Expats poised to come in from the cold on frozen pensions

Some Britons living abroad receive no increase. That could soon change

Ruth Emery Published: 29 November 2015

- Comment (0)
- Print

A rule change may give pension increases to people living abroad (Mark Bowden/Getty)

BRITONS living in countries such as Australia and Canada who are denied increases to their state pensions have been given fresh hope of their "frozen" retirement money being thawed as the government signals it may be open to changing the rules.

After decades of lobbying from pensioners, MPs and peers, Money reveals today that the Cabinet Office and Department for Work & Pensions (DWP) are considering proposals for a "partial uprating" of the policy.

If this happens, expats will enjoy the same triple-lock increase to the state pension as retirees living in the UK. This means that a pensioner living in Australia, who receives, say, £40 a week because the entitlement has not increased since they left Britain, could enjoy future annual rises of 2.5%, average earnings or inflation, whichever is higher.

Last week George Osborne announced that state pensions for pensioners in the UK will increase by 2.9% in April — the biggest rise since 2001 — to £119.30 a week.

The International Consortium of British Pensioners (ICBP), which has fought a long battle to end what it calls the "cruel and archaic" system of frozen pensions, called it a "step in the right direction".

Sheila Telford, chairwoman of the ICBP, said: "We've never had this sort of commitment from the government before. Our 'chipping away' has finally got somewhere."

Who is frozen?

About 550,000 Britons have frozen pensions just because they have moved abroad to one of more than 110 countries where increases are denied. These include India, New Zealand, Hong Kong, Mexico and Thailand. Only expats who live in the European Union, America, or a handful of seemingly random countries — such as Israel, the Philippines and Jamaica — receive rises in their state pensions just as they would if they still lived in Britain. The charity Age UK calls it an “international postcode lottery of pensions uprating”.

For example, a 70-year-old who moved to Canada today would receive £115.95 a week, if they were entitled to the full basic state pension, no matter how long they live.

Last year Money highlighted the plight of Harry Penny, 93, a former RAF pilot who lives in Australia. He moved to Tasmania in 1970 and receives a frozen pension of just £39.50 a week.

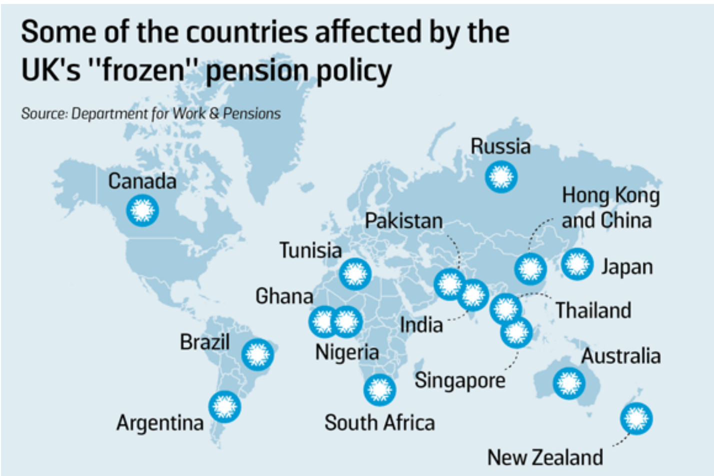
Campaigners say the current policy causes poverty and loneliness, while families are forced apart when grown-up children emigrate to “frozen” countries and the parents cannot afford to go with them.

What might change?
Money has learnt that the issue of partial uprating was discussed at a meeting this month between the ICBP; the cabinet office minister Oliver Letwin; Sir Roger Gale, chairman of the all-party parliamentary group (APPG) that campaigns against frozen pensions, and a special adviser to Iain Duncan Smith, the Secretary of State for Work and Pensions.

Money understands that Letwin was enthusiastic and is expected to commission research in the new year to test the likely impact of reform. The Cabinet Office confirmed that the meeting took place.

Such a move would cost the government £30m in the first year, according to the ICBP. This compares with the DWP’s estimate of £590m for full uprating, which involves raising everyone’s pensions to the level of those in “unfrozen” countries, rather than just benefiting from the same annual percentage rises in the future.

Partial uprating has been mooted before: Steve Webb, the former Liberal Democrat MP who served as pensions minister from 2010 to 2015, proposed it in 2004. “The public finances could easily have borne the cost [a decade ago] and it is a shame that these anomalies continue,” he said. “If partial uprating provides a way to make progress on this vexed issue, that would be most welcome.”



Telford said: “The government always used to say ‘no, it’s too expensive’ to change the policy. So this is good news. Partial uprating will stop the year-on-year erosion at least.
“However, we want full uprating. The people who suffer the most are the oldest ones, and a 2.5% increase on, say, £30, is hardly anything. It’s like the fluff in the bottom of your pocket.”

James McLeod, head of pensions at the financial adviser AES International, said: “Any movement is going to be welcome for the people who this ridiculous and arbitrary rule has affected. That said, it will be a bitter pill to swallow for many; lots of currently frozen pensions will be starting from an extremely low base, so a 2.9% increase is not going to amount to much.”

The campaign against frozen pensions received a boost earlier this year when Jeremy Corbyn won the Labour leadership contest, because he is a member of the APPG.

The DWP played down any suggestion that the rules will change, saying: “There are no plans to review this.” It added: “The government has a very clear position, which has remained consistent for about 70 years — the UK state pension is payable worldwide, but is uprated abroad only where we have a legal requirement to do so, or a reciprocal agreement is in place.”

Gregg McClymont, the former shadow pensions minister and now head of retirement savings at Aberdeen Asset Management, said: “The injustice suffered by UK pensioners living overseas is a real one. Any movement by the government to address this would be a step forward. The doughty campaign waged by pensioners affected by the freezing of their UK state entitlement deserves much credit