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Embargo 00 05 Monday 28 February

Solve the Savings problems with savers saving what and when they wish: Two simple schemes proposed - and a bonfire of failed schemes now on offer- says Politeia's new Pamphlet

Britain's savings problem perplexes politicians who spend a great deal of their time and our money encouraging us to save. Many schemes already exist, others are being piloted and more are promised, but the results have been disappointing. Politeia's new pamphlet, *Saving Savings: How to Promote Personal Investment*, analyses the state of savings to-day, identifies the obstacles to savings (and the schemes designed to overcome such obstacles), and proposes a radical alternative to what is now on offer.

The author, Charles Jackson, explains that savings suffer from obstacles and complexities. High costs, tax, regulation and inflexibility all restrict saving and add to the costs. Means testing too acts as a disincentive with potential savers inhibited by the likely costs of benefit withdrawal. Even where tax (or a subsidy) is used to promote saving, there can still be problems, e.g. distortion, reduced flexibility, or further restriction as the Government tries to cut use so as to curb costs.

The upshot is that people tend to save in two ways, through their houses or their retirement schemes. Neither is ideal. For instance, if housing values fall, savers' wealth declines and economic stability could be endangered. Pension schemes suffer from inadequate contributions and some face deficits, while many working people are contributing too little to cover their retirement.

Why don't the present schemes overcome these problems? The author analyses the different schemes on offer. He shows that the Government's schemes, where subsidy is central, e.g. the 'Saving Gateway Account', will make little difference. If anything it 'will reduce saving in the United Kingdom by a modest margin and increase Government expenditure by a larger margin'. Nor will the Child Trust Fund, itself obstacle prone, be likely to increase saving. The Conservative Lifetime Savings Account should be attractive to savers and has the advantage of not involving means testing, but the costs could create problems.

Solving the savings problem.

The author proposes that the present obstacles to saving should be swept away together with the numerous schemes now on offer. In their place there should be just two clear schemes: a *Before Tax Scheme* and an *After Tax Scheme*. The Before Tax Scheme would allow savers to save income free of income tax (as they can now in pension schemes) and pay income tax when they withdraw money. The After Tax Scheme would allow savers to save out of tax-paid income and withdraw without further tax liability (as with the ISA now). The advantages would be many. Savers could pay into either scheme or both. They could withdraw their savings when they wish and invest them in what they wish. Investments in the schemes would be free from income and capital gains tax. Savings would be saved.

Charles Jackson will be discussing his pamphlet at lunch at Politeia on Thursday 24th February 2005, between 1 and 2.15 p.m. Journalists are most welcome to attend – please let Lucy Warren know, 020 7240 5070 (secretary1@politeia.co.uk)

Saving Savings: How to Promote Personal Investment will be published by Politeia on Monday 28th 2005, and is available from Politeia, 22 Charing Cross Road, WC2H 0QP at £5.00. **The text will be available by e mail in advance to journalists on application by response to this message.** Enquiries to Politeia on 0207 240 5070, e-mail, info@politeia.co.uk

The author: Charles Jackson consults and writes on savings and investment issues. Most recently he was Managing Director at Merrill Lynch Investment Management. Prior to that he was at Mercury Asset Management where he was Vice Chairman of the Main Board.