Technical Discussion Paper D for public comment

Incentivising non-retirement savings

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National Treasury

Contents

1. Introduction

This paper is part of a series of technical discussion papers following the release of the overview paper *Strengthening Retirement Savings* on 14 May 2012. The overview paper covers the 2012 Budget announcements by the Minister of Finance on promoting household savings and reforming the retirement industry.

Incentivising non-retirement savings is one of two papers released concurrently on the taxation of savings. The focus of this paper is on non-retirement savings and potential tax incentive options to encourage discretionary savings. The focus of the second tax paper *Improving tax incentives for retirement savings* is on the taxation of retirement products. Two other papers in the series, *Enabling a better income in retirement* and *Preservation, portability and governance for retirements funds*, have also been released. All the above papers are available on the National Treasury website www.treasury.gov.za.

The last paper to be released later this year will analyse the costs of retirement saving during the accumulation phase, examining costs on products like retirement annuities, pensions and provident funds, before retirement.

Executive summary

South Africa's low savings rate is a policy concern

South Africa's low savings rate is a policy concern, both in terms of individual household savings and the overall national savings rate. An increase in the level of saving is an important part of the economic policy agenda of Government. Two key objectives provide the rationale for this goal:

- Higher levels of personal savings help to reduce the financial vulnerability of households, especially those households with low-to-moderate incomes. Higher savings strengthen the resilience of households to income and expenditure shocks and reduce reliance on excessive consumer debt.
- An increase in aggregate domestic savings will reduce reliance on volatile foreign capital inflows, and help to fund higher rates of investment, an important pre-requisite for higher economic growth and the creation of new jobs.

This paper focuses on tax incentives to encourage increased discretionary non-retirement saving by households with a focus on those with low–to-moderate levels of taxable income. A complementary paper focuses on the taxation of retirement savings, for which significant tax incentives currently exist. It is hoped that tax incentives will, in the long term, facilitate a positive savings

culture, laying the foundation for increased household and national savings. This approach takes into account the potential short term trade-offs involved when using tax incentives, given the foregone revenue to the fiscus, and ensures that the expected benefits of new initiatives exceed the potential costs.

South Africa currently has tax-free interest income thresholds to incentivise non-retirement savings. This incentive cost the fiscus just over R3 billion in the 2008/09[1] fiscal year. However, the thresholds are not visible enough, and restrict investment options to those that are interest-bearing.

Several countries have implemented tax-incentivised vehicles to encourage increased household savings

Internationally, several countries have implemented broader tax-incentivised vehicles to encourage increased household savings. Belgium has a tax preferred cash deposit account scheme. Canada has more targeted incentives, including an Education Savings Plan and a co-contribution scheme for savings towards funding education.

A flexible scheme is found in the United Kingdom (UK) in the form of Individual Savings Accounts (ISAs). These accounts are made up of cash ISAs (invested in fixed income instruments) and equity-based ISAs. In these accounts, contributions are made from post-tax income, all returns are tax-free and funds can be withdrawn at any time. Participation is regulated through contribution limits. Statistics indicate a significant take-up of the ISA scheme, with a substantial proportion of savers coming from low-to-middle income categories.

Proposals to replace current tax free interest thresholds

This paper concludes by proposing that South Africa expand its current tax-free interest threshold incentive by replacing it with a broader tax-incentivised savings vehicle. This vehicle should comprise two types of accounts:

- Interest bearing accounts which may invest in bank deposits, retail saving bonds or interest-bearing Collective Investment Schemes (CISs), such as money-market funds;
- Equity accounts, which may invest in CISs that hold JSE listed equities. CISs which directly own property may also be permitted.

Earnings and capital growth within these tax-preferred savings vehicles will be exempted from income tax. Contributions will be made from after-tax income, and will be capped. The proposed combined (for both components) annual limit will be R30 000 and a lifetime limit of R500 000 per individual. These limits will be adjusted over time to take account of inflation. Consideration may also be given to appropriate transition mechanisms, including allowing taxpayers aged 45 to 49 to invest up to one quarter of their lifetime limit, 50 to 59 years to invest up to half of their lifetime limit and for those aged 60 years and older to invest the maximum of their lifetime limit during the transition period. The savings vehicles will have to be registered with the South African Revenue Service.

[1] Budget Review 2011, page 181

The proposals set out here are intended to better target tax incentives to have a more efficient and equitable impact (amongst taxpayers) on household saving. This paper does not explore incentives that may be more appropriate for low income households, in the form of co-contributions – an example of such an existing scheme is the Fundisa scheme (refer to Annexure B for more information). The primary objective of this paper is to outline potential ways of encouraging households to save through the tax system.

This paper seeks to consult the public on the proposed tax-incentivised savings vehicles and invites public comment by 30 November 2012.

2. Savings trends in South Africa

Decline in South African savings rates

South Africa's gross and net national saving rates have declined substantially since the 1970s (as reflected in Table 1). During the 1960s, net household savings averaged 6.6 per cent; however, this figure has declined to negative levels and the objective of the measures proposed in this discussion note is to reverse this declining trend. In contrast net corporate savings are positive and have increased over time. Government savings have been in negative territory for a considerable period of time.

Table 1: South Africa's saving trends (percentage of GDP)

	Net Households	Net Corporates	Net Government	Consumption of fixed capital	Net National	Gross National
	1	2	3	4	5=1+2+3	6=5+4
1950s	4.03%	2.59%	3.17%	10.69%	9.79%	20.48%
1960s	6.63%	2.58%	3.37%	11.01%	12.58%	23.59%
1970s	5.36%	5.01%	1.60%	13.79%	11.98%	25.77%
1980s	2.91%	6.03%	-2.03%	16.41%	6.90%	23.32%
1990s	1.47%	5.51%	-4.28%	13.51%	2.71%	16.21%
2000s	-0.16%	2.91%	-0.39%	12.83%	2.36%	15.19%
2010	-0.15%	7.50%	-3.93%	13.19%	3.42%	16.61%
2011	-0.05%	6.81%	-3.06%	12.70%	3.70%	16.40%

Source: The South African Reserve Bank

The need to improve household saving is primarily motivated by the need to improve the financial security of households. While household saving makes up a component of national saving, raising household saving does not necessarily imply a rise in national saving in the short run, particularly if such an increase is encouraged through government incentives. The cost to government of providing incentives could initially outweigh additional saving by households.

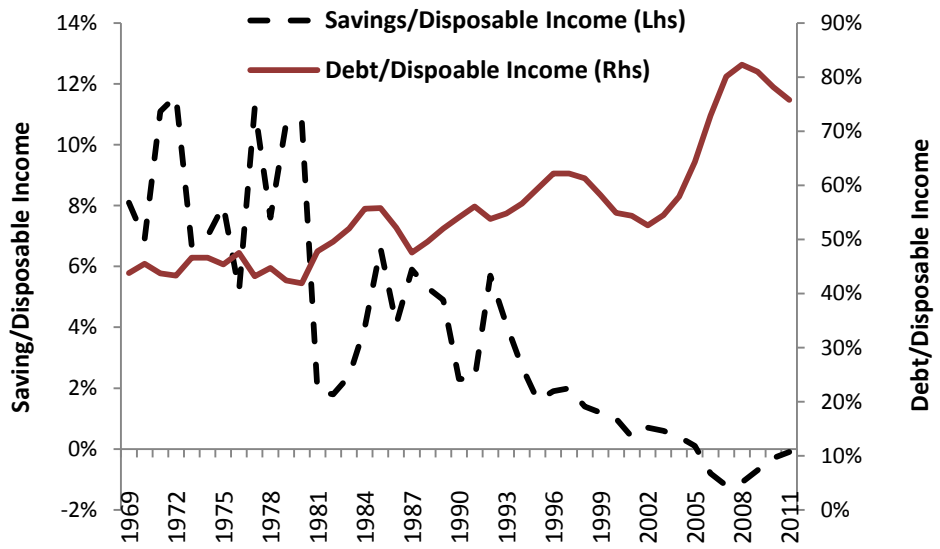
Broadened availability of credit may underlie lower household savings rates

Household saving out of disposable income has declined over a long period in South Africa (Figure 1), accompanied by a corresponding increase in the indebtedness of households, especially in more recent years.[2] There are several possible reasons for the above trends, related to (i) high unemployment, (ii) low income levels, and (iii) a bias toward present consumption. Some authors have, in part, linked the decline to financial liberalisation in broadening the availability of credit.[3]

[2] The ratio of debt to disposable income for households rose from an average of 45 per cent in the 1970s to 56 per cent in 2000-2005 and 78 per cent in 2006-2011.

[3] For example, Aron and Muellbauer (2000) and Prinsloo (2000).

Figure 1: Household savings and debt as a % of household disposable income



Source: Quarterly Bulletin, South African Reserve Bank

Access to credit can, in some circumstances, be beneficial for household welfare, for example, in smoothing consumption if income is volatile or in managing unexpected shocks. Credit can also support the development of household enterprises or the acquisition of welfare-enhancing consumer durables. But high levels of indebtedness increase the vulnerability of households to income and credit shocks, debt traps and the emergence of exploitative lending practices.

An increase in household saving aimed at managing shocks to income and expenditure and promoting household welfare should also work to reduce reliance on credit for consumption purposes, further strengthening the resilience of households over time.

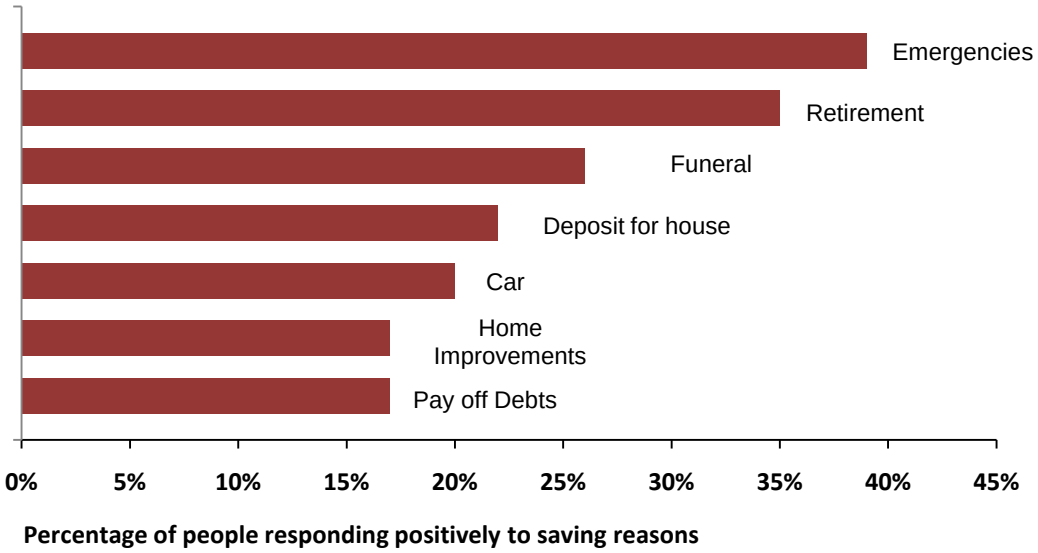
Reasons why people save

The Old Mutual Savings and Investment Monitor is a survey carried out since 2009, and published biannually,[4] and reports on saving and investing trends among individuals resident in South African metropolitan areas. Figure 2 is an illustration of respondents' main reasons for saving.

The precautionary motive features strongly, with saving towards emergencies as well as towards funeral costs featuring in over half of the responses. Saving towards children's education, housing and home improvement were also listed as savings priorities, while saving towards retirement was listed by just over a third of respondents. Seventeen per cent of respondents indicated that they are saving in order to pay off debt.

[4] The Old Mutual survey runs in May/June for July update and runs again in September/October for update in November.

Figure 2: Reasons why South Africans save



Source: Old Mutual Savings and Investment Monitor, July 2012

3. Determinants of savings - theory

Traditional economic theories underlying savings behaviour

Consumption smoothing is one of the key reasons put forward why individuals save, to have some funds available for consumption expenditure during retirement (and during times of unanticipated unemployment). The consumption smoothing hypothesis thus suggests that age will have a significant impact on an individual's savings behaviour. All things being equal, it is expected that individuals in their middle years (30 to around 60 years) will be net savers. Secondly, households have a precautionary motive for saving. Such savings can also take the form of an insurance policy (mainly short-term). A third set of reasons why people save is to accumulate sufficient funds for a specific purpose, such as birthdays, holidays, education, or a deposit for a house.

Traditional economic theories assume that individuals adopt consumption patterns which optimise utility, depending on expected income levels over their lifetimes. These traditional hypotheses assume that: (i) individuals are perfectly self-interested; (ii) individuals are perfectly rational and (iii) individuals hold time-consistent preferences.

More modern theories based on behavioural economics

In more recent times, researchers in behavioural economics have produced considerable evidence that fundamentally challenges these basic assumptions of individual behaviour. This research confirms that most people tend to be myopic and present-biased. They place a very large premium on current consumption and will, in most instances, not save enough for the future.

Behavioural economic theory therefore suggests that measures to encourage households to save should include appropriate automatic defaults that encourage savings (e.g. auto-enrolment, in the case of savings for retirement). Such savings should occur automatically, before the individual receives his or her net pay – a relatively 'painless' form of saving. This approach has been applied in the 'Save More Tomorrow' program developed by Thaler and Benartzi (2004). This program has proved very successful at raising people's retirement savings without the need for any compulsion or additional incentives. People are encouraged to pre-commit a portion of their next pay rise to a savings fund. This proves psychologically easier than facing an immediate decline in consumption (Thaler and Sunstein, 2008)[5].

An Australian study on behavioural economics argues that[6]: "People often make decisions which do not appear to be in their best interests:

[5] CSIRO, Behavioural Economics and Complex Decision Making, CMIS Report No. 09/110, August 2009

[6] CSIRO, Behavioural Economics and Complex Decision Making, CMIS Report No. 09/110, August 2009

- They procrastinate, putting off things such as saving for retirement;
- They stick with the default option, even if it is not the best;
- If a decision is too complex they may avoid it altogether; and
- People are readily confused and prone to accepting misleading advice".

Behavioural economics also suggest that[7]:

- The sole focus on the impact of tax on the rate of return is no longer appropriate in considering the design of policies to encourage savings;
- There is a need to consider the appropriate design of products and savings incentives to overcome problems of self-control in individuals' savings decisions and limited skills in financial planning; and
- Savings is, in essence, a self-control problem driven by the strong present bias in preference.

Policy informed by non-savers and by those who save too little

Findings in behavioural economics suggest that policy should be informed by the underlying reasons for low levels of saving, affecting not only non-savers but also the many savers who save too little. These findings highlight the important constraints to savings decisions arising from particular features of human behaviour (Box 1). First, individuals face problems of self-control, with the result that preferences are strongly biased towards consumption today at the expense of providing for consumption in the future. Second, the combination of complexity and limited financial capability may lead individuals to put off making important decisions on saving or make decisions that are not in their long-term interest.

[7] Leape J and Thomas L, Savings and Taxation, Insights from Behavioural Economic, September 2010

Box 1: Determinants of savings behaviour – key themes from the economics literature

Traditional economic models view savings behaviour as the outcome of decisions made by rational and well-informed consumers. The standard life cycle model describes the smoothing of consumption for a given time profile of income: lifetime resources are re-allocated over time to finance a more stable consumption path. Other aspects of the traditional economics literature have highlighted precautionary motives ("saving for a rainy day"), where saving acts as a self-insurance mechanism in the presence of uncertainty. The motivations for bequests have also been explored, including bequests that reflect some desire to provide for a better standard of living for children or others.

More recent work has challenged the traditional models of saving behaviour by highlighting important *behavioural* constraints to savings. Behavioural economics draws on psychology to explore how human limitations affect the economic decisions made by individuals. Two fundamental limitations in the area of savings are *bounded rationality* and *bounded willpower* or *self-control*.

Bounded rationality: This refers to the limited ability of individuals to access and process all the relevant information required for complex economic decisions. The complexity of financial markets, the presence of information asymmetries and, more generally, the limited financial awareness of consumers mean that most individuals are not capable of acting like the rational and well-informed consumers of the traditional models. Complexity, coupled with a sometimes confusing range of choice, can lead individuals to put off making financial decisions or make decisions that are not in their long-term interest.

Bounded willpower or *self-control*: Saving is inherently a decision about self-control. It requires the individual to give up consumption today in order to have increased consumption in the future. There is abundant evidence internationally that individuals have considerable problems of self-control in inter-temporal decision-making. Limitations to self-control - or the bias towards consumption in the present - mean that individuals are unlikely in practice to act as purely rational consumers in forming and implementing savings decisions.

Amongst the most important lessons to emerge from the behavioural economics literature is that responding to human limitations requires careful and innovative approaches to the 'framing' or 'architecture' of choices to be made by individuals.

Two key implications from the behavioural literature must be taken into account when designing tax incentives to encourage saving. First, changes in the rate of return to savings may have less effect on savings than policy-makers desire. Second, careful design of the tax incentive is required, including making savings decisions more salient for individuals and providing signals to help overcome problems of self-control. Design of savings products, including the regulation of costs and marketing, can also assist individuals in avoiding the complexity of decision-making and help them make more informed choices about their savings needs.

Selected references: Mullainathan and Thaler (2000); Bernheim (2002); Duflo *et al.* (2006), Thaler and Sunstein (2008); Bernheim and Rangel (2009); Leape and Thomas (2010)

4. International efforts to encourage household saving

Two potentially offsetting effects of tax incentives for saving

A number of countries have introduced tax incentives for savings vehicles, either targeted at specific savings goals such as education or housing or for more general purposes.[8] The standard economic model of savings identifies two important, but potentially offsetting, effects of tax incentives, both of which find support in empirical studies.[9] To begin with, introducing incentives is most likely to generate new saving by households who otherwise would not save or who save very little. At the same time, for those households who already save, incentives may not generate much additional saving but instead largely result in a shifting of saving from taxed to lower taxed vehicles (asset re-allocation), and hence a loss of revenue for government with little offsetting gain in household saving.[10]

As noted above, the objective of policy is to encourage a culture of savings and to generate new aggregate saving. In order for incentives to be cost-effective, the amount of new saving generated must be more than sufficient to offset the costs to government of revenue foregone.

There are considerable technical challenges in measuring the effects of tax incentives on savings decisions and the empirical evidence is inconclusive.[11] The most comprehensive study of the experience with tax incentives for saving (outside of retirement provision) is the OECD's 2007 review of tax-preferred accounts across 11 OECD economies. It is argued that these schemes are most likely to be successful in generating new saving if they attract a reasonable

[8] The discussion in this section mainly covers international experience with savings *outside* of formal retirement saving vehicles in line with the focus of this paper.

[9] An associated issue in tax design is that the taxation of *nominal* returns to saving implies that the part of the return that compensates for inflation is taxed, leading to a greater distortion in the tax treatment of present and future consumption which may be volatile depending on changes in the inflation rate. In this context, tax incentives can be viewed as a means of aligning the tax treatment of consumption over time. This is a broader issue for the taxation of capital income in various forms, including interest, dividends, rental income and capital gains.

[10] In theory, the overall effect of reducing tax through incentives is ambiguous. In the standard economic model, the change in the rate of return on saving would have offsetting income and substitution effects in the case of households saving below the threshold for the tax incentive and negative income effects (i.e., a decrease in saving) in the case of households who already save above the threshold. For households who do not save, the introduction of the incentive may encourage new saving but this will depend on the profile of preferences between present and future consumption.

[11] For example, Antolín *et al* (2004) review empirical studies on the effectiveness of tax-favoured 401(k) retirement savings accounts in the US in terms of the success in generating 'new' saving. Conclusions vary across these studies, ranging from a significant fraction of new saving to negligible amounts of new saving. Attanasio *et al* (2004) examine experience with tax incentives for saving in the US and UK and conclude that the fraction of new saving appears to be small. Poterba *et al*. (1996) in contrast conclude that the weight of evidence is in favour of most contributions to US tax-favoured retirement accounts representing new savings.

number of moderate-income households. Furthermore, since moderate-income households have lower marginal rates of tax, the revenue loss to government is likely to be less than for higher-income households. The key findings from the analysis of various products across countries are:

- Participation rates tend to increase with income (i.e. participation is greatest amongst higher-income households).
- Deposits made by higher-income households tend to be larger in value than for lower to middle-income households, although lower-income households tend to contribute more as a percentage of their income.
- The limited available data supports the view that 'asset re-allocation' occurs but that there is scope for some new saving. The UK is cited as an example where Individual Savings Accounts (ISAs) may have generated at least some new saving, linked to the participation of moderate-income households (Box 2).

Tax incentives only cost-effective if sufficient numbers of moderate-income households participate

The main lesson to be drawn from this international evidence is that tax incentives are likely to be a cost-effective way of generating new saving only if sufficient numbers of moderate-income households participate in these initiatives (with the corollary that participation by or the incentive accruing to higher income households is limited). At least some diversion of existing savings into tax-preferred accounts should be expected, however. One of the main challenges for policy is therefore to design an instrument that can attract lower- and moderate-income taxpayers in South Africa. Annexure A elaborates on tax-preferred savings accounts in Belgium, Canada and the United Kingdom. Annexure B is a summary of the estimated distributional features of tax-preferred savings accounts in a number of countries as reported in the 2007 OECD study.

Box 2: Individual Savings Accounts (ISAs) in the UK

ISAs were introduced in the UK in 1999 and seem to have had a reasonable amount of success in reaching moderate income individuals.

There are two types of ISAs:

- Cash ISAs are deposit accounts that are risk-free and aimed at providing easy access to savings.
- Stocks and shares ISAs are funds that are intended for longer-term investments, offering potentially higher returns but with associated investment risk.

Contributions are made out of post-tax income and are capped annually. In the 2012/13 tax year, the total amount that can be invested is £11 280, of which only £5 640 may be invested in a cash ISA. The limits are adjusted annually to keep pace with inflation. There is no income tax payable on interest, dividends and capital gains earned in ISAs.

In each tax year, an investor may contribute to one cash ISA and one stocks and shares ISA. However there is no limit on the number of accounts set up over time so that an investor can hold accounts with several providers. Amounts accumulated in ISAs may be transferred to new accounts with different managers, supporting competition amongst providers.

The UK government does not impose specific pricing restrictions on providers of ISA products. Standards or benchmarks have been set for simple and fair 'stakeholder products' that have reasonable charges and access, replacing earlier voluntary standards for charges, access and terms for ISAs. However, ISA providers are not required to comply with these standards and many products do not.

Although formal evidence on the success of marketing strategies does not exist, ISAs have a high profile and the annual contribution cap provides an anchor for active marketing as it works on a "use it or lose it" basis. In addition, the government endorsement implied by the associated tax relief is likely to encourage savings as is the special, separate nature of the accounts, which facilitates target saving and effective monitoring. In these ways, the structure of ISAs provides a number of behavioural prompts for saving.

Data on the income profile of participants shows that these accounts have attracted a large number of low to moderate-income earners, although, as would be expected, the accounts have also attracted high-income individuals who are most likely to have shifted existing saving into these tax-favoured accounts. In the 2009/10 tax year, there were 23.9 million ISA accounts in total; 13.7 million accounts received new contributions during the tax year. Around 59 per cent of accounts were held by individuals with incomes below £20 000. The median gross annual earnings of full-time employees in the UK in 2009/10 was £25 900.

5. Household saving incentives in South Africa

South Africa currently offers significant incentives for retirement savings through the tax system. Proposed reforms to streamline, simplify, ensure a greater degree of equity in the tax system, and to encourage preservation, are outlined in a separate discussion paper.

The introduction of Retail Savings Bonds in the 2003 Budget, which offer savers an affordable, simple product with competitive returns and no costs was intended as a mechanism to encourage households to save and to promote easily accessible low-cost savings vehicles.

The tax-free interest income thresholds and a co-contribution pilot scheme called Fundisa, which was aimed at encouraging people to save towards higher education, are two incentivised measures (Table 2) aimed at encouraging non-retirement savings.

Table 2: South Africa's current non-retirement savings incentives

	Product/ Structure	Purpose	Contributions	Growth/ Earnings	Withdrawals
Tax-free Interest Thresholds	All fixed-income investments, including bank deposits	Saving in general	After-tax income	Exempt up to a limit - called "thresholds"	N/A
Fundisa	Money-market unit trust	Saving for Higher Educa-tion	Taxed, co-contributions capped	Taxed	Untaxed

Tax-free Interest thresholds

From 2000, tax-exempt interest thresholds increased substantially

The tax-free interest income thresholds have formed a part of the tax system for a considerable period. Initially, they were used to reduce the tax administration burden by deeming certain "small" amounts of interest income to be excluded from taxable income. From 2000 onwards, the exempt amount increased substantially, with the aim of providing relief to those relying on interest income, but also with a view to encouraging saving. The exemption is relatively simple to administer.

Doubtful that tax-free interest income thresholds have attracted new saving

While the tax-free interest income thresholds are likely to achieve the objective of not taxing inflation-based returns on interest bearing investments for the majority of households (particularly lower and middle incomes), it is unlikely they have significantly influenced savings rates. In light of the estimated cost of approximately R3 billion estimated for the 2008/09[12] fiscal year, it is even possible that the tax free interest income thresholds have had a negative impact on national savings on a net basis through increased government dissaving.

Limitations of tax-free interest income thresholds

[12] Budget Review 2011, page 181

The tax-free interest income threshold (for both age groups) has important limitations, however:

- It is not a very visible incentive for encouraging saving. The exemption forms part of the tax return and receives little publicity beyond the annual announcement of the thresholds in the Budget. It does not lend itself to active marketing in the way that specific tax-incentivised savings products do.
- It is not well-integrated with tax exemptions on other forms of capital income. It is targeted at interest income, raising the question of consistency of treatment with the new withholding tax on dividend income and the capital gains tax system.

The existing interest income exemption is not an effective instrument for encouraging savings amongst low to moderate-income taxpayers. The reduction in the effective tax rate is unlikely, in isolation, to generate significant savings in the context of the behavioural constraints. For this reason, policy reforms focus on both the appropriate quantum of the incentive, as well as the design of the savings vehicles to help individuals overcome challenges in formulating and implementing savings decisions.

6. Proposals for new tax-incentivised product

It is proposed that new and visible tax-favoured saving vehicles be introduced to promote household saving, especially amongst households within the low to moderate range of taxed incomes.

Two broad types of accounts are proposed:

- **Interest bearing accounts** - which may invest in bank deposits, retail saving bonds or interest-bearing Collective Investment Schemes (CISs), such as money-market funds;

- **Equity accounts**[13] - which may invest in CISs that hold JSE listed equities. CISs which directly own property assets, may also be permitted.

Investments into various vehicles as specified above will be channelled through these according to the instructions of the investor.

All earnings and capital growth within these registered accounts will be exempt from tax as long as the funds are held in the account.

All income and capital growth within these products exempt from tax

An investor will be able to invest in both types of accounts and will be able to move between service providers in order to support a competitive environment. There will also be effective regulation of market conduct and advertising practices of providers to limit the risk of savers being encouraged to switch providers when that is not in their best interest. An investor will also be able to withdraw savings at any time. However, annual and lifetime limits on the amount invested will work on a gross basis i.e. withdrawn funds cannot be replaced. The aim of this restriction is to promote long-term saving through discouraging casual withdrawals driven by problems of self-control.

Savings accounts must be ring-fenced for tax purposes, and registered with the South African Revenue Services (SARS) in order to gain tax benefits and providers will be required to report regularly to SARS on the use of these products (in addition to reporting requirements of the market conduct financial regulator). Further technical refinements on the administrative requirements for individuals saving in these accounts (e.g. what information will need to be provided on tax returns) will be effected before implementation.

Savings products must be registered with SARS

General vs targeted saving accounts

Some countries have implemented tax incentives aimed at particular savings goals, such as education or housing. Accounts tied to

[13] Investment funds that invest in a portfolio consisting of any combination of equity, interest bearing assets and/or property assets may also be permitted.

particular outcomes could encourage a greater commitment to saving through exploiting "mental accounting", which describes the internal process of how individuals think about financial transactions. In this case, providing accounts for specific purposes would build on the tendency of individuals to internally assign (or "label") sources and uses of funds[14].

Limitations of targeted savings incentives

However, the disadvantage of the targeted approach is that (i) it limits the intended purposes of saving and (ii) the introduction of different accounts for different purposes (possibly accompanied by different rules) adds complexity into the system. For South Africa, the objective is to raise the level of saving for a broad range of purposes, including reducing the reliance on credit. For this reason, it is proposed that tax-favoured accounts be available for saving towards any purpose. Of course, this will also allow providers to market these products as a good way of saving for various life goals.

Capped Contributions

The accounts are intended to encourage households with low to moderate taxable income to save more. However, higher-income people are also likely to participate in these accounts. Annual contributions to the accounts will be capped and there will be an overall lifetime limit on contributions. Capped contributions will limit the extent to which higher-income households benefit from this initiative, especially in light of the likely portfolio shifting that will occur with associated fiscal costs for government.

Annual and lifetime contribution caps, including transitional dispensation for older people

It is envisaged that the contribution caps will be set initially as follows:

- Annual contributions of up to R30 000, including both interest bearing accounts and equity/property accounts.
- A lifetime contribution limit of R500 000 across both interest bearing accounts and equity/property accounts.
- Consideration can be given to allow taxpayers aged 45 to 49 years to invest up to one quarter of their lifetime limit, those 50 to 59 years to invest up to half of their lifetime limit and for those aged 60 to 65 years to invest three quarters and those 65 and older to invest up to the full lifetime limit during a transition period of 2 years. The potential impact of these changes on different individuals is illustrated in Annexure C.

It is envisaged that the contribution limits will be adjusted over time to take account of inflation. The incentive scheme will also be monitored over time.

No roll-over

Investors will not be able to roll over the unused portion of the allowance at the end of the tax year. This offers a useful marketing feature for providers to encourage savers to make full use of the

[14] Mental accounting in various forms is reviewed in Thaler (1999).

allowance in each tax year, while also supporting a commitment to regular saving.

A signalling effect reinforced by standards

The preferential tax treatment of the proposed accounts will provide a clear endorsement or signal from government that saving is desirable and that these are suitable products. This aspect of policy design is important as it seeks to overcome constraints to decision-making that arise from the considerable complexity of choices faced by households. An important implication is that government must also ensure that these products are fair to consumers, have reasonable charges, and that appropriate information on charges, access, risks and returns is provided.

Standards on charges, access, risks and returns to be developed

It is envisaged that criteria for fair treatment will be developed to accompany these accounts and that service providers will be able to market their products as compliant with these officially-endorsed standards. These criteria will be developed taking into account the broader agenda on strengthening market conduct and consumer protection as part of reforms to financial regulation[15].

Replacing the current tax-free interest free threshold

The proposed new tax-incentivised savings accounts are intended to provide a more visible and effective incentive than the current tax-free interest thresholds. It will also offer savers a larger range of investment options, in that they will no longer be restricted only to an interest bearing account to enjoy the tax benefit.

The interest income tax exemption thresholds will be phased out during the transition period. Such phasing will take account of the needs of pensioners who are currently dependent on interest income, and will only be implemented after the consultation process has been completed. Table 3 provides a summary of the proposed tax-incentivised savings accounts.

Table 3: Summary of proposed new tax-preferred savings accounts

	Product/ Structure	Purpose	Contributions (after tax)	Earnings	Withdrawals
Interest bearing accounts	Savings account; low denomination top-up retail bonds, money market funds	Multi-purpose saving	Capped at R30 000 per annum and R500 000 for life	Tax Free	Tax Free
Equity accounts	Equity, Property assets				

[15] As outlined in National Treasury (2011), *A safer financial sector to serve South Africa better*.

7. Conclusion

Importance of increasing household savings

Improving the levels of household savings in South Africa is important – both in terms of increasing national savings, and to improve the financial security of South African households. However, any policy intervention should take note of the inherent problems of inertia and short-termism, which limit the ability and motivation of individuals to save.

Proposals for new tax-favoured non-retirement savings accounts

This paper sets out proposals for new tax-favoured non-retirement savings accounts in South Africa, aimed at encouraging households with low to moderate taxable incomes to save more. Earnings and capital growth within these products will be exempt from income tax. Some of the more important features of these accounts will be capped contributions, choice in the allocation of allowances between cash and other assets, no restrictions on withdrawals, and standards for consumer protection. It is intended that these products will provide a more visible and marketable tax incentive for saving than the existing interest income tax exemption thresholds.

The new accounts will provide an alternative tax-incentivised channel for short- to medium-term savings

A tax-preferred savings incentive vehicle is proposed, with caps on contributions, more variety in assets selected for investment, and no limitations on withdrawals. Allowance is made for certain age groups of taxpayers who currently make use of the tax free interest income thresholds to migrate to this vehicle. To be successful, this initiative will have to be implemented along with a range of other measures, including more transparency in financial product operation, measures to reduce costs of savings products, as well as educational campaigns to improve financial literacy and the savings culture.

Consultation on these proposals should also take into account wider proposals for reforms to the retirement saving environment and the objective of providing a co-ordinated policy framework to support household saving. As measures to promote preservation of retirement savings are introduced, these new accounts will provide an alternative tax-incentivised channel for short to medium-term saving to reduce the premature use of retirement saving to meet consumption needs. A consultation period on the design options and phasing-in will be held before these proposals are finalised.

8. Request for comments

This paper presents draft proposals for public comment and consultation.

The public is invited to comment on the draft proposals contained in this discussion document by no later than **30th November 2012**. Comments may be submitted to:

Attention: Mr Johan Lamprecht, Director: Economic Tax Analysis, Private Bag X115, Pretoria, 0001. Or by fax to 012 315 5516; or by email to savings.incentive@treasury.gov.za**.**

Further consultations will be held once the proposals are refined and during the legislative process.

The paper released by National Treasury on 14 May 2012 titled *Strengthening retirement savings: An overview of proposals announced in the 2012 Budget*, http://www.treasury.gov.za/comm_media/press/2012/2012051401.pdf) listed the following technical discussion papers for release during the course of 2012:

A. *Retirement fund costs* – Reviews the costs of retirement funds and measures proposed to reduce them.

B. *Enabling a better a retirement income* – Reviews retirement income markets and measures to ensure that cost-effective, standardised and easily accessible products are available to the public

C. *Preservation, portability and uniform access to retirement savings* – Gives consideration to phasing in preservation on job changes and divorce settlement orders, and harmonising annuitisation requirements. The aim is to strengthen retirement provisioning, long-term savings and fund governance

D. *Savings and fiscal incentives* – Discusses how short- to medium-term savings can be enhanced, and dependency on excessive credit reduced, through tax-preferred individual savings and investment accounts. It also discusses the design of incentives to encourage savings in lower-income households.

E. *Uniform retirement contribution model* – Proposes harmonising tax treatment for contributions to retirement funds to simplify the tax regime around retirement fund contributions.

Papers B and C have been released and are available on the National Treasury website (www.treasury.gov.za).

Papers D and E have different titles from what was specified in the overview paper. Paper, D, refers to this paper, which is now titled *Incentivising non retirement household savings*. Paper E is now titled *Improving tax incentives for retirement savings.*

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A

International examples of incentivised saving vehicles

General Observations

International studies show that higher-income households participate in and benefit relatively more than lower- and middle-income households with respect to tax-incentivised saving vehicles. Annexure 3 (2007 OECD report) notes that the recorded incentivised vehicles' "participation rate"[16] and "average contribution/investment ratio" tend to increase as income increases.

Lower income households tend to contribute more into these schemes as a percentage of their household incomes, which indicates reasonable levels of awareness of the need to save, particularly among households where financial vulnerability is of concern.

The 2007 OECD report emphasises that the larger the proportion of moderate income households participating in incentivised vehicles, the more probable the creation of new saving. Moreover, since moderate income households face lower marginal rates of tax, the loss to the fiscus is more likely to be less than with higher income households.

Tax-incentivised savings vehicles in Belgium, Canada and UK are discussed below (2007 OECD Report). The higher participation rates by higher income earners appear to be less acute in the UK's ISA model than in others. While there does seem to be some level of asset shifting in the ISA model, there is evidence of new saving that was created.

Belgium

Tax-preferred deposit accounts

The Belgian tax-preferred deposit account is based on the model of a simple bank account. Literature confirms the appeal of simple depositor accounts, particularly to lower income households. A design, therefore, that includes a simple deposit account as a component of an incentivised saving vehicle initiative is likely to be more marketable to lower income households. This should not detract from the opportunity to encourage these households also to save through equity based vehicles.

[16] Percentage of people within an income group category who are participants in these programmes.

The programme was introduced in 2004 as a system of deposit accounts that allowed tax-free earnings up to an annual limit[17] (2004: € 1,520). Amounts exceeding this limit would then be subject to income tax. In cases where the limit was not reached, the balance could not be carried over to the following year.

The funds can also be readily withdrawn at any stage without incurring any penalties. This feature makes this kind of account very attractive to lower and middle income households as liquidity and access to cash is a big priority for them.

Belgian tax-incentivised savings vehicles

	Product /Structure	Purpose	Contributions (by government)	Growth	Withdrawal
Deposits	Cash deposit accounts	Accumulation of retail cash savings	Taxed	Tax Free, up to limit	Withdrawal without penalty; untaxed

Source: OECD (2007)

Canada

Canadian tax-incentivised savings vehicles

	Product/Structure	Purpose	Contributions (by government)	Growth	Withdrawal
RESP/CESG	Bank Account	Higher Education financing	Co-payment	Taxed	No option of withdrawal until beneficiary reaches tertiary education level; untaxed
CANADA LEARNING BOND	Bank Account	Higher Education for low-income households; income tested	Additional Co-payments	Taxed	No option of withdrawal until beneficiary reaches tertiary education level

Source: OECD (2007)

Registered Education Saving Plans (RESPs)

RESPs are tax preferred savings plans that were established in 1974 in the Income Tax Act to help finance the higher education for children of investors. These accounts are tax preferred by way of a co-contribution (CESG) by government. The Canada Revenue Agency registers the education savings plan contract as an RESP, and lifetime limits are legislated in the Income Tax Act. Monitoring of accounts to ensure they are managed in accordance with the provisions of the Income Tax Act is the responsibility of the promoter (i.e. the agency offering and administering the product). There is no option of withdrawal until the beneficiary enrols at a higher education institution. The accounts are also characterised by limits on contributions.

[17] Cumulative of all deposit accounts held by an individual.

While there are no residency/citizenship requirements for the investor, the beneficiary must be permanently resident in Canada and must be in possession of a Social Insurance Number (SIN). There are three types of RESPs:

a. Individual RESPs

For each RESP there can be only one beneficiary, who does not have to be related in any way to the investor. Contribution into these plans can be made for a maximum of 22 years.

b. Family RESPs

A family plan may have multiple beneficiaries; however, each beneficiary must be related to the investor by blood or adoption; or he/she must have been similarly related to a deceased investor. He/she must also be under the age of 21 to be eligible.

c. Group RESPs

These plans are operated by pooling different RESP plans together. Each beneficiary named under a plan will be able to retrieve his/her educational saving upon qualifying for it (acceptance into a higher education). If he/she does not qualify for a programme, the benefits are distributed among other beneficiaries of the same age in the group who do qualify.

The accompanying fiscal incentive on the RESP account is in the form of the Canada Education Savings Grant (CESG), which is a 20% co-contribution on investor contributions up to a limit of $500. Additional CESGs provide further support for lower income households whereby the government makes a co-contribution on the first $500 of households contributions. The percentage and limit of the contributions are dependent on the income levels of the primary care giver of the beneficiary: On the first $500 of investor contributions, the limits on government contributions are:

- $ 42 707 < Family Income < $ 85 414 limit = 10% (up to $50 per year per beneficiary).
- Family Income < $ 47 707 limit = 20% (up to $100 per year per beneficiary).

The general grant of 20% up to a limit of $500 is the basic CESG, while the lower income additional grants are referred to as "Additional CESGs". The brackets are based on the marginal tax brackets and are thus subject to change every year.

In addition, the Canadian government introduced the Canada Learning Bond (CLB) whereby all children whose guardian receives a National Child Benefit from the state (i.e. earn an income of less than $39 065/annum) are eligible for an additional one time $500 contribution from the government and $100 for each year[18] that the primary caregiver receives the National Child Benefit supplement up to a limit of $2 000.

[18] For up to 15 years

United Kingdom

UK tax-incentivised savings vehicles

	Product/Structure	Purpose	Contributions (by government)	Growth	Withdrawal
ISA	Shares; Deposit Accounts	Generate Savings in General	After-tax income	tax free income; capital gains tax exemption	Withdrawal - no penalty; no tax
SAVINGS GATEWAY	Saving in general	Generate Savings for lower income households; means tested	co-payment; capped	taxed	Early withdrawal attracted penalty of all co-payment contributions

Source: OECD (2007)

Individual Savings Accounts (ISAs)

ISAs were introduced on 6 April 1999. They are tax preferred accounts providing for returns on shares and deposit accounts (i.e. interest, dividends and capital gains) free of taxes. ISAs originally comprised three components: cash, shares and life insurance. However, the life insurance component was abolished in April 2005 as a separate component of the ISA schemes. Certain[19] life insurance policies are allowable in either of the remaining categories. The following table represents a more comprehensive list of allowable investments within each of the ISA categories.

Allowable investments in ISA categories

Stocks and Shares ISA	Cash ISA
Shares and corporate bonds issued by companies listed on recognized stock exchanges.	Cash deposited in bank and building society accounts
Gilt edged securities ('gilts'), issued by the UK government, similar securities issued by other governments of the European Economic Area and 'strips' of all these securities	National Savings and Investments products that are specially designed for ISA (but not other National Savings and Investments products such as the Investment Account, Savings certificates or pensioners' guaranteed Income bonds
Units or shares in funds authorised by the Financial Services Authority (unit trusts or Open Ended Investment Companies (OEICs))	Alternative finance arrangements, such as Shari'a compliant products
Shares and securities in investment trusts	Shares in companies and collective investment schemes that fail to meet qualifying criteria for stock and share ISAs
Life insurance policies	Life insurance policies that fail to meet the qualifying conditions of the stocks and share ISAs[20]
Shares transferred from an HMRC approved SAYE share option scheme or Share Incentive plan	Stakeholder cash product
Stakeholder medium term products	Stakeholder medium term products that fail to meet the qualifying criteria for stock and share ISAs.

[19] "Unit linked", "investment linked" and/or "with profits" policies are allowable in an ISA.

[20] If the policy guarantees 95% or more of the amount invested, it will not qualify under the Stocks and Share ISAs. It is then placed in a cash ISA.

The following rules apply to ISA investments:

- In each tax year, an individual may subscribe to one Cash ISA and one Share ISA.
- There is no income tax payable on income received from ISA accounts; nor is there capital gains tax arising from ISA investments.
- Individuals have the right to access their funds at any time; there is no statutory lock-in period.
- Funds invested in Share ISAs can only be transferred to other Share ISAs. But funds invested in Cash ISAs can be transferred either to another Cash ISA or to a Share ISA.

While these plans allow immediate access to funds without penalty, they also contain a restriction on further investments. If a plan that had previously reached capacity is drawn down upon, further contributions into such account are not permissible, even if they are intended as a replacement of amounts drawn down. This is to discourage unnecessary withdrawals.

As from the 2012/13 tax year the amount that can be subscribed to a combined shares and cash ISA is £11 280, out of which £5 640 can be invested in a Cash ISA[21].

While the UK government does not impose pricing restrictions on providers of ISA accounts, they periodically set standards[22] of "reasonably priced" products which allow, service providers to market their products as compliant.

Evaluating ISA statistics

ISAs seemed to be more successful than other savings schemes at attracting moderate income earners. There were around 15.4 million ISA accounts in 2010-11, up from 14.4 million the year before. Of this, around 78 per cent were in cash ISAs. In terms of amounts, a total of £54 billion was subscribed to ISAs in 2010-11, up from £45 billion the year before.

An analysis of average subscriptions indicates that the average investment per ISA increased to £3 500 (2010-11), and this has been increasing in line with contribution limits.

One of the key indicators is the relative participation of different income earners in the scheme. The table below gives a breakdown:

As can be seen from the table, over 25 per cent of ISA subscribers earn less than £10 000, while well over half earn less than £20 000 per annum. In terms of high income earners, less than 10 per cent of subscribers earn £50 000 or more.

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[21] Limits are adjusted annually in line with retail price inflation measured in September of the previous year.

[22] Treasury Charges Access Terms (CAT standards) were introduced in 1999 to complement the ISA regime. In 2005, CAT standards were replaced by "stakeholder products", a similar, but legislated standard.

It seems as if lower and middle income earners make up a sizeable portion of the ISA participants, an indication that the scheme is partly reaching its objectives.

It is estimated that in 2010-11 the tax foregone in relation to ISAs was 2.1 billion pounds.

Numbers of ISA holders by income band

Income Band (GBP)	0-4 999	5 000-9 999	10 000-19 999	20 000-29 999	30 000-49 999	50 000-99 999	10 000+
Millions of Subscribers	2.5	3.8	7.2	4.2	3.5	1.5	0.5
% Breakdown	10.8	16.4	31.1	18.1	15.1	6.4	2.1

B

The Fundisa co-contribution scheme

Fundisa is a co-contribution targeted savings vehicle aimed at encouraging savings for purposes of tertiary education. It is a money-market unit trust product that was set up as a pilot project in November 2008.

Investors can open an account (assigned to a nominated beneficiary of their choice) with minimum monthly contributions of R40, while withdrawals are made on available balance. The incentive is a subsidy in the form of an additional contribution of 25% of the net saving accumulated limited to R600 per year.

While the benefits are through co-payments, they are segregated for accounting purposes in that an investor may freely withdraw his/her investment but not the co-payment until such time as the funds are being withdrawn to fund the tertiary education of the beneficiary. When savings that previously earned co-contributions are withdrawn, the investor loses the co-contribution portion and this serves as a disincentive to premature withdrawals.

ASISA envisages a second phase of the Fundisa scheme with improvements in distribution capacity and a moderated regulatory environment.

The product is not exclusive to certain income groups but it is structured to appeal to low income earners by virtue of the following features:

- Co-payment structure (as opposed to taxation benefits)
- Low cap on co-payment of R600 per year
- No cost of account administration
- Easily withdrawable

Take-up via the retail bank branches nationally has been considerably slow due to regulatory restrictions governing the marketing of “investment” products. The qualifications for “fit and proper” purposes for unit trusts is considerably more onerous than for traditional bank products and retail branch staff are generally not suitably qualified to meet the definition or to sell “investment” products. Due to compliance issues, many bank branches are not able to support Fundisa, and are therefore turning away clients.

Fundisa - Take up statistics as at the end of 2011

As at	No. of Beneficiaries	No. of Investors	Bonus AUM* (Allocated)	Investor savings AUM	Total AUM
06/2011	15 473	10 499	R4 709 943	R39 065 364	R43 775 308
09/2011	16 675	10 845	R4 782 701	R46 967 739	R51 750 440
10/2011	18 243	11 000	R4 793 115	R48 696 982	R53 490 097

Source: ASISA, December 2011
** Assets under management*

Fundisa bonus payment

Year	No. of Investors	Grant amount paid out
2008	2 733	R 379 552
2009	4 864	R 1 214 234
2010	10 338	R2 849 798
2011*	16 828	R4 809 726

Source: ASISA, December 2011

Apparently the bank compliance officers have advised them to exclude Fundisa as it creates unmanageable levels of risk. ASISA has been in negotiations with the FSB regarding a FAIS exemption but thus far has been unsuccessful. A recent survey by ASISA indicates that 25 per cent of all participants are low income individuals (below the income tax threshold), while 47 per cent[23] earn below R14 530 per month. Twenty four per cent of households had income above R14 530 per month, while 5 per cent of participants refused to disclose which income category they fell into.

ASISA is considering the following changes for the next phase of the Fundisa scheme:

- Allowing for a measure of an equity investment component
- Including elements for insurance and credit related products
- Extending Fundisa for broader use than just education

It should be noted that this paper and the current set of proposals does not deal with the role and effectiveness of co-contributions to encourage savings.

[23] 29% of whom fell within the National Student Financial Aid Scheme.

C

Examples of how proposals in this paper will affect different taxpayers

It is proposed that the current interest income tax free thresholds be replaced by new tax-incentivised accounts. In the example below (see Table), the tax free interest income thresholds are to be reduced by 50 per cent during the first year, and then phased out during the following year.

In order to accommodate taxpayers who are currently invested in interest bearing savings vehicles, the following proposals are suggested. Taxpayers aged 45 and older, but younger than 50 years, will be allowed a once off transfer of maximum one quarter of the lifetime limit. Taxpayers 50 years and older but younger than 60 years will be allowed a once off transfer of half their lifetime limit, while those 60 years and older but younger than 65 years will be allowed a three quarters transfer. For those individuals aged 65 years and older, a once off transfer equal to the entire lifetime limit will be allowed. All these taxpayers will have a two year window in which to complete the transfer. A marginal tax rate of 25 per cent is assumed for all examples.

The example below illustrates how taxpayers will be affected by the proposed changes, given different assumptions and scenarios.

In the example for the person between 45 and 50 years of age, it is assumed that he/she invested R 150 000, earning interest of 8.5 per cent. In the current tax dispensation with the interest income free tax thresholds he/she will not be liable for tax, since the total interest income is less than the current tax threshold (R 22 800)

It is assumed that he/she will transfer a quarter of his/her lifetime limit (R125 000) from his current bank account into the new proposed tax-incentivised savings vehicle. If the tax threshold is reduced by 50 per cent in year one as proposed, the taxpayer will be in a tax neutral position, as indicated by his net tax position on the table.

For the taxpayer aged between 50 and 60 years, it is assumed that he/she has R 300 000 invested, also earning 8.5 per cent interest. In the example below, this taxpayer transfers half of his/her lifetime limit (R250 000) from the current bank account into a new tax-incentivised vehicle. Even if the tax-free interest income threshold is halved, this taxpayer will be in a marginally better position in year one than he/she would be in the current tax dispensation.

For the taxpayer aged between 60 and 65 years, it is assumed that he/she has R 400 000 invested in an interest bearing account, and that he/she will transfer three quarters of the lifetime limit (R375 000)into a new tax-incentivised savings vehicle. The example below indicates that this taxpayer would be in a more favourable net tax position, even if the tax-free interest income threshold is halved.

Finally for the taxpayer aged 65 years and older, it has to be noted that currently the tax-free interest income threshold is R 33 000. It is assumed that this taxpayer has R 500 000 invested in an interest bearing account, and that he/she will transfer the full lifetime amount (R 500 000) into a new tax-incentivised savings vehicle. The example below indicates that this taxpayer will also be in a better net tax position in year one after the proposed changes, despite the threshold being halved.

It has to be noted that the examples did not take into account individuals who are invested in interest bearing accounts with minimum fixed terms. Stakeholders will be consulted on possible ways of accommodating them.

Examples of how tax proposals will affect current taxpayers

	45-50 yrs	50-60 yrs	60-65 yrs	65+ yrs
Current position				
Bank account balance	R 150 000	R 300 000	R 400 000	R 500 000
Interest income	R 12 750	R 25 500	R 34 000	R 42 500
Tax-free interest income threshold	R 22 800	R 22 800	R 22 800	R 33 000
Taxable interest income	R 0	R 2 700	R 11 200	R 9 500
Tax payable (25%)	R 0	R 675	R 2 800	R 2 375
New position (assuming maximum transfer to new tax-free savings vehicle)				
Tax-free savings vehicle balance	R 125 000	R 250 000	R 375 000	R 500 000
Tax-free interest income	R 10 625	R 21 250	R 31 875	R 42 500
Bank account balance	R 25 000	R 50 000	R 25 000	R 0
Interest income	R 2 125	R 4 250	R 2 125	R 0
Tax-free interest income threshold	R 11 400	R 11 400	R 11 400	R 16 500
Taxable interest income	R 0	R 0	R 0	R 0
Tax payable (25%)	R 0	R 0	R 0	R 0
Net position	**R 0**	**R 675**	**R 2 800**	**R 2 375**

Source: National Treasury modelling

D

Distributional features of tax-preferred accounts: Source: OECD (2007)

Country	Accounts	Number of participants	Participation rate	Average contribution	Average contribution as % of income
Belgium	Tax-preferred life insurance	No observable trend	Increases with income	Increases with income	Decreases with income
Canada	RESPs	N/A	Increases with income	Increases with income	Decreases with income
Germany	Employee Savings Bonus	Decreases as income increases	N/A	N/A	N/A
Italy	Tax-preferred life insurance	Decreases as income increases	Increases with income	Increases with income	Decreases with income
The Netherlands	Payroll Savings Scheme	Middle to high-income classes are the most numerous	Increases with income	Increases with income	Decreases with income
Norway	Tax Favoured Scheme for Shares (AMS)	Middle to high-income classes are the most numerous	N/A	Increases with income	Decreases with income
United States	- 529 plans	N/A			
	- Coverdell Education Savings Accounts (ESAs)		Increases with income	Benefit increases with income	
United Kingdom	-TESSAs	Decreases as income increases	Increases with income	N/A	N/A
	-PEPs	Decreases as income increases	Increases with income	Increases with income	Decreases with income
	-ISAs	Decreases as income increases	Increases with income	Increases with income	Decreases with income