Money Purchase Annual Allowance (MPAA)

Video transcript

Here we're going to have a look at the Money Purchase Annual Allowance (MPAA).

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. The allowance is currently £10,000 a year.

If you've taken some savings from the Investment Builder, from Prudential or any other defined contribution (DC) arrangement as cash payments or as 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 won't it?

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 means the cash payments where 25% is tax-free and 75% of the payment is taxed.

It will also apply if you transfer your Investment Builder savings to an alternative arrangement and start drawdown income payments. 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.

Where the Money Purchase Annual Allowance does not apply is if you use your Investment Builder to provide your tax-free cash when taking your Retirement Income Builder (DB) benefits.

If you and/or 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 that you've gone over by. This cancels out the tax relief that you would have received automatically.

The Money Purchase Annual Allowance will not restrict what you can pay into a defined benefit (DB) arrangement, like the Retirement Income Builder (DB), this will still be subject to the usual Annual Allowance (AA).

Unlike the Annual Allowance, you cannot carry forward any unused Money Purchase Annual Allowance from previous years.