The Rt Hon George Osborne, MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
LONDON
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15th February 2016

Dear Chancellor

Budget 2016

I write to you ahead of your forthcoming Budget on March 16th. TISA is a consumer facing organisation that has undertaken policy work in a number of areas around saving for the future. We enjoy an excellent relationship with your officials but I would like to take this opportunity to especially commend a small number of ideas to you as you finalise your preparation for this year's Budget.

Pensions Tax Relief

We look forward to hearing the outcome of the consultation you ran in Autumn 2015. You have an important opportunity to make a radical change for the better in the way pensions tax relief works.

At TISA we believe that getting people to lock their money away for the long term requires a sizeable incentive and that the incentive should be visible and fair to those most in need of encouragement. The current system fails on both visibility and fairness, with poor consumer understanding of the system and a great deal of the money going to wealthier savers, despite the rather messy restrictions of annual and lifetime allowances.

That is why we propose a new and simple incentive – "for every £2 you save, the Government will add £1". We have shared our costings with your Office, and the modelling was carried out for us by Pensions Policy Institute, the foremost independent pensions research body. Together with removing salary sacrifice, which has a strong whiff of tax avoidance about it, our proposal saves HM Treasury £2.6bn a year at the same time as making pensions understandable and equally attractive to all.

At the same time we recommend you rebrand the incentive to make it clearer we advocated replacing the term "tax relief" with "Government contribution". As these changes are only to the front end of the process, they do not double the cost of pensions

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administration in the way that a wholesale switch to TEE and double running of pre and post Budget pensions would.

Whilst there would be a saving of £2.6bn pa from moving to the flat rate concept, HM Treasury will still be making a very large contribution to pension saving. We believe this is a good use of taxpayer money as it both helps people to prepare for retirement with a three pronged attack – contributions from individuals, employers and Government – and it results in the money being invested long term in UK plc where it funds the growth of companies and infrastructure in the economy. We will shortly be publishing our economic study on the important positive contribution that pension saving makes to the growth of UK GDP.

We will be keen to help with implementation issues after your Budget announcement.

Pension to ISA Transfers

We welcome the changes that have already been made to the pensions regime and support the move towards giving people more choice, flexibility and control over their savings. Many have already taken advantage of the pension freedoms and withdrawn money from their pension pots. This has in some instances been spent, sometimes used to pay off debt and sometimes just kept in a bank account to be used at a later date.

If that money was instead put into an ISA, then not only would the tax relief on investment income and growth give a greater incentive, but people would be less likely to spend it as research has shown that ISA savings are very "sticky".

They could of course do that now within the current annual subscription limit, but that could mean that they are not able to save much more, if any, into their ISA during the same year. This is a direct detriment to the concept of encouraging saving.

We propose allowing pension pots under a specified limit to be transferred into an ISA outside of the current year limits. This would then not only overcome the deterrent of saving more during the year, but (depending on the type of investments) could also allow those investments to be transferred in-specie, thus removing the issues of being out of the market and the costs of the any bid-offer spread associated with dis-investment and re-investment. Obviously the transfer would generate an income tax payment in the same way as any of the other pension freedoms.

Simplification of the ISA Regime

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.

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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. Indeed we believe a major contributor to the success of ISAs has been their simplicity. 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.

Digital Identity and Pensions Dashboard

TISA has continued to develop a Digital ID for UK financial services. This Digital ID facilitates the development of a digital financial marketplace to the benefit of consumers (through better accessibility and lower costs), product providers and the emerging FinTech sector. We thank you for your Government's support, especially the appointment of a Minister who will sponsor this key development, and coordinate the efforts of government and industry in order to further accelerate the development this key infrastructural development for the e-economy.

We also have a group of members working on the concept of a "pensions dashboard". Today's highly mobile labour market means that individuals build up a number of pension pots in diverse places, as each employer will typically have chosen a different pension scheme. We are convinced that there is a strong consumer benefit in being able to see all

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your pension pots together on one "dashboard", along with a range of "what if" tools that can bring the raw data to life and enable people to make sensible financial plans for their future.

The digital identity will be an important component in the machinery needed for an individual to access all of their various pension pots, and we are championing open standards to allow different pension schemes to talk securely and efficiently to one another. We will need continuing help from Government and Regulators to bring this consumer benefit to fruition, as there is some resistance to greater transparency for fear that is might encourage competition and switching, which we believe is healthy and in the best interests of savers. Your Government may need to be as firm with the pensions industry as you were with energy companies which you compelled to allow customers to access their data through the Enterprise Act 2013.

The place of owner occupied housing within lifetime savings plans

TISA has undertaken a great deal of work understanding how housing assets fit into the lifetime pattern of wealth accumulation and eventually wealth dispersal, which we will publish later this year.

It is clear that consumers see their house very much as wealth accumulation and a form of savings, as well a roof over their heads and a place to nurture family. Yet savings products are often locked into silos by their fiscal regime, making such a holistic association difficult or impossible in practice.

You have already begun to tackle this with your popular Help to Buy ISA. Now we urge you to go further and link pension savings to house purchases for first time buyers. This could be either by allowing an early withdrawal from the pension to fund the deposit for house purchase, or allowing an individual to take a loan from the pension to pay part of a property's price. There are merits to both routes and we are currently analysing these.

Whilst young people are saving for a deposit, perhaps through both Help to Buy ISA and their pension, they will be living in rented accommodation. Buy to Let has delivered around three million much needed rental units and also forms an attractive long term investment vehicle for savers as an alternative to ISAs or Pensions. We are in favour of consumer choice and so are supportive of Buy to Let.

Towards the other end of life, wealth accumulated in the form of housing is currently difficult to access. Yet research by BlackRock shows that 27% of people are planning on using their house to support their retirement income. There are things that we can do as an industry to improve the products that offer equity release. But there are also things that

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Government can do, particularly in terms of educating people about how to use their housing asset in later life and providing a guidance on the issue which would help individuals before going to a financial adviser.

Building on the success of your PensionWise initiative, which has helped many consumers gain a basic understanding of the new pension freedoms, we urge you to consider a "HouseWise" free independent guidance service that would ease older people into the decision making process of how to use their housing assets to help support their post retirement costs.

We would be pleased to discuss any of our recommendations with you and your officials.

Yours sincerely

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