

Savings

Summary

The UK continues to have one of the lowest household savings rates among the major OECD countries with 41% of people either saving too little or nothing at all into a pension. While consumers recognise that saving is a 'good thing', economic priorities have shifted to pay down debt and cut consumption meaning that short term saving (in things like instant access bank accounts) rather than longer term saving (over 5 year, 10 year or longer periods) is the norm. Judging by previous recessionary periods increases in short term savings ratios will not last beyond an economic recovery.

AXA has developed five priorities that a future government should embrace to encourage the promotion of an environment where savings are encouraged. We acknowledge that future government spending is likely to be constrained by the growing budget deficit – the AXA 5 point call to action is not an ask for more funding; similarly, we do not expect [and are not calling for] the five point plan to be delivered during a single parliamentary term. The five principles should include:

1. Make savings flexible

We call for the encouragement of a flexible savings framework to allow people to lock away contributions for the long term but allow accessibility for the short term.

In recognising the need to ensure that individuals cannot subsequently fall back on state benefits, a debate is needed to fully understand the desirability of flexibility and when 'locked-in' money can be accessed.

2. The removal of uncertainty

We call for a consistent approach to savings policy that favours certainty for investors and thus encourages long term saving.

Regardless of political persuasion we have seen the results of knee-jerk changes to government policy including recent changes to CGT rules and higher rate pensions tax relief. In particular AXA favours the formation of consistent and equitable policies over changes to tax relief.

3. Modernise saving incentives

We call for clarity and consistency in savings incentives

A debate is needed over current incentives – not to extend them, but to provide greater consistency since existing tax relief rules are not well understood by long term savers. Research shows that 'matching' schemes (as used in the existing Savings Gateway or of the type commonly used in defined contribution or money purchase pension schemes where employee contributions are matched by the employer) are easier to illustrate in layman's terms

6. Allow options at retirement

We call on a fundamental review of the rules around decumulation of assets at retirement, including the continuing need for compulsory annuitisation at 75.

The review should look at the need for individuals to cater for their long-term care needs and the rules surrounding equity release.

7. Incentivise Employers

We call on the Government to provide incentives for employers who actively promote financial education in the workplace.

Incentives could be provided in the form of advice vouchers or tax/NI breaks. Employers could even be rewarded where the percentage take up of a pension scheme goes beyond a certain threshold.