

Money Purchase Annual Allowance

Video transcript

In this section we'll look at the Money Purchase Annual Allowance. The Money Purchase Annual Allowance is the maximum amount that can be paid by you and your employer in total to any defined contribution (DC) arrangement, like the Investment Builder, before getting a tax charge if you've already taken some of your defined contribution (DC) savings in certain ways. And the allowance is currently £10,000 a year.

Now if you've taken some savings from the Investment Builder, Prudential or any other defined contribution (DC) arrangement as cash payments or drawdown payments, the Money Purchase Annual Allowance will be triggered. So what do we mean by accessing certain defined contribution (DC) savings? Or in other words, when will the Money Purchase Annual Allowance start to apply and when will it not?

Well, it will apply if you take one or more cash payments known as Uncrystallised Funds Pension Lump Sums, or UFPLS for short, from your Investment Builder savings. UFPLS cash payments mean the cash payments where 25% is tax-free and 75% of the payment then is taxed. It will also apply if you transfer your Investment Builder savings to an alternative arrangement and start drawdown income payments, and it's the same for any defined contribution (DC) savings, whether that's from Prudential or outside of USS. If you take UFPLS cash payments or drawdown income payments, the Money Purchase Annual Allowance will apply for you.

Now where the Money Purchase Annual Allowance does not apply though, is if you use your Investment Builder to provide your tax-free cash when taking your Retirement Income Builder benefits. If you and your employer make contributions to a defined contribution (DC) arrangement like the Investment Builder that go over the limit, which is currently £10,000, you'll need to pay additional income tax on the amount you've gone over by and this can cancel out the tax relief which you'd received automatically.

Unlike the Annual Allowance though, you can not carry forward unused Money Purchase Annual Allowance from previous years.