



## A salutary comparison: state pensions in New Zealand and the United Kingdom

The following briefly describes the state pensions in two countries at opposite ends of the complexity scale.

### New Zealand

The state pension (Tier 1), for a married couple, is a net 66% of the net national average wage payable from age 65 to everyone who has completed at least 10 years' residence since age 20 (at least five of those years after age 50). Each of the married couple receives half. A single person living alone receives 42%. The pension increases each year with wages (with a prices' index-related floor).

In addition, there is a private (Tier 3) national, auto-enrolment, Defined Contribution 'KiwiSaver' that qualifies for modest tax incentives. Members can choose the amount they contribute. If that is at least 2% of pay, employers must match those to 2%.

### United Kingdom

The state pension comprises a number of different calculations<sup>1</sup>:

- (a) **'Basic State Pension' (BSP)**: the Tier 1 pension depends on the period for which the person has contributed to 'National Insurance'. The contributions can be calculated in a number of ways but must be made for at least 30 years before the full BSP (£102.15 a week at 1 April 2011) is payable. The pension's starting date may be deferred in exchange for a higher starting pension. Until 1979, the BSP increased with wages; then, until 2011, it increased with prices. Now, it increases by the highest of prices, wages or 2.5%.
- (b) **State Second Pension (S2P)**, formerly called the State Earnings Related Pension Scheme (SERPS): This Tier 2 scheme is an earnings-related addition to the BSP. Originally (1978) that was, after at least 20 years, a pension equal to 25% of pay between two earnings' levels. The S2P replaced SERPS in 2002 and two different accrual rates weight the calculation to the lower paid. From 2030, this will become a flat-rate addition to the BSP. The maximum that can be added to the BSP from this Tier 2 is £159.52 a week (2011/12).

A private Tier 3 pension scheme can contract-out of the SERPS/S2P by providing benefits on covered earnings that were at least as good as the state pension. In exchange, both employers and members received a reduction in National Insurance contributions.

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<sup>1</sup> Information from *The Pensions Primer*, published by the Pensions Policy Institute as of 12 May 2011. The full explanation is [here](#).

- (c) **Pension Credit:** This comprises the ‘Guarantee Credit’ and the ‘Savings Credit’ and offers an overall guarantee of minimum levels of income across both public and private provision.
- The **Guarantee Credit** is based on a ‘household’ test and provides a minimum income of £137.35 for singles and £209.70 for couples.
  - The **Savings Credit** is to ensure that those who have made some private provision are better off. The maximum amount payable under Savings Credit is £20.52 per week for a single person and £27.09 per week for a couple from April 2010. The maximum payable rate of Savings Credit is frozen at £20.52 and £27.09 until 2014). For every £1 of income received that is above the level of the Savings Credit threshold (£103.15 for single pensioners and £164.55 for couples, in 2011/12) but below the level of the Guarantee Credit, the Savings Credit pays an additional benefit of 60p. The credit is then ‘tapered down’ for additional income above the Guarantee Credit level.
- (d) **NEST:** From 2012, a fourth component will be added at Tier 3 – the so-called National Employment Savings Trust or NEST (or a qualifying, equivalent alternative private pension scheme). This will involve automatic enrolment into private pensions for all employees between 22 and state pension age to be phased in between April 2012 and 2016. Employees will have the right to opt-out. The earnings threshold above which every worker should be auto-enrolled at £7,475 in 2011/12. Contributions become payable on pay between £5,715 and £38,185. Minimum total contributions of 8% of covered earnings will be contributed to the selected private pension (4% by employees, a compulsory 3% from the employer and 1% from tax relief.

The NEST scheme is government-run, central scheme that, in its words “...is a simple and low-cost pension scheme designed to give its members an easy way of building up their retirement pot.”<sup>2</sup>

The UK’s **State Pension Age** is 65 for men and is increasing from 60 to 65 for women between 2010 and 2020. The age for both will then increase to 66 between 2024 and 2026; then on to 67 between 2034 and 2036 and finally to age 68 between 2044 and 2046. These increases may be brought forward.

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<sup>2</sup> See [www.nestpensions.org.uk](http://www.nestpensions.org.uk)

## New Zealand – a snapshot

15 November 2011

New Zealand at a glance	
Population <sup>1</sup>	4.4 million (September 2011 est.)
GDP per capita	US\$27,700 (2010 est.) Rank 51 <sup>st</sup> CIA <i>World FactBook 2011</i>
GDP 2011 ( <i>NZ Treasury</i> )	NZ\$200 billion (30 June 2011) +1.5% for year to 30 June 2011
Employment	2.4 million in workforce 6.6% unemployment (Q3 2011)
Median age	2010: 36.7 years (est.) 2061: 43 years (est.)
Proportion over age 65	2010: 13% 2061 25.0% (est.)
Expectation of life at 65 (2010) - for those born in 1935	Males: 19.2 years Females: 21.0 years
Total dependency ratio (age 0-14+65+/15-64)	2009: 33.0% 2061: 41.7% (est.)
Net cost of state pensions <sup>2</sup>	2010: 3.7% of GDP 2060: 6.7% of GDP (est.)
Financing of state pensions	Largely PAYG Partly pre-funded
Net public debt <sup>3</sup>	20% of GDP (2011)
Tax treatment - KiwiSaver	eTE (small incentive on member contributions).
Tax treatment – other private provision	TTE (the Income Tax Model)
Cost of tax incentives for all private provision	\$1.04 billion 2011 (0.5% of GDP)

In summary, New Zealand is relatively young (for a developed country); the cost to taxpayers of pensions (both public and private) is relatively low and, although that cost is expected to rise by 3% of GDP in the next 50 years, is less than what many developed countries pay now in total (including the cost of tax incentives). Other than through KiwiSaver, New Zealanders are at present neither forced, nor encouraged through tax incentives, to save privately for retirement.

Note: NZ\$1 = HK\$6.00 (15 November 2011)

<sup>1</sup> Source of population statistics – Statistics New Zealand and the Retirement Commission.

<sup>2</sup> Source – New Zealand Treasury *New Zealand Superannuation Scenarios for Retirement Commission* [here](#). Because NZS is taxed as income, the estimates allow for tax collected on the pensions.

<sup>3</sup> Source – *Financial Statements of the Government of New Zealand* (as of 30 June 2011) The Treasury, October 2011.