leading on investments and savings

Autumn Statement Submission

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www.tisa.uk.com

TISA is a not-for-profit membership association operating within the financial services industry.

TISA's membership comprises over 145 member firms involved in the supply and distribution of savings and investment products and services. These members represent many different sectors of the financial services industry, including banks, stockbrokers, asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers and pension providers.

Having a legacy of focusing predominantly within the tax incentivised products area, TISA has in recent years moved into the broader savings and investment world, extending our status of 'trusted advisor' to the authorities over a much greater remit. This has been welcomed by our members and the authorities as a natural progression.

TISA has a highly successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for consumers. Policy and regulation continues to be the major focus for our members with regard to corporate responsibility.

TISA and its members' remit is evolving into a clearer focus on pro-active consultation in the regulatory world in order to influence policy and associated regulation before its creation, rather than reacting to issued policy directives. This will help to ensure a more considered policy creation from the authorities.

What makes TISA unique is that we cover the entire industry, incorporating cross sector policy, industry and technical expertise. Whilst we maintain a solid partnership with government, the regulators and wider industry, we remain independent and develop neutral views and opinions. This impartiality is reflected in our ability to drive development projects which improves industry performance and puts us in the unique position of being able to constantly challenge the status quo to bring about material improvement. At the forefront in all of our recommendations and actions is to consider national and consumer outcomes.

Summary of Recommendations

Create a National Savings Policy

- Develop a Saving Policy that encourages consumers to save more in the short, medium and long term to increase their financial independence and reduce dependency on the State
- Improve consistency and integration of savings schemes, increase overall understanding and consumer education
- Consider the suitability and effectiveness of the regulatory, complaints and compensation infrastructure.
- TISA has established a pan-industry Project to help support and promote these objectives.

Consider the impact on savings schemes of all types in the event of Scottish independence

- Financial regulation – how might it transition?

  Input to any EU renegotiations in terms of savings

Review impact of funding for lending scheme and other fiscal and economic actions on savings and annuity rates

Retirement

- 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 should 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, possibly led by a Commission
- Consider permitting tax free cash sums to be transferred to ISAs without affecting annual subscription limits
- Confirm that tax free cash on pension commencement will not be taken away or reduced
- Provision for a Workplace ISA as an alternative/additional retirement savings vehicle to pensions
- Provision of a tax beneficial scheme to support old age care

Savings

- 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 or civil partner to another
- Peer to peer lending ISA eligible
- TISA welcomes the inclusion of AIM stocks as an eligible investment for ISAs
- 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 provision of non-pension, long term, savings schemes and old age care.
- 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 market scheme such as pensions.
- Preparing for possible independence for Scotland will necessitate some scenario planning and consideration of the financial regulatory regime that might prevail. Savings schemes such as ISAs may not automatically transfer to the new circumstances, and pensions could be affected as well. TISA is keen to work with government in this area and to contribute to the debate.

Children's Savings

- CTF very much a "live" market alongside JISA
- Allow maturing CTF funds to switch automatically to adult ISA, as with JISA rules CTFs

SAYE Schemes
- Direct transfers into ISAs

Investment Bonds
- Transfers to take place without being a taxable event

Access to Financial Advice
- Take steps to ensure that advice remains available to a wide audience

Recommendations

Saving and Investment Policy

1. Research indicates that current low levels of consumer savings has created a significant and growing funding gap that reduces individual financial security, increases dependency on the State and if not addressed will almost certainly result in long term damage to the UK economy in terms of reduced consumer spending power plus increased taxes to support the demand for State benefits.

2. There are a number of root causes including the ease of access to credit and an attitudinal shift away savings to instant gratification and spending. Solutions require a change in consumer behavior over the medium and long term and this will need to be nurtured and supported by long term policies that provide a stable environment for consumers as they shift towards greater personal responsibility, enhanced financial security and reduced reliance on the State.

3. TISA has set up a pan industry project that already has representation from banks, building societies, insurance companies, asset management, stockbroking and financial advisers and is in the process of inviting trade bodies and consumer groups, to collectively develop strategic proposals that supports the transition to levels of savings that deliver sustainable financial security and meets consumers' needs over their lifetime.

4. We call on HM Government to work with TISA to draw up this 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*.

Retirement

Automatic Enrolment into Pension Saving

5. 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. We also think that we need to be giving consideration

to the next steps for automatic enrolment, especially contribution levels post-2017, and that this work should be undertaken sooner rather than later.

6. 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.

7. 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.

8. 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.

9. 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

10. 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, with little sign of improvement likely any time soon. Whilst we welcome the recent reinstatement of the 120% of GAD rule for income drawdown, we believe the time is right for a root and branch review of retirement income rules. We note the consideration being apparently given to the efficacy of the current regime of tax relief on pension saving and look forward to contributing to this debate, which we think needs to have a national, cross-party element to it. One way of ensuring this would be to establish a Commission to examine these issues.

11. We think that rules around retirement income 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

12. 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

13. 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

14. There is considerable concern that the tax free cash currently available upon pension commencement 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 Retirement Workplace ISA

15. 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 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.

16. 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 by employers but would attract NI relief, would be 'locked in' for a certain period, perhaps a minimum of 10 years, to encourage the build-up of long-term, non-pension, monetary assets. Employer contributions would be in addition to the individual's contribution limit.

17. Treatment within the scheme could be like an ISA 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.

18. 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

19. 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.

Savings

Increase in ISA subscription limits

20. 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

21. 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

22. On the death of an ISA saver, any investments held in an ISA in their name lose their ISA status before being inherited by the surviving spouse or civil partner. 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.

23. We are concerned that in many cases, married or civil partner 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 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.

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

Peer to peer lending via ISAs

25. 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 there is currently a dearth of lending available for high risk companies and consumers and this could help in this area.

CTFs and JISAs

TISA was sorry to see the cessation of government contributions to these products. It urges 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.

TISA notes the continuing debate on the possible merger of CTFs and ISAs, and stands ready to contribute further to this conversation should Government require.

Whilst commenting on the children's savings market, TISA would like to welcome recent developments in financial education, and in particular the proposal to include financial literacy as part of the National Curriculum.

SAYE

Transfers into ISAs

26. 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.

27. 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.

28. 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

29. 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.

30. 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 bond 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.

Access to Financial Advice

31. TISA notes recent concerns expressed by the Treasury Select Committee around the Retail Distribution Review producing an "advice gap", with financial advisers no longer economically able to provide regulated advice to mass market consumers. We call on government and regulators to monitor the situation closely, and to take action if necessary to ensure that such advice remains accessible to the widest possible audience. Whilst we welcome the work of the Money Advice Service here, we do not think it can provide a complete solution on its own for all people's circumstances.

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.

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