Should state pensions be contributory or universal?

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What can the New Zealand experience of universal pensions offer the United Kingdom debate?

It is very interesting that the New Zealand model for retirement incomes is being looked at seriously in the UK. But not surprising, as it is a very attractive model, comprising a flat-rate taxable universal pension called 'New Zealand Superannuation' at age 65 based on residency, supplemented by voluntary unsubsidised private saving. The pension is non-contributory so that unpaid and paid contributors to society, be they homemakers or brain surgeons are treated the same. Even if there has been no history of paid work at all, no-one is excluded on this basis. Coverage is almost complete, with just a few choosing not to receive it or failing to qualify on residential grounds.

It is not just that it is very simple, but it is also very effective in achieving a decent share of income for everyone in retirement, regardless of their former attachment to the paid work force. It is set so that it cannot fall below 65% of the net average wage for a couple, with higher rates for single and living alone. As a result, pensioners have largely fallen out of the poverty statistics. In this, the link to average wages is crucial. Only around 7% of pensioners are under the poverty line compared to over 50% of those on welfare benefits, (Ministry of Social Development, 2005).[1] For the few who do experience hardship, and there will always be some, especially if there is ill-health and housing problems, the poverty is not higher among women than men (Fergussen, 2001). Giving all older people sufficient income to enable them to belong and participate in society is a noble ideal, a marvellous public health measure and a goal largely achieved in New Zealand. It is great to live in a country where you don't have to feel guilty about the poor aged (the poor at the foodbanks are now largely families with children, and feeling guilty about them is another story!).

Yes, there have been some dark political moments in the New Zealand history of policy for retirement over the past thirty years, but through it all, the principle of a simple, flat-rate, taxable, non-contributory, adequate, universal pension has emerged intact.

I have detected a fear in the UK debate, that without a contributory basis, the pension will be less secure and more prone to political interference. Today, the security of the New Zealand pension is a matter of psychology, public support, political agreement and, the Government would argue, its vision in setting up some prefunding through the New Zealand

[1] 60% median household disposable income after housing costs

Superannuation Fund. The non-contributory nature of the pension is not of particular, nor detectible concern. New Zealanders know too well of the insecurity of provision based on one's own contributions from the volatile experience of investments in the inflation of the 1970s and 1980s, and the late 1980s share-market and property boom collapses.

Our experience has been that politicians know only too well that messing with the universal state pension is like putting a toe in a crocodile swamp. But some have been slow learners. The National government tried to change the pension into a tightly targeted welfare benefit in 1991. They had to quickly backtrack in the face of public outrage (St John, 1992). Not having learned its lessons National again, in 1998 attacked the pension by reducing its minimum level from 65% to 60% of net average weekly earnings. This was not a winning move, and the first thing Labour did when elected in 1999 was to reverse the changes to the floor. Since then however, there has been a remarkable degree of political consensus. The parameters of the state pension, summarised as '65 at 65' (65% of the net average wage for a couple at the age of 65), are enshrined in the New Zealand Superannuation Act 2001 now signed up to by all the major political parties.

The universal pension is, unarguably, good for the women of New Zealand. One question that is of interest in the UK context is 'why is it better for women than a contributory system could be?' Perhaps our fleeting experiences with contributory schemes can shed some light.

In 1974 a state savings scheme based on compulsory employee/employer contributions was introduced. At that time, only one third of the labour force was women. Belatedly the government offered homemakers a lump-sum 'baby bonus' to acknowledge care-giving, but this did not mollify women's groups (St John & Ashton, 1993). Women could see they were also disadvantaged because for any given capital sum they would have had a smaller annuity, based as the scheme was, on private insurance principles. The universal scheme offered instead by the National Opposition in 1975 was so much better for women, and would have paid out immediately instead of up to forty years in the future. Labour lost the election, we got our money back, and the simple generous universal New Zealand Superannuation pension was installed.

Then in 1997 we voted on a retirement saving scheme which would have essentially privatised the state pension. It was estimated that 85% of women would never accumulate a sufficient capital sum to buy an annuity equal to the universal state pension. They would therefore be dependent on the top-up provided by the state and be no better off than before. Moreover because the annuities were to be provided by the private sector women would have needed a special additional top-up reflect their gender. They would be in a cap-in-hand situation as state dependents rather than the current scheme in which they got a pension as of right as a citizen (St John, 1999). Putting paid to the issue, perhaps for all time, 92.8% of voters said 'no way' in a referendum on this scheme.

While women had plenty to say about the 1974 and 1997 contributory schemes, in general I suspect New Zealand women today don't realise how lucky they are compared to elsewhere (Ginn, Street, & Arber, 2001). There is not a great deal written about the importance to women of universal pensions. Neither the Ministry of Women's Affairs nor the National Council of Women web sites highlight this feature of New Zealand's retirement policies. They and recently formed groups such as 'Women in Super' are almost exclusively focused on the way women should have access to supplementary private provision. Perhaps it is just taken for granted by New Zealand women that unpaid care giving work should be, and is, recognised in the basic universal pension, but there are further battles to be won, such as pay equity, full maternity leave and access to occupational superannuation.

While the lack of a contributions base in the New Zealand scheme is a non issue, women, if pressed, would say that it is a highly equitable way to recognise the work they do in many different ways in tending the social fabric. Importantly too, the pension can also be conceived of as rewarding unpaid work in retirement itself. As the population ages, more voluntary labour by the retired themselves is needed and a simple basic tax-funded pension provides the basic support for this to occur. At the time of the introduction of a residency-based system it may be desirable to have a political articulation of the way in which a universal pension recognises unpaid contributions of all kinds. But we don't need this articulation any more for acceptability to New Zealand women- it is just taken as read. New Zealand women may be quiet now, but watch them roar if any one suggests their pension should be based on some bureaucratic definition of their contributions.

While it can be argued that contributory schemes can also reward unpaid work, in practice they do so in a selective way relying on complex accounting systems to fairly credit unpaid contributions. There are, inevitably, all kinds of boundary problems. How is caring to be defined? Who does it and for how long? What are the standards to be met? How complex is it to count different intensities of care-giving and what rate of notional remuneration is to be used? What about care givers who fail to be adequate parents? What about women who support their husbands and thus his ability to earn and pay contributions, but are not 'caregiving'? One thing that seems clear from our history, and from what I see in the UK, whether it be pensions for the old or tax credits for children, complex arrangements just don't work well for the poor.

In New Zealand, another attraction of the universal pension is that entitlement is on an individual basis[2]. This is again excellent for women in a time of changing social arrangements including more divorce, widowhood, living alone and co-habiting arrangements. Incomes between men and women are much more equal in retirement as a result. Women live longer on average, so getting a gender neutral pension is another plus. The net present value of the pension at age 65 is a huge capital sum, far outstripping other financial or housing saving for the average woman.

Would funding from National Insurance contributions make it more difficult to have a universal pension? New Zealand has a history of general tax funding of the state pension going back to the Old Age Pension of 1898. One of the advantages of using general taxation is that the base is wider than wage income, and includes taxes on investment income and on consumption. By this mechanism some of the burden of the universal scheme is spread from the working age to include the old as well. But any flat-rate pension breaks the link between contributions and returns, so the use of hypothecated contributions in the UK case is not necessarily an impediment to a universal pension.

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[2] The rate of pension however depends on marital status and whether living alone.