Pensions apartheid is keeping expats trapped in the past

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Dela Willmott is 98. After a lifetime paying national insurance contributions, the former office manager from Sussex retired in 1979 and started drawing a state pension of £17 a week. Today, she is still drawing her state pension. Unfortunately, it is still £17 a week.

For Dela retired to Australia, one of 150 countries where recipients do not get their UK state pension uprated each year to take account of inflation. She is one of 548,000 Britons affected by the weird anomaly known as "frozen pensions".

Had she retired to anywhere in the European Union or the United States, or stayed in the UK, she would have been protected by indexation, and in particular the triple lock — the promise that pensions will be lifted every year by the highest of inflation, wages growth or 2.5 per cent. Her £17 a week would now be £122. Over the years, the absence of inflation-proofing has all but destroyed her retirement income.

This is not a new problem. Britons retiring to most Commonwealth and many other countries have been discriminated against in this way for 70 years. But the sheer injustice of it still has the power to surprise. The peculiarity still trips up people who don't do their homework when planning retirement destinations.

In the most extreme cases, it forces people to return to the UK because they simply run out of money, especially if they have retired to jurisdictions where there is no basic pensioner safety net. Once back in the UK their pension is boosted to the level it would have been had they never left.

The two-tier system will be exposed again in the coming months as Britain haggles over Brexit. Negotiators on both sides are keen to preserve the current system of social security rights and obligations for Britons in the EU-27 and EU-27 citizens in Britain. Talks on pensions uprating got a "green light" score in their latest technical note.

The upshot is that Britons retiring to the Spanish costas or anywhere else in the EU are almost certain to retain those valuable uprating rights, as are the lesser number of Europeans who choose to live out their days in the UK. The Northern Ireland border and the divorce bill remain highly contentious, but at least negotiators are on the same page on this particular issue.

That support for pensioners in Europe, however, makes the inferior treatment of UK pensioners elsewhere all the more egregious. Theresa May's pious words about revitalising the Commonwealth in the post-Brexit world were met with spluttering indignation by retired Britons from Toronto to Sydney.

The International Consortium of British Pensioners (ICBP) was in London last week making the case to a new generation of MPs. As usual, the response was largely shock. It seems so unfair to treat people who have notched up identical NI contribution records so differently. The cumulative losses are enormous. By the age of 75, the pensioner retiring on a full state pension but in the wrong country has missed out on £10,200 of income, according to ICBP calculations. By 85, the shortfall is £28,500. By 90, it is £39,500.

The UK position is unorthodox. It is the only country in the OECD to pay pensioners differently depending on country of residence. Ministers and officials struggle to defend this pensions apartheid, sometimes resorting to the feeblest of arguments. Only the other day the Department for Work and Pensions was arguing to one complainant that upratings were based on UK inflation and therefore had no relevance to people outside the UK, as if the rising cost of living were a problem confined to Britain.

The real sticking point is cost, of course. The cost of uprating everybody who has been frozen would be an extra £500 million a year. The cost of compensating them for missed payments in previous years could be billions more. Even the cheap option of just starting to uprate from here on in would cost £30 million in year one and would rapidly escalate.

In law, the government seems to be bullet-proof. Campaigners have in the past taken their case to the House of Lords and to the European Court of Human Rights and lost. The UK uses the figleaf of only uprating in countries where it has struck reciprocal deals on social security arrangements. The last such deal was in the 1980s and it has no appetite to sign new ones. While paying NI helps people qualify for a state pension, it has “never earned entitlement to the indexation of pensions payable abroad,” the DWP says.

It’s time for a rethink. First, the current system is self-evidently unfair. It deters emigration and prevents less well-off pensioners moving abroad to be near their families, say. It’s also tough on some ethnic minorities, many of whom want to go to Commonwealth countries where the freeze applies.

Second, the cost argument may be seriously overstated: the NHS must save considerably by not having to treat half a million people in their final years, which is the phase of life when medical costs mushroom. At the very least, some proper cost analysis should be undertaken. Third, the policy does yet more damage to the shaky reputation of the government when it comes to dealing squarely with taxpayers. Regulators preaching the “treating customers fairly” mantra wouldn’t tolerate for one second such a discriminatory approach from a private-sector pension provider.

Fourth, it would help placate foreign governments sick of having to pick up the tab for elderly expatriate Brits who have paid their stamp but are denied its benefits. If Mrs May is serious about securing trade agreements with non-EU nations, she should at least treat them no worse than countries in the club we are, after all, leaving.

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