Tax Incentivised Savings Association

Budget Submission

March 2013

www.tisa.uk.com

About TISA

TISA is a not-for-profit body operating in the retail financial services sector, working for the betterment of tax incentivised savings and investment schemes with the industry, consumers, media, government – including HM Treasury (HMT), Department for Work and Pensions (DWP) HM Revenue & Customs (HMRC), the Financial Services Authority (FSA) and The Pensions Regulator. We aim to enhance and improve the range, suitability, promotion, administration and quality of savings schemes available to all UK citizens.

TISA is funded by over 130 leading firms in the industry involved in supplying products to savers and investors and is the lead organisation supporting the broad range of savings and investment vehicles for individuals, including Individual Savings Accounts, Junior ISAs, Child Trust Funds, Personal Pensions, workplace based pension schemes, and other consumer-centric savings schemes, services and initiatives.

TISA was formed on 1st July 2007. It is built upon the membership and resources of the former PEP & ISA Managers' Association (PIMA) and embraces its principles of constructive engagement with government and regulators to improve the effectiveness and promotion of savings schemes for consumers thus increasing take-up, and fulfilling government objectives.

Summary of Recommendations

Create A National Savings Policy

- Improve consistency and integration of savings schemes to increase overall understanding, take up and amounts saved, over time.

Pensions

- TISA supports automatic enrolment into pension saving
- However, we also believe that the introduction of a flat-rate basic state pension is essential to prevent modest earning savers saving to no effect. Government must press ahead with this reform.
- Direct transfer of trivially commuted pension pots into an ISA without affecting annual subscription limits
- Set up a Retirement Income Review
- Consider permitting tax free drawdown sums to be transferred to ISAs without affecting annual subscription limits
- Confirm that tax free drawdown will not be taken away or reduced
- Provision for a Workplace ISA
- Provision of a tax beneficial scheme to support old age care

ISAs

- TISA welcomes the recent and ongoing increases to ISA subscription limits
- Introduce ISA concession to replace tax dividend credit
- In the event of death transfer of all savings/investments in an ISA wrapper intact from one spouse to another

- Peer to peer lending ISA eligible

Children's Savings

- CTF very much a "live" market alongside JISA
- Allow maturing CTF funds to default automatically to adult ISA, without affecting any adult ISA subscription limits so that this matches the arrangements for JISAs.

SAYE Schemes

- Direct transfers into ISAs

Investment Bonds

- Transfers to take place without being a taxable event

Recommendations

Saving for Life and a National Savings Strategy

1. TISA believes that in the Junior ISA, Cash ISA, Stocks and Shares ISA, Pension Schemes, SAYE schemes and the automatic enrolment initiative, the UK has a suite of savings schemes that are accessible, targeted and effective. If there is a gap it is the financing of retirement and old age care.

2. We have worked closely with stakeholders, including HM Government and the industry to try to bring the consumer real benefits. We are particularly optimistic about the ISA market; with now approaching 20 million accounts and 450 billion saved, this is a very significant market. It is THE success story in the UK savings market over the last 20 years, with consumers clearly finding ISAs a simple proposition, untainted by the scandals affecting other markets such as the pensions arena.

3. TISA would like to see the government promote the benefits of a *Saving for Life culture*. However, to make this more than a sound bite it will require a new focus on ensuring consistency and integration of the current savings schemes, appropriate for the 21st century, across the lifetime of the consumer.

4. We know that at different times in our lives we face different needs, with significant life events such as higher education, getting married, having children, buying a house, possible divorce or disability, retirement and old age care, all placing differing financial demands on individuals and families at different times in their lives.

5. As the next step TISA looks forward to sharing its ideas with the government about how savings schemes can be better joined-up. In this submission we advocate clearly linking SAYE to ISAs and we advocate the development of the Workplace ISA as a complement to a Pension. We also call for trivially commuted pension pots to be able to be transferred directly into ISAs.

6. We call on HM Government to draw up a national savings policy, taking a holistic view of the whole range of government savings schemes, including

how they can be adapted and linked to give individuals and families the best outcomes, promoting better understanding and encouraging the concept of *Saving for Life*.

Pensions

Automatic Enrolment into Pension Saving

1. TISA supports this initiative and wishes to see it succeed, given the current level of under-saving for retirement, storing up serious issues of inadequate retirement income. We will watch with interest as more and more employers take up their new duties.

2. However, we remain concerned that pension savers, as things stand today, may in many cases be saving simply to deny themselves the means-tested retirement income benefits they would have received had they done nothing. TISA calls on government to push ahead with the flat-rate basic state pension, with the abolition of means-tested retirement income benefits. We are concerned that this initiative may never see the light of legislative day, despite repeated assurances that it remains Government policy. Without this reform, it will be difficult to give unqualified support to automatic enrolment.

Trivial commutation

1. TISA strongly supports the principle behind trivial commutation. This is particularly useful for those with small, fragmented pots (often women) who would be unable to buy a useful annuity with their savings. As a result TISA makes the recommendations below.

2. We call for the ability of any amount trivially commuted to be eligible for direct transfer into an ISA without affecting ISA subscription limits. This would protect the integrity of the tax free status of the savings until required.

3. It is important that small pots that have been accumulated are made to go as far as possible, and we feel this would be a just, and well targeted, policy. Clearly, trivially commuted sums attract tax, and this would be deducted at the appropriate rate before transfer into an ISA.

Retirement Income

1. TISA calls on HM Government to conduct a root and branch review of how income is derived from vesting Defined Contribution pensions of all kinds. Current, and likely future, annuity rates are at historic lows and seem likely to stay at this level for some time. We welcome the announcement of the restitution of the 120% Maximum GAD rate for income drawdown, but think there are more fundamental issues here.

2. We think that rules need to be reviewed and made more flexible not only in the light of the above, but also in the light of new product developments in the market, such as “new wave” guaranteed income drawdown and annuities. TISA champions measures that increase flexibility across the savings

landscape and we believe that given the demographic evidence, this is an area where such benefits can be realised.

Solvency 2

We note and support the combined efforts of government and industry to prevent Solvency 2 having deleterious effects for pension schemes and annuities in the UK and will be pleased to provide such further support as may be required.

Tax free cash drawdown into ISAs

As a further avenue for flexibility, we believe tax free cash should be able to be transferred into an ISA until required without affecting annual subscription limits.

Tax free cash drawdown benefit reduced

There is considerable concern that the tax free cash may be withdrawn in whole or in part in future years which is undermining confidence in the market. Some indication to refute this view would be very beneficial

Introduce a Workplace ISA

1. Although much constructive work has been done on Auto-Enrolment, which should significantly increase the number of consumers enrolled in pension schemes, there are still a significant number of people who may opt out as they do not feel that a pension is the most appropriate vehicle in which to save for them. This can be addressed in a number of ways, one is to bring in compulsion and another is to create a scheme which may better address their needs and concerns.

2. TISA has created the outline of such a scheme which we refer to as a Workplace ISA. This could start from age eighteen and have a defined age, such as sixty-six or State Retirement age. During this time the contributions, which would be made net of personal or corporation tax but would attract NI relief, would be ‘locked in’ for a certain period, perhaps 10 years, to encourage the build-up of long-term, non-pension, monetary assets.

3. Treatment within the scheme could be like a CTF for tax and investment purposes. On reaching the end of the ’lock in’, funds would convert to a standard ISA. At this point the consumer could leave the funds in the Account until required; withdraw some funds to pay down debt; transfer some funds to a pension scheme to provide an income in retirement or purchase an open market insurance based life annuity for the same purpose.

4. TISA calls on HM Government to create such a new savings scheme, referred to as the Workplace ISA, to provide a way to build up long term, non-pension, savings , which could be used to form a basis for supplementary income in retirement and access to funds for other purposes.

Introduce tax beneficial scheme to address old age care needs

Although the government has achieved much by reviewing and launching existing and new savings schemes, if there is a gap it is in the area of funding for old age care, both in the home and residential. This area is becoming an increasing concern for many, due in particular to the uncertainty. TISA is aware that the new Flexible Drawdown arrangement has a role to play, however we believe some sort of tax assisted insurance or assurance scheme directed at this area would be most beneficial.

ISAs

Increase in subscription limits

TISA has consistently been an exponent of the simplicity, flexibility and mass-market appeal of the ISA. Approaching 20 millions of adults in the UK hold ISAs and we feel it has proved to be a highly successful and universal scheme. We welcome the ongoing increases in limits and feel this positions the ISA well to support citizens for the future.

Replace the ISA tax dividend credit

To further support and encourage people to use the stocks and shares ISA we recommend re-introducing some kind of ISA concession to replace the loss of tax dividend credits and would be very happy to discuss this

Spousal Transfer of ISAs on death

1. On the death of a spouse, any savings or investments held in an ISA in their name lose their ISA status before being inherited by the surviving spouse. Given the total size of those savings is likely to be greater than one year's ISA allowance, this would usually have to be placed into an ordinary deposit account by the survivor. This would then attract tax on interest and in most cases a lower rate of interest thus diminishing their income at a difficult time.

2. We are concerned that in many cases, married couples later in life have many of their savings in the name of the husband (even if they are joint savings). In such instances the survivor, often the wife, loses out significantly. We feel that in such a case the savings should be transferred to the survivor intact, i.e. without leaving the ISA wrapper and free of tax.

3. This would be a further incentive to save in an ISA and would also have a positive impact for women in retirement – who as we know tend to be at a disadvantage compared to men. This change would also apply to civil partnerships.

Peer to peer lending via ISAs

TISA has been approached to look at the viability of allowing investors in peer to peer lending to do this via a stocks and shares ISA. We feel that it would be worthwhile to investigate this opportunity with HMT/HMRC staff as such a move could be portrayed as supporting growth in the economy as well as an innovative form of lending. This would also support the growth Agenda by providing a source of investment funds for SME businesses.

CTFs and JISAs

TISA was sorry to see the cessation of government contributions to these schemes and very much hope that contributions can be resumed when better economic times arrive. We were particularly keen on the universality of the scheme, and the way it supported the financial capability and inclusion Agendas. We urge government to be mindful that this is still very much a "live" market, with many parents making contributions for the future of their children.

JISAs automatically convert to adult ISAs at maturity. We call on government to allow the same facility for CTFs.

SAYE

Transfers into ISAs

1. TISA believes that individuals should be able to maintain the beneficial tax-treatment of funds accumulated in a tax-advantaged environment, regardless of which scheme they choose and despite the fact that they may move funds between schemes. While we commend the government's efforts in allowing CTFs to roll over into ISAs, we still feel that there are areas where we believe transfers should be permitted without affecting an individual's annual subscription limits in order to create a more level playing field.

2. To this end TISA calls on HM Government to allow employees to transfer assets held in their SAYE savings scheme upon maturity into an ISA without affecting their ISA annual subscription limit. This would greatly simplify administration on maturity and further enhance the SAYE scheme.

3. This would not only allow employees to continue benefiting from tax-shielded savings but also only represent a small loss to the Exchequer as they are infrequent, one off events in the savings lifecycle and would help support the introduction of a Savings Strategy.

Insurance Based Investment Bonds

1. TISA would like unitised bonds to be able to be transferred in a similar manner to pensions and ISAs – that is without incurring a tax charge.

2. After the changes to CGT rules, this market had, and continues to have, a difficult time. We feel enabling further flexibility, in terms of tax free transfers would provide a much needed stimulus to this market. Moreover, many bondholders remain trapped in archaic savings products and as such it will benefit them to be able to move them. We believe that since most other savings vehicles, including ISAs and pensions, allow you to move provider, the same should apply to bonds.

In Summary

TISA believes that much has been achieved in the area of retail investment and savings schemes in the past few years. However there is still much more that could be done to further improve and develop the schemes for the consumer, thus increasing their uptake and performance.

We will do all we can to support and assist the government in achieving this and their policy objectives.

We will be delighted to meet with relevant Ministers and officials to further explain our thinking.

MALCOLM SMALL
DIRECTOR OF POLICY