House of Commons
Work and Pensions Committee

Tackling Pensioner Poverty

Fifth Report of Session 2008–09

Volume I

Report, together with formal minutes

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The Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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Summary

The level of pensioner poverty has declined markedly since 1997. However, there are still 2 million pensioners in poverty and 1.1 million who live on below 50% of median income. We consider this to be unacceptable, and in this report we look at what more the Government could do to lift pensioners out of poverty.

The Government has implemented a range of reforms in response to the Pensions Commission to make state pension provision more generous and more universal and to increase levels of private saving for pensions. We have, in our previous reports, broadly welcomed the Commission’s conclusions and the Government’s direction of travel in implementing its findings, and we did not propose in this inquiry to reopen debate on these proposals. Many of these reforms have not come into force yet. We looked at these in our previous report into Pension Reform, and we will return to them once they have been implemented and we can examine how they work in practice.

Pension Credit has lifted large numbers of pensioners out of poverty. Take-up of Pension Credit improved rapidly after its introduction, but has since reached a plateau with many eligible pensioners still not claiming. Despite the best efforts of the Pension Disability and Carers Service (PDCS) it is seeing diminishing returns for its efforts. Take-up of Housing Benefit and Council Tax Benefit amongst pensioners has also declined since 1997. Improving take-up of all three benefits would markedly improve pensioner poverty.

This will lift many people out of poverty in itself, and bring more people into contact with the benefits system, making it more likely that they will claim Pension Credit. Local Authorities need to work much more closely with PDCS, to ensure that information on people who may be eligible for Pension Credit, Housing Benefit and Council Tax Benefit are (with permission) exchanged in both directions. This is not done at present and we recommend that this be trialled in some Local Authorities and, if successful, rolled out nationally.

The Department has put a lot of effort into encouraging pensioners to claim Pension Credit, then directing them towards other benefits. Changing the focus to encouraging people to claim Housing Benefit and Council Tax Benefit (especially if that was re-named a rebate), and then initiating claims for Pension Credit may now be more effective.

We conclude that there should be a single phone line for all three benefits. Despite progress towards joined-up working, PDCS is still sending out letters advising Pension Credit claimants to contact their local council about Housing and Council Tax Benefit, where they will be asked to give all their personal information again. It should not be necessary for them to do this, and doubtless many claimants are lost along the way.

We have been disappointed by the lack of data PDCS collects on Pension Credit take-up, especially amongst vulnerable groups. This makes it very difficult for us to suggest ways to effectively target these groups.

We welcome the “automaticity pilots” introduced in the Welfare Reform Bill. We welcome the Department taking a long term approach and seeking to find innovative ways to
improve take-up. We believe that “automaticity”, if handled sensitively, could be popular with pensioners. It also has the potential to dramatically increase take-up, benefiting a large number of the most vulnerable in society. We call on the Department to examine all options in order to implement it, including changing the legislative and accounting framework, and simplifying the eligibility criteria for Pension Credit.

We believe that pensioners in care homes who live on the Personal Expenses Allowance (PEA) should be entitled to live in dignity. Even though their accommodation and food is provided for them, they should still be entitled to a decent allowance to allow them to live fulfilled lives, and to keep up contact with their families. They need money to buy clothes and toiletries, for phone calls and hairdressing, as well as to maintain a social life, but the PEA is inadequate for these purposes. This is fundamental to achieving well-being in later life. We call on the Department of Health to raise the PEA to £40.

We also looked at the differences between Disability Living Allowance (DLA) payable to those who become disabled under 65, and Attendance Allowance (AA), payable to those who become disabled after the age of 65. DLA has three rates of “care” and two rates of “mobility”, while AA has only two rates of “care” and no payment for “mobility”. We are concerned that the differences of treatment on the grounds of age contravene the clear intentions of the Equality Bill. We do not believe that the difference in the benefits payable to those who become disabled before and after the age of 65 can be objectively and reasonably justified.

We looked at financial advice for pensioners and for those planning for their retirement. We believe that better advice could have a considerable impact on the lives of individual pensioners and would impact on pensioner poverty overall. Money Guidance and the proposed “one-stop shop” (as proposed in the Building a Society for All Ages Strategy) must become the clear, trusted, source of financial advice which is clearly needed. This service needs to develop public trust and needs to be clearly branded. The Government must focus on both the importance of branding, and the importance of ensuring the service reaches out to those who may not be aware that they need advice. It is not clear how this will operate in practice, but it is essential that Money Guidance and the “one-stop shop” signpost customers on to other organisations, such as The Pensions Advisory Service and third sector organizations, as seamlessly as possible. If people are advised to contact a wide range of organisations, or are passed from one organisation to another, people will be lost along the way.

We were impressed by the model used by Service Canada, which provides advice on all federal benefits, and provides signposting to other services. Having one source of unstigmatised information for people of all ages is convenient for customers and allows them to reach far more people, including those like poor pensioners and carers who tend not to self identify.

While no pensioner should be expected to work after 65, many would like to. Working longer can allow them to maintain social contacts, and to defer claiming a pension, something that can have a positive effect on their future income. We call for the Default Retirement Age to be abolished and for protection from discrimination for older workers to be strengthened, to ensure that every pensioner who wishes to can continue working.
Past recessions have led to disproportionate numbers of older workers over 50 losing their jobs and never working again. The Department must not allow this to happen again.
1 Introduction

Background to the inquiry

1. Scrutinising reform of the pension system, both public and private, has been an important element of our work since 2005. The Pensions Commission, chaired by Adair Turner, published its Second Report on 30 November 2005 setting the terms of debate about how future state and private pension provision could address the challenges of an ageing society. Since then, a broad consensus has emerged on the future shape of pension provision in the United Kingdom.

2. The Pensions Commission’s conclusions can be characterised as requiring some combination of more generous and more universal state provision, individuals saving more (through the establishment of a National Pensions Savings Scheme (NPSS)) and individuals working longer. The Government outlined its proposals for implementing the recommendations in its White Paper, Security in retirement: towards a new pensions system in May 2006. The Committee published its own response to the proposals in its report on Pension Reform in July 2006.1


4. However, the full effects of the Government’s reforms to the state pension system and the success of the system of personal accounts will not be known for some years. We have, in our previous reports, broadly welcomed the conclusions of the Pensions Commission and the Government’s direction of travel in implementing its findings, and we did not propose in this inquiry to reopen debate on these proposals.

5. We note that in Canada there is a compulsory contributory state pension scheme, the Canada Pension Plan (or Quebec Pension Plan in Quebec), which is building up a fund to pay for future pensions, as well as paying existing pensions. We were impressed by this model of funded provision.

6. Our focus has instead been primarily on examining the causes of the persistent unacceptable level of poverty amongst today’s pensioners (2 million pensioners were living in poverty according to 2007-08 figures3) and looking at what steps can be taken to ensure that those who are approaching retirement age now are less likely to spend all or part of their retirement in poverty.

7. The Committee published the terms of reference for the inquiry on 30 January 2009, as follows:

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3 Poverty is defined for this purpose as those living below 60% of contemporary median income after housing costs.
• What more does DWP need to do to address pensioner poverty? Are there specific groups who are more vulnerable to facing poverty in old age?

• Impact of the financial crisis on pensioner poverty – for example on savings income and on older people nearing retirement. Is “lifestyling” enough to mitigate the effects? What is the potential impact of the financial crisis on annuity rates? How will the financial crisis impact upon the numbers of Pension Credit claims?

• Benefits take-up – why do some people not take-up their entitlement to benefits (e.g. Pension Credit, Housing Benefit, Council Tax Benefit) and how can take-up rates be improved? What impact will the pilots for automatic take-up proposed in the Welfare Reform Bill have on Pension Credit take-up?

• Basic State Pension – will the 2010 changes create a fairer state pension system?

• Disability Living Allowance, Attendance Allowance and Carer’s Allowance– Are the eligibility rules and rates for the respective benefits sufficient? Are these rules and application processes understood by pensioners who claim them?

• Are lump sum payments, such as the Winter Fuel Payment, an appropriate way of addressing pensioner poverty?

• Is the Government’s programme of welfare reform the right approach for supporting pensioners who wish to continue working?

8. We received 36 written memoranda from a range of organisations and individuals. We are very grateful to those who took the time to contribute to this inquiry.

9. The Committee took oral evidence from Professor John Hills, Professor of Social Policy, London School of Economics, and formerly a member of the Pensions Commission; Mr Chris Curry, Research Director, Pensions Policy Institute; Mr Alan Barton, Citizens Advice Bureau; Mr Mervyn Kohler, and Ms Sally West, Age Concern and Help the Aged; Rt Hon Rosie Winterton MP, then Minister of State for Pensions and the Ageing Society, Mr Charlie Massey, Director for the Ageing Society, and Mr Alan Woods, Director for State Pensions and Stakeholder Relations, Department for Work and Pensions.

10. During the course of the inquiry, we visited Canada to examine the operation and delivery of benefits for “seniors” there. A note of our visit is annexed to this Report. We are very grateful to the High Commission in Ottawa for their assistance in organising this visit.

11. In addition, we visited pensioners at daycentres in Cambridge and Newmarket to discuss matters of concern to them that were relevant to the inquiry and also met pensioners in the village of Snailwell, Suffolk, where we gained an insight into the challenges facing pensioners in small rural communities. We are very grateful to all those that we met for sparing the time to meet us.

12. We are also grateful to David Norgrove, Chair of the Pensions Regulator, for welcoming the Committee to Brighton to visit the organisation’s offices for a series of briefings from officials from the Pensions Regulator, the Pension Protection Fund, the Personal Accounts Delivery Authority and DWP.
13. During the course of the inquiry, we have been assisted by Professor Ruth Hancock, Professor of the Economics of Health and Welfare and Head of Health Economics Group, Faculty of Health, University of East Anglia and Adam Steventon, Senior Research Analyst at the Nuffield Trust, who have worked as our specialist advisers. We are very grateful for the contribution that they have both made to our work.

**Numbers of pensioners living in poverty**

14. The Government’s Public Service Agreement (PSA) 17, on which the DWP takes the lead, requires it to “tackle poverty and promote greater independence and well-being in later life”. Indicator 2, measuring progress against PSA 17, is the percentage of pensioners in low income. Progress against indicator 2 is measured using a “basket” of three thresholds of low income defined after housing costs as:

- 60% of contemporary median income (often referred to as relative poverty);
- 50% of contemporary median income; and
- 60% of 1998-99 median income uprated in line with prices (often referred to as absolute poverty).

15. The 60% relative poverty measure is the one most often used by commentators on pensioner poverty; in this report, figures provided for numbers of pensioners living in poverty can be assumed to be calculated by this measure, unless otherwise specified. As around two-thirds of pensioners own their own homes outright, pensioner poverty is measured after housing costs (AHC) as this is widely regarded as giving a “truer picture” of income than when measured before housing costs.

16. The Households Below Average Income data for 2007-08 (the most recent year for which figures are available), indicated that there were 2 million pensioners in UK households living in poverty after housing costs. The “poverty line”, calculated as 60% of median income AHC, for 2007-08 is £115 per week for single pensioners and £199 per week for a couple. The proportion of pensioners living in households in each definition of “low income” since 1998-99 are set out in the following table:

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4 The Committee formally noted that both had declared that they had no relevant interests at its meeting on Wednesday 20 May. Formal minutes of the Committee are available at http://www.parliament.uk/parliamentary_committees/work_and_pensions_committee/wapfmhomepage.cfm

5 Further details of PSA 17 and performance against its indicators are provided in the DWP Autumn Performance Report 2008

6 Ev 102

7 Median income is calculated in accordance with Households Below Average Income data for 2007-08.
### Table 1 Percentage of pensioners in low income

<table>
<thead>
<tr>
<th>Year</th>
<th>Below 60% contemporary median income</th>
<th>Below 50% contemporary median income</th>
<th>Below 60% 1998/99 median income uprated by prices</th>
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<td>2007/08</td>
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Source DWP, Ev 110

17. Whilst the proportion of pensioners living below 60% of median income has fallen from 29% to 18% between 1998-99 and 2007-08, the proportion below 50% of median income, those in the most severe poverty, has only fallen from 13% to 10%.

18. Mr Kohler, Help the Aged and Age Concern, believed that the numbers of pensioners “clustered around the 60% margin […] is really very, very substantial”.8 He believed that “small changes in income up or down make quite a significant difference to the numbers of pensioners who one finds in poverty or just floating above it”.9 Professor John Hills agreed that there was “quite a spike of pensioners just around the poverty level where a variation of just a few hundred pounds would push them just above or just below”.10 However, he stressed that:

> “The underlying problem is not simply one of there being a few people just a few pounds below the line, there is a deeper structural problem of people who have not got adequate retirement income”.

19. The Department reports that “around 900,000 pensioners have been lifted out of relative poverty since 1998-99 […] The number of pensioners in relative poverty AHC has reduced from 2.9 million (29% of pensioners) in 1998-99 to 2.1 million (19% of pensioners) in 2006-07.”12 It stressed that Pension Credit ensured that no pensioner need live on less than £124 per week in 2008-09 (this figure was uprated to £130 per week for 2009-10); this compared to the guarantee of £69 per week in 1997 for those pensioners relying on Income Support (an increase of one third in real terms).13 The Department added that, as a result of changes in the tax and benefit systems, pensioner households were “on average £1,600 a year, or £31 per week, better off than they would have been under the 1997 system. And the poorest pensioner households are around £2,200 a year, or £42 per

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8 Q64  
9 Q64  
10 Q12  
11 Q12  
12 Ev 102  
13 Ev 102
week, better off”. We were also pleased to hear that pensioners were now less likely to live in poverty (18%) than the population as a whole (23%).

20. We welcome the substantial progress that has been made since 1997 in reducing levels of pensioner poverty, but note that rates of pensioner poverty have remained stubbornly at or around their current level since 2004-05. We note, however, that there are still 2 million pensioners living in poverty, of whom 1.1 million live on incomes below 50% of median household income.

21. A large number of pensioners who live in poverty live on incomes just below the poverty line. Whilst this does indicate that relatively small sums of money should be able to lift substantial numbers out of poverty, it is essential that there is no loss of focus on those in severe poverty.

**Income needs**

22. The Royal British Legion informed us that the London School of Hygiene had developed a measure of Minimum Income for Healthy Living (MIHL), identifying minimal costs for healthy living in respect of requirements including nutrition, physical activity, housing, psychological relations, mobility and medical care. The income required, according to MIHL, for a healthy lifestyle in 2008 was £136 per week for a single person and £216 for a couple (AHC). This is more than the level provided by the Guarantee Credit, which was uprated to £124.05 for a single pensioner and £189.35 for a couple in April 2008.

23. In 2009, the Joseph Rowntree Foundation drew up a “minimum income standard” (MIS), identifying what income was needed for a “socially acceptable standard of living” for a range of different households receiving benefits. This study found that pensioner couples would need £193.25 per week (AHC), which is less than the Guarantee Credit.

24. Research by the PPI has demonstrated significant differences in the needs of different groups of pensioners. Pensioners in rural areas have less access to public transport and may be less likely to shop in larger discount shops than pensioners in urban areas. The PPI also suggested that women pensioners had higher costs as some goods, such as women’s clothing and footwear, were more expensive than men’s and women tended to have higher care costs.

25. The PPI has stressed that income needs change during retirement. Those in early retirement tend to spend more of their income on leisure activities, such as holidays,
restaurants and going to the theatre; on average 40% of total spending by those aged 65-75 is on goods associated with recreation. The PPI found that:

“Pensioner spending can drop off as people become older and less mobile, after the age of 75, and then increase again in older age as people acquire health problems and need to spend more on care, fuel, power and food. However, as people reach age 95 and beyond, total spend tends to decrease as spending on items such as clothing, leisure and transport tends to drop off dramatically.”

26. This “second peak” in need for resources in retirement for pensioners in their late eighties and early nineties, is more acute for single pensioners, as couples may be able to share care and/or care for each other, and share fuel bills.

27. We note that the income needs of a pensioner vary significantly during the course of retirement. Some of these additional needs will be covered by additional benefits payable to older pensioners, such as a higher rate of Winter Fuel Payment for those over 75 and Attendance Allowance for those eligible for help with their care needs. However, these additional payments may not cover all of the additional costs incurred by older pensioners.

28. Changing demands on income throughout retirement represent a challenge both to pensioners, who must make plans accordingly, and to the social care system which must ensure that pensioners are able to cope with changing circumstances.

Vulnerable Groups

Older pensioners and women

29. Age Concern and Help the Aged agreed that the oldest pensioners, most of whom were women, were a particularly vulnerable group; they estimated that after housing costs, 25% of those over 85 were living in poverty. Women in general had “lower state and private retirement incomes due to employment disadvantages and caring responsibilities”; they were also “particularly vulnerable after widowhood or divorce if they had been reliant on their partner’s income”. It had been estimated that only 30% of women reaching State Pension Age in 2005-06 were eligible for the full Basic State Pension. The 2010 reforms are expected to increase this percentage to 90% by 2025.

30. Dr Ros Altmann told us that pensioners “who live alone, or are infirm but struggling to manage on their own, perhaps those who cannot read” were particularly at risk of living in poverty. Lancashire County Council Welfare Rights Service drew our attention to the case of an:

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21 Pensions Policy Institute (2009) Retirement income and assets: do pensioners have sufficient income to meet their needs in retirement?
22 Ev 117
23 Ev 117
24 Ev 117
25 Ev 54
“85-year-old customer who is virtually blind, living with a nephew who has learning difficulties. Neither able to deal with correspondence. Both had ‘muddled along’ and been missing out on benefits for some time due to difficulties managing their affairs”.  

31. Mr Curry suggested a number of reasons why older pensioners tended to be at higher risk of poverty: “Once someone reaches retirement, benefit income, income from private pensions and income from other sources tend to increase more slowly [than earnings]”.  

In this way, someone who retires with an income above the poverty line may find themselves falling below it during the course of their retirement.

32. He added that younger pensioners also tended to have a higher income, partly because of the way in which the State Earnings Related Pension and State Second Pension operated, but also because younger pensioners were “more likely to have been in occupational pension schemes and more likely to have saved in private pension schemes” (although recent trends suggest a downturn in the generosity of occupational pension schemes). In addition, older pensioners were “more likely to be single, so the impact of bereavement, and in particular widowhood, can have quite a marked impact on pensioners’ incomes”.

**Black and Minority Ethnic pensioners**

33. Older people from some black and minority ethnic groups (BME) are also at greater risk of poverty. The Department told us that 32% of Asian or Asian British pensioners and 29% of Black or Black British pensioners lived in poverty.

34. Chris Curry believed that factors affecting the working lives of these groups had “a big influence” on their retirement expectations. He noted that BME groups were:

“more likely to have periods where they are not working, their employment rates are lower […] their earnings are lower, their qualification for both the basic state pension and state second pension is lower, and because they have lower earnings they are less likely to be contributing to a private pension”.  

**Disabled pensioners**

35. Mr Curry noted that the same characteristics affecting the working lives of many in BME communities were similar to the characteristics of the working lives of many disabled people in terms of “their likelihood to be working, their earnings level if they are working; their contributions to pension schemes being lower because of low earnings, and all those kind of issues”.  

The PPI concluded that its research had identified that both disabled
people and people from BME communities shared a number of the “alarm bell” characteristics associated with lower pension incomes.31

36. Age Concern and Help the Aged also noted that 29% of pensioners in households with one or more disabled adults who were not in receipt of disability benefits lived in poverty; in households where disability benefits were claimed, the figure was 11%.32 Chris Curry also noted that studies comparing the costs of disability with the value of disability benefits had indicated that these costs:

“were much higher than were allowed for in the benefits for having a disability. This does not necessarily filter through into the poverty figures that we see because people with disabilities have higher incomes because they are receiving disability benefits, but no allowance is made in the calculation for them having higher costs of living.”

Carers

37. Carers UK drew our attention to the plight of pensioners who are carers. Their research has shown that two-thirds of all carers spend part of their own income or savings to pay for care.33 They also stressed that the complexity of the system meant that carers often missed out on benefits, including Pension Credit; we highlighted the particular difficulties facing pensioner carers in our report last year, Valuing and Supporting Carers.34 In that report, we also noted that many carers face a range of additional costs from their caring role and those who have had to give up work to provide care are likely to find that their pension income suffers as a result.35

People in care homes

38. Another vulnerable group is pensioners in care homes. The Personal Expenses Allowance (PEA) is the amount of income that people living in care homes are left with after being assessed for their contribution towards the care home’s fees. It is intended to meet costs that are not covered in the care home’s fees such as clothes, toiletries, gifts for grandchildren, hairdressing or going out. The Royal British Legion said:

“[The PEA] is vital to allow the poorest and most vulnerable in society an opportunity to enhance their quality of life and maintain social contact with friends and family. The current rate of the PEA, £21.15 (£21.90 from April 2009) in England, Northern Ireland and Scotland, and £21.38 in Wales, does not allow residents to do this. It is not enough to pay for all the personal items and social activities necessary for the well-being and social inclusion of older people in care homes.”

39. We note in Chapter 4 evidence that we received showing that this amount is inadequate for many pensioners, and that it does not allow them to live in dignity and to keep up

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31 Ev 137-39
32 Ev 117
33 Ev 111
35 Ibid.
contact with their families. However this group does not appear in statistics showing the number of pensioners living in poverty.

**Tenants**

40. The Department noted that pensioners living in rented accommodation were also more likely to live in poverty. 28% of pensioners living in the social rented sector and 38% of pensioners in the private rented sector lived in poverty.\(^{36}\) Professor Hills explained that tenants were “much more likely to have low incomes in their working lives and much lower levels of employment in general. […] If you have a lower lifetime income almost whatever you do you are going to end up poor, except insofar as the state is helping you.”\(^{37}\)

**Conclusions on vulnerable groups**

41. We note that the pensioners most at risk of poverty include many from those groups most likely to have had broken work histories or low working incomes who have had a reduced opportunity to build up pension contributions in the state and private systems.

**Pensioner Incomes**

42. The latest statistics on pensioner household incomes from the Family Resources Survey indicate that between 1998-99 and 2007-08, average net income after housing costs increased by 38% (and by 25% before housing costs).\(^{38}\)

43. The Pensioners’ Income Series data for 2007-08 showed that around 95% of pensioners received some state pension income.\(^{39}\) The vast majority of pensioners had some private income on top of their state provision (93% of pensioner couples and 83% of single pensioners), and for 39% of pensioners, more than half of gross household income came from private sources. This proportion was much higher for couples (55%) than single pensioners (27%) and much higher for the more recently retired (51%). 72% of pensioners received some investment income and 59% received income from an occupational pension.

44. Just under a third of pensioners were in receipt of income related benefits in 2007-08; the proportion was much higher for single pensioners (42%) than couples (18%).\(^{40}\) The proportions of pensioners in receipt of different categories of income are illustrated in the graph below:

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\(^{36}\) Ev 103  
\(^{37}\) Q55  
\(^{38}\) The Pensioners’ Incomes Series data assesses the income of what it terms a “pensioner unit”; this is defined as a single person over state pension age or a couple where one or both are over state pension age. In this section, “pensioner” is used instead of “pensioner unit”.

\(^{39}\) Pensioners’ Incomes Series 2007-08; included in state pension income are payments of Basic State Pension and second state pensions, mainly SERPS and S2P but also including Widow’s Pension and Widowed Parent’s Allowance. This category does not include payments of Pension Credit.

\(^{40}\) Income related benefits included Pension Credit, Housing Benefit, Council Tax Benefit and Social Fund Grants.
45. We discuss in chapter 2 the effects that the reforms of the Pensions Act 2007 in the state pension system will have, in particular, on the pension incomes of women and carers when they come into force from 2010. The graph below illustrates the distribution of incomes from state pensions in 2007-08.\textsuperscript{41} The mean state pension income for pensioners in 2007-08 was £130 (£108 for single pensioners and £157 for couples).

46. After state pension income, investment income was the second most common source of income. Whilst the mean weekly investment income in 2007-08 was £60, half of those receiving investment income received less than £7 a week. Although the mean weekly investment income of pensioners has risen by 30% since 1996-97, the median income of £7 has remained largely unchanged in real terms. The Pensioners’ Income Series data suggests

\textsuperscript{41} In 2007-08 the basic pension was £87.30 per week for a single pensioner, £139.60 per week for a married pensioner where the wife was receiving a pension on the basis of her husband’s NI contributions, and £174.60 per week for couples where both were receiving a full single pension in their own right.
that a previous period which saw large stock market falls and relatively low interest rates, between 2000-01 and 2002-03, saw a fall in investment income which “disproportionately affected the richest pensioners, and [made] little difference to the majority of pensioners who receive relatively small amounts of investment income”.\textsuperscript{42} We discuss the impact of the recession on pensioners in more detail in Chapter 5.

47. Income from occupational pension schemes benefited 59% of pensioners in 2007-08, compared to 40% in 1979. The coverage of occupational pension schemes grew substantially in the 1950s and 1960s and, increasingly since 1979, members of these schemes have been retiring with more substantial pensions. The mean income from an occupational pension was £160 per week in 2007-08. Overall, 67% of pensioners received private pension income (from occupational and other pension plans), although half of all recipients of private pension income received less than £99 per week from this source.

48. However, incomes from occupational pension schemes are likely to fall in the long-term as organisations close their defined benefit (DB) schemes and confidence in defined contribution schemes (DC) suffers from the economic downturn. The Actuarial Profession noted that

\begin{quote}
“Over recent years we have also seen a decline in private sector final salary schemes with three quarters of them closing to new entrants and the expectation that many will cease future accrual of benefits for existing members. Defined contribution schemes will have been badly hit by the recent turmoil on the world’s stock markets as members of such schemes will have seen the value of their retirement pot shrink.”\textsuperscript{43}
\end{quote}

49. The Occupational Pensioners’ Alliance noted that, since the employee takes on all the risk of the investment in a DC scheme, “the current total lack of confidence in investments will lead to reluctance to make sufficient contributions.”\textsuperscript{44}

\section*{Projections of future pensioner incomes}

50. Projections from the PPI of future pensioner incomes suggest a “long term growth in pensioner income broadly in line with average earnings growth […] or potentially a little bit faster than that”; Mr Curry believed that, whilst by no means a certainty, this would suggest a long-term reduction in pensioner poverty:

\begin{quote}
“as more people build up entitlement to private pensions and as the state becomes a firmer base, as the basic state pension is re-linked into earnings and as more people become eligible for state second pension and it becomes more valuable to low earners”\textsuperscript{45}
\end{quote}

51. We welcome the Pension Policy Institute’s cautious projections that long-term pensioner incomes should be in line with, or exceed, average earnings; this holds out a

\textsuperscript{42} Pensioners’ Incomes Series 2007-08, Chapter 3, page 40.
\textsuperscript{43} Ev 125
\textsuperscript{44} Ev 86
\textsuperscript{45} Q13
very welcome prospect of future progress in combating pensioner poverty. We note that these encouraging projections are based on both an increase in private saving and more generous and more universal state provision, two of the key elements of the Pensions Commission’s prescription for reform. We are concerned that the recent trend for employers to close down defined benefit occupational pension schemes and set up defined contribution schemes with reduced employer contributions, together with a lack of confidence amongst employees in defined contribution schemes could jeopardise this progress.

**Pensioners who are income-poor but asset-rich**

52. During the course of our inquiry and during our visit to Cambridgeshire and Suffolk, we heard of the variety of pensioners’ financial situations. A particular challenge in addressing poverty amongst pensioners arises from the fact that some pensioners can be deemed to be “asset rich” but still live on very low incomes.

53. Approximately two-thirds of pensioners own their own homes outright, having paid off mortgages during their working lives, and may therefore be in possession of quite substantial, although not liquid, assets. They may be reluctant to “downsize” their property for a range of reasons, including personal attachment to the family home, fear of being unable to cope with a move, a desire to bequeath the property or a fear of losing eligibility to means-tested benefits. However, some in this situation continue to subsist on very low incomes. These individuals may be very unlikely to identify themselves as poor and those not claiming means-tested benefits may not imagine that they would be eligible, putting them at particular risk of poverty.

54. We have also heard of the experiences of pensioners who may be reluctant to sell a large home that they cannot afford to keep, despite recognising that their income is inadequate for its higher running costs, and of those whose home is no longer accessible for them but who still do not want to enter residential care. In some areas, pensioners find that selling their home does not provide them with enough to buy a smaller property, perhaps more modern or closer to shops, that better suits their needs.

55. The Green Paper *Shaping the Future of Care Together*, which was published during our consideration of this report, recommended setting up a National Care Service to provide a basic entitlement to social care for the elderly and disabled. It identified three options for future funding of such a service. We await the outcome of the consultation with interest. We welcome the debate on this important issue and note that this agenda touches many of the issues raised in our report.

**Adapting to changing circumstances**

56. On our UK visits we were told of pensioners who have accumulated substantial savings which provide them with a very limited income (particularly at present low interest rates) but remove their eligibility for means-tested Pension Credit under the tariff income rules (discussed further in Chapter 2). They may be reluctant to dip into their capital for what they might regard as everyday expenses.
57. Some older pensioners have retired with a substantial savings pot, but find it depleted over time, either because they bought an annuity that did not keep pace with inflation, or because they did not buy an annuity and have had to dip into their savings. For these individuals, there is not likely to be a sudden point at which they realise that they may be eligible for means-tested benefits. It is the difficulty in identifying the critical point at which their financial situation has brought them within eligibility for these benefits that poses a particular challenge in addressing pensioner poverty.
2 Benefit System

Basic State Pension

58. Eligibility for the Basic State Pension (BSP) has historically been complicated. It is based on contributions made through the National Insurance System (by those in work), credits earned in certain circumstances (including while claiming Jobseekers Allowance, or being off sick with a medical certificate), and Home Responsibilities Protection, earned while caring for a child or disabled person (however this could only be claimed for 20 years). To get the full pension someone must have paid contributions for at least one year, and have paid contributions or have credits for 90% of the period between age 16 and retirement.

59. These rules meant that many people, mostly women, did not have enough credits for the full BSP and accordingly receive a pro-rata pension. Someone who had not paid contributions for at least one year, or had not paid contributions or had credits for at least 25% of the period between age 16 and retirement would receive no BSP at all. In addition, until 1977 many married women paid the “married women’s reduced contribution” which did not entitle them to a pension in their own right.

Rate of the Basic State Pension

60. The full Basic State Pension for 2009/10 is £95.25 for a single person, or £190.50 for a couple where both qualify for the full pension. Where one partner qualifies for the full pension and the other does not it is more complicated. The rate is £152.30 for a couple where only one person qualifies (often where the wife paid married woman’s contributions). If the person who has the full contributions record dies, the widow (or widower) is eligible for the full BSP as if they had made the contributions.

61. We received a number of submissions calling for the BSP to be raised. The National Pensioners Convention argued that:

“Like many other European countries, it is time we recognised the inherent weaknesses of the private pensions system, and instead concentrate on strengthening the existing National Insurance based pension as the most effective way of tackling pensioner poverty, both now and in the future.

Essential to this approach would be:

Increasing the basic state pension for all existing pensioners (regardless of contributions) immediately to the official poverty level […]

Immediately indexing the basic state pension annually to average earnings or prices whichever is the greater so that its value is maintained for the future and pensioners share in the rising prosperity of the nation”.46

62. Tony Salter, Andrew Bryans and Colin Redman said:

46 Ev 76
“Instead of modifying the conditions for receiving Pension Credit, it would be simpler and more cost effective to uplift the Basic State Pension so that it is at a subsistence level with the additional cost incurred being mitigated, at least in part, by appropriate changes to the SERPS and S2P [State Second Pension] arrangements.”

63. We also noted a petition presented to the House from the Retired Members Committee of the South East Region branch of Unison calling for the BSP to be raised to £139 a week. In its observations on the petition, the Department said that:

“increasing the Basic State Pension to £139 would incur an additional cost of around £25 billion each year[…] we estimate that richer pensioners with a full basic State Pension would gain around £50 a week of basic State Pension if it rose to £139 a week, compared to a maximum gain of around £15 a week for the poorest pensioners.”

64. In Canada we heard that their equivalent of the BSP is “clawed back” from higher earners. But only 2% of pensioners have the full amount clawed back.

**State Second Pension (S2P)**

65. The State Second Pension was introduced in 2002 to replace the State Earnings Related Pension Scheme (SERPS). It is more redistributive than SERPS and has three earnings bands and three accrual rates. Those in the lowest earning band accrue rights to the S2P as if they are earning at the Low Earnings Threshold (£13,500 in 2008/9) even if they earn less than that. Carers, disabled people, and parents of children under 6 also accrue rights as if they are earning at the Low Earnings Threshold, even if they are not working. Accruals in the lowest band are double what they were under SERPS, so employees receive twice as much second pension as they would have under the old system. Those in the middle band have tapering benefits, while those in the top band receive the same benefit as they would have under SERPS. The S2P is compulsory for the employed, but not the self employed.

66. In 2006 the Government announced that S2P would gradually cease to be earnings related (currently it is only slightly so for low to moderate earners) and become flat rate. The Department told the Committee that the 2007 Pensions Act would:

“Reform the State Second Pension (S2P) so that it becomes a simple top-up to the basic State Pension – a flat rate amount of £1.60 a week pension for each qualifying year from 2012. This will replace the great complexity of the existing calculation enabling people to work out how much they will get from the state and so better plan for their retirement.”

67. Since SERPS and the S2P were introduced comparatively recently, and because they are both earnings and contributions related, it is not possible to give any meaningful indicative figure as to how much people receive. S2P’s impact so far has been limited for the majority of current pensioners, as it was only introduced in 2002.
Pension Credit

68. In 1997, the Government introduced the Minimum Income Guarantee, replacing it in 2003 with Pension Credit. Pension Credit has two elements: Guarantee Credit and Savings Credit. Guarantee Credit is a means-tested benefit which is paid if the income of the claimant and partner (plus a notional income from savings) is below a certain level. The term “Pension Credit” is often used when just the “Guarantee Credit” is meant. The Guarantee Credit in 2009/10 is £130 for single people and £198.45 for a couple and is payable from the age of 60.

69. Anyone in receipt of the Guarantee Credit is normally eligible for full Council Tax Benefit and Housing Benefit. However these must be claimed separately. For those not in receipt of the Guarantee Credit (including those only receiving Savings Credit) there are capital limits of £16,000 for Council Tax and Housing Benefit, meaning that nobody with capital of more than £16,000 is eligible for these benefits.49

70. The amount of Pension Credit can be increased if the claimant and/or partner are in receipt of a disability benefit, such as Disability Living Allowance (DLA) or Attendance Allowance. There is also an addition for carers and for those paying mortgage interest.

71. When the claimant or partner reaches 65 then the second element of Pension Credit – Savings Credit – is also payable. Savings Credit is designed to "reward" people who saved for their retirement during their working life. It therefore provides additional benefit to retired people who are not well off, but do have some savings or a personal pension. Pensioners receive an extra 60 pence for every pound of income, between certain limits. The lower limits for 2009/10 are £96 for single pensioners and £153.40 for couples and the upper limits are £130 (single) and £198.45 (couples). Savings Credit is worth up to £20.40 for a single pensioner and £27.03 for a couple. Once a pensioner’s income reaches above a certain level, Savings Credit is tapered.

Pensions Reform

72. The Government’s proposals for pension reform have passed into law as the Pensions Act 2007 and the Pensions Act 2008. The main provisions of these two pieces of legislation are to:

- Gradually increase the State Pension Age for men and women to 68 by 2046;
- Continue to up-rate the Guarantee Credit in line with National Average Earnings, and enshrine the existing Government commitment in legislation.
- Link indexation of the BSP to average earnings some time after 2012 but before the end of the next Parliament;
- Make S2P accruals flat-rate from around 2030;
- Abolish provision for those with defined contribution occupational and personal pension schemes to opt out of S2P;

49 Capital does not include the value of a pensioners’ home.
• Automatically enrol most employees into saving for a pension from 2012, with a minimum contribution rate of 4% of a band of earnings, but with the right to opt out;

• Require that employers contribute at least 3% of a band of earnings for their employees who have not opted out of pension saving, and;

• Introduce a new pension saving scheme of low-cost portable individualised pension savings accounts from 2012 (Personal Accounts).

73. A number of other reforms come in from 2010, including:

• The number of contributory years required for the BSP will be reduced to 30, from the current figure of 44 for men and 39 for women;

• The initial contributions and 25% rule for BSP will be abolished so that every year of contributions and credits will count towards BSP entitlement;

• Home Responsibilities Protection will be replaced with a new weekly credit for those caring for children under 12, and;

• A new credit will also be introduced in BSP and S2P for those caring for severely disabled people for 20 hours or more per week.

The effect of the 2010 changes

74. The Department told us that the 2010 reforms would increase the coverage of BSP and S2P and would particularly benefit women:

• By 2010 three quarters of women reaching State Pension Age will be entitled to a full BSP compared to around a third now. Almost an extra one million people with caring responsibilities (90% of them women) will build up entitlement to State Second Pension from 2010 as a result of reform. Over 90% of women and men reaching State Pension Age in 2025 will be entitled to a full BSP.

• Abolishing the current minimum contributions conditions will mean that people will be able to build entitlement through credits or paid contributions and those with very few qualifying years will be able to get at least some basic State Pension.50

75. However it will still be possible not to qualify for the BSP. Some submissions to the inquiry stressed the limited nature of these reforms. The PPT’s submission focused on those who are still likely to earn a reduced entitlement to S2P, or no S2P at all, even after the reforms:

“based on working patterns in 2004/5, around 25% of working age people will still not qualify for S2P each year even after the reforms […] Although almost everybody is expected to receive the full amount of Basic State Pension in future, this is not true for the State Second Pension. 33% of disabled people might not qualify for the Second State Pension each year, compared to 24% of non-disabled people […]

50 Ev 107-8
[Ethnic minorities] are less likely to qualify for state pensions. The difference in employment rates means that 35% of people from ethnic minority groups might not qualify for the State Second Pension each year, compared to 24% of white people.\(^{51}\)

76. Many vulnerable groups have lower employment rates. Some individual black and minority ethnic groups are also more likely to be self-employed than white people. For example, around 26% of Pakistani people of working age are self-employed, compared to 13% of white people. The self-employed do not build up entitlement to the S2P.

77. In addition those who have already reached State Pension Age, or reach it before the reforms come in in April 2010, are bound by the old rules. In our previous report we expressed concern about this “cliff edge in eligibility”:

“The Committee accepts that it might be difficult to apply the carer’s credit retrospectively, but is concerned about those with interrupted work records reaching State Pension Age between now and April 2010 who will not benefit from the proposals to increase coverage. We recommend that consideration be given to mitigating the gap in entitlement of those born before April 1950 compared with those reaching SPA under the new rules.”\(^{52}\)

78. The Government has now introduced a scheme from 6 April 2009, allowing people to improve their State Pension by paying up to six extra years of voluntary (Class 3) National Insurance contributions for years going back to 1975. This is in addition to the opportunity they already have to pay voluntary contributions for the last six tax years.

79. We welcome the changes to the pension system which will start in 2010 which will make state pension provision more generous and benefit many disadvantaged groups. However there are still groups who will miss out, particularly on the State Second Pension; most notably many disabled people, many people from ethnic minorities and the self-employed.

80. In addition, the changes are not retrospective, leaving a cliff edge, with those who retire before April 2010 having their pension decided on the basis of the older, stricter rules. This will delay the impact of the reforms on pensioner poverty. We welcome the scheme to allow people to pay six extra years of voluntary (Class 3) National Insurance contributions. But it is inadequate, and those retiring before April 2010, or who have already retired are at a disadvantage. The Department must monitor the situation closely, and ensure that Pension Credit continues to be available for those who miss out through no fault of their own.

**The earnings link**

81. The BSP is uprated each April by 2.5% or the increase in the Retail Price Index (RPI) in the 12 months up to the previous September, whichever is higher. This year it was increased by 5% in accordance with RPI. The Pensions Act 2007 included a commitment to re-link the uprating of the BSP to earnings. In most years, earnings rise faster than

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\(^{51}\) Ev 135-9

\(^{52}\) *Pension Reform*, Fourth Report of the Committee, Session 2005–06, HC 1068-I para 221
prices, so this would lead to the BSP rising faster. However, the increase in the headline rate of national average earnings up to July 2008 was 3.5% (compared to 5% for the RPI). The April 2008 uprating was the first since 1998 in which the RPI was greater than the increase in average earnings, although this was also the case in April 2009.

82. The Pensions Commission had recommended that the link between BSP and earnings be restored by 2010-11. The Department told us that:

“Our objective, subject to affordability and the fiscal position, is to do this in 2012, but in any event by the end of the next Parliament at the latest. The Government will make a statement on the precise date at the beginning of the next Parliament.”

83. Professor Hills told us that the higher the level of BSP and S2P, the fewer people are eligible for means-tested benefits. This reduces pensioner poverty without having to address take-up of benefits. Reducing the number of people on means-tested benefits also improves incentives to save. However, he felt that the economic downturn would make the decision more difficult for the Government:

“The downturn cuts both ways. If we are looking at a period where real earnings are going to grow more slowly than we might have anticipated, it is actually not so expensive to re-link the value of the basic pension to earnings. […] However] the public finances are under huge pressure and that change will cost some money.”

84. When the then Minister was asked whether restoring the link with earnings might be brought forward, she reaffirmed the Government’s commitment to the current timetable:

“There is a stated position. I think it is also probably worth remembering that if it had happened this year people would have got a smaller increase […] but the stated position does remain as was. I could just change it today but I think it probably would not be a popular move.”

85. Even in the current economic climate, it is vital that the link between the Basic State Pension and earnings is restored in 2012 as planned. A failure to meet the deadline would undermine Government efforts to reduce the spread of means testing and increase incentives to save. We reaffirm our previous recommendations that a strong Basic State Pension is an essential building block in people’s retirement income.

Future of Savings Credit

86. In its second report, published in November 2005, the Pensions Commission stated that, if current indexation arrangements were maintained indefinitely, the percentage of pensioner households subject to means-tested withdrawal of state benefits at some point in
retirement would rise steadily to above 70% in 2050. It was concerned that this would act as a disincentive to save:

“Means-testing […] reduces rational incentives to save for many people. Some financial advisers are therefore wary of selling pensions to low earners for fear of mis-selling: indeed it is possible that IFAs perceive the effects of means-testing as greater than the reality. Significant future growth of means-testing would, therefore, both for rational reasons and for reasons of perception, undermine voluntary private pension saving by the very groups of people, average and lower earners, most in danger of under-provision.”

87. Professor Hills stressed to us the importance of ensuring that means-testing does not increase:

“Whether the reduction in the number of people covered by savings credit and by Pension Credit is from 45% to 40% or from 45% to 20 or 25%, the crucial thing is that it is moving downwards, whereas had we continued with the previous assumptions that number would be moving up to 70-75-80% and the whole message of telling people that it is a good idea to save for retirement becomes much, much more difficult.”

88. The May 2006 Pensions White Paper Security in retirement: towards a new pensions system announced changes to the uprating of Savings Credit, with the intention of curtailing the spread of means-testing. The Savings Credit minimum threshold, which had been set at the level of the Basic State Pension, was decoupled from the BSP and would be increased in line with earnings from 2008 (rather than from 2012 for BSP). From 2015, the maximum Savings Credit would be frozen in real terms, further narrowing the band of savings income for which Savings Credit can be paid. The Department explained that:

“The Savings Credit will continue to reward people who make provision for their retirement. However, as State Second Pension matures, more and more people will have built up State Second Pension entitlement. We agree with the Pensions Commission’s assessment that the starting point for calculation of the Savings Credit should be raised as this happens.”

**Lump Sum Payments**

89. Pensioners can receive a number of lump sum payments including:

- £200 Winter Fuel Payment (all pensioners), £300 if over 80;
- £50 Additional Winter Fuel Payment for 2008/9 only, £100 for those over 80. The 2009 Budget announced that this would be extended for 2009/10;

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59 Q 36
60 Security in retirement: towards a new pensions system, Cm 6841, para 3.62
• £25 Cold Weather Payments, means-tested, and weather dependant;
• £10 Christmas bonus (in 2008/9 there was an additional payment of £60; this was variously described by the DWP as “bringing forward the April increase in the Basic State Pension” and as an “additional Christmas bonus payment”).

90. A number of submissions commented that lump-sum payments were popular with pensioners, but they were only needed because incomes were so low. Age Concern and Help the Aged said:

“If all older people had an adequate income that enabled a decent standard of living there would be no need for additional lump sum payments. […] However in the short term given the low levels of income, the fuel poverty lump sum payments play an important role in helping to alleviate poverty. They remain popular amongst pensioners, are simple to understand and are generally paid automatically so do not suffer from take-up problems.”

91. We welcome the Government’s announcement in the Budget that the Winter Fuel Payment for 2009/10 will be maintained at the same level as last year.

Tariff Income

92. Pension Credit recipients with more than £10,000 of capital (excluding the value of their home), have a deduction made from their Pension Credit entitlement, in accordance with tariff income rules. For every £500 of capital above £10,000 their income is treated as being £1 a week higher. This can make them eligible for Savings Credit, but the Guarantee Credit is reduced by £1 for every £1 that income goes up. A number of submissions argued that the rate of tariff suggested an assumed interest rate on savings of above 10% (although the tariff only applies to savings above the capital limit, while a pensioner would receive interest on the whole amount). CAB said:

“Even before the recent historically low interest rates, this was higher than they could actually earn on savings, so that they would need to run down their savings to have the basic standard of living that the government considers acceptable. Since the recent fall in interest rates this policy has become particularly punitive.”

93. The graph below gives an illustration of how tariff income rules affect the savings of a pensioner with £20,000 in savings who is claiming Pension Credit. The first line on the graph shows how savings would fall if a pensioner spends 10% of all savings over £10,000.

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61 The average temperature at the specified weather station for the area must be recorded as, or forecast to be, zero degrees centigrade or below for seven consecutive days. A person is eligible for a Cold Weather Payment if they receive Pension Credit or income-related Employment and Support Allowance with a support or work related activity component. They may also be eligible for a Cold Weather Payment if they receive Income Support, income-based Jobseeker’s Allowance or income-related Employment and Support Allowance in the assessment phase and have a pensioner premium or disability premium, or they have a child who is disabled or a child who is under five in the family.

62 2008 Pre-Budget Report Cm7484 pg83


64 Counsel and Care Ev 58

65 Ev 121

66 Ev 129
This is the level of income that the pensioner is deemed to have earned from their savings in the calculation of eligibility for Pension Credit. Around 75% of pensioners have less than £20,000 in savings. If the money was in an interest bearing account it would last longer. However inflation will reduce the buying power of those savings. This illustration assumes the pensioner is only using their savings to make up for the deduction from their Guarantee Credit entitlement.

94. The second line shows how savings would fall if a pensioner spends a (very modest) additional £10 a week. In this scenario savings have halved in 10 years and have run out before the age of 95.

95. Age Concern and Help the Aged stressed that while pensioners had saved for their retirement, and might be expected to spend their savings, those savings had to last their whole lives. Younger pensioners in particular needed to be cautious and think about their life expectancy:

“People are thinking about the length of their retirement and, if you are 65 and all you have got is £12,000 savings. […] We are talking about people who have an emergency fund for if the roof needs repairs or if something happens, so people will have to dip into that money at times, but what is happening with high levels of tariff income is that people were needing to dip into savings for everyday bills because they were being assessed (and still are) as having high levels of income so were getting less benefit.”

96. The Department has said that the 10% reduction is not assumed income from interest. Confusion may have arisen because the 10% rate was set in 1987 when the base rate was about 10%. The Department told Money Mail in March 2009: “Its [the tariff on Pension Credit] about asking people with savings of more than £6,000 [the then tariff threshold] to
contribute a small amount to their weekly expenses so we can channel help to those on the lowest incomes.”68

97. It is important that the benefits system recognises that pensioners want to retain cash savings for unforeseen emergencies. Disregarding a certain amount of savings is also essential to ensuring that it pays to save. However, means-tested benefits must remain focused on the poorest pensioners and it is not unreasonable to expect pensioners to make use of savings above a certain threshold before they become eligible for means-tested benefits.

98. When we began our inquiry the tariff disregard was £6,000. In addition to the extension of the additional Winter Fuel Payment for 2009-10, the Budget announced that the Government would:

“raise the capital disregard in Pension Credit, and pensioner-related Housing and Council Tax Benefit, from £6,000 to £10,000 in November 2009. This will increase the income of 540,000 pensioner households by £4 per week on average.”

99. Age Concern and Help the Aged’s Budget Response 2009 said they were “delighted” that the disregard had been increased. The then Minister explained during oral evidence why the Government had decided on this measure:

“There probably were not huge amounts of money [available], and I think that the change that we have made cost something like £130 million […] There was a lot of pressure, as I am sure all members of the Committee will know, about the effect of falling interest rates on pensioners’ savings, so we did want to look at what we could do. We chose this method because it was the simplest way of introducing a change […] but also it does help those with a lower amount of savings more so than the alternative would have done.”69

100. The then Minister went on to say that while it would leave over half a million people £4 a week better off, the effect on poverty would be “marginal”.70 She told us that those already in receipt of Pension Credit would have their claims reassessed automatically in November this year. 50,000 people would become eligible for Pension Credit as a result of the rule change, and would have to apply for the benefit. Those who had applied unsuccessfully in the past would have to re-apply. The then Minister explained that this was because:

“I think the information [from unsuccessful applications] is kept for about 14 months. The difficulty is that it is not easy to identify which ones were turned down because of the amount of savings they had or for other reasons, so, in a sense, going through, claim by claim, those applications, we do not think it would be particularly

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69 Q 166

70 Q 168
successful and we think there are better ways that we can actually reach out to
to people.”71

101. We welcome the raising of the capital disregard on Pension Credit from £6,000 to
£10,000. We also welcome the assurances of the then Minister that all those who receive
Pension Credit, but may now be entitled to more, will have their claims reassessed in
November. We urge the Department to publicise the fact that those previously deemed
ineligible could now be eligible, because of the rule change, and should re-apply. While
we accept that wealthier pensioners need to contribute towards their living costs,
pensioners want their savings to last until the end of their lives. We recommend that
the Government continues to keep the capital disregards and tariff rate under review,
to ensure that they take account of changes in life expectancy.

Where benefits fit with the poverty line

102. The table below compares pensioner benefits with Jobseekers’ Allowance and benefits
for two groups of people the Department does not expect to work in the long term, carers
and the disabled who do not have to undertake “work-related activity”. Pensioners receive
substantially more than other groups who are not expected to work. A pensioner who was
also disabled or a carer would be entitled to more. The table uses 2009/10 figures:

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Amount (Single)</th>
<th>Amount Couple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobseekers Allowance</td>
<td>£64.30 (over 25)</td>
<td>£100.95</td>
</tr>
<tr>
<td>Carers</td>
<td>£93.80 (IS with carers premium)</td>
<td></td>
</tr>
<tr>
<td>Employment and Support Allowance</td>
<td>£108.55 (support group + enhanced disability)</td>
<td>£151.10 (support group + enhanced disability)</td>
</tr>
<tr>
<td>Basic State Pension</td>
<td>£95.25</td>
<td>£152.30</td>
</tr>
<tr>
<td>Pension Credit (Guarantee Only)</td>
<td>£130</td>
<td>£198.45</td>
</tr>
<tr>
<td>Pension Credit (Guarantee + Savings Credit)</td>
<td>£150.40 72</td>
<td>£225.48 73</td>
</tr>
</tbody>
</table>

103. The table below compares historic rates of Pension Credit along with the poverty line.
The poverty line is calculated using Household Below Average Income (HBAI) data which
is published two years in arrears; the 2007/8 figures are the most recent available.

71 Q 171

72 This is based on the maximum Savings Credit of £20.40 a week. To get this a pensioner would need an income from any
source (BSP, S2P, savings, and or private pension) of £130

73 This is based on the maximum Savings Credit of £27.03 a week. To get this a pensioner couple would need an income
from any source (BSP, S2P, savings, and or private pension) of £198.45
Table 3

<table>
<thead>
<tr>
<th>Year</th>
<th>Pension Credit (Single)</th>
<th>60% median income AHC (Single)</th>
<th>Pension Credit (Couple)</th>
<th>60% median income (Couple)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006/7</td>
<td>£114.05</td>
<td>£112</td>
<td>£174.05</td>
<td>£193</td>
</tr>
<tr>
<td>2007/8</td>
<td>£119.05</td>
<td>£115</td>
<td>£181.70</td>
<td>£199</td>
</tr>
<tr>
<td>2008/9</td>
<td>£124</td>
<td>-</td>
<td>£189.35</td>
<td>-</td>
</tr>
<tr>
<td>2009/10</td>
<td>£130</td>
<td>-</td>
<td>£198.45</td>
<td>-</td>
</tr>
</tbody>
</table>

104. The Guarantee Credit level for single people has historically been above the poverty line whereas the level for couples has historically been slightly below the poverty line. While the economic downturn will probably have seen a reduction in the rate of growth of average earnings, and hence a reduction in how fast the poverty line rises, it is clear that the Guarantee Credit level for couples in 2009/10 will be below the poverty line. Although a pensioner couple would also be eligible for the Winter Fuel Payment, and Christmas Bonus, worth a total of £260 or £5 a week (based on the under 80 rate of Winter Fuel Payment), this is unlikely to be enough to lift them above the poverty line.

105. However Ms West from Age Concern and Help the Aged told us that there was evidence to suggest that while the ratio of the single rate of Guarantee Credit to the couple rate was right, it is the ratio of the single and couple poverty lines that is wrong:

“The poverty figures suggest that a single person needs 58% of the income of a couple. […] Pension Credit uses a slightly different measure. If you look at Pension Credit, a single pensioner will get about 65% of the couple rate. So there is an argument about which is the better balance between single pensioners and couples. Certainly when we have done work on minimum incomes - and if you look at the recent work by the Joseph Rowntree Foundation on minimum incomes - it veers more towards the 65%. There is a question as to whether the equivalence scales that are used for the poverty figures represent what a single person needs.”

106. We welcome the fact that the package of benefits for single pensioners lifts them above the poverty line. The fact that the package for couple pensioners does not lift them above the poverty line makes it harder for the Government to tackle pensioner poverty.

Eradicating pensioner poverty

107. Public Service Agreement PSA 9 (led by the Treasury) is to halve the number of children living in poverty by 2010-11 on the way to eradicating child poverty by 2020. The
Child Poverty Bill, published on 16th June, seeks to enshrine this commitment in legislation. The target for pensioner poverty (PSA 17 indicator 2) is to “reduce the percentage of pensioners in low income”. “Low income” is defined as below 60% median income AHC (below the poverty line). In oral evidence we asked the then Minister why there was no commitment to eradicate pensioner poverty as there is with child poverty. She told us that “whilst it is true to say they are not the same words, I can assure you, there is the same commitment.”

108. We welcome the then Minister’s assurance that the Department has the same commitment to tackling pensioner poverty as it does to tackling child poverty. However we believe the commitment should be made explicit and we call on the Government to commit to eradicating pensioner poverty.

75 Q 181
3 Take-up

Take-up of Pension Credit

109. In 2004 Public Service Agreement (PSA) 6 set a target for the Department to “be paying Pension Credit to at least 3.2 million pensioner households, while maintaining a focus on the most disadvantaged by ensuring that at least 2.2 million of these households are in receipt of the Guarantee Credit by 2008”. The Autumn Performance Report (APR) 2007 showed slippage in progress towards both measures of PSA 6:

“Between February 2006 and May 2007 the number of Pension Credit recipients rose by 21,670 to reach 2.73 million households. The number of Guarantee Credit recipients rose by 30,010 to reach 2.14 million.”76

110. Under the Comprehensive Spending Review 2007 PSAs there is no longer a target for Pension Credit take-up. Instead PSA 17 is “to tackle poverty and promote greater independence and well-being in later life”. Amongst the indicators, indicator 2 is to “reduce the percentage of pensioners in low income”. “Low income” is defined as below 60% median income AHC, which is the same definition as for poverty. The baseline is the HBAI figures for 2007/8. In evidence on the APR in March 2009 the Chairman questioned whether replacing precise targets with a need to “show improvement on the baseline” was challenging enough. Sir Leigh Lewis replied that:

“‘There has been some pulling back right across government from having lots of very precise targets. I think that to have targets which are clear about the direction of travel but not as absolute in terms of precise numbers is a helpful direction. The set of targets we have for the department at the moment is a genuinely challenging one particularly in the current economic circumstances.’”77

111. The PDCS Business Plan for 2009/10 includes the target:

“To deliver at least 255,000 successful new Pension Credit applications.”78

In evidence on the APR in March 2008 we were told that the out-flow of Pension Credit claims (the number of people ceasing to claim Pension Credit, mostly due to death) for that year was 250,000, which was lower than expected.79 It would appear that PDCS could meet its target with at best, a very small net increase the number of people claiming Pension Credit.

112. The most recent figures for Pension Credit take-up, for 2007-8, showed that Pension Credit take-up overall (combining Savings Credit and Guarantee Credit) was between 61% and 70% by caseload, and between 70% and 78% by expenditure. There was evidence of an

76 DWP Autumn Performance Report 2007, page 47
77 DWP’s Autumn Performance Report 2008, Oral and written evidence, Session 2008-09, HC 363-I, Q 1
78 Q 177
79 Department for Work and Pensions Autumn Performance Report, Oral and written evidence, Session 2007-08, HC 393-I, Q 66
increase in caseload take-up of around one percentage point since 2006-7, and by around
nine percentage points since 2003-4.

**Reasons for non-take-up of Pension Credit**

113. There was a general agreement among the submissions to our inquiry as to the
reasons for poor take-up amongst pensioners, noted below. Many of these reasons apply to
Housing and Council Tax Benefit, and disability benefits, not just Pension Credit.

- Lack of knowledge. Many pensioners have no contact with the benefits system and no
  history of contact;
- Belief they are ineligible for benefits (particularly among owner occupiers and those
  with a private pension);
- Reluctance to claim a benefit;
- Reluctance to give out personal information;
- Difficulty or perceived difficulty in claiming; and
- Lack of support, particularly face-to-face support.

114. For many pensioners, several of these reasons reinforce each other. Independent Age
told us:

> “A number of beneficiaries describe the process of finding out about and claiming
> their entitlements as, ‘a constant fight’. A large proportion also express reluctance at
> openly disclosing their finances, and those that are not already accessing the benefits
> system, via local authority housing for example, often face a psychological barrier to
> becoming part of it. The notion of entitlement can also be undermined by difficulty
> experienced when trying to make a claim.”

80

115. We heard that while many people are described as “choosing not to claim”, this is not
the whole picture. Ms West from Age Concern and Help the Aged said:

> “I think it is interesting to see what is meant by ‘chosen not to claim’. […]
> sometimes people think, ‘If I get Pension Credit I will not get Housing Benefit and
> Council Tax Benefit any more’, so people sometimes do not fully understand the
> system.”

81

Mr Kohler added:

> “there is probably a group of people too who say, ‘Look, I cannot really be bothered.
> If I did claim Pension Credit I would probably only get a pound or two more a week,’

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80 Ev 65
81 Q 108
without realising that Pension Credit is a passport to all sorts of other benefits and that those sorts of things can stack up.”

116. We also heard that despite all the take-up work, there are pensioners who have not even heard of Pension Credit. Mr Barton from CAB said:

“in CABs really we are constantly surprised by the constant stream of older clients who come in who are eligible for Pension Credit and have not claimed it. Quite a lot of them say they do not even know about it, which seems surprising but it seems to be the case. There is a big group of people who would be jolly pleased if more was done to ensure that they actually got the Pension Credit.”

**Pension, Disability and Carers Service take-up work**

117. In previous evidence sessions with the Pension, Disability and Carers Service (PDCS) we have examined the work it has been doing to improve take-up. Many people that it has identified as eligible for Pension Credit have been written to on six or more occasions. The Department told us in January 2009 that “since the Pension Credit campaign began in 2003 a total of 735,298 people have asked us not to contact them again”.

118. In oral evidence we looked again at what the PDCS was doing to improve take-up, and why, in many cases, it does not seem to be working. The Chairman asked Age Concern and Help the Aged why their staff found people very receptive to claiming Pension Credit, while PDCS staff found people asking not to be contacted again. Ms West replied:

“I think the trusted referral is really important. In the same way that if your GP says, ‘I think you should be entitled to Attendance Allowance; here is a local organisation that will help you fill in the form’, that may be what you do. It is almost the recognition from somebody that you trust that this is something that you should be doing.”

119. She went on to suggest that more research was needed into what worked, and that new ideas should be tried out:

“We would like to test out whether if the first contact came from Age Concern or Help the Aged or Citizens Advice rather than a government department would we get a better response. If some of the resources were given to local organisations to be providing the visits or calls or whatever, would we get a better response than the DWP? I think it would be really interesting to test out whether that does have an effect.”

120. The then Minister was asked whether PDCS was looking at new approaches. She told us that the Department were looking at a more regional approach to take-up:

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82 Q 108
83 Q 108
84 Q 110
85 Q 110
“Well, overall, we are looking at how we have specifically focused regional campaigns. I have done a lot of work with the PDCS to actually say, “How can we target things at a regional level?” because we are finding that, if we focus, for example, on the regional media, if we have some quite high-profile stands and organised events in town centres where we know there are hot-spots, if you would like to call it that, and I went to one recently in Sheffield and went down to Kent, that has been effective in ensuring that people take that up.”

121. Pension, Disability and Carers Service (PDCS) have put a huge amount of work into encouraging people to claim Pension Credit, and have contacted a large number of people, often many times. However it is experiencing diminishing returns for its efforts and, despite all its work, further progress in improving take-up has been limited.

122. We welcome the fact that the Department is looking into innovative ways to encourage take-up, such as regional take-up campaigns. The Department must evaluate which approaches work best for different client groups and publish this information so that lessons can be learned.

123. The Department should work more closely with third sector organisations, to see if, for example, letters from Age Concern (or another third party) trigger more claims for benefits than letters from DWP. We agree with Age Concern and Help the Aged that the Department should trial giving resources to the third sector to see if they are more successful at encouraging people to claim Pension Credit. They should trial both outsourcing work to the third sector, and allowing the third sector to try out their own ideas.

**Groups with particularly low take-up**

124. Some groups are more vulnerable to poverty than others. We received detailed evidence, discussed in Chapter 1, about a number of vulnerable groups that are at particular risk of poverty because of the characteristics of their working lives. However for some groups the problem is compounded by poor take-up of benefits. We found that there was a lack of information about take-up amongst vulnerable groups, and even less evidence about the reason for poor take-up.
Ethnic Minorities

125. HBAI statistics show high rates of poverty amongst ethnic minority pensioners, as indicated in the table below:

Table 4

<table>
<thead>
<tr>
<th>Ethnic group (3-year average)</th>
<th>Poverty Level (AHC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>17%</td>
</tr>
<tr>
<td>Mixed</td>
<td>-</td>
</tr>
<tr>
<td>Asian or Asian British</td>
<td>34%</td>
</tr>
<tr>
<td>Indian</td>
<td>28%</td>
</tr>
<tr>
<td>Pakistani and Bangladeshi</td>
<td>49%</td>
</tr>
<tr>
<td>Black or Black British</td>
<td>30%</td>
</tr>
<tr>
<td>Black Caribbean</td>
<td>30%</td>
</tr>
<tr>
<td>Black Non-Caribbean</td>
<td>-</td>
</tr>
<tr>
<td>Chinese or other ethnic group</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: HBAI 2007/8

126. We discussed in Chapter 1 the range of reasons for differences in poverty rates, including lower employment and lower earnings amongst ethnic minorities. This means that more BME pensioners are eligible for means-tested benefits. However we were told by Professor Hills that evidence on the level of benefit take-up amongst ethnic minority pensioners was lacking:

“I think there is some evidence of lower rates of take-up but given the numbers involved in surveys I do not think it is very robust. It is an important issue in terms of the general focus of your inquiry around take-up, and the fact that take-up does vary between different groups is one of the things that feeds into differential poverty rates, and that will become more important in the future as the BME population ages and becomes a bigger proportion of the retired population.”

127. When we asked PDCS for a breakdown of Pension Credit take-up by ethnicity in 2008 they told us that:

“PDCS do not record separately take-up of Pension Credit amongst Black and Ethnic Minority communities although they are included in our take-up campaigns. PDCS have developed an inclusive Pension Credit campaign, with initiatives specifically targeted at ethnic minority elders and their friends and family and work with local community partners to build trust and confidence within these communities and enhance take-up.”

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87 Q 44
Mr Woods, Director for State Pensions and Stakeholder Relations, DWP, told us in oral evidence that pensioners from ethnic minorities were a priority for PDCS:

“ethnic minorities are always very much at the forefront of the Pension Service’s mind in their take-up efforts and they have got quite a wide set of activities going on in that work with different ethnic minority organisations to try and make sure that we achieve some penetration of take-up in that area, but it does remain a challenge.”

Subsequently the Department published *Income-related benefits: estimates of take-up 2007-8*. This found that white pensioners may actually have the lowest take-up rates, but the authors were cautious:

“The greatest proportion of [eligible non-recipients] and [eligible recipients] of Pension Credit are White. There were proportionately more [eligible non-recipients] than [eligible recipients] who were White indicating that take-up *may* have been lower for this ethnic Pension Credit group. The opposite is true of the Black and Asian ethnic groups. The differences are small […] in each case.”

The study only categorised pensioners as White, Black, Asian and Other, and used compound data from 3 years.

It is unacceptable that 49% of Pakistani and Bangladeshi pensioners live in poverty. Third Sector organisations may be able to connect with pensioners in some BME communities in a way that PDCS has so far failed to do.

We are disappointed that the published data on Pension Credit take-up by ethnicity is of limited use. The shortcomings in the data make it impossible to confirm whether higher BME poverty rates are due to low take-up of Pension Credit. However the extremely high levels of poverty suggest that this must be a factor. The Department needs to undertake further research in this area and identify what PDCS can do to improve the situation.

Regional variation

Inner London has a pensioner poverty rate of 29% (compared to 18% nationwide). When we asked PDCS about the high level of pensioner poverty in London we were told that, “some of it may be associated with ethnicity”. However ethnic minorities make up a small percentage of pensioners in London and ethnicity is unlikely to account for all of this difference. The Mayor of London drew attention to research by the Department for Communities and Local Government, published in 2007, which showed the take-up rate of Pension Credit in London to be amongst the lowest in the country. However the submission does not suggest why this might be.

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89 Q 195
92 Ev 155
132. Mr Curry from the PPI told us:

“What tends to happen is that London tends to get the extremes of what you see more generally in the wider country. I think potentially, with the concentration in London of both BME groups and low income groups overall, it would not surprise me if there were particular issues in certain parts of London which reflect what happens elsewhere in the country in terms of low awareness.”

133. Inner London has a much higher rate of poverty than the rest of the UK. However the Department appears to have a very limited understanding of why this might be the case. The Department needs to carry out much more detailed research into the problem if it is to be able to tackle it.

134. The then Minister told us that a regional approach to take-up was proving effective:

“in the Yorkshire and Humber region the number of pensioners in poverty had decreased by the second largest amount, so it felt, from a regional perspective, that some of the targeting of resources on people in some of the poorest areas had actually shown through very effectively.”

135. The latest figures for take-up broken down by region are for 2007/08:

| Table 5 |
|------------------|------------------|------------------|
| **Percentage of pensioners in relative poverty** | **1998/99-2000/01** | **2005/06-2007/08** |
| **Country or Government Office Region** | **England** | **North East** | **North West** | **Yorkshire and the Humber** | **East Midlands** | **West Midlands** | **East of England** | **London** | **Inner** | **Outer** | **South East** | **South West** | **Scotland** | **Wales** | **Northern Ireland** |
| | 28 | 31 | 27 | 31 | 29 | 28 | 28 | 30 | 41 | 24 | 24 | 26 | 27 | 24 | 27 |
| | 18 | 19 | 18 | 18 | 21 | 18 | 16 | 22 | 29 | 19 | 16 | 18 | 16 | 19 | 20 |

Regional figures are presented as 3 year averages, because single year estimates are unreliable due to small sample sizes. This makes it hard to judge the success of any regional

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93 Q 46
94 Q 191
campaign, and impossible to judge the success of more recent ones. The Department also sent us details of their most recent campaign which began in January. It involves a rolling programme of take-up activities in areas where it is suspected that there are a large number of pensioners who are eligible for, but not claiming, Pension Credit.

“The campaign, launched in Sheffield and North Kent in January 2009, is designed to engage with the local pensioner population, using channels of communication and organisations that are likely to be familiar to the target population, such as the Womens Royal Voluntary Service, Mecca bingo, National Market Traders’ Association, Working Men’s and other social clubs, and Community Service Volunteers.

The aim of this activity is to create a focus on, and ‘dialogue’ about, pensioner entitlements in the local community by integrating a range of new and existing channels. This will generate awareness, but also reach out to the target audience in their daily lives through credible channels to challenge barriers and change attitudes to claiming. We can also use this activity to highlight the availability of this benefit to people who can directly encourage take-up, such as the friends and family of pensioners.”

136. We welcome the regional take-up work the Department is undertaking and the innovative ways that are being used to inform pensioners about Pension Credit both directly and through friends and family. PDCS needs to evaluate the results of regional take-up work so that the most effective methods can be pursued.

Home Owners

137. For some groups it is clear that rates of poverty are high due to a combination of high eligibility and low take-up. However, home owners have a low eligibility for Pension Credit, but also a very low rate of take-up. 81% of those not claiming Pension Credit in 2007-8 were owner occupiers compared with 47% of those claiming. We heard from Ms West of Age Concern and Help the Aged that this low rate of take-up is because many home-owners believe that they are not eligible for benefits:

“Benefits do go a bit further up the income scale than people sometimes think. As you say, they have never been in the benefits system before so they would not think that they would get any help. We also know from research that homeowners are particularly likely to feel that they would not be entitled just because they own their own home so they would not consider making enquiries because they assume a home would prevent them from claiming benefits.”

138. We asked whether home-owners would be more reluctant to disclose their income, than non home-owners, (who might already be disclosing their income in order to claim

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95 Ev 160
96 Income Related Benefits: Estimates of Take-Up in 2007-08
97 Q 89
Ms West from Age Concern and Help the Aged acknowledged that they did not have any evidence but suggested that that was “likely to be a reason.”

While home-owning pensioners are less likely to live in poverty than non home-owners, many of those who are entitled do not take-up means-tested benefits. The Department needs to identify the scale of this problem and understand the reasons for it before they can tackle it effectively.

Pension, Disability and Carers Service (PDCS) customer service

We were told by Mr Barton from CAB that PDCS’ performance was patchy. Customers experienced delays, particularly with complex cases and pensioners were contacting advice agencies to help them resolve problems. However resolving these cases was time consuming as there was no help-line for advisers to get straight through to someone able to cope with complicated cases:

“there is currently no mechanism for CAB advisers to have a fast-track into pension centres to get issues dealt with, unlike the other half of PDCS where for disability benefits there is an advisers’ helpline which gets very good feedback; people find that really useful.”

We asked the then Minister why there was not a dedicated telephone helpline for advisers from the third sector. She said:

“Well, that is a very interesting idea. I do not think there is at the minute, and that is something that we can obviously take back to see whether that would be of assistance.”

However, in a letter to Tom Levitt MP, a Member of the Committee, Terry Moran, Chief Executive of the Pension, Disability and Carers Service, noted that PDCS provides a dedicated line for Third Sector organisations with enquiries relating to Attendance Allowance and Disability Living Allowance but continued:

“I would be happy to explore with senior representatives of CAB and other relevant organisations the potential benefits of providing a similar service for Pension Credit. It will need to consider what an expanded service might offer, including associated costs and Value for Money.”

We welcome the commitment of the then Minister to look at providing an “adviser hot-line” for the Pension Service to help third sector advisers in complex cases. We note that such a service is already available to third sector bodies dealing with claims for Attendance Allowance and Disability Living Allowance and we see no reason for it not to be extended. Any costs are likely to be far outweighed by the potential benefits. The

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98 Q 90
99 Q 133
100 Q 184
101 Letter from Terry Moran, Chief Executive of the Pension, Disability and Carers Service, to Tom Levitt MP, 15 June 2009, Ev 175.
Department should introduce this simple measure without the need for extensive consultation or analysis.

**Automaticity**

144. Clause 21 of the 2009 Welfare Reform Bill provides for piloting auto-enrolment for Pension Credit. These pilots are referred to as “automaticity” pilots. The Department told us that initial research has suggested that it could predict Pension Credit entitlement to within £5, 62% of the time. These predictions would be based on data that DWP and HMRC already hold. The pilots would be designed to see whether this is the case in practice, and to ascertain what further information would be needed to make predictions more accurate.

145. The recent DWP research report *Older people's attitudes to automatic awards of Pension Credit* found that pensioners had a range of concerns about automaticity. Its findings included that:

“there was some opposition in principle to the use of personal information for the purpose of automation.

Respondents expressed concern about how well informed they would be kept of their Pension Credit entitlement within any given automated system.

Concerns were also raised around the detrimental effect that some forms of automation may have on the right of an individual to determine their own financial circumstances and how these could undermine the independence and dignity of a person in their senior years.”

146. The automaticity pilots will run for 3 months, and there will be follow up work with those who take part. Thus the pilots will also look at whether paying a benefit automatically for a short time, then inviting people to claim, leads to improved take-up.

147. In oral evidence Ms West from Age Concern and Help the Aged recognised that automaticity might be hard to implement:

“As we have started to look at it we realise that it is a very complicated system and probably with our current benefits system it would be very difficult to move to a system where everybody got exactly what they were entitled to down to the last penny, but I think we are quite hopeful that the pilots will show some ways for at least making the system more automatic and easy.”

148. The Minster told us about some of the problems they were facing:

“it is incredibly complicated, there are a whole host of issues that come into play. Can you do it with the right level of accuracy? Are people happy about their

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102 DWP's Autumn Performance Report 2008, Oral and written evidence, Session 2008-09, HC 363-I, Q 38

103 Department for Work and Pensions Research Report No 579 *Older people's attitudes to automatic awards of Pension Credit*, Mehul Kotecha, Meg Callanan, Sue Arthur and Chris Creegan

104 Q 107
information being, as they see it, perhaps passed on to others without their necessarily knowing it? There are some areas where we do not know about where people might have savings, and I think particularly, for example, of National Savings where there is no connection between that and HMRC.”105

149. A particular problem is the current legislative framework. The Department believes that it can predict Pension Credit entitlement to within £5, 62% of the time, but the legislative framework requires 100% accuracy. We asked the then Minister about this, she replied:

“that is kind of hitting the nail on the head, is it not, that we do need to use the pilots to enable us to work out the level of accuracy that can be achieved. Once these pilots go ahead, we do have to actually come back with primary legislation to be able to extend that nationally, and I would suspect that that is where we would perhaps have the debate about whether the legislation needed to be altered”106

150. Mr Woods, Director for State Pensions and Stakeholder Relations, DWP, told us that the alternative solution would be to alter the Pension Credit eligibility rules to match the information which DWP holds:

“maybe […] with a much simpler system, you could actually get to the point where your predictive power is close to 100%. In the end, you will have a judgment, I think, about whether the advantage of being able to get Pension Credit to a larger number of people who are entitled to it is worth sacrificing some of the things that have been built into the current system for good reasons.”107

151. We welcome the “automaticity pilots”. We understand the serious difficulties that need to be overcome and recognize that they are not in a form which could be rolled out nationally. We welcome the Department taking a long term approach and seeking to find innovative ways to improve take-up. We believe that “automaticity”, if handled sensitively, could be popular with pensioners.

152. Automaticity has the potential to dramatically increase take-up, benefiting a large number of the most vulnerable in society. The Department should examine all options in order to implement it, including changing the legislative and accounting framework, and simplifying the eligibility criteria for Pension Credit.

**Motherwell Pilot**

153. When we looked at Pension Credit in 2005 we recommended:

“That the transfer from Income Support to Pension Credit should be automatic, with steps taken to contact individuals for any extra information required.”

154. In March, Sir Leigh Lewis gave oral evidence on the Department’s Autumn Performance Report. He told us that the Department was running a pilot in Motherwell...
which involved contacting people who are in receipt of Income Support five months before they reach the age of 60. They are asked to arrange a telephone call to allow them to claim Pension Credit. The Department makes sure it has the information that it already holds available, so customers are not being asked for information unnecessarily. He went on to say:

“in Motherwell we are doing almost precisely what the Committee recommended in 2005. There is a good question as to whether we might have done it earlier, but the good news is that it seems to be working well. One reason we are better able to do it now – I do not think it wholly explains why it has taken us a while to get there – is that for a long time one of the bugbears of the department has been that we have information on individuals but hold it in lots of different IT systems which in a classic way do not really talk to one another.”  

155. **We welcome the Motherwell pilot. We call on the Department to conduct a prompt evaluation so that successful elements of the programme can be rolled out nationally.**

### Housing and Council Tax Benefit take-up

156. The latest Office of National Statistics (ONS) take-up figures are for 2007-8. They show that Housing Benefit amongst pensioners has a take-up rate of between 81% and 87% by caseload, and between 86% and 92% by expenditure. There was no change in caseload take-up since 2006-7, but there was a fall of at least two percentage points since 1997-8.

157. ONS figures for Council Tax Benefit (pensioners only) show that take-up by caseload is between 53% and 60%, and between 54% and 62% by expenditure. There was evidence of a decrease in caseload take-up amongst pensioners of at least one percentage point since 2006-7 but at least 13 percentage points since 1997-98. The ONS suggested that some of this was due to changes in eligibility, but even controlling for that, the decrease was about 5%. Take-up had fallen by a similar amount amongst non-pensioner groups.

158. Low take-up of Housing and Council Tax Benefit is a major contributor toward pensioner poverty. The Institute for Fiscal Studies published a report in July 2007, *Pensioner poverty over the next decade: what role for tax and benefits reform*. This stated that:

> “Pension Credit and Council Tax Benefit are the most significant benefits for the 65-and-over age group – eliminating non-take-up of each of these reduces the poverty rates by around 1½–2 percentage points. Increasing take-up is particularly effective at reducing the number of people with less than 50% of median income, as those with incomes below this threshold in our baseline tend to be people who do not take-up the benefits to which they are entitled.”

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159. In 2006 the National Audit Office estimated that increasing take-up of Pension Credit by 10% would lift an extra 94,000-107,000 pensioners out of poverty, while a similar increase in take-up of Housing and Council Tax Benefits would move 130,000 out of poverty. The report therefore recommended a focus on benefits and services for pensioners more widely than Pension Credit, and a target designed to cover the range of activity which aims to tackle pensioner poverty.

**Those not claiming**

160. In oral evidence we sought to learn more about those who are not claiming Housing and Council Tax Benefit. Ms West from Age Concern and Help the Aged was asked whether it was the same group of people not claiming all three benefits, Council Tax, Housing Benefit and Pension Credit. She told us that this was unlikely, as someone not claiming all three would not have enough money to live on, and would be forced to seek help:

> “I think people tend to claim Housing Benefit because your rent is a substantial amount of income, so that if you are a low income pensioner and you only have your state pension you are probably forced into checking the benefit system and that will probably put you into Pension Credit and Housing Benefit because otherwise you would have nothing to live on, whereas other people can manage on a low income by cutting back and managing to pay their Council Tax.”

161. ONS research has shown that people who are eligible for Council Tax and Housing Benefit tend to claim both or neither:

> “61% of Housing Benefit [eligible non-recipients] were also [eligible non-recipients] of Council Tax Benefit. This is compared with only 2% of [eligible recipients] of Housing Benefit who were [eligible non-recipients] of Council Tax Benefit.”

162. Some of those eligible for only Council Tax Benefit are home owners. The challenges to improving take-up amongst this group were discussed earlier in this chapter.

163. We agree with the NAO that a focus on improving the take-up of Housing and Council Tax Benefit could have a significant impact on the number of pensioners living in poverty.

**Council Tax Benefit**

164. In oral evidence we heard renewed calls for Council Tax Benefit to be renamed a rebate. Mr Barton from CAB told us that:

> “it is really very unfair that in order to pay a tax that you are assessed for that you have to claim a ‘benefit’. We think that it would be much more acceptable to these


112 Q 122

113 Income Related Benefits Estimates of Take-Up in 2007-08
older people if Council Tax Benefit was called a rebate rather than a benefit because there is a stigma about benefits in people’s minds. Also some responsibility should be placed upon the Local Authorities to identify who the people who might qualify for this rebate would be.”

165. The Department told the Committee in March 2008 that:

“Council Tax Benefit is, in effect, a rebate. […] The Government does not, however, believe that simply rebranding Council Tax Benefit as a rebate without making other changes to the way in which it is delivered would increase take-up.”

166. However in oral evidence to this inquiry the then Minister seemed more open to the idea of renaming Council Tax Benefit:

“I have got lots of personal views on all kinds of ways we could call benefits different things that I would hope might encourage people to take them up. I think it is important to ask whether the names of these benefits are putting people off. Sometimes the feedback you get is that people get more confused when you change the name as opposed to less.”

In response to the observation that many people not claiming Council Tax Benefit are claiming the single person discount on their Council Tax, the then Minister conceded that the problem was “the word ‘benefit’”.

167. After the evidence session the Department told us that

“In response to the campaign led by the Royal British Legion focused on formally renaming ‘Council Tax Benefit’ as ‘Council Tax Rebate’, we are seeking legal advice and assessing the costs of introducing the changes to IT, forms, leaflets, etc. We understand this would require primary legislation so while clearly that is not impossible, it does create additional hurdles.”

168. We welcome the announcement that the Department are looking into renaming Council Tax Benefit a rebate. This is a small change but we believe that it will make many pensioners more receptive to claiming as many appear to object to the term “benefit”. We call on the Department to find a way to implement this without delay.

Housing and Council Tax Benefit take-up and Pension Credit

169. PDCS has clearly made extensive efforts to contact people who are eligible for Pension Credit, but has had limited success in encouraging them to claim. Age Concern and Help the Aged argued that improving Council Tax Benefit take-up could help Pension Credit take-up. Ms West told us that:

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114 Q 93
115 Q 210
116 Q 211
117 Ev 160
“we know that people have had all these letters on Pension Credit and they either think Pension Credit is not for them or they do not understand it, but everybody with a Council Tax bill knows it is a cost they have to pay, so I think it would be a really good way to have a bit more focus on a specific thing such as Council Tax, first to get people claiming the Council Tax Benefit, but I think that might be another way of bringing people into the Pension Credit system.”  

170. She told us that for this to work there would need to be much closer working between Local Authorities and the PDCS. At the moment Local Authorities do not pass information to PDCS on Housing Benefit or Council Tax Benefit claimants:

“First of all, if somebody has provided all their income and savings data to the local authority for Housing Benefit and Council Tax Benefit and it appears that they are likely to be entitled to Pension Credit, then that information should, with the person’s permission, go to the Pension Service to work out Pension Credit in the way that it works the other way round.”

171. Someone wanting to claim Pension Credit can claim Housing Benefit and Council Tax Benefit in one call to PDCS. However PDCS could still improve its service as existing Pension Credit customers, or pensioners just wanting to claim Housing or Council Tax Benefit, are advised to contact their local council. This year the Department sent out letters to Pension Credit recipients advising them to claim Housing and Council Tax Benefit. The letter advised them to contact their local council. Age Concern and Help the Aged suggested a single telephone claim line would be far more effective.

172. We heard from Mr Kohler of Age Concern and Help the Aged that Local Authorities had the information to do take-up work, but that financial pressures precluded this:

“The downward expenditure pressures on local authority budgets are obviously a fact of life, and I am afraid advice and support of this kind does not come cheap.”

173. Ms West of Age Concern and Help the Aged told us that there was also a lack of incentive for Local Authorities to tackle pensioner poverty:

“There is also the issue about the national indicators that Local Authorities had. There was not one about pensioner poverty although there was one around child poverty, so again it depends how great a focus there is on an issue such as pensioner poverty. We know that some Local Authorities have picked up on their own pensioner poverty indicator in the DWP and work with organisations to give a suggestion of the things that Local Authorities could monitor, but clearly, if it is not in one of the indicators that they have to report back on, there will be less attention paid to it.”

Q 124
Q 97
Ev 162
Ev 117
Q 127
Q 127
174. Local Authorities and the Department need to do more to increase take-up of Housing and Council Tax Benefit. This will lift people out of poverty in itself, and bring people into contact with the benefits system, making it more likely that they will claim Pension Credit.

175. The Department needs to incentivise Local Authorities to improve Housing and Council Tax Benefit take-up. The Department should set targets for either the take-up of these benefits, or the number of new applications generated.

176. The Department has put a lot of attention on encouraging pensioners to claim Pension Credit, then directing them towards other benefits. Changing the focus to encouraging people to claim Housing Benefit and Council Tax Benefit (especially if that was re-named a rebate), and then initiating a Pension Credit claim for those who may be eligible, may now be more effective.

177. Local Authorities need to work much more closely with PDCS, to ensure that information on people who may be eligible for Pension Credit, Housing Benefit and Council Tax Benefit are (with permission) exchanged in both directions. This is not done at present and we recommend that this be trialled in some local authorities, and if successful rolled out nationally.

178. There should be a single phone line for all three benefits. Despite the new joined up working PDCS is still sending out letters advising Pension Credit claimants to contact their local council about Housing and Council Tax Benefit, where they will be asked to give all their information again. It should not be necessary for them to do this, and doubtless many claimants are lost along the way.

**Service Canada**

179. In Canada we heard about the work of Service Canada, which provides a one-stop shop for information about federal benefits. Service Canada "was created in 2005 to improve the delivery of government programs and services to Canadians, by making access to them faster, easier, and more convenient. Service Canada offers single-window access to a wide range of Government of Canada programs and services for citizens through more than 600 points of service located across the country, call centres, and the Internet."\(^{124}\) We visited a Service Canada office located in a shopping centre in Ottawa. In these centres, clients are sign-posted to the information they require. This can be complicated as many services are devolved to provincial and municipal levels. Centre workers can also book appointments for clients at the relevant office and pass on details to save clients having to re-explain their situations. Customers can also be directed towards on-line services.

180. Service Canada offices are usually based in convenient places, such as shopping centres, and also offer mobile services. The Committee were told that in the East Ontario region, outreach workers made about 800-1200 outreach visits each year. It was noted that the introduction of automaticity in the Canadian pension system has seen a reduction in the demand for information on pensions.

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\(^{124}\) [http://www.servicecanada.gc.ca/eng/about/index.shtml](http://www.servicecanada.gc.ca/eng/about/index.shtml)
181. The name of Service Canada had changed 7 times in 20 years, affecting public awareness and the organisation’s ability to develop a trusted brand. Workers at the centre told us that seniors tended to be wary of being taken advantage of, so trusted intermediaries were used to inform them of their entitlements. Service Canada could provide information on the full range of entitlements, so seniors could find out about benefits for their grandchildren while also inquiring about their own benefits, and similarly families could find out about benefits for elderly parents and grandparents.

182. On our visit to Canada we were impressed with the work of Service Canada. Having offices based in busy shopping centres allows it to offer easy, unstigmatised, access. Having one source of information for all federal benefits, with clear signposting to other services, makes it much easier for people to find out about all their entitlements. In addition, the joined up approach allows them to reach far more people, and family members can learn about the full range of benefits which they and their relatives may be entitled to.

183. In our Valuing and Supporting Carers report we recommended a national network of carers centres, as we had seen the value of a single source of information, support, and advice, for carers and their families. We believe that there are important lessons to be learned from this model of service provision that would benefit a number of groups, particularly poorer pensioners and carers who tend not to self identify and would be more likely to use a universal, non-stigmatised service.
4 Other benefits

Disability Living Allowance and Attendance Allowance

184. We have looked at Disability Living Allowance (DLA) in a number of our past reports, and have called for its level to be reviewed, and for more work to increase take-up. There are however issues with the disability benefit system which are particular to pensioners. DLA has two elements, the “care” element, and the “mobility” element. The care element has 3 levels “lower”, “middle” and “higher”. Someone in receipt of a DLA award under 65 continues to be paid the benefit after they are 65 as long as their disability continues to meet the eligibility criteria.

185. However, someone who becomes disabled after the age of 65 is not eligible for DLA, and is only eligible for Attendance Allowance (AA). This has different rules, and does not have a mobility component, only a “care” component. This means, for example, that claimants are not eligible for the “Motability” car scheme. In addition Attendance Allowance only has two levels of “care”, equivalent to the “middle” and “higher” rate of DLA. Someone who would qualify for “lower” rate DLA would not qualify for anything under Attendance Allowance.

186. Mr Barton from CAB told us that “it is an amazing piece of age discrimination and it is really surprising that it is still being maintained by a government that has got an Equalities Bill going through Parliament.”125

187. When we asked the Department to explain the reasons for the differing rules they told us that it was to make up for the financial disruption caused by disability:

“The main general aim of Disability Living Allowance (DLA) is to ‘give priority for additional help to those disabled earlier in life for whom disability is more financially disruptive in terms of the lost opportunity to earn and save’. This policy is based on evidence from the major surveys of disability carried out by the Office of Population Censuses and Surveys in the late 1980s. The surveys showed that the relative incomes of disabled people of working age were only 74% of their able-bodied counterparts, whereas the income of disabled and non-disabled people over pension age were similar.

DLA is therefore only available to disabled people who claim help with their extra costs before reaching 65. Attendance Allowance (AA), which pre-dates the introduction of DLA in 1992, remains in place to help.”126

188. The Department did not explain why it thought that the best way to compensate for “lost opportunity to earn and save” was to offer a “mobility” component and a “lower rate care component”, the two elements that are not available in AA.

125 Q 132
126 Ev 171
189. However when asked about the rate of DLA in the past, the Department has given very different answers. In its response to our Child Poverty inquiry the Department told us:

“Disability Living Allowance (DLA) is the principal benefit available to children and working age adults to help them meet the additional costs that can arise because of disability. […] The Government acknowledges that studies which have attempted to measure the extra costs associated with disability often argue that DLA rates should be increased. However, that ignores the basis on which DLA is founded; to provide a broad-brush contribution towards the generality of extra costs faced by disabled people”

190. For DLA to make up for “lost opportunity to earn and save” it would have to more than cover the extra costs of disability, with some left over to replace lost income. Yet the Department has also described the benefit as a “broad-brush contribution towards the generality of extra costs faced by disabled people”, suggesting that it does not meet all the extra costs. In addition DLA is paid to children, who would not be earning, even if they were not disabled.

191. The then Minister told us in oral evidence that changing the rules would be prohibitively expensive:

“I think we have to recognise that if we were to apply DLA to everybody who is over 65 it would cost billions of pounds and I think it is justifiable to make a distinction between, as I say, people who are limited in their opportunities to save during their working life and those who may become disabled as they get older.”

192. The Equality Bill will replace all existing equality legislation, including legislative provisions preventing discrimination on the grounds of age. It is intended to harmonise and extend protection against any harassment or discrimination on the grounds of a protected characteristic (including age). Clause 15 of the bill makes it unlawful to discriminate against someone on the grounds of a protected characteristic in provision of a service. Clause 143 also specifies a duty on public bodies to “advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it”. We are concerned that the differences in disability benefits payable to those who become disabled before and those disabled after the age of 65, are not only wrong in principle but may be in contravention of the terms of the Equality Bill.

193. The Committee appreciates that applying Disability Living Allowance (DLA) to those over 65 would cost “billions of pounds”. However we do not accept the Government's argument that DLA is to help those who are limited in their opportunities to save during their working lives. For DLA to do this it would have to more than cover the additional costs disabled people face, which it does not. The Department have told us in the past that it is only intended as a “broad-brush

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128 Q 214

129 Equality Bill, Clause 143 (1)(b)
contribution” towards them. In addition DLA is linked solely to care and mobility needs, rather than ability to work, as would be expected if it was linked to income.

194. The fact that Attendance Allowance (AA) has a care component but no mobility component seems arbitrary and is not consistent with the Department’s explanation. Maintaining mobility is essential to enable pensioners to maintain social contacts and to participate fully in society. This is fundamental to achieving well-being in later life.

195. Pensioners do receive additional mobility assistance through provision for free bus travel and other provisions that vary across local authorities. However, these measures are only of benefit to pensioners when services they want to use are available at times when they want to travel and are of limited use to those living far from bus stops. The inaccessibility of much public transport is also a barrier to many pensioners with reduced mobility. Although there have been improvements in the accessibility of much public transport in urban and rural areas, many services available are still not appropriate for some pensioners.

196. We are concerned that the differences of treatment on the grounds of age contravene the clear intentions of the Equality Bill. We do not believe that the difference in the benefits payable to those who become disabled before and after the age of 65 can be objectively and reasonably justified.

Rural Areas

197. When we visited Newmarket and Snailwell we met a number of pensioners who live in small villages. They told us about the particular problems which they face living in relatively isolated rural areas. There were limited transport options for those no longer able to drive, leaving many reliant on expensive taxis. One pensioner told us that his disabled wife was in residential care, which means that she does not receive benefits, however he still has to run the same house, and pay for taxis for the round trip to visit her. Other pensioners found problems getting to the local hospital; one told us that there was only one bus which could take a wheelchair, and it could only take one wheelchair at a time.

198. Other pensioners told us that they could become very isolated in their village. Pensioners who do drive are very aware that once they are no longer able to they will face problems in getting around.

199. We heard from pensioners that living in a rural area can be problematic, with high transport costs and an increased risk of becoming isolated. For pensioners facing high transport costs, the differences between Disability Living Allowance, which includes a mobility component, and Attendance Allowance, which does not, become even more significant.
Carer’s Allowance

200. We examined many of the difficulties affecting carers in our 2008 report Valuing and Supporting Carers. We welcomed the 2010 reforms which will allow more carers to receive the BSP in full.

201. We also made a number of recommendations about reforming Carer’s Allowance and recommended that it should be replaced with two benefits.

- An income replacement benefit to be called Carer’s Support Allowance (which would not be paid to pensioners); and

- A Caring Costs Payment which would be payable to all carers, including those over State Pension Age. To compensate carers for extra costs, or allow them to buy in some help. We recommended that it should be set at between £20 and £50 a week.

202. In its response, the Department accepted our general principle that a future system of support for carers should be able to differentiate between the support that a carer needs because they have no income, and the support that a carer needs to cover other costs relating to the caring responsibilities.

203. Pensioner carers are not entitled to receive Carer’s Allowance as it is deemed to be an income replacement benefit. However if they wish to claim the Carer’s Premium on Pension Credit they must apply for Carer’s Allowance. Once it is established that they have an “underlying entitlement” they can then apply for the premium.

204. In our report we also looked at some of the more confusing rules surrounding Carer’s Allowance and pensions. For example: when a carer becomes eligible for Carer’s Allowance, the cared for person loses the Severe Disability Premium from their Pension Guarantee Credit; however, where the carer qualifies for Carer’s Allowance but it is not paid because of an overlapping benefit (such as State Pension), the person being cared for retains their entitlement to the extra amounts for severe disability. This is the case even if the carer qualifies for the additional amount for caring in Pension Credit:

205. Our report concluded that:

“The overlapping entitlement rules are confusing and over-complicated and DWP therefore ‘loses people along the way’ in the process of claiming carers’ benefits. The system of having to apply for a benefit you know you are not going to get in order to be eligible for a benefit you are not yet claiming is counter-intuitive. The administrative costs to the Department of dealing with almost 64,000 Carer’s Allowance claimants above State Pension Age must be substantial. We recommend that the Department urgently streamlines the application process for benefit entitlements for carers of State Pension Age.”

130 Valuing and Supporting Carers, Fourth Report of the Committee, Session 2007–08, HC 485-I

131 Valuing and Supporting Carers: Government Response to the Committee’s Fourth Report of Session 2007-08, HC 150

206. The Department responded that:

“The Government agrees that simplicity and ease of application must be one of the guiding principles in the design of any changes to the benefit system. This is an important principle underlying the proposed move towards a single benefit.

The Government also accepts that more can be done to simplify the application process for carers of State Pension Age, in the current benefit structure. The Pension, Disability and Carers Service has tested a new procedure for assessing claims to the carers ‘Additional Amount’ in Pension Credit. The results from the pilot are still under consideration and the Department will use the findings to develop a plan for simplifying the application process for all carers.”

207. Since our last report the NAO published a report entitled *Department for Work and Pensions Supporting Carers to Care*. The report highlighted problems with take-up, noting that the Department does not know the take-up rate of Carer’s Allowance, and recommended that it seek to estimate it. The report also noted problems caused by the complexity of the system:

“The interactions between Carer’s Allowance and other benefits (for example, Pension Credit and Income Support) are complex, can delay payments and some customers find them confusing. The complexities result primarily from the way legislation is framed and also from the way it is implemented. For example, customers who do not qualify for the full payment of Carer’s Allowance still have to apply for it in order to be ‘passported’ on to other premiums or additional payments.”

The report recommended that PDCS work harder at communicating with carers:

“The Pension, Disability and Carers Service should draw up a plan and timetable for improving communications with customers and their carer networks about the application process, eligibility criteria and interaction with other benefits, with the aim of reducing the number of manual checks that are necessary.”

208. Carers do not have the chance to “retire”, and many carers continue in their caring role long after reaching State Pension Age. Increasingly, many carers become full time carers for the first time after reaching State Pension Age. Many also continue to have extra costs as a result of their caring responsibilities. The benefits system needs to do more to recognise this.

209. We reiterate the recommendations in our *Valuing and Supporting Carers* report that the system of carers’ benefits needs to be overhauled. We call for a Caring Costs Payment to be payable to all carers, including those over State Pension Age, to compensate for extra costs, or allow them to buy in some help. We recommended that it should be set at between £20 and £50 a week. Until this can be introduced we endorse

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133 Valuing and Supporting Carers: Government Response to the Committee’s Fourth Report of Session 2007-08, HC 150
134 Department for Work and Pensions, Supporting Carers to Care, February 2009.
135 Ibid.
the recommendations of the NAO, that the Department must do more work to estimate the take-up of Carer’s Allowance, and that PDCS must improve communications with customers.

**Personal Expenses Allowance (PEA)**

210. We looked at the Personal Expenses Allowance (PEA) in Chapter 1. The PEA is set by the Department of Health, not DWP. Age Concern and Help the Aged are campaigning for the PEA to be raised to £40. In oral evidence they told us about a pensioner who wished to join a choir, but could not do so because she could not afford the travel costs.\(^\text{136}\)

211. We looked at this issue in our 2005 report on Pension Credit, when the PEA was £18.80, we concluded:

> “The Committee remains concerned at the low level of the Personal Expenses Allowance and repeats the recommendation of the Social Security Committee that the Government should ‘conduct research to establish the amount necessary to enable pensioners in institutional care to live their lives with dignity.’”\(^\text{137}\)

212. The Department responded that PEA was the responsibility of the Department of Health, who were then carrying out a consultation on the issue. The Department of Health website states:

> “In January 2008, Ministers undertook to consult to seek views on whether the existing level of PEA is appropriate. These views would have helped inform consideration of the future of the PEA.

However, the need to use finite resources to maximum benefit has removed any possibility of an increase to PEA of more than the annual uprating. The Ministers have therefore decided not to consult on the issue.”\(^\text{138}\)

213. The then Minister told us that the Department estimate that 250,000 have to make do with the PEA. She went on to say:

> “while I do not think there is going to be consultation on the level of the PEA, Phil Hope, the Minister, made that quite clear earlier on in the year, as part of the social care review we will be looking to ensure that any future system of charges is fair to residents as well as to taxpayers. There is talk of it being increased to something like £40 a week. Again, I think it is estimated at something like £250 million that that would cost, and I think it is about getting that balance right.”\(^\text{139}\)

214. Many of the pensioners in care homes are amongst the most severely disabled and their disability may limit their opportunities to enjoy a social life outside the home. However, we believe that the expectations of pensioners have changed. Many with severe disabilities, including those with conditions such as Alzheimer's, are keen to continue a

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\(^{136}\) Q 139


\(^{139}\) Q 216
social life. They will also want to keep in contact with family and friends. For some, it may be important to be able to buy Christmas and birthday presents for grandchildren and great grandchildren to ensure that they continue to feel fully involved in family life.

215. We believe that pensioners who live on the Personal Expenses Allowance should be entitled to live in dignity. Even though their accommodation and food is provided for them, they should still be entitled to a decent allowance to allow them to live fulfilled lives, and to keep up contact with their families. They need money to buy clothes and toiletries, for phone calls and hairdressing, as well as for going out. This is fundamental to achieving well-being in later life.

216. We are very disappointed to have to repeat our concerns from our 2005 report that the level of PEA is too low. The current level of PEA does not allow pensioners to live with dignity. We call on the Department of Health to raise the PEA to £40.

**Disability Living Allowance (DLA) and poverty figures**

217. HBAI figures show that overall disabled pensioners do not have an exceptionally high rate of poverty. However for those not in receipt of disability benefits the rate is much higher:

<table>
<thead>
<tr>
<th>Disability and receipt of disability benefits</th>
<th>Poverty Level (AHC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No disabled adult</td>
<td>19%</td>
</tr>
<tr>
<td>One or more disabled adults</td>
<td>18%</td>
</tr>
<tr>
<td>In receipt of disability benefits</td>
<td>8%</td>
</tr>
<tr>
<td>Not in receipt of disability benefits</td>
<td>24%</td>
</tr>
</tbody>
</table>

*Source: HBAI 2007/8*

218. Part of the reason for this is that the HBAI income series treats DLA and AA as income, despite that fact that they are a “contribution towards the generality of extra costs faced by disabled people”. In our Child Poverty inquiry we heard that disabled people have a very high level of material deprivation, because their extra costs are more than their disability benefits. This can leave them without enough money to buy essentials.

219. Professor Hills told the Committee:

“[Disability] benefits are supposed to reflect the extra costs that people face and it is really curious to say, ‘Your standard of living is okay, you are above the poverty line, because you are getting this extra amount to meet the extra needs that you have compared with the rest of the population.’ If you discounted those extra cost benefits or if you allowed for the greater needs of disabled pensioners, you would see higher

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poverty rates amongst disabled pensioners, so in a sense we are looking at too optimistic a picture of pensioner poverty at the moment.\textsuperscript{141}

220. In oral evidence the then Minister estimated that excluding DLA and AA from income would increase the numbers living in poverty by 3 percentage points.\textsuperscript{142}

221. The poverty figures should seek to reflect the realities of people’s living conditions. People receive DLA and AA because they have extra costs due to their disability, yet these payments are treated as additional income with no account taken of the additional costs. We call on the Department to regularly publish poverty figures that do not treat DLA and AA as income, perhaps as part of the Households Below Average Income publications.
5 Economic Downturn

Introduction

222. Our inquiry received evidence on a range of aspects of the impact of the economic downturn on pensioners which we discuss in this chapter including:

- The potential impact on Personal Accounts;
- Falling stock market prices and the impact on private pensions; and
- Declining interest rates and returns from savings.

We also examine the impact of the economic downturn on the employment of older workers in Chapter 7.

Personal Accounts

223. Personal Accounts will be the Government’s flagship scheme to encourage lower earners in particular to save for their retirement. Legislative provision for Personal Accounts was made in the Pensions Act 2008. From 2012:

- all employees over the age of 22 earning more than £5,035 will have to be auto-enrolled into either a Personal Account or an equivalent employer-based pension scheme; and
- There will be a minimum employer contribution of 3% of earnings between £5,035 and £33,540 a year for employees who do not opt out, as part of an overall minimum contribution of 8% (of which 4% is contributed by the employee and 1% delivered through tax relief).

224. When we looked at Personal Accounts in 2005, we welcomed the proposals and concluded:

“there is a lot of work to do to ensure that personal accounts operate well in practice. We conclude that the Government must focus on keeping the system as simple as possible for employers and employees, and on ensuring that charges to the consumer are low.”143

225. As part of this inquiry we took evidence on how the economic downturn might impact on Personal Accounts. The Equalities and Human Rights Commission thought the impact could be negative:

“The current financial crisis could have a significant negative impact on the perception of saving in an equities based scheme for those starting saving for their retirement. This could have a negative impact on the launch of Personal Accounts in

226. However the then Minister told us that it was possible the downturn might actually encourage people to save in Personal Accounts:

“First of all, I hope that some of the psychology around the downturn would make people think more about how they need to think about security in retirement. There is, I think, some evidence that that is happening. Some of the work that we have done has shown that a higher percentage of people are thinking, “I do not think I am saving enough for my retirement”, and I want to make sure that in our communications leading up to 2012 we are building on that and perhaps using some examples of how people have been less affected because they have done that long-term saving to get across the message that the earlier you start doing this the more your money will benefit.”

227. The economic downturn provides both a challenge and an opportunity for Personal Accounts. People may be more reluctant to put their money in the stock market, but it may “make people think more about how they need to think about security in retirement”. The Department’s communication strategy around Personal Accounts must take both these factors into account.

228. We also took evidence on how businesses might react to the introduction of Personal Accounts during an economic downturn. Professor Hills told us:

“As we get nearer to April 2012, I think you will hear much more discussion of that. I have a feeling at the moment businesses have quite a lot of other things on their plates. I think it will become a live debate, in particular as far as small businesses are concerned. Larger businesses know where they stand. […] It is the smaller businesses who are thinking about day-to-day survival at the moment who probably do not yet know what is coming and where in a year and a half’s time I would expect the debate to become really quite intense.”

229. The then Minister stressed that they were doing everything they could to minimise the burden of Personal Accounts on businesses. However she stressed that the Government had no choice about introducing Personal Accounts, and that doing so would benefit both individuals and businesses:

“if we do not take action to ensure that people are saving for their retirement the overall tax position, both on businesses and on individuals, is going to radically change. I think in 1950 we had eight people working for every pensioner; by 2050 there will be two people working for every pensioner. We need to really get that message over that this is a way of not only providing protection for something like the seven million people who do not have access to a pension”
230. We agree with the Government that the success of Personal Accounts is essential for ensuring higher levels of retirement saving, which is vital for wider society. We hope that the downturn does not lead to pressure from businesses to delay Personal Accounts. The recession makes it even more important that the Government focuses on keeping the system as simple as possible for employers and employees, and on ensuring that charges to the consumer are low.

**Impact of Downturn on private pension provision**

231. The last year has seen huge falls in the stock market, which has had a significant impact on individuals’ investments, and on the value of pension funds:

![FTSE 100 index chart](chart1.png)

232. However this does need to be seen in the context of the large gains in the stock market of the last 20 years:

![FTSE 100 index chart](chart2.png)
233. The National Pensioners Convention told us about the effect that the falling stock market was having on some of its members:

“Millions of people nearing retirement also face a pensions’ disaster because of the economic crisis. An estimated 5m workers are paying into defined contribution schemes which generally invest large sums of money in shares the amount received on retirement depends on how those investments have performed. However, with share values plunging, a £100,000 pension pot which would previously have bought a monthly income of £620, will now buy just £490. For the average worker, their pension pot is more likely to be around £25,000 and their monthly income closer to £160.”148

234. While Dr Ros Altmann said that:

“Those coming up to retirement are finding the value of their pension savings has plummeted and the cost of buying an annuity has increased, so the pension they were expecting is simply not there for them.”149

235. UNITE, the National Federation of Royal Mail and BT Pensioners, told us:

“Many people who are due to retire in the next few years will have seen the value of their pensions investments fall significantly, as much as 30 to 40%, meaning that the income they will receive from their investment will be significantly lower than they expected. This will affect them for the rest of their retired lives.”150

236. The impact of the downturn will be most acute on those approaching retirement as they do not have time for their investments to recover. Richer pensioners may be able to delay annuitising, but this is not an option for most. The effect on pensioner poverty may be limited by lifestyling (see below), and by the fact that younger workers have time before they retire. They may see their investments recover from the downturn, or be able to make additional contributions to compensate for losses. The PPI thought that whatever the effect on individuals, the effect on eligibility for means-tested benefits would be limited:

“Sensitivity analysis, carried out by the DWP and by the PPI, has highlighted that future eligibility is not particularly sensitive to changes in private pension income alone. So if the impact of the financial crisis were limited to a reduction in income from private pension income, the impact on future eligibility for means-tested benefits may be small.”154

Lifestyling

237. Defined benefit pensions schemes offer a guaranteed outcome on retirement, with all the risk inherent in the volatility of the pension fund born by whoever offers the scheme, typically the employer. Defined contribution schemes invest the members’ contributions in
a portfolio of financial assets in the stock market, which leaves the individual vulnerable to market fluctuations. To try and counter this volatility many funds are lifestyled. Edmund Cannon, University of Bristol, and Ian Tonks, University of Exeter explained:

“A lifestyle investment strategy attempts to combine the higher returns associated with investing in equity with the reduced risk of investing in bonds. Typically the entire pension fund is invested in equity for most of the period during which the fund is being accumulated. Towards the end of the accumulation period (perhaps the last ten years), the fund is gradually transferred from equity to bonds. Although these have lower returns they are also characterised by less risk. The value of bonds is highly correlated with the price of purchasing a life annuity, so having the fund invested in bonds just before retirement tends to insure the pensioner from changes in interest rates.”

238. However Age Concern and Help the Aged noted that timing was crucial, and that lifestyling could make things worse:

“Whilst lifestyling may provide some protection for people in defined contribution schemes, this is very dependent on timing. People whose funds were switched into low-risk funds a year or so ago will have benefited greatly. But for people who are still a few years away from retirement, being switched into gilts now means they are likely to be crystallising a loss unless the stock market has much further to fall.”

Dr Ros Altmann also expressed concerns:

“Lifestyling may mitigate the effects of stock market falls, but is a blunt instrument which may not work and has not prevented most pension funds from losing money. Some lifestyle funds switched into corporate bonds, rather than gilts, whose value has also fallen.”

Age Concern and Help the Aged noted that there was no evidence as to how lifestyling performed in practice.

239. Mr Massey, Director for the Ageing Society, DWP, stressed that while “lifestyling” can lock in losses, it reduces volatility:

“lifestyling is not a panacea because it can have the effect of locking in low returns, but what lifestyling does do is reduce exposure and volatility. If we look back over the last year, although we need to remember that pension saving is a long term proposition, people in lifestyle funds would have been less exposed to some of the downward pressure in the stock markets.”

240. The Department told us that of the 9.8 million people or so who contribute to defined contribution pensions about 5.9 million are in lifestyled funds. This leaves 3.9 million who

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152 Ev 67
153 Ev 119
154 Ev 54
155 Ev 119
156 Q 224
are not. The then Minister told us that the Department was working to ensure people were aware of their options:

“We are trying to do a lot of work with the pensions industry about how to make sure that people are aware of the options they have, first of all that they understand about lifestyling and need to check whether that is what is happening.”

241. We have heard mixed evidence about the benefits of lifestyling. Whether or not to invest in a lifestyled fund is a personal decision for each investor to make based on their attitude to risk. However the vast majority of investors place their money in default funds. We do not believe that it is enough for the Department to simply work with consumers to check “that they understand about lifestyling”. The Department needs to undertake research into lifestyling, to ascertain how effective it is in practice and to assess its suitability for savers with more modest incomes.

**Lifestyling and Personal Accounts**

242. The Pensions Commission recommended that:

“the default fund in [Personal Accounts] should be a ‘lifestyle’ smoothing fund which automatically shifts members from high equity allocations at earlier ages to index bond allocations as they approach retirement. Within the spectrum of specific ‘lifestyle’ funds it should probably be towards the cautious end.”

243. The *Personal Accounts* White Paper specified the characteristics which the default fund should have in order to “ensure that individuals who do not make an active investment choice are defaulted into an appropriate investment”:

- “The default fund will be structured to deliver an appropriate trade off between risk and return for the target group;
- The default fund will be invested across many different assets classes to reduce specific investment risk; and
- The default fund will be lifestyled so that, for example, an individual’s investments will be moved out of equities into bonds as they approach retirement age to ensure the timing risk related to accessing an annuity is reduced.”

244. The Department cannot realistically expect that many people with Personal Accounts will exercise their right to choose their fund; the default fund for Personal Accounts will need to be designed to suit the needs of the majority of its customers.

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157 Q 224
Savings

245. Most pensioners have some savings, and over a quarter of pensioners have more than £20,000. The following table illustrates the distribution of pensioner savings.

<table>
<thead>
<tr>
<th>Savings</th>
<th>Number of pensioners (millions)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>2.2</td>
<td>19.8%</td>
</tr>
<tr>
<td>Less than £1,500</td>
<td>1.5</td>
<td>13.5%</td>
</tr>
<tr>
<td>£1,500-£3,000</td>
<td>0.7</td>
<td>6.3%</td>
</tr>
<tr>
<td>£3,000-£8,000</td>
<td>1.8</td>
<td>16.2%</td>
</tr>
<tr>
<td>£8,000-£10,000</td>
<td>0.5</td>
<td>4.5%</td>
</tr>
<tr>
<td>£10,000-£16,000</td>
<td>1.0</td>
<td>9.0%</td>
</tr>
<tr>
<td>£16,000-£20,000</td>
<td>0.4</td>
<td>3.6%</td>
</tr>
<tr>
<td>£20,000 or more</td>
<td>3.0</td>
<td>27.0%</td>
</tr>
</tbody>
</table>

Source HBAI 2007/8

246. Between July 2007 and March 2009 the Bank of England base rate fell from 5.75% to 0.5%. Dr Ros Altmann told us how pensioners were being affected by falling interest rates:

“Policy for the [economic] crisis – including bringing down interest rates - has almost entirely ignored the plight of older people, indeed aggressive interest rate cuts are little different from cutting the state pension. A pensioner with £10,000 of savings will have lost £10pw as a result of falling rates. […] Many pensioners are struggling to make ends meet as savings income falls and are cutting back on their spending.”

247. The PPI looked at the level of savings pensioners have, and sought to predict the impact of the downturn:

“For current pensioners, the impact of the current financial crisis is likely to be greatest on those who receive a significant proportion of their income from savings. 72% of pensioners reported being in receipt of income from investments in 2006/7. Although the average amount of income was over £50 per week, the median was only £7 a week. This suggests that the majority of pensioners receive relatively little income from investments. Nonetheless, the recent falls in interest rates will have had an impact on incomes. Given the recent fall in interest rates, if the £7 a week income was derived from a notice-based deposit account, that income could have fallen by £5 a week, to only £2 a week.”

248. In written evidence the Department told us that it thought the effect on pensioner poverty would be limited:

“Falling interest rates will have a direct impact on the amount of investment income received by some pensioners. However, we do not believe this will have a major impact on the number of pensioners in low income. Over a quarter of, mainly low

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160 The data relating to assets and savings should be treated with caution. Questions relating to assets are a sensitive area. A high proportion of respondents do not know the interest received on their assets and therefore around one in seven cases are imputed. Evidence also suggests that there is some under-reporting of capital by respondents, in terms of both the actual values of the assets and the investment income.

161 Ev 54

162 Ev 140
income, pensioners do not receive any investment income. For those that do, half receive less than £7 per week, making up just 2% of median income.”

249. We note that many pensioners have seen a decline in their income as interest rates have fallen. We recognise the hardship that this can cause, and that some pensioners have lost a significant amount of income. We welcome the increase in the Pension Credit capital disregard as a good way to help pensioners with small amounts of savings.
6 Financial Advice

Introduction

250. We have received a great deal of evidence about the need that pensioners, and those making decisions about their retirement, have for financial advice. In some cases this is a need for technical and personal advice, of the type that would have to be provided by someone regulated by the Financial Services Authority. In other cases the advice is less technical and more generic. Ms West from Age Concern and Help the Aged told us:

“[People] probably need a holistic look, which is hopefully something that Money Guidance can do, which looks at, ‘This is your state pension. Here are your options. Let me tell you a bit about means-tested benefits. You have got a small pension pot. Let us see what you can do with that’, so looking at people’s life in a holistic way rather.”164

Utilities

251. People can save large sums of money on their fuel bills if they change their gas and electricity supplier, particularly if they can pay by direct debit, but many older people need help “switching” their utilities provider. Mr Kohler from Age Concern and Help the Aged told us:

“Quite frankly, switching is a game for people who can get on to the internet. If you were going to spend your time phoning round the different companies to find out what the best deals are, you are going to spend a lifetime finding information rather than doing any switching. There is a miasma of different tariffs. There are social tariffs for certain groups of people. Ofgem is trying to clean all this up but it is moving in baby steps and we really do need to see more pressure put on organisations like Ofgem to act in the consumer interest and try to sort out this whole business of the optimum tariff for different customers.”165

252. The then Minister told us about the work they are doing:

“we have been working very closely with DECC to make sure that people are aware of some of the entitlements in terms of whether it is Warm Front schemes or insulation or tariffs that companies would be offering.”166

253. Mr Alan Woods, Director for State Pensions and Stakeholder Relations, DWP, added:

“we are also working with the Department of Energy and Climate Change and energy suppliers to see if we can share data which will help the energy suppliers to target some of their better deals at people who are in greatest need, so I think data

164 Q150
165 Q 73
166 Q 222
offers quite a promising long-term way forward, and I think we are now making some real steps to get us towards that.”

254. When we took evidence on fuel poverty we heard that social tariffs varied between different companies. Some companies offered a small discount to a wide group of customers while others offered a bigger discount to a narrower group.\footnote{Fuel Poverty, Oral and written evidence, sessions 2008-09, HC 752-I, Q 35} However most social tariffs are only open to existing customers, so people have a limited ability to “switch”.

255. \textit{We welcome the fact that the Department is working with DECC and energy suppliers to help them target those in greatest need. Switching utilities provider is difficult for those without internet access. Support needs to be provided to help pensioners, particularly the older and more vulnerable, to find the best deals. The Department should work with DECC and Ofgem to simplify the system to ensure that pensioners are able to access the best deals. We are concerned at the level of financing of, and the administration of the Warm Front Scheme.}

\textbf{Annuities}

256. Once an annuity has been purchased the amount received is fixed, or increases by an agreed amount. As a result those who have already retired and purchased an annuity will not be affected by the downturn. However for those who are about to purchase an annuity the situation is different. A number of submissions to our inquiry thought that the economic downturn would not have a serious effect on annuity rates, but noted that rates have fallen (meaning that an annuity costing the same amount would give smaller payments), and that this fall was on top of the fall in the stock market, which had already reduced the amount of money people had available in their pension pot to buy an annuity.

257. On the visit to the Pensions Regulator we heard that annuity rates will fall in future as longevity estimates are adjusted upwards. Many submissions to the inquiry also stressed that people needed to be aware that they could shop around for an annuity.

258. Dr Ros Altmann thought the effect would be more serious:

\begin{quote}
“Annuity rates will worsen as gilt yields fall and insurers struggle to back annuity books with safer assets. Insurers have lost heavily on the bank bonds and asset backed securities they bought, instead of gilts. Also, as more defined benefit schemes close, bulk annuity deals will worsen annuity rates for individual annuity purchasers over time.”\footnote{Ev 55}
\end{quote}

259. The 2009 Budget recognised the problem and stressed the role of Moneymadeclear, a website and telephone helpline run by the Financial Services Authority, in increasing understanding of the options available:
“By shopping around, people can increase their retirement income by up to 20%. This is especially important in the downturn. The new Moneymadeclear website and helpline will be available to support people across the UK who are approaching retirement, to work out their options and help them to find the best annuity deals. This will build on the Government’s existing work to help people to get the most out of their pension savings.”

260. However Age Concern and Help the Aged told us that people do not understand the choices they have to make about annuities, and often do not realise that they have a choice. Mr Kohler told us:

“We are launching next week a link-up with an agency in order to provide an annuities advisory service because the numbers of people who do not know anything about the open market option and just plump into an annuity offered by their pension provider is frightening. People do not know the difference between a level annuity and an escalating annuity. They think that they might be able to change their mind later but you cannot; it is a one-off decision. You actually need shed-loads of advice to make the right decision when you have only got one shot at it.”

261. Choosing an annuity is a very important decision. People approaching retirement need to be made aware that they have choices to make, and be given support in making them.

Retirement planning

262. As we discussed in Chapter 1, pensioners need help with a range of other issues surrounding their retirement. Mr Barton from CAB told us about the areas on which their customers have come to them seeking advice:

“We have also been involved in a project called Money Plan, under which independent financial advisers do pro bono work in CAB. [The evaluation] is going to show that the big issues that people are bringing are to do with their mortgages and their pensions. […] on the pensions they are asking about pension options on retirement, the impact of redundancy on people’s pension situations and giving people help in understanding the information that their pension providers are sending to them. We think there is a big gap in the market there.”

263. We have previously noted that saving in a personal account will not be beneficial for some people. Mr Barton told us that Personal Accounts will only increase the need for advice, as people will have to decide whether they wish to opt-out:

“people will have to decide whether to opt out or not and there are going to be some very difficult questions to try to assess for people on the opt-out decision. It is not the
sort of thing that IFAs see as a paying proposition and yet people will need advice because some people will be very well advised to opt out of the new system.”173

264. People need to make a range of difficult decisions about providing for their retirement. This will increase when they have to make decisions about Personal Accounts. There is a shortage of support available for those who need to make decisions about relatively small sums of money.

**Pensions forecasting**

265. People need information to be able to make informed decisions about their retirement. Combined Pension Forecasting is a service provided by DWP which means that pension scheme members or employees can see forecasts of both their State Pension and private pension together. It was launched in October 2001 following successful exercises working with private- and public-sector employers and pension providers.

266. Under the scheme the Pension Service provides the pension provider with details of the current State Pension that the scheme member or employee has built up at the time of the forecast, and a projected State Pension that has been worked out up to State Pension Age. The provider then includes this information in the stakeholder, occupational or personal statements sent out to scheme members or employees.

267. We looked at this issue in our 2006 inquiry into Pension Reform. We concluded:

“We think that there is scope to improve the format and the regularity with which the Pensions Service provides pensions forecasts and strongly believe that accurate Combined Pension Forecasting will be a key motivator for increasing retirement saving. While the Swedish orange envelope is not the complete solution to the problem, as it does not include information about private or occupational provision, it has two key advantages of being distinctive and simple and should be the starting point for reform.”174

**Deferring the Basic State Pension**

268. People approaching retirement can defer claiming their Basic State Pension. For every year that they defer they can either receive a lump sum, or receive a larger BSP for the rest of their life. The BSP increases by over 10% for every year it is deferred. We heard a lot of evidence on the benefits of deferring the BSP. Professor Hills told us:

“That is probably the best investment anybody can currently make, I would have thought, unless you are in poor health, and certainly for women. […] I think few people understand the advantage of that. […] if you are a woman reaching 60 if you could work another five years, actually the state will then be paying you an extra 50% for the rest of your life.”175

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173 Q 145
175 Q 57
269. Whether deferring the BSP is beneficial depends on the individual’s longevity. An indication of returns is shown in the table below.

**Table 8 The impact of deferring a pension.**

<table>
<thead>
<tr>
<th>If you live for another...</th>
<th>Deferring for 2 years</th>
<th>Deferring for 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pension received by NOT deferring</td>
<td>Pension received by deferring</td>
</tr>
<tr>
<td>2 years</td>
<td>£9,620</td>
<td>£0</td>
</tr>
<tr>
<td>5 years</td>
<td>£25,500</td>
<td>£19,200</td>
</tr>
<tr>
<td>10 years</td>
<td>£56,600</td>
<td>£56,800</td>
</tr>
<tr>
<td>15 years</td>
<td>£94,400</td>
<td>£102,000</td>
</tr>
</tbody>
</table>

Notes: 1. This assumes pension rates rise by 4% a year

270. Mr Kohler from Age Concern and Help the Aged told us that the Department could do more to make people aware of this option, and to explain it to them:

“The form that you get as you approach retirement age from the Pension Service mentions the opportunity to defer but it is just, ‘Do you want to defer?’. It does not explain what is the consequence of doing so, so there is more that could be done to raise the awareness there.”

271. The then Minister agreed that “we do need to perhaps do more to make that clear” that people can defer the State Pension.

272. *We welcome the commitment of the then Minister to review the information provided to people about deferring the State Pension. While this option is not suitable for everyone, it is a very good investment for many people, especially women and those in good health. The Department must do more to ensure people are aware of the benefits of deferring.*

**Tax back campaign**

273. Budget 2009 announced a “tax back campaign” to encourage pensioners to claim back any tax that they may have over-paid on their savings. Mr Barton from CAB told us that previous campaigns had not “been terribly successful”. He believed that the exercise would be costly and called for “further discussions about how to have as effective a campaign as possible.”

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176 Q 150
177 Q 235
178 Q 79
274. The Chairman asked whether it would be better to work with the financial institutions, but Ms West from Age Concern and Help the Aged told us they were reluctant to get involved:

“we have made the point that it should be promoted much more strongly within the banks and building societies, and they have not been keen to do that. Sometimes if you go in and you ask for their most recent leaflet it is out-of-date so we would definitely like to see the banks and building societies being more proactive in ensuring that their customers are not overpaying tax.” 179

275. We welcome the campaign announced in the budget to encourage pensioners to reclaim tax they have overpaid. However in the past such campaigns have not been successful. The Department must work closely not just with HMRC, but with banks and building societies.

**Equity Release**

276. As we discussed in Chapter 1 some pensioners are asset rich, particularly those who own their own homes. For some, equity release may be beneficial, allowing them to increase their income without selling their home. However equity release is not a solution for everyone; it depletes inheritance, and limits a pensioner’s ability to move house later in life, when they may need sheltered accommodation, or somewhere which is easier to look after. Younger pensioners may only be able to unlock a small proportion of the value of their home as lenders need confidence that the value of the house will cover the value of equity released, plus interest (depending on the type of equity release), even if house prices fall. For younger pensioners the time scales are so long that lenders are cautious about how much equity to release. PPI concluded that:

“many owner occupiers may not be able to release a sufficient amount of equity from their home to make a significant contribution to their income in retirement.” 180

277. In addition equity release may be treated as income or capital for the purposes of calculating means-tested benefits. This means that for some pensioners in receipt of means-tested benefits it may not be a good option.

278. Pensioners claiming Pension Credit who are homeowners with a mortgage may receive additional support for mortgage interest (SMI). If someone then releases equity it is possible for them to continue to receive SMI on the proportion of the equity release loan that had originally constituted the mortgage. We have heard however that this is not widely understood. 181

279. Equity release can be a good option for some pensioners who own their own home. Pensioners need clear and impartial advice in assessing the options available to them. Government should monitor the equity release market with a view to facilitating the development of schemes which are appropriate for asset-rich but income-poor pensioners.

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179 Q 79

180 Do pensioners have sufficient income to meet their needs? PPI Briefing Note Number 51

181 Ev 172
pensioners. This may involve simplifying the rules, and ensuring they are more widely understood.

Solutions

280. During the inquiry we heard about a wide range of areas where pensioners could benefit from financial advice. We also heard detailed views on how the Government could address this problem. Ms West from Age Concern and Help the Aged told us about the sort of service that is required:

“what is needed, clearly is a service that can provide all this kind of guidance by telephone, in some cases face-to-face, and there is a lot more scope for using web-based tools that can provide additional information.”182

281. She told us that while this guidance was available, it was not in one place, and people needed a brand they could trust:

“You need a known brand of some kind. There is no shortage of leaflets and information and stuff on websites, but you have to have something that people start to recognise as the place to go as the starting point. I think there are a whole lot of people who have a problem and they are looking round and saying, ‘Where shall I go?’”183

282. The then Minister told us about a range of measures, including the “Let’s Talk Money” campaign, Direct.gov, the Pensions Advisory Service, the Pension Service, Moneymadeclear, and work with Age Concern and Help the Aged, and the CAB. We suggested that there was a need for one source for this information, a recognised brand:

“I think the branding thing is interesting. […] I remember when I was Minister at Health we looked at the whole issue of trying to brand things and endorse them. It can get quite complicated but I certainly think that there is something that we need to very much bear in mind.”184

283. Mr Massey, Director for the Ageing Society, DWP, agreed that the question of whether the source of advice was a trusted brand was critical in ensuring that important messages got through.185 However, the then Minister was cautious about providing regulated financial advice:

“we are in constant dialogue with a lot of the older people’s organisations to say is there further action that we can take to signpost people at the same time as a recognition that we probably would not want to be giving financial advice.”186

182 Q 146
183 Q 146
184 Q 229
185 Q 229
186 Q 231
284. There are many good schemes run by the Government and third sector to provide financial advice to pensioners, including using volunteer IFAs to provide regulated advice. However the current system is piecemeal, and to a large extent relies on people knowing that they need advice and seeking it out. Many people are not aware of the choices available to them, particularly over providers of utilities and annuities. Often what they need is generic advice, or just information on how they can seek further advice, or shop around for other options.

285. Concerns about legal liability inhibit the provision of regulated financial advice by the Government and other bodies. However it is poorer pensioners who are less likely to secure the services of an IFA, and it is these pensioners who most need advice on how to maximise their investments.

286. There are areas where the need for advice can be mitigated by moves to make systems more automatic, for example by introducing automaticity to Pension Credit claims, requiring auto-enrolment in Personal Accounts, or by making default funds lifestyle. There will always be people who need to make decisions, for example whether or not to opt-out of Personal Accounts. However a system which has the best outcome for as many as possible, without them having to apply or make decisions, will prevent people being lost along the way. It will also reduce the number of people needing advice. The Government should take this into account in its measures to reform the benefits and pensions systems.

**Money Guidance**

287. In 2007, the Government commissioned Otto Thoresen to carry out a review examining the feasibility of delivering a national approach to generic financial advice. The final report of the Thoresen Review was published in March 2008, setting out proposals for a national approach to deliver “Money Guidance”, formerly described as generic financial advice.

288. The Thoresen Review recommended that:

- A national Money Guidance service should be governed by the principles of impartiality, supportiveness, crisis prevention, and universality, and should be sales-free.

- Money Guidance provided by the service should focus on giving people information and guidance on budgeting, saving and borrowing, protection, retirement planning (including personal accounts), tax and welfare benefits, and jargon busting. It should stop short of recommending specific products.

- The most appropriate way of delivering a Money Guidance service is a partnership model, with a central body to direct the strategy, set standards and deliver some services, but with much of the service actually delivered by partner organisations including those who already undertake work helping people with their money.

- A UK-wide approach to Money Guidance should be delivered using a multi-channel approach; telephone, face-to-face and web-based service.
289. The report recommended that the approach should be piloted. The Government accepted this recommendation and, in partnership with the FSA, is taking forward a pathfinder programme that will design, deliver and evaluate a money guidance service. This will be under the management of a joint FSA/HM Treasury Programme Board and will run in the north east and north west of England, aiming to reach up to 500,000 – 750,000 people over a 12-month period from spring 2009.

290. The pilots involve working with CAB, A4E, local Liverpool charities, Teleperformance (a provider of outsourced contact centre solutions that has worked with the FSA since 2002), and the Consumer Credit Counselling Service (an experienced debt management charity, which has offered to provide telephone-based money guidance to its own clients). The pilot also involves

“designing a strategy to engage users with the service through branding, marketing, PR, advertising and sign-posting through trusted intermediaries, building on the work of the FSA-led National Strategy for Financial Capability.”

291. The Building a Society for all Ages strategy was published on 13th July. It announced that if the Money Guidance pilots were successful they would be rolled out nationwide from 2010. It also announced that the Financial Skills for Life programme run by the CAB, which includes preparation for later life would be rolled out nationwide by 2011. The Strategy states that

“Though there are a number of sources of information and support for making plans for the future, people have told us that these are often fragmented and disparate and that they can be difficult to find. To address this we will draw together support online, on the telephone and face-to-face from across Government and the third sector and will provide a ‘one-stop shop’ for individuals wanting to plan ahead. From 2010 this will provide information about planning for retirement, state pensions, workplace pensions and working longer.

We will link the ‘one-stop shop’ to the Money Guidance service, planned for launch in 2010, which will give impartial support to help people plan their finances and make informed financial decisions with confidence. People will also be signposted on to relevant, more specialised services including The Pension Service, The Pensions Advisory Service and private sector information providers.[…]

The ‘one-stop shop’ will link existing planning services and will include new services as they become available including the NHS Mid-life LifeCheck; the Adult Advancement and Careers Service; and FirstStop, a care and housing advice service. It will also include additional useful information, for example about options for working longer, volunteering, informal adult learning, and what to consider when thinking about moving home or area in preparation for later life.”

292. We welcome the announcement in Building a Society for all Ages that the Government will provide a "one-stop shop" for individuals wanting to plan ahead for their retirement. It is not clear how this will operate in practice, but it is essential that Money Guidance and the "one-stop shop" signpost customers on to other organisations, such as The Pensions Advisory Service and third sector organisations, as seamlessly as possible. If people are advised to contact a wide range of organisations, or are passed from one organisation to another, people will be lost along the way.

293. Money Guidance and the proposed “one-stop shop” has to become the clear, trusted, source of financial advice which is clearly needed. This service needs to develop public trust and needs to be clearly branded. The Government must focus on both the importance of branding, and the importance of ensuring the service reaches out to those who may not be aware that they need advice.

294. We welcome the commitment in the Building a Society for all Ages Strategy that the “one-stop shop” will include telephone and face-to-face advice, and cover a wide range of benefit, and non-benefit related, money issues. It needs to inform people of the financial issues they need to be aware of, and inform them when they need to seek regulated advice. In addition the service needs a much higher public profile than any of the Government’s current initiatives, especially amongst those who are less financially literate.

295. Pensioners in rural areas have the same need for advice as those in towns. The pilots need to look at ways of providing advice in rural areas. While the internet is a useful source of information for many pensioners, others do not have access, and in some rural areas broadband is not available.
7 Work

296. The Pensions Commission proposed a combination of more generous and more universal state pension provision, individuals saving more and individuals working longer. The reforms of the state pension system have been described in Chapter 2 and we have also discussed the introduction of Personal Accounts. It is the third element of the Pensions Commission’s proposals, working longer, that has so far received least attention from the Government.

297. Indicator 1 for the Department’s PSA 17 (Tackle poverty and promote greater independence and well-being in later life) is to “increase the employment rate of those aged 50-69 and the difference between this and the overall employment rate”. The baseline for assessment of whether progress has been made is the employment rate for 50-69 year olds in Q2 2008 which was 56.3%, 18.4% below the overall employment rate.

298. The Department undertook research in 2003 which found that the majority of people who work after State Pension Age (SPA) do so for positive reasons. The research showed that 50% of those working after SPA did so because they enjoyed their job or because they wanted to keep fit and active; only 7% continued working out of financial necessity (“couldn’t afford to retire earlier”). The then Minister of State for Pensions and the Ageing Society, Rt Hon Rosie Winterton MP, added that the Government’s Age Positive campaign had been active in “emphasising to companies the benefits of older workers”. She stressed that “there are a lot of skills that older people have” and that it was important that their value was recognised and that those skills were passed on to younger generations.

299. Enabling older people to extend their working lives is an important element of the Pensions Commission’s prescription for the future of pension provision. People working beyond 65 will become the norm as the State Pension Age is progressively increased.

300. Employment for those over State Pension Age provides the opportunity to supplement income from state and private pensions. Employment up to State Pension Age provides an opportunity for many to increase their retirement income.

Work, health and well-being

301. Age Concern and Help the Aged noted that ill health was a major cause of early retirement and called for more effort to be put into occupational health and rehabilitation services:

“We believe that a preventative life-course approach to occupational health and job design is key to reducing the number of people who have to leave work because of

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188 Factors affecting the labour market participation for older people, DWP research Report 200,2003; DWP’s Autumn Performance Report 2008, HC 363-i, Session 2008-09, Ev 24

189 Q236

190 Q238
illness or disability. We would like to see better and more prompt access to occupational health and rehabilitation services for all workers and welcome the Government’s positive response to the recommendations made by Dame Carol Black.”

302. In her review of the health of Britain’s working age population, *Working for a healthier tomorrow*, Dame Carol Black, National Director for Health and Work, proposed the development of a new “Fit for Work” service providing treatment, advice and guidance for people in the early stages of sickness absence. This would refer into a wide range of services, which could include advice and support on financial and housing issues, in addition to more traditional NHS services, such as physiotherapy. She suggested that the Fit for Work team should be based in or close to primary care provision.

303. The Government response to Dame Carol Black’s Review proposed to pilot a range of early intervention provision, including “Fit for Work” services, to give people more support in returning to work. It also proposed an electronic ‘fit note’ to replace the current medical certificate, with the intention of switching the focus to what people could do rather than what they could not; this was intended to improve the flow of information between employers, individuals and GPs. The Government will also set up a National Centre for Working-Age Health and Well-being which will gather and analyse data:

> “enabling the identification and monitoring of trends; and help in determining the impact of interventions and initiatives.”

304. Many older people appreciate the benefits of work, helping them to keep active, to develop new skills and participate fully in society. The skills and experience that older people can offer is an asset that should be prized by employers.

305. Ill health is a major cause of early retirement and prevents many older people from extending their working lives. We welcome the Government’s response to Dame Carol Black’s review, in particular the introduction of an electronic “fit note” and the establishment of a National Centre for Working-Age Health and Well-being. The data provided by the fit note should allow the Centre to analyse trends in ill health, including any issues that disproportionately affect older people. We would expect this analysis to lead to targeted initiatives that help to prolong older peoples’ working lives.

**Discrimination**

**Age discrimination in employment**

306. Dr Ros Altmann highlighted the fact that “age discrimination legislation stops at age 65”. We noted in our report on *The Equality Bill: how disability equality fits within a single Equality Act* that the Employment Equality (Age) Regulations 2006, which aim to prohibit discrimination against older workers on the grounds of age, do not apply to

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191 Ev 122

192 Improving health and work: changing lives, the Government's Response to Dame Carol Black's Review of the health of Britain's working age population, Cm 7492

193 Ev 55
workers of 65 and older. The Regulations not only maintain the “Default Retirement Age” of 65, which enables an employer to dismiss a member of staff on their 65th birthday without redundancy payments, but also mean that those over 65 do not receive protection against other forms of discrimination on the grounds of age (such as inferior pay or treatment).

307. Unite, The National Federation of Royal Mail and BT Pensioners, acknowledged that the regulations were a positive step and noted that they gave people the right to request work beyond 65 but they believed that the Default Retirement Age “goes against the Government’s policy of asking people to work longer, [and encouraging] flexible retirement and choice”.

308. We were told by the CBI during our inquiry on the Equality Bill that the Default Retirement Age allowed businesses to plan their human resources functions with greater certainty, in particular in recruitment, succession planning and reduction of headcount. It also pointed to evidence that firms were becoming more receptive to the idea of flexible retirement. The CBI argued that:

“a clear retirement age is important to companies in planning their business and ensures that firms can retire employees with dignity rather than forcing them to dismiss staff on grounds of competence. Without a normal or default retirement age, firms would have to justify and re-justify each individual retirement.”

309. However, we concluded during our inquiry on the Equality Bill that the Employment Equality (Age) Regulations 2006 contradicted “the Government’s wider social policy and labour market objectives to raise the average retirement age and allow people to continue to work and save for their retirement”. We are not convinced that the benefits to business of greater certainty in staff planning that come from the Default Retirement Age outweigh the broader need for more people to be enabled to extend their working lives.

310. Professor Hills described the Default Retirement Age as “unhelpful” and added “I think a large number of people would argue that that is discriminatory”. Mr Kohler from Age Concern and Help the Aged argued that the Default Retirement Age:

“flies in the face of what we are trying to achieve by encouraging people to work longer. It is a positive barrier to moving ahead with that agenda. It is also against the grain of how we see society changing. This age of 65 for men has been knocking around as a retirement age more or less for about 100 years and we are all living longer, healthier, fitter lives. It seems completely nonsensical that we should still have essentially 19th century legislation in the 21st century in this area.”

195 Ev 62
198 Q57
199 Q159
311. He believed that the evidence of those organisations that had either raised or got rid of their default retirement ages was that:

“it does have the effect of encouraging people to think about working for a year or two longer, but usually that is it. It is what is happening in companies like Nationwide. They have seen the age of their employees retiring just rise by a relatively small amount so it is not going to have an enormously destabilising impact on the market that we know at the moment.”

312. When the Government introduced the age discrimination regulations in 2006, it decided that a five year period would be appropriate to assess the impact of the regulations as a basis for review of the Default Retirement Age. The then Minister told us that the Government would review the Default Retirement Age in 2011 and “if that review shows that it is no longer necessary […] we will remove it, but I do think it is important to recognise that there have been some big strides made in terms of what used to happen before.”

313. As we noted in our report on the Equality Bill, this matter is currently before the High Court which is considering a case brought by Heyday, an offshoot of Age Concern, for a judicial review of the regulations. The High Court referred the matter to the European Court of Justice for an opinion on whether the Default Retirement Age was in breach of European Union rules on age discrimination. The European Court of Justice ruled in March that the default retirement age was not in breach of EU rules provided that it was capable of being justified by reference to social policy objectives, such as those related to employment policy, the labour market or vocational training. It is now for the High Court to determine whether the regulations are in breach of EU equality law.

314. The Building a Society for all Ages strategy was published on 13th July. It announced that the Government would bring forward the review of the Default Retirement Age to 2010. It added that “if the evidence shows that the Default Retirement Age is no longer needed we will act to make the necessary changes to legislation […] any changes will not be implemented till 2011.”

315. We reiterate our conclusion from our report on the Equality Bill that the default retirement age contradicts the Government’s wider social policy and labour market objectives of raising the average retirement age and allowing people to continue to work and save for their retirement. We welcome the Government’s decision to bring forward the review of the Default Retirement Age but the evidence we have received suggests that it is discriminatory and unnecessary. We look forward to it being abolished.

316. We note evidence from organisations that have taken this step that abolishing the default retirement age tends to lead to workers delaying retirement for a year or two and we believe that this measure would not have a disproportionate effect on the labour
market. However, the opportunity to work an additional year could enable someone who deferred claiming their basic state pension to add over 10% to the value of their state pension for the rest of their life; deferral for two years would add over 20%. This could have a significant impact on rates of pensioner poverty.

317. If older people are going to continue to participate in the workplace after the age of 65, then they should receive the same protection against discrimination on the grounds of age as workers under the age of 65. We call on the Government to introduce provisions to extend protection against discrimination on the grounds of age to those over 65.

Flexible working

318. The Equality and Human Rights Commission found that flexibility from employers about the hours and type of work that they expected older workers to complete would help them to remain in the workplace. It cited a study by the Joseph Rowntree Foundation that found that older workers would “welcome more flexible work options at the end of their working lives […] they found broad support amongst employees, and those already retired, for individuals to have the choice to downsize or downscale in the years before full retirement if they wanted to.”

319. Age Concern and Help the Aged called for more flexible working and advocated “age management” measures to help older workers remain in work; such measures would consist of “progressive human resources policies, touching on […] health, training and the design of work.” Mr Kohler of Age Concern and Help the Aged argued that:

“we have to find easier ways for employers to be able to package up work in part-time packages, to look at in-work benefits which may be more attractive than the benefits that appeal to younger employees. It is working with employers which is significantly missing at the moment.”

320. The Department informed us that “many 50 to 69 year olds would have considered carrying on working if part-time or flexible working options had been available.” It also noted that, since 2000, its Age Positive initiative has:

“been actively tackling age discrimination in employment and promoting older worker issues to employers and leading business organisations. [It] is currently working in partnership with business leaders to develop sector-based models of flexible retirement to support the increased employment and retention of older workers and the removal of fixed retirement ages.”

321. The PPI has examined the effect of changes in certain public sector pension schemes which now allow members to draw a limited amount of pension while continuing at work,

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204 Ev 152
205 Ev 122
206 Q153
207 Ev 108
208 Ev 109
provided that they reduce substantially either their hours of work or grade. The changes encourage some to stay in work, as they receive salary and pension for reduced hours or responsibility, whereas others are encouraged to reduce their hours more quickly than they would otherwise have done. A study of the teachers’ pension scheme suggested that the more flexible provisions had made 24% likely to stay longer at work, but 25% anticipated retiring earlier. The PPI concluded that this suggested that the impact of the flexible retirement options in public sector pension schemes on average retirement ages would be “finely balanced”.

322. Flexible working arrangements can be crucial in enabling older workers to remain in work. We commend the Department’s work under the Age Positive Initiative to promote flexible retirement packages. Helping older workers to work flexibly and remain in the workplace can have clear benefits for employers who are able to retain the skills of experienced workers.

Flexible working and carers

323. Professor Hills noted that the reason that many people in their 50s and 60s were unable to extend their working lives was because of caring responsibilities, and that this particularly affected women.

324. In our report on Valuing and Supporting Carers we welcomed provisions in the Work and Families Act 2006 to extend the right to request flexible working to employees who care for an adult, but noted a low level of awareness of the new right amongst employers and employees. In its response to the Committee, the Department highlighted the steps that it was taking to raise awareness of the change in the law and to promote good practice amongst employers.

325. The Committee also called for Jobcentre Plus to be more proactive in negotiating flexible working arrangements for its clients. This is particularly important for carers seeking work, many of whom are in their 50s and 60s. The Department noted the work that it was doing to promote and support flexible working, including through Local Employment Partnerships. It also noted that small and medium-sized enterprises would be targeted in a new phase of the Employ Ability campaign covering employment of disabled people, lone parents, carers and people from black and minority ethnic groups.

326. We note that many older workers face additional barriers to work because of their caring responsibilities. We commend the Department on its measures to increase awareness amongst employers and employees of the right for carers to request flexible working and to encourage employers to offer flexible work; we call on the Department

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209 PPI, An assessment of the Government’s reforms to public sector pensions
210 Q60
211 Valuing and Supporting Carers, Fourth Report of the Committee, Session 2007-08, HC 485, para 298
to monitor the success of this work closely to assess its impact in helping older workers to remain in or find work.

**Earnings and tax**

327. A single pensioner on Guarantee Credit is entitled to a £5 per week disregard on their earnings with couples entitled to a £10 disregard. In some other cases, such as carers, lone parents, people in certain occupations or in receipt of certain benefits, a £20 disregard applies. This broadly mirrors the current regime for younger workers. Earning more than these amounts will mean a pound for pound reduction in entitlements to Guarantee Credit, though earnings can count towards savings credit for those over 65.

328. Dr Ros Altmann believed that the fact that the earnings disregard was so low, at £5 per week, was a barrier to older workers staying in the labour force. Age Concern and Help the Aged agreed that the earnings disregard for Pension Credit was a huge disincentive to work. They cited the example of an individual who had told them:

“It wasn’t worth me going out to work because we only ended up £10 better off […] Now I didn’t want to give up my job because I was meeting people and everything but I had to give it up.”

329. Ms West, Age Concern and Help the Aged, added:

“You can earn £5 a week without affecting your Pension Credit. That has been the same since 1988. […] It would be really useful for many older people just to be able to earn a bit more, increasing their income but also it is often good for health and well-being and social contact, and I am not sure that there would be a huge cost because what happens now is that people do not work and lose their Pension Credit. They just say, ‘I will not take-up that part-time job’, so I cannot see that it would increase the cost of Pension Credit very much”.

330. Citizens Advice called for an increase in earnings disregards to enable claimants to do a little work without losing their benefit. They noted that “mini-jobs” could be a good way for older workers to maintain contact with the labour market.

331. During its inquiry into Pension Credit in 2004, the previous Committee was told that increasing the earnings disregard to £40 would cost around £180 million and that there were only 70,000 people with earnings who would qualify for Pension Credit as a result. The Committee called on the Government to reconsider the treatment of earnings to take account of the numbers of Pension Credit recipients who might wish to take-up paid work, the potential impact on pensioner poverty and the extent to which the rule acted as a disincentive to work.
332. The Government response to that report stressed the extent to which other factors in the benefit, tax and tax credit systems acted to encourage pensioners to work.

“The Government wants both to promote opportunities for older workers and to reward them for their earnings. It believes that the Working Tax Credit, the abolition of the 16 hours work rule in Pension Credit, and bringing forward the existing disregards in the income-related benefits are the best way to promote active ageing and reward earnings. Under Pension Credit the earnings of those aged 65 or over can count towards the savings credit.”220

333. In evidence to this Committee, the then Minister confirmed that the Government “do not have any plans to change the £5 earnings disregard.221 However, the Government announced on 2 July that it would trial, in selected areas from 2010, increasing the earnings disregard for lone parents on income support who work for less than 16 hours from £20 to £50.

334. We have previously called for the £5 earnings disregard for Pension Credit to be increased. The current rules are a barrier to pensioners working, and are contrary to the Department’s stated objectives. We find it regrettable that the disregard has remained at the same level for over 20 years and is now equivalent to less than one hour’s work at the minimum wage.

335. We welcome the Department’s announcement that it will trial raising the earnings disregard for lone parents on income support to £50. We call for the earnings disregard for pensioners in receipt of Pension Credit to also be increased to £50.

336. The Pensions Commission noted that employees working beyond State Pension Age did not pay National Insurance contributions although their employer was still liable for National Insurance contributions on their behalf. This was despite the fact that no further state pension rights could be accrued.222 It recommended a reduced rate of employer’s national insurance for employees above State Pension Age on earnings up to a maximum ceiling.

337. The Department stated that “the income tax, national insurance, state pension and private pension systems support longer working by providing flexibility and financial gains from working longer”.223 It explained that, under legislation in force since April 2006, older workers have been permitted to draw an occupational pension while continuing to work for the same employer. The state pension can also be drawn while continuing to work. It added that since those over State Pension Age do not pay national insurance, and since those over 65 have a higher tax allowance, they “get to keep more of what they earn”.224

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221 Q241
222 Second report of the Pensions Commission
223 Ev 108
224 Ev 108
338. We note that the Pensions Commission’s proposal for a reduced rate of employer’s national insurance contributions for employees above State Pension Age would provide an additional incentive for them to keep on older workers. We acknowledge that in the current fiscal climate this may not be a priority, but we call on the Government to cost this proposal and keep it under consideration as part of its long-term strategy to increase the employment rate of older workers.

Support for older workers

Welfare reform and support in overcoming barriers to work

339. The terms of reference for this inquiry asked whether the Government’s programme of welfare reform was the right approach for supporting pensioners who wished to continue working. Claimants of Jobseeker’s Allowance who are over 50 already experience the conditionality that accompanies receipt of that benefit, including being available for work, actively seeking work and having a jobseeker’s agreement with the DWP (including requirements to attend Work Focused Interviews). New claimants of Employment and Support Allowance (ESA) (work-related activity) have also been subject to the conditionality attached to that benefit since October 2008. In the long-term, all current claimants of Incapacity Benefit will be transferred either to ESA (work-related activity) or ESA (support rate). Only those on the “support” rate will not be expected to look for work.

340. We received a number of memoranda identifying the particular barriers to work faced by older people which had to be taken into account by Jobcentre Plus in helping them into work. CCC, formerly known as the Continuing Care Conference, welcomed support available to benefit claimants seeking to return to work, but argued that conditionality for those aged over 50 required more research. It believed that:

“Initiatives such as Pathways to Work have had a different impact on older age groups compared with the rest of the workforce because people over the age of 50 have particular health and skills support needs and further research into the barriers facing older people returning to work, the epidemiology of older workers and what support is most helpful for them is required.”

225 Ev 82

226 Ev 82

227 Ev 121

228 Ev 89

341. Age Concern and Help the Aged were opposed to introducing increased conditionality for those aged over 50. They agreed that older workers faced particular barriers including in many cases lack of IT skills or unfamiliarity with recruitment practices; they called for better back to work support and training for Jobcentre Plus advisers focusing on the needs of older people.

342. Macmillan Cancer Support called for better back to work information and support for older cancer patients. It welcomed the proposed Fit for Work pilots and hoped that the needs of cancer patients would be taken into account in the design, implementation and
evaluation of the pilots. It also called on the Government to ensure that the Pathways to Work programme was sensitive to the needs of cancer patients.

343. The Government’s programme of welfare reform has placed a greater burden on Jobcentre Plus. The Committee fully endorses the Government’s commitment to helping people who can work into employment but calls on Jobcentre Plus to ensure that it addresses the needs of those over 50 who are looking for work.

344. As part of the welfare reform programme, a number of older people of working age will move onto Employment and Support Allowance, and will find that their receipt of that benefit will be subject to its conditionality regime. Many, particularly those moving from Incapacity Benefit, may not have worked for a long time and it is essential that the support is available from Jobcentre Plus to help them develop the skills and experience they need to find and sustain employment. We call on the Department to undertake careful monitoring of the impact of the conditionality regimes of both ESA and Jobseekers’ Allowance on those over 50.

**Skills**

345. In his Review of Skills, Lord Leitch drew attention to the impact of demographic change on the need for development of skills:

> “as the population ages and working lives lengthen, adult workers are more likely to have to update their skills to move into new sectors or adapt to new technologies.”  

346. One of the Review’s key recommendations was for a new integrated employment and skills service; the review also envisaged a new programme to improve basic skills for those out of work, focussing particularly on disadvantaged groups. The Department reported in its White Paper, *Raising expectations and increasing support: reforming welfare for the future*, that the first Integrated Employment and Skills Service trials started in the West Midlands in September 2008, and that the Service would be rolled out across England over the following two years. The trials would include

- An enhanced Jobcentre Plus skills screening process to identify customers with skills needs which are preventing them from finding sustainable work or staying and progressing in a job;
- The introduction of a skills health check to identify an individual’s existing skill levels and the skills that need to be developed; and
- Careers advisers working in Jobcentre Plus offices alongside personal advisers to deliver skills and employment advice in the same place.

347. Mr Kohler from Age Concern and Help the Aged, echoing Leitch, noted that concentrating on training was

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229 Prosperity for all in the global economy – world class skills, December 2006, paragraph 1.30

230 Raising expectations and increasing support: reforming welfare for the future, Cm 7506, paragraph 6.57.
“of absolutely paramount importance if we are going to make this working longer agenda work and therefore solve the pensions problem.”

Mr Barton from Citizens Advice, was concerned that Jobcentre Plus did not support those over State Pension Age to find work, believing that they “regard anyone who is over pension age as absolutely nothing to do with them”. He found “people in their 50s complaining that they do not seem to be getting much encouragement to retrain.”

349. Older workers may face a variety of barriers to work, including a lack of relevant skills. It is over two years since Lord Leitch highlighted the need to develop the skills of older people and called for the establishment of an integrated employment and skills service. We will observe with interest the progress of the Integrated Employment and Skills Service trials; it is essential that this service is sensitive to the needs of older people. If the Government is serious about wanting to increase the employment rate of those aged 50-69 it must make greater efforts to support those people in overcoming these barriers.

Carers

350. Carers UK told us that “more than 2 million people move out of caring each year, and the majority are aged over 50, so they need tailored support to enable them to refresh their skills and return to work”. It noted that many carers found it difficult returning to work after a period of providing care and some also developed health problems as a result of their caring role. It welcomed the £38 million in funding promised by the National Carers Strategy for provision of tailored support for carers through Jobcentre Plus, including the introduction of Care Partnership Managers and specialist training for Jobcentre Plus advisers, in addition to funding for replacement care for carers attending approved training. It also noted that social care services were also required to back up those older carers who wished to work; Carers UK called on Local Authorities to “take just as much notice of these [older] carers’ wish to work as they would a younger carer.”

351. We welcome the additional support being provided for carers to find work under the National Carers Strategy and we will monitor the success of this initiative.

Support for older workers in a recession

352. Unite, The National Federation of Royal Mail and BT Pensioners, acknowledged that welfare reforms had increased the level of support available for those aged 50-59, but argued that there was still “a gap in provision for men who could become job seekers between the [ages of] 59 and 65”. They added that “when people over 50 drop out of the

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231 Q157
232 Q156
233 Ev 113
234 Carers at the Heart of 21st century families and communities.
235 Ev 113
236 Ev 113
237 Ev 62
labour market, they are much more likely to stay unemployed for longer periods than other age groups.”

353. Ms West from Age Concern and Help the Aged called for more help for those:

“at risk of losing their jobs and helping people when they have lost jobs too, because if you get out of the labour market in your 50s and you do not get immediately back into work it is very hard to ever get back to work, particularly in a time of economic downturn.”

354. Professor Hills stressed that the economic downturn only increased the importance of supporting older workers to remain in work. He argued that:

“The tragedy that happened in the last two recessions was that it was assumed that people in their 50s or early 60s losing their jobs was less of a problem than young people losing their jobs, and that then became a one-way street into being out of the labour market altogether. […] It is probably a very critical issue right now so that we do not get the ratchet effect of people losing their jobs now in the current recession in their 50s and never working again.”

355. The Department explained to us that it was also using the Q4 data for 2008 from the Labour Force Survey which became available in February 2009 to investigate whether older people have been adversely and disproportionately affected by the downturn. The Department noted that it would:

“look at the employment rate of older people as well as knock-on income and poverty effects. This will inform our strategy for mitigating the effects of the recession on employment for this group.”

356. We asked the Department for an update on how the employment rate of older people had been affected by the economic downturn. We were told that Labour Force Survey data indicated that the employment rate for those aged 50-69 had remained stable, at 56%, between Q1 2008 and Q1 2009, whilst the employment rate for the working age population had fallen over the same period from 74.7% to 73.5%. The Department concluded that “there is no evidence that the recession has led to a rise in inactivity rates for older workers. On the contrary, the inactivity rate for older workers has fallen from 42.1% in Q1 2008 to 41.4% Q1 2009”.

357. We are relieved that current indications show that older people are not faring worse in employment than the rest of the working age population in the recession. We call on the Department to continue to monitor trends closely.

238 Ev 83
239 Q153
240 Q57
242 Ibid.
243 Ev TPP19c
We agree with Professor Hills that the economic downturn only increases the need to support older people to find work. In previous recessions, many of those in their 50s lost their jobs never to work again. This was not only a waste of their skills and dynamism but condemned many to a life of poverty in retirement. This cannot be allowed to happen again.
Conclusions and recommendations

Introduction

1. We welcome the substantial progress that has been made since 1997 in reducing levels of pensioner poverty, but note that rates of pensioner poverty have remained stubbornly at or around their current level since 2004-05. We note, however, that there are still 2 million pensioners living in poverty, of whom 1.1 million live on incomes below 50% of median household income. (Paragraph 20)

2. A large number of pensioners who live in poverty live on incomes just below the poverty line. Whilst this does indicate that relatively small sums of money should be able to lift substantial numbers out of poverty, it is essential that there is no loss of focus on those in severe poverty. (Paragraph 21)

3. We note that the income needs of a pensioner vary significantly during the course of retirement. Some of these additional needs will be covered by additional benefits payable to older pensioners, such as a higher rate of Winter Fuel Payment for those over 75 and Attendance Allowance for those eligible for help with their care needs. However, these additional payments may not cover all of the additional costs incurred by older pensioners. (Paragraph 27)

4. Changing demands on income throughout retirement represent a challenge both to pensioners, who must make plans accordingly, and to the social care system which must ensure that pensioners are able to cope with changing circumstances. (Paragraph 28)

5. We note that the pensioners most at risk of poverty include many from those groups most likely to have had broken work histories or low working incomes who have had a reduced opportunity to build up pension contributions in the state and private systems. (Paragraph 41)

6. We welcome the Pension Policy Institute’s cautious projections that long-term pensioner incomes should be in line with, or exceed, average earnings; this holds out a very welcome prospect of future progress in combating pensioner poverty. We note that these encouraging projections are based on both an increase in private saving and more generous and more universal state provision, two of the key elements of the Pensions Commission’s prescription for reform. We are concerned that recent trends for employers to close down defined benefit occupational pension schemes and set up defined contribution schemes with reduced contributions together with a lack of confidence amongst employees in defined contribution schemes could jeopardise this progress. (Paragraph 51)

Benefit System

7. We welcome the changes to the pension system which will start in 2010 which will make state pension provision more generous and benefit many disadvantaged groups. However there are still groups who will miss out, particularly on the State
Second Pension; most notably many disabled people, many people from ethnic minorities and the self-employed. (Paragraph 79)

8. In addition, the changes are not retrospective, leaving a cliff edge, with those who retire before April 2010 having their pension decided on the basis of the older, stricter rules. This will delay the impact of the reforms on pensioner poverty. We welcome the scheme to allow people to pay six extra years of voluntary (Class 3) National Insurance contributions. But it is inadequate, and those retiring before April 2010, or who have already retired are at a disadvantage. The Department must monitor the situation closely, and ensure that Pension Credit continues to be available for those who miss out through no fault of their own. (Paragraph 80)

9. Even in the current economic climate, it is vital that the link between the Basic State Pension and earnings is restored in 2012 as planned. A failure to meet the deadline would undermine Government efforts to reduce the spread of means testing and increase incentives to save. We reaffirm our previous recommendations that a strong Basic State Pension is an essential building block in people’s retirement income. (Paragraph 85)

10. We welcome the Government’s announcement in the Budget that the Winter Fuel Payment for 2009/10 will be maintained at the same level as last year. (Paragraph 91)

11. It is important that the benefits system recognises that pensioners want to retain cash savings for unforeseen emergencies. Disregarding a certain amount of savings is also essential to ensuring that it pays to save. However, means-tested benefits must remain focused on the poorest pensioners and it is not unreasonable to expect pensioners to make use of savings above a certain threshold before they become eligible for means-tested benefits. (Paragraph 97)

12. We welcome the raising of the Capital Disregard on Pension Credit from £6,000 to £10,000. We also welcome the assurances of the then Minister that all those who receive Pension Credit, but may now be entitled to more, will have their claims reassessed in November. We urge the Department to publicise the fact that those previously deemed ineligible could now be eligible, because of the rule change, and should re-apply. While we accept that wealthier pensioners need to contribute towards their living costs, pensioners want their savings to last until the end of their lives. We recommend that the Government continues to keep the capital disregards and tariff rate under review, to ensure that they take account of changes in life expectancy. (Paragraph 101)

13. We welcome the fact that the package of benefits for single pensioners lifts them above the poverty line. The fact that the package for couple pensioners does not lift them above the poverty line makes it harder for the Government to tackle pensioner poverty. (Paragraph 106)

14. We welcome the then Minister’s assurance that the Department has the same commitment to tackling pensioner poverty as it does to tackling child poverty. However we believe the commitment should be made explicit and we call on the Government to commit to eradicating pensioner poverty. (Paragraph 108)
Take-up

15. Pension, Disability and Carers Service (PDCS) have put a huge amount of work into encouraging people to claim Pension Credit, and have contacted a large number of people, often many times. However it is experiencing diminishing returns for its efforts and, despite all its work, further progress in improving take-up has been limited. (Paragraph 121)

16. We welcome the fact that the Department is looking into innovative ways to encourage take-up, such as regional take-up campaigns. The Department must evaluate which approaches work best for different client groups and publish this information so that lessons can be learned. (Paragraph 122)

17. The Department should work more closely with third sector organisations, to see if, for example, letters from Age Concern (or another third party) trigger more claims for benefits than letters from DWP. We agree with Age Concern and Help the Aged that the Department should trial giving resources to the third sector to see if they are more successful at encouraging people to claim Pension Credit. They should trial both outsourcing work to the third sector, and allowing the third sector to try out their own ideas. (Paragraph 123)

18. It is unacceptable that 49% of Pakistani and Bangladeshi pensioners live in poverty. Third Sector organisations may be able to connect with pensioners in some BME communities in a way that PDCS has so far failed to do. (Paragraph 129)

19. We are disappointed that the published data on Pension Credit take-up by ethnicity is of limited use. The shortcomings in the data make it impossible to confirm whether higher BME poverty rates are due to low take-up of Pension Credit. However the extremely high levels of poverty suggest that this must be a factor. The Department needs to undertake further research in this area and identify what PDCS can do to improve the situation. (Paragraph 130)

20. Inner London has a much higher rate of poverty than the rest of the UK. However the Department appears to have a very limited understanding of why this might be the case. The Department needs to carry out much more detailed research into the problem if it is to be able to tackle it. (Paragraph 133)

21. We welcome the regional take-up work the Department is undertaking and the innovative ways that are being used to inform pensioners about Pension Credit both directly and through friends and family. PDCS needs to evaluate the results of regional take-up work so that the most effective methods can be pursued. (Paragraph 136)

22. While home–owning pensioners are less likely to live in poverty than non home–owners, many of those who are entitled do not take-up means-tested benefits. The Department needs to identify the scale of this problem and understand the reasons for it before they can tackle it effectively. (Paragraph 139)

23. We welcome the commitment of the then Minister to look at providing an “adviser hot-line” for the Pension Service to help third sector advisers in complex cases. We
note that such a service is already available to third sector bodies dealing with claims for Attendance Allowance and Disability Living Allowance and we see no reason for it not to be extended. Any costs are likely to be far outweighed by the potential benefits. The Department should introduce this simple measure without the need for extensive consultation or analysis. (Paragraph 143)

24. We welcome the “automaticity pilots”. We understand the serious difficulties that need to be overcome and recognize that they are not in a form which could be rolled out nationally. We welcome the Department taking a long term approach and seeking to find innovative ways to improve take-up. We believe that “automaticity”, if handled sensitively, could be popular with pensioners. (Paragraph 151)

25. Automaticity has the potential to dramatically increase take-up, benefiting a large number of the most vulnerable in society. The Department should examine all options in order to implement it, including changing the legislative and accounting framework, and simplifying the eligibility criteria for Pension Credit. (Paragraph 152)

26. We welcome the Motherwell pilot. We call on the Department to conduct a prompt evaluation so that successful elements of the programme can be rolled out nationally. (Paragraph 155)

27. We agree with the NAO that a focus on improving the take-up of Housing and Council Tax Benefit could have a significant impact on the number of pensioners living in poverty. (Paragraph 163)

28. We welcome the announcement that the Department are looking into renaming Council Tax Benefit a rebate. This is a small change but we believe that it will make many pensioners more receptive to claiming as many appear to object to the term “benefit”. We call on the Department to find a way to implement this without delay. (Paragraph 168)

29. Local Authorities and the Department need to do more to increase take-up of Housing and Council Tax Benefit. This will lift people out of poverty in itself, and bring people into contact with the benefits system, making it more likely that they will claim Pension Credit. (Paragraph 174)

30. The Department needs to incentivise Local Authorities to improve Housing and Council Tax Benefit take-up. The Department should set targets for either the take-up of these benefits, or the number of new applications generated. (Paragraph 175)

31. The Department has put a lot of attention on encouraging pensioners to claim Pension Credit, then directing them towards other benefits. Changing the focus to encouraging people to claim Housing Benefit and Council Tax Benefit (especially if that was re-named a rebate), and then initiating a Pension Credit claim for those who may now be eligible, may now be more effective. (Paragraph 176)

32. Local Authorities need to work much more closely with PDCS, to ensure that information on people who may be eligible for Pension Credit, Housing Benefit and Council Tax Benefit are (with permission) exchanged in both directions. This is not
done at present and we recommend that this be trialled in some Local authorities, and if successful rolled out nationally. (Paragraph 177)

33. There should be a single phone line for all three benefits. Despite the new joined up working PDCS is still sending out letters advising Pension Credit claimants to contact their local council about Housing and Council Tax Benefit, where they will be asked to give all their information again. It should not be necessary for them to do this, and doubtless many claimants are lost along the way. (Paragraph 178)

34. On our visit to Canada we were impressed with the work of Service Canada. Having offices based in busy shopping centres allows it to offer easy, unstigmatised, access. Having one source of information for all federal benefits, with clear signposting to other services, makes it much easier for people to find out about all their entitlements. In addition, the joined up approach allows them to reach far more people, and family members can learn about the full range of benefits which they and their relatives may be entitled to. (Paragraph 182)

35. In our Valuing and Supporting Carers report we recommended a national network of carers centres, as we had seen the value of a single source of information, support, and advice, for carers and their families. We believe that there are important lessons to be learned from this model of service provision that would benefit a number of groups, particularly poorer pensioners and carers who tend not to self identify and would be more likely to use a universal, non-stigmatised service. (Paragraph 183)

**Other Benefits**

36. The Committee appreciates that applying Disability Living Allowance (DLA) to those over 65 would cost “billions of pounds”. However we do not accept the Government’s argument that DLA is to help those who are limited in their opportunities to save during their working lives. For DLA to do this it would have to more than cover the additional costs disabled people face, which it does not. The Department have told us in the past that it is only intended as a “broad-brush contribution” towards them. In addition DLA is linked solely to care and mobility needs, rather than ability to work, as would be expected if it was linked to income. (Paragraph 193)

37. The fact that Attendance Allowance has a care component but no mobility component seems arbitrary and is not consistent with the Department’s explanation. Maintaining mobility is essential to enable pensioners to maintain social contacts and to participate fully in society. This is fundamental to achieving well-being in later life. (Paragraph 194)

38. Pensioners do receive additional mobility assistance through provision for free bus travel and other provisions that vary across local authorities. However, these measures are only of benefit to pensioners when services they want to use are available at times when they want to travel and are of limited use to those living far from bus stops. The inaccessibility of much public transport is also a barrier to many pensioners with reduced mobility. Although there have been improvements in the
accessibility of much public transport in urban and rural areas, many services available are still not appropriate for some pensioners. (Paragraph 195)

39. We are concerned that the differences of treatment on the grounds of age contravene the clear intentions of the Equality Bill. We do not believe that the difference in the benefits payable to those who become disabled before and after the age of 65 can be objectively and reasonably justified. (Paragraph 196)

40. We heard from pensioners that living in a rural area can be problematic, with high transport costs and an increased risk of becoming isolated. For pensioners facing high transport costs, the differences between Disability Living Allowance, which includes a mobility component, and Attendance Allowance, which does not, become even more significant. (Paragraph 199)

41. Carers do not have the chance to “retire”, and many carers continue in their caring role long after reaching State Pension Age. Increasingly, many carers become full time carers for the first time after reaching State Pension Age. Many also continue to have extra costs as a result of their caring responsibilities. The benefits system needs to do more to recognise this. (Paragraph 208)

42. We reiterate the recommendations in our Valuing and Supporting Carers report that the system of carers’ benefits needs to be overhauled. We call for a Caring Costs Payment to be payable to all carers, including those over State Pension Age, to compensate for extra costs, or allow them to buy in some help. We recommended that it should be set at between £20 and £50 a week. Until this can be introduced we endorse the recommendations of the NAO, that the Department must do more work to estimate the take-up of Carers Allowance, and that PDCS must improve communications with customers. (Paragraph 209)

43. We believe that pensioners who live on the Personal Expenses Allowance should be entitled to live in dignity. Even though their accommodation and food is provided for them, they should still be entitled to a decent allowance to allow them to live fulfilled lives, and to keep up contact with their families. They need money to buy clothes, toiletries, for phone calls and hairdressing, as well as for going out. This is fundamental to achieving well-being in later life. (Paragraph 215)

44. We are very disappointed to have to repeat our concerns from our 2005 report that the level of PEA is too low. The current level of PEA does not allow pensioners to live with dignity. We call on the Department of Health to raise the PEA to £40. (Paragraph 216)

45. The poverty figures should seek to reflect the realities of people’s living conditions. People receive DLA and AA because they have extra costs due to their disability, yet these payments are treated as additional income with no account taken of the additional costs. We call on the Department to regularly publish poverty figures that do not treat DLA and AA as income, perhaps as part of the Households Below Average Income publications. (Paragraph 221)
Economic Down Turn

46. The economic downturn provides both a challenge and an opportunity for Personal Accounts. People may be more reluctant to put their money in the stock market, but it may “make people think more about how they need to think about security in retirement”. The Department’s communication strategy around Personal Accounts must take both these factors into account. (Paragraph 227)

47. We agree with the Government that the success of Personal Accounts is essential for ensuring higher levels of retirement saving, which is vital for wider society. We hope that the downturn does not lead to pressure from businesses to delay Personal Accounts. The recession makes it even more important that the Government focuses on keeping the system as simple as possible for employers and employees, and on ensuring that charges to the consumer are low. (Paragraph 230)

48. We have heard mixed evidence about the benefits of lifestyling. Whether or not to invest in a lifestyled fund is a personal decision for each investor to make based on their attitude to risk. However the vast majority of investors place their money in default funds. We do not believe that it is enough for the Department to simply work with consumers to check “that they understand about lifestyling”. The Department needs to undertake research into lifestyling, to ascertain how effective it is in practice and to assess its suitability for savers with more modest incomes. (Paragraph 241)

49. The Department can not realistically expect that many people with Personal Accounts will exercise their right to choose their fund; the default fund for Personal Accounts will need to be designed to suit the needs of the majority of its customers. (Paragraph 244)

50. We note that many pensioners have seen a decline in their income as interest rates have fallen. We recognise the hardship that this can cause, and that some pensioners have lost a significant amount of income. We welcome the increase in the Pension Credit capital disregard as a good way to help pensioners with small amounts of savings. (Paragraph 249)

Financial Advice

51. We welcome the fact that the Department is working with DECC and energy suppliers to help them target those in greatest need. Switching utilities provider is difficult for those without internet access. Support needs to be provided to help pensioners, particularly the older and more vulnerable, to find the best deals. The Department should work with DECC and OFGEM to simplify the system to ensure that pensioners are able to access the best deals. We are concerned at the level of financing of and the administration of the Warm Front Scheme. (Paragraph 255)

52. Choosing an annuity is a very important decision. People approaching retirement need to be made aware that they have choices to make, and be given support in making them. (Paragraph 261)

53. People need to make a range of difficult decisions about providing for their retirement. This will increase when they have to make decisions about Personal
Accounts. There is a shortage of support available for those who need to make decisions about relatively small sums of money. (Paragraph 264)

54. We welcome the commitment of the then Minister to review the information provided to people about deferring the State Pension. While this option is not suitable for everyone, it is a very good investment for many people, especially women and those in good health. The Department must do more to ensure people are aware of the benefits of deferring. (Paragraph 272)

55. We welcome the campaign announced in the budget to encourage pensioners to reclaim tax they have overpaid. However in the past such campaigns have not been successful. The Department must work closely not just with HMRC, but with banks and building societies. (Paragraph 275)

56. Equity release can be a good option for some pensioners who own their own home. Pensioners need clear and impartial advice in assessing the options available to them. Government should monitor the equity release market with a view to facilitating the development of schemes which are appropriate for asset-rich but income-poor pensioners. This may involve simplifying the rules, and ensuring they are more widely understood. (Paragraph 279)

57. There are many good schemes run by the Government and third sector to provide financial advice to pensioners, including using volunteer IFAs to provide regulated advice. However the current system is piecemeal, and to a large extent relies on people knowing that they need advice and seeking it out. Many people are not aware of the choices available to them, particularly over providers of utilities and annuities. Often what they need is generic advice, or just information on how they can seek further advice, or shop around for other options. (Paragraph 284)

58. Concerns about legal liability inhibit the provision of regulated financial advice by the Government and other bodies. However it is poorer pensioners who are less likely to secure the services of an IFA, and it is these pensioners who most need advice on how to maximise their investments. (Paragraph 285)

59. There are areas where the need for advice can be mitigated by moves to make systems more automatic, for example by introducing automaticity to Pension Credit claims, requiring auto-enrolment in Personal Accounts, or by making default funds lifestyleled. There will always be people who need to make decisions, for example whether or not to opt-out of Personal Accounts. However a system which has the best outcome for as many as possible, without them having to apply or make decisions, will prevent people being lost along the way. It will also reduce the number of people needing advice. The Government should take this into account in its measures to reform the benefits and pensions systems. (Paragraph 286)

60. We welcome the announcement in Building a Society for all Ages that the Government will provide a "one-stop shop" for individuals wanting to plan ahead for their retirement. It is not clear how this will operate in practice, but it is essential that Money Guidance and the "one-stop shop" signpost customers on to other organisations, such as The Pensions Advisory Service and third sector organisations, as seamlessly as possible. If people are advised to contact a wide range of
organisations, or are passed from one organisation to another, people will be lost along the way. (Paragraph 292)

61. Money Guidance and the proposed “one-stop shop” has to become the clear, trusted, source of financial advice which is clearly needed. This service needs to develop public trust and needs to be clearly branded. The Government must focus on both the importance of branding, and the importance of ensuring the service reaches out to those who may not be aware that they need advice. (Paragraph 293)

62. We welcome the commitment in the Building a Society for all Ages Strategy that the “one-stop shop” will include telephone and face-to-face advice, and cover a wide range of benefit, and non-benefit related, money issues. It needs to inform people of the financial issues they need to be aware of, and inform them when they need to seek regulated advice. In addition the service needs a much higher public profile than any of the Government’s current initiatives, especially amongst those who are less financially literate. (Paragraph 294)

63. Pensioners in rural areas have the same need for advice as those in towns. The pilots need to look at ways of providing advice in rural areas. While the internet is a useful source of information for many pensioners, others do not have access, and in some rural areas broadband is not available. (Paragraph 295)

Work

64. Enabling older people to extend their working lives is an important element of the Pensions Commission’s prescription for the future of pension provision. People working beyond 65 will become the norm as the State Pension Age is progressively increased. (Paragraph 299)

65. Employment for those over State Pension Age provides the opportunity to supplement income from state and private pensions. Employment up to State Pension Age provides an opportunity for many to increase their retirement income. (Paragraph 300)

66. Many older people appreciate the benefits of work, helping them to keep active, to develop new skills and participate fully in society. The skills and experience that older people can offer is an asset that should be prized by employers. (Paragraph 304)

67. Ill health is a major cause of early retirement and prevents many older people from extending their working lives. We welcome the Government’s response to Dame Carol Black’s review, in particular the introduction of an electronic “fit note” and the establishment of a National Centre for Working-Age Health and Well-being. The data provided by the fit note should allow the Centre to analyse trends in ill health, including any issues that disproportionately affect older people. We would expect this analysis to lead to targeted initiatives that help to prolong older peoples’ working lives. (Paragraph 305)
We are not convinced that the benefits to business of greater certainty in staff planning that come from the Default Retirement Age outweigh the broader need for more people to be enabled to extend their working lives. (Paragraph 309)

We reiterate our conclusion from our report on the Equality Bill that the default retirement age contradicts the Government’s wider social policy and labour market objectives of raising the average retirement age and allowing people to continue to work and save for their retirement. We welcome the Government’s decision to bring forward the review of the Default Retirement Age but the evidence we have received suggests that it is discriminatory and unnecessary. We look forward to it being abolished. (Paragraph 315)

We note evidence from organisations that have taken this step that abolishing the default retirement age tends to lead to workers delaying retirement for a year or two and we believe that this measure would not have a disproportionate effect on the labour market. However, the opportunity to work an additional year could enable someone who deferred claiming their basic state pension to add over 10% to the value of their state pension for the rest of their life; deferral for two years would add over 20%. This could have a significant impact on rates of pensioner poverty. (Paragraph 316)

If older people are going to continue to participate in the workplace after the age of 65, then they should receive the same protection against discrimination on the grounds of age as workers under the age of 65. We call on the Government to introduce provisions to extend protection against discrimination on the grounds of age to those over 65. (Paragraph 317)

Flexible working arrangements can be crucial in enabling older workers to remain in work. We commend the Department’s work under the Age Positive Initiative to promote flexible retirement packages. Helping older workers to work flexibly and remain in the workplace can have clear benefits for employers who are able to retain the skills of experienced workers. (Paragraph 322)

We note that many older workers face additional barriers to work because of their caring responsibilities. We commend the Department on its measures to increase awareness amongst employers and employees of the right for carers to request flexible working and to encourage employers to offer flexible work; we call on the Department to monitor the success of this work closely to assess its impact in helping older workers to remain in or find work. (Paragraph 326)

We have previously called for the £5 earnings disregard for Pension Credit to be increased. The current rules are a barrier to pensioners working, and are contrary to the Department’s stated objectives. We find it regrettable that the disregard has remained at the same level for over 20 years and is now equivalent to less than one hour’s work at the minimum wage. (Paragraph 334)

We welcome the Department’s announcement that it will trial raising the earnings disregard for lone parents on income support to £50. We call for the earnings disregard for pensioners in receipt of Pension Credit to also be increased to £50. (Paragraph 335)
76. We note that the Pensions Commission’s proposal for a reduced rate of employer’s national insurance contributions for employees above State Pension Age would provide an additional incentive for them to keep on older workers. We acknowledge that in the current fiscal climate this may not be a priority, but we call on the Government to cost this proposal and keep it under consideration as part of its long-term strategy to increase the employment rate of older workers. (Paragraph 338)

77. The Government’s programme of welfare reform has placed a greater burden on Jobcentre Plus. The Committee fully endorses the Government’s commitment to helping people who can work into employment but calls on Jobcentre Plus to ensure that it addresses the needs of those over 50 who are looking for work. (Paragraph 343)

78. As part of the welfare reform programme, a number of older people of working age will move onto Employment and Support Allowance, and will find that their receipt of that benefit will be subject to its conditionality regime. Many, particularly those moving from Incapacity Benefit, may not have worked for a long time and it is essential that the support is available from Jobcentre Plus to help them develop the skills and experience they need to find and sustain employment. We call on the Department to undertake careful monitoring of the impact of the conditionality regimes of both ESA and Jobseekers’ Allowance on those over 50. (Paragraph 344)

79. Older workers may face a variety of barriers to work, including a lack of relevant skills. It is over two years since Lord Leitch highlighted the need to develop the skills of older people and called for the establishment of an integrated employment and skills service. We will observe with interest the progress of the Integrated Employment and Skills Service trials; it is essential that this service is sensitive to the needs of older people. If the Government is serious about wanting to increase the employment rate of those aged 50-69 it must make greater efforts to support those people in overcoming these barriers. (Paragraph 349)

80. We welcome the additional support being provided for carers to find work under the National Carers Strategy and we will monitor the success of this initiative. (Paragraph 351)

81. We are relieved that current indications show that older people are not faring worse in employment than the rest of the working age population in the recession. We call on the Department to continue to monitor trends closely. (Paragraph 357)

82. We agree with Professor Hills that the economic downturn only increases the need to support older people to find work. In previous recessions, many of those in their 50s lost their jobs never to work again. This was not only a waste of their skills and dynamism but condemned many to a life of poverty in retirement. This cannot be allowed to happen again. (Paragraph 358)
Annex: Committee Visit Note

The Committee visited Canada in May 2009. It held meetings in Ottawa on 5-6 May, and in Montreal on 7-8 May. Details of the discussions are noted below. We are very grateful to all those who spared the time to meet us, and those who helped in organising the visit, in particular:

Senator Marjorie LeBreton, Minister of State for Seniors, Human Resources and Social Development Canada (HRSDC)  
Mr Tony Martin MP, (New Democratic Party) HUMA

Dominique La Salle, Director General, Seniors and Pensions Policy Secretariat, Income Security and Social Development Branch (HRSDC)  
Ms Maria Minna MP, (Liberal) HUMA

Shawn Tupper, Director General, Social Policy, Strategic Policy and Research Branch (HRSDC)  
Mr Michael John Savage MP, (Liberal) HUMA

Thomas Shepherd, Director, Retirement and Ageing, Strategic Policy and Research Branch (HRSDC)  
Paul Darby, Deputy Chief Economist, Conference Board of Canada

Allen Sutherland, Director General, Labour Market Policy, Strategic Policy and Research Branch (HRSDC)  
Jean-Guy Soulire, Chair, National Seniors Council

John Atherton, Director General, Active Employment Measures, Skills and Employment Branch (HRSDC)  
Anthony Cary, British High Commissioner to Canada

Catherine Drew, Director, Senior’s Policy Secretariat, Income Security and Social Development Branch (HRSDC)  
Michael Jenner, Second Secretary (Economic and Climate Change), British High Commission, Ottawa

Liz Rootham, Director General Community Development & Partnerships (HRSDC)  
Sumedha Pathak, Economic Advisor, British High Commission, Ottawa

Stuart Herbert, Director General, Client Segment Directorate, Service Canada  
Mrs Marguerite Blais, Quebec Minister responsible for Seniors

Nancy Lawand, Director General, Canada Pension Plan Disability, Income Security and Social Development Branch (HRSDC)  
Mrs Sylvie Barcelo, Deputy Minister
Francois Weldon, Director, Family Policy, Strategic Policy and Research Branch (HRSDC)

Evelyne Power Reid, Director, Eastern Ontario – Citizen Service Branch, Service Canada

Sarah Strapps, Policy analyst, International and Intergovernmental Relations, Strategic Policy and Research Branch (HRSDC)

Mr Dean Allison MP, (Conservative) Chair, Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities (HUMA)

Ms Raymonde Folco MP, Vice-Chair, (Liberal) HUMA

Ms Dona Cadman MP, (Conservative) HUMA

Mr Ron Cannan MP, (Conservative) HUMA

Mr Ed Komarnicki MP, (Conservative) HUMA

Mr Ben Lobb MP, (Conservative) HUMA

Abdelghani Barris, Director, P.A.S. de la rue

Serge Généreux, Board Chariman, P.A.S. de la rue

Michel Nadeau, Director, Institute for Governance of Private and Public Organizations (IGPPO)

Guy Fréchet, Research Officer, Centre d’étude sur la pauvreté et l’exclusion

Danny Prudhomme, Director, Fédération de l’âge d’or du Québec

Cécile Plourde, Board Member, Fédération de l’âge d’or du Québec

Anne Jarrett, British Consul General in Montreal

Julie Belanger, Deputy Head of Post, British Consulate-General, Montreal

Karine Clément-Debrosse, Assistant to the Consul-General, British Consulate-General, Montreal

Public Pension System in Canada – overview

- In the last 20 years, pensioner poverty, as measured by the Canadian Government, has dropped from 20% to 5%.

- The number of seniors in Canada is to increase from 4.2m to 9.8m between 2005 and 2036 and the seniors’ proportion of the population is expected to almost double from 13.2% to 24.5%. As the fastest growing group in Canadian society, seniors are increasingly important in shaping key policy goals.

- The public pensions system has four pillars:
• Old Age Security (OAS) is payable to anyone who has lived in Canada for ten years or more, with 40 years’ residence needed for full entitlement (Quebec has its own version and entitlement is portable).

• Guaranteed Income Supplement (GIS) is a top-up for low-income seniors which must be applied for. About 1.5 million people in Canada receive some level of GIS.

• Canada/Quebec Pension Plan (CPP/QPP) is a compulsory contributory pension scheme, with contributions shared between employer and employee, giving a total of about 9.9% of salary. The self-employed must pay the whole contribution. Pillars 1 and 3 add up to about 40% of the average industrial wage.

• Private pensions and savings.

OAS
• The basic OAS pension is clawed back from higher earners. Only 2% are rich enough to have the whole OAS clawed back. Canada has relatively few rich people.

GIS
• There are some plans to make the payment of GIS automatic but as yet one must apply. Once an initial application is made, tax authorities automatically recalculate eligibility.

• Nearly 100% of those eligible apply for GIS; but take-up is lower among aboriginal people, recent immigrants, the homeless and some people with disabilities.

• GIS and OAS are indexed with prices but the GIS is occasionally uprated, if affordable, over and above RPI to catch up with wage increases.

• GIS makes a very big difference to the poverty rate.

• GIS was first brought in when the CPP system was introduced to make up the difference for those getting little from CPP because of shorter contribution periods. It was planned to abolish it after a transition period but this did not prove possible.

• If entitlement to GIS is lost by earning $1 over threshold then a citizen may also lose entitlement to large numbers of other municipal or provincial benefits. Pensions advisers don’t always have all the facts. There is work towards bundling at Service Canada centres – even if federal, provincial and municipal services can’t be delivered at one window, all three windows can be co-located.

CPP
• Canada Pension Plan (CPP) has not changed much over the years. Stability is thought to be important for public confidence and planning. The contribution rate was raised dramatically about ten years ago. The difference between income and expenditure in the CPP fund is invested for the future. These funds will not be needed for the next 20 years.
• CPP contributions are collected from employers and employees. Administration of payments of CPP, OAS and GIS is done by Service Canada.

• The CPP is a large mandatory cost for the self-employed but lack of popularity has not been an issue. It pays reasonable injury provision. There is no opt-out. Assessment is done using the tax declaration.

• The CPP/QPP can be claimed at any time from age 60 to 70 and you get more if you claim later. Recent work has suggested the adjustment factors used are not actuarially sound – i.e. present payments are too generous to those who claim very early, and not generous enough to those who claim very late. Change is planned soon.

• The CPP is judged sustainable for the next 75 years.

• When the CPP was first brought in there was quick ramping up of payments for those within ten years of retirement. At first, full benefit could be claimed after ten years of contributions. Now 40 years are needed for the full amount.

• CPP funds are managed by the CPP Investment Board (CPPIB), an arms-length body, with a simple mandate to grow funds and manage risk. Simplicity is seen as a benefit. There is no political influence, and no expectation to support the economy. The balance of gilts and equity is set by CPPIB. CPPIB has a code of responsible investment similar to that used by the World Bank. There is little nationalist pressure to invest in Canada.

• QPP, run by the “Caisse de Depôt,” is ten years older than CPP. In the last year it was suggested that QPP funds had been hit by a loss of 30% compared to 14% for the CPP. It has been suggested that QPP prioritises investments in strategic industries and projects local to Quebec. However, the Committee was told in Quebec that only if two investments produced equally good returns would the one from Quebec be preferred.

• There has not been a levelling down effect of the OAS and CPP on people’s investment in private pensions. Because of a fear this would happen, CPP was designed to be modest. It pays only 25% of the average industrial wage.

• Pensioners are taxed like other Canadians except for a tax credit.

• There is no differential retirement age for women.

• There is no obligation to purchase an annuity in Canada.

**Pensions in Canada: Policy Issues and Future Directions**

• Recent issues and anticipated difficulties that the Department highlighted were: challenges of an aging population and shifting demographics; changing family structures; accumulation of debt; and income disparity. Ongoing social trends had raised difficulties – the average age of new parents is 31 as people spend longer in education and acquire wealth later. This impacts on the labour market. There is also the difficulty of building a private pension system onto the ‘sound base’ provided by public provision. This matter is jointly managed by the Federal and Provincial governments.
• Canada’s Retirement Income System has achieved its core objectives: (1) Preventing and alleviating poverty among seniors – the proportion living in low income has fallen from 21% in 1980 to 5.4% in 2006. (2) Preventing sharp declines in living standards after retirement. Some groups are more vulnerable such as singles, those in metropolitan areas, and women, who have tended not to contribute to pension schemes and have a greater life expectancy.

• Workplace pensions are declining, putting more pressure on individuals to save privately in Defined Contribution (DC) rather than Defined Benefit (DB) schemes.

• Three key challenges were associated with a shift to private saving:
  • Adequacy: In 2005, 24% of families had no private retirement savings. Since the mid-90s the contributions in retirement savings plans had fallen. The global economic downturn means debt repayments are likely to be of more pressing concern than pension contributions. There are also many competing savings instruments which create confusion on how to make the best decision.
  • Quality: Individual savers face higher costs and lower rates of return compared to professionally managed funds. Average fees for mutual funds are 2.2% in Canada, compared to 1.2% in the UK and 0.95% worldwide. These differences can result in a reduction of pension income by more than a third.
  • Security: Individual savers are much more exposed to financial risks and uncertainty. The timing of retirement is critical for those relying on private savings or a DC pension, as low returns just prior to retirement can have a critical impact. Canada does have some lifestyling products, but people are generally not very financially literate. Work is being done on this, but in the main people invest and are then on ‘cruise control’. The economic downturn may make people think more about their retirement, but this will only be for the short–term, and a reaction in a crisis may not be appropriate. The focus should be on saving over the long-term and not on short term shocks. There could also be a move to people working longer.

• The financial crisis is having an immediate impact on individual savings and DB pensions. Individuals with a balanced portfolio have seen an 18% drop, whilst those in a Canadian Equity fund have seen a drop of 34%. The Office of the Superintendent of Financial Institutions reported the average solvency ratio of 400 DB pension plans had dropped from 0.98 to 0.85 in 6 months since June 2008. No companies had yet gone bankrupt, and there are regulations in place to protect pensions, so it would be hard to predict what impact the recession may have. A debate was ongoing within the Department of Finance.

• The Government has recently taken action to address the recent economic pressures: seniors have been given a one-off tax relief worth $200m; the Minister of Finance has provided temporary relief of solvency funding for federally-regulated pensions plans; the Department of Finance is reviewing the legislative and regulatory framework for federally-regulated pensions plans.
• To address long-term concerns within the Retirement Income System, two approaches are being considered: (1) A national supplementary DC pension plan similar to Personal Accounts in the UK; (2) Building on the CPP which would address some concerns over security and uncertainty.

**Targeted initiative for older workers**

**Background**

• The amount of money going into training available to anyone has doubled since the onset of the recession. Provinces control all spending based on collected employment insurance premiums.

• Newly unemployed people have individual consultations and plans are counsellor-driven. Individual training schemes are paid for by Employment Insurance. Available-to-anyone training is more flexible and is not aimed at individuals – instead it provides programmes to groups who all get the same service bundle.

• Many isolated communities have historically grown up around single industries and haven’t diversified. When people in these communities are laid off, nobody is around to train them in new skills.

**TIOW**

• Targeted Initiative for Older Workers (TIOW) funding is allocated based on what a small community needs. It is intended for places that don’t have formal training facilities such as colleges. The Government presented itself as a supporter of traditional industries and small communities, and was therefore keen to have a programme focussing on them. Larger communities can now also be included in TIOW e.g. where a car manufacturer has gone under. TIOW must be bid for in relation to a particular project and place.

• TIOW funding is 70% federal, 30% provincial. The province selects the place, service provider and project. Local knowledge is valued to identify what communities need.

• TIOW is for over 55s. It does not end at 64 – older people can participate. They need not have worked before – e.g. women who’ve never worked can participate.

• TIOW is not a frontline response to plant closure – it can be bid for when other options, and employment insurance, have been exhausted. TIOW programmes include income support. In Canada people usually have to sell assets to qualify for welfare.

• Participants value portfolio help, skills profiling, basic skills training and help with self-employment plans – the percentage of self-employed people rises with age, including nearly half of 50 to 65-yr-olds.

• The project-based approach is non-bureaucratic and works well with social enterprises.
• There is a longstanding policy of not depopulating rural areas. But sometimes communities are not sustainable. The local control of TIOW funding means it is deployed with a good understanding of local community viability.

**Older Workers in Canada**

• Older workers were a ‘blip on the radar’ 5 years ago. There had been vulnerability in that area as people with specific skills in remote locations were losing jobs and moving onto benefits. Often they could not receive welfare as their partner had an income and they owned their house. There had been a tendency not to look at older workers as a vulnerable group.

• Despite slightly higher unemployment in Canada, employment rates for all ages are comparable to the UK.

• The current recession has had wide-ranging impacts, although some regions, sectors and groups have been disproportionately affected. Jobs in some primary production sectors are particularly affected with resource prices hit due to a lack of worldwide growth. This sector is male dominated.

• The Government of Canada has introduced the following initiatives to mitigate the recession’s impact on workers: Strategic Training and Transition Fund; Labour Market Development Agreements Funding; Extending Employment Insurance benefits for long-tenured workers; Work-Sharing program enhancements; and Community Adjustment Fund.

• Employment amongst older workers in Canada has been less affected by the economic downturn than amongst other age groups. Older workers account for 15.6% of the working population, and their participation rate of 34.6% has remained stable in the downturn. Longer-term, demographic pressures call for greater older worker participation.

• Current strategy is (1) address immediate pressures through TIOW (2) address the longer term needs of the labour market. A panel has been set up to observe where the labour market may be vulnerable, and to produce a road map to keep older workers in work. There are no recommendations to reinstate the programme for Older Worker adjustment.

• The strategy is part of an overall package of adjustments: focus on immediate 2 year measures for the recession; extend income support benefit to long tenured workers who have made contributions over an extensive working life; work sharing – cut a day of work per employee, and spread the workload across employees. The reduction in wages is supplemented by an income support cheque. The eligibility requirement for this scheme has been made less stringent; and Community Adjustment Fund will help remote towns that do not have alternative employment.

• For those older workers who are being laid off and/or plan to re-enter the labour market, jobs may not be available when they return. Older workers are now looking to postpone retirement by on average 6 years. This would lead to a large contingent
retiring later *en masse* which will require attention. There was little scope for altering the CPP to incentivise earlier retirement as it is politically very sensitive. It is also very challenging to re-train those who are nearing retirement.

- Human Resources and Skills Development Canada (HRSDC) maintain a number of instruments to support older workers: Employment Insurance part 1 and part 2; Labour Market Agreements; Labour Market Development Agreements; Labour Market Information; Workplace-based initiatives; and Public Pensions system.

- There is a need to balance short-term and long-term needs during the economic downturn.

### National Seniors Council

#### Background

- The National Seniors Council (NSC) was created in 2007. It is a successor to the National Advisory Committee on Aging. It was established to “advise the Government of Canada on all matters related to the well-being and quality of life of seniors.”

- It is an all-appointed body of 12 over 65s with members chosen by the Prime Minister. The membership does not wholly reflect Canada’s diversity. Members have a background in relevant fields. The first round of appointments was open to applications.

- The NSC reports to the Ministers of Health, Human Resources and Skills and the Minister of State for Seniors on a broad range of issues, not just pensions. It meets up to three times yearly, travelling around the country, and reports back to the government.

- The NSC costs about £283,000 annually. This includes travel and four full-time staff.

- Organisations representing seniors in Canada are not very strong. The NSC tries to engage directly with seniors. They bring people to consultations and roundtable discussions to ensure representation, paying for people to attend where appropriate. As Canada is large, this is needed to get people from isolated places to attend. It will shortly be meeting in the North of the country, specifically hoping to engage Inuit people.

#### Work of

- The NSC has produced reports on elder abuse and low income. The report on elder abuse has led to a public awareness campaign. The low income report preceded the downturn and highlighted the difficulties faced by unattached female seniors.

- There is no mandatory government response to reports but there is sometimes a cabinet memorandum.

- The population of Canada is now 13% over-65s. By 2015 those over 65 will outnumber those under 15. The proportion of over-75s is growing even faster.
• Financial literacy among seniors is a major concern.

• New priorities for NSC are volunteering among seniors, and positive and active aging.
  • Volunteering: It is hoped to encourage more seniors to participate in volunteering. A small number of seniors do the lion’s share of voluntary work. Baby boomers seem to have different priorities and this may effect organisations that rely on seniors volunteering.
  • Positive and Active Aging: looking at how to encourage people to be active and identifying what the barriers are.

• The current Minister of State takes NSC very seriously and is influential in government.

• The Committee were told that although delivery of programmes was at a provincial level, the Federal Government sets national standards on accessibility and design of schemes, dissemination of information and spreading best practice to ensure things are not ‘lost between the gaps’. Where gaps are noticed the Federal Government can quickly step in, but there is a focus on partnership working which allows flexibility for the provinces to address issues on their own terms. This does mean there is inequality in provision across the provinces, but the Federal Government highlights best practice.

• Canada’s large size means seniors are often isolated from families – and if a crisis occurs, family members may have to manage it at a distance.

• The Committee discussed Canadian aboriginal peoples and the extent to which they were integrated into Canadian mainstream society.

**New Horizons for Seniors Program**

• The New Horizons for Seniors Program (NHSP) is a grants and contributions program, which is a vehicle to transfer money to outside agencies, both Not-for-Profit and Private Companies. It existed in the 70/80s as Healthcare Canada, and was focused on social integration. It was reintroduced in 2004. In the interim seniors have changed and some services such as meals on wheels have become institutionalised.

• The Program has 3 funding streams: (1) Community Participation and Leadership (2) Capital Assistance (3) Elder Abuse Awareness.

• Review Committees engage seniors in leading NHSP and are the cornerstone of the Program’s community engagement approach. These help to set the programs priorities and to review projects.

• Community Participation and Leadership (CPL):
  • Provides grant funding for community projects led by seniors.
  • Promotes the ongoing involvement of seniors in their communities to reduce the risk of social isolation.
• Encourages seniors to share their skills, experience and wisdom in support of their communities.

• This funding allows groups to either pitch to begin a new project, or gain resources to continue an ongoing scheme. It is ‘seed’ money, not intended to create a dependency. Also due to tight budgets there is no scope for repeat funding. Of the projects that have been set up, 70-80% have continued into the second year. The Program does not deliver services as this is a provincial responsibility which includes many third sector delivery mechanisms – therefore the program focuses on activities.

• Examples of CPL funding include: seniors developing a story-telling network in a local school; a group partnered with a volunteer centre to match new retirees to volunteer opportunities; seniors growing food in the community gardens for a local food bank; and seniors and youths forming a theatre group. A communication project allows successes to be spread, and success is measured by the number of seniors who become involved and the number of people they interact with.

• Capital Assistance (CA):

  • Provides grant funding to non-profit organisations for the upgrade of community facilities and equipment related to existing programs and activities for seniors.

  • Funding helps organisations maintain their existing seniors’ programs and activities.

  • This funding helps seniors improve the infrastructure in places where they meet. Examples include repairs, renovations or upgrades such as heating or roof and window repairs, or the purchase of equipment and facilities such as tables and chairs, appliances or sports equipment. Demand for this funding far exceeds that from the CPL stream. The fund provides for repairs when seniors have proven that they use a building for their activities. These buildings are often also used by many other groups, so it helps the whole community. So far $16.8m has funded over 600 actions with an average project costing $11,325.

• Elder Abuse Awareness (EAA):

  • Provides contribution funding to non-profit organisations for national or regional projects that raise awareness of the abuse of older adults.

  • Through this funding, new resources and supports will be available to help reduce the incidence of elder abuse.

  • This stream has a small fund of $1.8m, which is nationally delivered. It provides tools and training for the programme to reduce abuse, 16 of which have been funded so far. Examples include an informational booklet and infomercial to increase awareness among Aboriginal women; offering training workshops for volunteer presenters to enhance the capacity to plan and deliver elder abuse awareness sessions amongst different audiences; and distributing an Elder Abuse Handbook to ensure frontline service providers can detect cases of abuse and can decide whether and how to intervene.
• NHSP has made a difference with 5214 CPL and CA projects funded, and a presence in over 900 communities. Achieving project sustainability ensures the community will benefit after NHSP funding, and so far 75% of projects are continuing. It is a relatively new scheme, so the impact over time is unclear.

**Volunteering**

• Volunteering has changed over time. It was felt that the baby boomer generation would want to run challenging projects. The Government has introduced a volunteers day, to promote charitable workplace projects which has enabled not-for-profit organisations to take on these people. Volunteer Canada and Big Brother/Sister organisations also help coordinate volunteers and arrange corporate linkages – although it was noted that who corporations link up with had a branding aspect.

**Service Canada**

**Overview**

• Service Canada (SC) is a delivery initiative, rather like Centrelink in Australia. It is a one-stop shop for services provided by the Federal Government of Canada.

• The aim is to integrate services – if a person comes in for one service they are offered information about other entitlements.

• Segmentation is used to target services at different client groups, a concept from the private sector. At first this was overt with the SC website inviting users to identify the group they belonged to by clicking buttons. These were little used, so now segmentation is hidden to users who select the service they want, but are directed towards related services which are seen as being relevant.

• SC delivers services for other government depts e.g. Health programmes for seniors.

• Staff working with seniors now give clients more useful information. This now includes some information on provincial programmes too.

**Promoting uptake by seniors and rural service delivery**

• SC delivers some services end-to-end, including CPP and OAS, carrying out all processing. For some other services it simply hands out and collects information, with other organisations processing information.

• Not all seniors access their entitlements, especially in remote areas. There can be a lack of communication between federal and provincial government.

• Where possible federal, provincial and municipal services are co-located with a greeter directing clients to the right window. Staff now also have “bundling sheets” showing entitlements. Work is ongoing to allow frontline staff to view all this info on one screen.

• Computer literacy has risen. SC tries to keep websites user friendly, plain and clear. Surveys show most users prefer the phone but will give up after being “handed off”
three times. A lot has been done to reduce this by aligning/uniting call centre processing.

- There are moves towards more information sharing between departments to better determine entitlements.
- SC is not a legal entity, just a trademark under HRSDC. This is cumbersome and means that an Order in Council or other instrument can be needed to give it the right to deliver a new service for the Government.
- Users have a “my Service Canada” facility online which can track application progress.
- Current work is trying to get information about federal, provincial and municipal services aligned on one website but it is very difficult for federal websites to keep up with information about the provinces and territories.
- All SC staff go to “SC college” for one week to learn about customer service and basic information on all services, not just their area of expertise. Staff rotate in SC offices to keep their knowledge fresh. Some queries have to be referred to call centres.
- Over-the-phone translation in several languages is offered by private sector “Cantalk” which can be called from SC centres. Whether to offer translation for people who have immigrated was a controversial issue.
- Aboriginal people have strongly protected rights. Those who were taken away from their parents as children by the government now get “Common Experience Payment” (CEP). SC has tried presenting OAS and GIS information to aboriginal people alongside this CEP and this has increased take-up of the two benefits.
- A “hub and spoke” model is used to get services to people in remote areas. Staff travel out from a regional office.
- SC college is now training advisers on elder abuse awareness to recognise signs, and they can offer help if seniors come in for pensions advice and may be affected.
- The exact cost of SC is not known as it isn’t a separate entity. Supporters say it offers efficiencies, detractors say that it generates costs by having to link with different depts.
- The aim is for 95% of Canadians to be within 50km of an SC office as the crow flies. Now many are located in shopping centres, community centres etc. Most services are offered via a net link.
- The Committee was told that the SC experiment has energised frontline staff, who now feel they have a “licence to make a difference.”
- SC now sometimes joins Health Canada for Aboriginal People, which flies out to reserve areas. Often a nearby non-aboriginal community can also be served at the same time.
- In Toronto, different immigrant communities have been mapped and SC goes out to speak to seniors.
• Not all communities have good enough net access to use services. The government has provided some funding for this.

• SC centres now have more accessible workstations for online applications, so staff can assist.

• A mystery shopper programme has led to changes. The bundling programme was not working well enough and too many people were leaving without extra useful information.

• An Ombudsman office has been established for SC. It must acknowledge communications in 24 hours and respond within 14 days.

• It is hoped to move towards simpler applications, where one application will allow access to several benefits. Some forms are very long; the one for CPP disability payment is so detailed that all other benefits should be payable using that information. It is difficult to co-ordinate this with provincial authorities.

• Community and voluntary organisations have been very useful in spreading awareness of entitlements and increasing take-up.

The Canada Pension Plan Disability Program

• Canada Pension Plan Disability Benefits (CPPD) provides a monthly taxable benefit to contributors who are disabled and to their dependent children. It is comparable to Income Support and Incapacity Benefit in the UK, but is far stricter. Initially copied from the US social security programs, it is a fragmented system of programs that have grown over years. Disability Income is a provincial responsibility along with service provision, CPPD adds a Federal element. Overall provision is not well connected and uncoordinated, with 45% of CPPD clients also obtaining extra support, so the Government is trying to aid more cooperation.

• To be eligible for CPPD you must: have made employment contributions in 4 of the last 6 years; demonstrate a severe and prolonged disability under the medical model preventing any regular work; and personal characteristics such as age, education and work history are considered. It is an important income source for Canadians with severe disabilities reaching 300,000 beneficiaries at a cost of $3.4bn in 2006-07. There is a lot of churn in the numbers as people turn 65 and move onto their pension, return to work or die. Increasingly CPPD has been focused on incentives and support for clients who want to return to work.

• Of the 300,000 beneficiaries (about 2% of the working age population), a quarter are under 50. Half have either a mental illness or a musculoskeletal condition. Two-thirds of new beneficiaries have at least a high school diploma and one quarter have post-secondary education. 40% have some form of private insurance. The caseload has stayed steady, and is restricted by its cost. The scheme cannot be changed without agreement by Federal and Provincial ministers.

• In deciding who is eligible for CPPD there is an initial application to HRSDC (in 2007/08 of 65,426 applications 43% were granted). These may be reconsidered through
an internal review process (12,196 reconsiderations 35% granted). There is then an
arms length appeal with the Office of the Commissioner of Review Tribunals (3,940
tribunals 43% granted) and a final appeal to the Pensions Appeals Board (624 cases
57% granted). In all a little over 50% of all applications are approved. During the
application there is an opportunity to provide new relevant information. It was
emphasised that the focus should be on front loading resources to make the right
decision from the outset. This was particularly the case as a lot of people were
succeeding at review tribunals which were costly. There was a discussion on who could
help applicants apply, and the complexity of the forms was raised as an issue. A
significant proportion of applicants are obliged to apply by social security officers or
their private insurers. There has been an increase in the number of people using
advocates; there is anecdotal evidence that this helps.

Supports for Unpaid Caregivers in Canada

- Close to 3 million Canadians provide unpaid care for family members or friends. Most
  are: middle-aged women; employed full-time; caring for more than one person; caring
  for a parent; caring for more than two years; not living with the person for whom they
care; not primary caregivers.

- The demands on caregivers are set to increase over the coming years. Demand for care
  is increasing and supply of family care is decreasing. In rural/remote communities this
  situation is more pronounced. In the early 90s there was a contraction of support, so
  many people were ‘left in the lurch’. Caregivers are now recognised as a group, so it is
  felt that the same thing will not happen during this recession.

- The Federal Government provides support through tax credits, the Employment
  Insurance Compassionate Care Benefit for terminally ill family members (EI CCB) and
  specific programmes for Veterans and First Nations. Provinces and territories provide
  complementary tax measures and home and community care services to assist the care
  receiver. Community based organisations provide a range of support services for
  example advocacy, information/referrals, and peer support networks. There are
  considerable variations across and within jurisdictions. The Federal support is based on
tax credits. They provide the Veterans Independence Program which is a ‘gold
standard’ service. This is considered unaffordable at a national level for all groups.

- In the past 3 years the Federal Government has; extended EI CCB to more caregivers;
  increased Child Disability Benefit; broadened the list of eligible expenses that can be
  claimed in the medical Expense Tax Credit; invested $282m to extend the Veterans
  Independence Program; and extended its Social Development Partnerships Program to
  include a focus on caregivers. There may also be scope in the future to introduce more
tax incentives.

Service Canada – visit to SC centre, Ottawa

- The SC centre visited was on the first floor of a shopping centre (lift accessible). It was
  felt this reduced any stigma about coming in for advice.
- The Committee spoke to the head of the SC centre who explained outreach programmes offered by SC.

- There were programmes aimed at Francophone, Aboriginal, Arabic- and Mandarin-speaking seniors. Mobile outreach travelled around East Ontario. About 800-1200 outreach visits were made each year. Relationship building with communities is key.

- Post-secondary students were used for youth outreach.

- However first contact is made, the aim is to offer a full range of services. Staff can carry out all transactions online.

- At the centre, visitors are greeted on entry and help is assigned. People who prefer face to face help can get it, but are also told about online services. All workers are trained in all transactions. Staff are flexibly deployed around a given region to cope with demand.

- Where clients asked for info re municipal or provincial services, they were pointed in the right direction. Centre workers could make a client appointment at the relevant office and pass on details to save clients having to re-explain their situations.

- The name of SC had changed 7 times in 20 years, affecting public awareness.

- Favoured sites for SC centres were ground-level malls near public transport routes.

- Job search help is a provincial responsibility – mainly done through third party agencies.

- Employment insurance claimants do not have to sign on in person – this can be done by phone or online. Intense fraud avoidance techniques, such as in-person signing on have been found not to be worth the investment. Profiling is used to identify those at high risk of fraud and they are invited in for regular “client information sessions.”

- Previously, people had been required to prove they had contacted a certain number of employers looking for work, but this provoked complaints from employers who had to sign lots of forms from unsuitable candidates looking to make up their quota.

- Seniors tend to be wary of being taken advantage of, so trusted partners are used to inform them of entitlements. These intermediaries are informed of a range of entitlements for seniors and also their families, e.g. Canada Learning Bond for low-income families.

- The number of walk-in inquiries for EI has doubled since the recession started. This spike in demand was anticipated as the automobile industry in particular is suffering. SC is trying to collaborate with employers in order to receive the most up to date information.

- The biggest lessons learned were the importance of resourcing a national service delivery platform properly, and the huge competence and experience of frontline staff.
Marjory LeBreton, Minister of State for Seniors

- In Canada the growing demographic of seniors creates challenges especially in the light of the economic downturn. Seniors who were well prepared for retirement have been affected most. Those who have had little income have not been so affected by falling prices.

- Over the years the low income rate among seniors has fallen from 21.3% in 1980, to 5.4% in 2006. This is still a great concern. Public pensions have made a huge contribution to this downward trend.

- The post of Minister for Seniors was created in January 2007.

- Spending on seniors’ benefits rose from $28bn in 2007/8 to $36bn in 2009/10. Most significant transfers were related to the CPP, OAS and GIS. The most important tax relief is pension income splitting, which benefits couples but was resented by some single seniors.

- It was noted that seniors are working longer which enabled them to both earn income and also interact with others.

- Many seniors originally from the UK are not eligible for benefit uprating on their UK state pension. It was noted that those who moved to Canada would additionally qualify for a Canadian pension.

- Amongst the previous generation of Canadian seniors there was a very strong sense of community. There needed to be a balance of rights and duties. Baby-boomers did not have the same level of volunteering commitment as previous generations. It was felt there was still a community spirit, and in smaller cities it was more prevalent. In larger cities the sense of community was more focused around cultural groups. It was acknowledged that in some places the loss of community was a problem. For example, in the smallest communities the lack of rural transport posed problems and there was a fear of isolation.

- The National Seniors Council, and its impact was discussed. It was useful for Ministers sitting in Parliament to have someone to be in touch with people on the ground, and the NSC had worked very well as it knew of all government programmes. Service Canada (SC) has also helped as it enabled seniors to receive additional income, but some still fall through the gaps.

- HRSDC is the lead ministry for seniors, with some influence from the Health Ministry. There is a direct point of contact for seniors organisations. There are also ministers for seniors in the provinces and territories. This allows all to cooperate and share best practice which it is felt works well. From an administrative point of view it is useful. For example a recent health report on seniors had recommendations covering 17 departments, so it was important to have one Minister who could push forward the agenda. Additionally, as Marjory LeBreton is a Cabinet Member, she is able to put the case for seniors on all aspects of policy, particularly those that are cross-cutting.
In Canada, outreach by SC had been effective, but it was felt they could do more. It was asked if there were plans to increase funding for SC to help seniors. Recent retirees had been brought back to SC to help with the extra burden they were experiencing in processing Employment Insurance claims. People had also been moved into different duties, but there was a clear wish not to cut back on any programmes. SC have mobile units which provide a comfort to people in more isolated areas. It was not known what effect the downturn was going to have, but there is a clear desire not to disrupt SC’s normal work. So far they were managing, but they were stretched.

P.A.S de la rue

- P.A.S de la rue is a charity that works with homeless and recently homeless Francophone pensioners in Montreal.
- It is for those aged 55 and over, and so entitled to claim some pension. This makes older homeless people “rich” in the eyes of younger people, some of whom may exploit them. P.A.S de la rue gives these older homeless people a protected space.
- The aim is to get people off the streets and help them create social networks.
- The centre also provided assistance in applying for OAS and GIS.
- The centre obtained funds from both the Federal and Provincial Government, which was put towards day centres and temporary residencies.

Institute for Governance of Private and Public Organisations

- Canadians were charged a 2.5% fee for the management of funds, which last year lost 18% of their value, so the need for better knowledge and expertise was emphasised.
- Since the onset of the recession, funding gaps in company pensions had become more pronounced. Pension Funds usually have 5 years to make up a funding gap, but this has now been increased to 10 years
- In Canada, few employers now offer defined benefit pension schemes. DB schemes put more weight on employers’ shoulders than they are willing to bear. In Michael Nadeau’s view, unions should agree to share the burden, with employees sharing risk to make such plans more manageable.
- Young people need to realise that OAS and CPP do not add up to much. Getting a pension at 55 or 60 will not be in any way realistic in future. People will have to work part-time after pension age.
- Pension fund boards need to be financially educated to make the right investment decisions. It was also important to educate consumers on financial matters, emphasising the need to manage money for the final 1/3 of one’s life. It was noted that people save little amounts when buying day-to-day items, but make investment decisions for large amounts based on little knowledge.
• Private sector pension plans should have investment committees which had at least 2 members who represented the views of employees and pensioners. It was noted that in North America the management of pension funds was very important as they were big influences on the stock markets. Pension funds had recently been hit hard through speculative moves. It was important that pension committees had the right education to make the right decisions at these times.

• As markets were recovering after a big fall, it was wrong for fund managers to invest in hedge funds or other investments that they did not understand. A more educated and regulated system which would take more conservative measures was needed. It was proposed that investments should be more focused on stocks, bonds, cash and real estate.

• The Institute was trying to educate boards and people, and to improve regulation. It was looking to involve Unions who do not have investment expertise. It was felt that they should delegate their responsibilities on pension boards to someone who was financially literate. They were also trying to provide tools to protect seniors against the markets.

• If a company was to go bankrupt, the Quebec Pensions Board liquidates the fund and participants receive a proportionate share. In most cases pensioners will receive 75-80% of their pension. The Institute has been spreading the message that if bankruptcy seemed likely it was important to sound a warning so that the Quebec Pensions Board could help.

Mrs Marguerite Blais, Minister for Seniors, and Mrs Sylvie Barcelo, Deputy Minister

• Over the last two years, $2.3bn had been investing in services for seniors in Quebec. Looking at creating senior-friendly cities.

• The Minister was involved in a wide range of different issues
  • It was important to fight prejudice and misconception. Getting old does not mean getting ill. A national TV campaign was promoting seniors’ contribution to society.
  • In each of Quebec’s 17 regions, a panel of people from the community was established to identify issues. These regularly met with elected officials at a conference to set priorities. It was important to respect different needs in different areas. Community-led programming is more successful than top-down.
  • Encouraging the generations to mix.
  • Implementing an action plan on mistreatment of seniors, including 9 ministers.
  • Financing two projects for older gay people.
  • There are moves to allow people to add in extra contributions to QPP when they work after retirement age. In Quebec, 64,000 over 65s work, whilst a further 250,000 say they would like to but the obstacles are too large. There is a need to facilitate working longer.
• Seniors volunteering has a value of $1.1bn annually and seniors volunteer on average for 245 hours a year as opposed to 165 a year for the rest of the population. Baby boomers may prefer to do higher-level volunteering relevant to their training.

• People over 70 can get an income tax credit for some services, but only where their income is less than $50,000. This helps pay for meals in a home, rent, personal and nursing care, cleaning etc. If seniors live in their own homes, they are responsible for finding carers. Often they do not actually want to hand money over to carers and would prefer to keep it. Care agencies tend to have low pay and high staff turnover, which can be confusing for some clients. All private residences for seniors now have to be government certified.

• While the older generation expect to receive government support in old age, many younger people expect to have to rely on themselves. However, most young people can’t afford to save.

• Marguerite Blais would like payment of GIS to be done automatically. In Quebec, 26,000 people who should receive it did not, because they hadn’t claimed. This cut their income to $6,000 from a potential $12,000. She intended to press the Canadian Government to automate. In the meantime, she had asked the 17 regional panels to seek out non-claimers.

Centre d’étude sur la pauvreté et l’exclusion (CEPE) – part of Ministère de l’Emploi et de la Solidarité sociale

Background

• The Centre d’étude sur la pauvreté et l’exclusion (CEPE) is an observation, research and discussion centre entrusted with providing reliable and rigorous statistical information on poverty and social exclusion issues. The CEPE was created in 2005 by the Act to Combat Poverty and Social Exclusion under the Ministère de l’Emploi et de la Solidarité sociale (MESS). It is managed in collaboration with a steering committee composed of members working in the academic, research or government sectors, or working with people who are experiencing poverty or social exclusion. Its purpose is to gather, integrate, compile, analyse and disseminate information on poverty and social exclusion.

• The CEPE is part of the Ministry, but independent. It publishes advice, to which the minister then responds. The government has to respond to CEPE recommendations within 2 months. A Parliamentary Committee will be established to look at them.

• The CEPE must work with people from poverty organisations. The CEPE must consult with the Comité consultatif de lutte contre la pauvreté et l’exclusion sociale (CCLP), which advises the government on matters such as the amount people ought to be allowed to earn whilst on welfare. The CCLP publishes advice documents and organises colloquia for interested parties. The Minister tends to welcome the advice but does not usually implement it. One recent suggestion was for the welfare rate to be set at 80% of a market basket measure.
The work being done in Quebec has been inspired by the UK, although there was a conflict between the social policy made at a provincial level, and the input from the Federal Government.

The Act to Combat poverty

- The Act to Combat Poverty was passed through a combined effort involving 160 groups. There had previously been a law on deficits, but lobby groups had pressed for action on poverty. Thus far $2.5bn of government money had been put in to meeting the Action Plan set out in the Act.

- Guy Fréchet said that the law against poverty, passed in 2005, had not eradicated tensions between taxpayers and welfare recipients.

- It created a national strategy; government action plan; Advisory committee on fighting poverty and social exclusion (CCLP) made up of lobby groups, unions and the wider civil society; CEPE to group a wide range of expertise to research into exclusion indicators; and the Fonds quebecois d’initiatives sociales (FQIS) which administers the money from the action plan.

- The national strategy is to make Quebec one of the industrialised nations with the least people living in poverty by 2013. This is measured on international standards in terms of money, living standards and a subjective definition. They are trying to be comparative, and compared to EU Member States they would currently be ranked 15th.

- Initially $2.5bn has been provided for measures over 5 years designed to: improve income; invest in social housing; and review support to employment assistance recipients. The budget has since been revised to $3.3bn. This money did not mean a big change for welfare recipients. It was necessary to retain incentives to work. There has been action to help supplement income for those on low salaries. Current targets on social housing have been reached.

Levels of poverty in Quebec

- For people laid off in the recession, Quebec is trying to fund people to take education to retrain and stay off welfare. This has been considered a success. There is a limited budget for courses and more funds were required. The infrastructure was in place, and there was capacity to provide courses in the field. For younger people there were attempts to reskill, whilst elder people were being incentivised to retire. In the economic downturn there was a need to skill people in the correct areas, particularly new technology, but what was appropriate to offer is hard to predict. Many people in declining industries are not well skilled, so they are open to education. They can move to other low-skilled jobs and pick up skills ‘on the job’. It was thought that 40% want to be upskilled.

- The poverty rate tends to fluctuate because the total of OAS and GIS, about $13,000, is sometimes just above the poverty line and sometimes just below. $900-$1,000/month covers the costs of a cheap care home which will supply all of someone’s basic needs.
• The measurement of poverty currently used is the LICO. It is controversial and an old measurement. It does not take account of differences in the cost of living in different provinces, but uses an average across Canada. This means that poverty is overestimated in some regions and underestimated in others. On the other hand, there are long records of LICO over time.

• Another measure, the MFR, is more like European measures of poverty, set at half the median income adjusted by household size. A new measure, the MPC, takes account of a basket of costs.

• People living alone are far more vulnerable to poverty in old age on the LICO index. In the view of GF LICO tends to overestimate poverty in Quebec and underestimate that in Canada.

• Quebec thinks that if it had not had its plan on poverty, there would have been far more people living in poverty today. The CEPE estimates that in 2005 and 2006, 145,000 and 189,000 respectively were helped out of poverty. The population is 7.4 million.

**L’Age d’Or**

• L’Age d’Or clubs have been in existence since 1962. They have 260,000 members in Quebec. They aim to protect the rights of seniors and to organise events, including social activities, leisure and travel.

• L’Age d’Or charges a membership fee, and offers events which aim to lessen isolation for seniors. It applies for grant money and partnership, with other organisations to make money go further.

• It encourages members to claim entitlements. For instance, at a national games event, Service Canada was invited to set up a stall. Insurance, health and other government services are also invited to events. Information sessions are held where SC attends and offers tutoring in using online services.

• They promoted and campaigned for the idea of government certification for care homes. Eventually the great majority of their proposals were implemented. Standards have been set for building size, number of caregivers per client, type of kitchen, etc – easily measurable.

• They asked the government to go further, and now have funding for 3 year programmes to evaluate the quality of care and how residents feel about the homes.

• They believe the GIS should be automatically paid, and also set at a higher level – about $17,000.

• The organisation also think that the way of measuring poverty is faulty and the poverty level is really higher than official figures state.
Fuel poverty and other issues raised

- Quebec has the highest fuel costs in Canada. Petrol was costly, whilst electricity had increased by 15% and gas by 50%. This meant that seniors turned down their thermostats or bathed less. There was an agreement with energy companies not to cut off electricity supplies during the colder months.

- The efforts of the UK Government on fuel poverty, such as Warm Front, were raised. Canadian houses were built to cope with their winters, but over the years energy efficiency would fall due to lack of upkeep. There are government schemes to help, but it was hard to qualify. L’Age d’Or offers some financial help with winterproofing homes. It was thought the cost of heating used over 10% of income.\footnote{The UK Government has adopted a definition for the purpose of setting targets as follows: “a household is in fuel poverty if, in order to maintain a satisfactory heating regime it would be required to spend more than 10% of its income (including Housing Benefit or Income Support for Mortgage Interest) on all household fuel use”.} New buildings had air conditioning, and during the summer it was hard to be on the street due to very hot and humid conditions. Many seniors tended to go to shopping centres.

- In January there were radio adverts and pamphlets urging firms not to make workers who were 50-plus redundant. Emphasis was made of their skills, their ability to train others and the fact that often they did not want to retire. 80% of those members of the organisation who are retired say that they did not want to retire completely – but there were barriers to staying in part-time work.

- There is no longer a default retirement age in Quebec. There used to be no incentive to work past retirement, but it was now accepted that if people keep working, it increases their pension pots.
Formal Minutes

Wednesday 15 July 2009

Members present:

Mr Terry Rooney, in the Chair

Miss Anne Begg  Mrs Joan Humble
Mr Harry Cohen  Mr Tom Levitt
Mr Oliver Heald  Mr Greg Mulholland
Mr John Howell

Draft Report, Tackling Pensioner Poverty, proposed by the Chairman, brought up and read.

Ordered, That the Chairman’s draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 229 read and agreed to.

Paragraph 230 read.

Amendment proposed, at the end of the paragraph, to add “We note our Chairman’s comment at the evidence session with Professor Hills on 22 April 2009 that the long-term rate of return on the stock market is about 3.5%. In these circumstances, as an incentive for investment in Personal Accounts, and to ensure their long-term stability and success, the Government should provide a 1.5% guarantee of minimum investment growth which it can even-out over Stock Market rises and falls.”.—(Harry Cohen.)

Question put, That the Amendment be made.

The Committee divided.

Ayes 1
Harry Cohen

Noes 4
Miss Anne Begg
Mr Oliver Heald
Mrs Joan Humble
Mr Tom Levitt

Paragraph 230 agreed to.

Paragraphs 231 to 235 read and agreed to.

Paragraph 236 read.

Amendment proposed, at the end of the paragraph, to add “We call upon the Government to redistribute private pension tax advantage from the richer pensioners to those less well-off and with only relatively modest pension pots.”.—(Harry Cohen.)

Question put, That the Amendment be made.

The Committee divided.
Ayes 1
Harry Cohen

Noes 5
Miss Anne Begg
Mr Oliver Heald
Mrs Joan Humble
Mr Tom Levitt
Mr Greg Mulholland

Paragraph 236 agreed to.

Paragraphs 237 to 358 read and agreed to.

Annex (Note of visit to Canada) and Summary agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 11 March 2009 and 22 April 2009.

[Adjourned till Wednesday 14 October at 9.15 a.m.]
Witnesses

Wednesday 22 April 2009

Chris Curry, Research Director, Pensions Policy Institute (PPI), and Professor John Hills, Department of Social Policy, London School of Economics.

Wednesday 13 May 2009

Mervyn Kohler, Special Advisor, and Sally West, Policy Manager, Age Concern/Help the Aged; and Alan Barton, Social Policy Officer, Citizens Advice Bureau.

Wednesday 20 May 2009

Rt Hon Rosie Winterton MP, Minister of State for Pensions and the Ageing Society, Charlie Massey, Director for the Ageing Society and Alan Woods, Director for State pensions and Stakeholder Relations, Department for Work and Pensions.

List of written evidence

1 Dr. Ros Altmann Group  Ev 54
2 Anthony Cook  Ev 55
3 Counsel and Care  Ev 56
4 Kenneth Molloy  Ev 58
5 Unite  Ev 59
6 Independent Age  Ev 63
7 Dr Edmund Cannon and Professor Ian Tonks  Ev 66
8 National Pensioners Convention  Ev 71
9 E.ON UK  Ev 77
10 Continuing Care Conference  Ev 78
11 Parkinson’s Disease Society  Ev 83
12 Occupational Pensions’ Alliance  Ev 86
13 Advice NI  Ev 87
14 Macmillan Cancer Support  Ev 89
15 Lancashire County Council  Ev 92
16 Just Retirement  Ev 94
17 Association of Consulting Actuaries  Ev 96
18 Actuarial Profession  Ev 98
19 Department for Work and Pensions  Ev 101; Ev 157; Ev 170; Ev 171
20 Carers UK  Ev 111
21 Eaga Plc  Ev 113
List of unprinted evidence

The following memoranda have been reported to the House, but to save printing costs they have not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.
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