Time to relax?

Savers and current retirees have been adversely affected by the coronavirus impact on investment, creating calls for the Treasury to relax MPAA and LISA rules, and for transfers to be delayed by six months

It is not just the healthcare system feeling the pressure from the coronavirus; its devastating impact on investment markets have left savers, and particularly retirees, feeling the pinch.

As a result, national advice firm LEBC has called upon the Treasury to relax the deadline for savers to make ISA savings plans and pension contributions by two weeks.

"Given the unprecedented disruption to normal daily life, many savers will not yet have made arrangements to use their ISA allowance or make pension contributions for the current tax year", says LEBC Group director of public policy, Kay Ingram.

"It would be unfair if in responding to the emergency, people missed the opportunity to plan for their longer-term future. In these special circumstances, we would like to see the tax year deadline of 5 April extended to 19 April, as a special one-off measure."

There have also been calls for the Treasury to relax Money Purchase Annual Allowance (MPAA) rules, which allows those drawing a pension to only receive tax relief on up to £4,000 of any pension contributions they would like to make.

LCP partner, and former Pensions Minister, Steve Webb, argues that those worst hit by the Covid-19 crisis could be penalised in future if they try to rebuild their pension.

Webb highlights two key groups as being particularly hard hit by the impact of the coronavirus pandemic, pointing to those aged 55 or over and accessing their pension for emergency cash, and those whose investments have fallen "substantially" in recent weeks.

"Once the present crisis is over some people will be in a position to start building up their pension again, especially if they are still in work. The government must support people in this rather than put barriers in place. The current £4,000 limit is far too low. If it cannot be abolished altogether it should at the very least be raised to the £10,000 figure from a few years ago," Webb adds.

In addition to this, AJ Bell has also called for a reduction of the Lifetime ISA (LISA) exit penalty, suggesting that this be reduced from 25 per cent to 20 per cent.

This would make it easier for millions of people to plug short-term income gaps during the Covid-19 crisis, it says, with recent stock market falls meaning that many will get back less than they put in, while the exit penalty "punishes them further".

"With the UK staring down the barrel of economic disruption and potentially substantial job losses as a result of the coronavirus pandemic, it is important the savings system doesn't unnecessarily penalise individuals responding to unprecedented circumstances," AJ Bell senior analyst, Tom Selby, says.

"In tough times it is likely more people will turn to their retirement pot to cover a short-term income gap, and in these circumstances it feels unfair to handicap their ability to rebuild their retirement savings once the crisis has lifted."

According to Selby, there are also over 200,000 people with Lisas who would be hit with a 25 per cent exit penalty if they accessed their fund to make ends meet.

Another former Pensions Minister, Ros Altmann, recommends delaying all pension transfers for up to six months due to the market volatility caused by the coronavirus making valuations "unreliable".

"Pension scheme trustees and IGCs will be struggling to understand what the underlying investments are worth and the turmoil in the markets, coupled with staff being out of the office, suggests that any current valuation risks being unreliable," she states.

The Pensions Regulator has since stated that DB trustees may decide to suspend cash equivalent transfer value activity for up to three months "if this is in the best interests of their members".

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