Boosting retirement saving
The case for TiEE

5 February 2016

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HMT's perspective on EET

- £27 i/c tax
- £14 NIC

+ £13

- £28 cash

- Opportunity costs
  - Tax band slippage
  - "Middle E" £7.3 excl. capital gains
  - TFLS: c. £4.5
  - Salary sacrifice
  - Arbitrages around f & c
  - Rapidly rising Personal Allowance

Behaviour

- Big Q
- Tax relief: inequitable and confusing

Marginal tax rate	Tax relief per post-tax £1 saved	Cash, £ bn	% of total tax relief	Relief per taxpayer	Ratio
20%	£0.25	£8.4	31%	£341	1
40%	£0.67	£14.6	54%	£3,072	x9
45%	£0.82	£4.1	15%	£13,805	x40
		£27.1	100%		

- ISAs: popular

	Stocks and shares ISA	PP incl. self-empl	Ratio
2007-08	£10.4	£8.1	128%
2013-14	£18.4	£6.2	294%

EET: some scenarios

Flat rate relief	Per post-tax £1 saved	Annual Allowance			
		£10k	£20k	£30k	£40k
20%	£0.25	√	√	√	£12.0
25%	£0.33	√	√	?	£7.0
30%	£0.43	√	X	X	£1.2
33%	£0.50	?	X	X	-£3.2

- Cut AA? → The DB problem
  - Common to all vehicles
- Scrap LTA
- NICs relief

TEE + incentive = TiEE

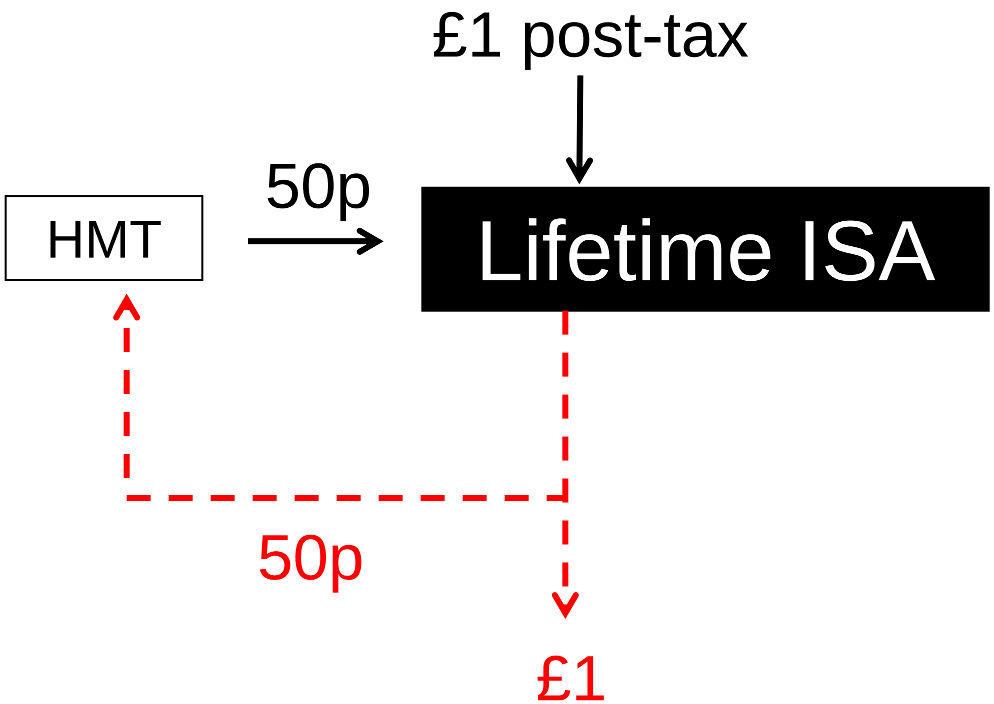
Incentive	- £15	+ £13 → £0	- £8.3 falling to - £20
Deficit repair	- £6.3 → £0		

- 50p per post-tax £1…….*Not* a tax relief
- £5k - £10k AA, 10 year roll-up
- Helps AE: (4% + 2%) + (3% + 2%) + 5.5% = 16.5%

ACA: "*A gradual move up to combined minimum contributions of between 14% and 16% should be the target"*

Vehicle: Lifetime ISA

< 60

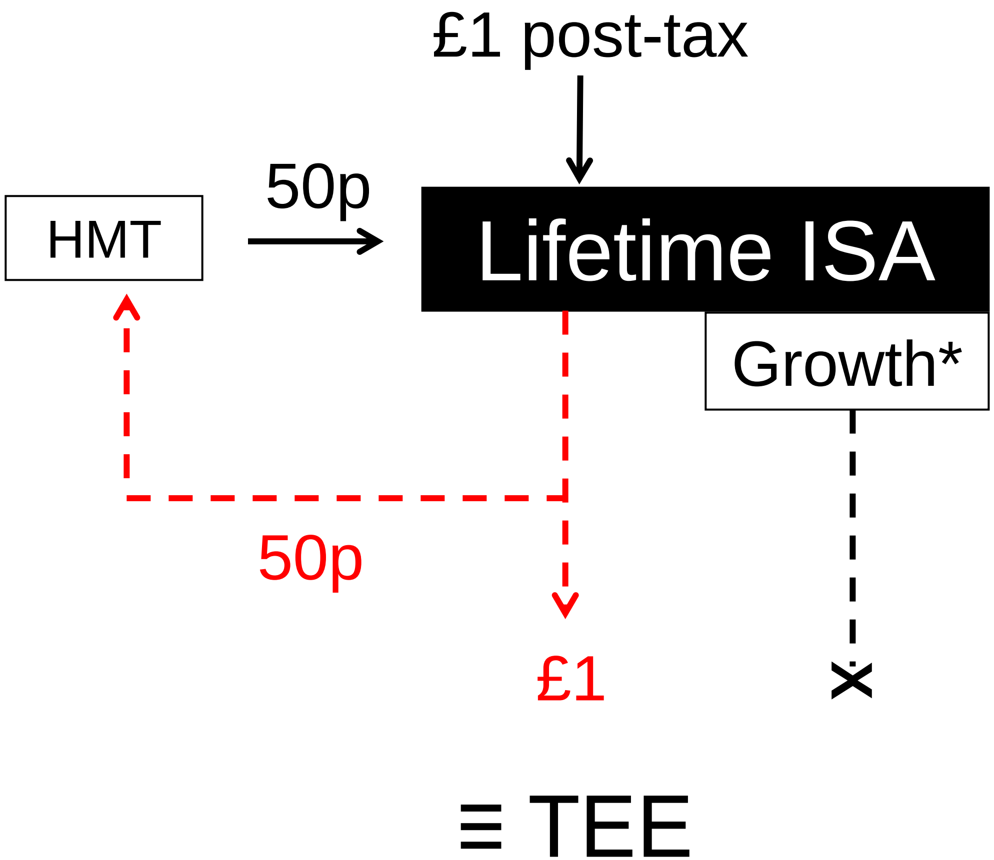


≡ TEE

- £500 at birth
- Default fund
  - Income retained
  - Cost cap
- Address round tripping

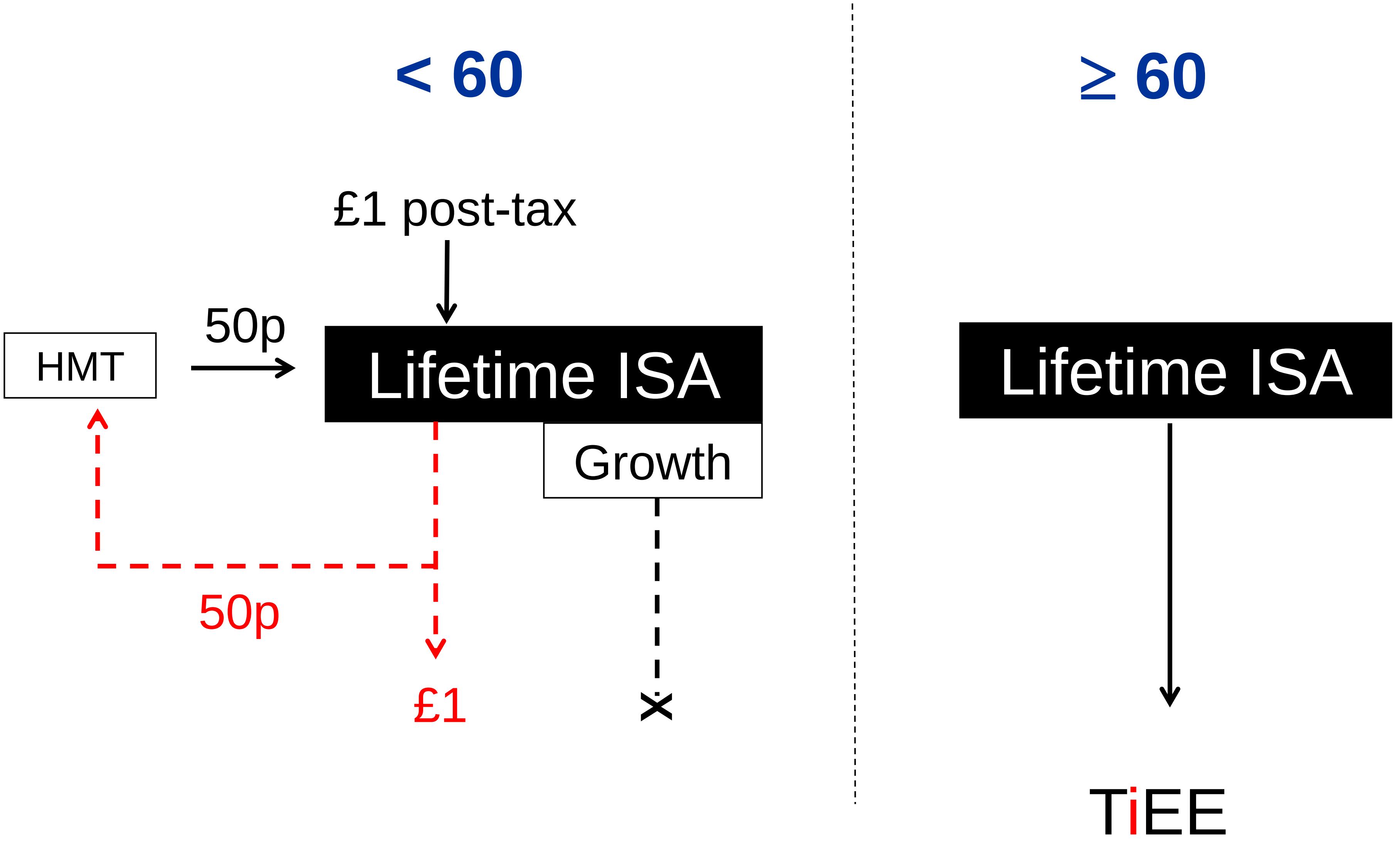
Lifetime ISA

< 60

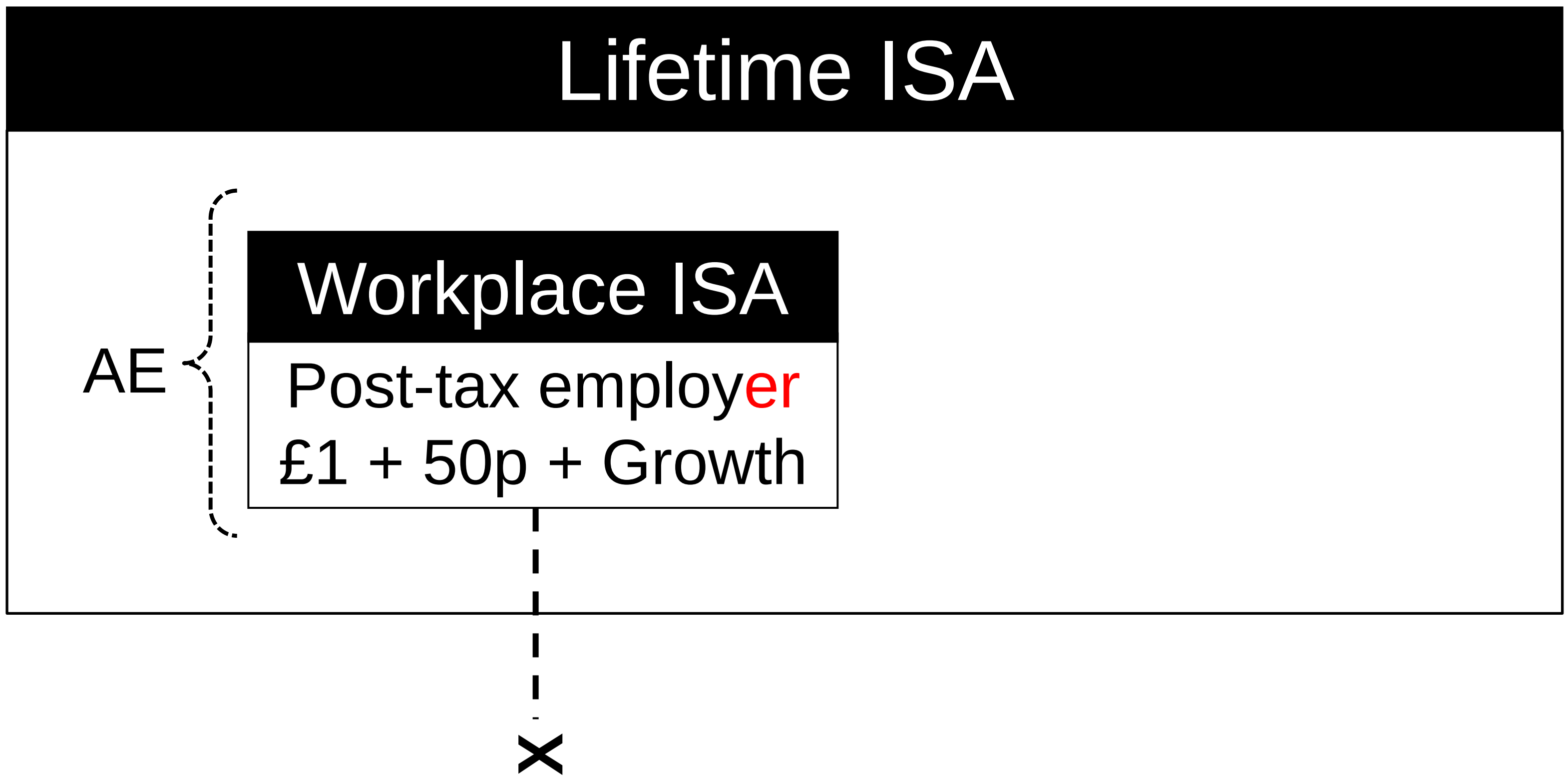


** Growth = Accumulated income + net capital gains*

Lifetime ISA



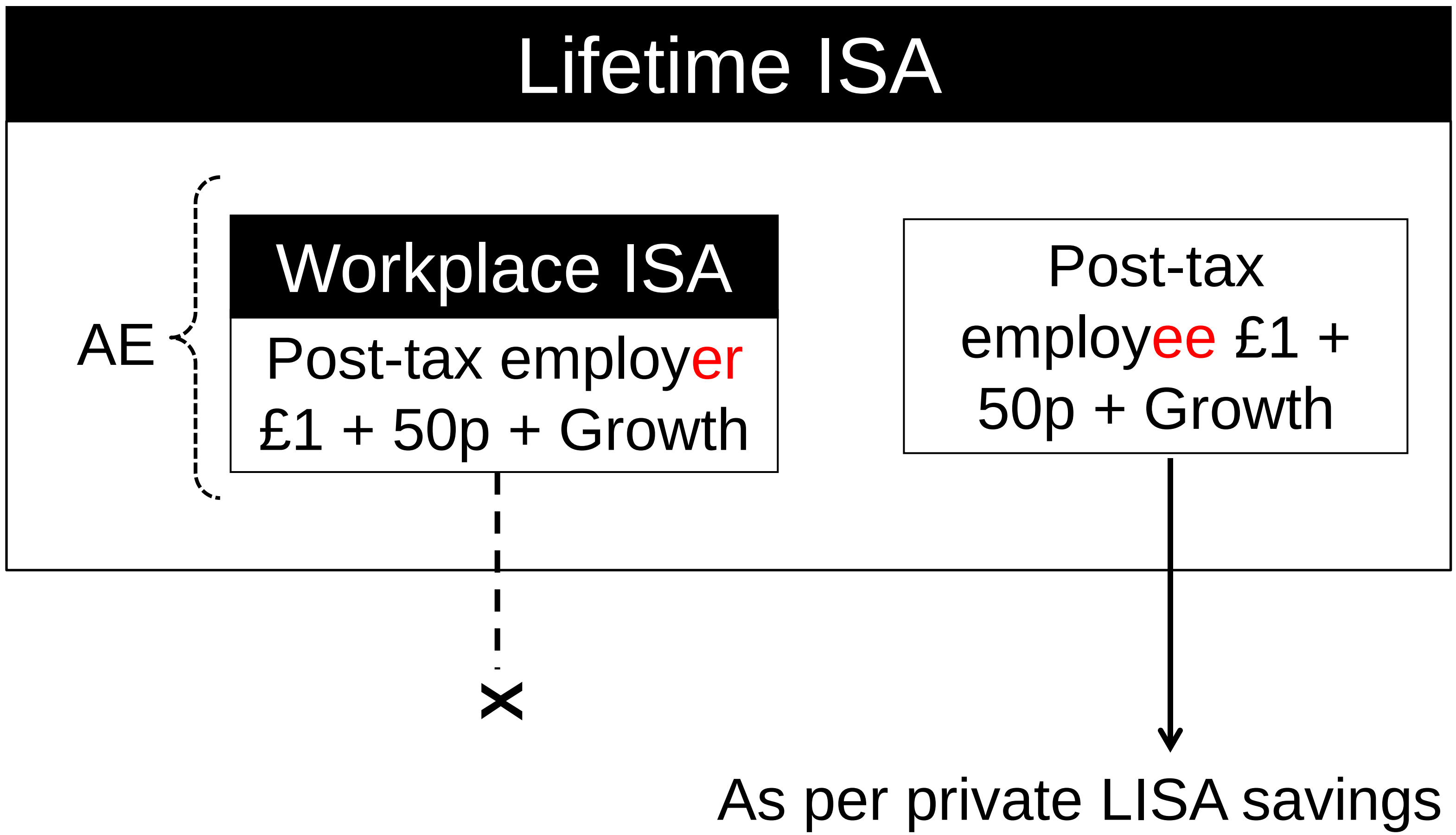
AE Workplace ISA   < 60



- 50p funded by end of NICs relief

→ Savers benefit, not shareholders

AE Workplace ISA < 60



Workplace ISA $\geq$ 60 An alternative

Workplace ISA

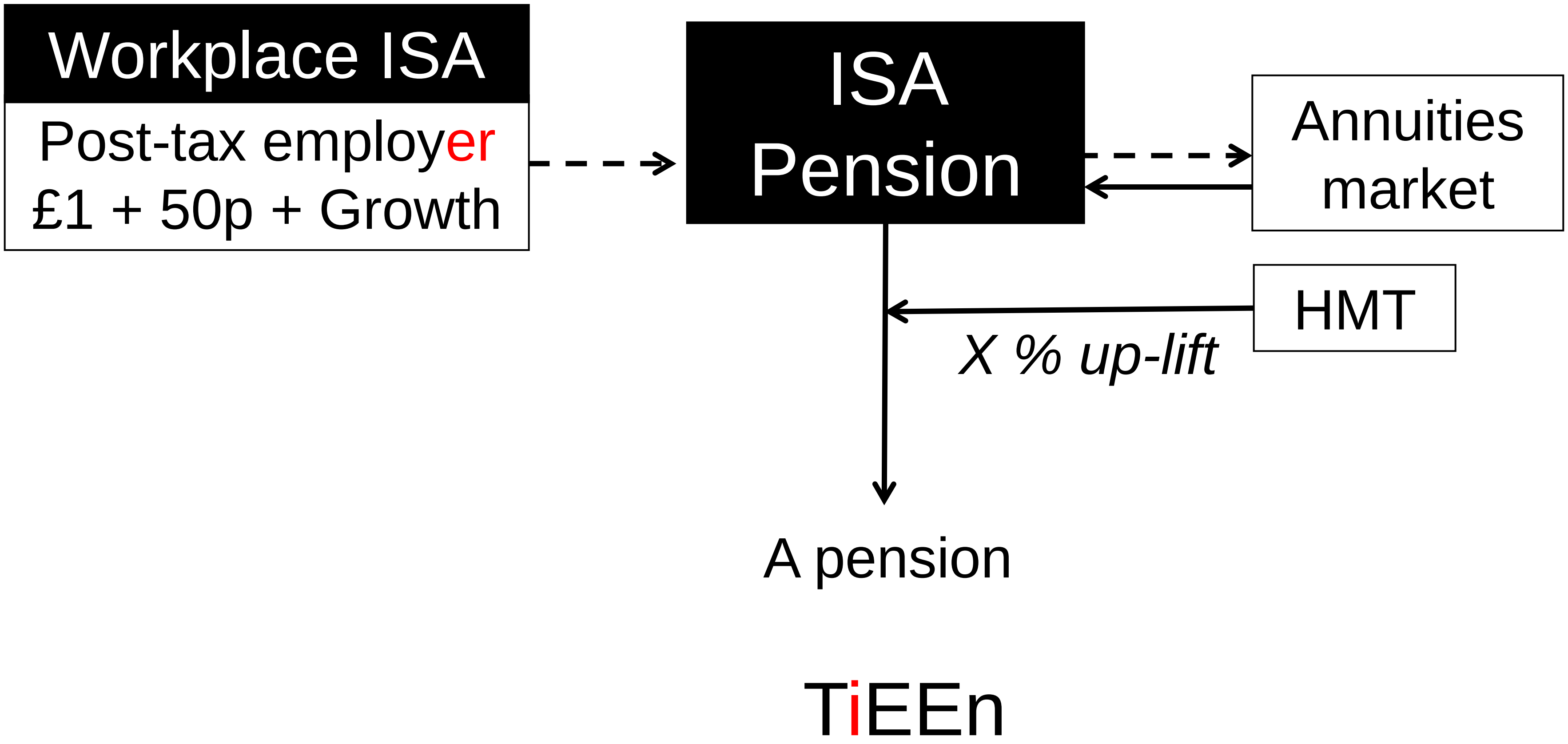
Post-tax employer

£1 + 50p + Growth

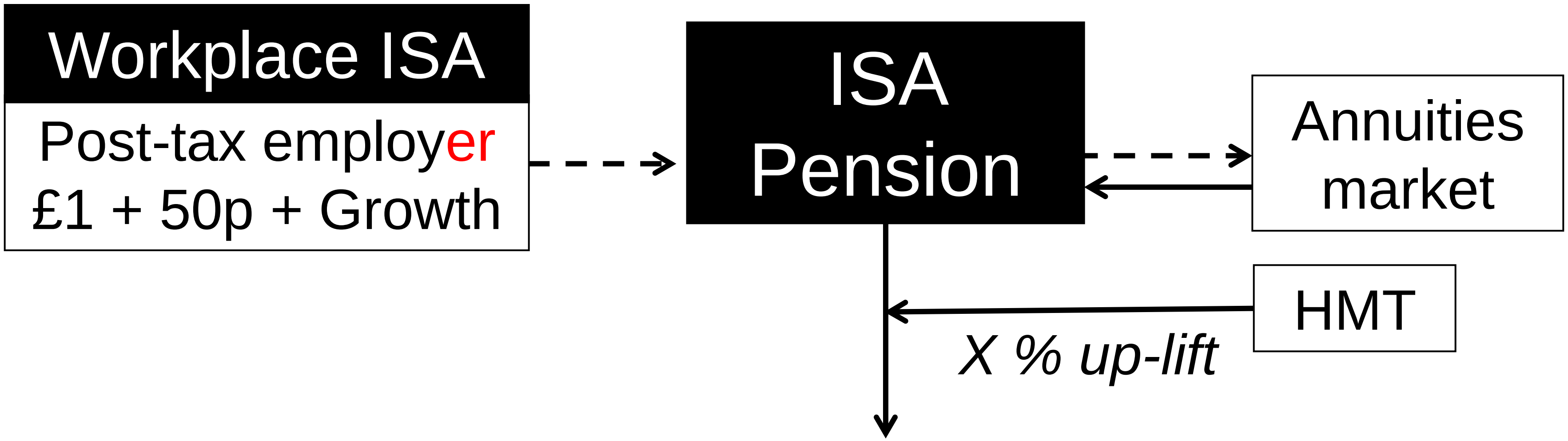
↓

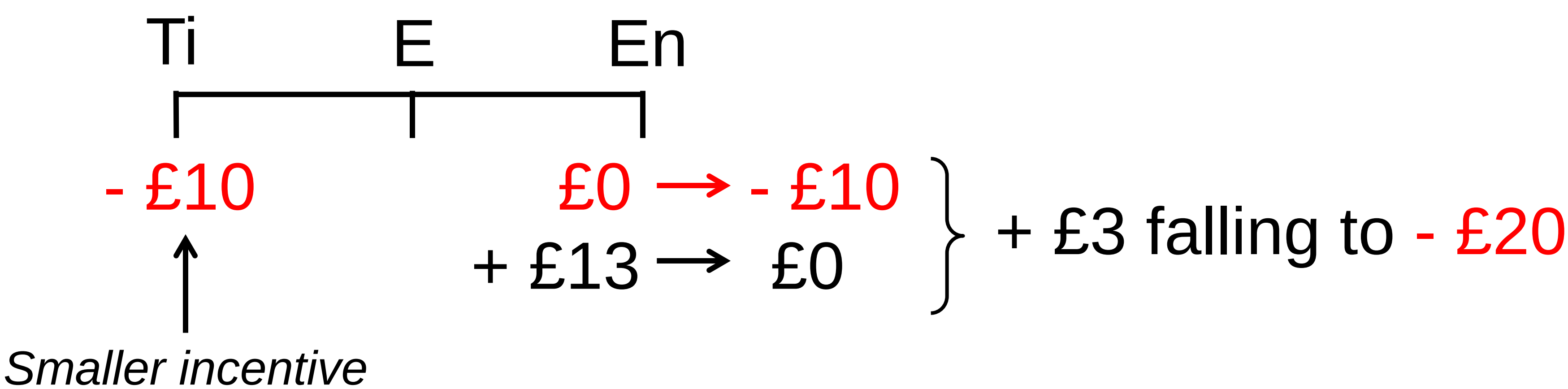
TiEE

Workplace ISA $\geq$ 60 An alternative



Workplace ISA ≥ 60 An alternative





Conclusion: EET

- EET failing, esp. Gen Y
  - Expensive
  - Inequitable
  - Incomprehensible
  - Illogical
  - Incompatible with f & c

Ineffective HMT spend

- Savings gap
- Need for AE

Conclusion: TiEE

- 50p / post-tax £1, modest AA
  - Simple, highly redistributive

- Lifetime ISA…..cradle to grave
  - Chameleon: saver in control

- AE Workplace ISA for employer contributions

- Budget considerations: fiscal,   behavioural,   political

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What of DB in a TEE world?

- Accrued defined benefits, as at T-Day
  - Grandfather as EET, leaving 2 co-existing systems?
  - One-off haircut: takes past into future world of TEE
- Deficit as at T-Day
  - Deficit recovery: tax relief on-going. Costly
- Tax of on-going accruals
  - Simplicity: tax employer contributions as a benefit in kind
  - Fairness: tax accruals
  - Compromise: banding
- Paying tax: Scheme Pays

→ Fundamentally……..a public sector debate

Implementation

- Australia

EET	1983 to 1988
ttt	1988-2007
ttE	2007+

- New Zealand

EET	Before 17 Dec 1987 *
TET	18 Dec 1987 to 31 March 1988
TTT	1 April 1988 to 31 March 1990
TTE	1 April 1990 +

* For regular payment pension schemes (lump sum schemes were ETE at that time)

ISA Warehouse

Contributions tax filter | Withdrawals tax filter

- Annual Allowance shared
- £30k annual contributions limit (to control middle "E")

Lifetime ISA

Workplace ISA

Help to buy ISA

Daily ISA

Long-term care ISA

etc.

XXX

- NICs
- TiEE now…..TiET later ?
- Spend it all at 55 ?
- Smaller future tax base ?
- Parallel pension systems ?