PENSIONS POLICY INSTITUTE

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Citizen's Pension: Lessons from New Zealand

A PPI Seminar: 4 May 2004

30 people attended the seminar, which was chaired by Peter Thompson (Mercer, Past Chairman of the NAPF and PPI Council Member).

Alison O'Connell (Director, PPI) described the key points from the March 2004 PPI report ***Citizen's Pension: Lessons from New Zealand***.

Key points made during the discussion

1. It was thought that moving to a New Zealand style Citizen's Pension (CP) as a direct replacement for the Basic State Pension (BSP) would be expensive, and regressive. This is because high income pensioners would gain more than low income pensioners, after allowing for offsets in means-tested benefits.

2. However, the possibility of offsetting CP benefit against the combined BSP and SERPS/S2P accrued benefit is an alternative. This option would also be less expensive. This would mean that a pensioner would receive the larger of their existing state pension entitlement, or the new CP level. Over time, the CP would increase relative to BSP and SERPS/S2P until fully replacing both. This would also be progressive, rather than regressive, as pensioners with large amounts of BSP and SERPS/S2P would not gain when the policy was first implemented (see note below).

3. The offset should also be made against the contracted-out equivalents to SERPS/S2P, paid through occupational and personal pensions. This would remove bias between those who had contracted-out and those who had remained in the state system, but would also make the transition harder to understand for some people (though this is a feature of the current system that does not appear to cause much confusion).

4. If CP replaced the BSP and S2P, contracting-out would stop. This would mean less income for occupational pension schemes, and so would affect the pension offered. Although occupational pension schemes would welcome the simplicity and certainty afforded by a CP, the costs involved in changing administration systems and scheme rules could be a problem. There is not yet a clear 'business case' showing the benefits to occupational pension schemes.

5. There is no conclusive evidence as to the impact the introduction of a CP would have on savings. Theoretically, it would make the benefit of saving clearer to individuals, reduce the potential for 'mis-selling' claims if people became eligible for Pension Credit, and make it clearer to employers that occupational pensions would benefit individuals. Practically, personal pension providers may still not sell to low income individuals if it were not profitable. Further work in this area would be useful.

6. If the system of tax relief on pension contributions were changed at the same time as a CP was introduced, this could further reduce the income received by occupational pension schemes, and make it harder to pay existing accrued pensions. For future accruals, smaller contributions could be offset by tax-free pension payments, leaving net income relatively unchanged.

7. Although other countries, including Denmark and Holland, have a citizenship element to their pension systems, New Zealand appears to be the only one where all state provision is made through a CP. Holland has a CP element to state pension provision and a large occupational pension sector, suggesting that the two can operate together.

8. The most progressive way of implementing a CP would be to integrate the tax and National Insurance systems. However, this might be difficult politically.

9. There is a high degree of political consensus in New Zealand about the CP. Disagreements tend to focus on particular issues such as the age of payment (increasing state pension age), whether payments should be made to rich pensioners (in the past there has been a 'surcharge', removing some CP from richer pensioners), and whether or not there should be tax incentives to save in a private pension.

10. New Zealand appears not to have a 'savings gap', despite having no tax incentives for private pension provision, or wide scale occupational pension provision.