



# Encouraging Savings in the UK

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## A Lifetime Savings Framework The 'LifeSaver'

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# Outline

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- UK savings situation
- Barriers to saving
- Government savings policy
- Tax relief and fairer incentives
- Framework to facilitate lifetime savings culture
- 'LifeSaver'



# Current UK Savings Situation

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- High per capita savings relative to Europe
- Good retirement savings culture
  - BUT mostly from occupational DB schemes
- UK State pension very low
- Switch to DC and policy moves to individualism
- => increasingly inadequate pensions, rising cost of State support, more poverty



# Current Problems

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- Risks/difficulties of saving are greater than the risks/difficulties of NOT saving
- Very low savings among low income groups
- Poverty does not explain low saving levels
  - lack of access
  - complexity of products
  - lack of sufficient incentive
  - lack of information/education



# Problems of Current UK Saving System, Why Don't People Save Enough?

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## General Barriers:

- Psychological inhibitors
  - apathy/inertia/boredom
- Complexity of system
- Lack of education
- Lack of understanding
- Lack of confidence
  - scandals
- Not willing to pay for advice

## Barriers for Poor:

- Savings trap in means testing
- Pension credit
  - tax 40%+
- Perception of security from benefits system/Social Fund
- 'Social exclusion' in advice
- Tax relief discriminates against poor



# Aims of Government Savings Policy

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- Spread benefits of savings/assets **to all**
- Increase saving/assets for poor
- Young to enter adulthood with assets
- Encourage higher and more regular savings
- Improve financial education
- 60/40 to 40/60 for pensions



# Savings Initiatives Since 1997

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- Policies introduced by this Government:
  - ISA
  - Stakeholder
  - Pension Credit
  - Raise capital limits for pensions
  - PAT14
  - CAT
  - FSA
  - Financial Education in National Curriculum



# New Savings Policy Proposals

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- Child Trust Fund 'Baby Bond'
- Savings Gateway



# Current Savings Incentives

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- Generous pensions tax relief
- Range of tax free products
- Most saving can be done tax free
  - BUT...
  - Tax relief is not much incentive for lower income groups. It favours the rich.



# Tax Relief Offers Much Better Incentive For Better Off

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- Assume a pension fund of £10,000
- £2,500 can be taken as lump sum
- 20% relief in/20% on retmt: £500 subsidy
- 40% relief in/40% on retmt: £1,000 subsidy
- 40% relief in/20% on retmt: £2,500 subsidy
- i.e. If paying 40% tax on contributing and 20% in retirement, you get 5 times more tax subsidy than lower income groups!

# Tax Relief System Exacerbates Wealth Inequality

- 20% taxpayer
    - puts in £12 per month for 30 years
  - Government puts in £3 per month on top
  - Over 30 yrs total from Government = £1,080
  - Pension pot at 5% growth **£12,280.47**  
(+184%)
- 40% taxpayer
    - puts in £12 **NET\*** per month for 30 years
  - Government effectively puts in £8 per month on top (£4 into pension, £4 off tax bill)
  - Over 30 yrs total from Government = £2,880
  - Pension pot at 5% growth **£16,373.96**  
(+279%)

\*£16 goes into pension, but £4 comes of tax bill



# New Saving Incentives System

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- Tax relief unfair - gives higher incentive to the better off
- This is the wrong way round!
- Replace tax relief with 'government saving incentive'
- Everyone to receive same incentive for same savings - monetary limits, standard 'grossing up' (stakeholder sets precedent)



# What Do We Need To Do?

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- Establish lifetime savings culture
- Encourage more people to WANT to save
- Make saving simpler
- Offer fairer and better incentives
- Integrate financial products into coherent system
- Improve financial education
- LifeSaver can address these



# So, What is the Lifetime Savings Framework?

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- Framework includes government incentives to encourage savings through lifetime
- Coherent framework for all tax favoured vehicles/other investments/borrowing
- 'One stop shop' for lifetime financial needs
- Bank account, progressing to ISA to new Fixed term ISA to 'locked' pension section
- Fully transferable/hold any products



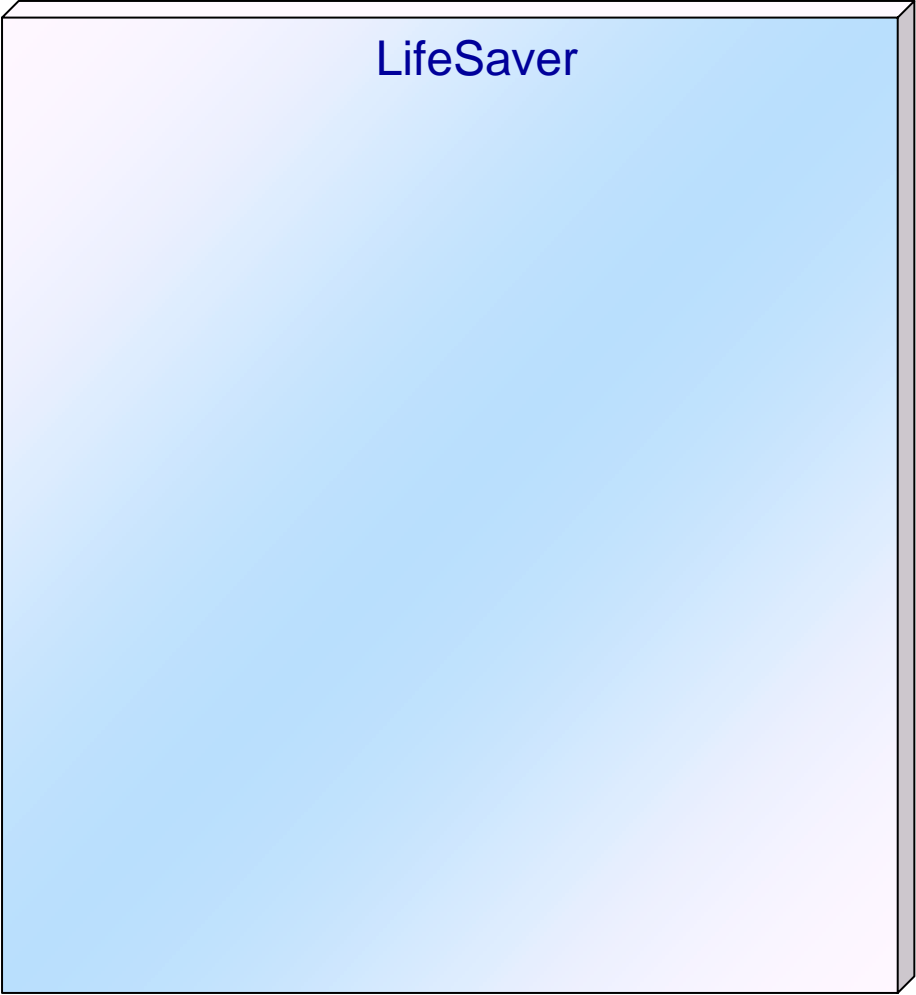
# Facilities of the LifeSaver

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- Benefit from 'grossing up' of savings
- Can borrow against the fund e.g. for education, mortgage, emergency loans
- Incorporate life insurance, health insurance
- Build in financial education
- Manage credit card debt
- Keep track of all DC pension entitlements
- Help support during 'gradual retirement'

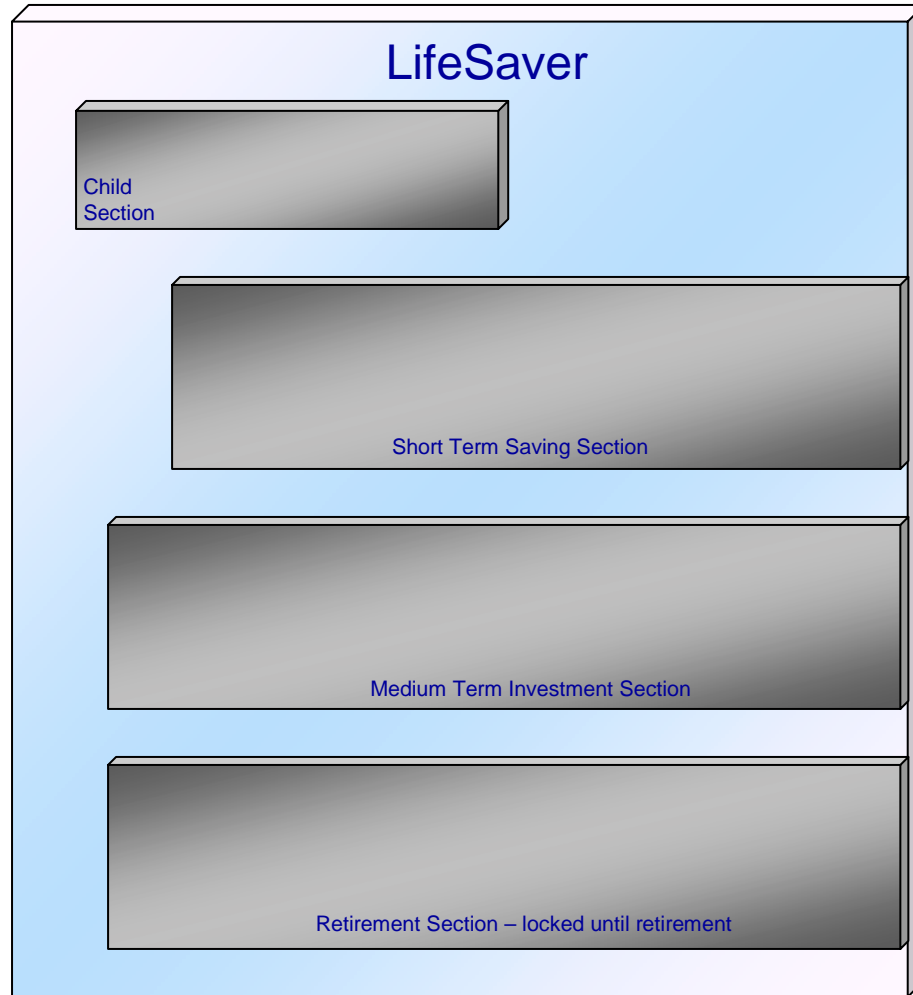
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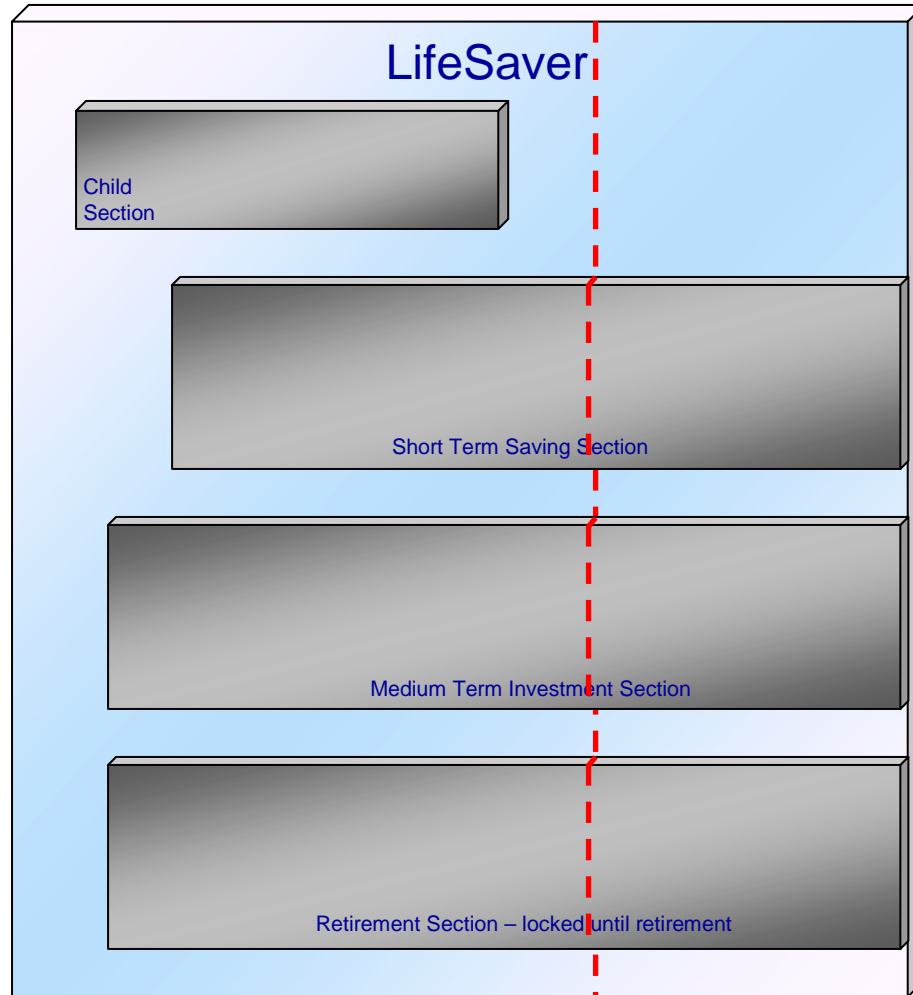
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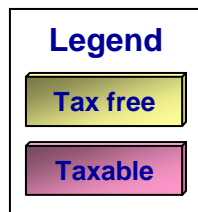
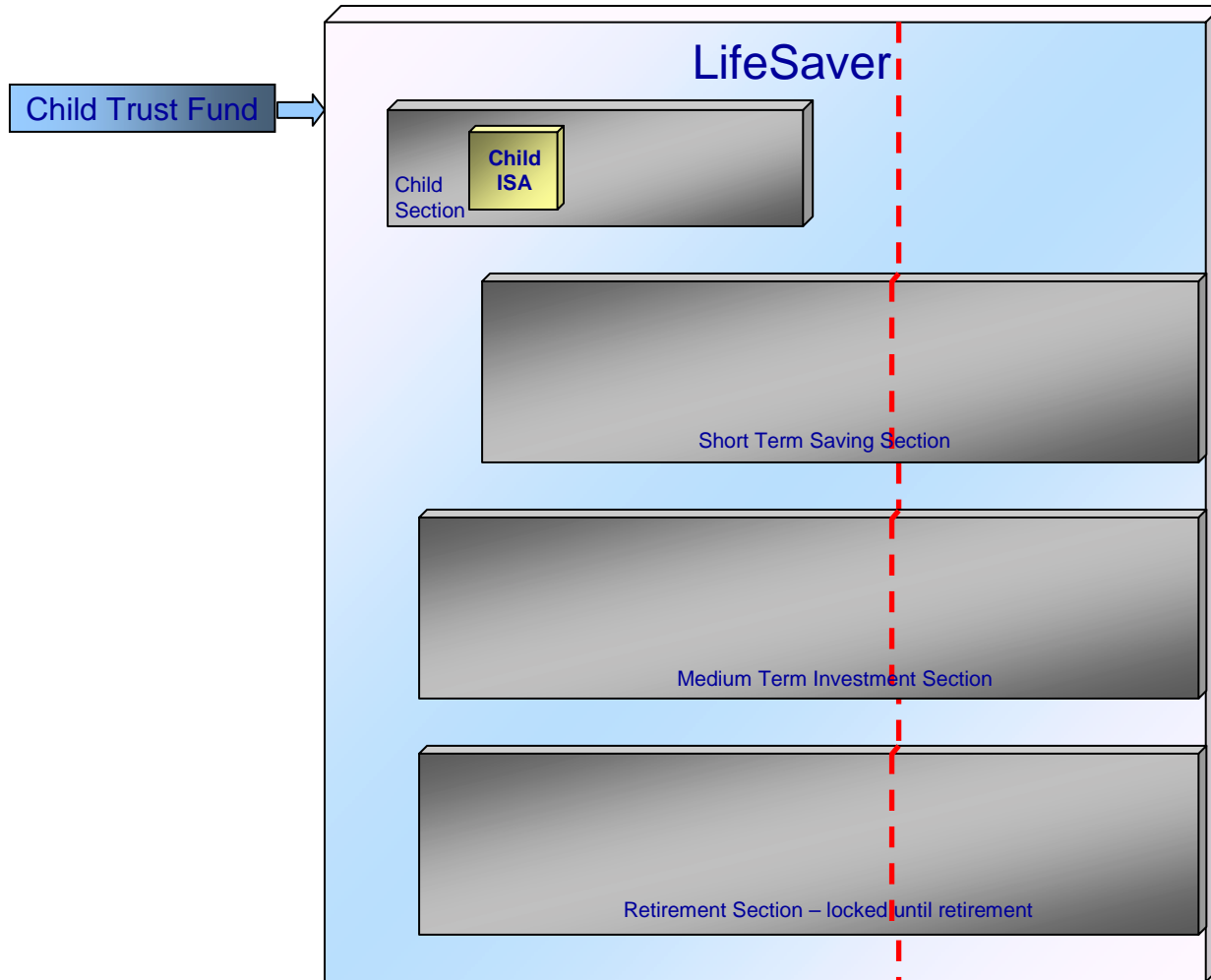
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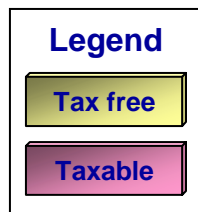
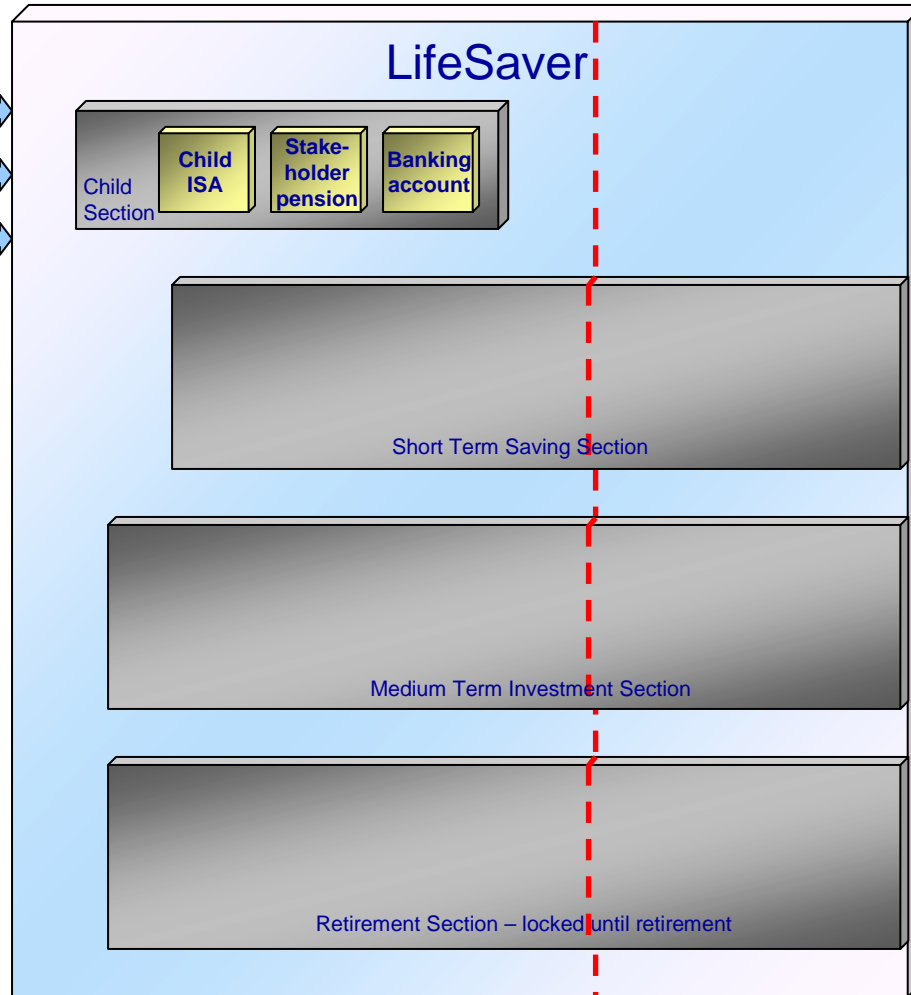
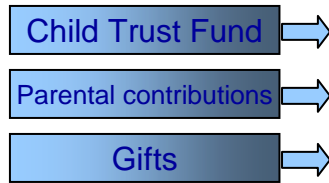
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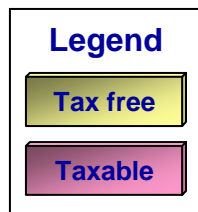
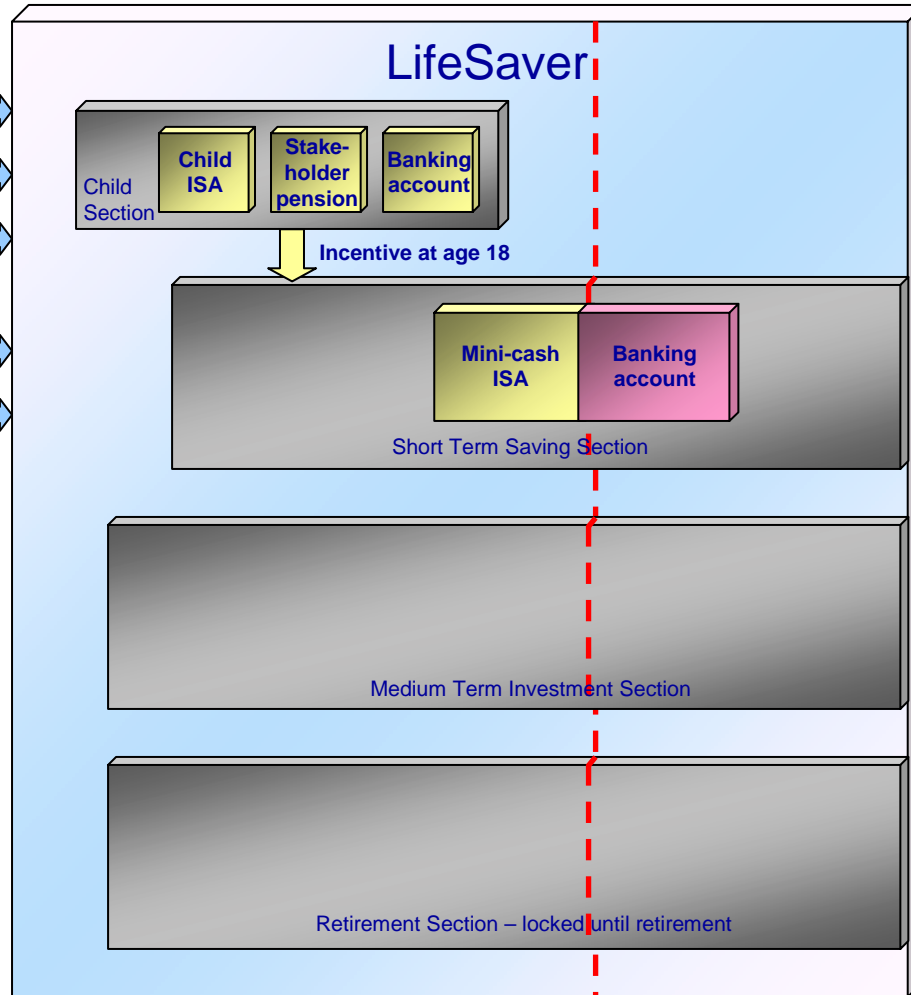
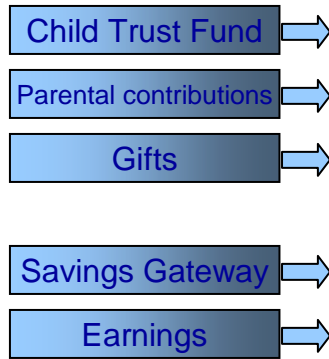
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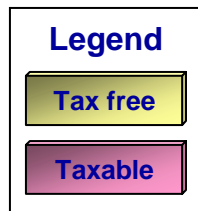
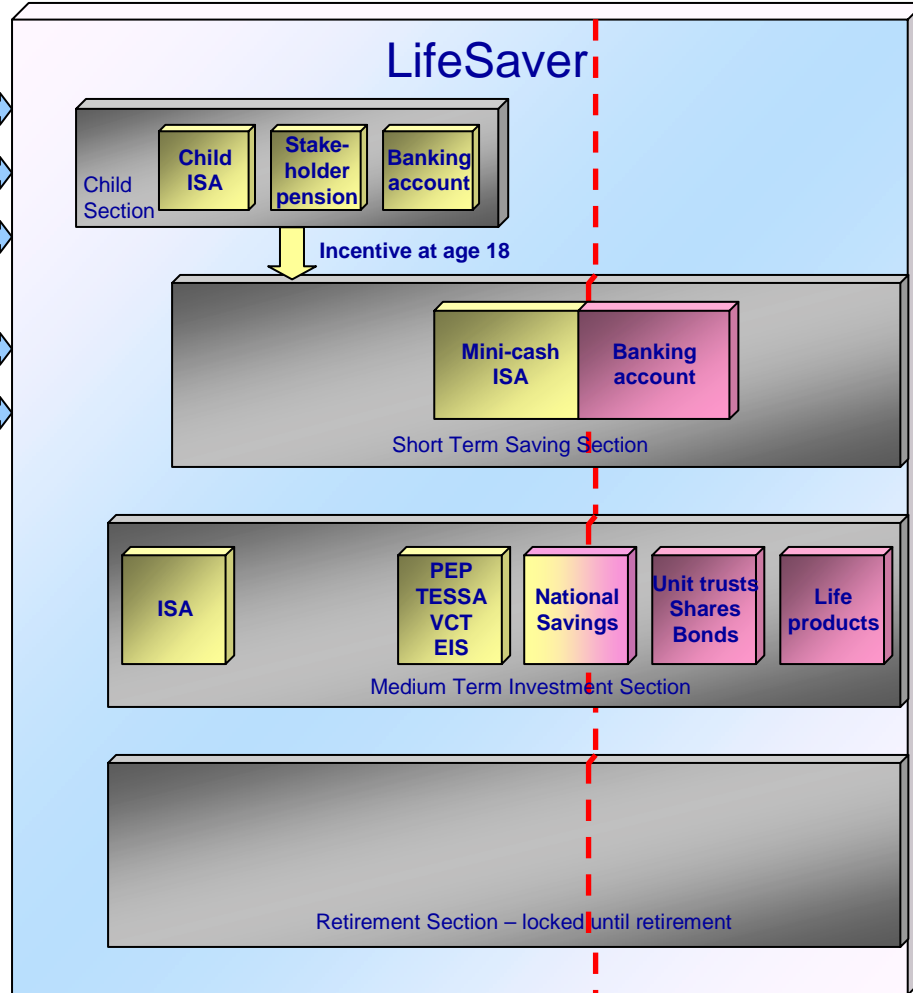
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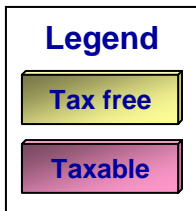
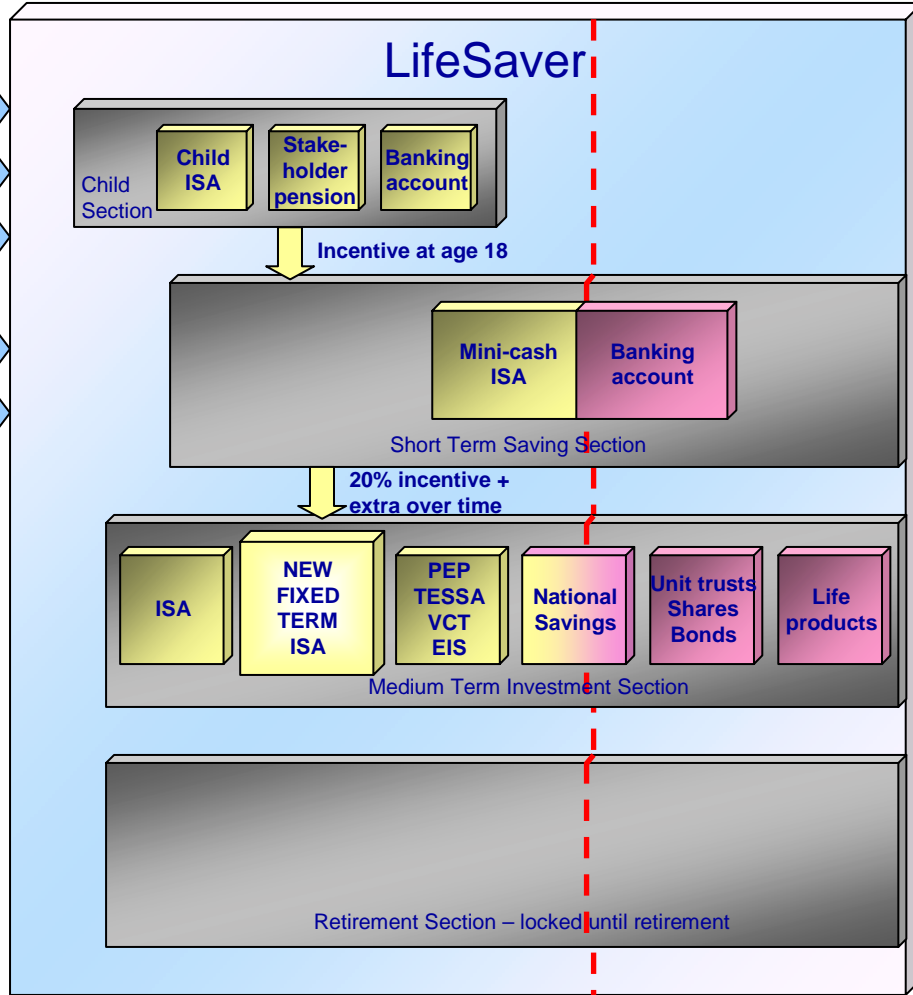
- Child Trust Fund
- Parental contributions
- Gifts
- Savings Gateway
- Earnings



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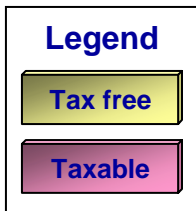
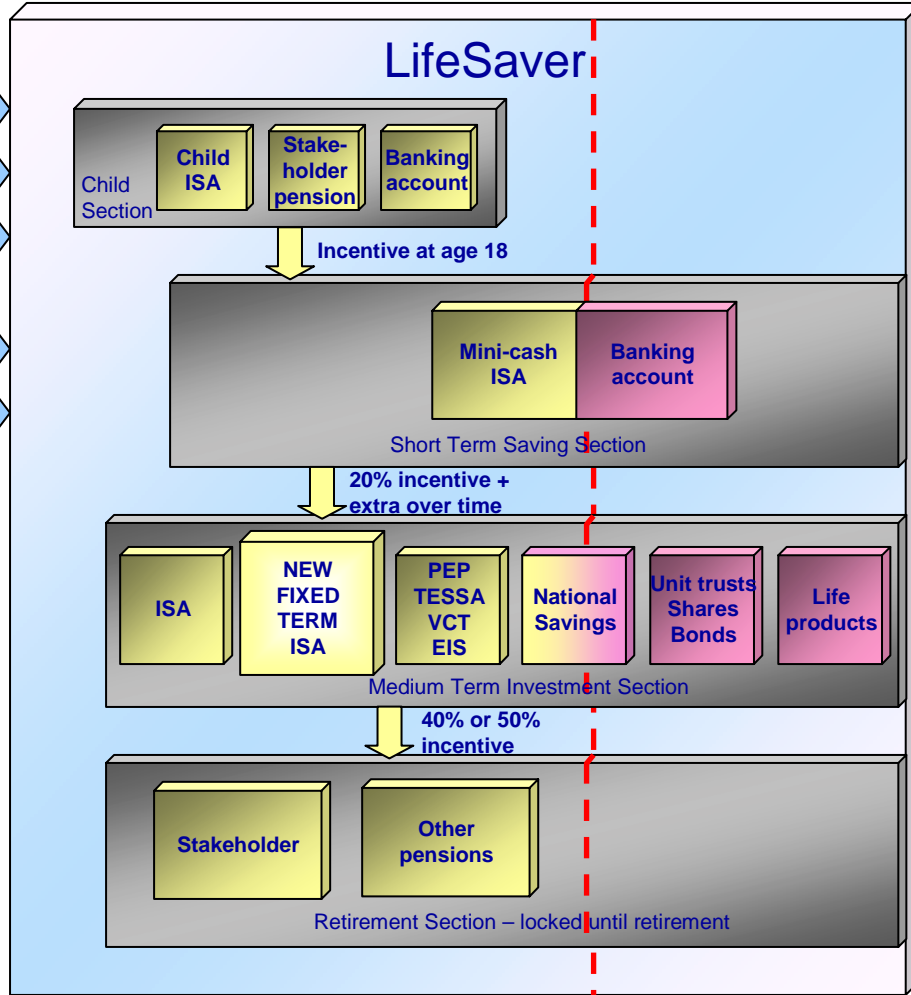
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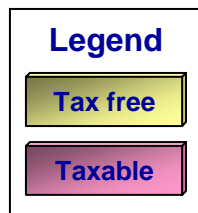
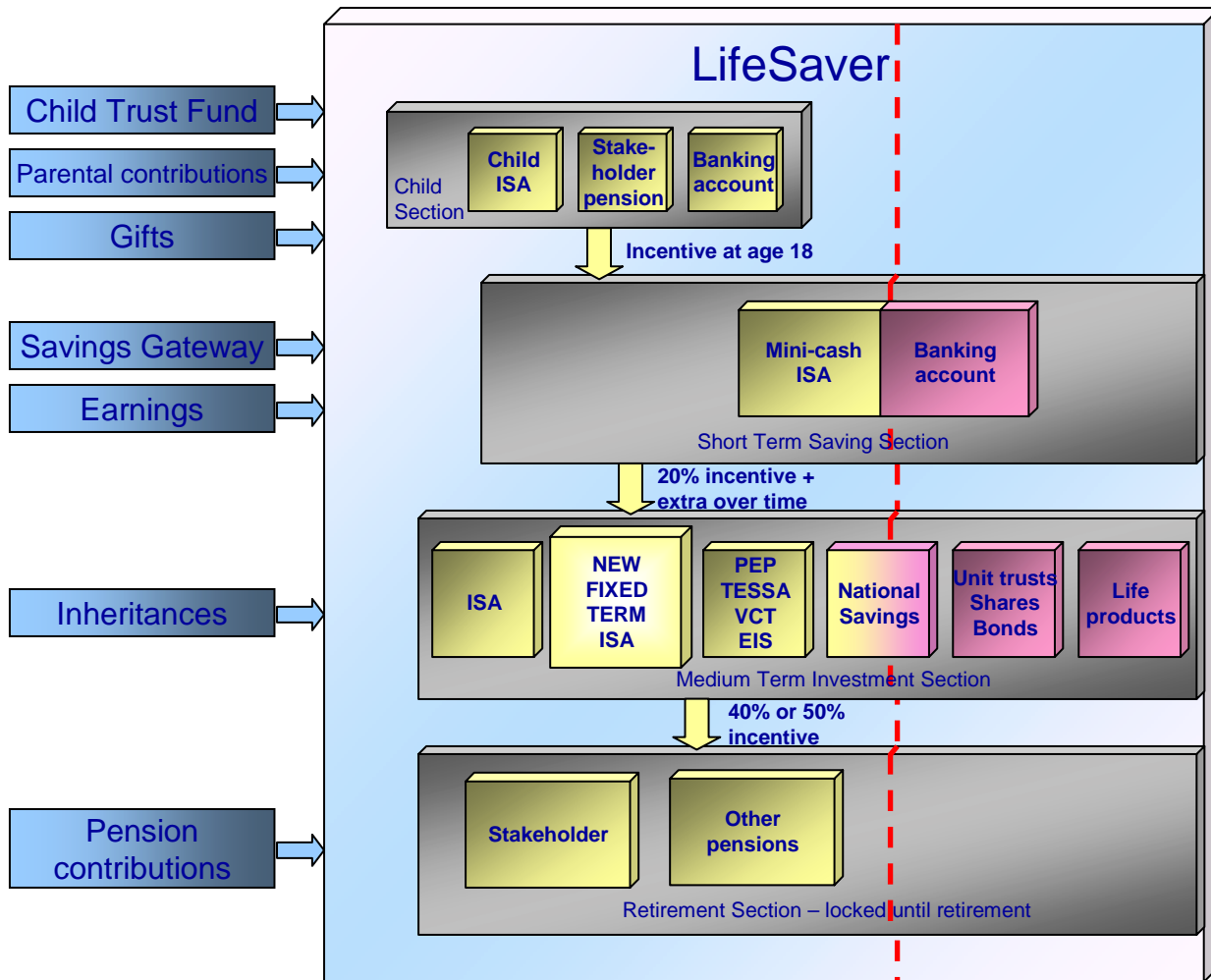
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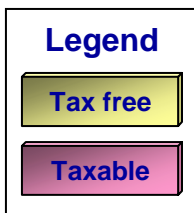
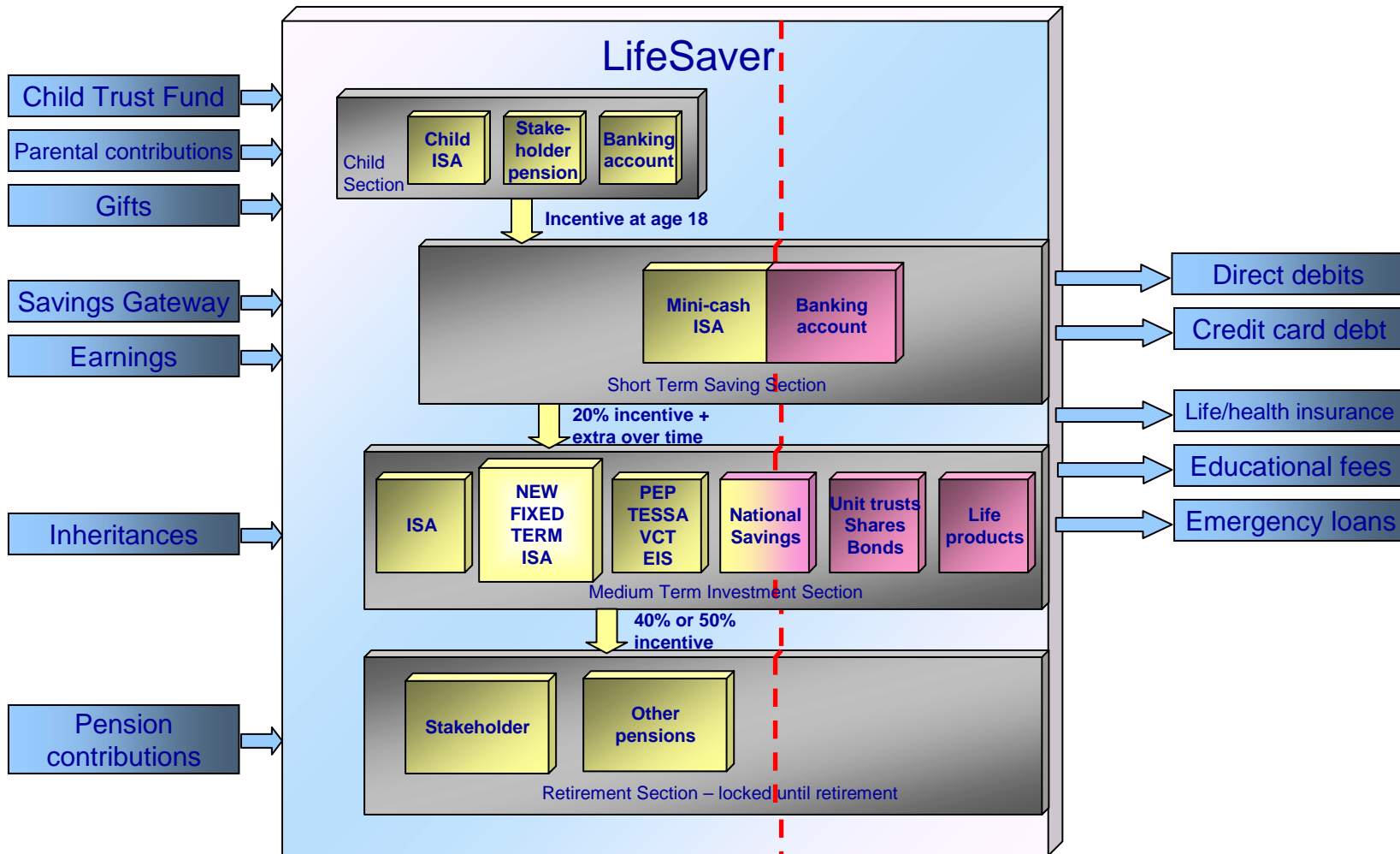
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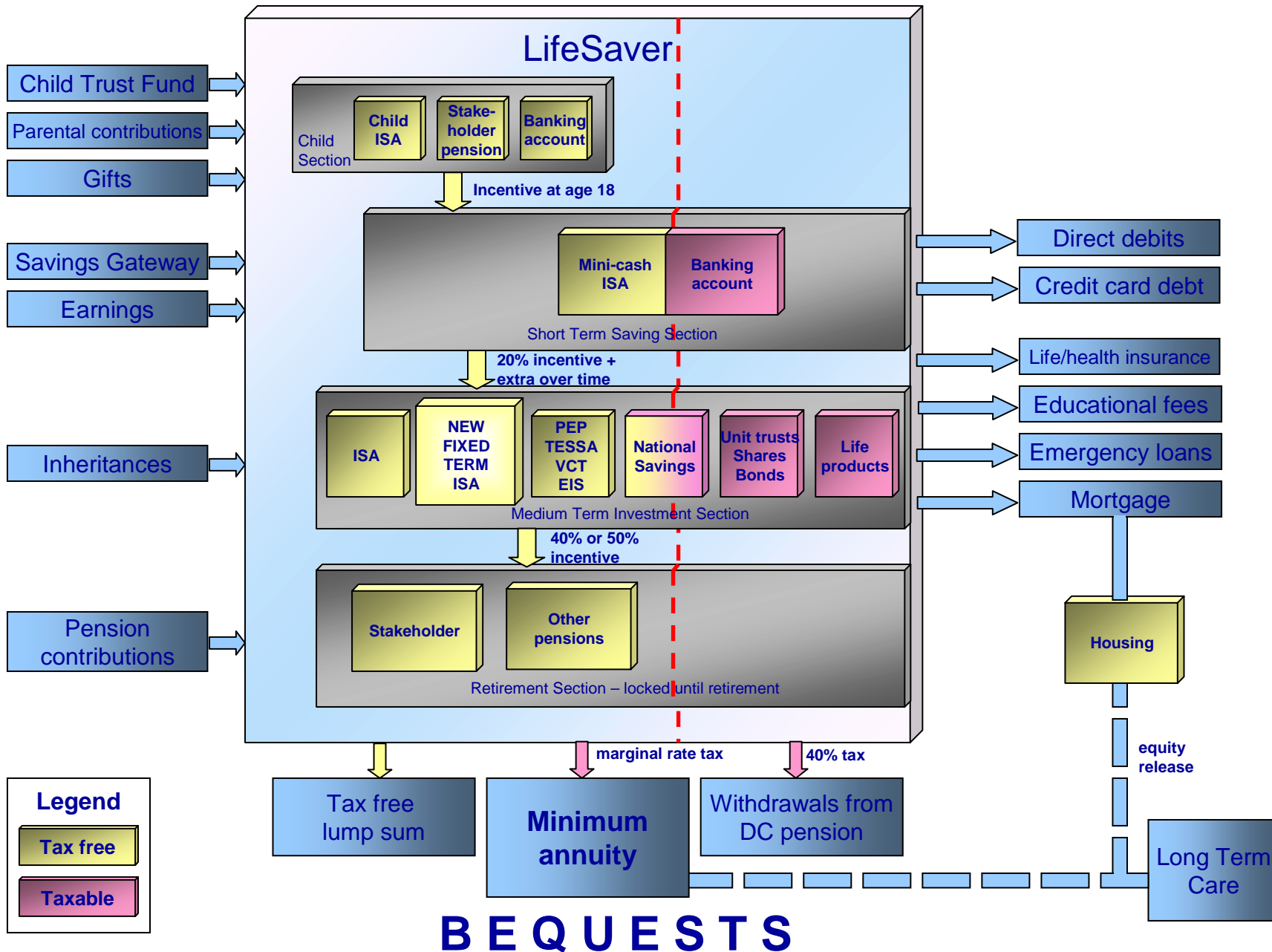
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# What Happens To Pensions?

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- As DC matures and grows, supply of assets to back annuities runs out
- Ensure people have enough not to fall back on the State
- Minimum annuity (from pension or ER?)
- Freedom to withdraw rest, but tax must be paid first
- Tax must be paid on death



Thank you for listening

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