



17 December 2024

Tēnā koe

### **Official Information Act request**

Thank you for your email of 11 November 2024, requesting a copy of the workings behind the numbers to calculate the costs and estimate of the additional expense to the United Kingdom of paying index linked pensions into New Zealand.

I have considered your request under the Official Information Act 1982 (the Act).

The extra cost for the United Kingdom (UK), which means savings for New Zealand, was calculated by looking at the difference between what the Ministry estimated the UK would pay pension recipients under current rules (baseline option) and what those recipients would pay if the rates were not frozen (proposed option).

To find the annual costs for both options, the average annual pension was multiplied by the expected number of recipients.

For the baseline option, it was assumed that payment rates (in £UK) would stay the same over time, while for the proposed option, the payments were adjusted each year using a Consumer price index (CPI) of 2.8%. This adjustment leads to higher average payments, with the gap increasing each year.

The expected number of pension recipients was estimated based on the current number of recipients in 2016, mortality rates from Statistics NZ, and an assumption of 3,300 new recipients each year, which was the average from 2013 to 2016. The expected number of recipients was the same for both options.

Finally, the annual costs were converted from £UK to \$NZ using an exchange rate of \$0.56 for every £1.

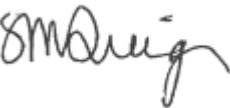
The attached **APPENDIX** provides you with the costing report, some of the information is withheld as this information is out of scope of your request.

I will be publishing this decision letter, with your personal details deleted, on the Ministry's website in due course.

If you wish to discuss this response with us, please feel free to contact [OIA\\_Requests@msd.govt.nz](mailto:OIA_Requests@msd.govt.nz).

If you are not satisfied with my decision on your request, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz) or 0800 802 602.

Ngā mihi nui

pp. 

Magnus O'Neill  
**General Manager**  
**Ministerial and Executive Services**



**MINISTRY OF SOCIAL  
DEVELOPMENT**  
TE MANATŪ WHAKAHIATO ORA



# SSA with UK - Brexit effects

Forecasting and Costing Team - Insights MSD

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## Brexit/Social Security Agreement with UK

### [Background/Description/Context/Trigger]

The Ministry of Foreign Affairs is undertaking a “Brexit stocktake” to identify all the pieces of NZ-UK and NZ-EU “architecture” that might be affected by a UK departure from the EU. The social security agreement (SSA) with the UK has been identified as a relevant piece of ‘architecture’. Foreign Affairs have asked MSD to quantify the impact of having to renegotiate a revised SSA. Payment of proportional NZS to qualifying people resident in the UK (under the current SSA NZers in the UK receive pension payments from the UK government) Indexation of UK pensions paid to people in New Zealand (currently UK pensions paid into New Zealand are ‘frozen’).

**Option 1:**

Out of scope

**Option 2:**

Out of scope

& Indexation of all UK pensions paid in

New Zealand.

### Assumptions

Out of scope

We used NZ mortality rate 65+ yr olds for both populations.

Out of scope

Number of new UK pensions granted per year (in NZ) averaged 3,300 per yr - using our iap data.

Stock of UK pensions is rounded to 60,300 as at mid 2016.

Average value of UK pension for 2015/16 is £1859 (from our data)

UK RPI inflation 2.7% (assumed)

We assumed an exchange rate of £0.56/NZ\$1.00.

We also assume that the demographic characteristics of the respective population remain the same over the cost estimation period.

### Risks

Number of people qualifying for NZS in UK (stock and yearly increase) remains the major risk to the cost estimation.

### Methodology

Out of scope

Indexation of the UK pension - We estimate the current stock of UK pension recipients from the IAP data and the number of new recipients each year. Averaging the new recipients over last three year period gave us the average new recipients whose pensions will be indexed if agreed. Current stock is used for the second part of the costing in addition to the new recipients. It was evident that the average annual rate they receive increased every year because the new grants have higher rate. Hence we used a linear extrapolation to estimate this new rate for each year and then indexed that rates accordingly to estimate the additional deduction that can be made in NZ if agreed. We used the NZ 65 plus mortality rate in estimating the remainder of the current stock and 65-70 yr mortality rate for the new comers in each country.

## References

*objective* : fA1157578

## [Authors/Checkers]

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*Developed by A. Domingo*

*JIRA Code IFC - xxx*

*Budget Sensitive*

*[Insert Rows as Required]*

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## Summary Header/Results

Date	22-Sep-16
Version	1.0
JIRA	IFC - xxx

<b>Out of scope</b>					

Option ii	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Out of scope</b>					
Increase in payment to NZ (\$ million)	\$5.388	\$10.921	\$16.615	\$22.490	\$28.563

[Insert rows here]

<b>Out of scope</b>					
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