Cost/Benefit Analysis

Uprating of Frozen Pensions

International Consortium of British Pensioners, October 2014

Executive Summary

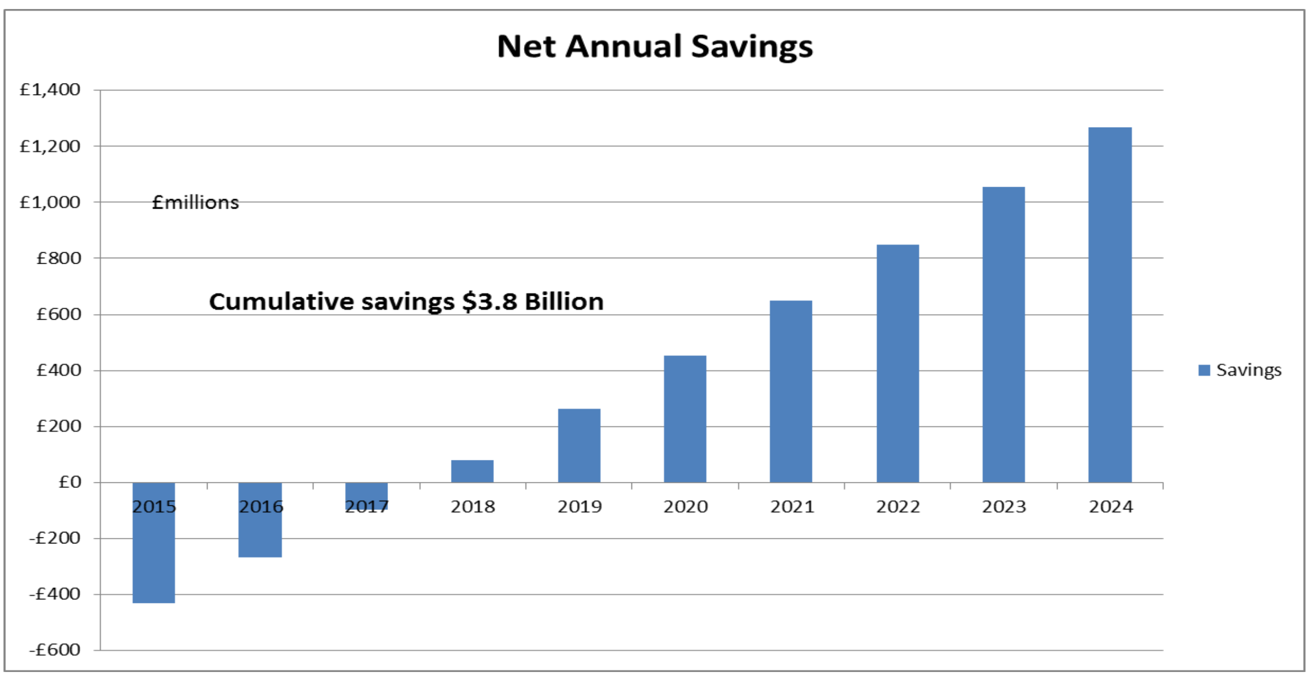
This report provides an up to date analysis of the financial costs and benefits of annually uprating the British State pensions of the 4% of pensioners whose pensions are currently frozen at the level first received.

Using existing Government data, and recent surveys, it demonstrates that after 3 years, the net annual savings to Treasury are cash flow positive, and by 2024 the **annual net savings** are £1.25 Billion. The cumulative net savings by 2024 are £3.8 Billion.

While it appears counter intuitive that adding costs by uprating frozen state pensions will actually save money, the analysis in the report highlights that there are two major areas of savings that have not been considered in the past. These savings would flow from a policy decision to uprate frozen pensions. The two areas of savings are:

1. **Significantly reduced number of new pensioners in currently frozen countries, due to cessation of all marketing and recruitment activities by ICBP.**
2. **Increased emigration from the UK by pensioners of African, Asian and West Indian heritage, back to their country of ethnic origin.**

The chart below summarises the net costs and benefits of uprating, considering both the cost of uprating, and the benefits from the two major areas of savings



The body of the report provides the detailed analysis to support these conclusions.

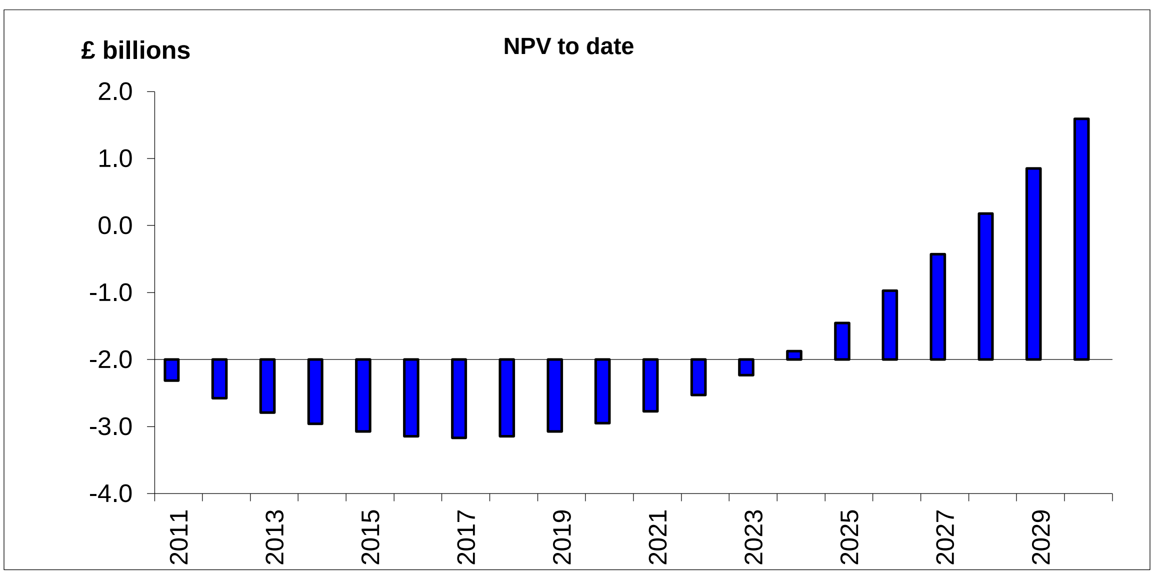
1: Background

There are over 1.1 million recipients of the State pension living outside of the UK. Of the 1.1 million, just over half receive annual inflation adjustments to their pension. The remaining 550,000 (approximately 4% of all pensioners) never receive an increase. Their pension is frozen at the amount first received for life, or while they remain in the country affected.

In 2010, Oxford Economics authored a report looking at the various costs and benefits involved in taking the decision to unfreeze the pensions of the 4% of pensioners affected. The report was essentially in two parts.

Part 1: This looked at the savings realized whenever a pensioner emigrates from the UK. Based on various reports from the Office of National Statistics, it estimated that the average savings to Treasury were £3,800 per annum for every pensioner that emigrates. These savings are based on reduced usage of the NHS and other age related benefits, and are net of foregone revenues such as Income tax, Council tax and indirect taxation.[1][2] **These figures are not in dispute by DWP**.

Part 2: This looked at the potential increase in numbers of pensioners emigrating as a result of pension unfreezing. The numbers of new emigrants were estimated from an opinion survey carried out by Opinium Research. The savings from the increased volume of emigrants were then compared to the cost of uprating for all pensioners, and an NPV calculation was carried out. The primary chart From the Oxford Economics study is reproduced below.



[1] PESA 2010
[2] ONS, Barnard, Andrew 2010

The chart indicated that there would be a cumulative net benefit accruing to Treasury in 13 years, and growing after that. The study also indicated that on an annual basis, the cash flow would turn positive within 7 years. **These figures are disputed by DWP.**

There are two primary reasons given for disputing the numbers.

1. The DWP did not agree with the forecast number of additional emigrants. The rationale for this is that it is much more difficult to emigrate as a pensioner to the Old Commonwealth countries of Canada, Australia and New Zealand (home of over 90% of all current frozen pensioners worldwide). In addition, the Pension Minister confirmed in the House that over 90% of all emigrants to these countries are not pensioners, but are in fact younger people, intent on starting a new life.

   This is a key point which will be referenced later.

2. Even assuming the forecast emigration numbers are correct, the costs are all front end loaded, with annual savings only occurring in the 7th year, and cumulatively after 13 years. In purely financial terms, this is not a good investment, especially in times of austerity.

   The ICBP accepts the validity of these arguments.

However, there are two new critical aspects that have not been considered in this analysis, and we believe they affect the financial picture considerably.

2: New factors affecting the Financial Impact.

There are two new factors that need to be considered in an updated financial analysis.

1: The impact of the growth in the number of new pensioners in frozen countries caused by ICBP marketing and recruiting activities.

2: The potential increase in new emigration of pensioners from the African, Asian and West Indian communities in the UK, back to their country of origin.

Each of these factors is analysed in detail below.

1. First New factor - Growth in the number of new pensioners from frozen countries

To analyse the impact of this, it is necessary to examine emigration patterns from the UK to the frozen countries, which are primarily Commonwealth countries.

Emigration to Commonwealth countries.

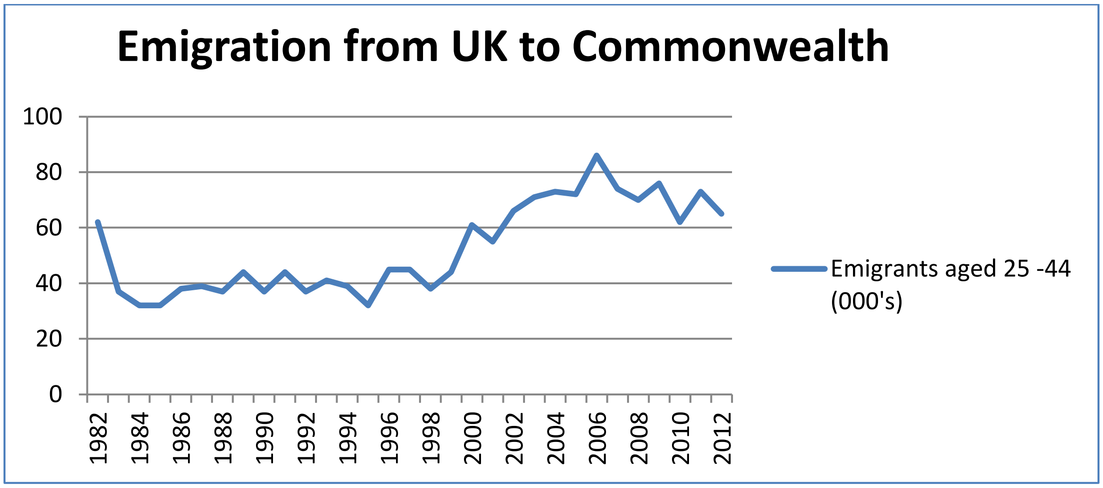


Chart 1

1.1: As Chart 1 shows, emigration to Commonwealth countries of younger people has been continuous and ongoing, averaging around 55 - 60,000 a year.[3] This supports the Pension Minister's statement about emigration demographics.

The critical aspect of this outflow is that the emigrants who were aged in their 30s back in the early 1980s are now reaching retirement age, and most are potentially eligible for a UK state pension. **What has not been factored into any previous analysis is the role that the ICBP has in converting potential pensioners into actual pensioners, both historically and into the future.**

1.2: The ICBP, through its national organisations, is funded entirely by individual members paying annual dues. These dues are extremely modest (typically £14 pa). Consequently, we continually need to recruit many members in order to continue to fund our campaign to unfreeze pensions. We also need to recruit new members to replace the ageing pensioners who regrettably die.

We do this through aggressive advertising and promotion campaigns in each country. We use traditional mechanisms such as: Television and Radio Advertising on British channels, Newspaper and Magazine ads, member referral incentive schemes, public information sessions etc.

Increasingly, we are also using electronic and social media such as Facebook, Twitter, Google Ads and websites, as we are finding that the current generation of potential pensioners is very much more internet aware.

[3] Office of National Statistics Migration patterns

1.3: Our advertising message is very simple. It is basically built around the theme “If you ever worked in the UK, even for a year, you may be eligible for a British State Pension – call us to find out more”

Click on the link below to see a 30 second television commercial, featuring this message.

http://www.youtube.com/watch?v=qL5PTkLwOMA

The profile of people that respond to our marketing campaigns is universally similar.

- They are in their mid to late 50s or early 60s, and now becoming interested in their retirement.
- They emigrated from the UK in their 30s, and have been resident locally for 30+ years. They usually qualify for a local pension.
- They have no knowledge whatsoever about their eligibility for a UK pension. At the time of their leaving the UK, a UK pension was the last thing on their mind. It comes as a complete (pleasant) surprise that they are actually eligible.
- They have no knowledge about their entitlement to make catch up National Insurance payments for missing years, or to continue to make voluntary payments up to pension age to increase their pension amount, and even in many cases to reach the minimum number of years to qualify for a partial pension.

What ICBP does is inform and educate them, support them in their pension application process, and recruit them to our cause.

1.4: We are very successful at doing this. The fees from new and existing members have funded our campaign for 30+ years, including funding the lawsuits through the British Courts and the European Court of Human Rights, and the engagement of Public Relations companies in the UK. Based on the emigration volumes throughout the years, there is a future stream of potential pensioners that we can continue to target, educate and recruit indefinitely. This is not something we choose to do, but must do, in order to correct what we believe is an injustice.

If, however, Pensions were unfrozen, our campaign ceases. Existing members would no longer have a reason to pay their dues. They would have achieved their goal. Our funding would disappear immediately. We would shut down our local marketing and recruiting campaigns, websites, Facebook pages and go out of business.

The financial implications on the Pension system would be significant – and immediate. Without our local marketing and information campaigns, a significant majority of expats would simply not be aware that they could be eligible for a UK pension. Having lived locally for 30+

years, and qualified for a local pension, it would not even occur to them to enquire about a UK pension. We KNOW this to be true. It is true for almost every single new member we recruit.

This means that if ICBP no longer existed because pensions are unfrozen, a significant percentage of the expected growth in the number of new pensioners would not happen.

The illustrate this, the chart below shows two lines.

The Blue line in the chart up to 2014 shows the historical growth in pension costs for frozen pensioners.[4] The Red line is a calculated trend line, and shows the continued growth in pension costs through 2024, assuming no change in frozen pension policy. As can be seen, the trend line fits the actual cost line almost perfectly.

Illustration of the impact of new pensioners on total costs for frozen pensioners

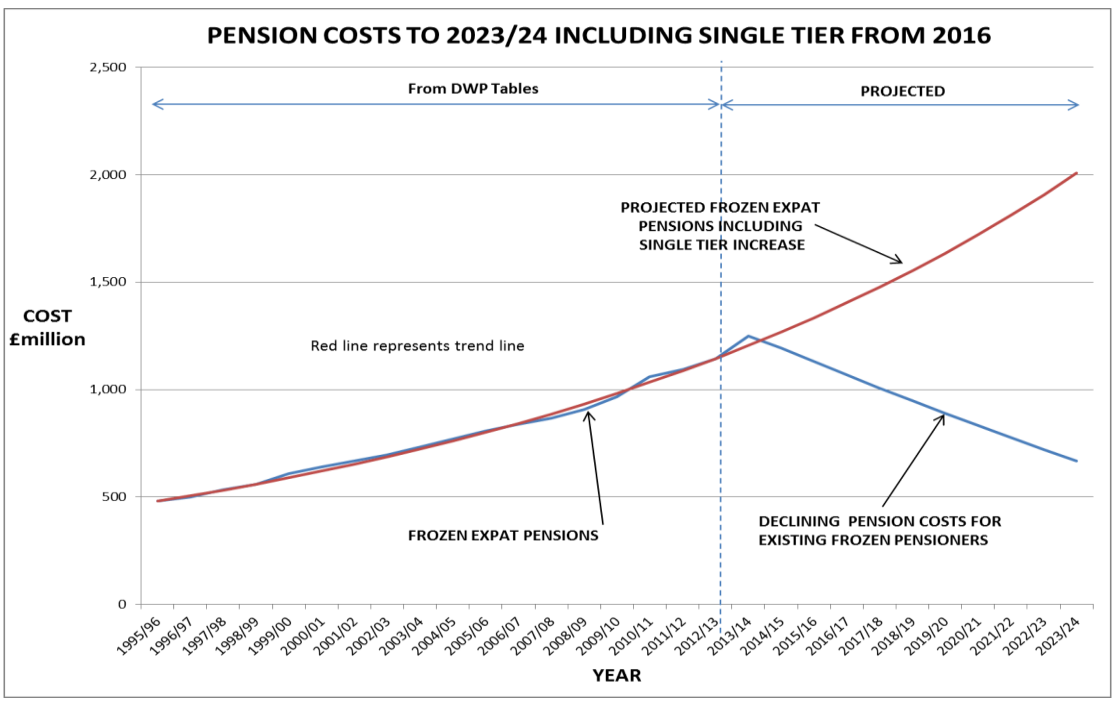


Chart 2

In order to calculate the impact that new pensioners have on the growth in cost, the Blue line after 2014 assumes no new pensioners joining the system. Although it is a hypothetical line, it is calculated from the DWP tables of pensioners by age category. It projects a steady decline in pension costs as pensioners die. It is recognized that this is not a realistic scenario, but it is needed to highlight the impact that new pensioners have on the growth of pension costs.

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[4] DWP Caseload tables

As would be expected, the pension costs of the current group of pensioners would diminish as they represent a declining population. As there is no inflation increase in the costs (pensions are frozen), then the difference between the two lines represents the addition of new pensioners every year. This averages out as approximately 40,000 new pensioners every year being added to the Pension System from frozen countries. This number of 40,000 is calculated from the average pension cost per pensioner, based on actual historical costs and numbers of pensioners from the DWP caseload tables.

While zero growth in new pensioners is impossible, ICBP believes that a significant portion of the growth in new members comes from our recruitment and marketing programmes.

1.5: On a very conservative basis, we have analysed our membership traffic, and have concluded that a minimum of 50% of new pensioners over the last 40 years are entirely due to our marketing and outreach programs.

As evidence of this, we did a comparison between the United States (non-frozen country) and Canada (frozen country). These countries are adjacent to each other, and share a common immigration profile.

We compared the number of immigrants from the UK in each country against the number of people receiving a UK pension in each country.

The difference is dramatic. As a percentage of immigrants there are twice as many people receiving a UK pension in Canada as there are in the U.S. **The difference is because ICBP does not advertise or attempt to recruit members in the U.S.** There is no point in doing so, because pensions are already unfrozen there.

This lack of advertising in the US means that a substantial number of potential pensioners in the U.S. never become aware of their eligibility, and never apply for a UK pension. This is real evidence of ICBP's success in creating additional pensioners in the UK State pension system.

Immigration 1976 - 2012

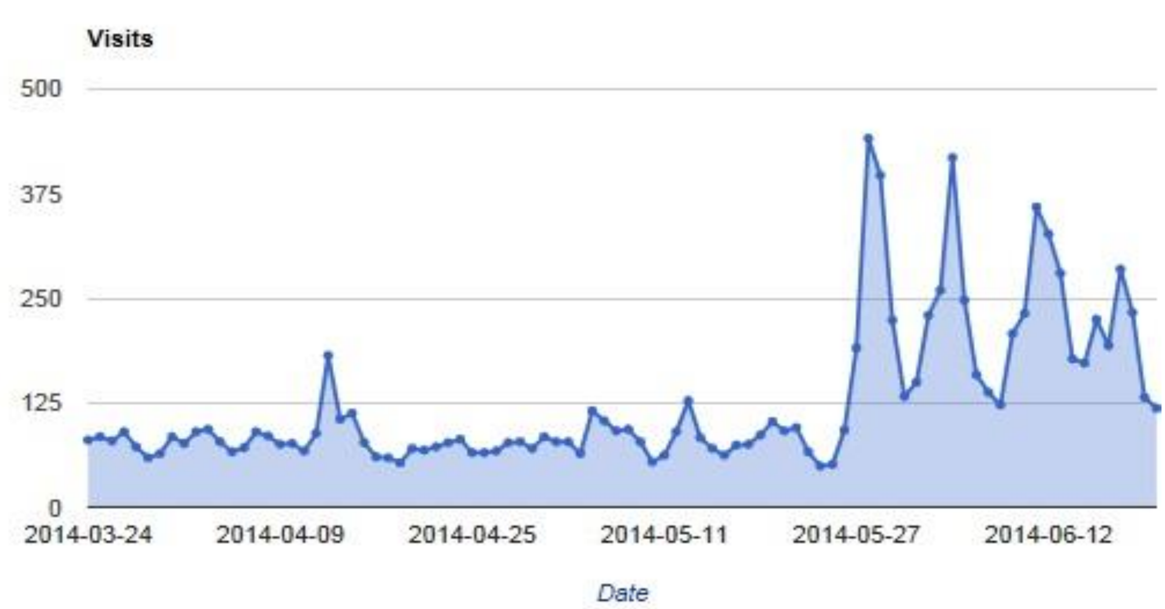
	Canada	United States
Total number of Immigrants from the UK	320,000[5]	578,000[6]
Number currently receiving a UK pension[7]	152,000	140,000
Ratio of pensioners to immigrants	48%	24%

[5] Government of Canada immigration statistics
[6] DHS, United States immigration statistics
[7] DWP Caseload Analysis by country

Going forward, we expect that percentage to continue. We also expect that the number of new pensioners will increase beyond its historic pattern and the trend line on the graph, although we have not factored this into the calculations, to be very conservative in our estimates.

Our reason for concluding that the number of new pensioners will exceed the trend line is that our ability to increase awareness of pension eligibility in the expat community is growing, due to the use of technology.

For example, the website of our Canadian organization, which is set up purely to attract new members, is attracting an average 125 hits a day. When a marketing campaign is run, it spikes up to 400+ a day. That represents interest from over 145,000 potential pensioners annually. The chart below is an actual record of website hits immediately before and after a recent specific advertising campaign.



Based on that, we conservatively estimate that in the future, we would continue to be directly responsible for 50% of the new pensioners from frozen countries.

The table below represents the **annual savings** from a 50% reduction in the number of new pensioners from frozen countries going forward, as a result of ICBP going out of business.

Annual Savings (All Figures in £Millions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
50% Reduction in new pensioners in frozen countries	67	138	213	292	376	463	556	653	755	857
5 and 10 year totals					1,086					3,516

Between now and 2024, based on Chart 2 on Page 6, the total 10 year pension cost attributable to new pensioners joining the rolls is £7.03 billion. At a 50% reduction rate due to ICBP going out of business, the savings would be £3.51 Billion.

2: Second New factor - Additional ethnic emigration from the UK.

2.1: The second major factor that has not been considered properly is additional emigration from the UK. While the Oxford Economics study did address a potential increase in emigration if pensions were unfrozen, the conclusions were dismissed, on the basis that emigration to old Commonwealth countries was no longer easy for pensioners, and those who were migrating to those countries were younger.

The ICBP acknowledges the validity of this argument, but what has not been considered is the emigration of UK residents back to their country of origin, and the adverse consequences of not uprating the UK State pension for this group.

The 2011 Census in the UK states that there are 6,000,000 people in the UK that identify as being of African, Asian or West Indian ethnicity. Of that 6 million, 2 million are aged 55 and older. The majority of those people came to the UK in the 60s 70s and 80s to seek work, and are now reaching retirement age.

There are no immigration barriers to this group of people returning to their country of birth. The median retired household income in the UK is £15,000 a year[8]. This income, including an

[8] ONS Barnard, Andrew, The effect of Taxes and benefits on Household income 2008/2009

indexed state pension, would place them in the top 10% of income of the population in countries such as India and Pakistan. In addition, countries like India have excellent health care for people who can afford it.

2.2: ICBP commissioned a poll in October 2014, carried out by OnePoll, a reputable and well known polling company. 600 people of African, Asian and West Indian ethnicity were sampled. Given this sample size, and a population of 6,000,000, the survey has a 95% confidence level, with a 4% plus or minus error factor.

The results were revealing.

1. 61% of respondents did not know that their pensions would be frozen if they went back to their country of origin.
2. 51% of respondents indicated that they were likely, or very likely, to return to their country of origin on reaching retirement age.
3. 81% of respondents indicated that they would consider returning to their country of origin within 10 years of retirement.
4. 40% indicated that knowing their pension would be frozen would possibly affect their decision to leave, while 25% said it would definitely affect their decision.

Given the population size of 2,000,000 over the age of 55, the number of people who indicated they were likely or very likely to leave the UK to return to their homeland within 10 years, and who would not go based on their pension being frozen, can be calculated using the formula.

2,000,000 x 51% (likely to leave) x 81% (within 10 years) x 25% (definitely would remain if pensions were frozen) = 206,550

2.3: This number represents an opportunity cost, in that it is the estimated number of people who would leave the UK within a 10 year time span if their pensions were unfrozen, but would **not** leave if they remained frozen. (The number is likely higher than that, as it does not include any of the 40% that indicated that their decision to emigrate would **possibly** be influenced by their pension being unfrozen.)

Using the Government figure of £3,800 per year net savings for every pensioner that leaves the UK, (plus an annual 2.5% adjustment since 2010) it is possible to calculate the annual savings over a ten year period. This number is shown in Table 2 below. For simplicity, the 206,550 from the calculation above is simply spread evenly through the 10 year period. The actual survey results showed a normal distribution with the peak at the 4 -5 year mark

Additional emigrants incented to leave the UK to return home

Savings in £Millions

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Number of new migrants annually	20,655	20,655	20,655	20,655	20,655	20,655	20,655	20,655	20,655	20,655
Annual savings	£87	£178	£273	£373	£478	£588	£703	£824	£950	£1,082

Table 2

Stating it another way, the survey shows that if just 10% of the population of African, Asian and West Indian over the age of 55 were incented to emigrate back to their country of origin over the next 10 years, by unfreezing their pension, the savings are significant. This would not only create savings in the NHS, and other age related benefits, but also ease pressure on Housing stock.

3: Cost of Uprating

As detailed in the preceding sections, there are two main areas of benefit.

1: Savings accruing from a reduction in the growth of new pensioners in frozen countries, due to ICBP and its country organisations ceasing to exist if pensions were unfrozen.

2: Savings accruing from an increase in emigration from the UK of people of Black, Asian and West Indian ethnic background.

On the other side of the equation there would be incremental costs associated with uprating annually pensions that are currently frozen. (There is no provision for backdating of any uprating, as this is NOT sought by ICBP).

Using DWP caseload tables, we first calculated the uprating costs based on no growth in new pensioners, consistent with Chart 2 on page 6. This is the blue line in the chart below. As expected, this cost would decline with no growth in new pensioners, as the number of existing pensioners would reduce over time.

We then added the cost of uprating for new pensioners, based on normal projected growth in the number of new pensioners. The red line in the chart below represents the total incremental cost of uprating pensions for both current and future pensioners through 2024

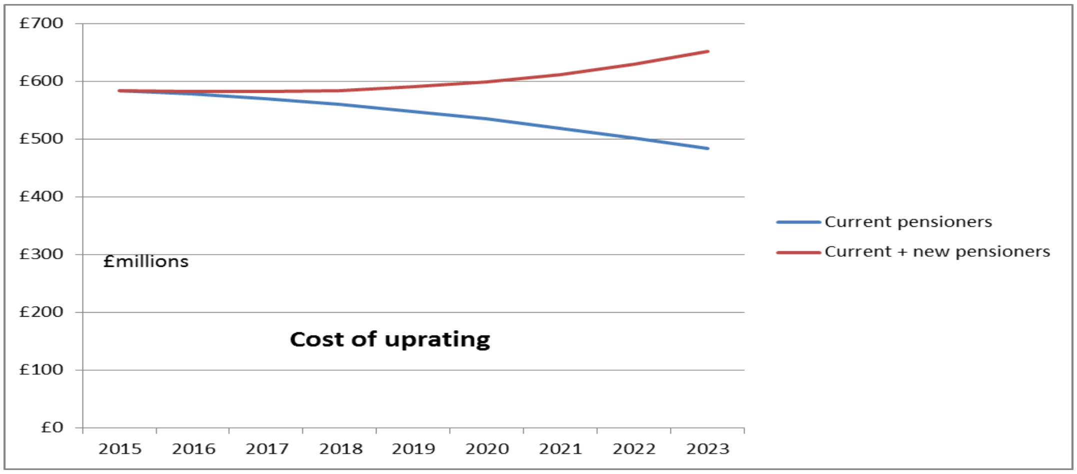


Chart 3

What Chart 3 illustrates is that the total cost of uprating for both current and new frozen pensioners will increase modestly. The growth in costs for new pensioners is almost offset by the decline in existing pensioners.

4: Cost and Benefit Comparison

The incremental costs of uprating in Chart 3 above can now be matched with the benefits to give a single picture below. The chart below summarises the savings from reduced numbers of pensioners joining the pension system from frozen countries, together with the savings from increased emigration from the UK of people back to Africa, Asia and the West Indies, and nets it against the annual cost of uprating for frozen pensioners.

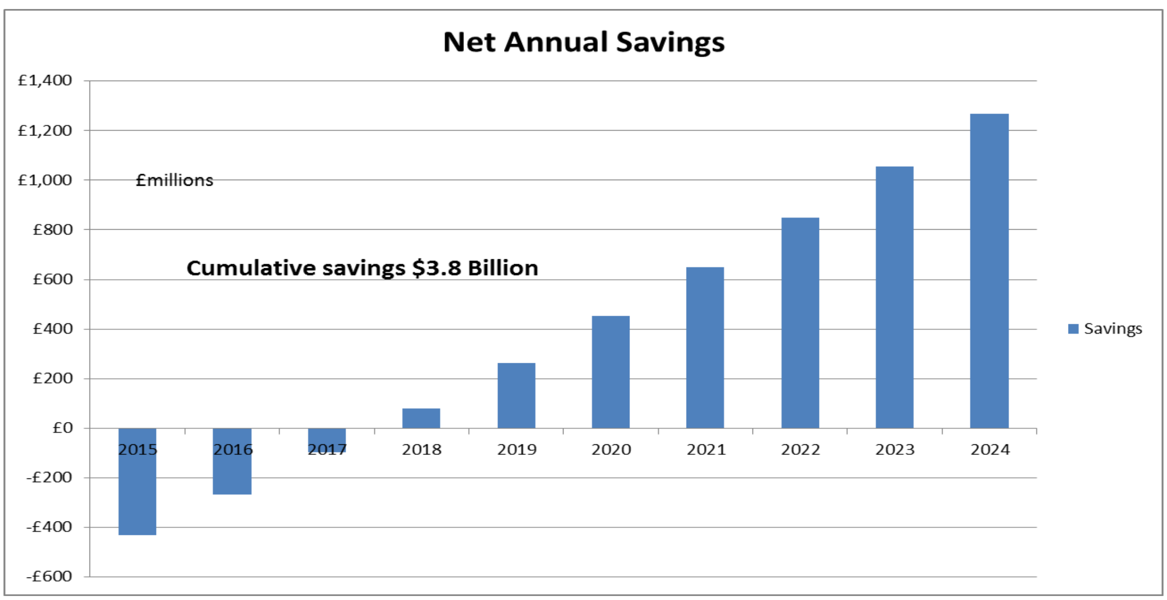


Chart 4

4: Reasonableness Analysis

Given the cost benefit picture in Chart 4 above, how reasonable are the calculations?

4.1: In terms of the increased emigration from the African, Asian and West Indian community back to their homeland on retirement, the figures assume that just 1% of the population over the age of 55 would be incented/enabled annually to leave, by having their pension unfrozen. This is a very conservative number. Numerous polls by different organisations have all indicated that there is a strong desire to retire abroad.

For example, a recent poll by the retirement specialist firm MG Advantage showed that 17% of the adult population of 39 million was planning to retire abroad. There were four frozen pension countries in the top 10 destinations – Australia, Canada, India and the Far East. As has been stated, while it is true that it is increasingly difficult for pensioners to emigrate to Canada and Australia, there is clearly a latent demand for it. It is also true that there are no immigration barriers to people returning to India and the Far East. Our survey has indicated that 25% of respondents would definitely change their mind about emigrating if their pensions were frozen.

4.2: In terms of reducing the number of new pensioners that start to claim pensions from frozen countries, we have calculated that there would be approximately 17,000 fewer new pensioners from 2015 onwards if ICBP ceases to exist. This represents just 28% of the annual emigration to Commonwealth countries that has been occurring since the 1960s. Almost all of those people will be eligible for a British state pension of some kind when they reach retirement age. We are able now to find them, educate them, and support them in claiming a pension. Once pensions are unfrozen, this aggressive recruitment will no longer be necessary, leading to fewer new claims for pensions

5: Conclusions

1: On an annual cash flow basis, uprating of pensions is positive by the fourth year.

2: Every year after that, the cash flow is positive, and within 10 years the annual savings are significant. This is because of the cumulative impact. Whenever a single new pensioner is enrolled, it represents a 15 – 20 year financial commitment from the Government. After 10 years, the cumulative savings are £3.8 Billion.

3: The Pension system and the NHS system are both facing a crisis. These systems worked well when there was a large base of workers supporting a small proportion of retirees. That demographic model is inverting. There are increasingly fewer workers, supporting increasingly more retirees

4: While adding costs to the system by uprating frozen pensions appears to be counter intuitive, the reality is that the unfreezing decision will in fact lead to fewer pensioners abroad in the frozen Commonwealth countries, and more people emigrating back to countries such as India and Pakistan. This translates into real and substantial savings.

5: It is smart economic policy to remove any artificial policy barriers to emigration of older people. The Government cannot afford NOT to uprate frozen pensions.