A possible pension-savings paradigm for a sustainable future of employees in the 21st century

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Abstract
For millennia, the percentage of the population aged sixty-five and older never exceeded three or four percent (Dorling, 2013), while the percentage of children under the age of five numbered between fifteen and twenty percent. By 2050 this picture will be reversed due to various demographic mega-trends. This means that many developed nations need to rethink their assumptions regarding their existing pension-saving paradigm and rebuild their very conceptual foundations. Some countries try infusing into the defunct current pension-savings' model small adjustments; but what is required is an entirely new pensions funding and accumulation paradigm. The new paradigm proposed in this paper is based on ten pillars addressing the demographic and economic challenges projected ahead. Two principles guide the proposed model. One is that it must foster confidence among the citizens who will retire in mid-twenty-first century that they may have sufficient financial resources for long retirement years. The second principle is that the new pension funding system must leave them with enough available funds for social and economic development as they save for the long years of retirement.

1. Government grant at birth

A personal pension-savings account will be opened for every newborn in the first month of his or her life. The finance ministry (treasury) or whatever body is charged with this by the government in any given country will deposit in this account a fixed and agreed-upon sum. This capital contribution will be funded by a special tax to be imposed on the taxpayer with the agreement of a majority of the factions in the legislature. The money that accumulates in this personal account over the person's lifetime will be invested in productive economic activity by new institutions that will be established for this purpose (see Pillar 9, below, for an expansion of this). According to numerous calculations, this amount could range from £5,000 and 12,500 Sterling in 2012 values, in order to suffice for the average person living in an industrialized country. Over the course of seventy years of pension-savings, this initial sum will be able to grow to a respectable amount that will provide a solid foundation for a good number of retirement years. The underlying idea is that a principal sum deposited at the beginning of a person's life will yield the greatest returns over the years and underpin the process of pension-funding accumulation to allow the pensioner to live respectably in his retirement years.

Half of the amount needed to open pension accounts for every single child born every year will be funded by taxpaying households, with the exception of households that are defined officially as poor, and half of the tax will be funded by employers, on a differential basis, according to number of employees. The total amount that will be collected every year for this tax will not exceed one percent of the country's GDP.

The initial grant for every newborn will also be calculated differentially according to gender and socio-economic level. Baby girls will receive a grant that is fifty percent higher than the £5,000 Sterling grant

for boys, meaning £7,500. There are two reasons for this. The first is that women will spend on average seven years or approximately thirty-three percent longer than men in retirement—according to a calculation of an average of five years longer life-span for women, in addition to a retirement age of two years earlier. The other reason is so that when the women themselves give birth, they will be able to extend the period of their maternity leave beyond the legal allowance without their employers having to transfer their contribution into their personal pension account.

The children of the poor, whose relative number will not exceed twenty percent of all the children born in a given year, will receive a grant that is one hundred percent higher than the rest of the male children born in the same year, meaning £10,000 Sterling. Studies in developed countries have shown that the children of poor people have a six times higher risk of being poor at age thirty. It is much more cost-effective for society to set aside a higher sum for the children of the poor from the outset. Accordingly, girls of poor families will receive a grant of £12,500 Sterling at the time of their birth. Since these sums are meant to be efficiently invested in the productive economy (see Pillar 9), they should also bring about, in time, a drop in overall unemployment and encourage the children of the poor to find a place for themselves in the job market.

2. Parental contributions
The parents of every child will be able to add money to the personal pension-savings account over the course of the child's lifetime and thus raise the returns that the compounding initial sum will provide to the individual's monthly pension allowance.

3. Family and friends' contributions
Family members and friends of any individual will also be able to add to the pension-savings account as they see fit. This can be an additional option for gifts at life-cycle events –from birthdays, through confirmations, graduations and up to weddings.

4. Employees' contributions
When the individual enters the job market, he will be required to deposit into his personal pension-savings plan a minimum of five percent of his salary each and every month throughout the years of his employment.

5. Employers' contributions
Every employer will be required to contribute five percent per month of the employee's salary into his or her personal pension-savings account. This percentage is smaller than what is practiced in many countries today. Later on in the individual's working years, the percentage of employer's contributions could go down. It will also be a negotiable item between the employer and employee as part of the salary agreements in various sectors and industries. However, an agreed monthly minimum will be enshrined in law.

6. First-job grants
Every holder of a first job will be eligible for a supplemental government grant to his personal pension-savings account in the event that the combined employer and employee contributions (as above) do not reach a defined minimum sum. This amount will be calculated by actuaries each year,

taking into account the annual rate of growth of the average life-span. The difference will be paid by the state and will be funded by the same tax that will be used to fund the initial grant at the time of birth. This supplemental funding will be given for a period of up to seven years from the start of employment and no later than age thirty, so that these contributions may also enjoy a significant rise in value of the investment by the time the individual goes into retirement.

7. Tax-exemption deposits

The tax system will encourage workers to contribute to their pension-savings accounts with fixed sums that become smaller as the person approaches retirement by offering tax exemptions on these deposits.

8. Inheritance contributions

The state will allow families to transfer financial assets into individuals' personal pension plans and thereby to increase its value. Such contributions will be limited so as not to damage the pension plans of the family members or to serve as a tax shelter. If a person dies before the resources he accumulated during his life have been exhausted, the remaining money may be transferred tax-free to the personal pension-savings accounts of his heirs. The heirs will not be able to use these funds for any purpose other than for drawing a pension when they, too, reach retirement age.

9. Super Trusts investments

All of the retirement savings in the personal accounts will be managed and invested by new non-governmental investment organizations called Super Trusts that neither will be under government jurisdiction nor will they constitute part of the existing pension funds system. The current pension funds are generally invested in government bonds and in stock markets. This system ensures neither proper returns nor the necessary growth of the principal. In the new paradigm, all of the pension funds will be invested directly into the economy through the purchase, establishment, and management of productive companies. The money will be committed to long-term investments with the goal of attaining at least five percent compounded annual net growth. The retirement age will be updated when necessary by legislators in each country, but every individual will be entitled to begin receiving his monthly allowance from age seventy onwards, even if he continues to work.

From age seventy onwards the individual will be entitled to withdraw from his personal account an amount that will be calculated individually and will take into account the amount that has accumulated thus far, divided by the number of months that the average person lives in retirement. The number of months will be adjusted every five years as life-span estimates are updated. Taking into consideration the rate of increase in life-span, the individual may have to lower his monthly stipend so that enough money will remain for him for those years. He will also be entitled to raise it when new contributions are made to the account, whether from inheritance or from any other source. In any case, the personal pension-savings account will remain active and will continue to accept contributions during the retirement years and as long as the individual lives.

10. MAXILIFE

In other words: personal software for managing contributions into the personal pension-savings accounts. In order for the advantages found in these nine pillars to come to bear, it seems only appropriate to develop a special software with which any person will be able to easily track and make sense of the situation of his pension-savings account. Software of this kind can be called "Maxilife." The software will recognize each

person individually and will serve as a loyal virtual consultant throughout the person's lifetime on every matter related to the complexity of life in the twenty-first century and to the retirement years that await them.