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NEWS RELEASE

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HMRC reveals a million pension ‘dippers’ now subject to harsher contribution limits

More than a million over-55s are subject to tougher pension contribution restrictions as a result of dipping into their retirement pots using “pension freedom” rules.

Responding to a Freedom of Information request by Just Group, HMRC revealed that 980,000 individuals took a flexible payment for the first time from their pension between the introduction of the new rules in April 2015 and the end of September 2018. At an average of 70,000 people each quarter, the total to date will exceed one million.

“While accessing the money is easy, grasping all the future tax implications is much more difficult,” said **Stephen Lowe**, **group communications director** at **Just Group**.

“We now know that more than a million people are subject to stricter rules that dramatically reduce the tax efficiency of pensions and increase the potential for inadvertently triggering tax charges.”

Tax relief is normally available on pension contributions of up to £40,000 a year but once a pension saver makes a flexible withdrawal, they instead become subject to the Money Purchase Annual Allowance (MPAA) of £4,000 a year. The allowance is the total input across all money purchase schemes and covers contributions made personally, by an employer or any third party.

“It’s a huge drop in how much people can save and lays a tax trap for the unwary,” said Stephen Lowe. “Being subject to the MPAA reduces the options, adds to the complexity and increases the amount of paperwork.

“Many people dipping into pension money fully expect to continue making contributions for years to come. Let’s be clear, it’s not the super-rich who are going to get caught out but perhaps someone on a reasonable salary who gets a good promotion, a self-employed person or director who has a profitable year, or someone who missed a few years of contributions and wants to catch up.”

He said that the situation is complicated because not every withdrawal from a pension would be classed as a flexible payment.

For example, taking a 25% tax-free lump sum from a money purchase pension is not a flexible payment and the MPAA would not apply. However, any subsequent withdrawal from the fund is a flexible payment, triggering the tighter MPAA limits.

“The complexity of the MPAA is one reason why we are cheerleaders of the free, independent and impartial guidance on offer from Pension Wise to all those thinking of taking pension cash and encourage people to take regulated financial advice. These decisions cannot be undone so it’s important to get them right.”

A further factor to consider is that the MPAA was originally £10,000 but was reduced to £4,000 in 2017, retrospectively imposing tighter limits on those who had already taken flexible payments.

"It's not just that the government is willing to move the goalposts," said Stephen Lowe. "It's also that many people may be blissfully unaware their situation has changed and that a tax shock lies just around the corner."

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Notes to Editors:

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- Long term care plans that provide those people moving into residential care with peace of mind by knowing a regular payment will be made to the care provider for the rest of their life;
- Lifetime mortgages for people who want to safely release some of the value from their home.

Professional services:

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