JUST.

NEWS RELEASE

Monday 31st October 2022

Around 1,200 'pension dippers' become subject to MPAA tax relief restrictions every working day, HMRC figures show

- **Just Group says far too many accessing cash without free, independent and impartial guidance or professional advice**

Nearly 1,200 pension savers are dipping into their pensions for the first time every working day, triggering the complex Money Purchase Annual Allowance (MPAA) rules, latest HMRC figures show[1].

Analysis by retirement specialist Just Group found 148,000 people took their first flexible payment from a pension during the first six months of 2022, making them subject to rules designed to restrict the amount of tax relief given on future pension contributions and to stop pension 'recycling'.

The rules slash the total amount that can be saved tax-free into a defined contribution pension each year from the normal annual allowance of £40,000 to £4,000 and impose strict requirements to notify the saver's other schemes that a flexible payment has been taken.

Stephen Lowe, group communications director at retirement specialist Just Group, said he was concerned many people may be taking flexible payments without fully understanding the complex rules that were introduced as part of the 2015 pension 'freedom and choice' reforms.

"More than two million pension savers aged 55+ are now subject to the MPAA rules and current figures suggest that is growing by nearly 1,200 each working day," he said. "Once triggered, the rules apply for life – you can't go back – so it is important people understand the consequences."

He said that a £4,000 a year input limit is equal to a maximum employee contribution of £187 a month for a basic rate taxpayer whose employer is contributing £100 a month.

"This may sound a lot but is a relatively modest sum where people are trying to build up a pot quickly, which is typical for those in the last few years before retirement or if they have dipped into their pension to help them through a tough spot due to the pandemic or cost of living crisis."

He said that the complexity of the rules means it is likely people are caught out, particularly as Financial Conduct Authority figures show fewer than half (47%) of the 700,000 pensions accessed each year are taken after professional financial advice or use the government's free, independent and impartial guidance service Pension Wise[2].

"If people are thinking of making a pension withdrawal and wondering if they'll become subject to MPAA rules, then the answer is that it depends," said **Stephen Lowe**.

"Taking tax-free cash doesn't trigger the MPAA rules but any amount above this does. Buying guaranteed lifetime income isn't a trigger but withdrawing funds designated to drawdown is. Full withdrawals may or may not trigger the MPAA depending on the size of the pot being taken. And the MPAA limits only apply to defined contribution saving, which means most private sector employees and self-employed pension savers will be at risk.

"It's a veritable web of dos and don'ts, topped off by the fact there are financial penalties for getting it wrong – for example a fine of £300 plus £60 a day for failing to notify other schemes within 91 days that a first flexible payment has been taken."

He said that the complexity underlines the importance of boosting usage of Pension Wise guidance that has been shown to give people more confidence with their pension decisions and help them to avoid scams or paying extra tax.

"The government has said it wants taking guidance to become 'the norm' but currently it is not reaching enough people, suggesting a more robust intervention – such as auto-enrolling people into guidance sessions – is required," he said.

"MPs on the Work & Pensions Select Committee recently reiterated their call for an evaluation trial to test the effect of auto-booking people into Pension Wise appointments. The government has so far ignored these calls despite the fact we know thousands are making complex financial decisions every week without support. Hopefully the new Pensions Minister will be more interested in finding solutions to this problem."

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Notes to Editors:

About the research

1: HMRC, Private pension statistics: https://www.gov.uk/government/statistics/personal-and-stakeholder-pensions-statistics

1: FCA, Retirement Income Market Data: https://www.fca.org.uk/data/retirement-income-market-data-2021-22

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