

## Summary of the interim report *Individual Learning Accounts, IKS* *- a Stimulus for Lifelong Learning*

The proposal means that for each individual there should be an opportunity through tax subsidies to contribute funds to an Individual Learning Account (IKS) which can then be used for the individual's competence development.

### *Starting points for the proposal*

- Individual Learning Accounts should be general and accessible to all employees and company owners. The goal is that all individuals should have a learning account when the system is fully developed.
- Individual Learning Accounts should be voluntary and based on individuals themselves choosing to start a learning account, which means that the funds belong to the individual who determines how they are to be used.
- It is also the individual who chooses the type of competence development for which the Individual Learning Account should be used.. Competence development refers to different forms of education and practise.
- Individual Learning Accounts should not take over or replace other measures for financing the competence development of adults, but should complement these.
- It is desirable that Individual Learning Accounts be supplemented by contracts and agreements involving the participation of the employer.

### *Reasons for setting up a system of Individual Learning Accounts*

For *the individual*, this involves taking personal responsibility for their own development. Developing personal competence, knowledge and

skills is the best guarantee of security and influence. This also involves the freedom to shape one's own life, to develop through work and be able to change jobs.

For *the employer*, it involves increasing the breadth and depth of employee competence in order to increase competitiveness and productivity. It is also a question of being an attractive employer by being able to offer good conditions of employment..

From the *perspective of society*, support for individual competence development is a means of raising the general level of education. This helps to raise productivity and thereby create higher rates of growth and a better functioning labour market with fewer bottlenecks and a lower risk of unemployment.

#### *Design of the tax model*

The proposal is that all employees and company owners should have the opportunity to start making regular contributions into a learning account which can be drawn on for competence development in the future.

Saving for competence development is permitted up to a level corresponding to half a base amount per year (currently SEK 18,300). This creates an entitlement to tax relief on income from employment. Employers who wish to contribute to an individual's Learning Account should in the same way be able to contribute funds up to half a base amount into an individual's Learning Account. These allocations should be treated in the same way as the individual's when they have been credited to the account. The employer pays the payroll tax and makes a preliminary tax deduction (including deductions for national pension contributions). Employer contributions entitle the individual to tax relief on earned income in the same way as their own contributions and also to social benefits in the year in which the contributions are made. For the employer, the contributions are comparable to payment of salaries and are thus neutral from a cost viewpoint. For the individual, employer contributions enable both contributions and the amount subject to tax relief in the annual income tax return to be increased.

The condition for funds in the account to be used is that contributions must have been made for at least 12 calendar months and that they are used for the purpose of competence development. It is proposed that the amounts withdrawn from the account for this purpose be treated as taxable income. Designing the tax model in this way

means that in practice payment of taxes is deferred, and for the state the tax revenue foregone is negligible.

*The state subsidy accounts for the largest component by means of a reduction in taxes.*

In the proposal the major part of the state subsidy is in the form of a competence grant premium when funds are withdrawn from the learning account and used to promote competence development. The competence grant premium is a tax reduction, whose size is determined by the scope of competence development measured e.g. in terms of higher education points. The maximum competence grant premium for full-time studies over a year should it is proposed be 25 percent of a base amount (currently SEK 9,150). To be able to use the competence grant premium, there should be a requirement that individuals withdraw an amount from the learning account that is at least twice as large as the competence grant premium.

The intention of relating the size of the competence grant premium to the scope of competence development is to create a situation to maximise competence development financed from funds contributed to the account. The scope of competence development is not to be regarded as the time it takes the individual to acquire the competence, but rather its scope and intensity in terms of course or work practice. According to the proposal, in general it will not be necessary to steer how the funds are to be used. Funds accumulated can thus be used to finance the individual's living expenses, course fees and course literature. In addition, rules concerning the size of the amounts that may be withdrawn are to be avoided.

The proposal is that the whole of the subsidy accrue to the individual, irrespective of whether it is the individual or employer who has contributed the funds. This serves to emphasise one of the fundamental principles of the proposal, namely that the funds belong to the individual and it is the individual who determines the type of competence development for which they should be used.

*The system should be simple from both the perspective of citizens and society.*

A system that is going to be used by millions of people must be simple to understand and easy to administer. It is thus a major advantage that the rules and routines to be used are familiar and well-proven. This is

an important reason for why the design of the system proposed closely resembles that of individual pension savings (IPS). A basic system for approving education is necessary, but here again the aim is that its administration should be as simple as possible.

Where an account holder has reached the age of 65 and not used the funds in the account, there should be provision for the funds to be transformed into pension savings. Primarily in order to avoid a situation where Individual Learning Accounts are used only to supplement pension savings, it is proposed that there should be a limit to the amount of funds in the account. The ceiling proposed is ten base amounts. When the amount reaches the ceiling, the right to contribute further funds and gain tax relief on these should cease. As soon as funds are withdrawn for appropriate purposes, contributions may be resumed.

As regards capital gains tax, a tax of 15 percent is proposed in the same way as for individual pension savings. To be able to withdraw funds for purposes other than competence development, the same regulations are proposed as for individual pension savings i.e. exceptional reasons must exist.

*What would be the impact of SEK 1.15 billion? - An illustrative example*

The calculations are based on the fact that everyone in a developed Individual Learning Account system will at some time during their active working life participate in competence savings.

Since today there is no such system in operation, it is not possible to provide accurate cost estimates for the system proposed. In the system SEK 1.15 billion would be allocated through reductions in tax revenues in the state budget. An arithmetical example is used here to show how these funds could be used.

In the example, if we make assumptions about the number of active savers i.e. persons who on every occasion contribute funds into the an Individual Learning Account, average savings, number of persons who during the course of a year withdraw funds at least some time from the account, as well as the average size of this amount.

In the example, the number of active Learning Accounts i.e. accounts where the individual makes regular contributions, will after approximately 10 years correspond to half the labour force. This presupposes, however, that in principle all persons in the labour force during the period over shorter or longer periods have made contributions to a learning account. In the proposal, the system would

thanks to a basic start-up contribution make a rapid start with many individuals beginning to save.

In year 2010 annual contributions would amount to SEK 11 billion and annual withdrawals to approximately SEK 6 billion. After approximately 15 years, both contributions and withdrawals would be stabilised at close to SEK 12 billion per year, and total funds in the learning account would amount to approximately SEK 40 billion.

In the start-up phase for Individual Learning Accounts, tax revenues would be reduced as a consequence of deferred taxation of about SEK 1 billion. After a few years, the shortfall would increase and amount in year 2009 to approximately SEK 2.7 billion. As the system gradually comes into balance, the effect on public sector finances will decline. The funds in Individual Learning Accounts will sooner or later be liable to tax and create tax revenues of the same order of magnitude as the earlier shortfall. The long-term effects of deferring taxation are thus negligible and together with the tax subsidy in capital gains tax of 15 percent would amount to a maximum of SEK 100 billion per year.

Given certain assumptions about the relationship between the withdrawal of funds from the account and individual salaries and the scope of competence development over time, the total size of the competence grant premium can be estimated.

As a consequence of the fact that both withdrawals and their magnitude are expected to be comparatively low during the start-up of the system, the costs of the competence grant premium during the first 8 years are expected to be less than SEK 0.5 billion annually. This is purely an illustrative example since individual behaviour is difficult to predict. This is the reason for not proposing a higher competence grant premium.

*In the proposal the costs to state finances in the long-term fall comfortably within the financial frame.*

From the above calculations, it can be seen that the reduction in tax revenues occurring will in a short time be compensated by increased revenues that are less than the original budget funds allocated. In this example the average annual costs of the Individual Learning Account system when it has stabilised will lie comfortably within a financial frame of SEK 1.15 billion.

*Individual Learning Accounts can be expected to have effects on the labour market, the educational sector and on different groups of individuals.*

The effects of the system on different parts of the labour market are considered to be overwhelmingly favourable. A system for Individual Learning Accounts can contribute to greater mobility on the labour market, prevent bottlenecks, reduce the risk of unemployment as well as provide greater opportunities for remaining in working life up to the age of retirement. These positive effects should compensate for the costs of higher absence due to competence development and are considered to correspond to a maximum of 2 percent of the labour force per year.

For the educational sector, expansion of the Individual Learning Accounts system will not only help to stimulate new forms of education and increase its supply, but also lead to demands for greater flexibility in the supply and provision of education and competence development. This will create a need for readjustments to the regular education system if it is to be able to live up to expectations and be able to compete with the rapidly growing private educational market. An Individual Learning Accounts system should create positive advantages for all groups on the labour market, both for those with high and low levels of education, for people of different ages, as well as for those who do not have a strong position on the labour market. This means that an Individual Learning Account system could contribute to equalising lifetime incomes and also contribute to better educational opportunities.

*Individual Learning Accounts should be given special conditions for saving and administration.*

It is important that the rules and conditions for Individual Learning Accounts covering i.a. flexibility over savings periods, withdrawals and their size, as well as the scope during economic down-turns for stimulating higher withdrawals for competence development, should be designed so that the savings model minimises the risk of speculative losses at the same time as returns are competitive. Administration of Individual Learning Accounts should be so efficient that administrative fees can be kept sufficiently low so that despite these requirements the IKS system can compete with other forms of savings. This is the reason for considering a coherent organisation for IKS. In such a system there will be a single point which individuals can refer to for information and over the administration of accounts. Funds are invested by special investors in the best possible alternatives in relation to savings periods. Individual options should be limited to just a few alternatives. This would enable risks to be minimised and it is estimated that administrative costs could be limited to less than half those that currently apply to IPS.

*The funds allocated during years 2000 and 2001, in total SEK 2,5 billion, should be used as a stimulus to launch the system.*

The proposal is that SEK 2.5 billion should be used for two different start premiums. Approximately SEK 2 billion to be used as a contribution of SEK 2,500 for individuals aged between 35 and 55, who have a maximum income of SEK 15,000 per month. This contribution should stimulate individuals with least scope for saving and with the greatest need for competence development to start a savings programme for their competence development. It is proposed that the contribution be paid after the individual has saved for at least 12 months and where the funds saved amount to at least SEK 2,500. Around SEK 0.5 billion would be used as a temporary stimulus for employer participation by reducing the employers' payroll tax by 10 percent of that part of the salary, which after collective agreements made in year 2001, is contributed to Individual Learning Accounts.

The Swedish Riksdag should in connection with the budget bill of year 2001 make a decision that the SEK 2.5 billion reserved for stimulating Individual Learning Accounts, be transferred and placed in interest bearing accounts with the Swedish National Debt Office. It is

proposed that these funds be administered by the Swedish National Debt Office until they are used for their intended purpose.

*It is critical that the parties wish to take part in the system.*

Even though the proposal is based on individuals opening their own learning account and starting to save without being dependent on the employer or trade union, it is highly desirable that the general system be supplemented by individual agreements and different forms of collective agreement at the workplace. For this reason, it is proposed that Individual Learning Accounts be designed in such a way that they can be supplemented by agreements where employers wish to participate. To create an incentive for individuals to make agreements with employers, it is proposed that the individual be entitled to additional tax relief on the funds contributed by the employer.

There are different reactions and views from different employers and trade unions on whether it is desirable and appropriate to subsidise the costs of employers when making contributions to Individual learning Accounts. If the Swedish Riksdag decides to allocate further funds on a permanent basis to the system, further consideration should be given to whether these can be used to stimulate employer contributions to the individual's savings. In such a case, this should take place through a permanent reduction in the payroll tax, it is proposed, of 5 percent for that part of salary costs which the employer contributes to Individual Learning Accounts. In round figures, it is estimated that this would cost approximately SEK 225 billion annually.

#### *Further work prior to the final report*

The proposal is that saving in an Individual Learning Account be started in year 2002. The main components of the system proposed are put forward in this interim report. But the exact design and details will be presented in the final report. For this reason, in addition to the report sent to the Ministry of Industry, Employment and Communications for official comment, It would be especially valuable prior to this work, to get written views and comments from other bodies and interested parties in the official consultation process. These should be sent to the Commission by at the latest August 15th 2000 to the address:

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