



Money Purchase Annual Allowance 2025/26

Aon Client Briefing

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Money Purchase Annual Allowance (MPAA)

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

On 6 April 2015, the Government introduced a lower level of Annual Allowance, called the Money Purchase Annual Allowance (MPAA), for anybody that “flexibly” accesses their pension rights (see below).

It is designed to discourage people from using the flexible pension rules introduced at that time in order to avoid tax and potentially National Insurance (NI) contributions.

This note provides a short summary of how the MPAA works.

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

1. Legislation defines the ‘trigger events’ that constitute taking benefits ‘flexibly’. HMRC guidance can be found here: www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056500
2. If you take benefits from a defined contribution (DC) pension arrangement in the following ways, the MPAA is not triggered:
 - Buying a lifetime annuity that cannot decrease in payment
 - Taking a Pension Commencement Lump Sum (also often known as tax-free lump sum) from funds put into drawdown without accessing any taxable pension income

The above bullet points are not exhaustive; there are other trigger events not covered in this note. Please refer to HMRC guidance for further details, at the link above.

3. If you take benefits from a Defined Benefit (DB) arrangement, the MPAA is not triggered.

Note

Since 6 April 2023, the MPAA is £10,000 per tax year.

If the MPAA applies to you and you contribute more to your pension than the MPAA, you will need to pay the relevant tax charge to His Majesty’s Revenue and Customs (HMRC).

What happens if I trigger the MPAA by accessing my pension income flexibly?

1. The Annual Allowance will still be the primary allowance to consider. However, when a trigger event happens, the new MPAA rules will apply to your DC pension contributions and continue to do so for each subsequent tax year.
2. The MPAA will only start to apply from the day after you have taken flexible benefits and so any previous pension savings are not affected.
3. If you take benefits from a DC pension scheme flexibly while you are still working, you should either calculate how much you need to reduce your total pension contributions by in order to be under the MPAA, or understand the level of HMRC tax charge you may incur to see if contributing over the MPAA is in your interests taking account of other factors such as the employer contributions you may be giving up.

You should take the MPAA into account before deciding to take benefits 'flexibly' from any DC pension arrangement while still employed, as it will affect the amount you can save, tax efficiently, into a pension scheme for the rest of your working life.

If your DC pension contributions exceed this amount over the tax year, you will need to self-declare the excess, which will then be taxed at your highest rate. Please note the Carry Forward rule does not apply to the MPAA.

If you are in any doubt about your own Annual Allowance or MPAA, you should seek the advice of a Financial Adviser.

Please seek financial advice before you proceed with a trigger event if your total pension contributions are close to (or may become close to in the future) the MPAA.

Please note:

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

If you have any concerns or issues relating to the Annual Allowance 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.

If you decide 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

Aon is not responsible for the content of the third-party website.

Notification Rules

When you first flexibly access your pension savings, the scheme administrator or pension provider must provide you with a statement confirming the date the first such payment occurred and setting out what you must then do.

They must do this within 31 days of the flexible access occurring. But if you (or the administrator or provider of another scheme) have already informed the scheme administrator you have flexibly accessed rights in another scheme then the scheme administrator does not need to provide you with a statement.

You then need to notify any other pension scheme you are an active member of (except for DB-only schemes) that you have flexibly accessed pension savings. This notification must be provided within 91 days of receiving the statement or within 91 days of becoming an active member, whichever is the later.

Failure to provide the notification you have flexibly accessed benefits in another scheme can incur a £300 fine, and additional daily penalties of up to £60 for every day the failure to provide this information continues.



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