International Consortium of British Pensioners

Frozen Pensions: A Policy Overdue for Review

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EXECUTIVE SUMMARY

- There are 12.6 million state pension recipients, of which 1.1 million live outside the UK. 96.4% of pensioners receive their state pensions on the same terms and conditions but a minority of pensioners living outside the UK are treated differently for no reason other than this situation has existed for over 70 years.
- The 453,000 pensioners who are treated differently do not receive annual upratings. In the absence of annual upratings, as these pensioners age, the purchasing power of their pensions declines as inflation eats its value.
- The list of countries where UK state pensions are frozen is haphazard. There is no overarching logic. Some Commonwealth countries are frozen. Some are not. Some NATO countries are frozen. Some are not.
- The frozen pensions policy is unique amongst state pension schemes of developed countries.
- The DWP estimates the cost of ending the frozen pensions policy as £4.59 billion over five years. The DWP has based their estimate on an assumption that all pensioners who currently receive a frozen state pension will immediately upon a change in policy start receiving a pension as if it had never been frozen. This would be unprecedented. ICBP believes the DWP is being disingenuous and selective in presenting a grossly misleading headline number.
- **A true estimate of the cost of ending the frozen pensions policy is £307 million over five years.** This is based on providing annual uprating for all pensioners on an equal and equitable basis.
- The DWP estimate assumes that when the frozen pensions policy ends, the state pension paid to recipients in countries where pensions are currently frozen will be immediately increased to the rate that applied if their pensions had never been frozen. This is a unique scenario that is at odds with what has happened when countries have previously changed from frozen to not frozen.
- ICBP is asking for state pensions in the remaining countries where they continue to be frozen, to be unfrozen in the same way as pensions have been unfrozen in other countries. We are not asking for special treatment or for a retrospective adjustment to anyone's pension.
- The UK government argues that state pensions paid to recipients overseas are only uprated where there is a legal obligation to do so but omits to say that the law relating to state pensions is the exclusive prerogative of the UK Parliament. **The DWP has confirmed that a reciprocal social security agreement is not necessary for pensioners to have their pensions uprated.**
- By living overseas, recipients of UK state pensions are estimated to be in aggregate saving the UK taxpayer almost £3 billion a year. The frozen pensions policy is a disincentive for pensioners to remain overseas and a barrier to pensioners wanting to join their families overseas.
- **The frozen pension policy is an accident of history that requires review and replacement by a policy that is consistent, logical and fair. ICBP calls for an unbiased holistic review of the frozen pensions policy. We believe that such a review will result in the demise of a policy that is anachronistic, inconsistent and out of touch with British values.**

1. Glossary

In this paper, the following initialisms are used:

BPiA is British Pensions in Australia Inc., a registered charity that cares for British pensioners living in Australia.

CABP is Canadian Alliance of British Pensioners, a Canadian not-for-profit corporation that campaigns on behalf of British pensioners living in Canada.

DWP is the Department of Work & Pensions, the UK Government department responsible for welfare, pensions and child maintenance policy.

ICBP is International Consortium of British Pensioners which coordinates the activities of bodies around the world campaigning for an end to the UK's frozen pensions policy. The two founding members of ICBP are BPiA and CABP.

NHS is the National Health Service. The NHS provides universal healthcare for all UK residents free at the point of delivery.

NIF is the National Insurance Fund which receives most of each National Insurance Contribution and from which State Pensions are paid.

ONS is the Office for National Statistics, an independent producer of official statistics in the UK. ONS is the executive office of the UK Statistics Authority. ONS conducts the census in England and Wales every ten years.

OBR is Office for Budget Responsibility. OBR is an executive non-departmental public body, sponsored by HM Treasury and gives independent and authoritative analysis of the UK's public finances.

PIP is Personal Independence Payment. This is a benefit paid to people with a disability who have difficulty doing certain everyday tasks or getting around because of their condition.

2. Introduction

2.1 The Atlee Government introduced the UK state pension in 1946 with the passing of The National Insurance Act. The scheme was based on the recommendations in the Beveridge report published in 1942. The National Insurance Act included a disqualification for payment of benefits to people outside the UK together with power for regulations to remove the disqualification.

Text box 1

"On the assumption that once again it will be possible for men to move from one country to another to find the best use for their powers, it will be desirable to consider the making of reciprocal arrangements between the schemes of various countries facilitating the transfer from one to the other, that is to say, arrangements enabling men on migration to avoid forfeiting security and allowing them to carry with them some of the rights that they have acquired in their former country".

William Beveridge (paragraph 39 on page 19 of the 1942 Beveridge Report)

"Movement of men and women within the Empire must be made easier. A two-way traffic should grow. Those who wish to change their homes should be enabled to carry their national insurance rights with them wherever they go."

Conservative Party 1945 Election Manifesto

2.2 The National Insurance scheme provides coverage for healthcare for UK residents through the NHS, social security benefits for UK residents and a state pension payable worldwide. Participation in the scheme is mandatory for all employed and self-employed workers in the UK. The scheme is funded through contributions by workers and by employers.

2.3 There are minimum contribution requirements for entitlement to the state pension. These requirements have changed over the years but are currently ten years for a part pension and 35 years for a full pension.

2.4 The National Insurance scheme is a pay-as-you-go scheme. Contributions made in a particular year are used to fund state pensions paid in the same year. State Pensions paid from the scheme are paid under the rules applying at the time the pension is paid, not under the rules applying at the date the contributions were made.

"The National Insurance scheme operates on a 'pay-as-you-go' basis. This means that today's contributors are paying for today's social security entitlements and pensions, and those paying contributions previously were paying for the pensioners of that time. Contributors do not accumulate an individual pension fund of actual monies they have paid which is personal to them. Instead, payment of contributions entitles them or, in certain circumstances, their spouses or civil partners to a range of social security benefits which are available on the basis of the rules applicable at the time of the claim." (source: Hansard 3rd December 2013[1])

2.5 State pension paid to people living in the UK and to 60% of the pensioners living outside the UK is adjusted annually to offset the effect of inflation. This is called "uprating".

2.6 However, the state pensions paid to some 453,000 pensioners are not adjusted for inflation. Their pensions are "frozen". The purchasing power of frozen pensions decreases over time because of inflation.

2.7 It is important to understand that upratings do not increase the value of a state pension. They merely maintain its purchasing power. In the absence of an uprating, the pension is being reduced.

2.8 Since the introduction of the National Insurance scheme, the UK has entered into reciprocal social security agreements with 33 countries. In all but three cases (Australia, Canada and New Zealand), these agreements provide for state pensions paid to residents of those countries to be uprated annually in line with state pensions paid in the UK.

2.9 In July 2023, the DWP produced an estimate of the cost of uprating state pensions for people who live in countries where currently the rate of state pensions is frozen. **ICBP believes the DWP estimate of the cost of uprating state pensions is disingenuous, selective and grossly misleading**. ICBP has produced this paper to provide an honest calculation of the true cost of ending the UK Government's frozen pensions policy.

2.10 We are not aware of any DWP reviews of the costs and benefits of having reciprocal social security agreements. If these reviews have never occurred, it is symptomatic of a dismissive approach to the frozen pensions policy.

For simplicity, the term "countries" in this paper includes territories and dependencies.

3. The Triple Lock

3.1 The triple lock is a UK Government commitment, over and above the statutory requirement, to uprate state pension by the highest of earnings, prices or 2.5%. Its introduction was announced by the Coalition Government in its first budget after the 2010 election and came into effect from April 2011.

3.2 The DWP used the OBR Fiscal Outlook published in March in their calculation of the cost of uprating frozen pensions. We have updated these factors to the forecasts in the OBR November 2023 Fiscal Outlook (source: OBR Economic and Fiscal Outlook in March 2023 and updated Economic and Fiscal Outlook in November 2023).

	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**
CPI	3.0%	1.6%	1.5%	1.8%	2.0%
Wages & salaries	3.3%	1.9%	2.2%	2.6%	2.8%
2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Triple lock	**3.3%**	**2.5%**	**2.5%**	**2.6%**	**2.8%**
Implementation date	April 2025	April 2026	April 2027	April 2028	April 2029

The triple lock resulted in an increase in state pension of 10.1% in April 2023 for 2023/24. The triple lock will result in an 8.5% increase in April 2024 for 2024/25 (based on the increase in wages and salaries to July 2023).

[1] https://publications.parliament.uk/pa/ld201314/ldhansrd/text/131203w0001.htm#13120366000177

Text box 2

QUO VADIS?

The UK has existing agreements with 33 countries (the year of the original agreement is shown).

Bosnia-Herzegovina, Croatia, Kosovo, North Macedonia, Montenegro, Serbia and Slovenia* are successor states to Yugoslavia and are thus covered by the agreement with Yugoslavia (1958).*

** Agreements with these countries were superseded by the EU Social Security Coordination regulations, which were in turn replaced by agreements related to BREXIT in 2020 and 2021. Bulgaria and Romania changed from being frozen countries to not frozen on accession to the EU on 1st January 2007. §Agreements with these countries replaced by UK-EEA Separation Agreement.*

The agreements with Canada and New Zealand do not include provision for uprating.

4. Reciprocal social security agreements with other countries

4.1 Australia withdrew from its agreement with the UK in 2001 after the UK refused to renegotiate its terms to include provision for payment of annual upratings. The agreement between Australia and the UK originated in 1958.

4.2 The UK has received requests from Mongolia (2007), Colombia (2008), Thailand (2010), Uruguay (2011) and Brazil (2011) for reciprocal social agreements (source: House of Commons Briefing Paper Number CBP 1457 dated 12th May 2020).

4.3 A reciprocal social security agreement is not required for the UK to uprate pensions paid to pensioners overseas[2].

5. The number of people receiving state pension

5.1 The most recent date at which data is available is dated May 2023. This shows (source: Stat-Xplore[3]):

	Number		Annual Amount Paid £ millions	
UK	11,574,329	91.3%	£126,870	96.4%
Outside UK not frozen	651,001	5.1%	£3,285	2.5%
Outside UK frozen	453,841	3.6%	£1,512	1.1%
	12,679,171	**100.0%**	**£131,667**	**100.0%**

6. How to implement a change in policy

6.1 The legislation that provides for annual upratings and disqualifies people living in selected countries overseas is included in the Social Security Contributions Act 1992

- Section 113 (1) of the Social Security Contributions and Benefits Act 1992 disqualifies any person who is absent from the UK from receiving a benefit under the Act. However, there is provision to make exceptions by regulation.
- Regulation 4 of the Social Security Benefit (Persons Abroad) Regulations 1975 (SI 1975/563) makes an exception from s113 of the Social Security Contributions and Benefits Act 1992 allowing state pension to be paid to people living outside the UK.
- Regulation 5 of the Social Security Benefit (Persons Abroad) Regulations 1975 (SI 1975/563) removes the right of pensioners living outside the UK to receive annual upratings.

6.2 Amending Regulation 5 would restore the right of pensioners living outside the UK to receive annual upratings.

6.3 The DWP revealed how pensioners are treated after a change in status from frozen to not frozen in its letter to Sheila Telford (Chair, ICBP) dated 20th January 2015.

Whenever a social security agreement has been entered into with a country where state pensions were previously frozen, pensioners in that country became eligible for upratings that occurred after the date of the agreement. **There has never been a retrospective adjustment to the rates of pension paid to pensioners in the country concerned.**

6.4 A change in policy by the UK Government does not change the contributions record of pensioners and those people entitled to a part pension will continue to receive a part pension.

7. Comparing DWP estimates of the cost of uprating pensions

7.1 The DWP last estimated the cost of uprating in 2019[4]. Comparing the previous estimate with the most recent estimate shows (£ millions):

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[2] See https://assets.publishing.service.gov.uk/media/5a7ae7e6e5274a34770e7f3d/foi-595-2013.pdf

[3] State=Xplore is the DWP browser based program that permits exploration of benefit data.

[4] The 2019 estimate can be found at https://www.gov.uk/Government/publications/estimated-costs-of-uprating-state-pension-in-frozen-rate-countries/estimated-costs-of-uprating-state-pension-in-frozen-rate-countries. The 2023 estimate can be found at https://www.gov.uk/Government/statistics/estimated-cost-of-uprating-uk-state-pensions-in-frozen-rate-countries-2024-to-2028/estimated-costs-of-uprating-state-pension-in-frozen-rate-countries-2024-to-2028

	2019	2023
2019/2020	£600	
2020/2021	£610	
2021/2022	£610	
2022/2023	£630	
2023/2024	£640	£860
2024/2025		£940
2025/2026		£930
2026/2027		£930
2027/2028		£930

The only year where estimates were made in both the 2019 estimate and the 2023 estimate is 2023/2024. This shows an increase in cost between the two DWP estimates of £220 million or 34%. In the years 2019/20 to 2023/24 the state pension increased by 20.9%.

7.2 An increase in cost greater than the increase in the rate of pension can only be explained if the number of pensioners has increased or if the contribution records of new frozen pensioners is greater in 2023 than in 2019.

7.3 The number of pensioners in frozen rate countries is decreasing not increasing as the numbers provided by the DWP demonstrate: 510,000 pensioners in August 2019, 488,000 pensioners in November 2020 and 453,841 pensioners in May 2023.

7.4 ICBP believes the increase in contribution records of new frozen pensioners in the period 2019 to 2023 is the result of the information provided by BPiA and CABP to potential pensioners which encourages them to claim and maximise their pension (an entitlement to which, in many cases, they were not aware). If true, it substantiates the claim that the UK frozen pension policy is short-sighted because in addition to campaigning for an end to the UK Government frozen pension policy, both BPiA and CABP are helping these people maximise their UK state pension entitlement.

7.5 If this increase in contributions records had not occurred, the 2023 estimate for 2023/24 would be £774 million or £86 million less. This is greater than the annual amount needed to uprate all frozen pensions.

8. How ICBP calculates the cost of ending the frozen pensions policy

8.1 We have no argument with the DWP approach **except** for the assumption that pensions would be uprated at the date of policy change to the level that they would have been had they never been frozen. This is unprecedented and there is no legislative basis for this assumption. The DWP response in their letter of 20th January 2015 (see paragraph 6.1) above affirms this.

8.2 The DWP supplied these estimated numbers of pensioners in frozen countries after adjusting for mortality and new claimants:

Year	Number
2023/2024	485,000
2024/2025	488,000
2025/2026	494,000
2026/2027	488,000
2027/2028	482,000

The forecast for 2023/24 differs from the actual number at 31st May 2023, viz 453,000.

8.3 The DWP supplied the following numbers for actual and forecast payments to people receiving a frozen pension **assuming no change to the UK Government's frozen pensions policy**. ICBP has extended these forecasts with estimates marked (e):

	Cost £ millions	Pensioners	Average weekly pension
August 2019	£1,359	510,586	£51.19
November 2020	£1,294	488,651	£50.93
May 2023	£1,512	453,841	£64.11
2023/2024	£1,741	485,000	£69.03
2024/2025	£1,864	488,000	£73.46
2025/2026	£2,000	494,000	£77.86
2026/2027	£2,068	488,000	£81.49
2027/2028	£2,123	482,000	£84.70
2028/2029	£2,187 (e)	480,000 (e)	£87.62
2029/2030	£2,252 (e)	478,000 (e)	£90.60

8.4 Using the DWP forecast numbers of pensioners and the expected increases under the triple lock (based on the OBR Economic and Fiscal Outlook), the cost of changing the policy will be:

	Column A above £ millions	Including uprating(s) from April 2025 £ millions	Triple Lock	Annual cost £ millions	Cumulative cost £ millions
2025/2026	£2,000	£2,000	3.30%	£66	£66
2026/2027	£2,068	£2,134	2.50%	£53	£119
2027/2028	£2,123	£2,242	2.50%	£56	£175
2028/2029	£2,187	£2,362	2.60%	£61	£237
2029/2030	£2,252	£2,489	2.80%	£70	£307

8.5 The DWP estimate is summarised in paragraph 7.1. Straight comparisons for the next three years demonstrate how exaggerated the DWP estimates are: £930 million compared with £66 million (2025/26), £930 million compared with £53 million (2026/27) and £930 million compared with £56 million (2027/28).

9. Summary of net cost of Government support for older people

9.1 This a summary of NHS treatment and benefits paid to people of pension age in the UK, net of taxes:

	per capita
NHS treatment	£6,182
PIP and other disability benefits	£1,616
Winter fuel	£222
Bus and rail passes	£187
Christmas bonus	£7
Pension credits	£141
Housing benefit	£316
Universal credit	£266
Sub-total benefits	**£8,937**
Income tax	-£2,444
Council tax	-£1,120
National insurance	-£413
VAT	-£1,607
Duties	-£737
Sub-total taxes	**-£6,321**
TOTAL	**£2,616**

Details of the sources of these numbers are included in Appendix 1.

9.2 There are 1.1 million pensioners living overseas indicating an aggregate cost saving to the UK taxpayer of £2.878 billion a year.

10. UK state pensioners returning to the UK

10.1 A Parliamentary answer reveals 15,000 pensioners returned to the UK from frozen countries in the six years from 2009 to 2014. The answer did not explain the reasons why pensioners returned to the UK. Anecdotal information suggests that frozen pensions is a factor in the decision made by many who have decided to return to the UK.

11. Elections Act 2022

11.1 The provisions in the Elections Act 2022 that give British Citizens a lifetime right to vote will become effective in 2024. For the 453,000 people receiving a frozen pension, the UK Government frozen pension policy will be a strong incentive to register and to exercise their right to vote. There are many British citizens living abroad who have not yet reached state pension age but who are aware that when they do, their state pension will similarly be frozen.

12. Reasons for not changing the frozen pensions policy

12.1 The UK Government has over the years provided several reasons for not changing the frozen pensions policy. These excuses have been trotted out repeatedly. Included below are some of the most recent examples.

12.2 ***"The rate of contribution paid has never earned entitlement to indexation of pensions payable abroad"*** [5]

State pensions are paid using the rules that apply when the pensions are paid, not when the contributions that earned that entitlement were paid. This has already been made clear by Lord Freud in December 2013.

"Contributors do not accumulate an individual pension fund of actual monies they have paid which is personal to them. Instead, payment of contributions entitles them or, in certain circumstances, their spouses or civil partners to a range of social security benefits which are available on the basis of the rules applicable at the time of the claim." (source Hansard 3rd December 2023[6])

Viscount Younger's statement flies in the face of the fact that most state pensioners living outside the UK receive indexed pensions. The pensioners in countries which are currently uprated, receive their state pension with their indexation based on their National Insurance contributions including contributions made prior to the change from frozen to not frozen. Those contributions before and after the change earned them entitlement to the indexed pension.

12.3 ***"The UK scheme "is designed primarily for those living in the UK."***[7]

The key adjective in this response is "primarily", not "exclusively".

Countries where state pensions are currently indexed were once countries where pensions were frozen. The expenditure plans made by the UK prior to the change from frozen pensions to indexed pensions in those countries assumed they would continue to be frozen. Yet somehow the scheme was robust enough to accommodate the change. The scheme can accommodate further change, particularly if the DWP works with realistic estimates of future expenditure.

12.4 The frozen pension policy is legal: ***"The policy has been challenged in the courts, and the Government's long-standing position has been upheld by the High Court, the Court of Appeal and the Appellate Committee of the House of Lords in 2005, as well as the European Court of Human Rights in 2008"***[8]

The fact that a policy is legal is not a justification for maintaining it. One need look no further than the **Ministerial Code**[9] to find a list of practices that are not illegal, but which contravene expected standards of behaviour. ICBP does not argue that the frozen pensions policy is illegal. Our argument is that the frozen pensions policy is illogical and inconsistent, a description that was used by Jeff Rooker (Minister of State, Department of Social Security) to describe the policy:

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[5] Statement by Viscount Younger October 2023. See https://hansard.parliament.uk/Lords/2023-10-18/debates/113732D3-7DA8-47BD-87DF-00DA56B89D7B/StatePensionsCanadaFreeTradeAgreement

[6] See https://publications.parliament.uk/pa/ld201314/ldhansrd/text/131203w0001.htm#13120366000177

[7] Statement by Viscount Younger October 2023. See https://hansard.parliament.uk/Lords/2023-10-18/debates/113732D3-7DA8-47BD-87DF-00DA56B89D7B/StatePensionsCanadaFreeTradeAgreement

[8] Ibid.

[9] See https://assets.publishing.service.gov.uk/media/63a4628bd3bf7f37654767f2/Ministerial_Code.pdf

"I have already said that I am not prepared to defend the logic of the present situation. It is illogical. There is no consistent pattern. It does not matter whether a country is in the Commonwealth or outside it. We have arrangements with some Commonwealth countries and not with others. Indeed, there are differences among Caribbean countries." (source Hansard 13th November 2000)[10].

12.5 In attempting to explain the inconsistency in the pattern of reciprocal social security agreements, a Government minister has said ***"The distribution of reciprocal agreements with countries is based on historic ties with those countries and the levels of labour and people mobility flows at the time that the agreements were concluded. We therefore very much have to look back at that, …. I also say to the noble Lord that, as he will know, if we look at the overseas territories, for instance, due to past, historic arrangements, Bermuda, Gibraltar and the sovereign base areas of Cyprus are included, but the rest are not".*** [11]

This implies that the historic ties and levels of labour and people mobility flows with countries such as Australia and Canada are of less relevance than countries such as Mauritius and the Philippines. When looking at overseas territories, Viscount Younger is myopic because he omits the overseas territory where the UK most recently went to war to protect its sovereignty, namely the Falklands.

12.6 The benefit from uprating state pensions paid to pensioners who currently have their pensions frozen will flow not to the pensioners but to the Governments of the countries in which they now live. ***"If we were to increase state pensions in Canada and Australia—for nearly three quarters of the people we are talking about—that would be a saving to the Canadian and Australian Exchequers at the cost of the British taxpayer, not necessarily to the benefit of the British citizen living abroad. There would be British citizens whose incomes would be above the level at which they qualify for the means-tested pension in those countries, but they are not the folk whom people are most concerned about—the folk who have nothing else to live on."***[12].

It is true that when the policy is changed there will be some leakage of upratings to the taxation systems of countries where recipients of frozen pensions live. This is both unsurprising and fair because every country has its rules for taxing its residents.

However, Mr. Webb's statement was focussed on situations where pensioners receive means-tested benefits in their host countries because of the poverty caused by UK state pensions being frozen. An increase in state pension paid to recipients of means-tested benefits may result in the payment of a smaller means-tested benefit. To use this reason as an excuse for the UK Government to not change its policy is tantamount to throwing the problem of pensioner poverty caused by a UK Government policy to the host country and for the UK Government to shirk its responsibilities to people who have contributed to the National Insurance scheme.

His statement is belied by the fact that most pensioners living outside the UK in countries where the UK has reciprocal social security agreements live in countries which have means-tested benefits to alleviate poverty. To use his argument, the Exchequers of those countries are now benefiting from the annual upratings under those agreements. This was not a barrier to the UK entering into reciprocal agreements with those countries.

12.7 People who emigrate to countries where their pensions are frozen know, or ought to have investigated and discovered, that their state pensions will be frozen. ***"People move abroad for many reasons and, before they do so, I am certain that they look at all the pros and cons. It is also their responsibility to take advice and make an informed decision before they move"***.[13]

This would be true **if** information on the frozen pensions policy was made available to would-be emigrants in a clear and explicit fashion.

ICBP urges the DWP to explain the effect of the frozen pensions policy using words that will be easily understood by someone not conversant with financial matters and to be upfront in describing when and how it is applied.

Many people who now receive a frozen pension left the UK before the internet was ubiquitous. It is not surprising therefore that 86% were not aware that their UK state pension would be frozen when they left the UK, 88% said

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[10] See https://publications.parliament.uk/pa/cm199900/cmhansrd/vo001113/debtext/01113-01.htm

[11] See Viscount Younger's statement: https://hansard.parliament.uk/Lords/2023-10-18/debates/113732D3-7DA8-47BD-87DF-00DA56B89D7B/StatePensionsCanadaFreeTradeAgreement

[12] See Steve Webb's statement https://publications.parliament.uk/pa/cm201314/cmpublic/pensions/130704/pm/130704s01.htm

[13] See Viscount Younger's statement: https://hansard.parliament.uk/Lords/2023-10-18/debates/113732D3-7DA8-47BD-87DF-00DA56B89D7B/StatePensionsCanadaFreeTradeAgreement

they received no communication from the UK Government to inform them that their UK state pension would be frozen (Source: APPG for Frozen British Pensions Survey, 2020).

Text box 3

SEARCHING FOR INFORMATION ON FROZEN PENSIONS ONLINE

When the term **UK state pension abroad** is Googled, it produces a result that does not warn the reader planning to move to an affected country that their state pension will be frozen.

If, from the Google results, the researcher selects the Gov.UK page headed **State Pension if you retire abroad,** he or she will be directed to a page that purports to provide information on this subject**.** There is no warning on this page that pensions could be frozen.

The next page is headed **How Your Pension is affected.** This page includes the statement "You will not get yearly increases if you live outside these countries."

The meaning of this statement will not be obvious to the naïve researcher. They are not expecting their state pension to be increased after they retire. To describe annual uprating as an "increase" is misleading. Other than when the uprating is driven by the 2.5% minimum, the annual uprating maintains the value of the pension, it doesn't increase it.

The consequence of moving to or being in a frozen country must be made more explicit. Would-be emigrants are expecting the value of their state pension to be maintained through indexation (although they may not be familiar with that term).

12.8 Guy Opperman (at the time Parliamentary Under-Secretary of State for Pensions and Financial Inclusion) made this statement on 11th January 2021:

The UK Government's "***policy on the uprating of UK State pensions for recipients overseas is longstanding and has been supported by successive Governments for over 70 years***"[14].

That the UK Government has not reviewed the frozen pensions policy was confirmed by Baroness Stedman-Scott on 5th January 2021[15].

To have maintained a policy for over 70 years without reviewing that policy falls well short of best practice. It contravenes the principles in the Parliamentary and Health Service Ombudsman's Principles of Good Administration (refer Appendix 3).

To justify continuation of the policy based on the length of time that the policy has gone without review, regardless of whether that policy has been supported by every Government over the years, is to suggest that longevity is more important than doing what is right.

ICBP is confident that an unbiased and comprehensive review of the policy will conclude that a change is necessary.

12.9 That the frozen pensions policy cannot be changed because it has been in place for many years is to ignore morality and the power of ideas whose time is due.

The frozen pensions policy is wrong regardless of its duration. For example, cases of policies which were in place for many years, but which now appear inarguable, include laws prohibiting discrimination based on a person's race or gender. Similarly, the Marriage Act 2013 legalised same sex marriage in England and Wales after hundreds of years where common law did not.

[14] See https://questions-statements.parliament.uk/written-questions/detail/2020-12-30/133278.

[15] see https://questions-statements.parliament.uk/written-questions/detail/2020-12-17/HL11595.

13. CONCLUSIONS

1. There is now an opportunity to turn the page on a policy that is out of date, inconsistent and leaves many in painful poverty for no fault of their own.
2. Taking everything into account, every pensioner living outside the UK is saving the UK taxpayer money.
3. The DWP estimate of the cost of changing the frozen pensions policy is a fantasy. It has no legislative basis and assumes an implementation following the change in policy that would be unprecedented.
4. It is impossible to discern the criteria by which countries are chosen to be parties to reciprocal agreements or chosen to be not suitable for reciprocal agreements. Countries with which the UK has long historical ties such as Australia and Canada are excluded, whereas countries with whom the UK has little in common such as The Philippines and Turkey are included.
5. To assert that upratings only occur when there is a legal obligation to do so is disingenuous because the power to amend the law lies with the Government.
6. Countries with whom the UK currently has reciprocal agreements were once countries where pensions were frozen. The National Insurance scheme was robust enough to sustain the cost of the change from "frozen" to "unfrozen" in those cases. It can sustain the change of the remaining "frozen" countries.
7. The cost of a change in policy can be funded without a material impact on either central Government borrowings or National Insurance contribution rates.
8. The DWP continues to obfuscate the effect of the frozen policy to potential migrants. The information available on the UK Government website must be clearer and more obvious than it is at present.
9. As a headline number the DWP estimate ignores any possibility of a change in behaviour that could result from the change in policy. Freed from the shackles of their frozen pensions, it is possible that some people will leave the UK to live with their family overseas. On the same basis, some people of pension age may remain overseas rather than return to the UK.
10. ICBP does not assert that behavioural changes will occur as a result in a change in policy nor that the scale of any change will completely offset the cost of change in policy. What we do say is that behavioural changes are a real possibility and should not be dismissed out of hand.
11. Changing the frozen pension policy would end the anomalous and inequitable treatment of people who have contributed to the UK economy and who's only sin is that they chose the wrong country in which to live in their retirement. Changing the policy will remove an irritant in the inter-Government relations with countries that are the closest allies of the UK.
12. The frozen pensions policy has been in place for over 70 years. It was introduced when the political and economic circumstance of the UK was very different from what it is now. The policy is overdue for review.

APPENDIX 1 Sources of data

The data used to prepare the net cost of Government support for older people used in paragraph 10 is taken from these sources:

National Health Service

According to information in an OECD database[16], the cost of treating a patient of pension age is twice that of treating a younger patient. NHS does not publish data on healthcare expenditure by age of the patient.

The ONS estimates the annual cost of NHS treating someone of pension age as **£6,182**.

Any British citizen who returns to the UK who wish to make use of the NHS are likely to add to the waiting lists for NHS treatment.

Non-means tested benefits

Personal Independence Payment (PIP), Attendance Allowance, Disability Living Allowance, Carers Allowance, Industrial Injury Disablement Benefit and Severe Disablement Allowance (collectively "Disability Benefits") are benefits paid to people who have difficulty due to a long-term physical or mental health condition or disability or who have difficulty doing certain everyday tasks or getting around because of their condition. Disability benefits are not means-tested. The amount paid is related to the degree of difficulty in undertaking everyday tasks and getting around.

The average aggregate Disability Benefit is estimated by the ONS as **£1,616** per pension age person.

Winter Fuel Payment[17] is a non-means-tested annual payment to help older people pay their heating bills. Recipients do not have to live in the UK to be eligible for the winter fuel payment but payments to people outside the UK are restricted to people living in EU and EEA countries prior to 1st January 2021 and who have a genuine and sufficient link with the UK.

The list of EU and EEA countries where Winter Fuel Payment is paid excludes Cyprus, Malta, Portugal and Spain but includes **tropical** French Overseas Departments such as Guadeloupe and Martinique.

According to the House of Commons Library Briefing Paper "Cost of Living Payments: Overview and FAQs"[18], the total cost of the winter fuel payment in 2023/24 is estimated as £2.6 billion and the number of people receiving winter fuel payment is estimated as 11.7 million. This indicates an average Winter Fuel Payment per state pension recipient of **£222**.

Bus passes are available to people of pensionable age in the UK under the English National Travel Concession Scheme (ENCTS) in England, the National Entitlement Card in Scotland, the Concessionary Travel Card in Wales or a Senior Smart Pass in Northen Ireland.

According to the Department for Transport publication "Evaluation of Concessionary Bus Travel"[19] total reimbursement costs for ENCTS in 2014/15 was £855 million outside London and £285 million in London with a national total of £1,140 million. According to the same evaluation 10,859,000 people were eligible for ENCTS passes indicating an average cost per pension recipient of £105.

The ONS estimates the annual cost of rail travel subsidy of **£94** per pension age person and an annual cost of bus travel subsidy of **£94** per pension age person.

The BBC is funded by an annual licence fee. Until July 2020, anyone aged over 75 receiving Pension Credit could obtain a television licence free of charge. This concession has now ended but the requirement for people aged over 75 to buy a television licence has not been enforced. The ONS classifies the BBC licence fee as a tax averaging **£66** per pension age person.

The Christmas Bonus is a non-means-tested tax-free **£10** payment made before Christmas each year. It is paid to people who get certain benefits in the qualifying week. The payment date is normally the first full week of December.

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[16] See https://stats.oecd.org/Index.aspx?ThemeTreeId=9

[17] See https://www.gov.uk/winter-fuel-payment/how-much-youll-get

[18] Number 9616 dated 4th October 2023. See https://researchbriefings.files.parliament.uk/documents/CBP-9616/CBP-9616.pdf

[19] See https://assets.publishing.service.gov.uk/media/5e7de9fd86650c743803737b/evaluation-of-concessionary-bus-travel.pdf

Pension Credit and other means-tested ancillary benefits

The UK Government provides means-tested benefits to UK residents over state pension age who have a low income and limited savings.

Pension credits top up the state pension paid to older people to a minimum level. The total of Pension Credit payments in 2023/24 is forecast as £5,437 million[20].

The ONS estimate of the average annual Pension Credit as **£141** per pension age recipient.

Pensioner housing benefit provides financial support to pensioners on low incomes who rent their homes from private or social-sector landlords. The OBR estimates the cost of housing benefit in 2023/24 to be £13.3 billion[21]. The average number of claimants has been relatively steady for several years, but the average amount paid per claimant has been rising. The average claim for those over 65 has risen by 35%.

The ONS estimates the average annual cost of Housing Benefit as **£316** per pension age person.

Universal Credit is the name given to a benefit that replaces Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance (JSA), income-related Employment and Support Allowance (ESA) and Working Tax Credit.

Excluding Housing Benefit (see paragraph 14.3), ONS estimates the average annual cost of Universal Credit (and the benefits and credits it replaces) as **£266** per pension age person.

Taxation

It is accepted that pension age British citizens returning to the UK will bring with them taxable income and expenditure that will offset some of the costs that the UK taxpayer will incur following their return to the UK. Similarly, pension age UK residents who leave the UK to join family overseas will take with them taxable income and expenditure that will offset some of the savings that will ensue from their departure.

Direct taxes are those paid directly to the Government by the taxpayer.

The ONS estimates the average income tax paid by people of pension age as **£2,444** per person of pension age. However, it does not necessarily follow that if a person of pension age was to emigrate from the UK because some taxable income sources would remain in the UK (for example, a rental property or an annuity). This possibility has been ignored.

The ONS estimates the average Council Tax Payment (including commercial and industrial rates) as **£998** per pension age person.

The ONS estimates employee and employer national Insurance contributions for people of pension age to have an annual average of **£413** per pension age person.

Indirect taxes are those paid to the Government via a third party.

The ONS estimates the average annual VAT paid by of **£1,607** per person of pension age.

The ONS estimates the annual average duty (including duty on hydrocarbon oils, tobacco, wines, spirits, beer and cider) paid by each pension age person is **£737**.

Effect of Covid-19 Pandemic on Statistics

The telephone interview approach that was adopted by the ONS when collecting data relating to the years 2020/21 and 2021/22 differed from that used prior to and after the pandemic. The ONS says the data for these years has undergone extensive quality assurance, but they recommend users exercise caution when using data relating to these years. The ONS warns that there may be some unobservable residual bias in the grossing process.

[20] See https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-pensioner-benefits/

[21] See https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-pensioner-benefits/

APPENDIX 2 How the DWP calculates the cost of uprating pensions

1. The DWP estimate of projected costs is based on the latest data available to them from a 5% extract of DWP state pension administrative data in the Quarterly Statistical Enquiry (QSE) in March 2022. This is explained in the DWP letter dated 9th August 2023. The DWP advised they cannot or will not provide the QSE data that underlays their estimate in their letter of 13th October 2023.

2. The QSE data is used to estimate the number of individuals in frozen rate countries (the "caseload") and their state pension amounts.

3. The state pension for all current and future recipients is uprated using the relevant indices to the level they would have been had they never been frozen.

4. To estimate the cost for subsequent financial years adjustments are made to the underlying caseload and associated costs by:

   - Applying mortality rates to existing cases, based on age and gender;
   - Adding forecasts of future state pension claims, which are based on historical trends and expected changes in the population, and are adjusted for mortality; and
   - Uprating state pension amounts using economic assumptions from the Office for Budget Responsibility (OBR) at Spring Budget 2023.

5. The DWP published a revised estimate of the cost of ending the UK Government's frozen pension policy on 19th July 2023. There were previous estimates made in 2013 and 2019.

6. This is consistent with the statement made in the DWP methodological update paper[22] dated 13th December 2013 under the heading "Estimated Cost of Uprating state pension on Frozen Rate Countries".

7. Despite the statement in the methodological update that the DWP can estimate the cost of uprating frozen pensions annually, the 2023 revised estimate is the first such update since the one published on 14th February 2019.

[22] See https://assets.publishing.service.gov.uk/media/5a7bfb47e5274a7318b904d8/ad_hoc_frozen_state_pension_131213.pdf

APPENDIX 3 Principles of good administration

The Parliamentary and Health Service Ombudsman defines good administration by public bodies as meaning:

1 Getting it right

- Acting in accordance with the law and with regard for the rights of those concerned.
- Acting in accordance with the public body's policy and guidance (published or internal).
- Taking proper account of established good practice.
- Providing effective services, using appropriately trained and competent staff.
- Taking reasonable decisions, based on all relevant considerations.

2 Being customer focused

- Ensuring people can access services easily.
- Informing customers what they can expect and what the public body expects of them.
- Keeping to its commitments, including any published service standards.
- Dealing with people helpfully, promptly and sensitively, bearing in mind their individual circumstances.
- Responding to customers' needs flexibly, including, where appropriate, co-ordinating a response with other service providers.

3 Being open and accountable

- Being open and clear about policies and procedures and ensuring that information, and any advice provided, is clear, accurate and complete.
- Stating its criteria for decision making and giving reasons for decisions.
- Handling information properly and appropriately.
- Keeping proper and appropriate records.
- Taking responsibility for its actions.

4 Acting fairly and proportionately

- Treating people impartially, with respect and courtesy.
- Treating people without unlawful discrimination or prejudice, and ensuring no conflict of interests.
- Dealing with people and issues objectively and consistently.
- Ensuring that decisions and actions are proportionate, appropriate and fair.

5 Putting things right

- Acknowledging mistakes and apologising where appropriate.
- Putting mistakes right quickly and effectively.
- Providing clear and timely information on how and when to appeal or complain.
- Operating an effective complaints procedure, which includes offering a fair and appropriate remedy when a complaint is upheld.

6 Seeking continuous improvement

- **Reviewing policies and procedures regularly to ensure they are effective.**
- Asking for feedback and using it to improve services and performance.
- Ensuring that the public body learns lessons from complaints and uses these to improve services and performance.

These principles are not a checklist to be applied mechanically. Public bodies should use their judgment in applying the principles to produce reasonable, fair and proportionate results in the circumstances. The Ombudsman will adopt a similar approach in deciding whether maladministration or service failure has occurred.