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## **BRIEFING PAPER 5: THE 2016 CHANGES**

1. Significant changes were made to eligibility to British State Pension and to the rate of pension in April 2016. These changes affect people who reach State Pension Age after 5<sup>th</sup> April 2016. This means men born after 5<sup>th</sup> April 1951 and women born after 5<sup>th</sup> April 1953.
2. People who reached State Pension Age before 6<sup>th</sup> April 2016 received Basic State Pension plus extra amounts for contributions to one or more of the supplementary state pension schemes in force from time to time (“additional state pension”). These supplementary pension schemes were variously known as Graduated Pension, SERPS and State Second Pension. Employees who participated in workplace pension schemes were not required to contribute to the additional state pension schemes. They were known as “contracted out” and are entitled to a pension from their workplace pension scheme in addition to Basic State Pension.
3. People who reached State Pension Age after 5<sup>th</sup> April 2016 will receive New State Pension. New State Pension has a more generous headline rate, but the amount payable is reduced for any time the pensioner was contracted out (i. e. for when they participated in a workplace pension scheme). They will thus receive a reduced New State Pension plus a pension from their workplace pension scheme.
4. The current rate of Basic State Pension for people living in the UK or in a country where pensions are uprated is £137.60. The current rate of New State Pension for people living in the UK or in a country where pensions are uprated is £179.60.
5. The spouse of a person entitled to British State Pension who reached State Pension Age before 6<sup>th</sup> April 2016 may be entitled to a category B pension based on the National Insurance contributions paid by their wife or husband. New State Pension is paid solely based on an individual’s own national insurance contributions.
6. The changes in 2016 are aimed at simplifying the calculation of British State Pension but have complicated it in a few cases. For example, it is unclear what the situation is if one member of a married couple is entitled to a Basic State Pension and the other is entitled to New State Pension: Does an entitlement to spouse pension exist? It appears so, but there is no definitive statement to this effect. Furthermore, if someone who is entitled to New State Pension had an entitlement to Basic State Pension plus additional state pension that was higher than the rate of New State Pension, the difference is added to their New State Pension as a “protected payment”. Thus, the Pension Service must calculate and compare entitlement to both pensions when determining the amount payable.
7. The Government has said that overall, the cost of New State Pension will be no greater than the cost of Basic State Pension and additional state pension. This suggests there will be winners and losers as a result of the changes.
8. The Work and Pensions Committee made the following comments when reviewing the draft

legislation for the New State Pension<sup>1</sup>:

135. About 1.2 million British state pensioners live abroad. In the EEA and 16 countries with which the UK has bilateral agreements, UK State Pensions are uprated in the same way as for state pensioners living in the UK. However, about 560,000 UK state pensioners are living in countries where their UK State Pension is not uprated. This means that their UK State Pension is paid at the same rate as when they first became entitled. Most of the people affected live in Australia, Canada, New Zealand and South Africa. The Government estimated in 2012 that it would cost £655 million a year to uprate these pensions.

136. The Explanatory Notes to the draft Bill indicate that the effect of Clause 20 is that there will be no change to these uprating arrangements: "For overseas residents, regulations may provide that such a person is not entitled to up-rating. This will enable similar provision to be made as under the current retirement pension system". The Minister confirmed in oral evidence that this was the case.

137. We have received evidence from organisations representing UK pensioners in the affected countries, as well as a number of submissions from individuals affected by frozen UK pensions. The International Consortium of British Pensioners says that "the legislation freezing pensions causes great hardship on those affected". It recommends that the relevant provision is removed from the proposed legislation. The Canadian Alliance of British Pensioners believes that the current reform of State Pensions "is a once in a generation opportunity to do what everyone knows is right: unfreeze the pensions of those who live in countries in which pensions are currently frozen" and address the "illogicality" of the current arrangements for overseas UK pensioners. The British Australian Pensioners Association similarly argues that the system is unfair and complicated and that "the countries where the state pension is frozen has no logical or reasonable basis"<sup>2</sup>.

138. We understand the frustration of UK pensioners living in countries where their UK State Pension is not uprated. The fact that these pensions are frozen in countries including Australia, Canada, New Zealand and South Africa, but are uprated in many other countries, **is clearly an anomaly**. While the introduction of the STP presents an opportunity to remove this anomaly, any change would only apply to those reaching State Pension Age after the STP implementation date. Any decision on the situation of those who are already claiming a UK State Pension overseas which is not uprated would need to be taken separately and on its own merits.

9. In the debate on the Pensions Act 2014, Sir Peter Bottomley and Sir Roger Gale tabled amendments to remove clause 20 from the bill. This would have the effect of New State Pension being uprated regardless of the of the country of residence. The government used the decision in the Carson case<sup>3</sup> as the reason for not agreeing to removal of clause 20.

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<sup>1</sup> Paragraph numbers are numbers used in the Committee's report dated 4<sup>th</sup> April 2013.

<sup>2</sup> Note that the committee does not refer to a submission by BPiA. I don't know whether we made a submission.

<sup>3</sup> Carson & others v the United Kingdom (European Court of Human Rights) 4 November 2008.