowance'.

Be aware that the input for DB 'contributions' is based on a specific calculation, rather than the actual contributions paid.

This is a complex area, with much of the detail outside of the remit of this document, and will require individual investigation with each of your clients where necessary.

What does this all mean for my clients?

It's important to be vigilant especially where customers could trigger an MPAA by accessing their income from a flexi-access drawdown.

FOR MORE INFORMATION

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