Family-space.org.uk

A network of Family Associations

Draft Proposal 9/5/08

The Proposal

The Relationships Foundation has been developing the concept of a family welfare association for almost twenty years. This has lead to the idea of Family Associations or FANs as a commercial means of enhancing privately funded welfare provision through group savings within the extended family. A FAN would be a formal legal entity comprising a group of people primarily linked by marriage, blood or adoption. The FAN would strengthen family relationships by creating a common financial interest, and enabling greater welfare provision within the extended family. Extended family groups could form a tax friendly FAN and benefit from group savings on insurance, financial and commercial products. The savings could then be used in welfare provision for the group members such as education, health and care needs.

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> There is no doubt that it is around the family and the home that all the greatest virtues, the most dominating virtues of human society, are created, strengthened and maintained.
>
> *Sir Winston Churchill*

1. Introduction

This paper sets out the case for Family Associations (FANs) as a commercial means of enhancing privately funded welfare provision through group savings within the extended family. A summary proposal is set out along with a worked example to show how a FAN would work in practice. The rest of the paper unpacks the FAN in more detail, highlighting where further research is required.

2. Background

The Relationships Foundation has been developing the concept of a family welfare association for almost twenty years. We believe that a good society is built on good relationships, from family and community to public service and business. Both the nuclear and extended family are under considerable pressure. This is evident in high divorce rates, the fragmentation of extended families and the isolation of many elderly people. This has wider social consequences such as increased crime, lower educational achievement, poor health and increased welfare demands. There is an urgent need to seek ways to strengthen relationships at the family and community level. *Breakdown Britain*, a report by the Centre for Social Justice, charted the extent of social breakdown throughout the country. They noted five major 'pathways to poverty' including family breakdown, economic dependency and indebtedness. The report highlighted the gap between the individual and the state; a gap that we believe can be filled by the extended family.

The rise of the nation-state has gone hand in hand with the sharp awareness among individuals that each is an atomic, lonely, and poignantly vulnerable individual. Though both the individual and the state are relatively modern arrivals on the stage of history, they deal with the two extremes of social life, excluding the "thickest" parts of social living in between. Never before have individuals felt so detached from kin and neighbors. Never before have individuals been so reliant on the state. FANs occupy the space between the individual and the state. The extended family is a place of interdependence and social responsibility – parents raising and educating kids, adult children looking after elderly relatives, grandparents minding their grandchildren or giving them money to buy their fist car. Extended families generate and distribute financial and social capital.

As the main source of economic and social welfare for its members, the family is the first building block in the generation of social capital for the larger society.(Bubolz 1998, Hogan 1998) Ann Bookman, the executive director of MIT's Workplace Center at the Sloan School says, "If our country can create private sector and public policies that support working families, we will not only advance the wellbeing of children and families, but will also — in the long-run — build a more productive workforce and a stronger economy."

Encouraging families to come together to save and to provide welfare for one another will strengthen our society. FANs are an important step in filling the gap between individuals and the state. They will bind extended families together and promote intergenerational solidarity whilst giving families greater ability to meet their welfare needs.

3. A Brief History

Friendly Societies have seen their numbers dwindle significantly in the UK. They came to the fore during the massive upheavals of the Industrial Revolution. With no Welfare State and the threat of the poorhouse, people from the same area or profession would join together for a common financial or social purpose. Members contributed a regular sum of money to provide an income in old age or insurance against sickness or inability.[1] Before modern insurance and the welfare state, Friendly Societies played an important role providing social services to their members.

The most rapid growth of Friendly Societies was between the 1834 Poor Law Act and the beginning of National Insurance in 1911 by which time there were over 6,600,000 members. Until 1948, they ran in parallel with the state system reaching a membership peak of 14 million in the mid 1940s. If a member became sick, they would receive an allowance to help them meet their financial obligations. The society would have a regular doctor who the member could visit for free. Members of the society would visit to provide emotional support and check whether a member was malingering. When a member died, their funeral would be paid for and money provided to the widow. Friendly Societies also had social functions such as dances, and some had sporting teams for members to participate in. Numbers dropped significantly when the Welfare State was nationalised in 1948 very much along Friendly Society lines.

4. The Need

The demands on the Welfare State continue to rise, and despite increased expenditure, it cannot supply all the needs presented to it. One response has been to promote personal pensions, individual savings accounts and private health insurance. However there is growing recognition of the limits of reliance on individual personal provision in the face of increased flexibility in the labour market and reduced job security.

The gap between shrinking state provision and the limits of individual personal provision represents a significant commercial opportunity for a new range of financial products, which reduce the cost and spread the risk of personal provision. The historical popularity of Friendly Societies is a powerful testimony to the potential efficiency and popularity of group savings schemes. However the nature of current welfare needs, the impact of population mobility, and the potential offered by improved communication suggests that the extended family now provides a better locus than the local community for the next generation of group savings schemes.

Relationally based welfare provision provides an alternative to state provision, whilst offering individuals some protection against the vulnerability of personal provision. Families may also be more effective and efficient than state provision, as they are better able to target benefits, offer greater accountability and are more flexible.

The cohesion of UK families and communities has never been weaker. One reason for this, identified by Talcott Parsons and others, is the individualisation of finances. Financial provision often comes only from self or state, with the mutual dependence of the extended family having greatly dwindled in many cases. The rise of the Welfare State and the decline of family-based business activities has reduced the economic role of the family. Although money can become a source of conflict when relationships are broken, the common financial interest and increased opportunities for interaction within the extended family that FANs would stimulate has the potential to strengthen existing relationships. This strengthening of relationships is an indirect contribution to welfare since family breakdown ratchets up the cost of welfare by increasing the demand for it while at the same time undermining the capacity of the family to provide it.

When mutual dependence occurs it deepens relationships, which are at the very core of family and social cohesion. The knock-on effects of family breakdown are substantial – rising welfare bills leading to higher taxes, demand for more housing and reduced family care.

5. The Solution

Family Associations would be formal legal entities comprising of a group of people primarily linked by marriage (or 'civil partnerships'), blood or adoption. They would fulfil the following functions:

- strengthen family relationships by creating a common financial interest

[1] http://www.afs.org.uk/members/history.asp

- enable greater welfare provision within the extended family

5.1 Basic rules

- A FAN must have a least 5 members.
- Most members must be related by blood, marriage or adoption. Up to 20% of members may be non-family members.
- Each member must contribute a minimum of £50 to join.
- Each member has one vote and holds one share in the FAN.
- Following initial set-up new members must be admitted by a simple majority.
- A member can leave at any time (e.g. following divorce). They must give 6 months notice, though their share would be based on the pot total when notice was given to avoid other members draining the fund. They can only receive their share back regardless of what they put in. They must forfeit 20% of their share to cover administration and inconvenience to other members. (E.g. in a 10 member fund totaling £5,000 the member leaving will receive 10% of the total fund when notice was given which is £5,00 less 20% for administration, leaving them with £400). Given the preferential tax status of the FAN they may be liable for tax on their share.
- Members can vote by a 2/3s majority to wind up the FAN. They must pay a set fee to OFAN and are each liable for tax on their share.
- Children would be non-voting members until they reach the age of 18.

5.2 Other areas that need to be covered

- the relationship between the FAN, that is the association of members, and the FAN bank account
- should the FAN receive all discounts or should these be split between the FAN and individual members?
- size and frequency of contributions – should there be an on-going monthly contribution?
- use of funds – situations in which they can be disbursed
- decision making, dispute settlement and arbitration
- frequency of meetings – it is suggested it meet at least twice a year
- entry and exit procedures
- accounting and other costs
- protection against potential abuses
- liability in the case of abuse
- winding up of FAN

5.3 Commercial benefits

- access to new customers through the families of existing customers
- greater customer loyalty derived from group schemes
- the opportunity to gain a market-lead in a new financial products market

5.4 Legal form

Previous research has explored making the FAN an unincorporated association, a limited liability partnership or a Friendly Society. There are pros and cons to each of these and none is the ideal solution. It is suggested that if this is going to take on a significant financial, investment and welfare role, then a new legal vehicle should be found. In the same way that new legislation created PEPs, TESSAs and ISAs, it is suggested that FANs take on a new legal form. This would outline their tax status and set out what commercial activities FANs could engage in.

5.6 Tax Status

A more favourable legal and tax regime would enable FANs to perform an important social role in stimulating thrift, responsibility and self-reliance. As a basic step, it is suggested that money contributed to a FAN be allowed to grow tax-free. It is also suggested that money is a FAN would be owned by the group not the individual and would not therefore be suggest to IHT. More preferential tax status would presumably be tied to the purpose of the association. For example if it were to be able to claim Gift Aid, presumably its welfare payouts would be very narrowly construed.

5.7 Umbrella Bodies
A graphic outline of the structure of a FAN is shown in Appendix 1 attached to the end of this document. It is suggested that there be two umbrella bodies. The first body would regulate FANs, providing advice and research on their function and purpose. The second body would administer the more commercial aspects of the scheme.

5.7.1 Office of Family Associations (OFAN)
It roles would include:
- Providing a starter pack for FANs including suggested standard rules and constitution, which should be simple and clear.
- Producing ongoing educational and support material for use by FANs
- Promoting FANs and acting as the public spokesperson for the movement
- Providing ad hoc advice and research
- Providing dispute resolution

Part of the £100 membership fee would go towards insuring FANs. Individual members would be responsible for any financial shortfall experienced by a particular FAN. However, insisting each FAN was insured or under-written by the regulatory body/government would build confidence and prevent financial hardship.

5.7.2 Family Card Association (FCA)
The FCA would administer the commercial aspects of the FAN. Initially there would be one operator though in time this may be opened to the market. The FCA would provide FAN members with a card similar to a Nectar card. Every time members made purchases using their FCA card, their FAN would benefit. The FCA would be responsible for negotiating deals with commercial users.

5.8 Market Research
City Research Associates Limited carried out quantitative and qualitative research in 1996. The research had two objectives. One was to hone the idea into one simple and attractive enough to find a mass market. The second was to assess demand for the product. The first focus group was held in Manchester (in a group of C1/C2s) and the second in Richmond (in a group of B/C1s). The Manchester group were less receptive to the concept, whereas City Research found that "respondents in Richmond clearly felt that there was potential in formulating groups to save together to pay excesses on insurance and hence reduce direct costs." The results show that the research met both objectives. The idea was significantly improved and refined for the second presentation, which explains the increased response. The response of the Richmond group also shows demand fro the product. In a complimentary Omnibus questionnaire 41% of respondents showed interest in the concept.

6. A worked Example

The best way to understand the system is to consider a typical family who may sign up – the Smiths. We have started with a relatively simple 3 generational unit before drawing others in.
The members are
- Granny & Grandad
- Angela & Bill and their children Carol, David and Edward
- Fiona & George and their child Harry
- Ingrid

There are 7 adult and 4 child members.

They would each put £50 in initially giving a pot of **£550**.

YEAR 1

Insurance

- Home insurance – A group discount and voluntary excess of £200 would lead to a discount of 25% on an average premium of £240. If all 4 households availed of the discount, they would save £60 or a total of **£240**.
- Car Insurance – Ingrid does not have a car, Granny and Grandad have one and the other families have two. Group discount and a £500 excess would lead to a 20% saving on an average premium of £400. With five cars, the total saving would be **£400**.[2]

Commercial

- FCA – Each member uses their FCA card on purchases including supermarket shopping, fuel and many high street shops. The average household spends approximately £400pw. If our families used their card on a small proportion of that spending - £50pw, they would receive **£104** into their FAB (£50 x 52weeks x 4households = £10,400 @ 1% = £104)

Finance

- All the family members moved their bank accounts to the one bank. Each account is kept separately but they are linked for the purpose of calculating interest. Their combined savings entitles them to an extra 1% interest. The extra interest is paid to the FAB. On savings of £10,000, an extra 1% interest is worth **£100**.

Tax efficient giving

- As in an ISA members can contribute certain amounts per annum tax-free. It is suggested that an adult (and child?) member be able to contribute £3000 pa tax-free. The grandparents both used their full allowance and Angela & Bill put in £1000 thinking of their kid's education. This meant **£7000** was invested in the FAN. (The annual limits would be in addition to your ISA allowance and donations to a FAN would be exempt from IHT) [Could the FAN claim gift aid on donations if payout terms were tightly defined to really incentivise family investment?]

Welfare

- It was agreed the FAN would pay £500 each towards Carol, David and Edward's school fees. Total **£1,500**.

Costs

- Ingrid had a minor car accident, which cost **£250** to repair. This was paid from the FAN.
- Annual fee to the regulator **£100**.

Final Accounts – Year 1

Initial pot			550
Income -	Insurance savings (240 + 400)	640	
	Commercial – card discount	104	
	Finance - extra interest	100	
	Total	844	844
Lump sum			7,000
Out-goings	Welfare - schooling	1,500	
	Costs – regulator and car repair (100 + 250)	350	
	Total	1,850	(1,850)
End of year 1			**£5,544**

[2] Families may be able to insure all cars in a FAN for all the members to drive, enabling much easier sharing of cars. Note that though Ingrid does not have a car she benefits from the savings. This is a key feature of the system – benefits and costs are shared.

YEAR 2

Insurance

- Home insurance – As before the total discount would be **£240**.
- Car Insurance – Ingrid has purchased a car so the total discount is now **£480**.
  (6 cars x £400 x 20% discount = £480)

Commercial

- FCA – As the scheme expands card members are able to use their cards on £70pw of purchases. The FAN receives **£146.** (£70 x 52weeks x 4households = £14,560 @1% = £146)

Finance

- Savings are reduced to £7,500 as family members invest more in the FAN. Total - **£75**.

Tax efficient giving

- This year the grandparents each contribute £2000 pa. Angela & Bill put in £1500 thinking of their kids education. Fiona and George put in £1000 as Harry is of school age. Ingrid contributes £500. This means **£7000** was invested in the FAN.

Welfare

- Carol has moved to grammar school and it was agreed that the FAN would pay £1,500 for her education and £500 each for David, Edward school fees. Harry has also started school, and receives £500 towards fees. Total **£3,000**.
- Ingrid is off work for 8 weeks on sick leave. She receives SSP but it is agreed the FAN will pay her £100pw to supplement this payment. Total **£800.**

Costs

- Granny and Grandad have a leak, which they claim for under their house insurance but the FAN pays the excess of **£200**.
- Annual fee to the regulator **£100**

Final Accounts – Year 2

Initial pot			5,544
	Interest[3] (@ 6%)		333
Income -	Insurance savings (240 + 480)	720	
	Commercial – card discount	146	
	Finance - extra interest	75	
	Total	941	941
Lump sum			7,000
Out-goings	Welfare (3,000 + 800)	3,800	
	Costs (200 + 100)	3000	
	Total	4,100	(4,100)
End of year 2			**£9,718**

3 The overall figure for interest is a conservative one, as interest is first credited at the end of year two. As insurance is paid at the beginning of the year and the discount is invested at the beginning of the year monthly interest would begin from the start. To offset this slightly we have set the interest rate at 6%. Of course, families may be able to obtain an even higher rate of return if they invest their FAN in high growth areas in the same way ISA investors can.

YEAR 3

Insurance

- Home insurance – following the previous years claims the group agree to increase the excess to £250 to keep premiums at the same level keeping the total discount at **£240**.
- Car Insurance – Ingrid has sold her car after her illness so the total discount is now **£400**.
- Health insurance – the group take out health insurance covering the seven adults. A group discount and voluntary excess of £500 would lead to a discount of 50% on an average premium of £1200. The total discount would be **£4,200**.

Commercial

- FCA – As before total discount **£146.** (£70 x 52weeks x 4households = £14,560 @ 1% = £146)

Finance

- Savings are maintained to £7,500. Total discount- **£75**.

Tax efficient giving

- This year the grandparents each contribute £1500 pa. Angela & Bill put in £1500. Fiona and George put in £1000. Ingrid contributes £500. This means **£6000** was invested in the FAN.

Welfare

- Carol - £2,000; David, Edward and Harry £750 each. Total **£4,250**.
- Granny has a nasty fall. Her treatment is covered by the health insurance, though the excess is paid for from the FAN. Ingrid reduces here working hours to help look after Granny and Grandad while Granny recovers. The group decide to pay Ingrid £100pw to compensate for her lost wages over a six month period. Total 500 + [26 x 100] = **£3,100.**

Costs

- Annual fee to the regulator **£100**.

Final Accounts – Year 3

Initial pot			9,718
	Interest (@6%)		586
Income -	Insurance savings (240 + 400 + 4,200)	4,800	
	Commercial – card discount	146	
	Finance - extra interest	75	
	Total	5011	5,011
Lump sum			6,000
Out-goings	Welfare (4,250 + 3,100)	7,350	
	Costs	100	
	Total	7,450	(7,450)
End of year 3			**£13,865**

Year 4

Ingrid marries John. John is an only child and a single parent of Kyle. Only John's mother Lily is still alive. As they are such a small family, they have not set up a FAB. They all wish to join the Smith FAN and this is agreed by all the Smiths. They agree that each new member will pay £500 given the healthy standing of the Smith FAN.

Insurance

- Home insurance – John and Kyle move in with Ingrid but Lily's house is added to the scheme bringing the total to 5 households. Total discount **£300**.
- Car Insurance – John has a car, which he insures under the scheme - total discount **£480**.
- Health insurance – the two new adults are added to the scheme - total discount **£5,400**.
- Travel insurance – the group decide to take out travel insurance. The average cost is £100 for a household. Group discount and an increased excess leads to a reduction of 10%. Total saving **£50**.

Commercial

- FCA – The extra household leads to increased savings of **£182.** (£70 x 52weeks x 5households = £18,200 @ 1% = £182)

Finance

- Savings are increased with the extra members to £10,000. Total discount- **£100**.

Tax efficient giving

- The grandparents each contribute £1000 pa. Lily contributes £1,500. Angela & Bill put in £1500. Fiona and George put in £1000. John transfers in the maximum of £3,000 from his savings account and Ingrid contributes £500. This means **£9,500** was invested in the FAN.

Welfare

- Carol, David and Kyle are all now at grammar school and receive £2,000 each; Edward and Harry £1,000 each. Total **£8,000**.
- Lily looks after Edward and Harry after school each afternoon. The group decides to pay Lilly £80pw. Total (52 x 80) = **£4,160.**

Costs

- Annual fee to the regulator **£100**.
- Bill has a bad car crash, which is covered by the insurance, but the **£500** excess is paid from the FAN.

Final Accounts – Year 4

Initial pot			13,865
	Interest (@6%)		835
Income -	New members (3 x 500)	1,500	
	Insurance (300 + 480 + 5,400 + 50)	6,230	
	Commercial	182	
	Finance	100	
	Total	8,012	8,012
Lump sum			9500
Out-goings	Welfare (8,000 + 4,160)	12,160	
	Costs (100 + 500)	600	
	Total	12,760	(12,760)
End of year 4			**£19,452**

7. Further Details

A. Insurance
Savings could be achieved in three ways:

- Group discounts
    - Insurance providers offer group discounts because they can spread the risk across group members and their acquisition and administration costs are lower.

- Increased voluntary excesses
    - Savings would be deposited in the FAN rather than received directly by group members. These savings would form a pot enabling groups to take on higher voluntary excesses. Insurance providers are keen on higher excesses because it reduces small claims, which are relatively costly in terms of administration. Group policies should also reduce fraudulent and minor claims as a group of related individuals suffers if one person tries to abuse the system.

- Customer loyalty
    - Customer loyalty is key to increased profits. A Harvard Business Review article by Reichheld and Sasser argues that a mere 5% increase in customer loyalty raises service sector firm profits by between 25% and 85%. Syndicate schemes would increase customer loyalty because they would make it more difficult for people to change their ongoing insurance purchase decisions, since a group, not an individual, would have to make the decision.

Ecclesiastical Insurance has shown an interest in the proposal. There are a number of types of insurance from which FANs could benefit.

A.1 Health Insurance
This proposal lessens cream skimming or risk selection by insurance companies. Insurance companies are keen to cover young and healthy customers and reluctant to cover those who are old and infirm. By 'teaming up' with younger relatives, older family members may benefit most from this aspect of the scheme.

A group discount and voluntary excess of £500 would lead to a discount of 50% on an average premium of £1200. Average saving **£600**.

A.2 Home Insurance
Home insurance – A group discount and voluntary excess of £200 would lead to a discount of 25% on an average premium of £240. Average saving **£60**.

A.3 Car Insurance
Group discount and a £500 excess would lead to a 20% saving on an average premium of £400. Average saving **£80**.

A.4 Travel Insurance
The average cost is £100 for a household. Group discount and an increased excess could lead to a reduction of 10%. Average household saving **£10**.

A.5 Questions, issues and further research
Would issues like long term care of the elderly and respite care be covered under health insurance, or are they separate welfare issues?

B. Finance

Financial institutions benefit from reduced acquisition costs, customer loyalty and cross-selling of products.

B.1 Bank Accounts

Saving could be achieved if each family member moved their bank accounts to the one bank. Each account would be kept separate but linked for the purpose of calculating interest. The combined savings of FAN members would entitle them to an increased interest rate. Each family member would receive the normal rate of interest credited to their individual account. The extra interest would be paid to the FAN. On savings of £10,000, an extra 1% interest is worth **£100**.

B.2 Mortgages

Firms such as Lloyds-TSB already offer family offset mortgages. In a basic offset mortgage, offsetting a credit balance against the mortgage debt reduces the interest charged. For example, if the mortgage balance is £250,000 and the credit balance is £60,000, interest is only charged on the net balance of £190,000. The family offset mortgage allows the credit balance in the accounts of other family members to be used to reduce the mortgage debt.

The existence of a FAN may make it easier for parents to help children onto the property ladder. It should make it easier to link equity and credit between parties. It may even be possible to develop family mortgages covering a number of properties and with multiple mortgagees.

B.3 Credit cards

This scheme would operate in a similar way to current cash back or charity credit cards. Amex Red gives 1% to charity and Capital One and Egg both have cards offering 1% cash back. Linking these to the FAN could give an extra 1% into the FAN over and above the 1% through the FCA, which is discussed below.

If the group made credit card purchases totaling £10,000, with 1% cash back into their FAN, they could earn **£100** pa.

B.4 Life insurance

This is discussed here as opposed to under insurance because of its link with mortgages. FANs with a number of members with mortgages may be able to get a group deal, which spreads the risk across the owners. If the accounts are linked, they may be able to wave the need for life insurance if the FAN has sufficient funds to cover mortgage payments.

B.5 Questions, issues and further research

The extent to which contributions to FANs would divert from other forms of savings.

C. Welfare

The worked example above shows how quickly a FAN could generate significant amounts of money for welfare uses. The tax benefits enjoyed by the scheme may determine the welfare needs it can meet. If the scheme only enjoyed tax-free growth similar to an ISA, and there were annual investment limits, then there seems to be no reason why a wide range of welfare needs cannot be met by the scheme. If the scheme were to attract a more generous tax status, for example being allowed to claim back Gift Aid on contributions, it may be constrained to a narrow range of welfare needs.

Some examples of the types of welfare needs that could be met are highlighted below.

C.1 Education
The scheme would allow parents and grandparents to save and contribute to educational costs without any IHT implications.

C.2 Health
As well as the potential to provide medical insurance, the scheme could top up statutory sick pay for those off work, and contribute to medical bills and care costs.

C.3 Care
Long term care for the elderly is a major issue. Those with assets above £21,500 must fund their own residential care until their assets dip below that point. Though the threshold has risen recently it is still seen as a 'tax on thrift' as those who have not saved and have no assets get the same care, but it is paid for entirely by the Local Council. The situation is seen as a powerful disincentive to saving and private property ownership. If assets in the FAN were seen as separate from those of the individual, the individual would be more likely to receive care from the local council, and the FAN could be used to top up that care.

C.4 Pensions
The proposal does not deal expressly with pensions, though this area would be a logical extension of FANs. According to John Pender (Times 17/6/95), "In Shakespeare's day, the elderly enjoyed the benefit of a surprisingly flexible pension system. It was called the extended family. Income and risk were spread across the generations in an informal arrangement buttressed by altruism, empathy and fear of what the neighbours might say."

If FANs became serious investment vehicles, they could be used for private pensions. The money could be used for long term care or pension payments. If the FAN had insufficient funds, the recipient would still be entitled to their state pension. If the FAN had excess funds when the person died these could pass through the fund to the next generation. Currently the incentive is to spend what you can whilst you are alive, because you can not take your pension with you and little of it passes to your beneficiaries (e.g. if you are in a group scheme) Under the FAN scheme the incentive is to use less, so more passes to the next generation.

C. 5 Funeral expenses
The FAN could cover these expenses in the same way the old Friendly Societies did.

C. 6 Questions, issues and further research
- A senior Social Services Research manager proposed a way that FANs could be used to enable care of an elderly relative. A local social services department could make a large capital loan to a FAN to facilitate care as an alternative to the elderly relative being moved into a home.
- What other welfare expenses might be included?
- Could Child Trust Fund and other payments be made to the FAN?
- Could the FAN donate to wider charitable causes?

D. Commercial
Family Investments (a Friendly Society) has teamed up with Nectar to bring Child Trust Funds to a larger audience and to allow any points collector to transfer their Nectar points into the nectar/ Family CTF as a cash payment. Family investments claim, "this effectively means that anyone can save for their, or anyone else's, child while they spend on everyday items like the weekly shop or filling up the car."
Nectar has signed up over 50% of all UK households and covers 40% of an average UK household's spend. They have given back over £800 million worth of rewards.

Whilst the financial rewards of operating a scheme such as Nectar may not represent the most significant savings for a FAN, such a tie-in would be important in marketing and advertising the project.

E. Government

- How would payments from the FAN interact with welfare payments? If someone was caring for an elderly relative and was being supported by the FAN, would they also be able to claim the Carer's Allowance from the government?
- Would savings in a FAN be counted against an individual who was otherwise entitled to benefits?
- What sort of tax breaks could a FAN get?
- Would the government consider allowing 'individual budgets' to be administered through FANs

8. Further Research

Inequality

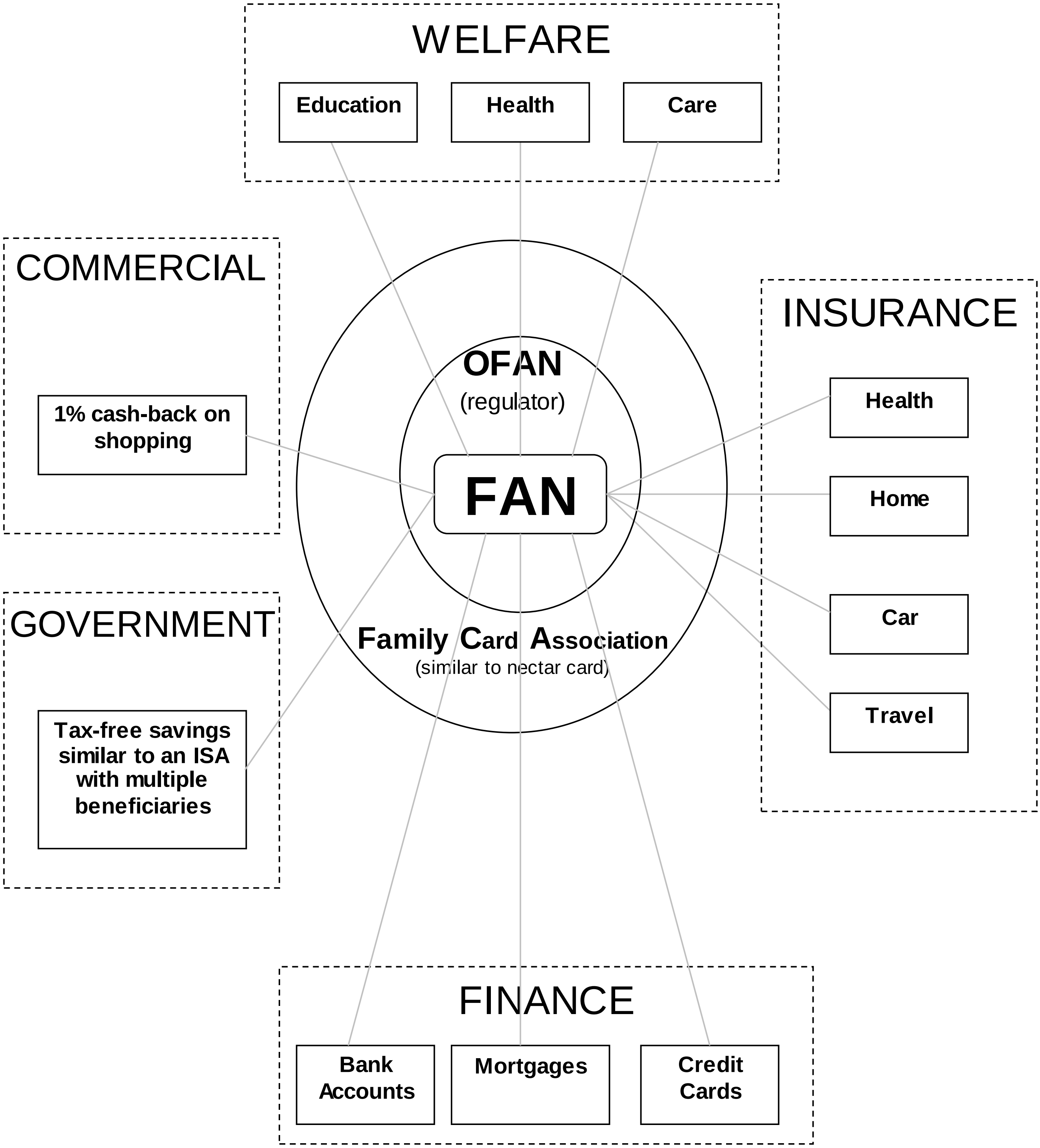
FANs are likely to appeal at least initially to those who are financially literate and who have more disposable income. It is hoped that if they are seen to work, more people will look to set them up. A number of factors may encourage a broader number of people to set up a FAN. These include:

- Financial literacy classes which include information on FANs
- Incentivising or requiring CTF, child benefit, WTC, CTC or other similar payments to be made into a FAN
- Requiring those who provide services to FANs to offer all their services to all registered FANs
- Offering a lump sum to those set up a FAN

9. Conclusions

Whilst a significant number of questions remain, the principle of a FAN seems to have great merit. Previous research led to interest from a financial institution, a health insurer and a general insurer. The commercial benefits suggest that there could be a great deal of interest in such a scheme. The government is looking at ways of sharing the welfare burden, which should draw them to aspects of the scheme. Most importantly, the proposal encourages extended families to work together, to save, to communicate and to care for one another. It should reinforce relationships within families and ultimately strengthen a crucial building block in society.

Appendix 1



WELFARE
Education
Health
Care
COMMERCIAL
1% cash-back on shopping
GOVERNMENT
Tax-free savings similar to an ISA with multiple beneficiaries
OFAN
(regulator)
FAN
Family Card Association
(similar to nectar card)
INSURANCE
Health
Home
Car
Travel
FINANCE
Bank Accounts
Mortgages
Credit Cards