Employee
Ownership
Group

The EOG is a network of corporations committed to promoting Employee Share Ownership Plans for all employees.

The EOG envisages an Australia in which employee ownership will be widespread in the workplace and deep within businesses. The EOG's affairs are managed by:

Aequum Pty Ltd
ACN 068 639 912
GPO Box 2021
CANBERRA ACT 2601

CONTACT

Gary Scarrabelotti
Group Secretary,
Employee Ownership Group
Managing Director, Aequum Pty Ltd

Tel : 61 2 6241 5917
Fax: 61 2 6255 0222

Email: gary.scarrabelotti@aequum.com.au

Employee share ownership in Australia: the future

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Introduction

This document essays what must be done to spread employee share ownership widely among Australian workers and deep into Australian businesses.

Missed opportunities

In the past, Australia has missed golden opportunities to develop an effective employee ownership policy. Given looming demographic pressures, any future failure to promote commitment and productivity in the workplace will have a serious effect on this nation's prosperity. Ordinary Australian workers must have the chance to become significant co-owners of the businesses in which they work.

The Shared Endeavours[1] report into employee share ownership was tabled in the House of Representatives in October 2000. In March 2003, the Federal Government responded, but then only to support limited measures. These included the establishment of an Employee Share Ownership Development Unit within the Department of Employment and Workplace Relations.

Starting points

While it did not adopt a broad program of reform, the Government, to its credit, rejected proposals that would have complicated the administration and taxation of employee share plans. Also, it set out an important taxation principle for share plans:

"As a general point, the Government considers that discounts on shares acquired under employee share schemes are in the nature of … remuneration and are more appropriately taxed as income."[2]

The EOG supports this principle, though its logic needs to be applied rigorously. Without doing so, the Government will be unable to cut through the chief limit imposed by current tax law on the wider spread of share plans - the unjust taxation of the most important kind of share plan available to employees. A logically consistent articulation of the Government's share plan taxing principle would be expressed this way:

That discounts on shares acquired under employee share schemes are in the nature of remuneration and are more appropriately taxed as income, while any growth in value of the shares, after the acquisition date, is a capital gain and should be taxed accordingly.

This is the key to the EOG reform proposals.

EOG proposals

In this document the EOG has defined a set of policies less numerous and more refined than those set out in Shared Endeavours. This alternative programme is both light-of-touch in the regulatory sense and effective in addressing the integrity issues identified in Shared Endeavours but ignored by the Government and its advisers.

The EOG has been influenced, in part, by the Federal Government's Intergenerational Report 2002-03[3]. This study demonstrates a major imbalance between, on the one hand, the resources and standards that Australians expect to apply to their education, health, and retirement and, on the other, the provisions that they, and their national government, are prepared to make in realising these expectations.

In response to this challenge, and as a reflection on issues that arise from the principal concerns of this document, the EOG indicates wider policy changes that might need to be considered. As federal governments begin to address the intergenerational conflict between expectations and provision, they will need to consider how to integrate employee ownership policy with national savings policy.

1 Shared Endeavours: An inquiry into employee share ownership in Australia; House of Representatives Standing Committee on Employment, Education and Workplace Relations; September 2000

2 Government Response - Shared Endeavours: An inquiry into employee share ownership in Australia; March 2003; Government Response to Recommendation 27.

3 Intergenerational Report 2002-03; 2002-03 Budget Paper No. 5, 14 May 2000

1 Employee ownership: Why we need it

Macro Principles

The purpose of employee ownership is to provide a means by which the mass of employees can become direct co-owners of the businesses where they work.

Employee share ownership has been developed as a way of reforming one of the key problems confronting the free enterprise economy: how to share the ownership of society's capital resources among the widest number of people without compromising either private ownership or economic freedom. Employee Share Ownership preserves both of these principles. It does so by providing employees with the means to purchase a personal stake in the enterprise that employs them. In sum, employee ownership aims to assist employees to become genuine 'capitalists'.

Without the kind of widespread joint ownership offered by employee share plans, there is no sure ground upon which to reconcile the old hostility between capital and labour. This is because the basis of that antagonism has been precisely the ownership - and (or) control - of capital on one side and the lack of capital on the other. For this reason Employee Share Ownership Plans (ESOPs) offer an historical opportunity to address a source of major social and economic dislocation and conflict and to strengthen, in a fundamental way, the free enterprise system.

Micro Principles

There are certain implications that flow from employee ownership, and the structure of employee share plans, which provide additional incentives for strong, pro-ESOP policies.

Productivity

Research indicates that companies whose employees share in the ownership of the business decisively outperform their rivals whose employees are not shareholders in the firm.

Companies with high levels of employee ownership demonstrate higher measures of commitment to the interests of the business by their employees and, consequently, higher productivity and profit levels, than their peers with lower levels of employee ownership, or none at all. (See Appendix A for a summary of the key studies undertaken in the United States on this question.)

Savings

The long-term shortage of savings in an ageing Australian community, identified in the Intergenerational Report 2002-03, seems to require the development of a more sophisticated approach to national savings policy.

In addition to superannuation, a serious national savings policy would seem to demand a range of savings instruments designed to meet a spectrum of different savings objectives. In this, ESOPs would have a vital role to play. ESOP savings can clearly be distinguished, on one hand, from obligatory, managed, indirect investments in a super fund and, on the other, from discretionary, personal share investment in businesses over whose fate the investor has no control.

ESOP savings offer both the directness of a personal share investment and a measure of influence over the performance of the investment. (We expand on savings issues in Appendix E.)

Investment Tool

ESOPs also serve as a venture capital vehicle. They provide employees with a way of participating in a buy-ins and buy-outs and of financing, in return for equity, the capital expansion of a business.

Current ESOPS regime 2

The current legislative environment for employee share plans is sustained chiefly by the Income Tax Assessment Act (Division 13A), and the Corporations Act (Divisions 2 & 3).

Also the new Financial Services and Managed Investment Scheme regulations have important and complex implications. In this document we focus on the key legal infrastructure provided by Tax and Corporations law.

Tax Law

Division 13A of the Income Tax Assessment Act is the primary legislation governing the design and implementation of ESOPs. Division 13A provides for:

- A definition of a qualifying ESOP (i.e. one which complies with the legislation) that includes any plan which offers at least 75 per cent of permanent employees of 3 years standing an ordinary share, or right thereto, in the employer's company;
- A tax-exempt option under which employees can receive up to $1,000 worth of shares per year;
- A tax-deferred option under which employees can defer tax liabilities for up to 10 years;
- Up to 5% of the firm's voting shares per individual employee; and
- A 10 year tax deferral on share options.

Corporations Law

Corporations Law (Division 2) specifies that all offers of securities, which includes offers of shares under a share plan, require the issuing of a "disclosure document". These disclosure documents – a prospectus, short-form prospectus, profile statement or offer information statement – are defined in Division 3.

Exemptions from disclosure are provided under Section 708. Failure to meet Section 708 exemptions is not final. Further relief can be sought by application to the Australian Securities & Investment Commission. ASIC judgements on these applications are governed by ASIC Policy Statement 49 (reissued 1 May 2003) and a new omnibus Class Order (CO 03/84 issued 30 April 2003) drawn up to give effect to that policy.

These exemptions and reliefs are very narrowly defined. As a result only listed companies and very small unlisted companies can make effective use of this system. Consequently, most unlisted companies, would need to issue an expensive prospectus – or some alternative disclosure document – to accompany an offer of shares under any proposed ESOP.

3 Making ESOPS hard

The key problems posed for the design and implementation of employee share plans by the Tax and Corporations law described above are as follows.

A biased, unjust and heavy-handed way of taxing share plans.

ESOP taxation provisions favour the Exempt Plan (which can access CGT) over the Deferred Plan (which cannot). This reinforces the tendency of the share plan regime to pen employees into the Exempt Plan and ensures that employee ownership in Australia will never mature.

Employees restricted to choosing either an Exempt or a Deferred Plan in any tax year.

This has the effect of locking rank-and-file employees into the Exempt plan and of thereby limiting employee ownership to minimal levels, particularly where shares are issued free. This way of confining ordinary employees to the Exempt Plan tends to defeat the key objective of employee ownership: to promote deep levels ownership in the employer's company.

Onerous and costly prospectus requirements.

These are burdensome for unlisted companies and for small companies that wish to offer shares widely. These requirements represent the major obstacle to the spread of ESOPs.

Weak tax integrity.

The Australian Tax Office at present has no administratively effective way of checking the tax obligations of employees occasioned by their participation in share plans.

Restricting ESOPs to ordinary shares in the employer's company.

This means that companies that cannot issue an ordinary share - for example, a wholly owned domestic subsidiary of a foreign company, or a small company in which control is vital to the owners - can do nothing to help their employees become part-owners of the business.

A limit on employees acquiring, though an ESOP, more than 5 per cent of the voting shares in their employer's company.

This limit does not match what is required, especially by small entrepreneurial businesses, in order to attract and to hold key employees. The limit also means that small companies often would be unable to implement "succession planning" arrangements where the retiring employer uses an ESOP to sell the company to his employees.

ESOP legislative reform measures 4

To reform ESOPs requires a single, integrated package of reforms.

The measures should be implemented, perhaps step-by-step, with the aim of constructing a fully articulated legislative and regulatory environment in which to cultivate a widespread and deeply-rooted employee ownership culture.

Replace the separate Exempt and Deferred plans with a single structure taxed on the basis of consistently applied principles.

To break down the tax bias in favour the Exempt Plan, to encourage employees to take up greater amounts of equity than an Exempt plan can deliver, and to introduce fairness and consistency into the taxation of the Deferred Plan, amend Division 13A to provide for a share plan in which

- the first $1,000 (or some higher amount) is tax exempt (with CGT on any growth), and
- any amount above $1,000 (or some higher amount) to be tax deferred until realisation (i.e. no 10 year rule) at which time the discount given at grant be taxed at marginal Income Tax rates and the growth to be taxed as a capital gain with the benefit of the CGT discount.

Exempt ESOPs from existing prospectus requirements.

ESOPs should be exempted from the prospectus provisions of Corporations Law. The necessary investor protection can be achieved by a minimum prescribed disclosure regime for ESOPs. (See Appendix B).

This new prescribed regime could be achieved either by ASIC exercising its existing powers of exemption and modification, or by Government direction to ASIC in relation to the exercise of these powers, or by legislative reform.

Provide Tax Integrity

Introduce a TFN-based reporting system to ensure that all tax obligations arising from participation in an employee share plan are fully reported.

Widen the definition of equity given in Division 13A.

Division 13A should enable a listed-company employer to offer an employee any instrument, or form of equity, or right thereto, in the employer's company, that entitles the employee to:

1. Voting rights,
2. Dividends, and
3. A claim over capital.

An unlisted company employer should be able to offer an employee any instrument, or form of employer company equity, or right thereto, that offers the employee at least 2 and 3 (above).

Increase the 5 per cent Rule to 10 per cent

The proposed new limit would go some way to matching international practice and would pave the way for owners to use ESOPs to sell down businesses to their employees as part of a "succession planning" strategy.

(For a summary of key United States and United Kingdom ESOP provisions, see Appendices C & D.)

Appendix A

Employee Share Plans and Company Performance

Over the past 20 years a wide range of research projects have established that employee ownership, especially when combined with participative management, is linked to significantly improved corporate performance. The research findings have been unusually consistent.

Among the studies already completed, the following are considered the most significant on the connection between ESOPs and company performance. Most of the studies examined company performance during a period of three to five years before and after employee ownership schemes were introduced.

1. The 2000 Rutgers study[1]

In this Douglas Kruse and Joseph Blasi of Rutgers University compared the performance of more than 250 ESOP companies that adopted plans between 1988 and 1994 and a similar number of non-ESOP companies.

It found that these companies increased sales, employment and sales per employee by 2.3% to 2.4% per year over what would have been expected without an ESOP. Although at first glance the relative growth numbers may seem small, projected out over 10 years an ESOP company with these differentials would be a third larger than a company without an ESOP.

2. The 1986 NCEO study[2]

This study by Michael Quarrey and Corey Rosen of the U.S. National Centre for Employee Ownership (NCEO) was the first to show a specific causal linkage between employee ownership and corporate performance.

It found that ESOP companies had sales growth rates 3.4% per year higher and employment growth rates 3.8% per year higher in the post-ESOP period than would have been expected based on pre-ESOP performance. Companies with the most participative management structures showed by far the biggest gain, growing by an extra 8% to 11% per year.

Other studies suggest that worker ownership without participation can be short-lived or ambiguous. Ownership appears to provide "the cultural glue" to keep participation going.

3. The New York and Washington studies[3]

In 1997 economist Gorm Winther and colleagues followed up the NCEO study with a study of 25 employee ownership firms in New York and 28 in Washington State.

In both studies, employee ownership *per se* had little or no impact on corporate performance, but a substantial impact when combined with participative management.

In Washington ESOP companies grew in employment by 10.9%, and in sales by 6% per year more than would have been expected. The New York results were similar. In Washington, majority employee-owned firms that were participatively managed did even better.

4. The GAO Study[4]

In 1987 the US General Accounting Office (GAO) studied 110 firms focusing on productivity and profitability. The study found that while ESOPs had no impact on profits, participatively managed employee ownership firms increased their productivity growth rate by 52% per year.

In other words, if a company's productivity growth rate were 3.0% per year, it would be 4.5% after an ESOP. Due to the particular methodology used these results are considered conservative.

5. The 1998 employee compensation study[5]

Carried out by Peter Kardas and Jim Keogh of the Washington Department of Community, Trade, and Economic Development, and Adria Scharf of the University of Washington, this study matched 102 ESOP companies with 499 comparison companies.

It found that employees in the ESOP companies were "significantly better compensated". In terms of wages, the median hourly wage in the ESOP firms was 5% to 12% higher than the median hourly wage in comparison companies.

The study also found the average value of retirement benefits in ESOP companies was equal to $32,213, with an average value in the comparison companies of about $12,735.

6. The 1999 employee compensation study of public companies[6]

This study by Hamid Mehran of Northwestern University for Hewitt Associates found that ESOPs in 382 publicly-traded companies increased the return on assets (ROA) 2.7% over what would otherwise have been expected.

Mehran also found that for the 303 ESOP companies surviving the entire four-year, post-ESOP study period, ROA was 14% higher than the comparison group scores, while for the 382 companies as a group, ROA was 6.9% higher for the four-year period.

Over 60% of the companies experienced an increase in their stock price, averaging 1.6%, in the two-day period following public announcement of the ESOP, illustrating that the stock market now reacts positively to ESOPs, instead of concluding that the company is trying to prevent a hostile takeover.

7. The 1992 Employee Ownership Index study[7]

Douglas Kruse and Joseph Blasi of Rutgers University, and Michael Conte of the University of Baltimore, created an "Employee Ownership Index" (EOI) which tracks the average percentage increase in stock price of all publicly traded companies with a public record of 10% or more employee ownership and more than $50 million in market value.

The EOI grew 193% from 1992 through 1997, while the Dow was up only 145% and the S&P 500 by 140%.

8. The 1998 study of the stability of public companies[8]

Margaret Blair, Douglas Kruse, and Joseph Blasi found that publicly traded companies that are 20% or more owned by an ESOP are more organisationally stable.

Looking at companies between 1983 and 1996, the study found that 74.1% of the ESOP companies remained as independent operations while only 37.8% of the comparison companies did. None of the ESOP companies went bankrupt, but 25% of the comparison companies did.

Appendix A

9. The 1990 Michigan study[9]

The Michigan Center for Employee Ownership and Gainsharing and Michigan State University asked executives to indicate if employee ownership had had an impact on sales, profits, productivity and other measures.

The results were most positive in companies that scored high on participative management measures. The study also found that the incidence of employee participation programs increased 50% to 100% after an employee ownership plan was set up.

(This pattern of dramatic increases in participation after ESOPs are set up was confirmed by a 1993 Northeast Ohio Employee Ownership Center study.)[10]

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2 Cohen, Alan and Michael Quarrey, "Performance of employee-owned small companies: a preliminary study," Journal of Small Business Management, 24 April 1986, pp.58-63.

3 Winther, Gorm, and Richard Marens, "Participatory Democracy May Go A Long Way: Comparative Growth Performance of Employee Ownership Firms in New York and Washington States," Economic and Industrial Democracy, Vol. 18(3), August 1997, pp. 393-422.

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5 Kardas, Peter; Adria L. Scharf; and Jim Keogh, "Wealth and Income Consequences of ESOPs and Employee Ownership: A Comparative Study from Washington State," Journal of Employee Ownership Law and Finance, Vol. 10, No. 4, Fall, 1998.

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7 Refer to http://www.fed.org/onlinemag/may01/profiles.htm

8 Margaret Blair, Douglas Kruse, and Joseph Blasi, "Is Employee Ownership an Unstable Form? Or a Stabilizing Force?" in Thomas Kochan and Margaret Blair (eds), The New Relationship: Human Capital in the American Corporation, The Brookings Institution, Washington, D.C, 2000.

9 Michigan Center for Employee Ownership and Gainsharing, 1990

10 Logue, John, and Jacquelyn Yates with Karen Thomas and Jennifer Maxwell, The Real World of Employee Ownership, 2001. Available from: http://dept.kent.edu/oeoc/PublicationsResearch/PublicationResearch.htm

Appendix B

ESOP Disclosure Document

The proposed model is based upon the Offer Information Statement as defined in Sec 715 (1) of Corporations Law.

The recommended ESOP Disclosure Document would apply to offers made to employees to acquire shares, whether new or already issued, in their employer's company.

In cases where an ESOP is being used to acquire a majority of the ordinary shares in a company, then the provisions of Corporations Law as set out in Section 709 would prevail.

Proposed ESOP Disclosure Document

The envisaged disclosure document would need to provide the following information:

a. Identify the company and the nature of the securities therein to be acquired by employees under the share plan;

b. Explain how the plan works;

c. Contain the plan rules;

d. Give details of all amounts payable in respect of securities to be acquired by employees (including any amounts by way of fee, commission or charge);

e. Identify the tax implications for employees of participating in the share plan;

f. Explain how the plan will be administered and managed;

g. State that a copy of the ESOP Disclosure Document has been lodged with the ASIC;

h. State that the document is not a prospectus and has a lower level of disclosure than a prospectus;

i. State that employees should obtain professional advice before accepting the offer of securities in the employer's company;

j. Include a copy of an unaudited financial report prepared by a chartered accountant for the body for a 12-month period and have a balance date that occurs within the last 6 months before the securities were first offered to employees.

Other regulatory issues

The introduction of disclosure provisions proper to ESOPs is vital. They would not, however, exhaust the regulatory problems that now confront companies wishing to implement an employee share plan.

A further series of problems for ESOPs has been created by the recently introduced Financial Services Regulations.

The EOG is ready to advise the Government on the nature of these difficulties, and of possible solutions to them, in an exercise supplementary to the principal reform programme outlined in this document.

Appendix C

The United States Model

Employee Ownership Incentives

In the United States the ESOP should be distinguished from ESOP-like structures commonly used, often in combination with an ESOP, in US companies.

These include the so-called 401(k) Plan and the Section 423 Employee Stock Purchase Plan. The common characteristic of all these structures is that tax is deferred until sale of shares.

401(k) & 423 Plans

The 401(k) Plan is a means of investing in a range of equities and investment instruments. Employee shares can be acquired by a 401(k). The plan, however, was not developed to promote employee ownership. It was designed for making retirement savings.

Nevertheless, 401(k) Plans have played a significant, if unintended, role in expanding employee ownership especially in public companies. Employer contributions to a 401(k) are not subject to tax. Tax is deferred until the assets acquired through the plan are sold. The Bush Administration has proposed to reform 401(k)s. But under the planned new Employer Retirement Savings Account the tax-favoured features of the 401(k) would be preserved.

The 423 Plan is a genuine employee share plan, though the amount of employee equity a 423 can acquire is intentionally limited. Employees acquire an option over shares at a maximum 15% discount. Tax is deferred until sale of the shares acquired at exercise.

The ESOP

The ESOP uses a combination of third-party loans and pre-tax dollars to fund share acquisition. The ESOP is designed to enable employees to acquire from between 1 and 100 per cent of employer company shares.

The following key incentives have been provided:

1. Employer Tax Deductions:

Up to 25% of payroll may be deducted from Corporations Tax obligations where the employer makes principal payments on loans made to an ESOP trust in order to acquire employer securities on behalf of employees. Interest on ESOP loans is also fully deductible against Corporations Tax. Where the ESOP is not financed by a loan, only up to 15% of payroll may be deducted.

2. Employee Tax Deferral:

Stock acquired for employees' accounts is not taxed until distributed usually when the employee leaves the firm.

3. Deferral of Tax on Sale to an ESOP:

If at least 30% of an unlisted company's shares are sold to an ESOP, tax is deferred on any gain realised on the sale to the extent that the proceeds are reinvested in securities of other domestic operating companies.

4. Dividend Deductions:

ESOP companies may claim a deduction for cash dividends paid on ESOP-held shares provided the dividends are either applied to repay an ESOP loan or paid out to employees.

> "The common characteristic of all these structures is that tax is deferred until sale of shares."

Appendix D

The United Kingdom Model

The United Kingdom has a range of approved and unapproved share and option plans. The UK Government's preferred model share plan was introduced by the Blair Government in March 2002. The plan currently goes by the name of the Share Incentive Plan or SIP.

SIP Employee Benefits

Under the SIP an employee can acquire three categories of shares:

1. Partnership Shares:

Up to £1,500 per employee per annum (p.e./p.a.) acquired with pre-tax pounds and tax-exempt if held in the plan for 5 years.

2. Free Shares:

Up to £3,000 (p.e./p.a.) and tax-exempt if held in the plan for 5 years.

3. Matching Shares:

Up to 2 Matching Shares per 1 Partnership Share valued at up to £2,500 (p.e./p.a.) and tax-exempt if held in the plan for 5 years.

4. Dividend Shares:

Up to £1,500 in dividends (p.e./p.a.) can be reinvested in further company shares tax free. Dividend Shares are tax-exempt if held in the plan for 5 years*. However, the dividends used to buy Dividend Shares are taxed when Dividend Shares are withdrawn from the plan.

SIP Employer Benefits

Employers get relief from Corporations tax for setting up and running a SIP. The relief covers:

- the cost of offering Free and Matching shares;
- the salary allocated by employees to acquire Partnership Shares;
- the cost of providing Partnership Shares where this exceeds employee contributions.

(* For any shares withdrawn prior to 5 years, taxes do apply though at not unfavourable rates.)

Appendix E

From ESOP Policy to National Savings Policy

In the course of EOG discussions with the Federal Government and its advisers during 2002-03, an important question was raised: in the development of any ESOP policy, how would a government deal with those employees who cannot participate in an employee share plan?

This issue poses a major challenge to policy planners, and a response to it goes beyond the scope of employee ownership policy into the much broader field of national savings policy.

Employees who miss out

The EOG recognises that, even if all the ESOP reform recommendations made in this document were implemented, there would still be employees who would not be able to benefit from an ESOP. These would be:

- Employees of small and unlisted companies whose employer might not wish to offer an equity in the company to employees;
- Employees of wholly-owned subsidiaries of foreign companies (whether listed or unlisted) whose employer is not free to implement an ESOP; and
- Public servants and others in government employment for whom an ESOP is an impossibility.

There are solutions to these problems. Solutions have been found and implemented in:

- The United States of America - Solution: the 401(k) plan - see above Appendix C.
- The United Kingdom – Solution: the Individual Savings Account – see below.

Solutions

Both the 401(k) plan and the Individual Savings Account provide employees, and other savers who cannot benefit from an ESOP, with the opportunity to invest in a wide range of shares and other equities in a tax-favoured environment.

Were a government to combine a reformed ESOP with a savings vehicle like, for example, the UK's Individual Savings Account, this would constitute a major development in our national savings policy.

The effect would be to create a range of savings instruments: superannuation and pensions would provide for retirement income; and ESOPs together with an ISA-like instrument would provide for medium- to long-term savings accessible prior to retirement.

The big question

The question is: does Australia need to move in the direction of an integrated, multi-instrument, national savings policy?

Australia has a retirement savings policy and to meet its objectives has implemented a national system of superannuation.

Australia, however, does not have a national savings policy. If we were to draw the lesson of the Intergenerational Report, there are other things beside retirement for which Australians might do well to save: health, education, training and re-training needs, and the care of sick and aged family members, stand out. These can make their demands at any time before and after retirement. When such obligations arise, individual and family savings often do not match the demands placed upon them.

Consequently, the public purse must assume added burdens. This is not a tenable position in an ageing society.

It appears, then, that a national savings policy demands the development of a range of medium-to-long-term savings tools (including ESOPs) designed to encourage individuals and families to save for major, socially important objectives in addition to provision for retirement income.

If, beside the ESOP, a national savings policy were also to embrace an ISA-like structure, it would have the following powerful benefits:

- Provide (through the ESOP) a means whereby savers could become co-owners of the businesses which employ them;
- Provide (through an ISA-like structure) medium-term portfolio 'balance' to offset the natural 'imbalance' of an ESOP investment; and
- Provide (through an ISA-like structure) for those who cannot benefit from an ESOP a comparable means of saving under similar taxation conditions.

United Kingdom policy responses

These benefits are already being realised in the UK. Savers there can take advantage of - and, where possible, combine - a range of savings instruments which include the ESOP, the Personal Equity Plan (PEP), and its successor the Individual Savings Account (ISA).

Personal Equity Plans commenced operating in the UK on 1 January 1987 and were closed to new subscriptions from 6 April 1999.

New money can, however, be placed in the PEP's predecessor, the Individual Savings Account (ISA).

Essentially, the same kinds of tax advantages are provided under both savings instruments.

Individual Savings Account

- A maximum of £7,000 p.a. can be invested by an individual resident in the UK.
- No minimum investment, and no lifetime investment limit.
- Free of income tax (on dividends and interest) and capital gains tax.
- Investments can be made in shares, bonds, cash, and life insurance.
- ISA investments not reportable to the Inland Revenue Service
- ISA managed by regulated managers including banks, building societies, insurance companies and brokers.