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The End of the Retirement Dream?

British pensioners in the European Union after Brexit

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EXECUTIVE SUMMARY

Approximately one-quarter of UK citizens living abroad in the European Union are thought to be pensioners—a proportion that could grow over time as current workers retire. As Brexit approaches, this group is likely to face challenges related to their pension incomes, health care, and access to social assistance that could severely hamper their ability to maintain their current lifestyle in Europe. Although UK and EU negotiators reached a withdrawal agreement in November 2018 that would preserve most of the existing legal framework and entitlements for pensioners, securing the support of the UK parliament will be no easy feat, raising the prospect that the United Kingdom may leave the bloc with no deal. This scenario would raise serious issues for many UK citizens resident in the EU-27, as well as EU citizens in the United Kingdom,[1] but particularly for pensioners. And within this population, lifestyle retirees, who are more dependent on reciprocity between the United Kingdom and the European Union, are likely to face more difficulties than *in situ* retirees (those who worked in their countries of residence before retirement and are therefore embedded in national social security systems).

Although many of the issues that Brexit raises for British pensioners will be shared by the wider British population of the EU-27, factors such as age, health, and fixed income leave pensioners more vulnerable to change than most. Perhaps the most fundamental questions facing all Britons in the EU-27 are how to register their residency and what documentation will be required. As they transition from being EU citizens to third-country nationals under EU law, UK citizens may also face tax implications, particularly those who have other sources of income, such as from a rental property, outside of their country of residence. Other issues are unique to this group. In particular, the question of whether UK state pensions will continue to increase in value for pensioners in the EU-27, as they do for those living in the United Kingdom, is critical because without this uprating, pensions will stagnate and the risk of financial hardship and poverty will increase. Changes to currency exchange rates have already left those dependent on UK state pensions feeling the pinch. And for those who receive income from private pensions, a no-deal Brexit threatens to invalidate the licenses Member State insurance providers are required to hold to pay contracts, including private pensions, overseas. Recent changes to UK regulations have already made transferring private pensions to some EU-27 countries more complicated, and Brexit is likely to result in higher taxation of these transfers.

For many British pensioners in the EU-27, access to health care and other forms of social assistance (such as social care) are top priorities. The continuation of these rights was agreed as part of the November withdrawal agreement, but these pensioners are likely to face practical barriers all the same. A decline in health that results in increased care needs or the death of a spouse or partner can lead older retirees to return to the United Kingdom, often in a very vulnerable state and with significant needs for assistance. Any risk that

an EU-UK agreement on access to health and social care might fall through, as in the event of a no-deal scenario, could prompt pensioners to return in even more substantial numbers—with considerable implications for UK service providers and support structures.

These considerations have implications for both EU Member States and the United Kingdom as they prepare for Brexit. Suitable communication and coordination channels are needed between parties to make the transition as smooth as possible for UK and EU-27 citizens caught up the process. Because a substantial proportion of Britons in many other EU Member States are elderly, these countries would do well to design any post-Brexit registration processes with these pensioners in mind. Those who are socially isolated, have limited digital or host-county language skills, suffer from declining cognitive capacity, or have long-term health conditions are among the most at risk of falling through the cracks. Proactive outreach will be needed to ensure they are able to meet registration deadlines and provide suitable documentation. The UK government should consider how best to support these outreach efforts, as well as how to assist pensioners who return to the United Kingdom, particularly those on limited incomes.

As time goes on, more and more of the UK citizens currently living in the EU-27 will become pensioners. On both sides of the Channel, policymakers must seriously consider how to minimise potential harm and help members of this group overcome Brexit-related challenges in the years to come.

I. INTRODUCTION

The British pensioner living on the coast of Spain has become a fixture of debates about the future of UK citizens in the European Union after Brexit. Although pensioners by no means make up the majority of Britons in the EU-27, they are an important group with much at stake as EU and UK negotiators race to finalise an exit deal.[2] There is considerable heterogeneity within this population, including between those who have moved for retirement (so-called lifestyle retirees) and those who previously worked in an EU country and then retired *in situ*.

Many of the challenges British pensioners will face after the United Kingdom leaves the European Union, such as issues relating to residency and access to services, will be shared by other Britons in Europe. But some challenges are particular to this group, such as questions about how pensions are exported and whether they will continue to increase value in line with increases in the United Kingdom. Wider challenges, such as access to health care and social assistance, are also more critical for this older population. Some of these retirees have limited computer literacy or suffer age-related ill health and frailty—factors EU and Member States policymakers will need to consider when designing procedures for UK citizens to establish their residency status after Brexit.

To explore the diversity of this population and the challenges they are likely to face after Brexit, this issue brief draws on 38 expert interviews with policymakers from seven EU Member States[3] as well as a roundtable with UK officials and policy experts conducted in London.[4] It begins with a close look at the size and characteristics of the British pensioner population in the EU-27, before considering key Brexit-related policy questions and offering recommendations for both EU Member State and UK policymakers.

II. A PROFILE OF BRITISH PENSIONERS IN EUROPE

It is estimated that slightly more than one-quarter of Britons living in other EU Member States are pensioners.[5] This population is by no means monolithic, including as it does considerable diversity in terms of age, income, types of residence (i.e., permanent, seasonal, or temporary), and when individual Britons moved to their current country of residence. Lifestyle retirement boomed in the late 1990s and early 2000s, but has since declined, in part because of the economic crisis and changes in currency exchange rates.[6] Along with this slowing of arrivals, evidence from Spain suggests that more older retirees are returning to the United Kingdom; between 2008 and 2013, 10 per cent of registered British residents over the age of 55 left Spain, likely as a result of drops in property values and rental income after the 2008 economic recession, coupled with deteriorating health and shrinking savings.[7] Other smaller but still significant groups are Britons who chose to retire in the Member State where they had previously worked and were already living, and dependants of UK pensioners, such as spouses, who are often retired themselves.[8] Understanding these profiles is important because they carry different statuses under EU law and correspond to different sets of needs and characteristics.[9]

A. Population characteristics

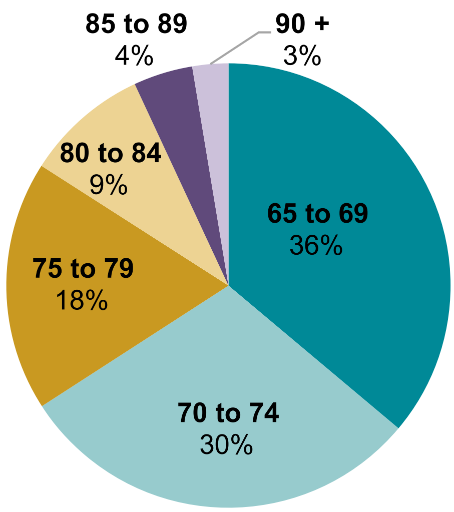
Building a clear estimate of the size and composition of the British pensioner population living in the EU-27 is challenging, which will make it difficult for policymakers and service providers to anticipate their needs in the lead up to and aftermath of Brexit. The most immediate issue is that few datasets capture 'pensioners' as a distinct category. Instead, most researchers rely on data segmented on the basis of age, assuming that the majority of people over the age of 65 are retired. Eurostat data for 2017 show 185,700 UK citizens age 65 or above living in 21 EU Member States.[10] Yet this excludes those living in six Member States, including key destinations for British pensioners such as Cyprus, France, and Malta, as 2017 data for these countries are unavailable. In order to estimate the total UK pensioner population in the EU-27, data for these missing countries must be pulled from 2011, for a rough estimate of 228,600 Britons. A breakdown of the 2017 data by age, shows that approximately two-thirds of British pensioners in the 21 EU countries were under age 74 (see Figure 1).

Age is not, however, always an accurate indicator of retirement status. For example, some Britons over age 65 may still work, while some under age 65 may already be retired. Of the roughly 249,700 UK citizens between the ages of 50 and 64 resident in the EU-27,[11] it is difficult to estimate what share are early retirees—a slice of the population that is likely to vary from country to country. However, in France, 60 per cent of UK citizens between ages 50 and 64 were not economically active as of 2011, of which the majority were likely retired.[12]

In absolute numbers, the country with the largest population of older British residents is Spain, which has double the number of any other EU-27 country. In Spain, according to the *Registro de Extranjeros Residentes* (Register of Resident Foreigners), there were 112,700 British residents over the age of 65 as of 2017, amounting to 36 per cent of Britons in the country.[13] While a portion of these residents are *in situ* retirees, the majority are likely to be lifestyle retirees who opted to move to Spain due to its favourable climate, cost of living, and lifestyle factors. The situation is similar in a number of other southern European countries, such as Cyprus, Malta, and Portugal, where the absolute number of British residents may be lower but a large share are pensioners.[14]

France and Germany have smaller but nonetheless noteworthy populations of Britons over the age of 65, with about 30,100 and 17,000, respectively.[15] In France, approximately 19 per cent of British residents are over 65, comprising a mix of mainly lifestyle retirees but also some *in situ* retirees.[16] In Germany, those over 65 make up a slightly smaller 15 per cent of the total resident British population, and many are thought to be *in situ* retirees.[17] Among them are thought to be larger numbers of older former British armed forces personnel who were deployed to Germany following the Second World War and subsequently stayed and settled.[18]

Figure 1. Age profile of UK citizens (age 65 and over) resident in 21 EU countries,* 2017



* Among EU-27 countries, 2017 data were unavailable for Croatia, Cyprus, France, Greece, Malta, and Poland.
Source: Eurostat, 'Population on 1 January by Age Group, Sex and Citizenship [migr_pop1ctz]', updated 12 April 2018, http://ec.europa.eu/eurostat/web/products-datasets/-/migr_pop1ctz.

Within many of these countries, British pensioners are concentrated in certain regions or localities. These locations generally reflect the history and motivations of their initial moves. British lifestyle retirees in Spain are predominantly found in the coastal regions, with the majority living in Alicante, Andalusia, and the Balearic Islands.[19] In France, older British residents are concentrated in the southern coastal regions of Nouvelle Aquitaine and Occitanie.[20] In Germany, by contrast, the areas around the Rhine river in Nord Rhine Westphalia, where many British military personnel were stationed in the postwar period, have concentrations of older British residents.[21]

UK-citizen pensioners vs. individuals with a UK pension

An alternate source of data is the UK Department for Work and Pensions (DWP), which provides counts of the number of people drawing a UK state pension. According to DWP data, in May 2017, 478,900 individuals were receiving a UK state pension in one of the EU-27 Member States—a figure substantially higher than the estimate of the UK-citizen population of the EU-27 based on Eurostat data.[22] This discrepancy reflects the fact that DWP figures do not differentiate between UK citizens and non-UK citizens who are nonetheless entitled to a state pension because of a period of work in the United Kingdom.

The countries with the largest numbers of residents drawing a UK state pension are in Ireland, Spain, France, Germany, and Italy, as shown in Table 1. The figures for Ireland—which had 134,600 claimants of UK pensions in May 2017—are thought to contain a particularly high share of non-UK citizens, as large numbers of Irish nationals have spent some time working in the United Kingdom.[23] These data are also limited by the fact that they only include individuals who have chosen to have their pension paid into a bank account overseas, excluding those who reside overseas but have their pensions paid in United Kingdom.

As of April 2017, the United Kingdom's basic state pension was set at £122.30 per week.[24] Yet not all claimants receive the full amount. In Ireland, Italy, Germany, and the Netherlands, more than three-fourths of claimants received less than £100 per week as of May 2017 (see Table 1). This indicates either that a large share of individuals spent relatively few years working in the United Kingdom (enough to earn a UK state pension, but only a small one) or that dependants of pensioners make up a relatively large share of recipients, since they receive smaller amounts than the principle pension holder.[25] In some countries, such as Germany and the Netherlands, this probably reflects a greater proportion of pensioners who have retired *in situ*. These individuals would have spent a larger share of their working lives accumulating a pension not in the United Kingdom but in the country where they have long lived and are now retired.

Beyond deciding whether to count UK citizens of a certain age living abroad versus overseas claimants of UK pensions, several other factors further complicate efforts to

Table 1. Top EU countries of residence for overseas recipients of UK state pensions, May 2017

	Number of UK state pension recipients	Share in each age bracket (%)				Share receiving less than £100/week (%)
		60–69	70–79	80–89	90+	
Ireland	134,643	25	49	22	3	79
Spain	108,200	30	51	17	2	43
France	67,078	40	46	12	2	44
Germany	43,049	28	47	21	4	87
Italy	36,431	21	44	30	5	84
Cyprus	18,558	32	49	16	2	42
Netherlands	13,145	34	47	16	3	87
Portugal	10,768	34	47	16	2	46

Note: This table includes figures for countries with more than 10,000 individuals receiving a UK state pension.
Source: UK Department for Work and Pensions, 'State Pension Claimants in Selected Overseas Countries', updated May 2017, https://stat-xplore.dwp.gov.uk/.

obtain a clear picture of how many British pensioners live in the EU-27. Chief among these are under-registration in municipalities and the mobility of the population.

B. Under- (and over-) registration

While EU nationals who move to another Member State are often required to register their residence in their local municipalities, there is some evidence to suggest that retirees—and especially UK pensioners—are less likely to register.[26] This can create challenges for local public services as they budget and plan to serve their resident population, as well as for individuals who may realise only later that registration is required to access certain services. It also means that national estimates of the size of the resident British population may not be accurate, particularly where they are based on municipal data rather than national census data. As Brexit approaches, this under-registration has taken on new importance: it may dramatically affect the chances Britons have of receiving the right to stay in their countries of residence if proof of registration is required to prove residency.

In most EU countries, pensioners are required to register after three months of residence. The process usually involves providing proof of health-care provision and a certain level of income, indicators the individual will not become a burden on the state.[27] For lifestyle retirees, this involves providing proof of a pension income and a S1 certificate issued by the UK government, which commits the United Kingdom to reimbursing other Member States for health-care costs incurred by holders—a system based on the reciprocity of social security within the European Union (see Table 2). Britons who have retired *in situ* usually have continued access to health care through their previous work or residency status.

While in theory, the process of registration is fairly straightforward, in practice the complexity of registration procedures varies by country, which has led to different levels of under-registration. Although the scale of under-registration in each country is difficult to estimate with precision, there have been some attempts to do so. In Spain, research has suggested an under-registration rate of approximately 10 per cent among older UK citizens, which would mean an additional 11,300 British residents over the age of 65.[28]

Table 2. Routes to health care for British pensioners in the EU-27

S1 scheme	EU-27 national health-care schemes	European Health Insurance Card (EHIC)
British pensioners who move to the EU-27 can apply to the UK Department for Work and Pensions (DWP) for a S1 certificate, which obligates the UK National Health Service to reimburse other Member States for health-care costs incurred by holders (reciprocal social security coordination). Previously, early retirees (those not yet drawing their state pension) had access to this scheme, but in 2014, the DWP restricted it to pension recipients.	British pensioners who have worked for several years in an EU-27 country before retiring there usually retain their entitlement to the country's national health care. This also applies to the worker's dependants. Each country has slightly different systems for providing health care, but in most, costs are primarily absorbed by the country of residence.	Technically, this card only provides emergency health care for visitors to other EU-27 countries. However, some British pensioners who have not registered their residency in the EU-27, as well as some early retirees and those who split their time between the United Kingdom and another Member State access health care abroad with an EHIC. The UK National Health Service covers Britons' health-care costs under the reciprocal scheme.

Sources: 'Directive 2004/38/EC of the European Parliament and of the Council of 29 April 2004 on the Right of Citizens of the Union and Their Family Members to Move and Reside Freely within the Territory of the Member States Amending Regulation (EEC) No 1612/68 and Repealing Directives 64/221/EEC, 68/360/EEC, 72/194/EEC, 73/148/EEC, 75/34/EEC, 75/35/EEC, 90/364/EEC, 90/365/EEC and 93/96/EEC', *Official Journal of the European Communities* 2004 L158/77, 30 April 2004, http://data.europa.eu/eli/dir/2004/38/oj/eng; Organisation for Economic Cooperation and Development (OECD), 'A Portrait of Family Migration in OECD Countries', in *International Migration Outlook 2017* (Paris: OECD Publishing, 2017), www.oecd-ilibrary.org/social-issues-migration-health/international-migration-outlook-2017/a-portrait-of-family-migration-in-oecd-countries_migr_outlook-2017-6-en.

It is thought that under-registration is a more acute issue among UK pensioners than other groups of EU nationals exercising their free movement rights.[29] Being from the United Kingdom, which does not have a local registration process or tradition of national identity cards, some may be unaware of the requirement or not see it as necessary.[30] For UK citizens of working age or those who are studying, registration is often much more closely entwined with other bureaucratic requirements; for instance, in Spain, EU nationals are required to register in order to work legally. But for pensioners, who may perceive registration as conferring few benefits, there are fewer incentives to complete the process.[31] Several Member State and municipal officials interviewed to inform this study suggested that pensioners often only register at the point that they want to access certain services for which it is required.[32] In part, this is because many pensioners hold European Health Insurance Cards (EHIC) that, though designed to cover emergency health care for those temporarily travelling within the European Union, are often used by unregistered individuals to access care (see Table 2).[33] It may only be upon attempting to access ongoing health care to deal with long-term conditions, or when social-care interventions are required, that these pensioners become aware of the need to register.

For some British pensioners, access to health services or social security can even create disincentives to register. Access to the United Kingdom's National Health Service (NHS) is residency based, meaning that early retirees who move to and register in another EU country lose their entitlement. In addition, since 2014, Britons who are not yet drawing their state pension are not entitled to a S1 certificate,[34] as the NHS only covers citizens living abroad through this scheme if they have reached state pension age. Many of these individuals would therefore have to prove that they hold private health insurance coverage in order to register in their EU country of residence. Instead, some choose to maintain their official residence in the United Kingdom in order to access health care there until they become eligible for S1 coverage.[35] This may also be the case for a small number of pensioners who claim other welfare benefits in the United Kingdom that are dependent on them maintaining their UK residence.[36] Others may choose not to register to avoid certain tax implications of having established residency in the EU country.[37]

While under-registration is the primary problem in most EU countries that have registration systems, data based on municipal registers may also include an element of over-registration. This arises as people often do not unregister when they move to a different municipality or return to the United Kingdom, registrations in many Member States never expire, and there is often no automatic mechanism to remove these individuals from the register. This issue has come under greater scrutiny in Spain, where a programme was introduced in 2006 to check and update municipal *Padron* records.[38] Although there is still a time lag between when someone leaves the municipality and when the check is run, this process does produce more accurate records than existed previously.[39] Elsewhere, it is extremely hard to estimate the extent of over-registration. However, it is thought to be less pervasive than under-registration and carries fewer negative consequences for British pensioners living in the EU-27 after Brexit.

C. Dual residency

For pensioners who split their time between the United Kingdom and other Member States, being able to prove residency and maintain their secondary homes and access to health care in the EU-27 may be particularly complicated after Brexit. Individuals who split their time like this do so for a variety of reasons, including tax considerations, access to services, and family and personal ties.[40]

Guidelines for EU nationals in this situation on how and where to register their residency are often unclear, and many Member States do not allow registrations on the basis of secondary residence. As an example of the confusion on this matter, most only consider someone to be a resident if they spend more than six months (186 days) in the country each year, or if their principal residence is there, yet many maintain official guidelines that require registration after three or four months of residence.[41] As a result, there are no clear estimates of the number of British pensioners who fall into this dual-residency category.

UK data on short-term visitors and second home ownership suggest that far more UK nationals may live in holiday destinations on a seasonal basis than is reflected in official population data. The UK Office for National Statistics provides estimates of UK residents who travel abroad for short-term visits of between three months and one year. In the 12 months leading up to June 2015, UK residents made 390,000 such visits, of which 256,000 were made by UK citizens.[42] The vast majority of these trips (84 per cent) were made for reasons other than work or study. This could reflect a range of reasons (such as caring for a family member or a work sabbatical), but it is likely to include a large number of pensioners who split their time between countries. The top European destinations recorded give further support for this hypothesis: Spain was the most popular EU destination (38,000 visits) followed by France (28,000). A further indication comes from UK data on second homes. UK residents have 70,000 second homes in France, 66,000 in Spain, and a further 109,000 in other European countries.[43] Although it is impossible to tell whether these homeowners are pensioners or working age, UK-citizen or noncitizen residents of the United Kingdom, or how long they might spend in each country, these data do suggest considerable movement and strong ties.

III. KEY CHALLENGES AFTER BREXIT

The economic and social situation of mobile pensioners is distinct in a number of ways from that of other Britons in Europe, which gives rise to a specific set of considerations and concerns regarding their status after Brexit. Within this population, certain groups may be particularly vulnerable to the changes brought about by Brexit, including pensioners who are socially isolated, very elderly, or have long-term health conditions.

Social isolation poses a particular challenge because it leaves pensioners reliant on a narrow set of individuals for information and support. While some municipalities and community organisations have been active in offering information and advice to people likely to be affected by Brexit, it may be difficult to ensure that socially isolated pensioners are informed. This creates a risk that people may miss key windows of opportunity to adjust their status or that they may be taken advantage of or become victims of fraud. Pensioners who lose loved ones may see their isolation increase, potentially triggering a crisis in personal circumstances if, for example, the deceased partner was responsible for paperwork related to residency status or property. While active networks of voluntary organisations exist in many places to support people in these circumstances, there will undoubtedly be some who slip through the net.

British pensioners who are very elderly or have long-term health conditions are also more likely than most to face the adverse consequences of Brexit. Many pensioners moved to EU countries as young retirees seeking a better climate and lifestyle. As people age, they become frailer, have reduced mobility, and find it more difficult to deal with changes to their ways of life. Those suffering chronic health conditions, including dementia, will likely find such changes stressful and disruptive. These issues are compounded in some cases by limited host-country language skills and limited digital literacy—considerations that should inform the design of post-Brexit administrative systems.

A. Residency

The future residency rights for British pensioners living in EU Member States are one of the key concerns. Currently, free movement laws cover those in employment or self-employed, those who are studying, and those who are self-sufficient. Pensioners fall into the latter category.[44] In order to be considered fully self-sufficient, individuals must show that they have a reasonable level of income and comprehensive sickness insurance. Being in receipt of a state pension and having a S1 certificate fulfil these conditions. Under EU law, those who have been resident in an EU country (exercising their free movement rights) for five years have established a right to permanent residency—whether or not they have a document to show this.

The withdrawal deal EU and UK negotiators agreed in November 2018 confirms that residency rights for UK citizens already living in the EU-27 will be unchanged following Brexit and the transition period.[45] Having passed the initial hurdle of being agreed by the UK cabinet, the deal must now be signed off by the heads of the EU-27 and then put before the UK and EU parliaments for ratification. The withdrawal agreement specifies that EU-27 countries may require UK nationals to apply for a new residence status. The procedure for this, the agreement stipulates, is supposed to be simple, cannot cost more than what nationals of that Member State pay to complete similar administrative processes (such as applying for an ID card), and can only require proof that the person is currently exercising their treaty rights, meaning they will not have to retrospectively demonstrate that they have been doing so for the entirety of their residency.[46]

Those who already have permanent residency will be best positioned in terms of applying for any new residency status after Brexit. The withdrawal agreement specifies that Britons who hold a document demonstrating their permanent residency will be able to exchange it for the new residency document simply by confirming their residency and free of charge.[47] It appears that a large proportion of British pensioners resident in the EU-27 have been living there for longer periods, meaning that many are likely to either already hold or at least qualify for permanent residency. For instance, three-quarters of all British residents in Germany have lived there for more than six years, suggesting that a large number of the British pensioners there will have already met the five-year mark.[48] In Spain, more than half of the Britons over the age of 65 have permanent residency.[49]

However, while the deal has been agreed by negotiators, opposition to it from UK politicians on both sides of the debate means that securing the approval of the UK parliament remains a significant hurdle.[50] In the event of a 'no-deal' Brexit, British pensioners would face a much more uncertain future, with Member States likely to put forward different national legislation on their status.[51] Those who have retired *in situ* would likely face fewer risks to residency, as it has been argued that these former workers would have a different status under EU law.[52] Nevertheless, *in situ* retirees could find that periods worked in the United Kingdom are no longer recognised as accruing towards their pension in their country of residence.[53] Lifestyle retirees may face greater difficulties in securing their residency if, for example, EU-27 states chose to apply their current (and much stricter) rules for retirees from outside the European Union. For instance, a Spanish retirement visa requires that applicants have an annual income of 25,560 euros (approximately £22,580) and full private medical insurance.[54] This would be beyond the means of many UK pensioners.

B. Tax residency

Changes to British pensioners' residency status and to their status under EU law are likely to have tax implications. Tax residency does not always automatically match up to legal residency, especially in cases of where individuals split their time between two countries. However, under current rules, most UK pensioners living in another EU Member States on a fulltime basis should also be considered resident there for tax purposes.[55] In principle, Brexit should not have a direct impact on tax liability, as tax regulations are set by each national authority not the European Union.[56] Yet, once the United Kingdom leaves the bloc and Britons are no longer EU citizens, they are likely to be subject to different taxes that apply to third-country nationals. The situation varies country to country and is also based on people's official/residency status. In Spain, for instance, EU/EEA nationals currently benefit from favourable tax reliefs, particularly those relating to inheritance, capital gains, and overseas income.[57] Up to now, Britons who sell a property in Spain to move back to the United Kingdom where they reinvest in their UK residence have been exempt from the capital gains tax.[58] This will change after the transition period unless a specific agreement is in place.

For pensioners who split their time between countries as dual residents, the situation is potentially more complex. The United Kingdom has double taxation agreements with most EU Member States, meaning that individuals can claim relief if they have paid tax in both countries.[59] These agreements are independent of the European Union and will not be affected by Brexit, even in the event that no deal is agreed. However, Brexit may force dual residents to make more explicit decisions about where to be officially resident. This is especially true for those who spend time in countries that have different tax arrangements for nonresidents. For instance, this could affect pensioners who own property in the EU-27 and spend part of the year there, but also rent it out to generate income. In Spain, non-EU citizens who are not officially resident in the country face a higher level of income taxation compared to nonresident EU citizens.[60]

C. Pensions

Although the payment of state pensions overseas will not change as a result of Brexit, the degree to which the UK state pensions continue to rise in value and the accessibility of private pensions will depend on what EU and UK negotiators agree regarding the crossborder provision of financial services. Moreover, the drop in the value of the pound may put a financial squeeze on UK pensioners living in the European Union, regardless of the outcome of the negotiations.

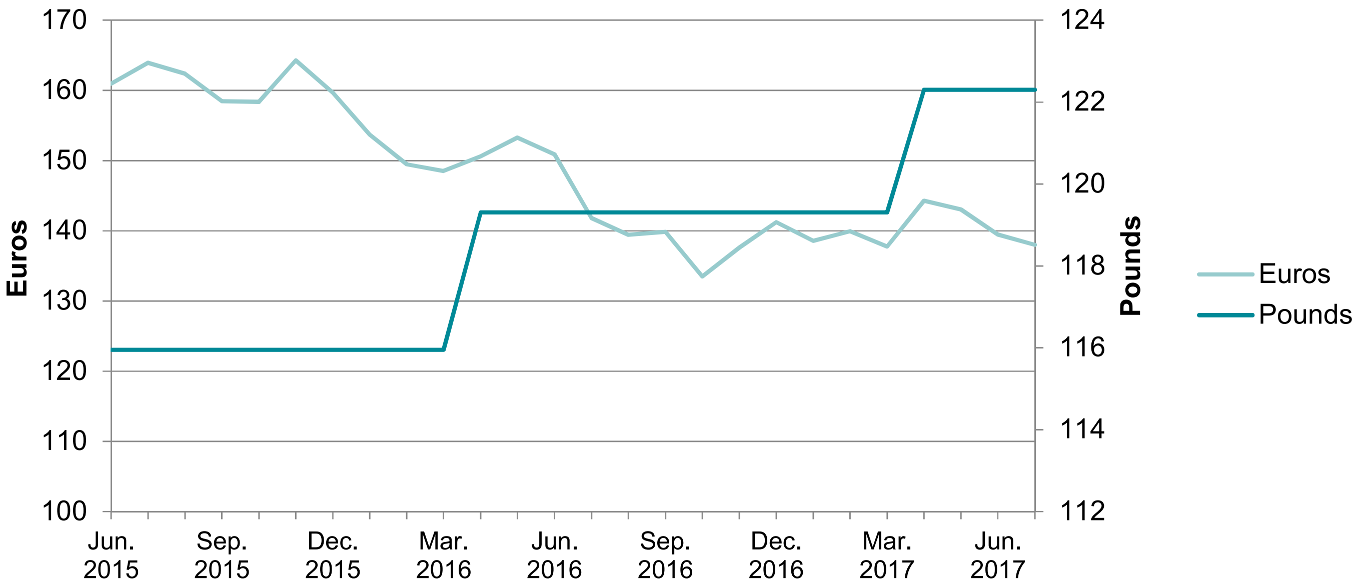
In 2016, the United Kingdom simplified its state pension, resulting in two weekly rates paid depending on whether people retired before or after April 2016. Those with fewer than 35 qualifying years of work receive a proportionately lower amount. Under current EU rules, periods of time spent working in another Member State count in these calculations. The UK state pension increases each year based on a triple lock formula, meaning pensions increase by 2.5 per cent, the rate of inflation, or the rate of rise in annual wages—whichever is higher.[61] This is known as 'uprating'.[62] Pensions are uprated for individuals living in EU countries as a result of EU legislation, as well as in a few other countries with which the United Kingdom has reciprocal agreements.[63] In the withdrawal agreement, the United Kingdom committed to continue uprating pensions to recipients living in the EU-27.[64] In the event of a no-deal Brexit, this will become the subject of bilateral negotiations between each Member State and the United Kingdom. Failure to secure continued uprating would, over time, lead to a reduction of the incomes of British pensioners living in Europe and increase the risk that some experience poverty.[65]

Those receiving a UK state pension or who are dependent on income earned in the United Kingdom (such as rental income) are also vulnerable to changes in the exchange rate following Brexit. Immediately after the 2016 referendum, the pound dropped considerably against the euro, and despite some upturns, it remains around 15 per cent lower than it was before the referendum.[66] This has had a clear and immediate impact on UK pensioners abroad, and there are many anecdotal reports of UK pensioners in the EU-27 struggling with living costs.[67] Figure 2 shows the falling value of the UK basic pension in euros, despite its ongoing uprating in pounds. In the year since the referendum, the value of the pension in euros was consistently below what it was in the year prior to the referendum. This has forced some pensioners to take up additional work to supplement their incomes, and for many has caused considerable financial anxiety.[68] The Brexit negotiation process has contributed to ongoing volatility in the currency markets, and this looks set to continue.[69]

Recent changes in the United Kingdom to the taxation of private pensions may also have implications for Britons living in EU Member States after Brexit. Those with a private pension can transfer it out of the United Kingdom to their country of residence as part of a 'qualifying recognised overseas pension scheme' (QROPS), and this will continue after Brexit. However, in 2017, transfers to countries outside the EEA became subject to a tax at 25 per cent.[70] Changes to the regulation of these transfers have also meant that a number of EU countries no longer having pension schemes that meet the UK requirements to be considered a QROPS.[71] There are currently no recognised overseas pension schemes in Cyprus, France, Italy, Portugal, and Spain, effectively blocking the export of private pensions to these countries. If these export difficulties mean that more people have to receive their pensions in the United Kingdom, more British pensioners will be exposed to the currency volatility described above, as well as possible additional tax implications.[72]

Nevertheless, for Britons living in the EU-27 who receive a private pension, the biggest risk centres on what sort of future trading deal the United Kingdom negotiates for its financial sector.[73] This future deal, to be negotiated during the transition period, will determine what degree of access the United Kingdom has to European financial markets and will affect the profitability of private pension schemes.[74] A no-deal scenario would raise further complicated legal issues for the payment of private pensions in the European Union. British insurance companies would automatically lose their license in EU Member States, meaning that they would be unable to pay out on contracts there.[75] Some businesses have been preparing for this eventuality by moving their operations and contracts to EU-27 countries,[76] but some level of disruption remains likely. The loss of financial passporting rights in the event of no-deal Brexit could result in UK-citizen residents of the EU-27 being unable to access their bank accounts in the United Kingdom, a situation that would require a new agreement with the European Union.[77]

Figure 2. Value of the basic UK state pension (old state pension) in euros and pounds, June 2015 - July 2017*



Note: Data are for the last day of each month.
Sources: UK Department for Work and Pensions, 'State Pensions Administrative Data', updated 14 August 2018, https://stat-xplore.dwp.gov.uk; Bank of England, 'Statistical Interactive Database: Daily Spot Exchange Rates against Sterling', accessed 25 October 2018, www.bankofengland.co.uk/boeapps/iadb/Rates.asp; UK Office for National Statistics, 'Pensioners in the EU and UK', updated 5 September 2017, https://visual.ons.gov.uk/pensioners-in-the-eu-and-uk/.

D. Health care

Access to health care is the top priority for many UK pensioners living in EU Member States.[78] In 2017, the UK Department of Health and Social Care estimated that they were covering the health-care costs of 109,000 UK pensioners in other EU Member States under the S1 certificate scheme.[79] This mainly covers lifestyle retirees as pensioners who previously worked in the EU Member State in which they reside are likely to be covered under that country's national health-care system (see Table 2). Studies have shown that the United Kingdom pays out more money than it recoups from other EU/EEA Member States, mainly due to the large number of UK pensioners abroad who incur 80 per cent of the health-care costs the United Kingdom covers under this system.[80] Nevertheless, this is still thought to be cost effective for the United Kingdom as average costs for treating pensioners via the NHS tend to be higher.[81] In the November 2018 withdrawal agreement, it was agreed that these arrangements would continue to apply. This includes allowing UK citizens currently resident in EU-27 Member States to continue to use their EHICs, so that when they travel on holiday within the bloc they still have access to reciprocal health care.[82] However, it remains uncertain whether Britons living in the United Kingdom will still have access to the EHIC scheme. Thus, British pensioners who currently split time between the EU-27 and the United Kingdom and who rely on their EHIC to access care while in Europe could face the prospect of having to buy insurance to cover these periods.

In the event that the November deal falls through, or if the reciprocal health-care provision is thrown into doubt, this is likely to lead more British pensioners to consider returning to the United Kingdom.[83] Most would likely not be able to afford private health insurance at their current rates, in part due to age and chronic health conditions. It is possible that the United Kingdom would seek to negotiate bilateral health-care deals,[84] but this would take time and, in the meantime, leave many British pensioners facing uncertainty about their health-care access.

E. Other forms of social assistance

Brexit also throws into doubt British pensioners' access to a range of other forms of social assistance. A number of UK benefits that are administered on the basis of National Insurance contributions can be exported to UK pensioners living in other EU Member States. However, some include two components, one of which is universal and another that is means-tested and therefore based on residency.[85] On the basis of reciprocity, pensioners may be entitled to apply for some social-assistance benefits in their countries of residence.[86] And once UK citizens become permanent residents in EU Member States, they are eligible for all benefits the country offers its nationals.[87] The continuation of these rights is part of the withdrawal agreement, but would be at risk in a no-deal scenario.

Social-care provision was also included in the agreement, falling under the rules on the reciprocity of social security. However, certain practical barriers to access for British pensioners may be exacerbated by Brexit. In the United Kingdom, social care is means tested and based on residency. In other Member States, support systems are provided on a different basis, and the levels of care and expected individual contributions vary widely. British pensioners seeking this type of assistance abroad can face barriers if they do not understand the system and their entitlements; have expectations that differ from what is available, especially if services are limited or overstretched; have limited host-country language proficiency; or fail to meet qualification requirements relating to length of residency.[88] Social-care provision in some countries, such as Spain, relies heavily on a culture of support from family members or friends.[89] British pensioners are often less likely to have family members, friends, or neighbours who can provide this care.[90] Some voluntary expat organisations and networks seek to fill this gap by providing volunteer interpreters who can accompany pensioners to medical appointments, or low-level support in the home, such as with shopping or cleaning tasks.[91]

Yet research has found that UK citizens facing a severe deterioration of their health or mobility often view return to the United Kingdom as the only feasible option.[92] After Brexit, this is even more likely to be the case, as rapid changes in personal circumstances, including to legal status, will increase demand on voluntary services, municipal authorities, and consulates. In some countries, this will compound the challenges public services already face due to overall low levels of funding.

Over the longer term, ending free movement for UK citizens will compound these challenges. Research has demonstrated how important the influx of younger retirees is in sustaining the services voluntary organisations offer.[93] Moreover, family members have long moved within the European Union to care for older relatives, or moved older relatives to live with them in another EU country.[94] The withdrawal agreement has specified that family members of UK citizens in the EU-27 will still be able to join their relatives, but that this only applies to direct dependants in the ascending line (i.e., parents) and descending line (i.e., children or grandchildren), in line with Directive

2004/38.[95] This would exclude, for instance, aunts, uncles, siblings, and adult nondependent children—relatives who take on a care role in a non-negligible number of families.

IV. POLICY IMPLICATIONS

These diverse issues have implications for how both EU Member States and the United Kingdom prepare for the consequences of Brexit. For Member States, the question of how to ensure effective, streamlined registration processes is critical. It will also be important to put plans into place for Britons who may be unable to meet registration criteria or decide they will be unable to maintain their current lifestyle in Europe. For the United Kingdom, preparing for the potential return of a significant number of older citizens should be high on the priority list.

A. Registration systems

Over the course of negotiations, official and expert interviewees in Member States suggested that many governments had given little thought to the implementation of systems to register and adjust the status of British residents after Brexit.[96] Others suggested that the number of UK citizens was not so high as to be problematic.[97] But while most EU-27 countries do not want to make the registration system onerous for their British residents, the absence of advanced planning and proactive outreach may create their own problems.

The exercise of shifting UK citizens into a new status will be easier if the majority are registered or otherwise known to Member State authorities before the date of Brexit. Yet, as noted above, pensioners are the group least likely to be registered, given the limited incentives many currently have to do so. This is particularly the case among lifestyle retirees who were never part of the Member State's social insurance system and those who travel frequently between UK and EU domiciles. Countries that already have efficient and well-organised registration systems are likely to cope better with the implementation of post-Brexit registration processes than those whose public services have suffered from austerity measures. Systems that are already overloaded are likely to struggle under the additional workload. British pensioners' registration experiences are thus likely to be different in different EU Member States.

Regardless of whether the deal clears the final hurdles, some people are likely to slip through the gaps. New administrative processes may encounter unexpected issues, some may be unevenly or unfairly administered, and not all potential users may have the information to make use of them.[98] Elderly Britons, including those who suffer from memory problems and those who are less digitally literate, are particularly vulnerable.[99] Outreach to those pensioners are socially isolated and/or lack host-country language skills will require specially designed campaigns or information points to ensure that they are engaged effectively in whatever registration processes are established. Countries with strong networks of organisations that serve the British community (such as France and Spain) may find these an important resource to leverage for communication purposes.

If difficulties in registration systems and the provision of legal residence arise, this could hold implications for the United Kingdom as well. The most significant of these is that, should British pensioners struggle to adjust their status in their countries of residence, many may opt to return to the United Kingdom.

B. Return intentions

UK officials acknowledge that the sudden and large-scale return of British pensioners would put significant pressure on UK services.[100] These pressures arise from the issues identified above, namely: 1) the risk of poverty and destitution, and 2) increases in demand for health and social care. As many pensioners living abroad have sold assets in the United Kingdom and have more limited social and family connections in the country, there is a risk that these individuals will be unable to afford basic standards of living. Returnees may also find themselves in debt if they are unable to sell properties in EU countries for the price they originally paid.[101]

On return, pensioners may find it difficult to access the support they need as a result of the Habitual Residence Test. This test is required to access all means-tested benefits in the United Kingdom and is applied when someone returns to live in the United Kingdom after a period of residence abroad.[102] This will affect returning pensioners' access to, among other things, pension credit,[103] housing benefit, and council tax reductions. It can also be applied for applications for housing assistance, such as social housing.

The test includes two components: whether the individual has the right to reside in the United Kingdom—which all returning UK citizens do—and whether the person intends to settle in the country. Those who have been abroad for short periods of less than three months, as well as those who still own property or have close family in the United

Kingdom, are unlikely to face the test. Britons to whom the test does apply will need to show that they have lived in the United Kingdom for an 'appreciable' period of time before they are granted access to benefits—though there are no clear guidelines for how long this should be.[104] Factors that can improve the likelihood of a positive outcome are indications of having re-established life in the United Kingdom (having registered with a general practitioner, having moved all possessions) or of having fully cut ties with the former country of residence (selling or giving up the lease for a previous residence, notifying DWP Overseas Healthcare Team that a S1 certificate is no longer needed).[105] The test is discretionary and can take some time to process, during which no means-tested benefits will be paid. If individuals return with no assets and low levels of income from their pension, they may struggle financially or even become destitute during this time.

Social care is, at least in theory, available to all returning British pensioners as soon as they establish residence in the United Kingdom.[106] However, the process of accessing this support requires applicants to follow the usual local authority procedures, such as completing a needs assessment, which take time. A 2014 survey conducted in Spain with Britons over the age of 55 suggested that, even prior to the Brexit referendum, 29 per cent of respondents were considering a return to the United Kingdom[107]—a greater proportion than identified in previous research. The survey also revealed that a decline in the quality of health care or greater controls being placed on EU citizens were the two factors most likely to lead to return intentions. This suggests that, should British residents lose access to Member State health care after Brexit, this would likely have a significant impact on the number who decide to return. UK policymakers would do well to begin budgeting for and preparing health- and social-care systems to meet the needs of returnees.[108]

Awareness of how pensioners may be affected by registration systems' design and inadequate access to care and services can help both EU-27 Member States and the United Kingdom prepare for the worst (even if they publicly express hope for the best) in the short time left before the withdrawal agreement is supposed to be approved and implemented.

V. CONCLUSIONS

Up to this point, few EU-27 countries have begun to actively design and implement the processes that will be needed to adjust the status of their UK-citizen residents after Brexit. Member States have been keen to remain united behind the European Commission's common negotiating position and have been waiting to see the outline of a deal before taking action. But now, with the clock ticking towards the fixed exit date, it is time to consider the policy implications. As the road to finalising the withdrawal agreement remains rocky, it would be prudent for policymakers to consider the consequences of both an orderly withdrawal and a no-deal situation. For instance, some countries have begun to consider whether there are bilateral agreements that could be re-activated as a stopgap measure if an EU-wide deal falls through.[109]

In any case, it will be imperative for both the European Union and the United Kingdom to maintain open channels of communication between key agencies—particularly those related to health care and pensions. In the years to come, as the UK and EU-27 citizens caught in the middle of Brexit continue to age, more will retire and develop additional care needs. It is in everyone's best interest to ensure that these pensioners can enjoy their lives in dignity, with full access to their earned rights, regardless of which side of the Channel they live.

ENDNOTES

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4 Participant comments during the roundtable meeting 'Beyond "Deal or No Deal": Planning for the Next Phase for UK Nationals in the EU after Brexit', Migration Policy Institute Europe (MPI Europe) and Barrow Cadbury, London, 5 December 2017.
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