

Citizen's Pension: A brief introduction

Alison O'Connell
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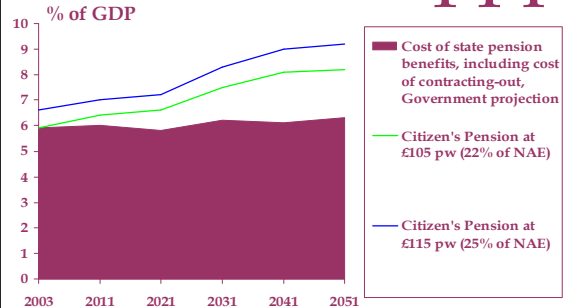
Key features of a New Zealand style Citizen's Pension

- One flat benefit, set at or above the means-testing level
- Indexed to national average earnings
- Paid to every eligible individual over state pension age, single or married
- Eligibility is set by how long the individual was resident in NZ:
10 years since age 20, 5 since age 50

Attraction of a Citizen's Pension for the UK

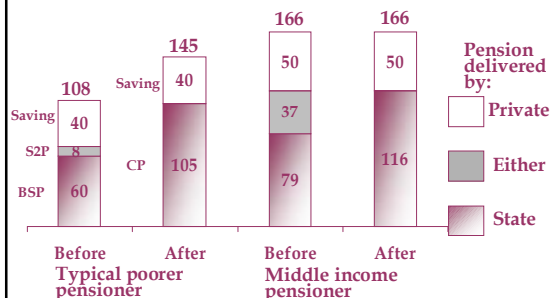
- Should dramatically reduce pensioner poverty
- Simple to understand
- Encouragement to save
- Cheap to run
- Fair – all life histories treated equally
- Future cost to the state is more certain

A Citizen's Pension in the UK could be afforded in the short-term



Before and after the Citizen's Pension transition

Pension income, £ per week



So is it possible?

1. **Too expensive, especially as we age?** Could be brought in now at no cost. The future cost of the current system is probably understated.
2. **Regressive?** Not if offset accrued state pensions.
3. **'Citizenship' too difficult to define?** But Denmark and the Netherlands have a residency-based pension.
4. **Too difficult to transition?** Could be done overnight, maintaining accrued rights.
5. **Political risk of future change?** Probably less than now, but a cross-party 'Accord' would help.
6. **Too controversial?** Some believe in the contributory system.
7. **Private sector suffers?** But complexity and savings disincentives removed.

Why a Citizen's Pension would be a good thing for pension schemes

Rhoslyn Roberts



Occupational Money Purchase Plan

- trustees
- range of funds
- literature
- lifestyle

Contributions

Member	Employer
3%	6%
4%	8%
5%	10%

What should we do?

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- better communication
- automatic entry but
- [cost implications]
- not in best interests of individual

Means - testing

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Low pay

→ low contributions

→ small fund

→ small pension

→ almost no better off than if on
means-tested benefits



"STEALTH TAX" ON PENSIONS

Thanks to means testing, 60% of earners
are throwing money away by
saving for retirement

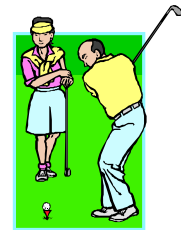
Observer 26 Sept 2004

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Citizen's Pension

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- encourage people to join
- savings = extra benefit



GUS Final Salary Scheme

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- 40 years old
- complex rules
- contracted-out

Contracting Out

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- 1978
- SERPS
- 1/80 x best 20 years
- max 25%
- 10 years unchanged

1988

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- projected cost too high
- formula changed
- average lifetime revalued earnings

~~• 35%~~ 20%

NO ONE NOTICED

GMPs

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- 1978 - 1988 = one calculation
- 1988 - 1997 = 2nd calculation
- 1997 - GMPs abolished but legacy remains

Deferred Pensions

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Increase GMP each year

- NAE
- fixed rate
- limited rate

GMPs in payment

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- 1978 - 1988 → State pays increase
- 1988 - 1997 → Scheme pays 3%,
State pays balance

Anti-Franking

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The minimum pension payable under the anti-franking requirements is the aggregate of:

- (A) a benefit (known as the 'relevant sum') which is either:
 - the pension rights which have accrued to the member on ceasing contracted out employment before the scheme's normal pension age, or
 - the pension payable to the member on the day after ceasing contracted out employment at or after the scheme's normal pension age
- (B) the amount by which the GMP has increased in the period between the cessation of contracted out employment and the date of payment
- (C) any 'appropriate addition' from contracted in employment under the scheme after the contracted out employment ended, and any 'later earnings addition' arising from this employment where the member's final earnings on leaving pensionable employment are higher than at the time contracted out employment ended
- (D) any 'appropriate addition' arising from enhancement of the benefits in excess of the GMP arising on account of a postponed payment of pension



Dreamers

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- Martin Luther King
- The Beach Boys - California dreaming
- Bing Crosby - White Christmas
- Rebecca - Manderley
- Gerontius

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Oh for a
Citizen's
Pension and
a simple
pension plan
to sit on top

Transition

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- The policy idea is simple:
- Getting there needs imagination and courage

Being courageous is not a
natural political attribute

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Transition

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- The policy idea is simple:
- Getting there needs imagination and courage
- Being courageous is not a natural political attribute
- We need to show it can be done
- NAPF research project
- Evidence so far is encouraging

Two reasons for a
Citizen's pension

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- A simple message
- A simple pension

**A Citizen's Pension
would be a good thing
for pension schemes**

Citizen's Pension

***A Personal Pension
Provider's Perspective***

***Adrian Boulding
Pensions Strategy Director***



Agenda

- Our role
- Means testing
- The transition
- Long term affordability
- Implications for the Personal Pension Market



Our role

- To help those who can help themselves
 - the “those who can save, should save” group
- To enable individuals to “top up” the pension they will get from the state with private savings
- To facilitate the provision of simple, low cost employer sponsored pension arrangements



Means testing

- 50% of current pensioners are eligible for Pensions Credit
- Increasing to 64% by 2025
- If we are delivering a workplace presentation, then some in the audience are going to be eligible for means testing
 - What can we say to them today ?



The Pension Credit is a reassurance

- The Pension Credit will “ensure that pensioners with low and modest pensions or savings are no longer penalised but instead are rewarded for their saving by the tax and benefit system”
 - DSS Consultation Paper - The Pension Credit,
 - November 2000



- “The message is clear - whatever you can afford to put by, it will always pay to save”
 - Statement by the Secretary of State for Social Security to the House of Commons, 9th November 2000



Sadly, the message is not clear

- The message is not always true
- Women aged 60 to 64 do not get the savings element
 - Today, 1.5 million women in this age group
- Pensioners with less than full Basic State Pension suffer a 100% withdrawal on their initial savings
 - 7% of men, 47% of women
- Is 60p in the £1 a good rate of return ?
- Making financial advisers very reluctant to talk about Pensions Credit



Does the Citizen's Pension help us ?

- CP removes a barrier to saving
 - if the entitlement to CP is clear
 - if people in the transition phase are clear
- But it doesn't incentivise new savings
 - CP alone does not solve the pensions crisis



Contracting Out

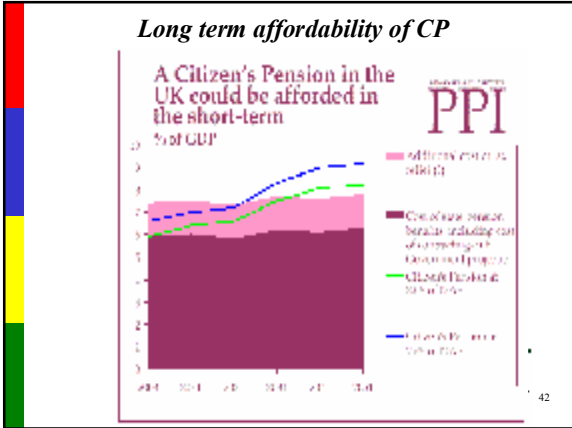
- Can we pay for CP by abolishing contracting out?
 - Frees up the money spent on NI rebates now
 - But piles up future Government debt
- The original contracting out terms were popular
 - six million people have contracted out PP's
 - pump priming their own savings
 - 22% of contributions to Personal Pensions are National Insurance Rebates
- Contracting out could help to reverse today's financial exclusion



Transition Issue

- Today's workers have built up an entitlement within SERPS / S2P or within a contracted out PP
- If these are offset against the CP, that is daylight robbery
 - at least 3 million “victims”
- Many contracted out Personal Pensions are underwater
 - offsetting the COD figure is taking away money these people don't even have

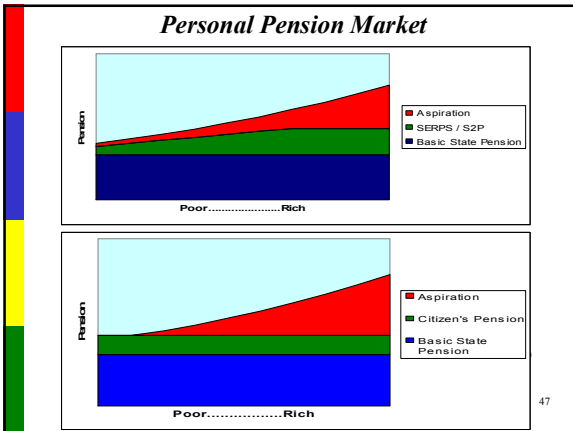
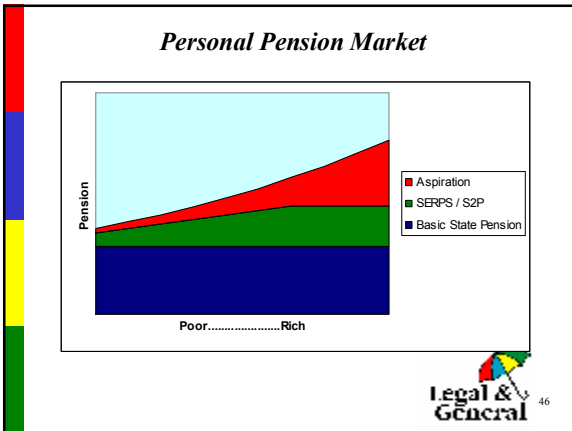




- ### Will the sacrifices to pay for CP be worth it ?
- Raise State Pension Age to 70 ?
 - Opinion polls show this is very unpopular
 - Raise taxes to pay for CP ?
 - Little confidence that current Governments can commit future Governments to raise taxes
 - Remove higher rate tax relief for pensions
 - sending pensions the same way as endowment mortgages
 - Long term, an un-affordable CP would be means tested
 - putting us back where we started
-

- ### Our marketplace - after the Citizen's Pension
- Final salary schemes
 - Personal Pension Savings
-
- 44

- ### Final Salary Schemes
- Many already closed to new entrants
 - facing rising costs as scheme ages
 - Abolishing contracting out increases future liabilities by 25%
 - forcing a scheme reconstruction
 - Finance Directors will seize the excuse to terminate future accrual and replace with money purchase
 - And wind up when they can afford to
- HAPPY THANKSGIVING
-



Conclusions

- Citizen's Pension would give us a firm platform
 - PP sales would be free from means test worries
 - PP market would move up the wealth spectrum
- Abolishing contracting out would
 - hit the revenue of PP providers
 - create sales opportunities with DB re-constructions
- Long term worries on affordability
 - Loss of tax reliefs ?
 - Return to means testing ?



Citizen's Pension

A Personal Pension Provider's Perspective

***Adrian Boulding
Pensions Strategy Director***

