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Providing for Pensions: Savings in a Free Society

Very shortly the Government's Pensions Committee will issue its final Report on the state of the nation's pensions. The Committee, under Adair Turner, is likely to raise doubts about the future levels of pension provision and the pressure will be on the Government to act. The danger is that the Chancellor may impose higher taxes to pay for pensions. But is the Pensions Committee on the right track – and should the Chancellor decree a tax rise?

Politeia's forthcoming pamphlet, *Providing for Pensions: Savings in a Free Society* considers the true position. Certainly the problems for pensions are serious – with occupational pensions declining and a growing number of pensioners dependent on means tested benefit - but such problems are largely of the Government's own making with its tax on pension funds and policy of means testing. And certainly there is a problem for those people who have not worked or saved during their lifetime, and that is a problem of redistribution. Nonetheless the true picture is of a different order.

The author, Tim Congdon, considers what needs to be saved. The evidence is that the UK needs to save about 15% and 20% of its output, given the typical rate of return on capital in this country, and the proportion of life spent working and not working by most people. Congdon explains that the British people are saving. They have he says, been behaving with remarkable foresight and rationality over periods of several decades since the Second World War, saving at the level of the 15% - 20% ratio, 'broadly the right figure to deliver incomes in retirement'. The savings are through a mixture of ways, including private and state pension income, interest, rents (including imputed rents on owner-occupied houses, dividends and social security benefits).

Congdon discusses the flawed approach of the Turner Pensions Committee and warns the Government against tax rises which would damage the economy and the future of pensions. Instead, the pamphlet proposes that the abolition of the present state (NIC) scheme and its place one which would be owned by each individual contributor. People would pay 8 percent of incomes into a unitized funds and the state would top it up by trebling the units,, bringing the initial value to up to 2K. The inflow to the Pensions Savings Funds would be c. 80billion, roughly the level of social security contributions today. The fund could, subject to law, be parceled out, with the aim of a real return of 4 percent with bids from fund management companies.

The scheme would cover over 95% of men and probably 85% of women and could be drawn on after 45 years of contributions or from the age of 68. Sums would accumulate tax-free inside the fund, as with pension funds at present. Sums would accumulate tax-free inside the fund, as with pension funds at present and they would belong to the member who could bequeath them on death.

What would it mean for each of us? In practice someone working for 45 years, where the fund had a 4%-a-year real return, would have a fund worth roughly £232,500 in terms of today's money. A married couple, with slightly longer working lives that normal, could look forward to a capital sum of £500,00 on their funds until the age of 70 and might receive super bonus units from

Providing for Pensions: Savings in a Free Society* is published by Politeia on TBC, and is available from Politeia, 22 Charing Cross Road, WC2H OQP at £5.00.The text will be available by e mail in advance to journalists on application by response to this message.** Enquiries to to Politeia on 0207 240 5070, e-mail, info@politeia.co.uk

The author: Tim Congdon is an economist. He founded Lombard Street Research in 1989, where he was managing director (until 2001) and chief economist (from 2001 to 2005).