

FACT SHEET

MONEY PURCHASE ANNUAL ALLOWANCE (MPAA)

APPROVED FOR CLIENT USE | APRIL 2025



Definitions

What is the money purchase annual allowance (MPAA)?

The MPAA is a variation of the annual allowance rules which was introduced in April 2015. If you want to learn more about the annual allowance rules, please read our Annual Allowance fact sheet.

People affected by the MPAA still have to test all of their pension savings for the year against their annual allowance as normal. However, they also have to test the value of their money purchase contributions against the MPAA.

What does money purchase mean?

The term money purchase describes a type of pension scheme where each member builds up their own individual pension fund, and the pension benefits available at retirement depend on the value of that person's fund. They are sometimes called 'defined contribution' pensions.

Rules

How much is the MPAA?

The MPAA is £10,000 for the current tax year. Remember that the MPAA is an allowance within an allowance: if you had an annual allowance of £60,000, you could incur an annual allowance charge if your total pension savings exceeded £60,000 or if your money purchase contributions exceeded £10,000.

While your annual allowance may vary from year to year (for example, if you use carry forward or are subject to the tapered annual allowance), the MPAA is always fixed.

Am I subject to the MPAA?

The MPAA was introduced at the same time as the 'pension freedoms' rules, which gave people more flexible options for accessing their pensions. Under the pension freedoms, individuals can access as much money as they like from their money purchase pensions, normally from age 55.

The MPAA was a way of limiting the scope for this to happen. The idea is that once you access a money purchase pension which could allow you to do this, the MPAA kicks in and limits the amount of tax relief you can keep on future contributions.

The following actions, known as 'trigger events', are the main ways to cause the MPAA to take effect:

- Taking income from a flexi-access drawdown fund
- Being in flexible drawdown before 6 April 2015 (automatic MPAA trigger on 6 April 2015)
- Taking an uncrystallised funds pension lump sum (UFPLS)

For more information on any of these terms, please read the applicable fact sheet.

There are other ways to trigger the MPAA which are more unusual; you can find more information by searching "trigger events" (including the quotation marks) [here](#).

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What happens when I trigger the MPAA?

When you have your first trigger event your pension provider will give you a 'flexible access statement'. This will confirm the date on which you triggered the MPAA.

Once you receive this statement, by law you must pass the information on to any other providers where you are still building up your pension benefits. If you join a new scheme, you will need to notify them too.

The MPAA will apply from the day after your trigger event. Any contributions to money purchase schemes made during the tax year but before your trigger event will just be tested against the annual allowance as normal.

Can I take pension benefits without triggering the MPAA?

There are ways of accessing pension benefits which don't trigger the MPAA. These include:

- Taking a tax free cash payment (also known as a pension commencement lump sum, or PCLS)
- Taking income from a traditional annuity (where the payment amounts can't normally decrease)
- Taking income in capped drawdown (you would have needed to be in capped drawdown by 5 April 2015)

Again, there are a few more unusual types of payments which you can read about by searching "payments that do not trigger the money purchase annual allowance" (including the quotation marks) on www.gov.uk.

What happens if I exceed the MPAA?

Because the MPAA is an allowance within an allowance, there are two possible scenarios if you have breached the MPAA:

- 1) You exceeded the MPAA but didn't exceed the annual allowance
- 2) You exceeded both the MPAA and the annual allowance.

It's also possible to exceed the annual allowance without exceeding the MPAA; that would be

treated as a normal annual allowance breach as described in our Annual Allowance fact sheet.

If you exceeded the MPAA but not the annual allowance, you will pay an annual allowance charge on the amount by which you exceeded the MPAA. The charge is calculated in the same way as any other annual allowance charge.

If you exceeded both, you'll need to work out two figures:

- 1) The amount by which your total savings exceeded the annual allowance
- 2) The amount by which your money purchase contributions exceeded the MPAA, plus the amount by which your other savings exceeded the 'alternative annual allowance' (i.e. your annual allowance minus the MPAA)

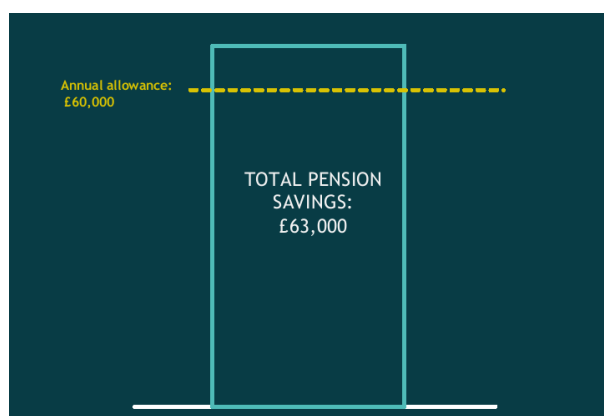
You'll pay an annual allowance charge on the larger of the two amounts.

For example:

You are subject to the normal annual allowance of £60,000 and have triggered the MPAA. This year, you contributed £17,000 to your SIPP (a money purchase pension) and had £46,000 worth of savings to other types of pension.

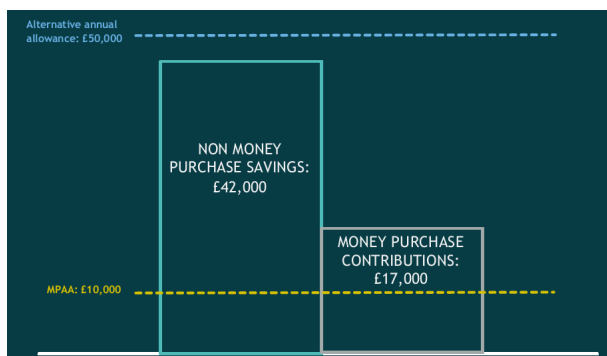
Your total savings have exceeded the annual allowance and the money purchase contributions exceed the MPAA, so you need to work out both figures:

- 1) Your total pension savings of £63,000 exceed the annual allowance by £3,000.



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- 2) Your money purchase contributions have exceeded the MPAA by £7,000. Your other pension savings have not exceeded the alternative annual allowance of £50,000 (£60,000 annual allowance - £10,000 MPAA). Therefore the total figure is £7,000.



You'll pay an annual allowance charge on the larger figure (£7,000).

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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