The Citizen's Pension

by Larry Willmore

The citizen's pension is a universal flat pension which covers all the elderly. Benefits are the same for everyone, regardless of income, assets or work history. A means-tested pension provides reduced benefits or none at all, for those with other income or assets. A minimum pension or top-up does nothing for unpaid caregivers or those employed in the informal sector.

The citizen's pension has advantages over means-tested, contribution-tested and retirement-tested schemes. It is simple to administer, does not stigmatize recipients, avoids disincentives to work and to save, and can ensure that no elderly person lives in poverty.

Nonetheless, in the OECD, only one country-New Zealand-provides a universal and meaningful pension to its aged population. New Zealand is also unique in that its government has never mandated contributions to earnings-related pension plans. A proposal to replace the citizen's pension in New Zealand with a mandatory, defined contribution scheme was defeated 12 to 1 in a 1997 referendum that attracted a record 80 percent of registered voters.

The cost of public pensions in New Zealand is relatively low because they are set at a modest flat rate, equal to about 42 percent of per capita GDP. The 11.7 percent of the population older than 65 years, who qualify for the citizen's pension, should cost taxpayers (0.42)*(0.117) or 4.9 percent of GDP. Actual costs net of taxes are lower (4.1 percent of GDP), largely because benefits are taxable as income, but also because pensions are reduced for beneficiaries who are married or share accommodations.

Citizens ought to be attracted to the idea of a citizen's pension, for it provides peace of mind regarding one's own fate, or the fate of a parent, grandparent, aunt, spouse, friend or neighbour, in old age. Provided the pension is not set at too high a level or given at too young an age, this peace of mind comes at an affordable price. Nonetheless, the citizen's pension is surprisingly rare even though governments do not hesitate to force workers to contribute to earnings-related schemes.

In light of problems with contributory pension arrangements in developing countries, The World Bank has taken notice of the Citizen's Pension and indeed it features as part of a "zero pillar" introduced in its new position paper.

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