23rd October 2015

The Rt Hon George Osborne, MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
LONDON
SW1A 2HQ

Dear Chancellor

Helping Britain Save More

I am writing to you with our recommendations for changes to Help Britain Save More.

Saving more will improve people's personal financial resilience, which builds their independence, improves savings in the economy as a whole, and reduces their need to call on Government for help in retirement. Increased savings are therefore good for individuals, good for the UK, and good for the public finances.

We have three core recommendations. Their common themes are simplification and removal of unnecessary rules and regulations. All of them build on the Government's objectives of encouraging people to make more provision for themselves, whether through pensions savings and ISAs, or by reducing barriers to savings, such as the Personal Savings Allowance and a Digital ID for consumers of financial services. Adoption of each will help Britain save more.

Our recommendations are:

- Better value from tax relief for pensions, whilst reducing the present tax cost,
- Government support for a Digital ID for Consumer of UK Financial Services, and
- Improve and simplify ISA Savings.

Better value from tax relief for pensions

We believe that Government can get the best value from pension tax relief by deploying it in a manner that supports the automatic enrolment process that has been successful so far.
So we advocate an incentive that is:

- A matching contribution that sits alongside and re-enforces the existing employer matching contributions in the workplace. We propose matching at the rate of £1 of Government match for every £2 of employee contribution.

TISA, Dakota House, 25 Falcon Court, Preston Farm Business Park, STOCKTON-ON-TEES, TS18 3TX
Technical Queries: 01642 666999 Email: enquiries@tisa.uk.com Web: www.tisa.uk.com Fax: 01642 666990

- Simple to understand as it avoids the use of percentages, avoids the phraseology “tax relief” and applies at a uniform level irrespective of the tax status of the employee. The £1 match for every £2 saved delivers this.
- Made universal by the removal of the Lifetime Allowance from DC pensions and the lowering of the automatic enrolment eligibility thresholds, so that the automatic enrolment mantra “We’re all in” can again be true, with all workers from the shop floor to the Boardroom “in” the same company pension scheme .

- Sustainable and robust in a world in which future Governments are struggling with the fiscal challenge of greater numbers of pensioners – the greatest consumers of public services through health and social care needs. We believe that maintaining the “EET” model, where tax is paid when the pension comes to be drawn has the greatest chance of being sustainable. This is in contrast to the alternative “TEE” model where tomorrow’s tax revenue is brought forward to benefit the Treasury today. The risk that “TEE” could become “TET” under a future Government would deter both savers and employers from contributing to pensions that by their nature are locked away for many years until retirement age is reached.

We have had our proposals independently costed by Pensions Policy Institute. Coupled with the abolition of salary sacrifice (which diminishes the simplicity of the 2 for 1 match), our proposals would save the Exchequer £2.7bn annually.

We are also alarmed at the plight of Britain’s 4.5 million self employed people who have missed out on automatic enrolment, missed out on the employer contribution and missed out on the national insurance relief contained within that employer contribution. We have de-bunked the myth that self employed people will fund their retirement by selling their business. Our research reveals that only 6% of them feel they will be able to do this. So we call for a new Self Employed Pension with a more generous Government match of £1 for every £1 saved up to a modest annual allowance of £4,500.

Digital ID for Consumer of UK Financial Services

TISA has established a project to build a Digital ID for Consumers of UK Financial Services.
Currently it is very simple to get into debt but the regulation covering the opening of a new bank or savings & investments account requires consumers to provide multiple copies of documentation to prove their identity (utility bills, passport etc).
The TISA Digital ID project has support from the Cabinet Office and from across the financial services industry and has the aim of greatly simplifying the processes for opening / transferring a bank or savings project through the development of a simple digital ID using the governments Verify initiative. We would like the Government to provide its full and ongoing backing as work continues in areas such as suitable regulation in the opening / transfer of products through the Internet. The Government’s support is particularly important in establishing open standards and in simplifying the rules and regulations that stop people easily opening and transferring their savings and investments accounts

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Improve and simplify ISA saving

ISAs have been a great success and we warmly appreciate the support you have given in increasing the annual allowance and in widening its scope.

We welcome the introduction of Help to Buy ISAs, Flexible ISAs and the Innovative Finance ISA, but they do add to complexity for consumers and the industry. The industry will do its best to minimize confusion for consumers but this will add to the costs of providing ISAs options, which ultimately will be borne by customers. This complexity will make it harder for customers to do the best they can with their ISA allowance. However, the three simple changes we propose below will make ISAs more attractive to customers and also easier to administer – for firms and HMRC.

- Remove the requirement that a customer can only take out one ISA a year of each type, subject to the overall limit. The only requirement on customers should be to invest no more than the overall annual limit. This would give more choice to customers, and be simpler to understand.
- Remove the restriction on Help to Buy to Cash ISAs only. It may be that most customers saving for their first home would prefer to stick to cash. But some may seek (slightly) better returns from corporate bond funds, or start longer term savings in UK companies. We think Help to Buy savers should not be cut off from these opportunities, especially when the returns on cash savings are currently so low that it may take many years to raise the deposit.
- Permit non banks to offer unbreakable term deposits with terms greater than 30 days to their clients. This would give savers better rates, and encourage more competition to banks. The Government should change the regulation to allow ISA providers to invest a proportion of the money held in Cash ISAs or in cash-like ISA funds in long-term deposits provided through the markets, in order to provide better rates of return for consumers on those accounts.

We should be pleased to discuss our recommendations with you and your officials.

Yours sincerely

David Dalton-Brown
Director General
M: 07557 122026

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