

# **Towards a Citizen's Pension: Interim Report December 2004**

## **Appendix Four: Background information on the eligibility criteria in Chapter 4**

*These appendices should be read together with the main report*

**Produced by the Pensions Policy Institute  
for the National Association of Pension Funds**

## **Appendix 4: Background information on the eligibility criteria in Chapter 4**

The first section in this appendix looks at the various eligibility requirements for existing UK benefits. The second section looks at Social Security Agreements between the UK and other countries that determine the levels of benefits paid overseas. The third section looks at the eligibility criteria used for Citizen's Pensions in other countries.

### **Current UK benefits**

This section looks at the various eligibility requirements for the benefits currently available to people in the UK over state pension age (SPA)<sup>1</sup>. It is notable that the requirements vary widely (Table A4.1), and the eligibility criterion proposed for a new Citizen's Pension look simple by comparison.

The emphasis for **retirement pensions** is the history of National Insurance contributions (NICs) paid. Residency is not a criterion for being eligible, although the amount paid may be different if resident in the UK or overseas depending on the outcome of Social Security Agreements.

#### **For category D retirement pension, an individual must**

- be aged 80 or over, and,
- not be entitled to another category of state retirement pension, or is entitled to one at a lower rate than the Category D rate, and
- satisfy the residency requirement: that at the time of the claim the individual has lived in Great Britain for a total of 10 years or more in any continuous period of 20 years before or after their 80th birthday.

The individual does not need a history of NICs, nor even an NI number to claim a Category D pension and the payment can be made overseas similar to other retirement pensions. Having lived and worked in another member state of the European Economic Area, or in Switzerland may help satisfy these conditions.

Category D pension can be thought of as a type of Citizen's Pension protecting the oldest residents. However, the amount paid is only £46.35 per week, compared to the minimum Pension Credit of £105 per week. Therefore it is the structure of the benefit that is of interest rather than the level.

For most other benefits, including the **means-tested benefits of Pension Credit (PC), Council Tax Benefit and Housing Benefit, and the lump sum Winter Fuel Payments** a National Insurance (NI) number is needed to qualify as well as residency criteria. Therefore although benefits are not based on contributions, they are still related to the NI system.

<sup>1</sup> 60 for women and 65 for men

A National Insurance number is a personal number used to record a person's contributions and credited contributions. It is used as a reference for the whole social security system. British nationals receive a NI number automatically. People moving into the UK need certain proofs of identity to obtain one, such as documents to do with employment, a passport, national identity card, or an NASS 35 form<sup>2</sup> that is issued to people seeking asylum in the UK<sup>3</sup>.

Residency conditions must also be fulfilled to claim these benefits. For the **means-tested benefits** the individual must

- Be living in UK, and
- Pass the habitual residency test (HRT) if they have returned to the UK from overseas in the past two years.

The habitual residence test comprises both the Right to Reside test (Box A4.1) in the common travel area (CTA)<sup>4</sup> as well as the HRT (Box A4.2).

Even if a person is habitually resident in the UK, there are some circumstances in which benefits are not paid. For example, Pension Credit is not payable to prisoners<sup>5</sup>.

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<sup>2</sup> A form sent to the individual after the "permission to remain" letter and shows the payments made to the individual during the asylum-seeking period

<sup>3</sup> DWP Applying for a National Insurance Number  
[http://www.dwp.gov.uk/lifeevent/benefits/ni\\_number.asp](http://www.dwp.gov.uk/lifeevent/benefits/ni_number.asp)

<sup>4</sup> The CTA are UK, the Channel Islands, Isle of Man and the Republic of Ireland

<sup>5</sup> The Pension Service (2004) A guide to Pension Credit

**Table A4.1<sup>6</sup>: Eligibility criteria for some current UK benefits payable to people of pension age**

<b>Benefit</b>	<b>Have paid NICs</b>	<b>Have an NI number</b>	<b>Current means<sup>7</sup></b>	<b>Age</b>	<b>Resident in UK</b>	<b>Where payable</b>
<b>Retirement pensions (Basic State Pension and State Second Pension)</b>	Yes	Yes	No	Over SPA	No	UK and overseas. Amount paid differs.
<b>Category D retirement pension</b>	No	No	Yes	Over 80	No	UK and overseas. Amount paid differs.
<b>Pension Credit, Council Tax Benefit, Housing Benefit</b>	No	Yes	Yes	Over 60 for GC element of PC; 65 for SC <sup>8</sup>	Habitual residence test	Only in UK
<b>Winter Fuel payment</b>	No	Yes	Yes for over 80s	Different benefits for over 60s; 70s (2004/5 only); 80s	Qualifying week in Sept	In UK, EEA or Switzerland
<b>Free TV license</b>	No	No	No	Over 75	Yes	Only in UK

<sup>6</sup> PPI analysis based on information from DWP <http://www.dwp.gov.uk>

<sup>7</sup> Current income and/or assets, that is, of the person over pension age, not during earlier life

<sup>8</sup> GC – Guarantee Credit; SC – Savings Credit are the component parts of Pension Credit

**Box A4.1: Right to Reside Test****Right to reside test**

- A person has a right to reside if he/she is:
- A returning UK national or a UK passport holder coming to the UK for the first time.
- A national of EEA 16<sup>9</sup> or A2<sup>10</sup> countries who holds the status of a worker/ is self-employed, and their families.
- He/she would be exempt from the second part of the HRT.
- A national of EEA 16 or A2 countries who holds the status of a work seekers and their families.
- A8<sup>11</sup> national worker who is working legally in the UK i.e. registered with the Home Office Worker Registration Scheme.
- He/ she would be exempt from second part of HRT, however A8 country workers will only be able to claim income-related benefits while they are working. Once they stop working, they lose the right to reside. A worker of A8 country will be treated in the same way as EEA 16 and A2 countries after 12 months of uninterrupted work.
- A national of EEA 16, A2 and A8 countries who is inactive, and their families as long as they do not become an unreasonable burden on the state.
- A student of EEA 16, A2 and A8 countries as long as they do not become an unreasonable burden on the state, and their families.
- A national of European Convention on Social and Medical Assistance (ECSMA1) who has been given limited leave to remain.
- A person who has been granted refugee status or humanitarian protection (regardless of habitual residence); or granted exceptional leave or discretionary leave to remain in the UK. They will be exempt from HRT.
- A holder of another passport which is marked 'British Citizen' or 'given leave to enter the United Kingdom for an indefinite period' or 'given leave to remain in the United Kingdom for an indefinite period' or 'there is at present no time limit on the holder's stay in the UK'

**Box A4.2: Habitual Residence Test****Habitual Residence test**

A person is habitually resident if he/she is a worker for the purpose of EC law, a refugee, has been granted humanitarian protection, has exceptional or discretionary leave to remain in the UK, has been deported to UK; or has left Montserrat after 1 November 1995 due to volcanic activity.

However as there is no fast and quick rule as to who passes the HRT, Even in cases where the above does not apply, a person may be considered to be habitually resident depending on the person's nationality, and immigration and residency status.

<sup>9</sup> EEA countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Lichtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain and Sweden. Switzerland is not an EEA member but has signed an agreement which allows its citizens the same freedom of movement rights.

<sup>10</sup> A2 countries are Cyprus and Malta

<sup>11</sup> A8 countries are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia

A person may not be eligible for these means-tested benefits if

- the person has come from overseas on a temporary basis, such as a student, worker or a visit, or
- the person is being allowed to stay while seeking refugee status or applying for settlement,
- he/she came to the UK under a sponsorship agreement<sup>12</sup>.

A normally self-supporting person from abroad may be able to get PC for a maximum for 42 days if funds from abroad are stopped. PC payments can only be made in the UK with some short time exceptions<sup>13</sup>.

For the **winter fuel payments** the residency criteria applies only to one week in September. A person who is aged 60 or over and normally living in Great Britain or Northern Ireland in the qualifying week can qualify<sup>14</sup>. Payment can be made overseas as long as,

- The person was entitled to the winter fuel payments before leaving the UK.
- The person is an EEA or Swiss national.
- The person normally lives in another EEA country or Switzerland<sup>15</sup>.

For a free TV license, anyone over 75 can be entitled for their principal residence<sup>16</sup>. An NI number is not needed, and the benefit can only be paid in the UK.

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<sup>12</sup> Sponsored immigrants are not entitled to PC for five years from the date of their entry or the date on which the maintenance undertaking was signed, whichever is later, unless the sponsor dies

<sup>13</sup> However in cases of temporary absence, the PC payments can be made to up to 4 weeks and for Housing and Council tax benefits up to 13 weeks. If the person is going overseas for medical treatment under NHS, he/she can get the payments overseas, while receiving the treatment.

<sup>14</sup> The qualifying week of 20 to 26 September 2004 for the case of Winter 2004/2005

<sup>15</sup> <http://www.thepensionservice.gov.uk/winterfuel/>

<sup>16</sup> 'Place where they live most of the time'

## Social Security Agreements

This section looks at the existing arrangements between the UK and other countries for coping with people who live in different countries during their working age life. These arrangements are referred to as SSAs (Box A4.3).

### Box A4.3

#### What is a Social Security Agreement (SSA)?

If two countries have concluded a Social Security Agreement, this means that a person who has left one country for another country which it has signed a SSA with may be able to get benefits that he/she would not be able to get abroad. Or he/she may be able to get a benefit which that country provides.

In this paper, SSA is used as an umbrella term for all such agreements between countries. Most UK SSAs follow the structure of the one applicable to the EU countries.

#### Social Security Agreements applicable for UK residents: EEA

A person in any EEA country<sup>17</sup> can claim payments from any EEA country's scheme to which it is entitled under EU regulation 1408. Each EEA country will assess how much the person should get under its own system, while looking at the benefit entitlement the applicant has in any other country. Details about each person's benefit entitlement are shared among different countries.

Regulation 1408 covers residency and contributory benefits, reflecting the systems in use in different EU countries. So changing the basis of the UK pension from contributory to residency would not affect its coverage by regulation 1408.

#### The amount that is paid can be worked out by two methods:

##### Method A 'separate'

Each country works out how much pension the person can get, just from what has been paid into its own social security scheme.

##### Method B 'pro rata'

Each country adds together the person's residency or contribution in all countries. Then each one sees how much pension the applicant would get if the residency or contribution had all been in its own social security scheme. Each country only has to pay part of this. How much it pays depends on how much the person has paid into its scheme. For example, if one-third of the period covered was from the UK, then the UK would pay one-third of the total pension it has worked out the individual could get. All the other countries usually work out how much they are going to pay in the same way.

Each country would pay out the higher of the two figures. The person would get its pension payments from each country it is insured under.

To ensure that the person does not receive an unjustified amount of pension payment, a maximum is applied when someone is covered by two different

<sup>17</sup> The European Economic Area (EEA) is made up of all European Community (EC) countries plus Iceland, Liechtenstein and Norway. Switzerland are also included in this SSA.

countries at the same time<sup>18</sup>. The maximum payment the person can get is the highest of the theoretical amounts calculated under one country's system based on the person's insurance in all countries. In such a case, the amount paid out from each would be reduced to the proportion which the amount of payment made by the country concerned bears to total of the payments the person would have received.

In practice, the UK uses the separate method whenever an individual is entitled to some benefit. If an individual has not accrued enough contributions to qualify for the minimum amount (for the Basic State Pension, that means 25% of the full rate, or more) the pro-rata approach is used.

### **Non-EU**

The UK has arrangements with similar effect as that in the EEA SSA with: Barbados, Cyprus, Jamaica, Jersey and Guernsey, Malta, Israel, Mauritius, Philippines, Turkey, Yugoslavia and the US.

The usual arrangement for these countries is that:

- Contributions or residence in one country may help to qualify for the other country's scheme.
- People receive the payments that they would have been entitled to if they had been resident in the other country.

Special arrangements apply for some other countries. For example, New Zealand Superannuation (NZS) cannot be paid into the UK system and the UK state pension paid in New Zealand does not get the annual increase, once the person stops being the resident of the country. The frozen rate also applies in other 'old Commonwealth' countries. Some agreements such as those between the US, Canada, Israel and Bermuda require the pensioner to be a resident of the country before the pension/ benefit payments can be made. These are referred to as 'non-standard SSAs' in this paper.

Currently around 500,000 out of a total of 900,000 British pensioners overseas have their pensions frozen. Of those who do not have annual increases, over 90% of them live in 48 out of 53 Commonwealth countries, including Australia (213,900), Canada (137,900), NZ (33,700), South Africa (34,100) and Zimbabwe (5,000)<sup>19</sup>.

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<sup>18</sup> For example, if they qualify for a residency-based benefit living in one country, and for a contributory benefit working in another country

<sup>19</sup> Parliamentary Question David Willetts 15 February 2001, House of Lords *Hansard* column 290W



## Criteria used in countries with a Citizen's Pension

This section looks at the eligibility criteria used for the Citizen's Pensions in three countries: Denmark, New Zealand and the Netherlands.

In New Zealand (NZ), the residency-based New Zealand Superannuation (NZS) is the only state pension. Both Denmark and the Netherlands have two-part state pensions systems, with a residency-based basic component and a means-tested supplement (Table A4.2).

**Table A4.2<sup>20</sup>: Monthly gross amounts paid out under different countries' Citizen's Pension, for single people, US\$ on a Purchasing Power Parity basis**

	Denmark <sup>21</sup>	Netherlands <sup>22</sup>	NZ <sup>23</sup>
<b>Basic Citizen's Pension amount, if fully eligible</b>	US\$519	US\$944	US\$870

### Calculation of Citizen's Pension amount

In Denmark and the Netherlands, payments are made proportional to the years of residence within that country. It takes 40 years in Denmark and 50 years in the Netherlands to acquire the full amount, but people face low minimum residency criteria to acquire a pension.

In the case of the Netherlands, it is possible to make voluntary contributions from overseas in lieu of qualifying by residency. This allows a person to qualify despite high mobility during their qualifying years.

Once qualified for NZS, everyone is entitled to the same amount. Although no proportional payments are made, the criterion for a full CP is lower in NZ than in Denmark or the Netherlands (Table A4.3).

<sup>20</sup> PPI analysis

<sup>21</sup> Purchasing Power Parity 2003 Denmark 8.70 (OECD, August 2004)

<sup>22</sup> Purchasing Power Parity 2003 the Netherlands 0.96 (OECD, August 2004)

<sup>23</sup> Purchasing Power Parity 2003 NZ 1.46 (OECD, August 2004)

<http://www.oecd.org/dataoecd/61/54/18598754.pdf>

**Table A4.3<sup>24</sup>: Eligibility criteria for a Citizen's Pension**

<b>Countries</b>	<b>Denmark</b>	<b>Netherlands</b>	<b>New Zealand</b>
<b>Minimum residency requirement (before pension age) to acquire a CP</b>	For Danes <sup>25</sup> : 3 years of residence between the ages of 15-65(67) <sup>26</sup> . Other nationals: 10 years of residence between the ages of 15-65(67), 5 years of which must be prior to the date on which the pensions is first paid.	Residence between the ages of 15-65	10 years of residence since the age of 20, 5 years of which must be since the age of 50
<b>Residency requirement to acquire a pension</b>	Does not have to be resident if: for Danes <sup>27</sup> , given 30 years of residence between the ages of 15-65(67); or for other nationals, given prior dispensation	Cannot become entitled to a CP abroad <sup>28</sup> , unless he/she makes voluntary contributions in lieu	Resident in NZ or ordinarily resident in NZ but did not make a prior application for overseas payment as intended to be away for 26 weeks or less
<b>Conditions for full amount to be paid</b>	Retained residential status for 40 years	Retained residential status for 50 years <sup>29</sup>	Satisfy residency requirement
<b>Conditions for partial amount to be paid</b>	1/40 for each year of residency between the ages of 15-65(67)	1/50 of the full amount or each year of residency	No partial amount to be paid if the residency criteria is not met

<sup>24</sup> PPI analysis from various sources

<sup>25</sup> As well as nationals of other members of EU and countries with which it has concluded an SSA

<sup>26</sup> The pension age has been fixed at 67 but in 1999 modified to 65 for persons achieving the age of 60 years on 1 July or thereafter

<sup>27</sup> As well as nationals of other members of EU and countries with which it has concluded an SSA

<sup>28</sup> For payments based on contributions based on years of residence person's 15th birthday and 1 Jan 1957

<sup>29</sup> If a person leaves the Netherlands below the age of 65, they will no longer be insured under the Dutch system but can continue their AOW insurance on a voluntary basis

**Nationality criteria for eligibility**

Denmark is unique among the countries studied in treating people differently according to their nationality. Non-Danish nationals who live in Denmark from countries without Social Security Agreements (SSA) face tougher residency criteria. Apart from the transitional stage<sup>30</sup> of the Dutch system that applies only to Dutch nationals, other countries treat all their residents on equal basis.

**Proof of residency**

In order to qualify for a Citizen's Pension, an individual must be able to prove his or her period of residence.

In Denmark, a period of residence after 1972 can be confirmed in the Civil Registration System as long as the Danish CPR<sup>31</sup> number is stated in the application. Proof of residence prior to 1972 can be obtained from the population register in the relevant municipalities of residence in Denmark.

Anyone living in Netherlands listed in the municipal population register would have an AOW application form<sup>32</sup> sent automatically six months before the person's 65th birthday. Other acceptable proofs of identity (e.g. if someone is using a different postal address) would be a valid passport, a tourist card or a municipal identification card.

A person with a different nationality can use his/her residence permit. For people living outside the Netherlands, a life certificate that is issued and certified by a competent authority, such as a local authority or a notary public would be requested by SVB<sup>33</sup>.

In New Zealand, two forms of identity are asked for as proof. The first must be a passport, birth certificate or citizenship papers. The second can be a driver's licence or Community Services Card. Other form of references (proof of business etc) may be acceptable in special cases<sup>34</sup>. For the period of residence in NZ, "the system essentially relies on the person's honesty. If a front line officer has any doubts, they can contact Customs, but their records only date back until 1990. In this case, other forms of proof of residence can be requested (e.g. work references; proof of ownership of a business; etc)"<sup>35</sup>.

<sup>30</sup> The system in the Netherlands was started in 1<sup>st</sup> Jan 1957 and is currently going through a transition period.

This affects people who have already reached the age of 15 in 1 January 1957. Transition will last until 2007.

<sup>31</sup> CPR number is the personal identification number used for registration and identification purposes. A person who moves from abroad must register in the national registration office of the municipality that they would live in if they intend to stay for more than 3 months, in the case of Nordic and EC/ EEA country they can live up to Denmark for 6 months without registering. From the National Agency for Housing and Enterprise <http://www.workindenmark.dk/CPR>.

<sup>32</sup> National Old Age Pensions Act (AOW)

<sup>33</sup> Information on your AOW pension

<sup>34</sup> <http://www.workandincome.govt.nz/get-financial-assistance/main-benefit/nz-superannuation.html>

<sup>35</sup> A response to the PPI from the Ministry of Social Development

### How other countries with a Citizen's Pension deal with non-standard resident histories

The effect of special arrangements and SSAs for the countries with a Citizen's Pension is summarised in Tables A4.4 and A4.5. Such arrangements allow for people to move in and out of a country with a Citizen's Pension, but still get a proportionate pension.

Special arrangements have been made according to the specific immigration issues and objectives of that country. For example, Danes are treated differently than non-Danes. In New Zealand, a special rule deals with certain Pacific Islanders who have New Zealand citizenship, but for whom the full NZ pension would make them the richest members of their community<sup>36</sup>.

**Table A4.4<sup>37</sup>: Retiring from a Citizen's Pension country into a country with an SSA**

<b>Countries</b>	<b>Denmark</b>	<b>Netherlands</b>	<b>New Zealand</b>
<b>Becoming entitled to a CP from SSA countries</b>	For Danish nationals, 3 years of residence in Denmark. Nationals of the SSA country, 3 or 5 years depending on the country.	Can get full CP payments in SSA countries	Can acquire CP (apart from the case of UK where entitlement to UK pension accrues) given that eligibility criteria based on years of residence in NZ between the ages of 20 and 65 are satisfied.
<b>Retaining CP payments abroad once becoming entitled in the CP country</b>	Can get full CP payments in SSA countries	Can get full CP payments in SSA countries	Can get CP payments (apart from the case of UK; frozen accrued UK pension is paid)
<b>Specific Pacific countries (Only applicable to NZ) which have concluded special portability agreements</b>			Full amount if they have lived in NZ for more than 20 years or reduced amounts dependent on numbers of years lived in NZ since the age of 20

<sup>36</sup> Howell T. (1975) *Changing a Winning Scheme A* Nuffield Fellowship Study of New Zealand's Social Security Cash Benefits of Health and Social Security London

<sup>37</sup> PPI analysis from various sources

**Table A4.5<sup>38</sup>: Retiring into a country with a Citizen's Pension**

<b>Countries</b>	<b>Denmark</b>	<b>Netherlands</b>	<b>New Zealand</b>
<b>Minimum residency requirement to acquire a CP (before pension age)</b>	Fewer years of residence between the ages of 15-5(67) <sup>39</sup> residence/ or their contribution to the other country's system may help to qualify	Residence/ or their contribution to the other country's system may help to qualify	Residence/ or their contribution to the other country's system may help to qualify but must apply for benefits or pensions from the other country's systems as well
<b>Residency at the time of application</b>			Can be living in NZ/ country with agreement
<b>Amount that is paid from the other country's system into the CP country</b>	What they would have been paid if they had been living in the other country	What they would have been paid if they had been living in the other country	What they would have been paid if they had been living in the other country. The amount paid from the other country's system would be deducted dollar for dollar. In the case of UK, dual entitlement is possible <sup>40</sup> .

<sup>38</sup> PPI analysis from various sources<sup>39</sup> Rather than 10 years of which not less than 5 years is prior to the date on which the pension is first payable<sup>40</sup> The person may get the full NSZ and UK benefit given that they qualify for NZS without the agreement