

# **Passbook to security**

## **Meeting *all* the objectives for pension reform**

### **MEETING THE OBJECTIVES**

***In her statement of 17 July 1997, the Secretary of State for Social Security identified the challenges posed by today's pension system, and the requirements for reform.***

***Over the last two years, the independent Adam Smith Institute has been examining these same issues. We believe that we can now identify with precision a set of reforms which would meet all of the Secretary of State's objectives for the future.***

***We call this new system the Passbook Pension. As demanded by the Secretary of State, it:***

- ✓ assures everyone of security and dignity — not dependency — in retirement;**
- ✓ is easily accessible and intelligible;**
- ✓ reduces the inequalities among elderly people; and**
- ✓ promotes the health of the wider economy, enabling the retired population to benefit directly from its success.**

***Also in line with the Secretary of State's aims, the Passbook Pension proposal:***

- ✓ retains the guarantee of the basic state pension and SERPS for all those who choose it;**
- ✓ can be introduced alongside existing high-quality company and personal pension schemes;**
- ✓ meets the Stakeholder Pension requirements of security, value for money, and easy access for those not in a company plan;**

- ✓ **meets the demands of the Citizenship Pension by providing access and high value to people with patchy earnings records;**
- ✓ **meets all nine of the specific benchmarks outlined by the Secretary of State in her discussion document of 17 July.**

## **THIS PAPER**

***This paper describes the main features of the Passbook Pension, its costs and benefits, its relationship to today's personal and occupational pensions, the appropriate tax and regulatory regime, and the speed and costs of introducing the reforms.***

***At every stage, these proposals have been scrutinised by a diverse panel of financial industry and systems specialists. Though challenging, we are confident that they are administratively practicable and commercially viable. Market research and other tests of public opinion are currently in progress to calibrate their acceptability to the public as electors and consumers.***

***Our Passbook Pension proposals have the additional merit that they are compatible with wider reforms, such as the re-focusing of state benefits or the development of personal lifetime accounts on the basis of the Individual Savings Account.***

## **HOW THE PASSBOOK PENSION WORKS**

At its most basic, the *Passbook Pension* simply allows those in work to re-direct part of their National Insurance Contributions into their **own retirement savings account**. This is the minimum required, but people can save more if they choose.

The new retirement savings accounts will be designed and regulated for their **simplicity, intelligibility and ease of access to the public**. They will be managed by banks, friendly societies, insurers and other financial institutions. Savers can choose directly between these providers, or can enter through the "gateway" of an employer, trade union, affinity group, or other organization.

Savers' funds will **grow through investment** — higher-growth when they are young, switching to higher-security as they get older.

When savers reach 65, they can use their accumulated funds to buy an **annuity** which provides them with a **regular pension** for the rest of their life. But those who have saved enough to buy an annuity of minimum acceptable size can take their pension earlier if they want.

Should people reach 65 before they have saved enough in their account to produce an adequate pension, **the government will top up their savings**. The top-up will be **higher for women**, who tend to live longer than men, and therefore need more savings to purchase the same weekly or monthly pension.

The exact size of the annuity deemed adequate for retirement will be a political decision. However, we believe that a pension **significantly larger than today's income-support level** is easily feasible under the *Passbook Pension*, and that this should be the **minimum target**.

## **BENCHMARK OBJECTIVES**

As the Secretary of State has demanded, the *Passbook Pension* **responds to demographic change** because it places more of the responsibility for retirement saving on the individual during his or her own working life. Accordingly, it is less sensitive to demographic imbalances between different generations.

It also has the advantage of enabling people to **participate in the health and success of the wider economy**. With their pension savings invested in the industry of the UK and other countries, each generation can benefit directly from the economic success to which it has contributed.

The *Passbook Pension* system identifies a more **sustainable and rational division of the responsibility for funding pensions**. Those who *can* provide for themselves have an obligation so to do — and indeed the *Passbook Pension* makes self-provision much easier, even for those on low or irregular earnings. Yet **the state continues as the guarantor of everyone's basic income in retirement**.

If families are to save more for their own retirement, however, they must be assured that the savings vehicles they choose will give them **high value, low cost and exemplary service quality**. To assure people that their pensions are secure, and to give them confidence in the new system, all *Passbook Pension* plans will be **benchmarked** to a basic and easily intelligible set of criteria providing:

- **high value**, even for part-time workers and those on low or irregular incomes, with 100% of their contributions invested;
- **low and clear charges**, so that people can easily compare different plans, helped by a passbook to show how their savings have grown;
- **regulation of providers and products** instead of sales, thus reducing the cost and complexity of regulation while still allowing people to **save with confidence**, knowing their funds are secure;
- simple plans which are easy to understand and discuss, and thus help to **increase the public awareness** of pension issues;
- plans which **respond to social and labour market changes**;
- plans which are designed to **narrow the pensions gap** between men and women; and

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- **firm guarantees** such as penalty-free transfers between providers, the right to leave the system entirely, and state top-ups for anyone who reaches retirement with insufficient funds.

## THE KEY FEATURES

The aim of these **benchmarks** is to ensure that a *Passbook Pension* provides security and good value for all savers, regardless of individual circumstances. The following notes describe its key features.

**Approved products.** Today's pension regulation is costly, complex, and ineffective because it focuses on the sales process. *Passbook Pension* regulation must focus instead on the **solidity of the providers and the quality of their products**. Simpler regulation means greater security and lower charges.

**A safe foundation.** The *Passbook Pension* is designed to provide a safe financial foundation for retirement. Its low cost, simplicity, and ease of access comes only through some loss of flexibility. However, **personal and company pension schemes will continue** for those who want to save larger sums in more flexible schemes.

**Better value.** Thanks to investment growth, an age-related NIC rebate enables people to save enough for a pension much larger than the income support level, at **no extra cost to themselves**. The size of the rebate can be adjusted to promote a level of saving which still preserves enough NIC revenue to pay current state pensions.

**A voluntary alternative.** Nobody is forced into a *Passbook Pension*. The basic state pension and SERPS remain, as today, for those who do not want to change. They also remain open for anyone who does take out a *Passbook Pension* but then wishes to return to the state system. Thus **the guarantee of state provision is retained** as a secure foundation in retirement, for everyone.

**An insured plan.** The *Passbook Pension* is designed to give extra help to families and individuals in need. As a standard feature, it would include provision for:

- **partner's benefits:** whereby people could nominate a spouse or partner as beneficiary for the whole fund (if the holder dies before retirement) or a part of it (if the holder dies within five years of retirement);
- **life assurance:** providing a cash lump sum (perhaps £20,000) or a regular income (perhaps two-thirds of earnings) to a dependent partner if the holder dies before retirement;

- **a pension contribution guarantee:** assuring account holders that their monthly contributions would continue to be credited to their account when their earnings are interrupted for any reason.

**Choice among providers.** The fact that savers can choose between different approved providers, and switch their savings to another at any time, will ensure that providers strive to out-perform each other on costs, fund performance and customer service. That permanent and explicit pressure will deliver ongoing value to the consumer.



## MAKING CONTRIBUTIONS

***Doing more than the minimum.*** People should be encouraged to pay more than the minimum NIC rebate towards their savings. The *Passbook Pension* makes this easy for them. Holders can **top up their savings, or friends and family can do it for them**. Thus parents or grandparents may start off a child's account with a gift or bequest, while working people can invest windfalls or regular extra amounts, or add to the account of a non-working partner.

***Contribution limits.*** We envisage that the pension income generated by people's *Passbook Pension* savings will be tax-free. To prevent abuse of this concession, some annual limit on contributions (say, of £3,000-£6,000) may be desirable.

***Recognition for past contributions.*** Those who have contributed into the state scheme for many years will be entitled to benefit from those past contributions through a **recognition bond**, paid by the state into their *Passbook Pension* savings fund on retirement.

## ACCOUNT MANAGEMENT

***Investments.*** Providers would ensure **automatic life-stage switching**, matching risk to age and protecting past growth achieved in the fund. Thus the investments of younger account holders might go largely into shares, those of older ones largely into bonds.

***Returns.*** Investment returns — and thus the growth of people's funds — cannot be guaranteed. To build in such guarantees would add cost and would deny people the higher returns they could achieve from more volatile investments. The ups and downs of investments will in any case balance out over the long period of a pension plan.

***A single account and penalty-free transfers.*** For simplicity, people can hold only one *Passbook Pension* account at a time. If they choose to move to another pension provider, the whole of their fund moves over with them. There would be **no charges for transferring** to another provider, or out of the *Passbook Pension* system entirely.

## BENEFITS AT RETIREMENT

***Annuities.*** To make the *Passbook Pension* simple, and to ensure it remains sufficient even for an extended period of retirement, **benefits must be drawn by way of an annuity**, indexed to prices.

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In the event of an early death, there would be a guaranteed payout of the first five years' pension.

***Retirement age.*** *Passbook Pension* holders may choose to retire at any time, **provided they have built up a fund sufficient** to buy a retirement annuity of **minimum size**. For those who have not, the state tops up their fund when they reach the official retirement age.

## INCLUSIVENESS

The Secretary of State's discussion document emphasises the importance which the government attaches to giving special help to those with patchy earnings records who today face a "pensions gap".

Most affected by this are **women** (who are more like to face career breaks because of family caring responsibilities) and **workers on low or intermittent earnings**. The same concerns have also motivated the search for a Citizenship Pension mechanism to protect the future pension entitlements of carers.

The *Passbook Pension* meets all these objectives. It guarantees a **minimum retirement fund** for those on low or intermittent earnings, allows people's past savings to grow even when they are no longer in work, and ensures that contributions continue to be made on behalf of those taking career breaks, such as carers.

**Insured contributions.** The *Passbook Pension* system employs a three-stage mechanism to ensure that holders will not lose out on future pension entitlement if they are no longer able to work and save because of pregnancy, caring responsibilities, sickness, incapacity or unemployment. It works as follows:

- for a short initial period of around four months, it would be **up to the account holder** to continue contributing out of other savings, or to let his or her contributions lapse for the time being (though the holder's past savings would continue to grow);
- for the next two years, *Passbook Pension* holders would be covered by **waiver of premium insurance**, by which his or her regular contributions would continue to be credited into the account by the insurer;
- for those who are out of work for a longer period than this, the insurer would no longer continue making the contributions, but the **state would top up the account** of anyone whose fund had not reached the minimum acceptable size by the age of 65.

**The low paid.** The state top-up at 65 would also be available to low earners who, despite being in work for most of their lives, have not been able to save enough to buy an annuity of minimum size.

**Women.** Because women live longer than men, they need to have a larger fund in order to buy an annuity of the same size. In order to reflect this, **the state top-up will be larger for women**.

Through these various mechanisms, everyone with a *Passbook Pension* is guaranteed to receive a decent pension of a minimum

amount, no matter what their lifetime circumstances have been. But incentives remain positive, the main responsibility falling on the individual, with insurance and the state stepping in where they are needed.

## **COSTS AND CHARGES**

**Full value.** To ensure that people's pension resources are used to maximum effect, contributors must receive **regular and clear information** about the value of their fund and any charges that are made. Savers must be assured that 100% of their contributions are invested, with charges coming out of their fund, not their premiums.

**A single charge.** The charging structure must be clear, simple, easily understood by contributors, and readily comparable between providers. We envisage a **single (percentage of fund) charge** only, and a **standard expression of fund growth** performance.

Such a charging structure — as clear and as easily comparable as APR figures are on building-society accounts today — would **promote open competition** and sweep away the jargon and complexity which today forms an impenetrable barrier against members of the public who try to compare rival pension plans.

**Level of charge.** Charges may vary according to the size of the *Passbook Pension* holder's fund, but a typical provider might be expected to charge 1.4% or less, with some early moves to rates well below that, possibly at 0.8%. We do not envisage any cap on charges being necessary, provided charges are clear and comparable.

**Member statements.** The simplicity of a single charge and a standard expression of fund growth facilitates clear reporting to members on the accumulated value of their retirement provision. We envisage **quarterly reporting as a minimum**, with statement layouts benchmarked to provide members with only the essential information, clearly expressed.

**Passbooks.** Simplicity also makes possible a **passbook** system, similar to a savings-account passbook, in which people can at any time update and record the growth of their savings. However, many providers might offer an electronic smart-card, or a 24-hour telephone information service as alternatives.

**Required information.** Statements and passbooks should show each holder's **past contributions**, the accumulated **size of the account**, any **charges** deducted, the **growth** achieved over the last year, and the **size of the pension** which the holder's savings would provide if they were converted into an annuity right now.

**Changing providers.** Armed with such clear information, *Passbook Pension* holders can make **informed comparisons** between providers on the basis of charges, returns, and customer service. Moving one's fund to another provider will be as straightforward as

moving an account between different banks or building societies today.

That freedom will further increase the pressure on providers to **maximise the quality of service** they deliver, so as to keep customers over the long term and minimise the costs of churning.

## **PROVIDERS AND ACCESSIBILITY**

Providers would be required to meet a set of criteria in order to secure "approved" status, including good progress on the pensions mis-selling review, technical competency, financial strength and administrative and technical infrastructure capabilities.

Market assessments suggest that there would be around fifty potential qualified *Passbook Pension* providers, of whom perhaps half would take the view that they had to be present in this new market.

**Value-added "gateways"**. Against a background of a market of around 25 approved pensions providers, purchasers are likely to form or join **groups** to obtain greater bargaining power. Such groups would be expected to form a gateway through which the public can reach providers at low cost, perhaps **adding value** for customers by:

- operating as an **informed "super-customer"**;
- **negotiating bulk deals** with *Passbook Pension* providers;
- operating their own **sales force** to improve penetration;
- providing members with access to **independent financial advice**;
- facilitating **low-cost scheme administration**, *e.g.* by using existing communication channels to collect premiums and deliver statements; and
- providing an **independent ombudsman** to resolve disputes.

Natural gateway groupings might include large employers, trade unions, trade associations and professional bodies, geographically-defined bodies (such as local authorities), affinity groups, and service providers who have a close relationship with a large customer base (such as retailers or banks).

Many or most of these organisations would not choose to be in the fund management business themselves, but would form alliances, with themselves as the "front office" link to members and with financial services companies as the "back office" providers.

**A role for mutuals.** Some of these gateway providers would opt to work through a **mutual** or **trust** arrangement to serve their members. This would be distinct and separate from the gateway group itself, and would work under fiduciary duties requiring it always to act in the members' interests.

***Choice for customers.*** Prospective purchasers of a ***Passbook Pension*** will be able to choose their provider direct (by selecting one of the "approved" providers) or to go through a mutual or commercial gateway which has already selected the best ***Passbook Pension*** provider for its entire membership.



## ADMINISTRATIVE SYSTEMS

**Cash collection.** Individuals could make payments into their *Passbook Pension* by any of three routes, whichever is convenient.

- **Payroll deduction.** Pension providers already offer computer software that links with the employer's payroll system to capture employee contribution data in electronic form. The same information would go to the Contributions Agency for reconciliation with existing NI records. This may be an attractive method for large employers and offers the benefit of fast funds transfer.
- **NI / Inland Revenue.** The second route parallels the collection system that operates for Personal Pensions today. It is a simple, efficient and accurate method, particularly attractive to small employers and to the self-employed, and capable of processing additional voluntary contributions. However, some revamp of current systems would be essential to speed up the transfer of people's contributions to their *Passbook Pension* providers.
- **Third party clearing house.** We should also expect specialist facilities operators to provide contribution collection services, acting as a clearing house which collects contributions from individuals or gateway groups, consolidates the payments, and directs them electronically to *Passbook Pension* providers. This could provide a low-cost method of collecting small payments from disparate individuals, such as the self-employed.

## TAX REGIME

Today's personal and occupational pensions are aided by favourable tax treatment of contributions and fund growth. In public expenditure terms, the introduction of a *Passbook Pension* would be made easier if **contributions** were made out of **taxed income** (like national insurance), with **tax-free growth and benefits** (like PEPs).

Introducing the *Passbook Pension* does not **require** any change in the tax treatment of today's company and personal pension plans. They can continue to exist alongside the *Passbook Pension*, with their own tax and regulatory structures. However, any new system probably works best if **benefits**, not **contributions**, are tax free, since:

- NIC rebates would be easier to re-direct if all contributions were similarly taxed;

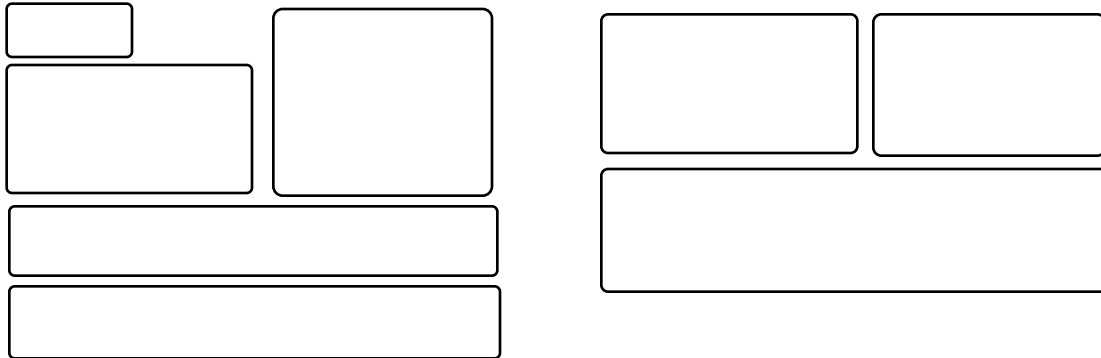
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- tax-free contributions are not very attractive to low-income families (whom the government particularly wants to encourage into saving) because they pay little or no tax anyway; and
- tax-free benefits are easier to police because the amounts are smaller and less complicated.

## OTHER PENSION PLANS

**Personal and company plans.** The *Passbook Pension* will co-exist with occupational and personal pensions schemes. Those schemes, as today, would provide a top-up to basic pension provision and would continue to be governed by their own regulatory and tax regimes, wholly separate from that of the *Passbook Pension*.

### Today's pension scene



### The *Passbook Pension* scene

Over time, it might be that the close regulation of occupational and personal pensions could be eased. With basic retirement provision assured through the *Passbook Pension*, we could reasonably leave people to make more adventurous decisions about their upper-tier provision.

**The state pension system.** We envisage the *Passbook Pension* as replacing the basic state pension and SERPS for those who chose it. They would, of course, have the option to revert to the state scheme at a later date if they so decided. That guarantee remains for everyone.

However, it is perfectly possible to introduce the *Passbook Pension* as second-tier only: an alternative to SERPS, more readily portable than many employer schemes, or providing easier access and better value to people who have only a small amount to invest in a personal pension.

There are several reasons for choosing the more radical option, allowing people to re-direct at least some of their NICs into a *Passbook Pension*, and thereby exchange their *entitlement* to a basic state pension for a *guarantee* of the same amount:

- first, even on the most pessimistic assumptions about future pension fund growth, the public would get a **much higher return** on any money that was re-directed from NICs into pension investments;

- the extra money going into an account makes a big difference in total growth, since a much **smaller percentage is absorbed in charges**;
- the pension scene would be **much easier to understand** if any reform replaced some of its complexities, instead of simply adding a new type of scheme on top of them.

## GETTING THERE FROM HERE

Politicians naturally worry about the prospect of allowing any part of today's National Insurance Contributions to be diverted away from the state pensions and benefits system, since the revenue is needed to finance today's state pensions and social benefits.

**The problem.** The difficulty in moving from a pay-as-you-go system to a fully-funded system would be the same, whether it is the state or the private sector that is running it. Pay-as-you-go systems face pressure from demographic change and from the tendency of electors to vote for higher benefits but not higher taxes. Fully-funded systems may be more secure, but the transition is not easy.

The pervasive worry about any move to fully funded pensions can be summarised as the belief that "one generation must pay twice" — once to pay what is due to today's elderly, and once more to build up funds for its own retirement.

**Causes for optimism.** However, this "paying twice" fear is certainly unfounded. There is growing evidence that the economic gain from funding is so large that we could make the transition to a funded pension system **within a single generation and still leave everyone better off.**

There are several reasons for this, as we have shown in our recent report *The Great Escape*.

- First, people see NICs as a **tax on jobs**. This has seriously depressive effects on the labour market. Employers are less willing to create jobs, and workers derive less visible benefit from taking them. But because *Passbook Pensions* are seen as saving, not a tax, they reduce this disincentive problem.
- Second, state pensions can grow no faster than future tax receipts — whereas **real investments can grow much more quickly** than this. Historically, pension funds have grown three times as fast, even during their least successful decades.
- Third, moving to full funding would also provide a **massive capital boost to UK industry**, improving productivity and increasing economic growth.

So large are these effects that US researchers have calculated that moving to funded pensions in that country could produce a **welfare gain of 4%-5% for all future generations, without loss to the present one**, which can be fully compensated for making the change.

Our own calculations for the UK suggest similarly large gains. In the case of the UK, the incentive and other effects of moving to a savings-based system would amount to a doubling of economic growth, out of which the cost of the transition can be easily managed.

## A NEW PARTNERSHIP

**Dividing the tasks.** It will require a new partnership between the public and private sectors if we are to achieve these gains and make any new pension system work with security and confidence,

Our proposals are challenging, both to government and to the financial services industry, but our calibrations thus far make us confident that they are **commercially and politically practicable**. To achieve the full benefits of the *Passbook Pension*, both the government and the financial services industry will have to enter into a number of clear commitments.

**The government's role.** The government would have to agree to:

- **regulate *Passbook Pension* products and providers**, not sales;
- **simplify contribution and eligibility rules**;
- make **contributions viable**, by giving people NIC rebates;
- **meet any shortfall** in pension payments on retirement;
- require **only one *Passbook Pension* account per individual**;
- **actively promote the scheme** with public education.

**The provider role.** The providers of *Passbook Pensions* must agree to:

- **provide access to all**, regardless of income, age or employment;
- deliver **good value**, particularly for women and low income groups;
- offer **easily understood, readily comparable *Passbook Pension* accounts** with high levels of customer service;
- offer customers **quality access to stockmarket growth**, with automatic life-stage switching to limit their financial risks;
- offer **genuine portability** and penalty-free transfers.

## CONCLUSION

***Passbook to security: Meeting all the objectives for pension reform***

***The Passbook Pension is a simple, easily accessible, funded, and individual form of retirement saving which allows everyone to retire in dignity, not dependency.***

***These proposals are challenging to the financial services industry, but certainly deliverable commercially. They should achieve wide support among the public. It is now up to policymakers to grasp the public's demand for change and to develop that new consensus through the Passbook Pension.***



# Appendix: The Passbook Pension as a foundation for wider reforms

*The Passbook Pension is fully compatible with future reforms of the welfare state in which the division of responsibility between the individual and the state are being re-assessed.*

*It is the first and foundation element of a three-part solution to this problem, which we call the Fortune Account.*

The Fortune Account is a **personal lifetime account**. It provides:

- *long-term savings* for a basic pension — the Passbook Pension;
- an *insurance* package against disability and other risks; and
- a *contingency fund* to help people through short-term setbacks.

The Fortune Account is designed for the millions, not the millionaires. It is basic, simple, and cheap to run.

The Fortune Account is **inclusive**. People who cannot make their own contributions will have their funds topped up by the state, so that they can enjoy the same minimum benefits as everyone else.

The Fortune Account promotes a more rational and sustainable balance of responsibilities between the individual and the state, allowing governments to focus on their true **welfare** role.

## **More than a basic pension**

Helped by favourable tax rules, millions of people have already made their own pension provision through company and personal schemes. The Passbook Pension will extend this further. But people remain willing to make yet more self-provision against other lifetime events, if they are given the opportunity and encouragement so to do.

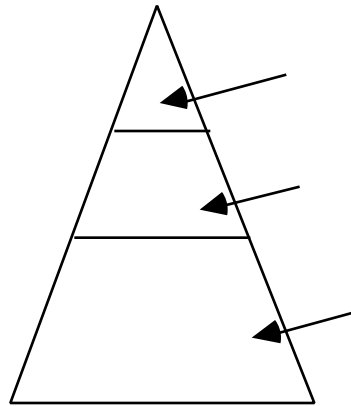
The Fortune Account enables people to make that commitment and take on that personal responsibility. A personal lifetime account, the Fortune Account, gives everyone access to complete protection — not just in retirement, but against the risk of lifetime misfortunes.

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Using NIC rebates and savings of their own, people in work will pay into their Fortune Account. Like bank or building society accounts, Fortune Accounts will be the personal property of the holder.

People can open their own Fortune Account directly, or gain access to one through a number of gateway providers such as employers, trade unions, or friendly societies. The savings and insurance elements of the account will be managed by commercial providers, competing for the custom of gateway organisations and the public on the basis of high growth, low costs, and good service.

### ***Outline of the Fortune Account***



### **Customer rights**

The pension and emergency savings that people accumulate in their Fortune Account are their own property. They are invested and grow, just like in a bank account. Account holders can check the accumulated value of their savings at any time.

Fortune Account providers will be required to give customers regular and simple statements, not just of their ***Passbook Pension*** entitlements, but of the insurance cover to which they are entitled.

The Fortune Account is individual and portable. Customers must be able to move their savings and their insurance cover from one provider to another. When they die, any unused pension or emergency savings in the account can be bequeathed to friends and family.

### **Temporary and long-term misfortunes**

***Temporary difficulties.*** Those who fall out of work temporarily can draw on the contingency savings element of their Fortune Account — the ***Individual Savings Fund*** — which provides cash they can access in an emergency.

***Medium-term misfortunes.*** The Fortune Account gives holders a package of savings and insurance benefits — a ***Lifetime Protection Plan*** — to protect them against longer-term lifetime misfortunes such as

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sickness, incapacity, or extended unemployment. Protection of future pension contributions would be part of this insurance.

Many other parts of today's welfare state are also insurable and will be part of the Fortune Account package, including cover against incapacity to work, long-term care services, and disability.

An "insurance fund" system will make it possible for people to make roughly equal insurance contributions throughout their lives, even though the risks covered by the insurers tend to rise as people get older. Thus everyone can get the insurance at a reasonable price.

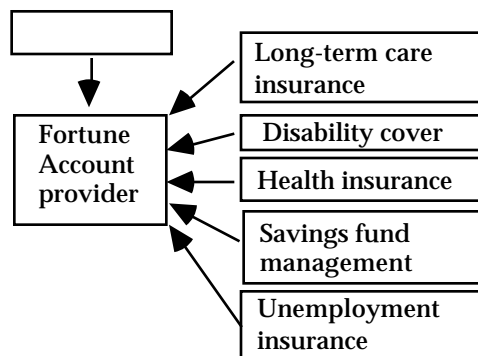
***Long-term welfare protection.*** For those who are never able to work because of disability or other problems, the state will step in, fulfilling its welfare role. The government will simply pay that person's Fortune Account provider to ensure that the right level of cash benefits or care services are provided.

### **Simplicity for users**

Of course, few financial services companies will have all the expertise needed to provide pensions as well as a wide range of specialist insurances. So just as it does today, the market will probably establish a "front office" system so that the entire package can be assembled without customers having to go to more than one place.

The front-office gateway provider could be a commercial distributor, an employer or trade union, or a mutual organization.

#### ***One-stop shopping concept***



### **Adding to an Account**

The Fortune Account is designed to give everyone a **basic pension income in retirement** and **basic protection against lifetime risks**. The size of the required contributions will be set with this in mind.

Nevertheless, many people may want to pay a little more in order to build up a larger retirement fund or to purchase more extensive

insurance cover, or to have more than the minimum required emergency savings conveniently to hand. We should make it easy for them to make such top-ups within their Fortune Account, instead of having to shop around from a variety of other sources.

## **Bringing in the system**

The Fortune Account could be introduced on a **fully optional** basis. However, there is a strong case for making membership **compulsory** for everyone **entering the workforce**, so that the new system covers everyone by the end of that generation. Instead of paying their full NICs, some or all of that money would be re-directed into a Fortune Account, managed by a provider of the individual's choice, and which would provide all their future benefits.

Membership could even be made compulsory for all **younger people** already in work today. Few under the age of 30 have given much thought to their pensions or insurables, or have built up much entitlement from the state system, so transferring them over should not be very controversial.

Older workers may be more reluctant to move from the state system into a Fortune Account. Those who do choose this option should be given a government **recognition bond**, redeemable at retirement, to reflect the state entitlements they have accrued.

The Fortune Account can be introduced in two stages, starting with the ***Passbook Pension*** element, and adding the insurance and emergency savings package a time later.

## **FURTHER READING**

More detailed argument on many of the points made in this paper can be found in the Institute's publications, which include:

***The Fortune Account*** (29pp, 1995)

***Beyond Pensions Plus: Developing the Fortune Account*** (51pp, 1997)

***The Great Escape: Financing the Transition to Funded Pensions*** (32pp, 1997)

A fuller and more technical specification of the Fortune Account system will be found in ***Passport out of Poverty***, to be published in January 1998.

These publications are available from: The Adam Smith Institute, 23 Great Smith Street, London SW1P 3BL

In constructing the proposals in this paper, the Adam Smith Institute has had the benefit of advice from the financial services industry, academics and other leading think tanks.