

**PRESS RELEASE**  
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## **Citizen's Pension – 'practically and economically feasible' says Pensions Policy Institute**

A Citizen's Pension could provide a swift, simple and sustainable remedy for the problems with our state pension system, a report published today by the Pensions Policy Institute suggests.

*Citizen's Pension: Lessons from New Zealand* analyses a long-standing and successful state pension model based on residency instead of work history, concluding that it would be both 'practically and economically feasible' to implement in the UK.

### **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 65, single or married
- Eligibility is set by how long the individual has been resident

Drawing on the long experience of the Citizen's Pension in New Zealand, the PPI publication tests the model against a set of ten criteria established in the PPI's 2003 report, *A Guide to State Pension Reform*.

The fact that around 5% of New Zealand's senior citizens live in poverty compared to 20% in the UK is one compelling argument for the adoption of a Citizen's Pension, the report explains.

Saving in second-tier pensions would become easier and better value with a Citizen's Pension. It would remove the means-testing trap.

The latest publication is released at the same time as the results from extensive consultations with organisations and experts around the issues highlighted in *A Guide to State Pension Reform*.

Participants in the consultation exercise agreed that the spread of means-testing and the complexity of the UK state pension system are two of the major problems with the current system. A Citizen's Pension emerged from the consultation as the most popular solution because it is simple and provides equality of benefits.

Director of the PPI and author of the reports, Alison O'Connell said:

"We kept hearing that the complexity of the current system is one of its major faults. In contrast, a Citizen's Pension is simple to understand and makes it clear what can be expected from the state in retirement. There are no disincentives to save with a Citizen's Pension.

It would reduce the risk of being under-pensioned. This is a real problem for the many people, typically women, who will not follow the work pattern required to get the full state pension under the current system. There are also no take-up issues with a Citizen's Pension as there are for means-tested benefits."

A Citizen's Pension at Guarantee Credit level (what used to be called Minimum Income Guarantee, £105 per week from next April) can be afforded immediately within current government spending on pensions.

In the longer-term, as with any pension system, there would be choices about how to pay for a Citizen's Pension as the number of longer-living pensioners increases. One option could be a combination of the state paying slightly more, state pension age increasing to, say 67, in 25 years' time, and tax relief on private pensions being simplified to be more like ISAs.

As Alison O'Connell said:

"A Citizen's Pension set at the Guarantee Credit level would not only be economically viable but would also ensure that pensioners are guaranteed a minimum level of income without the need for extensive means-testing.

It would be simple, and cheap to run. It could be introduced overnight and then sustained well into the future.

We haven't answered all the questions yet, but there appears to be no 'show-stopper' against the Citizen's Pension. We are at a crossroads in pension policy. We could carry on making more changes to the unsatisfactory current pension system. But there is a growing realisation that a significant change to a Citizen's Pension could be good for today's and tomorrow's senior citizens".

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*Notes For Editors -*

Short summaries of the reports' main conclusions are attached. The full reports, *Citizen's Pension: Lessons from New Zealand* and *State Pension Reform: The Consultation Response* can be found at [www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk). Copies can also be obtained from the PPI on 020 7848 3744 or [info@pensionspolicyinstitute.org.uk](mailto:info@pensionspolicyinstitute.org.uk)

The PPI is an independent research organisation, focused on pension provision. Its aim is to improve information and understanding about pensions (state and private) through research and analysis, discussion and publication.

## Citizen's Pension: Summary of conclusions

A Citizen's Pension of around 22-25% of national average earnings is a possible model for the UK. This level of benefit is not generous, but it would mean that hardly any pensioners need to be means-tested for their basic income.

The Citizen's Pension (CP) passes the PPI tests for pension reform:

1. A CP could be **politically sustainable** over the long-term.
2. There should be less **pensioner poverty** with a CP than with the current system.
3. The CP is **affordable now**, within current pension spending.
4. It could continue to be **long-term affordable** over the next 50 years, even within currently planned pension spending. One way to achieve this would be to restructure tax relief on private pension saving and plan to raise state pension age in future.
5. The CP is as **robust to life expectancy trends** as the current system.
6. The CP is much **fairer** than the current system in the sense that it is neutral to work history. This means that a CP is good for women, the majority of pensioners.
7. The CP is probably the **simplest** pension system.
8. The CP does not disadvantage the **oldest pensioners**.
9. A CP could make **private pension saving** easier and better value, with no means-testing trap.
10. **Transition** to the CP could be straightforward. Accrued rights could be maintained, no pensioner need suffer a drop in income and every pensioner's income could be boosted to at least the CP level overnight.

The trade-off inherent in the Citizen's Pension is that it dampens the way the current state system favours high, consistent earners and instead simply gives senior citizens a basic income just above the poverty level. It suggests that the role of the state is to ensure that people have enough to live on in old age, leaving personal and occupational pensions to meet individuals' own ambitions for total retirement income.

There appears to be no 'show-stopper' against the Citizen's Pension, so it should not be discarded as an option. Indeed, there could be significant advantages compared to the current pension system from adopting a Citizen's Pension in the UK, and it appears practically and economically feasible. It should be investigated further.

**The PPI would welcome feedback on the ideas in this paper, views for and against, as it continues to test the Citizen's Pension, and other pension models.**

## Consultation Response: Summary of conclusions

From the seminars and discussions the PPI has held, it is clear that there is widespread agreement on the problems with the current UK pension system. The issues on which there is most consensus are:

- That the system is too **complex**, and
- That state pensions are getting worse, because of the increasing extent of **means-testing**.

The most important features of a future state pension model are:

- **Sustainability**, as people wish there were political consensus to sustain a stable environment for pension planning and provision, and
- **Simplicity**, as people want pension provision to be understood and pension planning able to be done with confidence.

**There was no widespread support for continuing with some form of the current pensions system**, primarily because that implies some continuance of the current problems, particularly means-testing and the complexity of having many components.

**The most widespread support was for a Citizen's Pension or for scrapping the state second pension and increasing the Basic State Pension.** The main reasons given for choosing the Citizen's Pension were simplicity and fairness, especially for women. Preference for the higher BSP tended to be because it is less radical than a Citizen's Pension – it continues part of the current system rather than making a wholesale change.

Policy reform should of course be based on the facts, and will have to challenge some common myths about the current system. The pension myths evident from the consultation include:

- Everyone gets more or less the same state pension.
- The state pension will be minimal in future.
- Everyone has some private pension.

In fact:

- State pension is not universal and varies significantly by earnings and work history.
- The state, instead of taking a minimal role in pension provision, will set income levels for most pensioners.
- Most people of working age are not accruing private pension.