

# Citizen's Pension: Lessons from New Zealand

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4 May 2004

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# Progress on State Pension Reform



- *A Guide to State Pension Reform* published July 2003
- Set up 5 models to test
- Set up 8 consultation seminars to get feedback: c. 150 participants plus emails etc.
- Focused research on a Citizen's Pension
- March 2004: Published *Citizen's Pension: Lessons from New Zealand and State Pension Reform: The Consultation Response*

# State pension reform models under PPI review



1. **Status quo:** tinker with BSP, S2P and PC
2. **Reform S2P:** flat-rate, more generous especially for lower earners
3. **Much higher BSP, scrap S2P:** simplifies and reduces means-testing to some extent
4. **Citizen's Pension:** simplest, means-tests the few who do not qualify by residency
5. **Age additions:** higher benefit for the oldest

# 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

# Is New Zealand a valid role model? (1)

- A small country; the UK is richer
- Ageing later
- A proven pioneer

First to give women the vote, no subsidies for farming...

# Is New Zealand a valid role model? (2)

- Stability, consensus in pension policy
- 55 pages of pension legislation; 3,500 in the UK
- Much less pensioner poverty; no savings gap...achieved without savings incentives

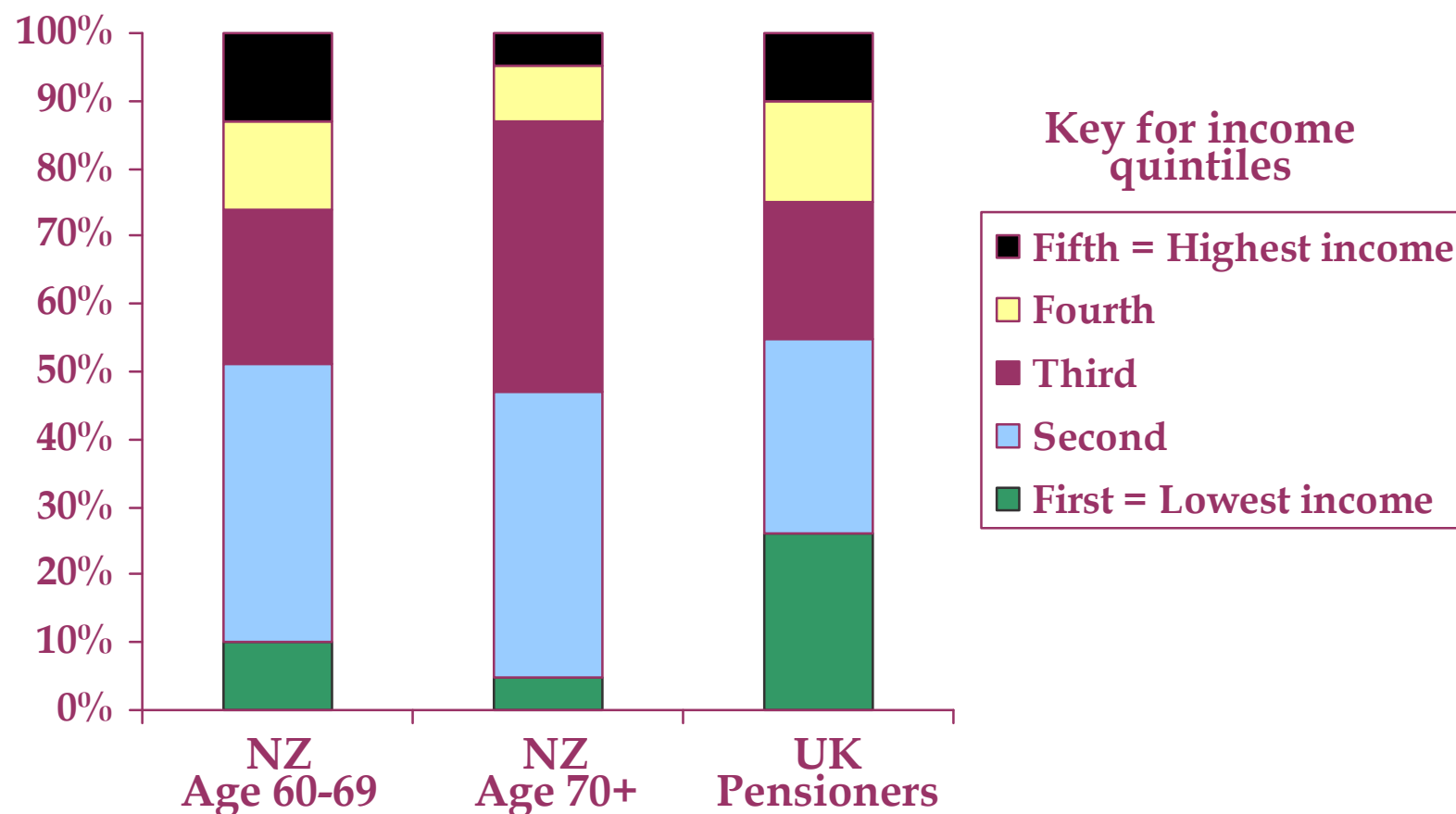
# Attraction of a Citizen's Pension for the UK



- Simple to understand
- Cheap to run
- Incentive to save
- Fair – equal value judgements
- Should reduce/remove pensioner poverty
- Future cost to the state is more certain

# With a Citizen's Pension, pensioner incomes should be more equal

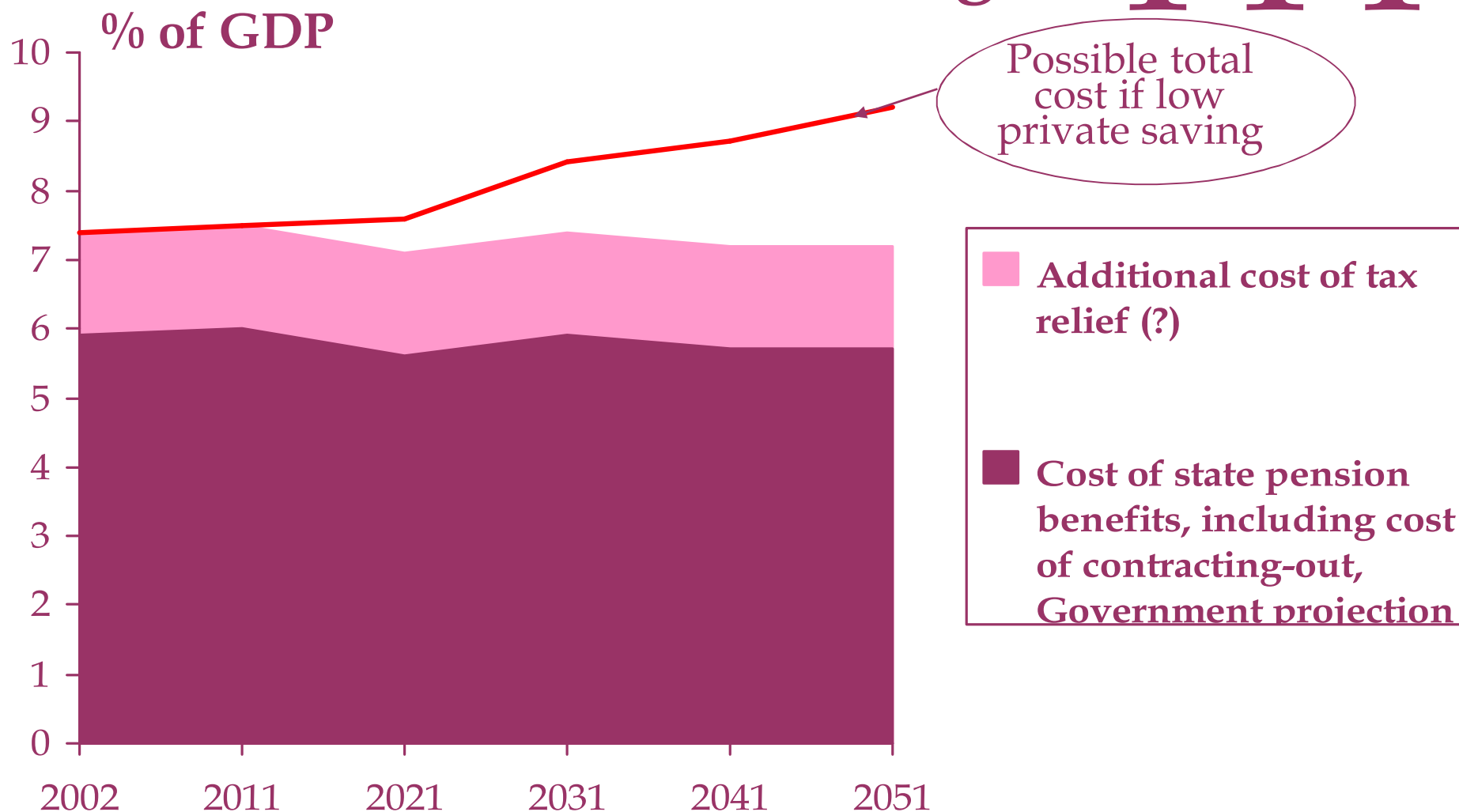
Percentage of pensioners with incomes in  
each income quintile of the all-ages  
population



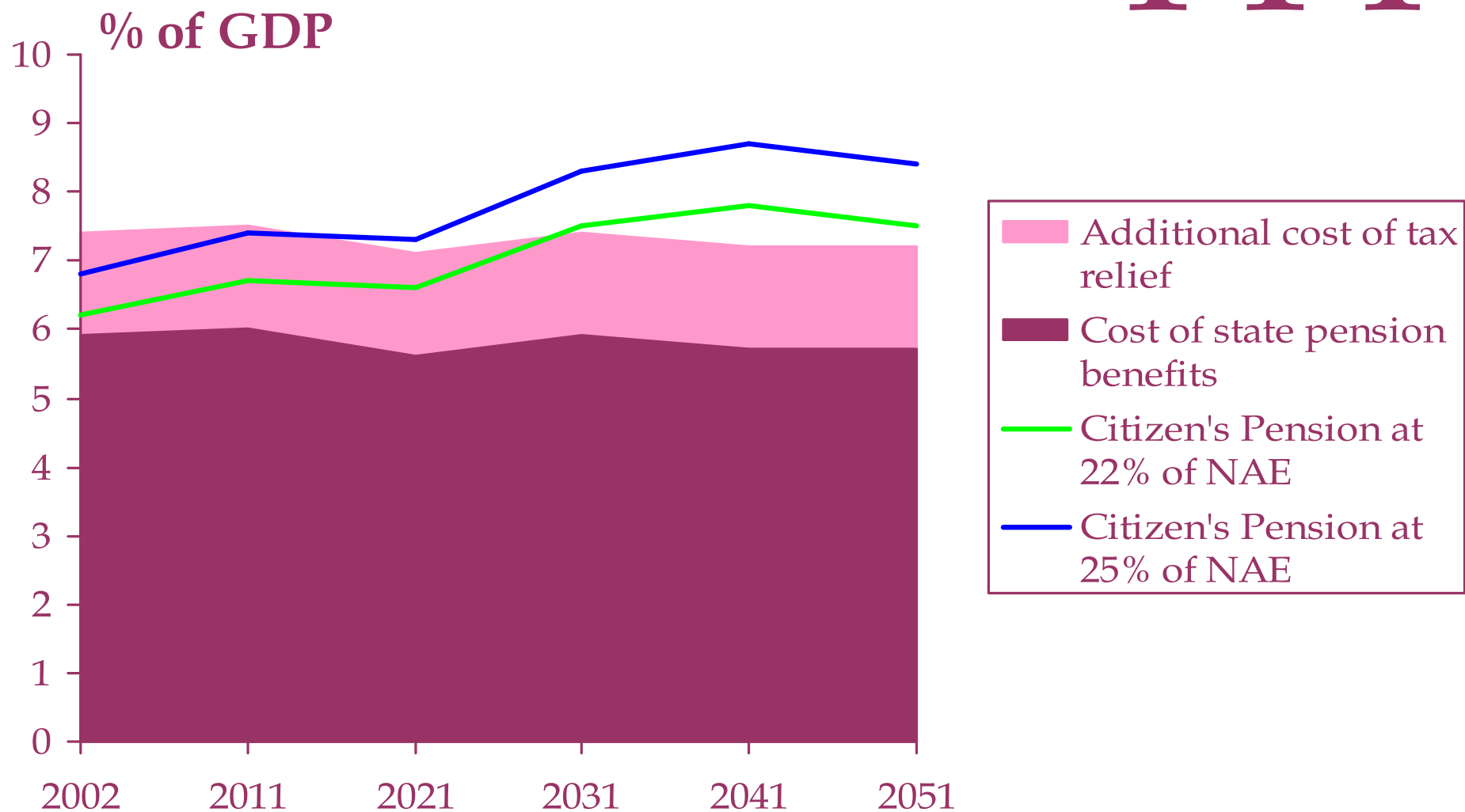


# UK state pension expenditure is planned to be flat, but it could be higher

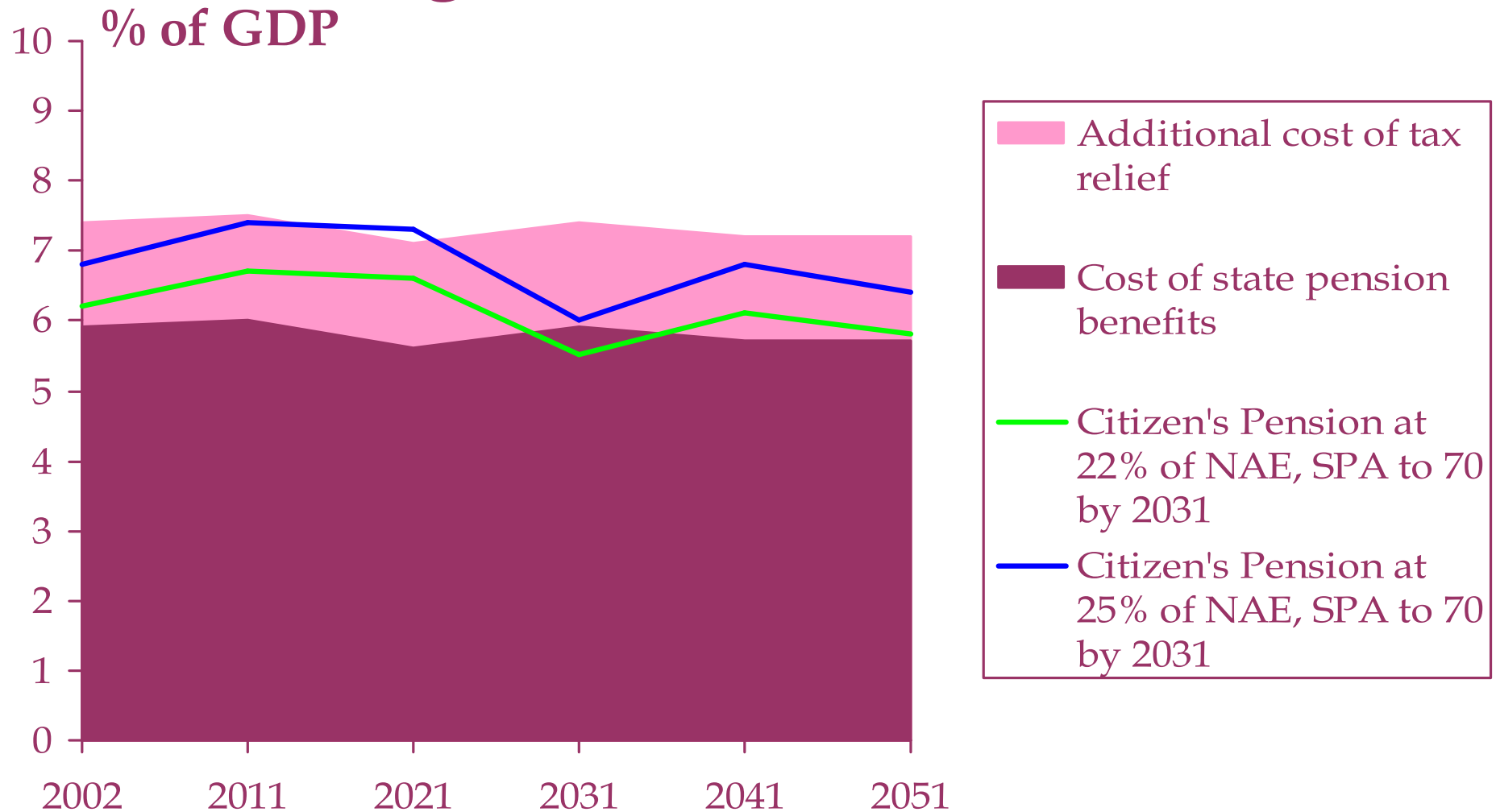
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# A Citizen's Pension in the UK could be afforded in the short-term....



...and the long-term cost could be mitigated by increasing SPA



# But is it possible?

- ‘Citizenship’ too difficult to define?
- Too expensive, especially as we age? Could be brought in at no cost.  
In future could raise SPA and restructure tax incentives
- Regressive? Not if offset accrued S2P
- Too difficult to transition? Could be done overnight, maintaining accrued rights, but contracting-out ends
- Private sector suffers? But complexity and savings disincentives removed
- Political risk of future change?  
Probably less than now, but an ‘Accord’ would help
- Too controversial?  
Some people believe in the contributory system