

Lessons for the UK from New Zealand pension policy

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Lessons for the UK from NZ

- **The current UK pensions system is not sustainable**
- **A Citizen's Pension (like NZS) is an attractive alternative**
- **It would be possible to sustain a Citizen's Pension in the UK**

The current UK pension system is not sustainable



- The system is exceptionally complex
- Pensioners, especially the oldest, are poor compared to the rest of society
- The future for state pensions is unclear, but declining
- Private saving is insufficient for future retirement income to reach today's standards

The UK pensions system

Tier 1

Public
Unfunded
Compulsory

Basic
State
Pension
Pension
Credit

Tier 2

Public
Unfunded
Compulsory
for employees

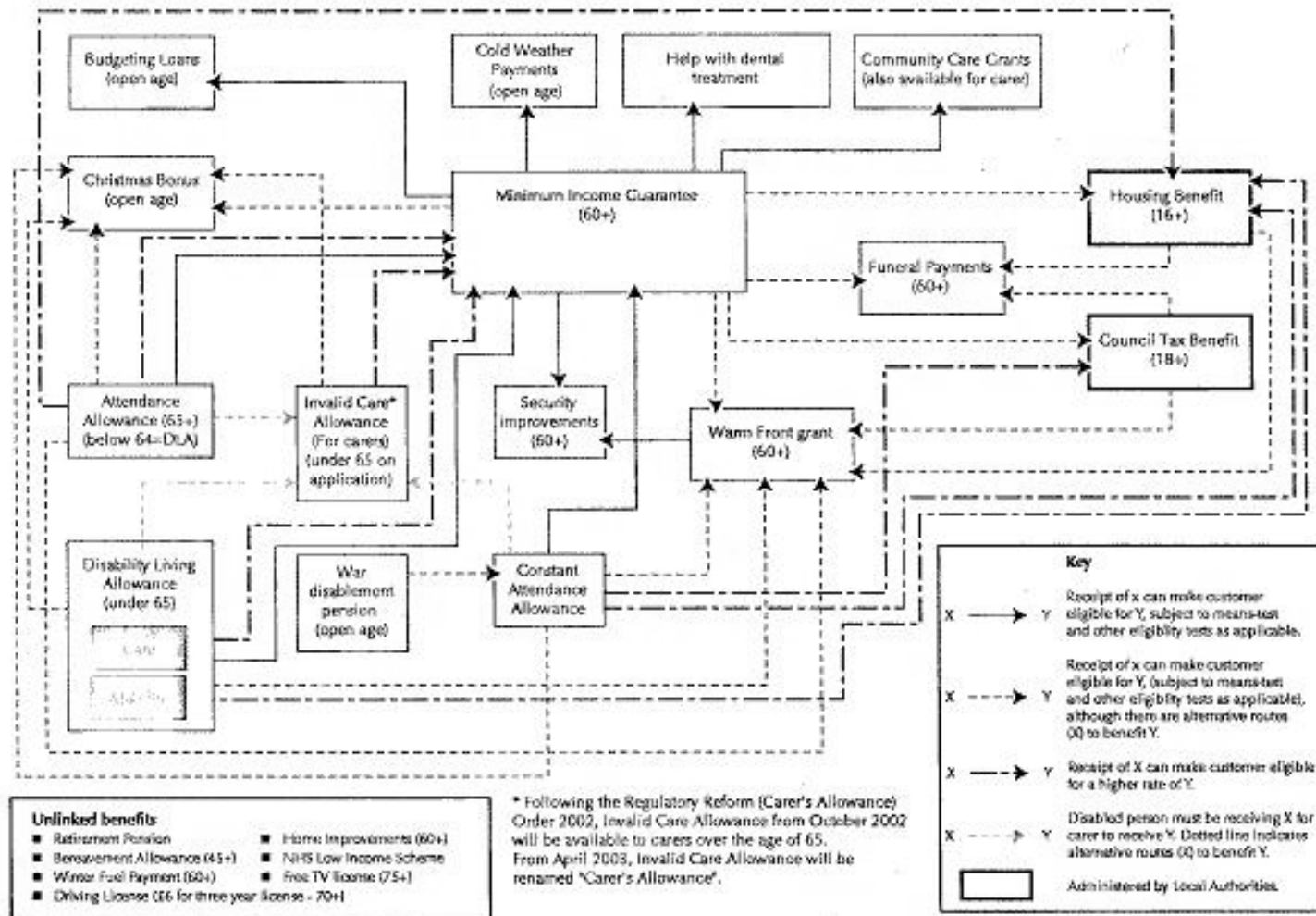
SERPS
State
Second
Pension

Tier 3

Private
Funded
Incentivised

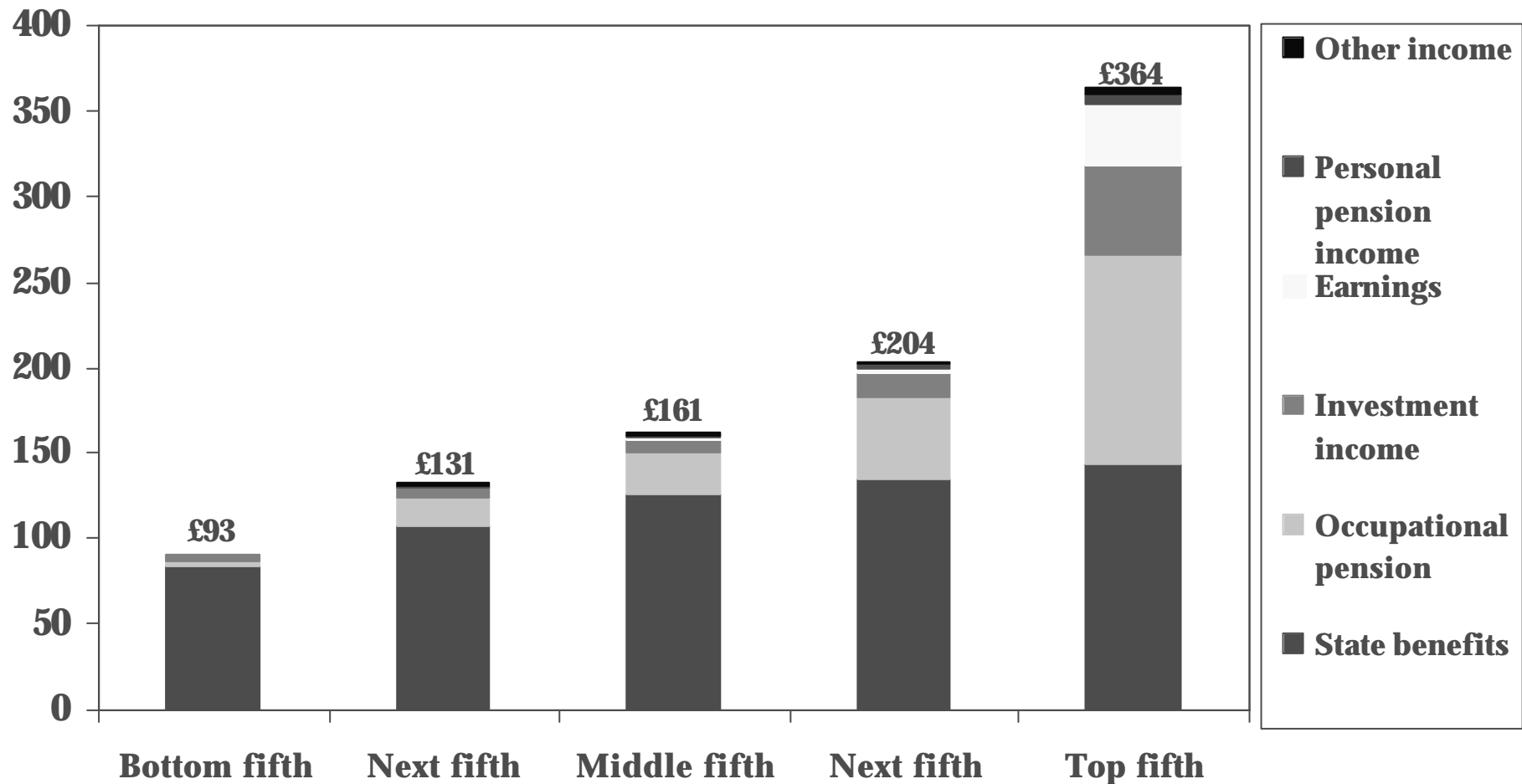
Occupational
and Personal
Pensions

The UK state pension and benefits system is complex



There is wide variation in the incomes of UK pensioners

Gross income of single pensioners by quintile 2001/2, £ per week

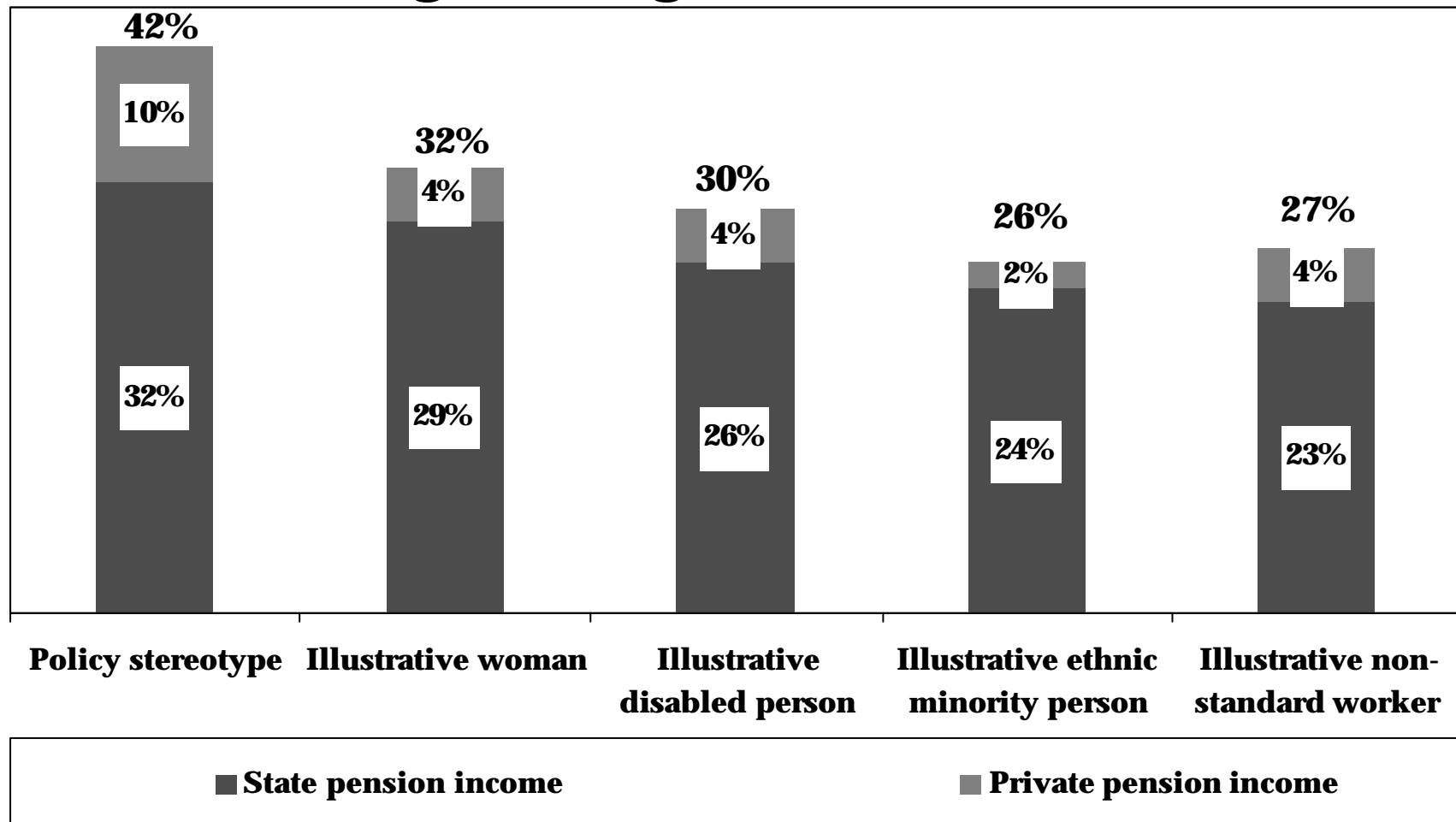


Many groups of people are at risk of being under-pensioned

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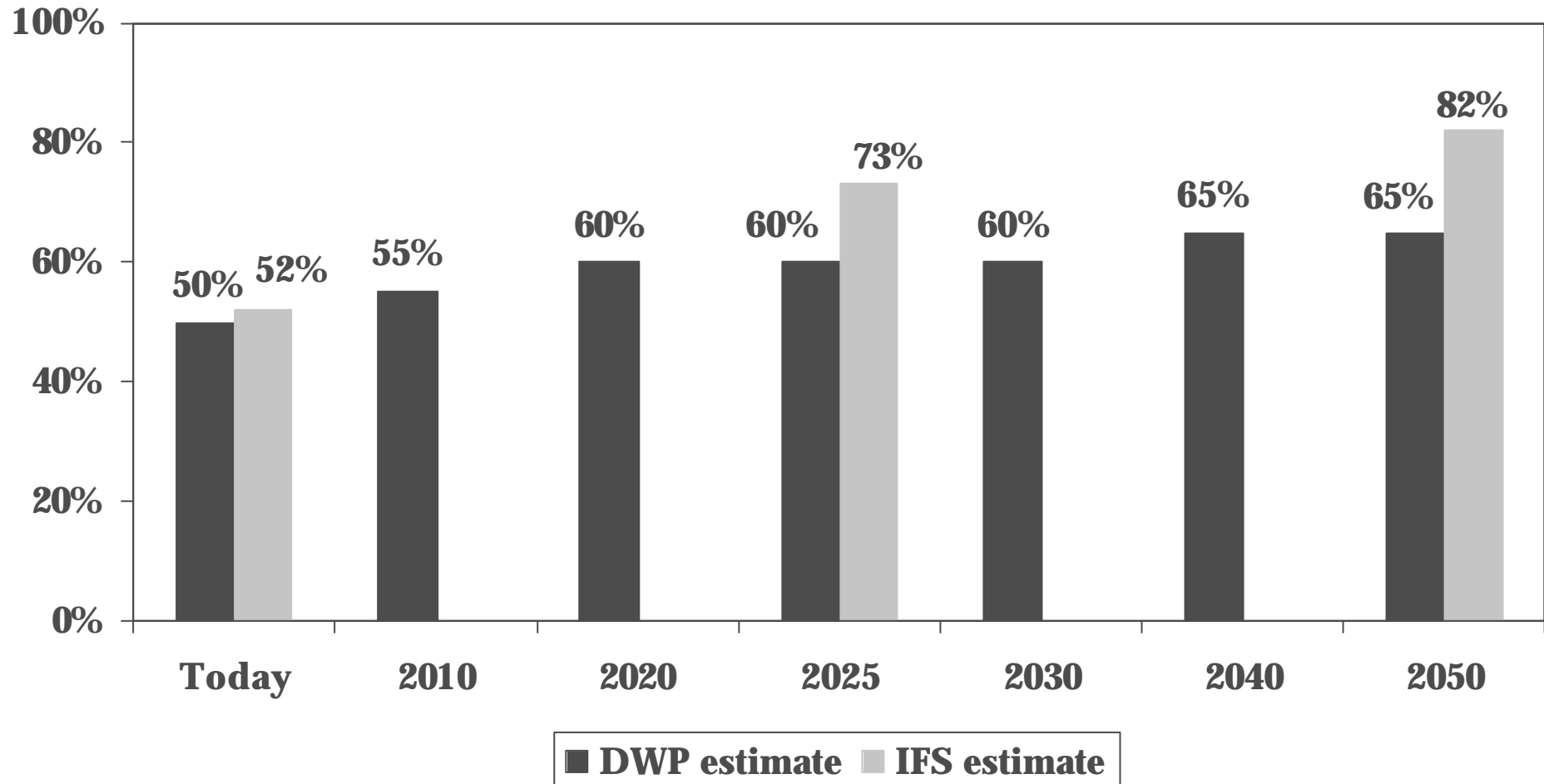
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Pension income at age 65 in 2003 as a proportion of National Average Earnings (NAE)



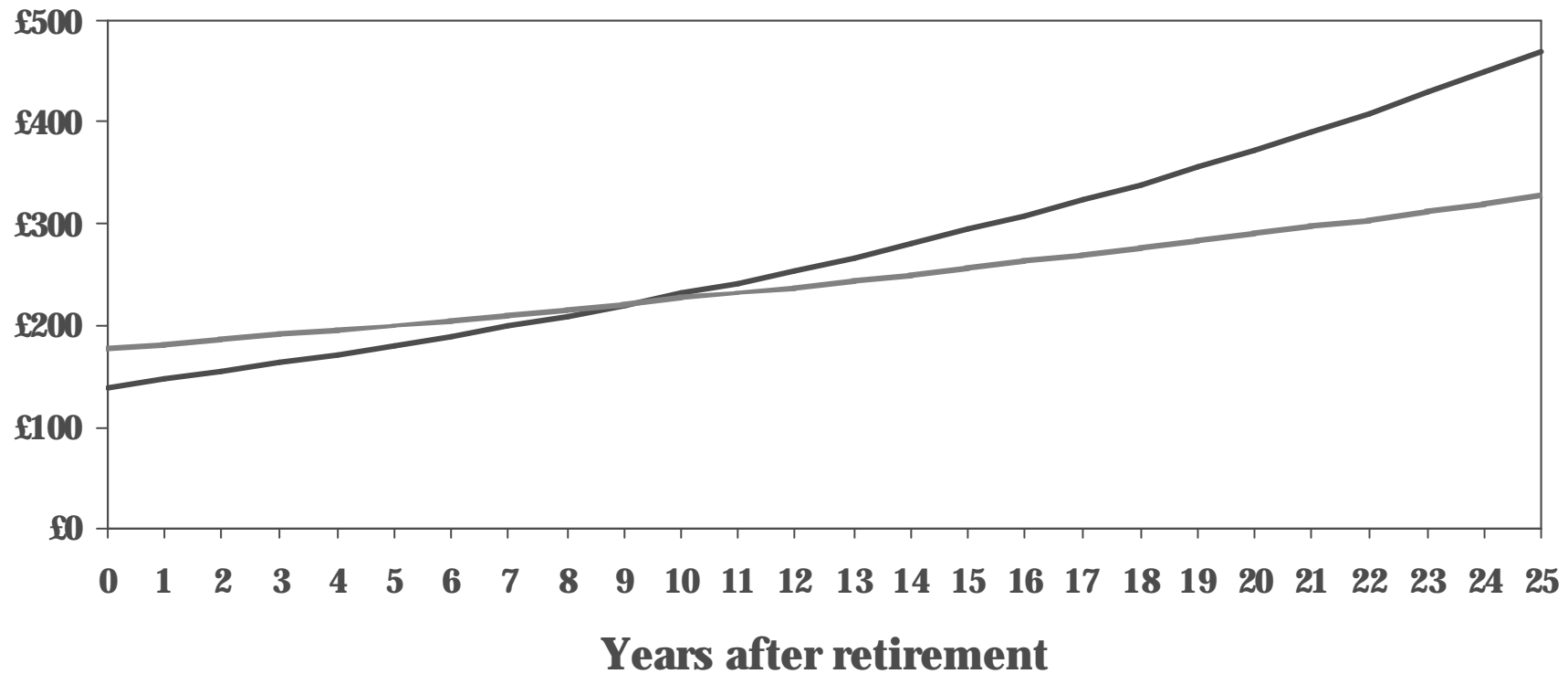
An increasing number of pensioners will be means tested

Estimated proportion of pensioners entitled to Pension Credit



A typical pensioner will become entitled to PC during retirement

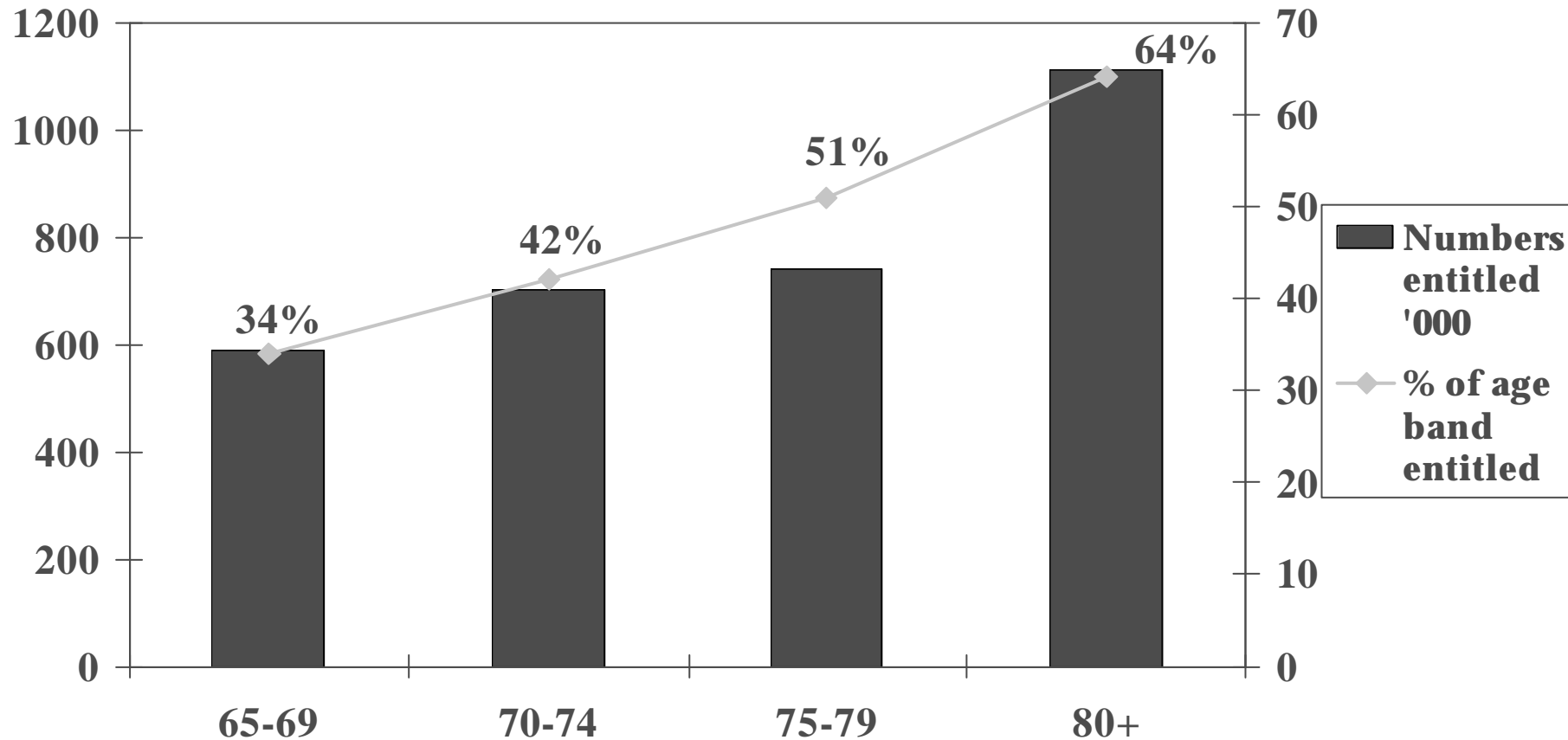
Income and Pension Credit threshold for an typical single pensioner retiring at state pension age in 2003, £ per week



— Upper threshold for PC entitlement — Income in retirement before PC

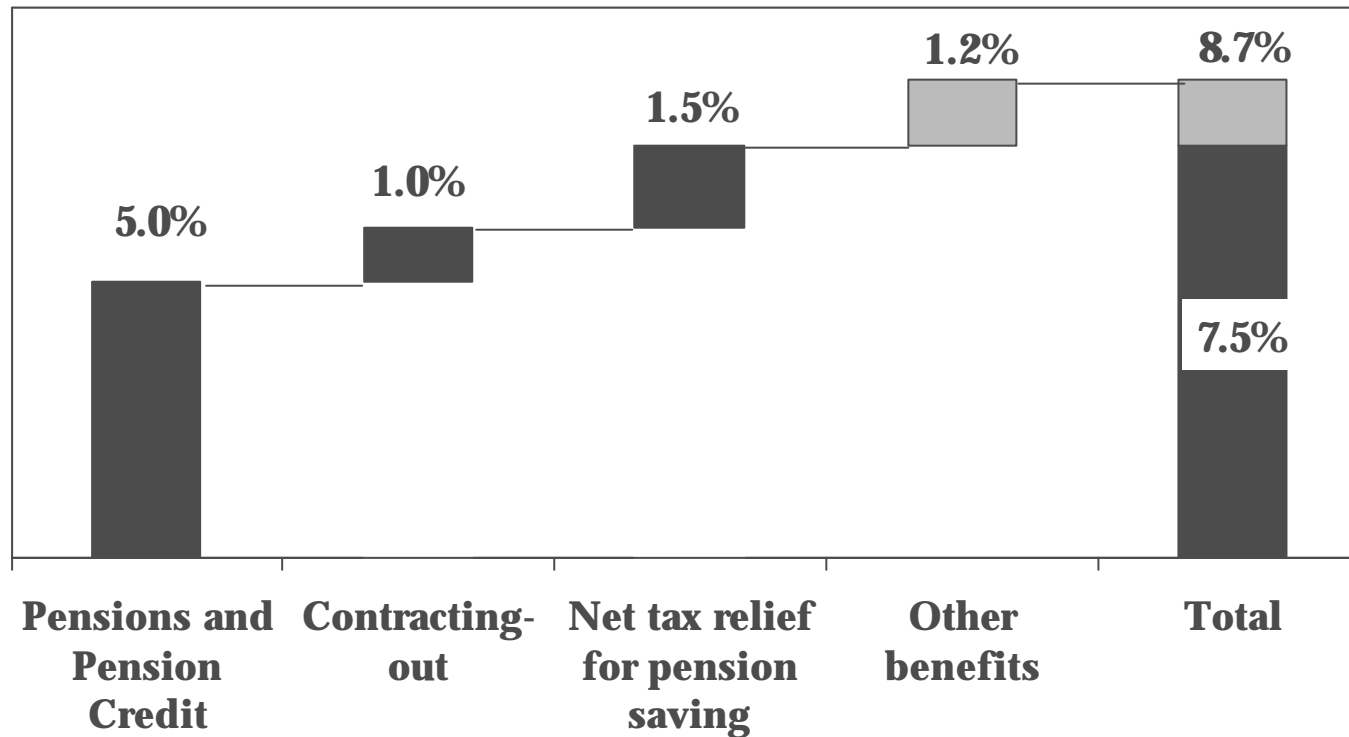
Older pensioners are more likely to have to claim means-tested benefits

Number and percentage of pensioner units entitled to Pension Credit, 2003/4, by age band



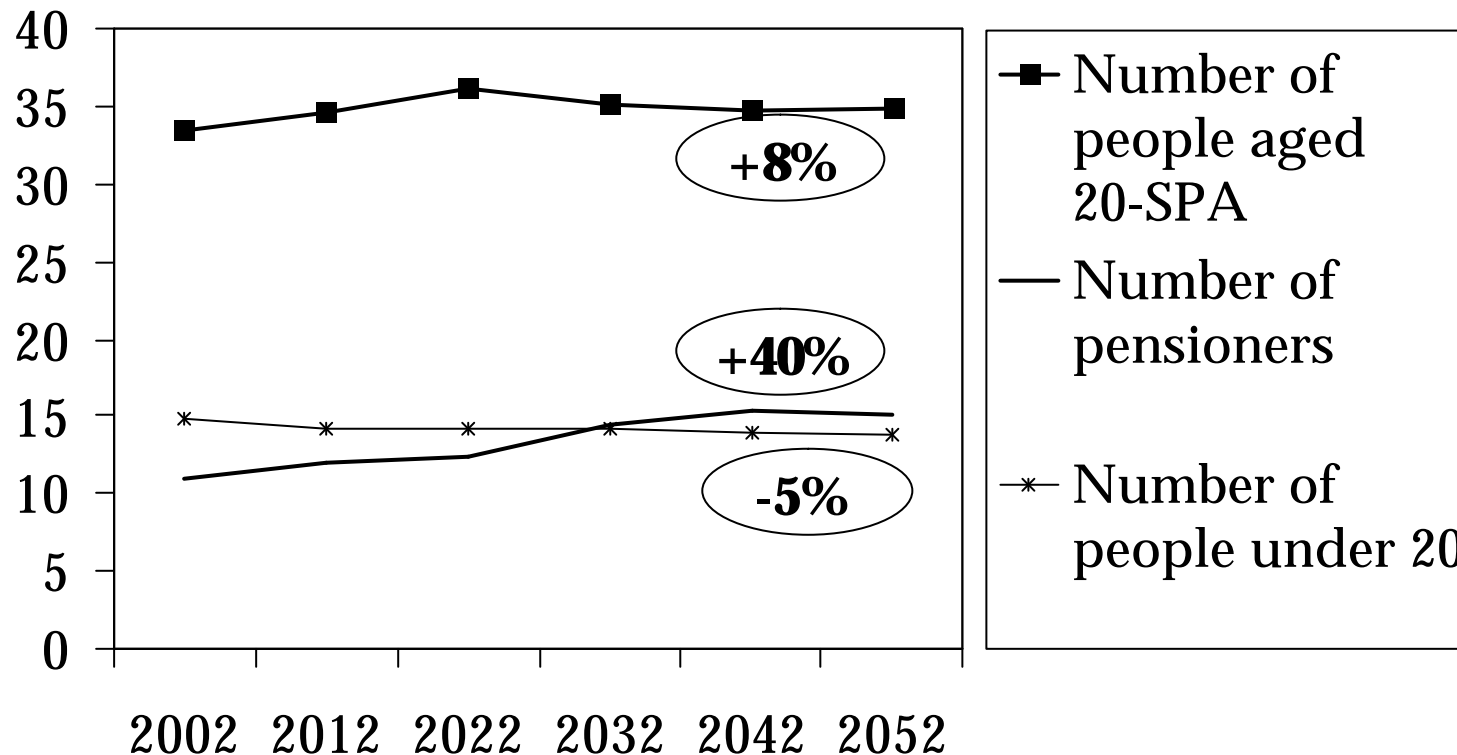
The cost to the state of UK pensions is around 7.5% of GDP

**Cost of state pensions and other pension-related items
% of GDP, 2001/2**



The number of pensioners in the UK will increase by 40% over 40 years

Millions

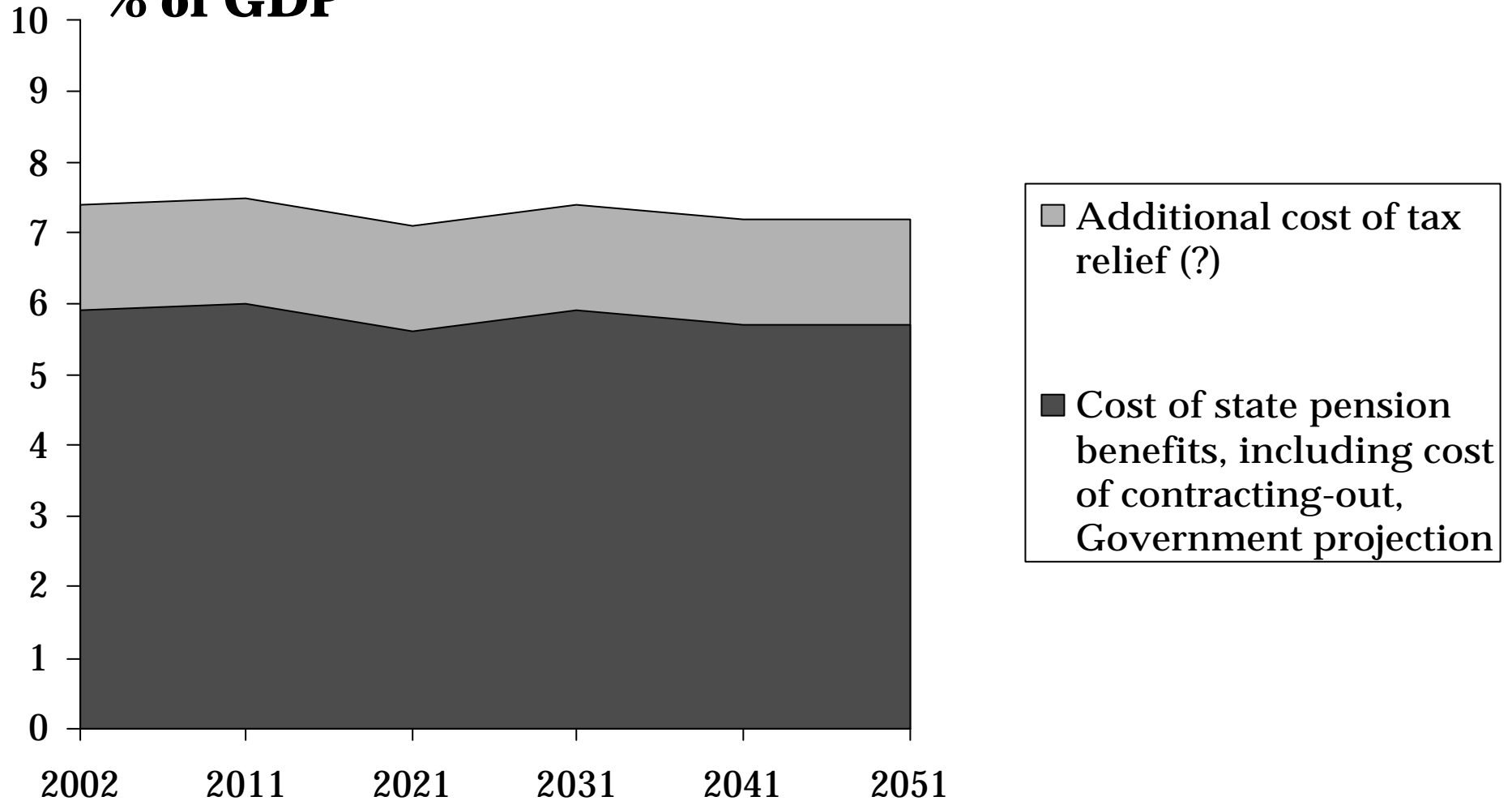


State pension expenditure will not keep pace with the number of pensioners

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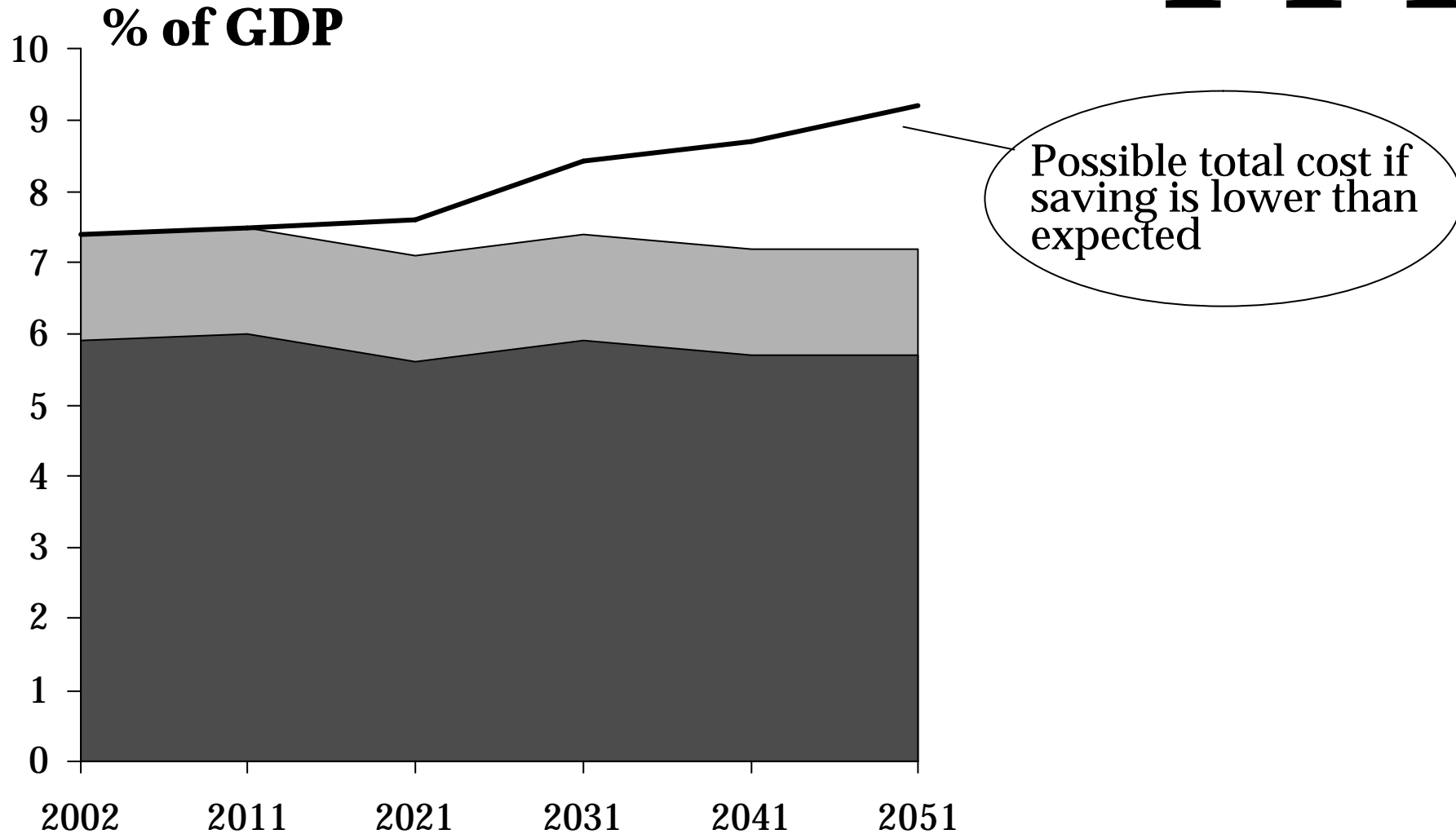
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% of GDP



But the actual future cost of UK state pensions is in doubt

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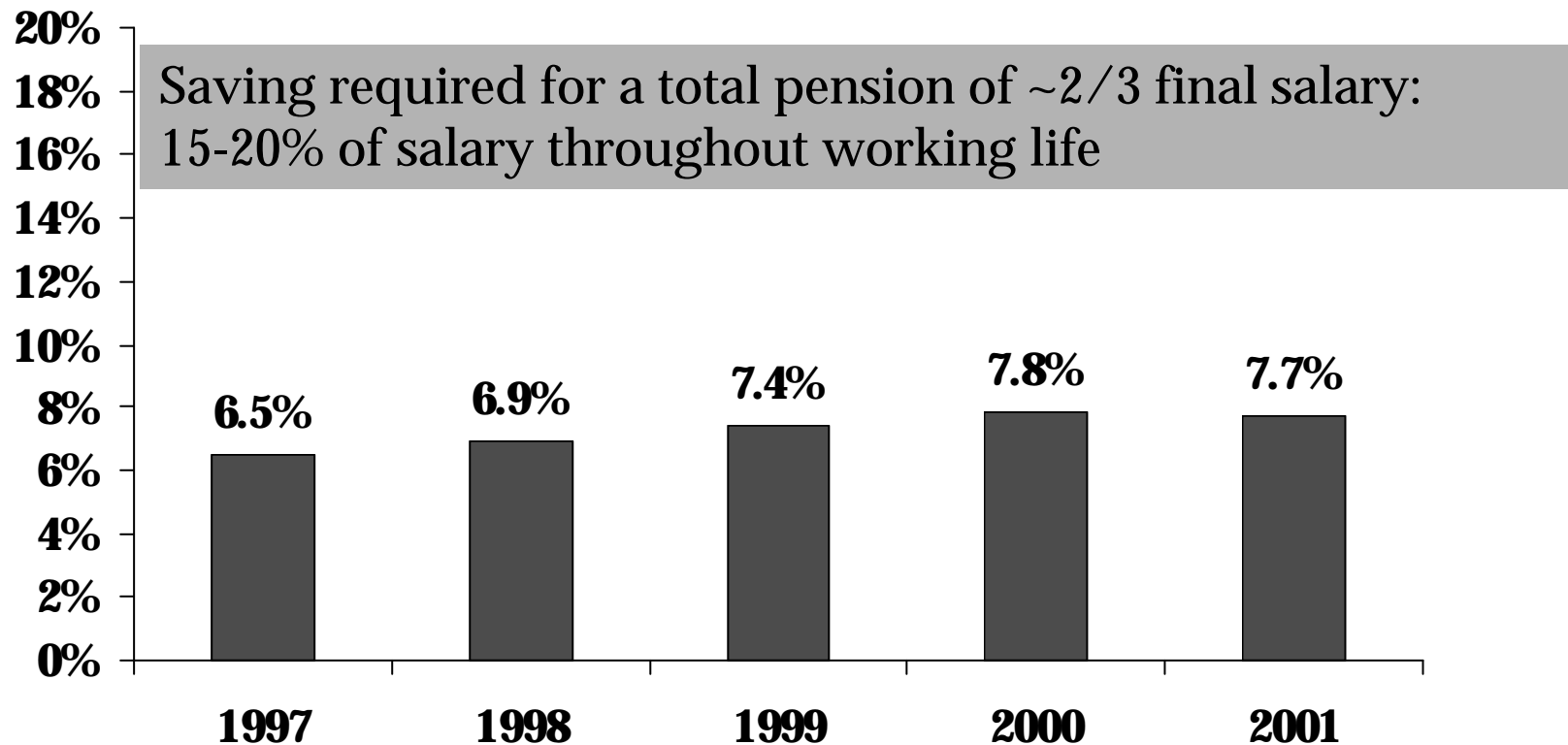


Average private pension contributions have stalled below that required

Average contributions to non-state pensions as % National Average Earnings

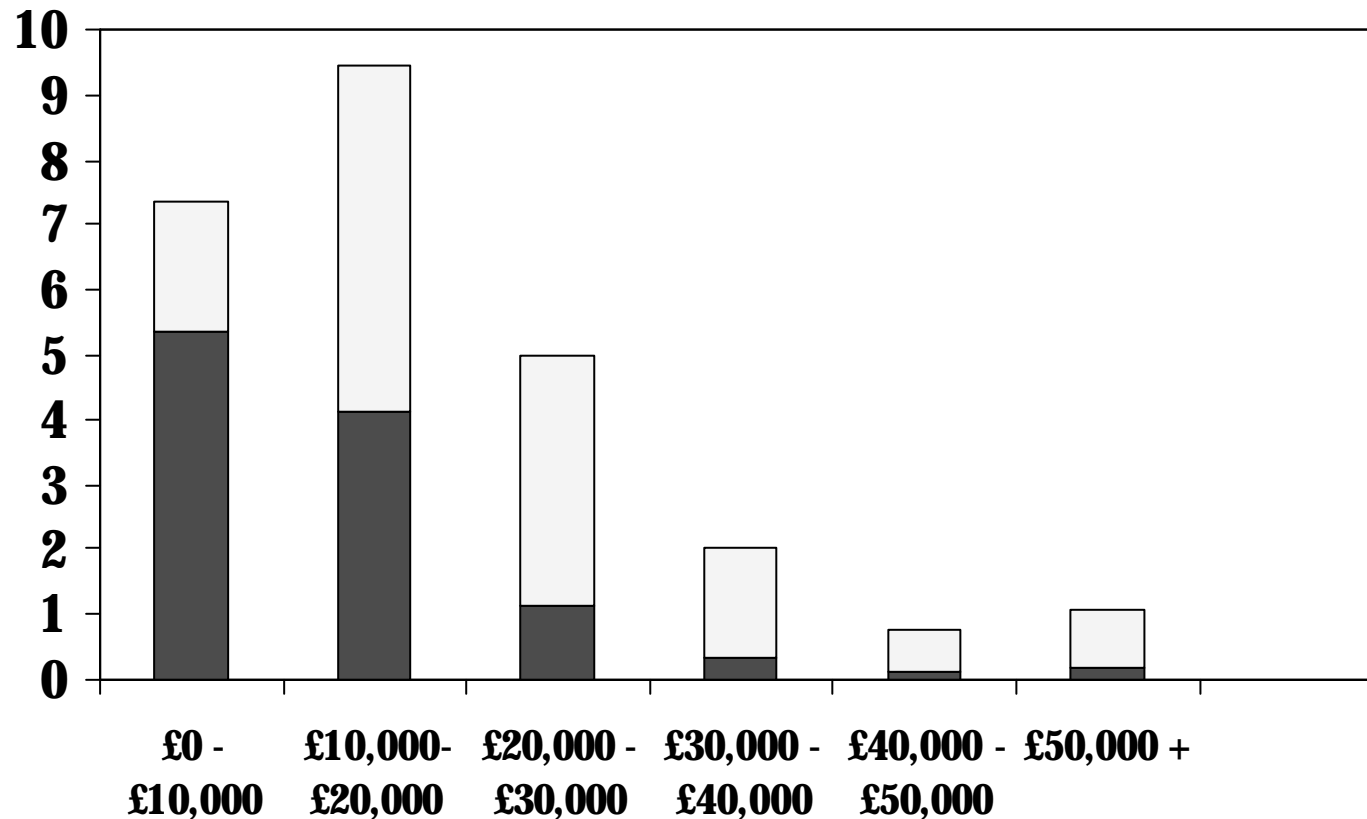
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State pensions are important to most people

Number of workers by income group with or without a private pension, millions



Accruing private pension?

Yes

14m

No

11m

Plus, 9m not working

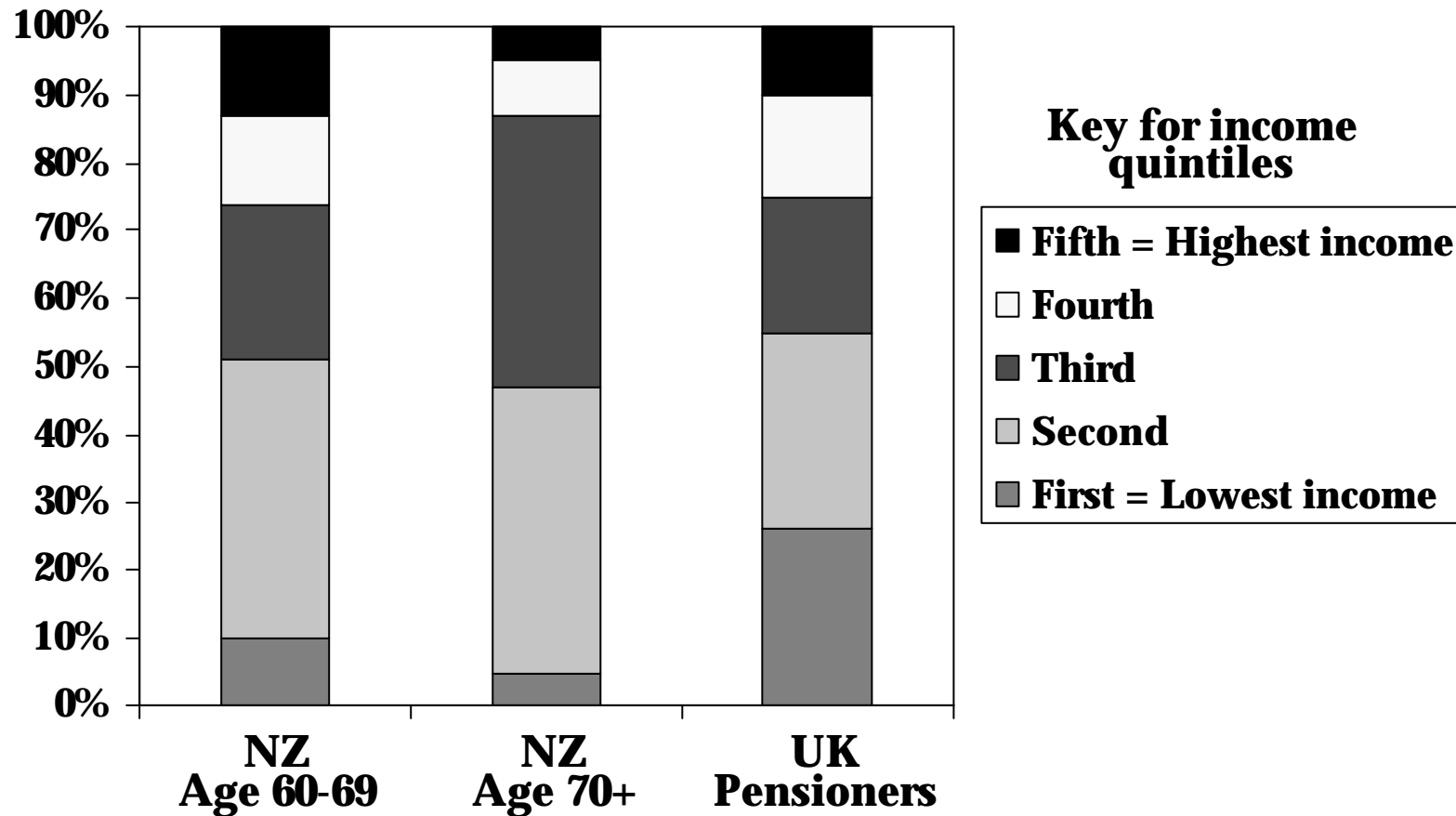
Attraction of a Citizen's Pension for the UK



- Simple to understand
- Cheap to run
- Incentive to save
- Fair – no value judgements
- Better distribution of income among pensioners

With a CP, pensioner incomes in the UK should become more equal

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



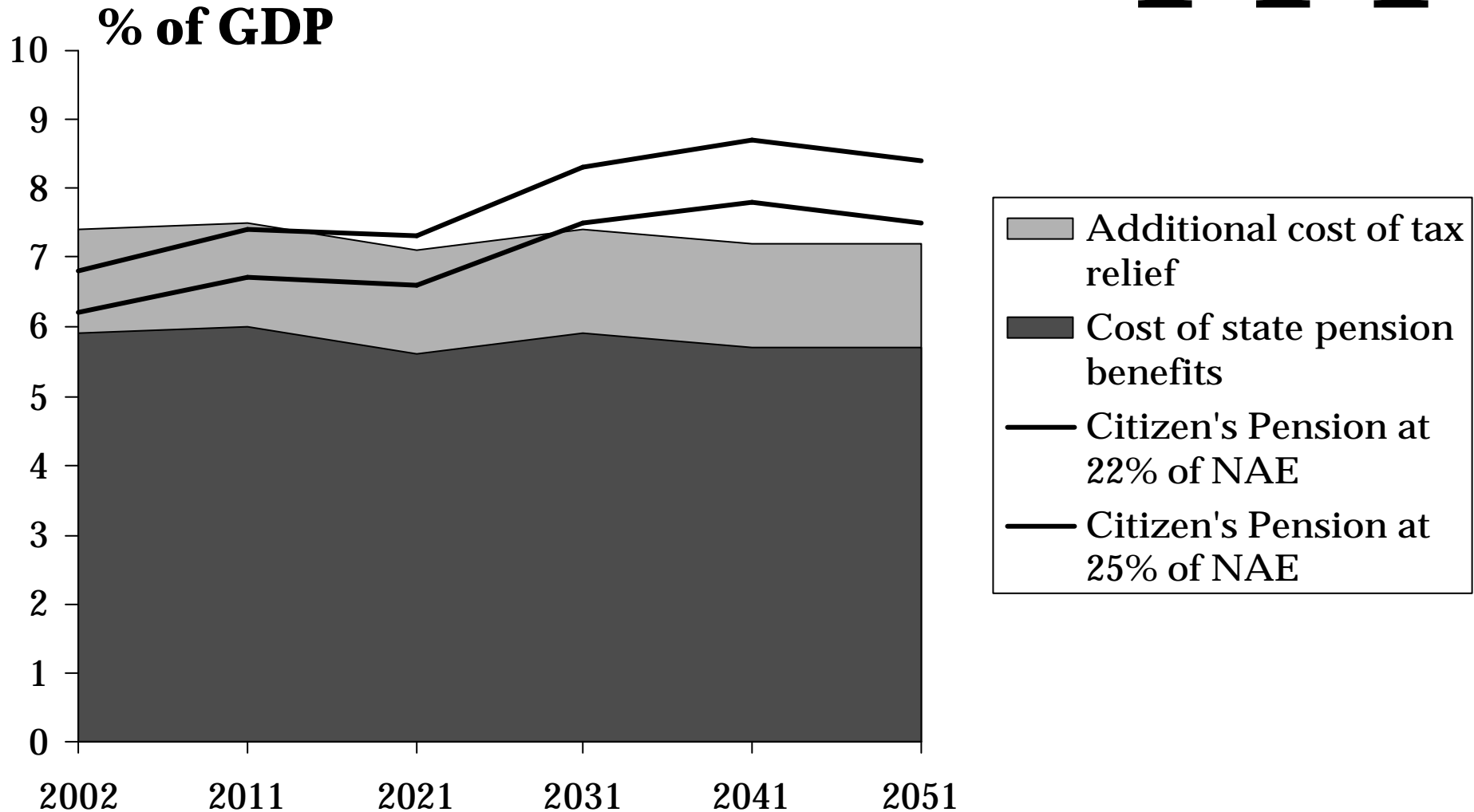
But is it possible?

- **Too expensive, especially as we age?** We may have to pay more anyway, but could raise SPA and reduce tax incentives
- **Too much political risk?** Probably less
- **Too controversial?**
Some people believe in the contributory system
- **Too difficult to transition?**
Likely to be costly

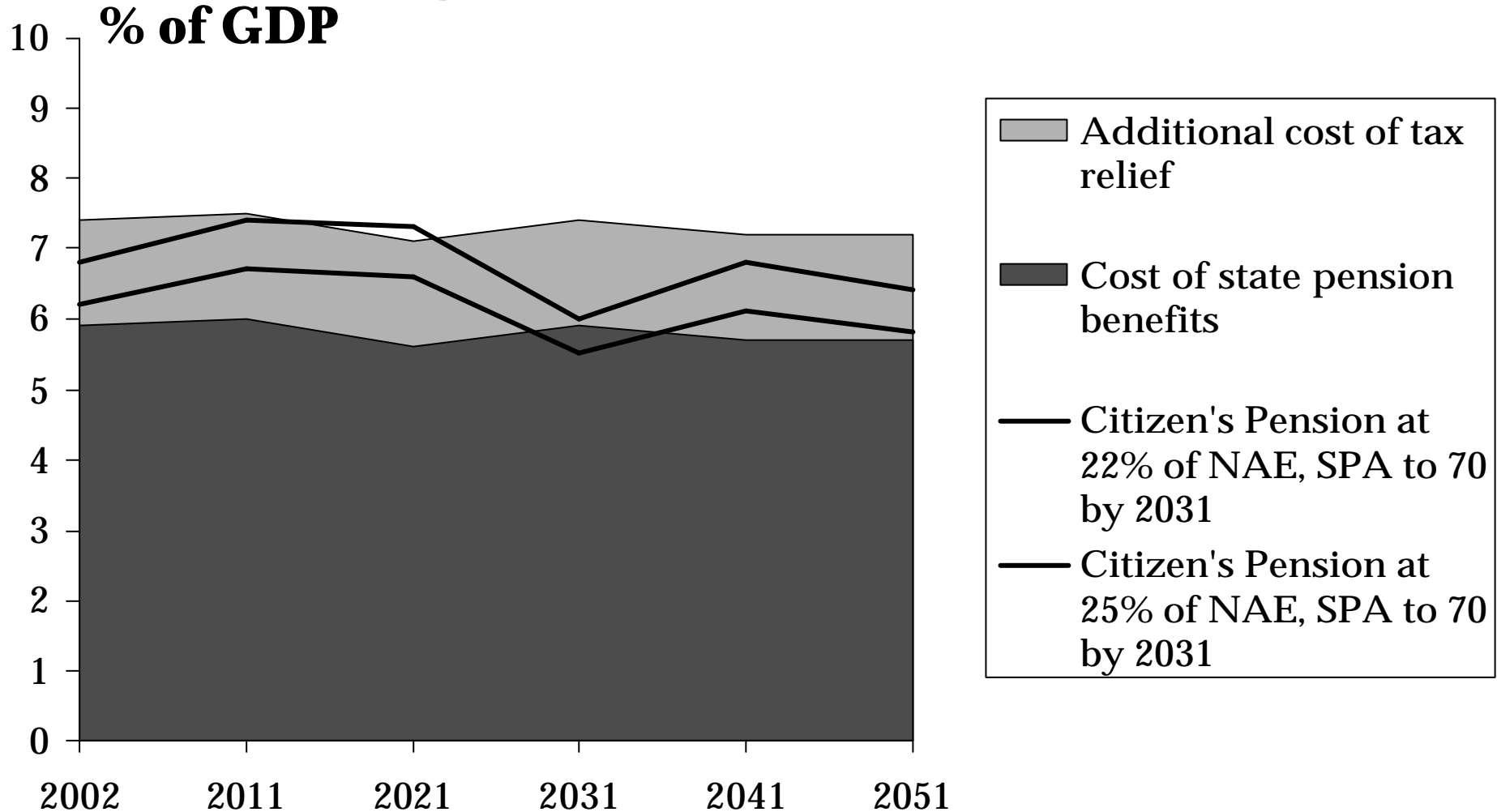
A Citizen's Pension in the UK could be afforded in the short-term....

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



Lessons for the UK from NZ

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Lessons for NZ from the UK

- **NZS has much to recommend it**
- **State intervention accumulates to unmanageable complexity**
- **Earnings-related contributory state pension plus tax-incentivised private pensions leads to winners and losers**