

## Can you claim a UK Pension?

By Nick Bruining

The end of financial year in the UK is rapidly approaching and for many ex-pat British citizens, decisions about sending back contributions need to be made over the next few weeks. With a non means-tested Pension available, those approaching retirement should take a very close look at the benefits available. Recent changes and a closer inspection of the fine print could see the amount required to be sent back reduced from previous years.

The UK scheme differs significantly from the Australian System in that it is a "Universal Scheme". The system commenced in 1948 and was based on employers and employees contributing to a Government administered pension scheme. Employees did so by purchasing stamps, which were effectively contributions to their own retirement fund. The amount contributed was dependent on income but contributions of 10% by employers and 3% by employees were common.

Unlike the Australian system, the UK scheme is not means tested. The amount of benefit received is based on membership and contributions to the scheme, not your level of income and assets in retirement. **Even Australians and other nationalities who have worked in the UK can achieve a UK pension.**

While the full pension is paid to those who managed to make 90% of their expected contributions to the scheme, the UK government will also pay a part pension to those who fall short.

In many cases, benefits may be payable to the spouse of the eligible recipient, even if they never lived in the UK.

To qualify for the part pension, males need to have made at least 11 years worth of contributions to the scheme and females 10 years. For these minimum amounts you can expect to receive 26% & 25% of the full weekly rate respectively. The current full benefit of £82.05 per week means that a 65 year old male receiving 26% of this rate can expect to receive nearly £20.50 or \$2,500 per year. If married he receives about \$4000.

The rate of pension changes on the 5<sup>th</sup> of April each year which is the end of the UK financial year. Whilst your percentage stays the same, the rate is likely to increase between now and when you reach age 65. The rate for next year, 2006-7, hasn't been set yet, but expect a modest rise to around £84.50 per week. Once you become eligible, the rate does not increase.

**The real benefit of the UK scheme lies in the ability for ex-pat UK citizens to make additional "Class 3" or "Class 2" contributions to the fund.** You are allowed to contribute up to 6 years in arrears if you're under pension age and to make additional contributions right up until you reach normal pension age. You can use Class 2 or 3 contributions a number of ways.

**If you have less than the number of qualifying years in the fund, you can make up the shortfall.** Let's imagine you're a male with 10 years of membership, 1 less than the amount required to receive 26 % of the basic amount. One payment of around £382 sees you entitled to receive £20.50 per week and that pension payment continues for the rest of your life.

Class 2 contributions can only be made by those who are employed or self employed and importantly, those that are working for an Australian employer. The Class 2 contribution is roughly a third of the Class 3 level and is only available for years following the 2000–2001 financial year, about £109 for each year.

**You'll need to have at least 3 years of existing contributions in the UK to be eligible to make these back-payments.**

Secondly, you can also make additional contributions to enhance your base pension. Each year's contribution over the 10 or 11 years sees the rate increase by 2 – 3% for each year contributed.

For example, making 3 payments to the UK scheme could lift the pension from 26% to 33% of the full rate.

Lastly if you're male, married and receiving a Pension, in most cases your wife is entitled to receive an additional 60% of your payment when she turns 60, even if she never contributed herself. This means you can both receive a benefit from the UK Government, based on the male contributing to the scheme at "Married Persons" rates.

Your wife does not need to be a UK Citizen, nor does she need to have worked in the UK. Unfortunately, UK Social Security do not recognize de-facto relationships which means that if you're not legally married, you can't access the "Married Person's" benefit.

Women are entitled to receive a benefit at age 60, provided they were born before 6<sup>th</sup> April 1950. After this date, the entitlement age increases in a system similar to Australia's. If a woman has contributed the minimum amount in her own right, she can claim her own benefit irrespective of her husband's age.

Assuming you've been in Australia more than 10 years, Centrelink will treat this income like income from a part-time job or the net rental from an investment property.

If you claim an Australian Pension, Centrelink, as a matter of course, require you to claim any entitlements you may have under the UK scheme. Centrelink will not force you to take up any options which might enhance your benefit.

The tax office treats UK Pensions slightly differently. Recognising that you made the contributions with after tax dollars, the ATO will allow a standard 8% tax deduction off this income under a tax ruling issued some time ago. You could conceivably challenge this rate and go for a higher deduction, although most settle for the easy way out.

You can choose to have the pension paid every 4 weeks or 13 weeks. UK Social security will pay directly into your nominated Australian Bank Account or a UK based account. Either way, it will still be assessable for both Centrelink and Tax purposes, but there is an 8% of UK pension income allowable deduction now in calculating your Australian taxable income.

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