Money Purchase Annual Allowance

Aon Client Briefing

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Prepared for: Aon clients

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Background

The Annual Allowance is the maximum amount that can be paid into your pension each year by you, your employer or any third party without incurring a tax charge.

From 6 April 2015, the Government introduced a lower "Money Purchase Annual Allowance" (MPAA) for anyone who *flexibly* accesses defined contribution (DC) pension benefits. The MPAA is intended to discourage people from using the pension flexibility rules to avoid tax or National Insurance contributions.

Note

- Since 6 April 2023, the MPAA has been £10,000 per tax year (before this it was £4,000 per year).
- If the MPAA applies to you and your pension contributions (including employer contributions) exceed this amount, you will have to pay the relevant tax charge to His Majesty's Revenue and Customs (HMRC).

How do I know if I'm accessing my pension income flexibly?

- Legislation defines the "trigger events" which result in the MPAA applying. HMRC guidance can be found here: www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056500
- Examples of events which do **not** trigger the MPAA are as follows:
    - Buying a lifetime annuity that cannot decrease in payment.
    - Taking a pension commencement lump sum (often called a tax-free lump sum) from a DC pension scheme having commenced drawdown, without taking any taxable income.
    - Taking benefits from a defined benefit (DB) arrangement.

These examples are not exhaustive. Please refer to HMRC guidance for full details.

What happens if I trigger the MPAA?

- The standard Annual Allowance still applies but, once a trigger event occurs, the MPAA rules apply to your DC pension contributions from the day after the MPAA trigger event and in every later tax year.
- The MPAA will only apply from the day after the MPAA trigger event, and therefore any pension savings built up before the trigger event are not affected.
- If you trigger the MPAA, you should either:
    - Work out how much you should reduce your total DC pension contributions by to stay within the MPAA; or
    - Understand the HMRC tax charge you may incur if you contribute above the MPAA, and whether paying this charge is worthwhile (for example, taking account of any employer contributions you may be giving up).

You should consider the MPAA carefully before taking benefits 'flexibly' from any DC pension arrangement while employed, as it will permanently restrict the amount you can save tax-efficiently into DC pensions.

If, in a tax year (6 April to 5 April), your DC contributions exceed the MPAA, you must self-declare the excess to HMRC, which will be taxed at your highest marginal rate.

The carry forward rule does **not** apply to the MPAA.

If you are unsure about your Annual Allowance or MPAA position, you should seek advice from a financial adviser (before any trigger event if your pension contributions are close to, or may become close to, the MPAA).

Notification Rules

- When you first **flexibly access** your pension savings, your scheme administrator or pension provider must send you a statement confirming the date of the first flexible payment and what you must do next.
- They must do this **within 31 days** of the flexible access, unless they have already been told (by you or another provider or administrator) that you have flexibly accessed benefits under another scheme.
- You must then notify **every other pension scheme** where you are an active member (excluding defined benefit only schemes) that you have flexibly accessed your pension.
- You must give this notification **within 91 days** of receiving the statement, or within 91 days of becoming an active member of that scheme, whichever is later.
- If you fail to provide this notification, you may face a **£300 fine**, plus **daily penalties of up to £60** for each day the failure continues.

Please Note

Neither Aon UK Limited nor your employer are able to give tax advice.

If you have any concerns or issues relating to the Annual Allowance or MPAA we would recommend you refer to the information on HMRC's website: www.gov.uk/tax-on-your-private-pension. The tax treatment depends on your personal circumstances, and these circumstances and the tax rules may change in the future.

To obtain financial advice the Government-backed Money Helper website provides information about finding a financial adviser: www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser

The information explained in this document is intended as a general guide only and is based on current UK legislation and HM Revenue & Customs (HMRC) practice for the 2026-27 tax year. Tax treatment depends on individual circumstances and tax rules, both of which may be subject to change in the future.

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