

# JUST.

## NEWS RELEASE

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### MPAA freeze set to squeeze many more basic rate taxpayers, says Just Group

- £4,000 Money Purchase Annual Allowance frozen for the fifth consecutive tax year.
- 2020-21 tax thresholds show more employees could feel the squeeze, even basic rate taxpayers contributing the minimum 8% of salary to a workplace pension
- Just Group says automatic enrolment to guidance is needed to ensure awareness levels of MPAA rules is improved by over-55s taking pension cash

A freeze in the **Money Purchase Annual Allowance** (MPAA) along with changing tax thresholds is set to increase the number of basic rate taxpayers aged 55+ who have taken a taxable payment from a defined contribution pension facing a squeeze on tax relief on their future pension contributions.

**Retirement specialist Just Group** called for stronger support for pension savers who are thinking of taking taxable cash from a pension while still continuing to work and save into an employer's pension scheme.

"Nearly nine in 10 (88%) eligible employees aged between 50 and State Pension age are automatically enrolled into workplace pensions, a number that rose by 26 percentage points between 2012 and 2019,"<sup>1</sup> said **Stephen Lowe, group communications director at Just Group**.

"The Financial Conduct Authority has described taking pension cash early as 'the new norm' but taking taxable payments while still working can make pension saving much less attractive, impacting not just the highly paid but those on more modest salaries still trying to build their retirement funds."

"It is not reasonable for policymakers to expect most people to be aware of and understand the complexities and consequences of the rules which impact their ability to keep saving into a pension. Nearly four in five pensions accessed by those aged 55+ each year without advice are missing out on the free, independent and impartial guidance they are entitled to from Pension Wise that could help them navigate these complex rules."<sup>2</sup>

"The need to increase guidance usage is acknowledged by the government and the Financial Conduct Authority but solutions presented so far have been too tame to make the transformation in numbers required. A more effective answer would be to automatically enrol people into guidance from age 50, bringing the same kind of support provided to pension savers to those starting to draw out their cash."

He said the freeze in the MPAA at £4,000 combined with new tax thresholds for 2020-21 shows how more employees, even those contributing the minimum 8% of salary to a workplace pension, could start to feel the squeeze due to pension contributions that exceed the allowance.

In 2020-21 the marginal rate of income tax was 20% on earnings up to £50,000 and someone earning that amount making an 8% pension input would be within the £4,000 MPAA limit.

For 2021-22 the 20% tax threshold is £50,270 and someone earning that amount making the 8% contribution would have an input of £4,021, just above the £4,000 limit. The scheme member would face an annual allowance charge on the £21 excess, in effect clawing back tax relief and reducing the tax efficiency of saving into the pension.

“The 8% figure is relevant because it reflects the current minimum contribution that must be made to workplace pensions under the automatic enrolment rules,” he said. “Technically the 8% is based on a ‘qualifying earnings’ band that starts at £6,240 but employers are often more generous and pay it on the whole salary or will contribute at a higher rate than the minimum.”

“People currently contributing under the £4,000 limit could easily be caught in the future as they receive pay rises, job promotions or bonuses, or where they or their employer increase the amount being contributed to the pension, perhaps trying to maximise their funds in the run-up to retirement.

## Enquiries

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### Notes to Editors:

### References

1 – DWP, Workplace pensions participation and savings trends: 2009 to 2019:

<https://www.gov.uk/government/statistics/workplace-pensions-participation-and-savings-trends-2009-to-2019>

2 – FCA, Retirement income market data 2019/20: <https://www.fca.org.uk/data/retirement-income-market-data>

### About Just

Just (Just Group plc) is a FTSE-listed specialist UK financial services company.

A leader in the individual retirement income, care and defined benefit de-risking markets, Just has been trusted to manage £23 billion of customers’ retirement savings and has helped customers release over £5.2 billion from their properties.

Just provides the following wide range of products, advice and professional services to individual customers, financial intermediaries, corporate clients and pension scheme trustees:

### Marketed Products

- De-risking solutions for pension scheme trustees who want to remove the financial uncertainty of operating defined benefit pension schemes;
- Individually underwritten retirement income products delivering a guaranteed income for life;
- 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

- Regulated financial advice and guidance services for individuals wanting help in using their pension savings and/or releasing some of the value from their home; and
- A range of business services tailored for our corporate clients, ranging from consultancy and software development to fully outsourced customer service delivery and marketing services.

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