



**Australian Government**  
**Department of Social Services**

MC18-002223

Mr Graham Lawery  
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Dear Mr Lawery

Thank you for your email of 26 March 2018 to the Minister for Social Services, the Hon Dan Tehan MP, regarding non-indexation of United Kingdom (UK) pensions in Australia. The Minister has asked me to reply to you on his behalf.

The indexation of UK pensions has been a long-standing issue of concern for the Australian Government.

The Government considers that the UK's policy of not indexing pensions in most Commonwealth countries, including Australia, Canada, New Zealand and South Africa, where the majority of its expatriate pensioners reside, is unfair. All UK pensioners paid their contributions under the same rules and should be paid their pensions under equal conditions, no matter where they choose to live.

Australia terminated the Social Security Agreement with the UK in 2001 because the UK Government refused numerous requests to renegotiate the Agreement to include indexation provisions. Over the years, many representations have been made on this issue and low-cost options for a resolution provided.

Most recently, the Minister for Foreign Affairs, the Hon Julie Bishop MP, raised the matter with the UK Foreign Secretary, the Rt Hon Boris Johnson MP, in Sydney in July and December 2017. Unfortunately, the UK continues to refuse all requests to negotiate a new Agreement or to change its indexation policy.

I note your query about this issue being raised at the 2018 Commonwealth Heads of Government Meeting (CHOGM). Unfortunately, CHOGM is not the appropriate forum for discussion of the matter. The Commonwealth adheres to very strict conventions prohibiting any member bringing to the table a bilateral problem involving another member. There would be little or no support for any attempt to break from this tradition, even in a situation where other Commonwealth countries are involved. However, there may be some scope for informal dialogue on this issue in the margins of CHOGM.

The UK's decision to exit the European Union means Australia must reassess many aspects of its bilateral relationship with the UK and this may present an opportunity to re-engage the UK on the indexation of UK pensions. I would like to assure you that the Australian Government will continue to make every effort to raise and progress this issue. However, the rules around eligibility for a UK pension are ultimately a matter for the UK Government. It is unlikely the UK policy on this issue will change soon.

In your email you refer to the changes to the pension assets test from 1 January 2017. The role of the Age Pension in the retirement income system is to act as a safety net payment that is designed to support a basic, acceptable standard of living, particularly for those with few other resources. The Age Pension is funded by taxpayers, and targeted through the means test to those who need it most. As a non-contributory social security payment, eligibility for the Age Pension is not based on past income or contributions, or taxes paid during a person's working life.

Rebalancing the assets test parameters has improved the targeting and long-term sustainability of the pension system.

Starting from 1 January 2017 the changes:

- provided an increase in the amount of assets a pensioner can hold before their pension is affected under the assets test. This will assist pensioners with moderate asset holdings;
- provided an additional increase in the assets test free areas for non-home owners to ensure fairer treatment for those who have chosen not to, or are not in a position to, purchase their own home and therefore do not benefit from the principal home exemption; and
- better targeted the pension by reducing support to pensioners with higher levels of assets who have greater capacity to support themselves.

The changes to the assets test ensure that retirees who have the capacity to support themselves do not receive support from the taxpayer. Those most affected by the changes would only have to draw down around 1.8 per cent of their assets to make up for the loss of their part pension.

Please be assured the Australian Government recognises the valuable contribution self funded retirees make to Australia's economy, and the planning and steps they have taken during their working lives to provide for their retirement. As a result of their prudence, self funded retirees enjoy a higher standard of living in retirement than others relying on the pension.

Thank you again for writing.

Yours sincerely



**Anita Davis**  
**Branch Manager**  
**International Policy and Payment Support**

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