

## REVIEW OF RESIDENCY-BASED PENSION SCHEMES

### **Summary**

Of the 25 EU Member States<sup>1</sup>, only Denmark, Finland, the Netherlands and Sweden have residency-based old age pension schemes. Iceland, Norway and New Zealand also have residency based pension schemes. Of these:

- Denmark, Finland, Sweden, Iceland and Norway (the Nordic countries) have schemes based on 40 years residency from age 16, although most have an element of means-testing. Entitlement is based on a minimum qualifying period of 3 years and pensions are pro-rated. These rules are applied across the Nordic countries. They have had free movement and common social security conventions since 1955 and have a long established system of recording residence for pensions;
- The Netherlands operates a basic old age state pension determined by a 50-year test of residence between a person's 15<sup>th</sup> and 65<sup>th</sup> birthday. A 2% reduction is made on the full pension for each year of non-residence; and
- New Zealand provides a flat-rate universal state pension payable to people aged over 65 who are resident, and have lived in the country for 10 years since the age of 20, 5 of which must be since age 50.

All of these countries, except New Zealand, have complementary earnings-related social insurance pension schemes. And all can be pro-rated if the minimum qualifying conditions are satisfied.

In Great Britain, one element of state pension provision ("category D pensions" for pensioners over 80) is based on a residency test (of 10 years) rather than on contribution record or a means test.

### **Introduction**

1. This paper reviews other countries' residency-based pension schemes. The table at Annex A sets out the design features of other countries' schemes and some key points about the EU and other Nordic countries, The Netherlands and New Zealand are discussed below.

2. Many EU Member States - the UK and Ireland, and most continental European countries - do not have social insurance schemes based on residence. Their social insurance systems are mainly linked to contributions during a person's working life. However, most EU countries do operate a system of permits which enable residency to be more easily determined.

### **The Nordic experience**

3. The Nordic countries have had a long tradition of cooperation in the field of social security for people moving into the Nordic area. They have shared similar social security agreements, and have had systems for recording residency for people moving between Nordic countries since 1955. The right of residence covers all Nordic citizens and is not limited to persons who are economically active. A full pension is generally based on at

---

<sup>1</sup> Austria, Belgium, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, United Kingdom

least 40 years residency during a person's working life. All the Nordic countries have complementary employment-related insurance schemes. Some residency-based pensions are reduced in relation to the employment-related pension, or take other factors (such as other pension income) into account.

4. The Nordic agreements mean that, in general, a person can only be registered in one of the Nordic countries at any time. This system works well because of the close co-operation of registration offices in each country. Registration of residence acts as a certificate of insurance in the social security system and for pensions. Verifying residency<sup>2</sup> and entitlement to pensions, has therefore been a simple procedure.

### ***The Netherlands***

5. The Dutch old age pension scheme is based on 50 years of residence, but there is no minimum qualifying period. Dutch citizens must be registered with their local authority when living in the Netherlands and are included on the population register and deemed to be resident. If they opt to live abroad they are required to report this to their local authority. Their names are then removed from the population register.

6. Non Dutch citizens must be in the possession of a residence permit to be officially resident in the Netherlands. Residence permits can be applied for if one is studying, working, or living with a partner in the Netherlands. It may also be possible to obtain a permit if the individual in question can prove he/she has sufficient funds to support himself/herself, i.e. they do not fall into one of the categories above. Those in possession of a residence permit are added to the national population register.

### ***New Zealand***

7. The New Zealand Superannuation (NZS) scheme has existed since 1977 (see Annex B for a description of the system in place prior to this, for changes since 1977, and for the design of the current scheme). It is neither income- nor asset-tested, and all people who meet the qualifying age and residential requirement are eligible. First, a person must have reached 65 years of age. Second, a residential qualification must be met that requires a person to:

- be a New Zealand citizen or permanent resident;
- have been resident and present in New Zealand for not less than ten years since the age of 20, of which five years or more must be since the age of 50; and
- generally be ordinarily resident in New Zealand on the date of application.

---

<sup>2</sup> For example, when considering whether there is a link to Denmark that can constitute residence, various factors are considered such as registration in the population register, personal motives, employment in Denmark, etc. If a person spends more than half of his/her time abroad, he/she is not regarded as resident in Denmark. A similar approach is taken in Sweden, which must be a person's "real place of residence". Sweden is a person's place of residence if they are staying for more than a year, unless they are not registered in the population registration system (for example diplomats are not registered). Swedes are registered in the population registration system if they (will) regularly spend their daily rest in Sweden for at least a year. Non-Swedish citizens, including EEA citizens, must have a residence permit in order to be registered. Periods of residence will usually be calculated with reference to the population register (i.e. a person is resident from the moment they are registered until the moment they "de-register"). However for holders of residence permits residence may be calculated from the date they made their application for a permit, provided they have remained in Sweden throughout the period between application and acceptance

8. New Zealand citizens are not required to have residence permits. Those who are not New Zealand citizens and wish to remain in New Zealand indefinitely must have residency permits (although some persons are deemed as holding such permits). A valid permit confirms residence. Evidence showing continued residence can be gathered from a range of sources (passport containing original permit together with rates demands, driver's licences, receipted power bills, income tax returns, employment references).

9. NZS is fully funded from general taxation on a "pay as you go basis". Expenditure is expected to rise as the population is ageing. The population over the age of 65 is expected to increase from 12% to 27% over the next fifty years. NZS expenditure is expected to rise from around 4% of GDP to over 9% by 2050.

### ***United Kingdom***

10. In the UK there is no system of residence permits. Pension and benefit entitlements for pensioners are generally based on National Insurance record (e.g. most forms of Basic State Pension) or a means test (e.g. Pension Credit). However, entitlement to a non-contributory "Over 80s" Category D State pension is based on residence. To get a Category D State pension a person must meet all the following conditions<sup>3</sup>:

- be aged 80 or over; and
- at the time of claiming, be ordinarily resident in Great Britain<sup>4</sup>; and
- have lived in Great Britain for a total of 10 years or more in any continuous period of 20 years after their 60th birthday.

11. In this case, a legal test based on the balance of probabilities determines whether a person satisfies the conditions of entitlement. The balance of probability involves a Decision Maker (DM) deciding whether it is more likely than not that a person has satisfied the entitlement conditions. If the evidence is contradictory the DM should decide whether there is enough evidence in favour of one conclusion or the other. The DM may decide on the basis of findings made on the balance of probability or may find that there is not enough evidence to satisfy them about findings one way or the other. Where there is insufficient evidence to establish the facts one way or the other the DM may ask for more evidence. Clients must supply all information and evidence required in connection with the decision.

---

<sup>3</sup> In March 2004, 23,000 individuals were receiving Cat D pensions, of whom 500 are residing overseas

<sup>4</sup> Pensions policy and legislation are devolved in Northern Ireland

## Annex A – comparing residency-based pension schemes

Country	Denmark	Finland	Sweden	Iceland	Norway
<b>Residency-based scheme</b>	<i>Folkepension, basic pension</i>	<i>Kansanelake</i>	<i>Garantipension</i>	<i>Lifeyrir almannatrygginga</i>	<i>Grunnpensjon</i>
<b>Who is eligible?</b>	Compulsory membership for all resident nationals	Compulsory coverage for all residents aged 16 to 65	Compulsory coverage for all residents in Sweden	All residents	Compulsory for all residents independent of occupational activity.
<b>Qualifying age</b>	65 (67 for those who reached the age of 60 on 01/07/99)	65	65	65	67
<b>Residency test for full pension</b>	40 years residence between 15 and 65 (67 for those who reached the age of 60 on 01/07/99)	40 years residence between 16 and 65	40 years residence since age 25	40 years residence between 16 and 67	40 years residence between 16 and the end of the calendar year the insured reaches 66
<b>Minimum qualification</b>	Nationals - 3 years residence between ages 15 and 65 (67 for those who reached the age of 60 on 01/07/99) Non-nationals - 10 years residence, 5 of which must be before pension age. This rule applies only to those falling outside 1408/71.	3 years residence from age 16	3 years of residence between ages 16 and 64	3 years residence between 16 and 66	3 years residence between 16 and the end of the calendar year the insured reaches 66
<b>Pro-rated</b>	√	√	√	√	√
<b>Means-tested? Factors other than residence taken into account?</b>	The basic pension is reduced according to the professional income of the pensioner. The basic amount is reduced by €4.04 for every €13 earned in excess of €31,008 per year.	Amount of other pension is taken into account – for every Euro the pensioner receives from any other pension scheme reduces his national pension (Kansanelake) by 50 cents. So, if other pensions exceed around €1,000 a month, no national pension is paid.	The Guarantee Pension is intended to offset the difference between the guarantee level and the earnings-related pension (see below). It is calculated by deducting the income [earnings-related] pension from the guaranteed pension level. The difference is paid in the form of a guarantee pension.	National Pension reduced if annual income exceeds a certain level (€15,313) and withdrawn completely at a higher level of income (€24,760)	Between 67 and 70 years of age, a full pension is paid when income from work does not exceed twice the Basic Amount. When income exceeds that amount, the pension is reduced by 40% of the exceeding income. After the pensioner reaches 70, a full pension is paid independent of the pensioner's income from work.
<b>Complemented by a supplementary state-run pension schemes?</b>	Compulsory social insurance scheme for employees. Benefits depend on contributions and duration of employment.	Insurance scheme (Employment Pension) covering all economically active persons.	Earnings-related old age pension (fixed rate of contributions on pensionable earnings) financed from contributions.	An insurance system covering all economically active persons.	Earnings-related pension based on annual pension points reflecting the level of income. Special supplement for those not entitled to earnings-related pension or where earnings-related pension is below the special supplement the difference is paid.

Sources: MISSOC, European Commission, 2004. \*NZ info from Periodic Group Report 2003, Ministry of Social Development

## Annex A - continued

Country	Netherlands	New Zealand*
<b>Residency-based scheme</b>	<i>Basic Old Age Pension (AOW)</i>	<i>New Zealand Superannuation</i>
<b>Who is eligible?</b>	All residents under 65 whatever their income or nationality.	
<b>Qualifying age</b>	65	65
<b>Residency test for full pension</b>	50 years of residence between 15 and 65	10 years of residence since 20, 5 of which must be since 50
<b>Minimum qualification</b>	None	None
<b>Pro-rated</b>	√	X
<b>Means-tested? Factors other than residence taken into account?</b>	Family status is relevant	NZS is not income or asset tested.
<b>Complemented by other state-run pension schemes?</b>	Compulsory supplementary pension schemes for most of the employees based on agreements between social partners.	There is no other state run pension scheme.  NZS is counted as income for the purposes of assessing entitlement to supplementary social security benefits.

Source: as above

### Countries that do not require residency for entitlement to a state pension

**UK/Ireland** – multi component state schemes – contributory flat rate pension + contributory earnings related pension + means-tested benefit

**Continental Europe** – earnings-related contributory scheme with means-tested benefits for lower income groups

**Australia** – affluence-tested flat rate state pension, although there is a residency test in their qualifying conditions. Men age 65 and women age 62.5 must be resident and physically present in the country and have been in continuous residence for 10 years. (5 continuous years if total residence exceeds 10 years)

**USA** – earnings-related contributory scheme with means-tested benefits for lower income groups

**Canada** – their Old Age Security program was originally paid to senior citizens who met age and residence requirements. The rates of poverty grew and in 1967 the Government introduced a second part to the Old Age Security program. It took the form of an income-tested benefit, The Guaranteed Income Supplement. This was added to basic pension but only paid to those with little or no income.

## Annex B – New Zealand

### • *Timeline of legislative changes in provision of NZ pensions for residents*

1898	<b>Old Age Pensions Act</b> provided a modest pension to people aged 65 years and over who had lived in New Zealand for a number of years and who met an income and asset test
1938	<b>Social Security Act.</b> Dual system of pension provision. Pensioners resident for twenty years could choose either: <ul style="list-style-type: none"> <li>• Age Benefit - not taxed, but subject to an income test, payable from age 60; or</li> <li>• Superannuation Benefit – taxable, but not income tested, payable at age 65.</li> </ul>
1977	<b>National Superannuation</b> scheme replaced the dual system. Taxable and payable at 60.  Residency requirement - ten years since the age of 16. Seven of those years must have been in the ten years immediately preceding application, but this period could be reduced by one year for every complete ten years of residence in New Zealand after the applicant turned 16.  Gross rate for married couples fixed at 70% of the average ordinary weekly wage (to be increased to 80% in 1978). Gross rate for a single person fixed at 60% of the gross married rate.
1979	Rates set by net rather than gross relationship with average wages.
1985	National Superannuitant surcharge introduced. Set at 25 cents for every complete dollar of a superannuitant's taxable other income in excess of certain limits.
1989	National Superannuation no longer linked to 80 percent of average wage levels. Instead, the net rates increased by the lesser of price and wage movements, and intended to move in a band of between 65 and 72.5 percent of net wages.
1990	Renamed <b>Guaranteed Retirement Income</b> . A person now had to be resident and present in New Zealand for ten years since the age of 20, and resident and present for at least five years since the age of 50. A living alone allowance of \$20 gross per week was introduced for single people, which brought the after-tax payment for those who qualified up to 65 percent of the combined married rate.
1991	Renamed <b>National Superannuation</b> . Qualifying age increased to 61, age set to gradually increase so that it would reach 65 by April 2001.
1993	Renamed <b>New Zealand Superannuation by Retirement Income Act</b> . Rates were required to be adjusted by price movements subject to the new married couple rate being between 65 and 72.5 percent of the average wage.
1994	Transitional Retirement Benefit introduced to assist those people affected by the increase in the qualifying age from 60 to 65 years
1998	The surcharge abolished and the 65 percent floor for the link with average wage levels lowered to 60 percent.
2000	The 65 percent floor for link with average wage levels was restored.
2001	The <b>New Zealand Superannuation Act 2001</b> passed, which established the New Zealand Superannuation Fund. The Fund has been set up to partially pre-fund future payment of NZS, but it unlikely to be drawn upon until 2025.

- **New Zealand Superannuation (NZS) – scheme design**

*Rates*

The rate payable is dependent on marital status and living arrangements. There are currently three basic rates payable:

	<b>Rate</b>
Married Person <sup>5</sup> (and where both partners are eligible the married couple rate is equal to twice the married person rate);	50% of X
Single Sharing	60% of X
Single Living Alone	65% of X

*Uprating*

There is a requirement to adjust NZS rates annually by the same percentage increase in the Consumers Price Index (CPI). However, where there is a downward movement in the CPI, a corresponding downward adjustment to NZS is not permitted. In addition, there is a requirement to consider the relationship between the NZS rates and the net average weekly wage. The weekly married couple rate must not be less than 65 per cent or more than 72.5 per cent of the net average weekly wage.

- **Reciprocal agreement between New Zealand and UK**

Although New Zealand is not subject to EU Regulations, there is a reciprocal agreement between the UK and New Zealand. Periods of residence in New Zealand are treated as periods for which UK contributions were paid for the Basic State Pension (and residence in the UK can be treated as residence in New Zealand for entitlement to NZS).

The UK verifies residency in New Zealand by examining tax certificates, employer's references, wage slips, travel documents etc that clearly show the period of residence in New Zealand.

---

<sup>5</sup> There is a variant of this rate where one partner is eligible but the other is not. In this case, a married superannuitant whose partner has not yet qualified for NZS has the choice of receiving either the married person rate of NZS; or a special married couple rate of NZS. The special married couple rate is subject to an income test. (See Annex A for further detail)

