

Agreement between Australia and the Czech Republic on Social Security and Agreement between Australia and the Former Yugoslav Republic of Macedonia on Social Security

Background

- 4.1 This chapter discusses two bilateral social security agreements, the terms of which are very similar:
- the *Agreement between Australia and the Czech Republic on Social Security* (the Czech Agreement); and
 - the *Agreement between Australia and the Former Yugoslav Republic of Macedonia on Social Security* (the FYR Macedonia Agreement).
- 4.2 Australia's international social security agreements are bilateral treaties intended to address gaps in the coverage of certain social security payments to Australian residents who are entitled to receive payments from another country.¹
- 4.3 These are the latest in a number of agreements on social security Australia has entered into, the most recent of which was the *Agreement with the*

1 Ms Michalina Stawyskyj, *Transcript of Evidence*, 10 May 2010, p. 12.

Republic of Poland on Social Security, reported on in Reports 108 and 110.²
There are currently 23 ratified bilateral social security agreements.³

The Agreements

- 4.4 These agreements apply to Australian residents who have established an entitlement to certain types of Czech or FYR Macedonian pension payments, and residents of either country who have established an entitlement to an Australian age pension.⁴
- 4.5 The agreements permit the following to occur:
- people living in one country will be able to lodge a claim for a pension with the other country;⁵
 - qualification periods for the pensions covered will be ‘totalised’, enabling people to meet the minimum qualification periods for relevant pensions in both countries. Totalising in this instance means treating periods of residence in one of the signatory countries as part of the qualification period for relevant pensions in the other country;⁶
 - remove restrictions on portability of payments for people residing in either country by enabling payments from one country to be made into bank accounts in the other country;⁷ and
 - provide avenues for mutual assistance to help ensure that people are paid their correct entitlements.⁸
- 4.6 In addition, a person who works in Australia and one of either the Czech Republic or FYR Macedonia will not need to make compulsory retirement

2 JSCOT, *Report 108: Treaty tabled on 25 November 2009*, p. 2; and JSCOT, *Report 110: Treaties tabled on 18, 25 (2) and 26 November 2009 and 2 (2) February 2010*, pp. 15-19.

3 Department of Family, Housing, Community Services, and Indigenous Affairs, *Submission 3*, p. 1.

4 *Agreement between Australia and the Czech Republic on Social Security National Interest Analysis* (Czech Agreement NIA), para 4; and *Agreement between Australia and the Former Yugoslav Republic of Macedonia on Social Security National Interest Analysis* (FYR Macedonia Agreement NIA), para 4.

5 Czech Agreement NIA, para 4; and FYR Macedonia Agreement NIA, para 4.

6 Czech Agreement NIA, para 13; and FYR Macedonia Agreement NIA, para 13.

7 Czech Agreement NIA, para 4; and FYR Macedonia Agreement NIA, para 4.

8 Czech Agreement NIA, para 4; and FYR Macedonia Agreement NIA, para 4.

benefit contributions in both countries at the same time to retain pension entitlements.⁹

4.7 The agreements limit the types of pension subject to these provisions. The agreements cover:

- the Australian age pension;
- the Czech or FYR Macedonian age pension;
- the Czech invalidity and the FYR Macedonia disability pension; and
- the Czech or FYR Macedonian survivor's pension.¹⁰

4.8 The invalidity, disability and survivor pensions will only be available to residents of the relevant country.¹¹

4.9 The Department of Family, Housing, Community Services, and Indigenous Affairs (FaHCSIA) has in the past discussed the reasons why the age pension is the only Australian pension involved.¹²

4.10 The Australian age pension payment is an automatic entitlement upon qualification, whereas pension systems such as that operating in the Czech Republic and FYR Macedonia are contributory systems, similar to a superannuation scheme.¹³ Although this statement is not strictly true in relation to the survivor's pension,¹⁴ there is no Australian equivalent of this pension, so there is no actual difference between the entitlements of Australian and Czech or FYR Macedonian residents covered by the agreements.

4.11 FaHCSIA estimates that 2,000 people across both countries will be affected by the Czech Agreement, which is a smaller number of affected persons than in previous agreements of this sort.¹⁵ The FYR Macedonia Agreement will affect 4,000 people.¹⁶

9 Czech Agreement NIA, para 5; and FYR Macedonia Agreement NIA, para 5.

10 Czech Agreement NIA, para 13; and FYR Macedonia Agreement NIA, para 13. A survivor's pension is the pension paid to a spouse or dependant on the death of a person eligible for an age pension.

11 Czech Agreement NIA, para 13; and FYR Macedonia Agreement NIA, para 13.

12 JSCOT, *Report 110: Treaties tabled on 18, 25 (2) and 26 November 2009 and 2 (2) February 2010*, p. 17.

13 Czech Agreement NIA, para 13; and FYR Macedonia Agreement NIA, para 13.

14 Organisation for Economic Cooperation and Development (OECD) website, <<http://www.oecd.org/dataoecd/50/48/33743823.pdf>>, viewed 16 April 2010.

15 Czech Agreement NIA, para 10.

16 FYR Macedonia Agreement NIA, para 10.

Payment arrangements

- 4.12 Where an Australian resident is entitled to a pension from either the Czech Republic or the FYR Macedonia, their full entitlement to that pension will be paid. That person's entitlement to the Australian pension will then be calculated based on the Australian social security income test.¹⁷
- 4.13 Agreements of this sort usually reduce the cost of age pensions for Australia but FaHCSIA estimates that, when the administration costs are taken into account, the Czech Agreement will cost Australia approximately \$1.1m annually¹⁸ and the FYR Macedonia Agreement is expected to result in the payment of an additional \$1.459m in pensions and to cost \$4.19m to administer.¹⁹
- 4.14 FaHCSIA identified two reasons for the additional costs associated with these agreements. The first involves the value of the pensions paid to Australian residents by the Czech Republic and the FYR Macedonia. A number of factors combine to produce a situation in which Australian residents eligible for these pensions will still be entitled to an Australian pension of some sort.²⁰ The relevant factors include:
- the quantum of the age pension. The sum available from the Czech Republic and the FYR Macedonia is less than the sum available from Australia;
 - the fact that pensions in the Czech Republic and the FYR Macedonia are contributory schemes, in other words, if a person has only worked for part of their life in those countries, their pensions will be proportionately less than the maximum available; and
 - the exchange rate.²¹
- 4.15 The second reason for the additional cost to Australia is the small number of persons eligible for a pension from either of these countries. This means that the savings available do not outweigh the costs of administering the agreements.²²

17 Mr Peter Hutchison, *Transcript of Evidence*, 10 May 2010, p. 14.

18 Czech Agreement NIA, para 19.

19 FYR Macedonia Agreement NIA para 19.

20 Mr Peter Hutchison, *Transcript of Evidence*, 10 May 2010, p. 11.

21 Mr Peter Hutchison, *Transcript of Evidence*, 10 May 2010, p. 14; and Ms Michalina Stawyskyj, *Transcript of Evidence*, 10 May 2010, p. 14.

22 Czech Agreement NIA, para 19; and FYR Macedonia Agreement NIA, para 19.

4.16 The administrative cost of each agreement reflects Centrelink's costs for administering it in Australia. Centrelink will attempt to identify and notify all persons who may have an entitlement under one of these agreements. Centrelink will also provide assistance to people to help them claim a foreign pension.²³

Criteria for selecting countries for bilateral treaties

4.17 Given that some Australian residents who contributed to the Czech scheme will not be eligible for a Czech pension because their entitlement resides with the now separate Slovak Republic, the Committee expressed some interest in how FaHCSIA identifies countries with which to reach a bilateral social security agreement.

4.18 FaHCSIA advised that a range of factors determined which countries are selected for bilateral social security agreements, including:

- the compatibility of the social security systems;
- approaches from foreign governments seeking bilateral relationships on these matters;
- agitation by an expatriate community in Australia; and
- the size of the relevant community.²⁴

4.19 The Government of the day then makes a decision about whether to enter into negotiations or not.²⁵

4.20 In relation to the Slovak Republic, FaHCSIA advised that negotiations for a bilateral social security agreement are under way, and will be concluded in the next 12 to 18 months.²⁶

Conclusion

4.21 While these agreements will have a net cost for Australia to administer, they will provide a significant improvement in the pension incomes of Australian residents entitled to a Czech or FYR Macedonian pension. The

23 Mr Peter Hutchison, *Transcript of Evidence*, 10 May 2010, p. 16.

24 Ms Michalina Stawyskyj, *Transcript of Evidence*, 10 May 2010, p. 13.

25 Ms Michalina Stawyskyj, *Transcript of Evidence*, 10 May 2010, p. 13.

26 Ms Michalina Stawyskyj, *Transcript of Evidence*, 10 May 2010, p. 18.

Committee is of the view that the social benefit in this instance outweighs the cost of entering into these agreements.

Recommendation 7

The Committee supports the *Agreement between Australia and the Czech Republic on Social Security* and the *Agreement between Australia and the Former Yugoslav Republic of Macedonia on Social Security*, and recommends that binding treaty action be taken.

Mr Kelvin Thomson MP

Chair