

Pensions Policy Institute Special Debate: The savings benefit from a Citizen's Pension

5 October 2004

45 people attended the seminar, which was chaired by Evan Davis (Economics Editor, BBC, and PPI Governor).

Alison O'Connell (Director, PPI) described the key points from *Citizen's Pension: An Introduction*, a paper specially prepared for the debate.

Rhoslyn Roberts (Group Head of Pensions, GUS, and PPI Governor) gave a presentation considering the issues for pension schemes.

Adrian Boulding (Pensions Strategy Director, Legal and General) gave a presentation considering the issues for personal pensions.

The following points were raised in discussion:

1. Means-testing of pensioners is not the cause of the 'savings gap', but makes it more difficult to close.
2. A pension based on residency rather than National Insurance Contributions (NICs) does not necessarily mean the abolition of NICs. The introduction of a Citizen's Pension would provide the opportunity to redesign the way in which revenue is collected, but the system does not have to be changed.
3. Under a Citizen's Pension the administration of 'legacy' pensions arising from past contracted-out rights could be made simpler. Information on Guaranteed Minimum Pensions (GMPs) could be crystallised, with the Government supplying employers with the relevant information.
4. In transition, the Citizen's Pension could be offset against notional accrued contracted-out rights (the Contracted-Out Deduction), or the actual amount received from GMP and Protected Rights Pensions. If a notional amount was used, people who actually receive less from a contracted-out pension than the notional amount would in effect receive less from a Citizen's Pension than someone who had remained contracted-in. This would also happen in the current system, but would not be so easy to see.

5. Because the Citizen's Pension increases in line with earnings (faster than the basic state pension and SERPS/S2P which increase in line with prices) fewer people would be affected by the offset in future.
6. The offset avoids any 'deadweight' costs, ensuring that extra help is only given to those with low state pension entitlements (basic state pension and SERPS/S2P or contracted-out equivalent) under the current system. This is in contrast to paying a higher basic state pension, which gives higher increases to those with the best contribution records, who tend to be higher income pensioners.
7. A Citizen's Pension provides a stronger rationale for saving for people who would currently be caught in the means-testing trap. If a Citizen's Pension was set high enough, there could be less reason to save for people who would get a higher state pension than before. A Citizen's Pension at the Guarantee Credit level is lower than the state pension (basic state pension and SERPS/S2P) that people above the Pension Credit level receive, so there should not be a negative impact at this level.
8. The Government projections of future expenditure on state pensions are uncertain. There is a wide funnel of doubt that depends on individual savings behaviour and levels of take-up. The cost of a Citizen's Pension is higher than the best possible scenario for the current system, but lower than the worst possible scenario and more certain.
9. Housing Benefit and Council Tax Benefit will continue to reduce incentives to save, but should have less impact under a Citizen's Pension as fewer people would qualify.
10. Means-testing is not a new problem (it has existed in the state pension system since 1948), but now means-testing is spreading to the 'middle classes'. It is the extension up the income distribution (to those in the 'could save, should save' income bands) that is causing problems rather than means-testing per se.
11. The Government has already found £7bn extra funding for pensioners, so it is possible to find money above the cost of the current system if necessary.
12. The Government will spend more than projected on older people, as they become a larger and more politically powerful group.
13. There is already a Citizen's Pension in the UK (Category D basic state pension) payable from age 80.

14. Means-testing is not confined to pensioners. There is a perennial debate about how much support for the population as a whole should be provided on a universal basis and how much through means-testing. A significant difference between pensioners and the rest of the population is that pensioners (and in particular older pensioners) do not have access to the labour market. They have no alternative to the state to provide income.
15. Low paid workers not joining occupational pension schemes is not necessarily a bad thing. These individuals need the money today, rather than in the future. Why should firms (through matching contributions (or the Government through tax relief?)) give more money to people who can already afford to save?
16. The change in state pension policy that has had the most impact on pensioners' incomes is the change in the indexation of the basic state pension. There is a risk that a Citizen's Pension could be subject to the same change.
17. A show of hands at the end of the debate showed overwhelming support in the audience for the introduction of a Citizen's Pension, provided the transition could be effectively managed.
18. The general impression from the discussion was that the debate had moved beyond the general principles of a Citizen's Pension, which most of the audience supported, on to the complex details of the transition between the current system and a Citizen's Pension.