



The Adam Smith Institute Blog

To reform British pensions, look to America's Social Security (with a twist)

Britain's pension system looks like a Madoff pyramid scheme. The Cato Institute's plan for Social Security offers one way forward.

By The Adam Smith Institute

posted February 22, 2010 at 11:49 pm EST

Others here at the ASI have written at some length about the need to dismantle the government's Madoff-style pension fraud before it unravels and plunges us all into fiscal disaster. However, the dire warnings have usually been countered by fears that current retirees will not be protected, or that the younger generations will have to pay an unfair amount to cover them during the transition from state to private – in effect, paying twice.

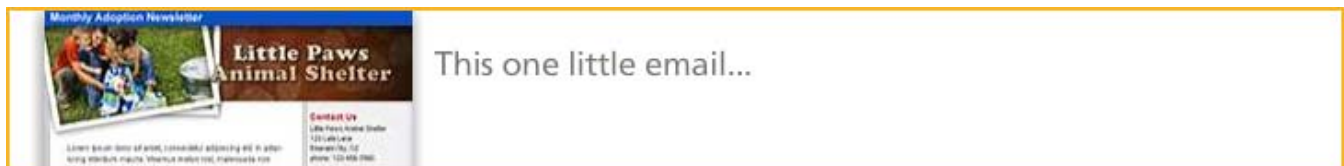
I propose that both of these difficulties in privatizing the state pension scheme can be overcome by adapting a plan developed for the American Social Security system by the Cato Institute. This plan can spread the costs of ensuring cover for older people, without unnecessarily burdening one generation with debt. Crucially, it phases in the reform slowly, and gives people a rational choice of whether or not to participate.

At the moment, the government dishonestly promises young people that they will be entitled to a state pension when they retire, but has no means of guaranteeing it. If the government were honest about the predictable future shortfalls, young people could act rationally; saving nearly half of their National Insurance Contributions privately to provide for their own retirement, whilst relinquishing their right to a state pension that will likely not materialise anyway. Thus they could still support the older generations who rely on state aid, whilst being allowed the freedom to secure their own futures.

A more detailed look at the proposal can be seen in the Think Pieces Section [here](#).

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