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**Most Brits unaware of pension tax penalty which hits women hardest**

* **56% of British retirees have never heard of the Money Purchase Annual Allowance (MPAA) which can erode tax free pension benefits**
* **This affects over a quarter of Britons who have retired, with the potential to wipe out 90% of the taxable benefit**
* **The MPAA impacts women more than men, 31% being impacted compared to 22%**

More than half of Britons (56%) who are eligible to take tax-free cash from their pensions are unaware of a major tax implication, which has the potential to wipe out as much as 90% of the taxable benefit should they continue to pay into their pensions, according to a study by LGIM of more than 1,500 members of defined contribution pension schemes.

The Money Purchase Annual Allowance (MPAA) significantly reduces the annual tax-free amount a saver can pay into their pension from £40,000 a year to just £4,000 – a penalty that kicks in if the saver withdraws more than the 25% tax-free lump sum allowed from their pension.

After an explanation of the concept, 27% said that it would affect them, whilst only 15% said they had been aware of the consequence but had chosen to proceed anyway. Women in particular, who are more at risk from the side effects of tax-free cash due to smaller pot sizes, were more likely to be hit by the penalty with 31% saying the loss of the MPAA would apply to them, versus only 22% of men.

Meanwhile, women are not only more likely to withdraw their tax-free cash earlier (33% women vs. 22% men at aged 55) but they are significantly more likely to put this tax-free cash into a savings account, current account, or cash ISA (29% women vs. 19% men), leaving their savings vulnerable to a low interest rate instead of generating an investment return in their pension.

When shown the potential return differentials of a pension versus a cash ISA over the last 10 years, 47% of those who had already taken part or all of their tax-free cash, said it would make them think twice about taking out more tax-free cash than they needed, while 43% said it made them reconsider withdrawing any tax free cash from their pension at all until they reached retirement.

After being shown how they could use their tax-free cash as retirement income rather than a lump sum, 70% of those surveyed also said they would be interested in splitting their tax-free cash allowance across several years in order to provide an income and would have changed their approach if given another opportunity.

Meanwhile, 40% of respondents were not even aware that they could take less than the 25% and there was considerable confusion about how to do so.

Rita Butler-Jones, co-head of Defined Contribution at LGIM, comments: *“The option to take a tax-free cash lump sum from a pension is probably the best known perk, yet so many savers admit that they would make different choices when given more information. In fact, our data shows that women in particular have a greater response rate when communicated to by pension providers so there is a clear desire and willingness to make better-informed choices.*

*“However, too often we see women are left worse off financially as a result of the stark gender pensions and pay gaps and this imbalance continues through poor choices as they move into retirement. As an industry, this issue rests on all of our shoulders and it is important that we continue working together to educate and inform our members of all the options that are available to them, so that they can make the right financial decisions for their future.”*

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**Notes to editors:**

**Research Methodology**

Research was conducted in August 2021, surveying 1,526 members of defined contribution (DC) pension schemes in the UK, aged 50 years and older.

About Legal & General Investment Management

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1LGIM internal data as at 30 June 2021. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions.

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