

Media Statement

Retirement Commission

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Tax incentives for retirement saving not the answer says UK expert

"Tax reliefs for private pensions not only cost too much, they are amazingly unfair, and quite ineffective," says visiting retirement savings expert Adrian Sinfield, Emeritus Professor from the University of Edinburgh.

Addressing a seminar arranged by the Retirement Commission and the School of Government at Victoria University, Professor Sinfield said "The UK tax reliefs now cost 14 Billion pounds, but there is a complete lack of evidence demonstrating that these tax reliefs have any beneficial effect upon the level of savings or economic growth.

"The tax benefit is also remarkably 'upside down' in nature. At least half of the tax subsidy on contributions alone goes to the richest ten per cent of taxpayers, with a quarter going to the top 2.5 percent. This strongly regressive pattern leaves the bottom ten percent of taxpayers with just one percent of the tax benefit - an outstanding example of an upside down benefit," said Professor Sinfield.

"In consequence the greater fairness in the state provision for older people is being undermined by tax privileges, and at a very great cost."

Professor Sinfield saw many advantages in New Zealand's approach of a universal pension and relatively tax-neutral approach to private savings.

"The UK mix of public and private provision has become increasingly complicated and very expensive. Experts in the UK are looking at the New Zealand model with considerable interest," he said.

Professor Sinfield also commented on the lack of clarity and debate about the issue in the UK.

“What’s astonishing is the emperor’s new clothes effect on tax relief on pensions. We have a very unequal subsidy of retirement in Britain, but the fairness of the system is not discussed.

Professor Sinfield’s comments counter the regular calls from some in the financial services sector and others for tax incentives to encourage retirement saving. Calls such as these are not backed by evidence that incentives will produce the desired result.

“Many of us [in Britain] are looking even more keenly at the New Zealand system. In Britain the tax system is undermining the welfare system. New Zealand should look at this before returning to a tax relief system,” he said.

To interview Professor Sinfield, please contact:

Robyn Cormack
Marketing Communications Manager
Retirement Commission
Tel: 04 494 4243 or 025 242 7936
Email: robyn.cormack@retirement.org.nz