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Work and Pensions Committee

Tackling Pensioner Poverty

Fifth Report of Session 2008–09

Volume II

Oral and written evidence

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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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The following Members were also Members of the Committee during session 2008-09

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The current staff of the Committee are James Rhys (Clerk), Emma Graham (Second Clerk), Amy Sweeney and Hanna Haas (Committee Specialists), Laura Humble (Committee Media Adviser), John-Paul Flaherty (Senior Committee Assistant), Hannah van Schijndel (Committee Assistant) and Jim Lawford (Committee Support Assistant).

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Witnesses

List of written evidence

Oral evidence

Taken before the Work and Pensions Committee on Wednesday 22 April 2009

Members present

Mr Terry Rooney, in the Chair

Harry Cohen	Tom Levitt
Mr Oliver Heald	Greg Mulholland
John Howell	

Witnesses: **Mr Chris Curry,** Research Director, Pensions Policy Institute (PPI), and **Professor John Hills,** Department of Social Policy, London School of Economics, gave evidence.

Q1 Chairman: Welcome everybody to our first evidence session in our Tackling Pensioner Poverty Inquiry, a particular welcome to our two witnesses—old friends, you know we do not bite—it is a pleasure to have you with us. I am going to kick off. Do you think that the reforms and legislative processes we have had since the Turner Commission have sufficiently addressed the issues that were raised?

Professor Hills: Shall I start, having been partially responsible for that? It depends what you mean by "sufficiently". As a Commission we always regarded the proposals we put forward as being the minimum acceptable package that would allow people to build a secure retirement income for the future. We made clear, for instance, in the discussion of levels of contributions to personal accounts or indeed contributions towards employer schemes that figures like an 8% contribution on top of the state system that will eventually emerge were an absolute minimum and that to meet most people's aspirations for a retirement income they would have to save rather more than that, in fact sensibly probably twice as much as that. One of the big things that have changed looking forward is that the whole business of providing for future retirement income has become a great deal more expensive. If one of the effects of the credit crunch is the realisation that investment returns were not as high as some people would hope they were, that makes putting aside income for the future to provide a particular level of income for the future a more expensive exercise, and one of the things one has to think about very carefully is whether the issue of long run rates of return of $3\frac{1}{2}$% in real terms are robust as we emerge from the crisis. If they are not the implication is that people will have to save more or they will have to work longer. There is no escape from that and the great difficulty we have is that having explained to people on the one hand—and it is something we will have to keep on doing, explain to people—that as people's life expectancy has increased we have got a longer period to provide for if you retire at any given age—that is already a big shock to people's expectations and something that people simply have not been aware of—we may now have a further shock in explaining to people that annuity rates are going to be lower in the future than they might otherwise have been and therefore you need to build up a bigger pile in your pension pot to finance a given standard of living in the future. This is going to be a challenge, so going back to your question is it sufficient, as a package that creates a minimum and a system on which people can build, yes, but as something that will automatically provide the kinds of income that people might expect in retirement, we have to do more.

Mr Curry: If you look back to what the original proposals were and what has been implemented since then—and the Government has taken almost a straight lift as it were and stuck very closely to what was the original proposal put forward by John and the other commissioners—there has been a fundamental shift in the framework of pension provision and retirement income provision as part of that, so the big benefit of the report of the Pensions Commission and the way it has been taken forward, not just by the Government but by the consensus amongst the political parties is a recognition of the type of system that we want to end up with in terms of having a much stronger and firmer state system underneath, although potentially not as generous as it might have been to higher earners in the previous system and, as John alluded to, building a framework on top of that to allow people to provide for their own retirement income. Whether we need to go further once that system is in place and build that framework up and change the practices within that system is something that we are still working out as we go through the current economic situation.

Q2 Chairman: John, you were saying that essentially the system that we have now legislated for will provide just a minimum platform and people will have to supplement it. If you go back to Beveridge he said that the state pension on its own would never be enough to live on and people would have to supplement it with savings or private insurance, and nobody took any notice. Are we just recreating that problem, I accept from a slightly higher base?

Professor Hills: We have moved forward from Beveridge. You can see as far as the state system is concerned that once we have the basic pension earnings linked, and once we move towards the state second pension essentially being a flat rate addition to that, for many people the state system will look rather similar to the flat rate system that Beveridge envisaged. What Beveridge did not have in place was a large scale, low cost way of people on modest and average incomes adding to that, and we have seen the results of that in the current situation: the low rates of coverage, only half of the working population with additional provision beyond what the state provides. The advantage of the system legislated for last year and the introduction of automatic enrolment is two-fold. First of all there will be many people who potentially could be getting advantage of good employer schemes who at the moment are not—I can think of a large retailer who reported results yesterday who has a rather, by comparison with some others, good pension scheme which many of its staff are not members of. Automatic enrolment should change that significantly. At the same time establishing personal accounts should open up a low cost, lifetime account that will allow people, even if their incomes are not high, to be making retirement provision at low cost. That was not part of the Beveridge settlement, so in that sense what we have for the future is potentially a more effective system than that envisaged back in 1942.

Q3 Chairman: You mentioned the changes to the basic state pension and the state second pension. To what extent is that going to mitigate the need for pension credit to increase? I know the PPI have had legions of seminars on this and I have seen far too many graphs—my head is dizzy—but what impact is that likely to have on this?
Mr Curry: One of the things to say just following on from John is that he is right in looking at the long term future. One of the issues with the way that the legislation has been passed and the system is going to change is that the transition period is a very long time, and it is not really until 2060 that we get to see people retiring with these flat rate state second pensions on top of a flat rate basic state pension. Even then, as we suggested in our written evidence, there are potentially still some gaps in the contributory system, in particular with the state second pension, where people are not necessarily going to get a full pension to enable them to have a very strong contributory record and a decent state pension much above the pension credit level. Certainly the work we have done on projections for pension credit suggest that it is likely on the central scenario that we look at under the reasonable assumptions—and as John has mentioned already we would have to question some of those assumptions potentially given the current economic situation—there will be a slight reduction in reliance on pension credit going down from 45% of people over pension age eligible for pension credit today to around 40% by 2050. The Government's projections are a bit more optimistic than that and suggest that it might only be 25% of the population in 2050 eligible for pension credit and that is certainly within the range of estimates that we have made. We might have a funnel of doubt as it were as to what would happen on a more pessimistic scenario where incomes do not grow as fast as we are projecting, but the Government's estimates are certainly in line with what happens if we project incomes growing more quickly than our central projection. What is important to mention is that the amount that people will get from pension credit is likely to be less in future than it probably is today so even if it is still relatively widespread amongst the pensioner population it will be less important as a source of income for them, but it still means that there will be this element of uncertainty and reliance on it if the system survives until 2050, that there will be some people who do not have full work histories and potentially those with disabilities and those who live into very old age who are more likely to be eligible for pension credit.

Q4 Chairman: The only certainty is that we will not be around to judge whether it has worked well—I will not anyway. For those groups which have previously been identified as at risk of poverty, are we simply looking at the need for further reform or do we need to tinker with what we have got and adjust maybe the 30-year qualification—or is it just a dead issue now?
Mr Curry: I certainly do not think that it is a dead issue. The work that we have done recently, including work for the Equality and Human Rights Commission, suggests that there are still readily-identifiable groups of individuals who are more likely to be at risk of having a lower retirement income than, you might say, the typical white male individual as we go through. The problem is not really with the basic state pension and the reforms there, and the introduction of the 30-year rule means that by 2025 the Government is estimating that 90% of women will get the full basic state pension, which is very similar to the level for men. Even with the state second pension and the reforms coming in over time, the work that we have done suggests that again by 2050 men and women with the same work histories on median earnings for men or median earnings for women would end up with a very similar retirement income. Where there are still gaps is where groups such as women in particular, ethnic minorities, people with disabilities, those who do not have a fulltime work record, spending 40 plus years in employment, and that affects their entitlement and the amount they receive from the state second pension. Looking at whether people qualify each year for the state second pension, even after the reforms which introduced more credits, there is still about a quarter of the population across all working age people in the UK who will not be qualifying for state second pension each year. That could be because they are inactive at home looking after children who are too old to qualify for a credit, or caring for someone or not caring for enough hours to qualify for a credit, and if they are not earning enough or they are self-employed then they do not qualify for state second pension. If you look at people from ethnic minority backgrounds or people with disabilities, that proportion increases to around a third so you can see that for those groups they are much less likely to be building up a state second pension. Whereas with the basic state pension the 30-year rule means you can afford to have gaps in

your contributory record and still get the full basic state pension, for the state second pension every year that you qualify counts towards your final retirement income so having gaps in there is more important. There is certainly still some concern and some issues to be addressed potentially amongst those particular groups as to how effective state second pension is in terms of bringing people up to that level that John was referring to, similar to the Beveridge type system that was originally envisaged.

Q5 Chairman: Surely it was a slip of the tongue when you said that women at home looking after children were inactive.
Mr Curry: Sorry, yes. That is a technical term rather than a realistic term shall I say.

Q6 Chairman: Finally, if by 2025 as you say 90% of people will qualify for the full basic state pension would there not then be an argument for just giving it to everybody with the sheer admin costs of running a different system?
Mr Curry: There is almost I guess a fundamental question about whether pensions as such should be based on contributions or residency-based. The situation we are ending up in is almost exactly the same, whichever way you do it. Even with a true residency-based pension there would still be individuals who did not qualify purely for the fact of not being in the country for long enough or at the right periods of time, so the question really is who do you want to qualify and who do you not want to qualify. There certainly is a whole lot of administration behind running the basic state pension and state second pension. I guess all the time you still have the state second pension which is still based on contributions you would need to be collecting that information anyway so actually doing it for the basic state pension is not really an additional cost. If you could envisage a more wide-ranging reform which is where the kind of logical next step might be, now that we are moving towards two flat rate pensions, actually just having a single flat rate pension, then would be a good opportunity to look at on what criteria you wanted to award that.
Professor Hills: You may remember that as a Commission we dipped our toe in the water of moving to a residency-based system for those over 75 and I have to say that it did not attract political support. There is a deeply held feeling, certainly amongst senior politicians and certainly amongst the public, that a system which embodies in some form the contributory principle that you get "something for something" is very attractive. Of course, we then have vast numbers of exceptions where we say "except in the following cases" and that list brings in nearly everybody. However, we had a go at that and it was not part of the reforms that were eventually adopted. The end result probably would not be so different, particularly since the Government went for the 30-year rule as far as the basic pension was concerned. If you look in general at public attitudes, the mixture we have ended up with of a pretty well universal basic pension with an additional top-up from the state second pension which does depend on contributions is something that does reflect what the public were saying a couple of years ago they wanted. However, it has the problems that Chris was describing, that there are groups who are outside that, particularly people with weak paid work histories and particularly the self-employed, and I guess an area that would be well worth thinking about more is the end result for the self-employed where there is a very big gap in the system as it is now.

Q7 Chairman: A lot of that gap is by choice; the self-employed make a choice not to make any provision.
Professor Hills: The trouble is in all of this area—and part of the reason for the whole reform—is that people are not necessarily making a well-informed choice. All of us procrastinate; virtually nobody, apart from the man I am sitting beside, Chris, actually understands all of this, and in that situation people do tend to hope that something will turn up. That is why we recommended the system of automatic enrolment, that is why it is a very good idea, but there is not an equivalent for the self-employed. Many self-employed people may be relying, perhaps over-optimistically, on the value of their business as being their pension pot or indeed—maybe no longer but certainly a couple of years ago—sharing the illusion that somehow their house would be their pension, even though they would have to carry on living in it, just because it was notionally worth a large amount of money. That is definitely a piece of unfinished business.
Mr Curry: Just to pick up on that, certainly people are very capable of having beliefs that they contradict very much with their behaviour. Research for the Department for Work and Pensions over a number of years has shown consistently that people do not believe that the state will be there to provide for them when they reach retirement age, they do not expect the basic state pension to be there, or that they will get much income at all from the state or under-estimate how much they would get if they were to retire now, but they still do not decide to do something about it themselves. There is a very strong procrastination involved where it is something they know they need to do and need to get round to but it always easier to think about that next week or next month or next year because they have something which is more important which they need to deal with now.

Q8 Tom Levitt: I want to concentrate a few questions on the poverty line. The first question is, is the question of pensioner poverty simply a question of take-up of benefits? If there was a greater level of take-up of existing benefits would the level of pensioner poverty be less?
Professor Hills: Shall I start and then Chris can give the details? Certainly one of the huge improvements that has transformed the position of pensioner poverty in the last few years is the level of what is now called the guarantee credit, which has pretty well approached the poverty line that you get by using the standard definition that DWP uses in its household average income figures. Those substantial

improvements in the minimum income line do offer the potential for getting most pensioners to something very close to that poverty line. It is complicated when you start taking account of housing costs and the issue then is, as you say, is it one of take-up. I would say the biggest issue is probably about take-up of council tax benefit and housing benefit. We are rather unsure—but Chris is closer to the figures than I am—about the extent to which we can believe the figures on take-up of pension credit. I know it has been a priority with DWP to try and boost the level of take-up of pension credit and I know that they report deep frustration every time they go round to people for the seventh time trying to say that they have identified them as potentially wanting it and seeing possibly rather frustrated people having their telephones rung or doors bashed on by people trying to get them to claim it. One of the great advantages of the philosophy of returning to earnings-linking the basic state pension and establishing a flat rate for the state second pension is that take-up becomes less of a problem. It does not get you out of the problem of lack of take-up of housing benefit and council tax benefit however. Fundamentally the underlying problem is of people who have low incomes in their working lives and do not build up savings for retirement. The state is offering a better platform and a better safety net than it used to but unless you address things like the length of people's working lives, the extent to which people retire early, the sheer inequality of wages and the low level of wages that some people receive it is very hard for the state to address all of that problem. We could do better if we could make things more automatic; clearly, the more generous you make either element of the system, be it the non-means-tested element or the means-tested element, the better you do but some of these problems are a reflection of inequality in working life as much as anything else.

Mr Curry: Could I just start off by echoing John's final point that actually a lot of what drives pensioner poverty is poverty or low income during working age. Just on a couple of the technical points that John very kindly passed on to me to deal with, on the measurement of take-up it certainly is an issue that the Department has been looking at for as long as I can remember and they have been producing take-up figures. One of the big problems is that the take-up figures are estimated using survey data and so you are reliant on firstly people knowing and understanding what it is they currently get from different income sources and reporting that accurately, and I know that in the past there have been particular problems with people, because they receive a single payment, being confused as to what they are receiving, being either from the basic state pension or from SERPS or even pension credit itself can be misreported and misrecorded. Firstly, therefore, the complexity of the current system makes it difficult to get very good measures of take-up. Having said that, there are some differences but even the most pessimistic of estimates of take-up suggest it is around 60% for pension credit and even if all those people were eligible you still would not completely eradicate pensioner poverty given the definition we have been looking at, and I think one of the issues around that is purely a technical one around whether using the household average income figures for the poverty line either after housing costs or before housing costs is actually using the same income as people would understand, because a lot of it is based on disposable income. There are other differences in the treatment of taxation and, in particular, as John was talking about, differences in the treatment of housing costs. I do not think pension credit applicable income is either before or after housing costs compared to the household average income. What is true is that there is a very big group of people over pension age with very similar incomes which are at or around both the pensioner poverty level and indeed the pension credit level, and they are very close together, so what you will see is small changes in either producing quite strong changes in either eligibility for pension credit or the numbers of people either just below or just above the poverty line. In particular there was a kind of blip where pensioner poverty increased according to the official definitions in 2006 which, in the absence of any major policy changes or any real increase in incomes generally around that time, would suggest that it is almost certainly down to a measurement and technical error difference rather than a real change in a certain single year period.

Q9 Tom Levitt: Between you, you have answered most of the six questions I was going to ask but let me go into it in a little more detail on one or two of those. I heard you say, Chris, that the pension credit guarantee take-up level is about 60%, but surely for a benefit which could be pretty well "automaticised" that does sound incredibly low.

Mr Curry: That is for the overall combined guarantee and savings credit. The Department for Work and Pensions does produce a range and 60% is kind of within the range that they look at for pension credit overall. If you look at the different components, whether people are entitled to guarantee credit which is probably for people who are on the lowest incomes and where the benefit is most important to them take-up is certainly higher and there the range is in compass around the 80% level, whereas if people are just eligible for the savings credit then some estimates of take-up go as low as a third of people who actually take up what they are eligible for there. There are lots of issues with take up: one is how much people are eligible for and, as I suggested, the more you are eligible for the more likely you are to take up the benefit because it is obviously more important to you. There has been some work which looks at the cost of applying compared to the amount of benefit you receive as to whether it is worthwhile people actually claiming and going through that process. The other issue is whether people are actually aware that they are eligible for these sources of income because the benefit rates change year on year, incomes change year on year and for a while now the parameters of guarantee credit and pension credit have changed in line with earnings whereas for pensioners in

22 April 2009 Mr Chris Curry and Professor John Hills

retirement, their income does not grow as fast as that and people can become more likely to be eligible the older they get. Even if they have applied before and were not eligible at that time, another five or 10 years down the track they might be eligible but are simply not aware of it because they cannot see that their situation has changed and it is hard for them to imagine why they would now be eligible whereas before they were not.

Professor Hills: Something I want to reiterate is we should not only be thinking about take-up of pension credit and guarantee credit, it is very important to think about the take-up of council tax benefit and housing benefit. That is possibly something that it might well be worth your while pursuing further, whether there are moves that could make take-up or payment eligibility for council tax benefit more automatic. There are many people who are pushed just below the line as a result of what looks like a failure to claim council tax benefit. Of course, sometimes people make that as a deliberate choice and one of the inherent problems with any system that relies as heavily as ours does on means-tested benefits is that some people—and this is particularly true of older people—do not want to take up what they see as being a handout.

Q10 Tom Levitt: Absolutely, those are good points and clearly a system whereby when you apply on the telephone for pension credit you automatically are considered for housing benefit and council tax benefit, that is only fairly recent and there has not really been a chance for it to feed through the system there. On the guarantee and pension credit for a single person their guarantee level puts them significantly above the poverty line but for a couple it puts them barely above the poverty line. Why do you think that is and should the level for couples be increased to accomplish that?

Professor Hills: You are opening up a very big question there which I am sure has been of huge recurrent interest to this Committee forever, which is that as a country we have very little in way of a solid base which the levels of benefit and the relativities between them come from. You see that certain benefit rates for couples are set at less than twice that for a single person on the philosophy that it is cheaper for two people to live together than for two people to live separately—the difficulty is knowing how much cheaper. We tend to simply start from where we were last year and up-rate it for prices or earnings and effectively keep the relativities wherever they were when the music started. Those may bear very little relationship either to what comes out of the poverty line calculations—which are, as I am sure you are all aware, the modified OECD equivalence scale, which is probably as good a scale as any for judging the needs of couples against single people, but I would find it very hard to say why relativities are precisely the way they are and not anything very different. You could do something very different, you could look at the evidence provided by things like the minimum income standard work that was done by York University and others last year, supported by the Joseph Rowntree Foundation last year, which actually asked people what they thought different kinds of households needed to live on, and you can draw relativities from that. Governments have always resisted doing that because the tendency of those exercises has always been to produce public views of minimum standards of living that are higher than the state has ever provided through the income support or guarantee credit system. What you are reflecting, however, is a lack of coherence between the way we measure poverty and the way in which we set the rates for trying to avoid it.

Q11 Chairman: Perhaps those surveys need to ask how much extra tax that individual is prepared to pay to finance that level of income they think people should have.

Mr Curry: Just to echo what John has said, one of the key differences is that one of the drivers of the level of guarantee credit and pension credit is really affordability for the Government, how much they can afford to pay in a particular year rather than necessarily trying to match a particular level of income. I am glad John mentioned minimum income standards; we are publishing next week a report looking at retirement needs as part of a series looking at retirement income and assets overall. I will certainly provide you with a copy of the report as soon as it is published but what is interesting in that is that although historically minimum income standards as suggested by public consultation have been much higher than guarantee credit levels, because the guarantee credit has been increased in line with earnings they are now much closer together and in fact the minimum income standard suggested for men is just below the guarantee credit level although the minimum income standard suggested for women is just above that. I am not sure what that says about the different income needs of men and women but certainly I will forward you the report when it is published next week[1].

Q12 Tom Levitt: It gets even more complicated because a pensioner might be below the poverty level but still consider themselves better off than their own parents were and indeed people who are starving in Africa and so on. Could you say a word about the distribution of pensioner poverty? Is it the case that there are a large number of pensioners who are just below the line and for whom a very small increase in the pension credit level, for example, would help them out of poverty, or is it a bigger problem than that which requires more money?

Professor Hills: It is a combination of both. It is clear from the figures that come out of the surveys that there is quite a spike of pensioners just around the poverty level where a variation in annual income of just a few hundred pounds would push them just above or just below, and one of the things that we saw in the most recent poverty figures was that in a year where there had not been a special payment a lot of people dropped below the line and the numbers went up. Because there are so many people so close

[1] Not printed. http://www.pensionspolicyinstitute.org.uk/news.asp?p=327&s=2&a=0

to that line technical issues about can you believe what is said in the survey about whether people are getting particular sources of income, exactly how it is measured, exactly which week it is paid in, what happens when it comes through as a lump, all of those things very sensitively the numbers around that particular level. In one sense you are right that there is a group of people very close to the line where a small difference in income will put them just above it, if you could achieve that, but 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 to meet those standards.

Q13 Tom Levitt: Thank you. My last question relates to levels of pensioner poverty in the future. You suggested earlier on, Chris, that levels of pension credit take-up were likely to go down which would suggest that pensioner poverty will ease, but at the same time pensioners will suffer a loss of income through a reduced level of interest on their savings, for example. What are your predictions for the numbers of people in pensioner poverty going forward?

Mr Curry: Predictions are very difficult and there are two issues. If we are talking about the Government's measure of poverty there are two things that drive that: one is pensioner incomes and the other is the incomes of the population overall. So even if we are seeing some potential limitations to the increase in pensioner incomes as you mentioned through potentially a reduction in the income that people get from savings, in the much longer term what happens to the investments that people have at the moment in defined contribution pensions for example for future defined benefits you could see more or less income coming from private pensions in the future. At the same time, however, if incomes overall are not growing particularly fast then you could see a reduction in pensioner poverty alongside that purely in the way that poverty is defined as a relative measure, relative to the rest of the population. There is certainly some scope for looking at alternative scenarios going forward for pensioner poverty and pensioner incomes and, as I say, the work we have done suggests that there will be a long term growth in pensioner income broadly in line with average earnings growth over time or potentially a little bit faster than that, which suggests that you would expect, all other things being equal, for there to be a reduction in pensioner poverty as a part of that 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. All those issues suggest that you would expect that to end up with a reduction in pensioner poverty, but it is not a certainty by any stretch of the imagination and it is still not clear how what is happening now will filter through long term into the retirement income that people are expecting to see. Also, none of that takes into account how people might change their behaviour response because as John has mentioned, working longer, working past retirement age is one issue where we are really still not entirely clear whether people will want to do that, whether people will have the opportunity to do that and if people find themselves in a situation where even if their state pension is holding up relatively well but their investments and private pensions are not doing so well, then they might supplement that through either saving more as they get closer to retirement or through working longer. There is a whole host of uncertainties, therefore, around future pensioner poverty.

Q14 Mr Heald: Historically the culture has been not to save for retirement and of course there has been a group always there who, it has been accepted, cannot really be expected to save for retirement because of their low level of income. Do you accept that that has been the history and do you think it has changed as a result of the prospective reforms to the basic state pension, let us say, because of the change S2P and the new personal accounts?

Professor Hills: It is true that people have always hoped that something would turn up and have assumed that there would be a system that would somehow pick up their needs in retirement. Historically that has left many people disappointed and very high levels of pensioner poverty in the past; again, one of the transformations of the last decade and actually going back further than that since the early 1990s is that we have moved away from a situation where to be old was automatically to be poor. That has happened as a result of a number of things, part of which is the coming to fruition of the pension savings that people in work had made in the 1950s, 1960s and 1970s which, for a large part of the population, has delivered them very good pension incomes—indeed we now in some ways have into their retirements a "golden generation" of people who were the ones who did benefit from occupational pension schemes or did save, and indeed benefited from the most generous aspects of the state earnings related pension system. We are now looking at what happens to the generation behind that. I would accept your premise at the beginning that there is one group of people who are, in their working age lives, very close to the poverty line anyway where it certainly would not be realistic to be expecting them to put money aside for the future. It might even, for somebody on the lowest income, be sensible for people to be encouraged to save for day-to-day fluctuations in needs and initiatives that the Government has introduced like the savings gateway, to move in that direction, but in general that group is relatively small where you would be saying do not worry about retirement, there is nothing you can do about it. That is something of a counsel of despair, partly because most people do not know through their working lives exactly what position they are going to be in for the rest of their working lives and it would be a mistake to say that somebody who in the early part of their working career has got quite a low income is always going to be poor, there is no point in saving—

actually it makes a huge difference how early people start saving and if we can move towards a world in which it is accepted that part of what you do is to put a bit aside for retirement when you can, that would be a big move forward.

Q15 Mr Heald: It certainly would. The PPI have done some research which shows it makes sense for most people to save in personal accounts; can you tell us about this?

Mr Curry: It is an interesting conclusion from the work that we did. The work that we have done looking at this is linked quite closely to a long piece of work which the Department for Work and Pensions has just been doing, which is looking really at the interaction between the means-tested benefit system and auto-enrolment and saving. Any workplace pension—because we have looked at the levels of auto-enrolment defined in legislation—has been closely linked with personal accounts. What we have tried to highlight is that this is a complex area and there are a range of different issues that needs to be considered here. One of the issues is certainly the issue that John has been discussing about affordability, and one of the things we have not looked at as part of that is whether people can afford from their consumption to make those savings. Part of that is obviously a subjective decision—some people feel they can afford to make savings even when they are on low incomes, other people cannot even when they are on relatively high incomes, and not being able to afford to save in a pension is the reason most often given for people not doing it. Even for people on earnings over £50,000 the common reason for not saving is they cannot afford to do it. That is obviously a subjective decision on their part for doing that, but what the work has concentrated on is it has tried to look at how much people will get back from saving at the minimum levels suggested by the auto-enrolment. One of the big questions here is how much should people get back from this, and there are a number of different ways of looking at it. At a very simple level you could say as long as somebody gets back as much money as they put into a savings account then actually they are doing okay and it is all right for them to do that, and that is certainly one of the thresholds which the Government has used in the recent report that they published earlier this year, looking at the benefit of saving, the benefit of auto-enrolment and concluding that the vast majority of people would be better off in terms of getting more money back from saving in a personal account and auto-enrolled into a pension scheme than they actually put into it. There are other schools of thought which suggest that actually if you had saved for 30 years and just got back what you put in, or maybe just a little bit more but not a lot, people might not feel particularly happy or comfortable with that and as a result might have preferred to do other things with the money if that had been the outcome, and so there should be some kind of benefit, that they should see the advantage of the tax relief, they should see the advantage of the employer contribution going in, they should see some investment return and would expect to see all of this coming through from being auto-enrolled into a pension. The work that the PPI looked at tried to identify which people would see that level of return and which people would not, and as you say one of the key findings is that for the younger generations in particular who spend a long period of time under a system that can be auto-enrolled and make contributions over a period of time, they certainly do get back what they might consider to be a reasonable investment return on all the saving and so are most likely to be happy with the returns. Again, one of the other things to bear in mind is that this is all assuming a steady state of $3\frac{1}{2}\%$ real investment returns a year; I do not think anyone can guarantee that that will certainly happen and this is only really looking at the system rather than real outcomes. What we did identify is that there is a particular group of people who are at very high risk of actually not getting back even the value of their own contributions. That is quite a small group, mainly based around those who are going to be renting in retirement and eligible for housing benefit and, again, as John mentioned, one of the things you cannot do is identify in advance who is definitely going to be in this group. If someone is in their 20s there is very little you can say about what they are likely to be doing by the time they get to 68 when they are likely to retire. From our perspective one of the key policy findings was that there is a group of people who have what you might class reasonably common characteristics in that they have time when they are not working full-time—they are working either part-time or are on low earnings, have periods out of the labour market—who have intermittent contribution records and who are somewhere between these two groups, so they are not necessarily getting back a full investment return on their contributions but they are getting back more than they put in. It is this group where it is not clear necessarily to them and you cannot identify in advance how much they would get back and how much they would value their pension saving when it comes to actually getting their income and comparing it to what they get from the system at that time.

Q16 Mr Heald: Your overall sense is that it is basically beneficial to save in a personal account. Would the same view be there if you were talking not about saving in a personal account but just making cash savings without tax breaks or employer contributions. Would it be worth somebody at the bottom end of the income scale doing that?

Mr Curry: It would depend as to why they were saving. If they were saving for retirement then almost certainly not because the way system works, as you pointed out, they would not benefit from an employer contribution, they would not benefit from the tax relief and any savings they made would still be eligible to be counted against means-tested benefits when they get to pension age, so it is very unlikely, unless they only had a very small amount of savings, that they would actually get any benefit from that, and if they saved into a pension and had small amounts of savings they could probably take that as a lump sum anyway so I do not really think that there is much of an advantage to be gained by saving outside of a pension scheme if you are saving for retirement for that group.

Q17 Mr Heald: The point you were making about people who rent is that if they lose housing benefit as a result of having saved that may not be a very good investment from their point of view.
Mr Curry: Exactly. What happens if they are in the position where they are eligible for the pension credit, eligible for council tax benefit and eligible for housing benefit they could find that for every additional £1 of income they get from a private pension or a personal account, for example, they are losing 91p in benefit by doing that so you can see that their net income gain is very small.

Q18 Chairman: Sorry, can you just say that again about the eligibility?
Mr Curry: If they are eligible for pension credit, housing benefit and council tax benefit—

Q19 Chairman: If they are entitled to pension credit there is no deduction, they are entitled to 100% housing benefit and council tax benefit.
Mr Curry: I meant the savings credit element of pension credit, it is one of the confusing terminologies where pension credit can cover both guarantee credit and savings credit.

Q20 Harry Cohen: Can I just ask a very quick question? You went on about youngsters and the 3 ½% per annum they would gain; there is not a guarantee of 3½% per annum.
Mr Curry: No.

Q21 Harry Cohen: But should the Government do that, should it say "If you do invest over the lifetime of your working life, whatever you put in we will guarantee 3½%"? It could surely do that over a working lifetime?
Professor Hills: There are many things that the Government is now guaranteeing that a year ago we would not have expected the Government to be guaranteeing. Certainly a year ago I would have said that no government would be prepared to do that. It is prepared to guarantee people, if you like, a return through the state system where the value, if all goes according to plan, of what you get out is effectively linked to earnings growth, which is significantly less than 3½% and you would expect it to be, but guaranteeing to go beyond that would be a very expensive exercise for the Treasury. As I say, however, the world has changed but I see it as very unlikely that any government would do that at such a generous level. Can I add one thing to that, that what one is talking about here are alternative ways of providing for retirement: we do not want people to end up with no income in old age. When one is comparing one way of saving with another, what happens to overall investment returns will affect both of them so that the benchmarks that Chris was talking about—what is the appropriate benchmark—if long term investment returns are lower that will be true for alternative savings instruments as well as for whatever comes out of our personal accounts or whatever comes out of employer schemes, so although you are absolutely right to identify that as being one of the key issues, if we are gloomier about future returns that means that any amount of saving will produce less by way of income in the future. That is in many ways the key issue at the moment rather than necessarily some of the issues that more attention is being paid to about the effect of means-testing. Chris referred to the report that DWP produced recently which very helpfully shifted the debate from not thinking about looking from the wisdom of old age, knowing everything that happened to you in your life and then saying "Oh, if only I had done that" when you can construct examples which show that actually somebody would be better off tearing the money up or putting it all in the lottery or something. We are actually making these decisions prospectively, when we do not know what is going to happen to us, and it is there where it is quite hard to identify without huge cost and knowledge of individual circumstances, finding out about individual circumstances, any group that is systematically going to do badly. As Chris says, the key group is people who end up in housing benefit in old age—not having been presumably on housing benefit when they were of working age, because you get contribution relief on your housing benefit on the way in—are the people who unexpectedly move. The people you are really worried about are the people who you could tell were going to move from not being on housing benefit to being on housing benefit—that is a very hard group to identify if you are trying to say it is bad advice to save.

Q22 Mr Heald: Are we saying to the people who are at the very bottom of the pile income-wise, people who historically we have said are not really expected to be saving for their retirement, "Look, what you must do is sacrifice—because that is what it is—in order to make contributions into personal accounts." If we are saying that do we not have to be careful that they are getting a proper result from that investment, because there they are giving up a lot in order to do it?
Professor Hills: Absolutely, but if you go through the general calculation—remember there is a threshold in this and you do not make contributions below the threshold of £100 and something a week—

Q23 Mr Heald: But that is not very much, is it?
Professor Hills: It is not very much but we are talking about people whose incomes are not very much.

Q24 Mr Heald: Exactly, we are talking about the bottom end, are we not?
Professor Hills: We are then talking about percentages of income above that.

Q25 Mr Heald: Exactly.
Professor Hills: And we are talking about a system where if you do only accumulate a very small pension pot you have the ability to get it back, within certain limits. You could say, let us exempt people at a higher level, £10,000 a year or £15,000 a year. The trouble is when you do that you then need to ask a lot of the next rung of people up and you also end up with people who spend their lives with low and then modest incomes, moving around, not having accumulated very much, and it is a very difficult trade-off. Our view when we looked at this was that the level around the personal allowance for income tax was about the right level to start off contributions, remembering that there is the safeguard that people who accumulate very small pots can get them back.

Q26 Mr Heald: But all this has been designed against the background of an end to boom and bust, has it not, where we can assume that we will have $3\frac{1}{2}$% long term rates of return, that the world will be sunny forever. What you are telling us today is that there is a serious health warning in all of this because we have modelled this on the good times, a $3\frac{1}{2}$% result, and if we do not get that we could be in serious trouble. You are giving us a serious health warning, are you not?
Professor Hills: I do not think it is a new serious health warning, it is an important health warning that has always been there and the critical issue, not just for personal accounts—where I am sure they are paying a great deal of attention to the design—but to employer defined contribution schemes which people will be automatically enrolled into if they are generous enough, is that if all the money is in the stock market and it is not what it called "lifestyled" in an appropriate way people are carrying very high risks. One of the potential immediate things we will see are the people who do have personal pensions, who do have defined contribution schemes at the moment, where a large proportion of them—and Chris may know the exact number—I cannot quote an exact number but a significant number were completely exposed to what happened to the stock market between April last year and October last year. One has to design a system that is robust to that. Unfortunately, many personal pensions as they were designed were not robust to that; I hope very much that those setting up personal accounts have got those problems very high up their agenda.

Q27 Mr Heald: We are going to be getting tri-annual valuations from some very big defined benefit schemes over the coming months and they are going to show big holes in them are they not?
Professor Hills: There somebody else is taking the risk. I am talking about people with defined contribution schemes where it is their individual pot, where they bear the whole risk. With defined benefit schemes it is the employer who is taking the risk and, yes, indeed we will see those valuations, the people who thought that they were adequately funded.

Q28 Mr Heald: All the existing pension schemes—defined benefit schemes have big holes in there, personal pensions are full of uncertainties and this new scheme which is coming in, you are saying there is a serious health warning if we do not get the sorts of returns we have over previous years.
Professor Hills: I am saying two things: first of all we have to be realistic in what we think should be taken as a central projection in terms of future returns, but we also have the very difficult task of explaining to people that there are risks involved in all of this, that part of your future retirement income is to an extent guaranteed by the state, that if current commitments are kept to the basic pension and state second pension will keep up with other people's living standards, the other part of your pension is something which can go up or down and it is sensible to structure that part of it in such a way that you are not fully exposed to the immediate movements of the market. Going back to what I said right at the beginning, we may be moving into a world where it is more expensive to provide for future income than we thought it was because we were living in a different variety of fool's paradise in terms of what we thought investments were worth. The world has changed.
Mr Curry: Just to pick up on a couple of points there, I have not seen any figures which look at how many people were fully exposed to the particular stock market experiences we have just seen, but I know from painful personal experience, having seen average figures, that on average DC pension funds have fallen by somewhere between 25% and 30% in the past 18 months, so that is quite a substantial change for people to have to accommodate, especially if you are close to retirement. Going back to some of the issues we were talking about earlier, about people on low incomes, whether they should be saving or not, one of the further complicating factors is that people, even if they are on low incomes, may have partners who are not on low incomes and so you need to look at this almost at a family or household level and not just necessarily from the point of view of individuals and in particular women working; it might actually be worth their while saving even if they are on a low income because when they come to retirement if they are part of a couple they will still get the full benefit from that saving.

Q29 Mr Heald: You have made the point that there are various groups who may lose out if they do this, the rented sector and so on, but do you think people actually take any account of this when they are deciding to save or not?
Mr Curry: That was one of the points I was going to come on to. The one thing that we do know is that people do not necessarily act rationally or make full projections or think a long way forward when they are actually making decisions around this. Part of that is the reason for the introduction of auto-enrolment in that hopefully the inertia will mean that people, if they do not make any decisions, do not think about it at all, will be saving anyway, and so that is one of the things which is behind the design of

the system. Potentially, the bigger problem coming up is not about whether the low income people who might not benefit from saving are actually saving and so are losing money; potentially the bigger issue is people who probably would benefit from saving but cannot be convinced, or it is not clear from the outset for them that it is beneficial for them to save and so they end up opting out when they should not be. Again, it is difficult to know how important that will be because again we do not know how strong the inertia effect is going to be from auto-enrolment, but all the previous experience of auto-enrolment has been that it is not on a national scale in the way that is being envisaged in personal accounts when they come in in 2012. Usually there have been larger employer contributions and more employer activism as part of doing that, so it is not clear what the levels of opt-out are likely to be anyway, but there is this factor that if you really want the right people to be in the system and the right people to be out of the system, you need to make it as clear as possible who benefits and who does not. That is one of the questions that still remain about auto-enrolment in 2012.

Q30 Mr Heald: The only other point I wanted to ask is about the tariff on the pension credit of 10% on savings over £6,000. How does this rate of assumed capital depletion relate to life expectancy? If we are going to have much greater longevity, is it right to be setting the level at 10%?
Professor Hills: I think that is a question for government rather than for us.

Q31 Mr Heald: We are asking for your opinion.
Professor Hills: Clearly it assumes that people will run down their capital, and it assumes that more strongly now than it did a year ago because clearly leaving that tariff income rate unchanged when savings rates in building society accounts have plummeted means that people will have to eat more into their savings to actually generate that level of income. The system already assumed that people would run down their savings to a particular level. It now assumes that more strongly and it makes that assumption by accident, if you like, because there is no automatic link between the tariff income rate and savings returns.

Q32 Mr Heald: The only point I was making to you really is the capital has to cover a longer period if people live longer, so their savings are there, they live longer. In a way, a 10% depletion rate is already pretty rapid given that factor of change. If on top of that you say that real interest rates are at almost nothing, you are going to continue running into the 10%, are you not exacerbating the problem even more?
Professor Hills: You are certainly assuming more strongly that people will eat into their savings more quickly.
Mr Curry: In a way, this is almost a hangover from the way in which means-tested benefits have changed in recent years. Certainly the capital rules are not significantly different from how they have been for a long time. I can only remember once when the tariff rate was changed and the lower limit was doubled in recent years, but it is not something which is looked at every year. Certainly if you go back to the 1980s and 1990s, where income support and the minimum income guarantee were seen very much as a safety net where people on very low incomes were unlikely to have capital and savings, then that is when the tariff income and the capital thresholds were set. Now pension credit has opened up means testing to a very different group of people. As we said earlier, 45% of people over pension age are now eligible for pension credit, which means it is not necessarily just a safety net, and because the way in which means testing has been used to target resources has changed means that we now have this issue that it is introducing issues and problems that were not necessarily there when the rules were first introduced, so maybe it suggests that there is a role for a further review of how means-tested benefits are targeted and what they are there to do.

Q33 Chairman: Can we go back, Chris, to what you said about what happened to the stock market last year. There are two separate issues. One is the asset value of the shares and the second is the income that is generated. In February 1975 the predecessor to the FTSE was at 170; in 1987 when we had the crash it went from 1700 to 1400, so it is treble now what it was then; in 2001 it was down to 3000, so it is a third higher than it was. All right it has been up to 6000 and back again, but I do not think you and others make sufficient distinction between the asset buying and the rate of return. The long-term rate of return despite what happened in the 1970s, 1980s and 1990s is 3.5%. To try and make a judgment on what has happened in the last 12 months and project that forward 40 years is extremely dangerous. The best guide you have got is what has happened long term despite all the economic ups and downs, and for the last 30 or 40 years it has been 3.5%.
Professor Hills: If you look at the appendices to the Pension Commission's reports, as I am sure you often do, you will see an analysis of the spread of long-term returns on investments looking back over the last 100 or so years, including things like the Great Depression and two World Wars and looking at how many periods there were, where if you take a longer period you get poor returns, remembering that, yes, of course you need to think about the reinvestment of income as well as the value of the FTSE. Even if you took the last five years as a whole, it does not look quite as dire as just concentrating on just those six months. The point I was making is that if people are in particular schemes where their pot is fully exposed in the six months before they come up to retirement and they need to annuitise, then they are in a very vulnerable position because they are then exposed to the short-term risks.
Chairman: There is a separate issue there, but the fact is that long-term trends, despite everything, two World Wars and every recession you can imagine, has been 3.5% and it is not unreasonable to assume that for the next 40 years. Anyway we will move on.

Q34 Mr Heald: Can I ask one question arising out of that. If you look at the long-term rates of return for the 1960s and 1970s, that 20-year period, would you agree that it is a very different picture from looking at it for the 1970s and 1980s, and that there are periods when the rates of return are lower?
Professor Hills: I think that would reinforce my point that this is a lifetime business, that what one is thinking about is people contributing throughout their lives, building up small amounts year by year by year but over as long a period as possible.
Mr Curry: I think that is right. The longer the period that you look at the closer the findings are to the average every time, so if you look over a one or two-year period you can get very wide variations in returns over that period of time, but as you stretch that further out to look at different five year or 10 year or 20 or 30 or 40 year periods, when you look at 40-year periods, the average over that period is much closer for every 40-year period you are looking at. Going back to your point, Chairman, I think it is very unlikely that many organisations doing very long-term projections will be changing the long-term rate of return they use unless there is a very strong reason for doing so. The whole point of using a long-term projection is that it is long term and it has been through situations like this before, and you will see things change again in the future, but the one thing that is for certain is the next year is going to be uncertain.

Q35 Tom Levitt: I will try and get through these questions fairly quickly. Do you see the Government continuing with its intention of linking the basic state pension to earnings from 2012?
Professor Hills: I would be very disappointed if it did not keep to that intention.

Q36 Tom Levitt: Will the downturn make a difference to its thinking?
Professor Hills: 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. It is also true that earnings have grown more slowly in the last three or four years than certainly government was expecting in terms of trend growth, so that the relative value of the basic pension has fallen less than we were expecting, which, in a way, makes the delivery to 2012 (compared with the recommendation the Commission made of 2010) easier to manage. Fundamentally, I think a lot of the answers both Chris and I have given about what the system looks like looking into the future are dependent on the value of the base remaining robust and people being able to build on it rather than an ever increasing spread of means testing. 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. Clearly you will all hear a lot more about this in a very short time. The public finances are under huge pressure and that change will cost some money. It will possibly cost less than might have been anticipated because of lower earnings growth, but it is a fundamental part of the reform under which an all-party and wider consensus was built for building a robust structure for the future. I do not know what the Government will do, but I very much hope that it will stick to what is laid out in the legislation and to its intention to bring this in from 2012.
Mr Curry: There is already scope there for it not to come in in 2012. The commitment is to do it by the end of the next Parliament, which could be 2015. If that were to happen then it could make quite a fundamental difference, both on the kind of savings that could be made in that period of time but also on the level going forward. If it is not uprated by earnings as early as 2012 and is done later in 2015, there are potentially quite large savings to the government in doing that. I think it is difficult to see it happening in that way unless there are some other circumstances. The one that I am bearing in mind at the moment is that there is a current commitment to increase it by the Retail Price Index or 2.5%, and it could be the case that if earnings growth is below 2.5% going forward they might prefer to keep it at that level, which is even more beneficial than earnings linking would have been. I think there is still uncertainty as to how it is going to happen but it is certainly not a foregone conclusion that there will definitely be an earnings link in 2012. It may not be beneficial to have an earnings link in 2012 from a pensions point of view. I think we will have to watch it closely and see how it develops.

Q37 Chairman: If we are talking about affordability, which was always the phrase, is this not a con job anyway because the reality is that it is being financed by the equalisation of the state pension age, so there is a cost?
Mr Curry: Certainly equalisation of the state pension age coming in from next year will reduce expenditure on the basic state pension. Whether the Treasury equates the two things together is another matter.
Chairman: It depends what day of the week it is.

Q38 Tom Levitt: From 2012 then we could have the basic state pension linked to earnings and the guarantee credit linked to earnings. Would it make sense to link the state second pension to earnings as well?
Mr Curry: Do you mean in payment?

Q39 Tom Levitt: Yes, an annual increase.
Mr Curry: Again, there are advantages and disadvantages of doing this, but the obvious disadvantage would be the cost involved in doing that in that there would be a significant extra cost. I could not tell you how much that would be and I am not aware of any estimates that I have seen that show how expensive that would be, but it would build up over time as payments became earnings linked. It

depends on your view as to how adequate you think the basic pension scheme and state second pension payments added together are because it is certainly true that with two state pensions, one linked to earnings and one linked to prices, the benefit of the second pension being linked to prices is less as you get older, and although having a strong underpin as earnings are linked to the basic state pension reduces some of the effects that we see of older pensioners becoming poorer relative to younger pensioners and being more likely to float on to means-tested benefits as they age, it would be helped even more if the state second pensions were linked to earnings. Again, from memory, I think we are talking about £150 a week for a combined full basic state pension and state second pension. If both of those were linked to earnings that would obviously be an expensive commitment for any government to make.

Q40 Tom Levitt: Chris, can you tell me a bit how you see the economic downturn affecting annuities, in particular the effect of quantitative easing on them, but also whether we should still be insisting on people purchasing annuities at a time when it is perhaps not in their best interests to do so?

Mr Curry: There are a lot of factors at the moment coming together which are reducing the amount of money that you get for each pound that you put into annuities, so the value that you get is lower now than it has been for a while. Part of it is due to the downturn in the quantitative easing, as you say, and the increase in the price of the assets which are used to back annuities, meaning that annuity payouts are smaller. There is also increasing life expectancy which is working in the same way in reducing the payments that you get from annuities. I think life expectancy probably is not going to be something which changes quickly. On quantitative easing and the downturn, I have to admit to being no macroeconomic expert and I could not tell you how long the recession is going to last, so I would not want to hazard a guess as to whether interest rates next year will be more beneficial for annuity rates or not. On the question as to whether people should have to purchase annuities, I think it is important to remember that with a quarter of a pension fund you do not have to buy an annuity anyway because there is already a 25% tax-free lump sum which people with defined contribution pensions can take. There is a range of other products which can be used up to age 75. I think the real strength behind having to buy an annuity is to guarantee a source of income that lasts for the rest of your life basically, and there are certain economic advantages in doing that. Whether in the future that will still be as important, given the relative role of the basic state pension and state second pension, as we have said, becoming more valuable and providing a more guaranteed income stream, and whether people will have other assets which they will be able to use to provide capital as and when they need it so they can then be happy using their pensions to buy annuities for an income stream is very difficult to say. There are certainly arguments that some people prefer the flexibility of not having to buy an annuity. On the other hand, they have had tax relief which is given on the understanding that it will be used to provide an income in retirement, so I think it is difficult to say. The one thing I would say is the vast majority of people who have a defined contribution pension take an annuity as soon as possible because they need the money to live on. If they did not have an income stream from that then their incomes would be substantially lower.

Q41 John Howell: I want to look at the position of a number of specific groups. If I can pick up on the one that you already mentioned, Chris, which is the BME groups, is their particular risk of poverty because of cultural and language issues or does it go back to the point that you were making earlier that this is a reflection of the situation from their working lives?

Mr Curry: I think it is a combination of both. Certainly what happens to their working life is a big influence on what happens to them during their retirement. They are more likely to have periods where they are not working, their employment rates are lower than the rest of the white population, as it were, 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. All these things are likely to build up to having a lower income in retirement. Whether their lower employment rates and lower earnings are due to cultural and language difficulties early on is difficult to say. There is also the potential that they are not receiving benefits that they might be eligible for if there are cultural and language difficulties when they get past pension age. I think it is probably going to have to be a combination of both of those factors rather than one or the other.

Q42 John Howell: Do you see a low benefits take-up amongst BME groups?

Mr Curry: I am not aware of any overall piece of work which can do that on a quantitative scale to prove that definitively but there were certainly qualitative studies and the Department has been working quite hard with particular interest groups to try and overcome some of the barriers to taking up benefits and working within the benefit system.

Q43 John Howell: I was struck by the Pension Service customer survey which seemed to suggest that two of the biggest factors for BME groups were about the intrusiveness and the embarrassment caused by going through the system. Is that something that you have seen?

Mr Curry: Again, it is not something of which I have had first-hand experience, but I think it is a factor. We know in other areas around survey evidence that most major national surveys tend to under-represent people from black and ethnic minority communities, and part of that is because they are a relatively small, but not very small, group of the population. It is about 11% of the population which can be classified as being of black and minority ethnic grouping so you would expect them to be able to be well-represented, but I think for reasons like the intrusiveness or the language barriers, or a combination of the two, they are generally under-represented, so it would not surprise me if not wanting to divulge information or a mistrust of authority was feeding through into their dealings with the Pension Service as well.

Q44 John Howell: Do you have a view on this?
Professor Hills: I have not got anything on that. I am rather interested in this topic and 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.

Q45 Harry Cohen: Could there be a link to tax credits here in that if the BME communities are not in work, they should be getting tax credits, and maybe the tax credits could either be increased a bit or you could take a bit off it to help towards their pension pot? Could that be a source of helping them through?
Professor Hills: In a sense that does happen because if you are receiving tax credits your pension contributions—and I think very few people understand this—are deductible when tax credits are calculated and therefore your income will go down and the tax credit will go up. That is one of the ways in which the current system is very favourable to a group of people on low incomes. Virtually nobody knows that. I have no idea what mechanisms are in place to explain to people the huge advantages to some of doing that. There is already a mechanism that does exactly that but a deeply obscure one.
Mr Curry: There are two things. Firstly, it is very hard to understand and somewhat counter-intuitive if you tell someone if you reduce your income by making a pension contribution you will get a higher benefit from the government in doing that. It does not always appear to people as being obvious. Secondly, the groups that tax credits are aimed at are also relatively low income groups and there is also an affordability issue. Their benefit goes up, their overall income is slightly lower, and whether they would be happy to do that is an issue.

Q46 John Howell: The second group I wanted to pick up on is Londoners. The Age Concern report last year identified Londoners as having a low level of awareness. Is there an explanation for that?
Mr Curry: I must admit I am not familiar with the report. 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.

Q47 John Howell: So it is more about the demographics and the make-up of London than anything specific?
Mr Curry: As I say, I am not fully aware of the report but I would expect there to be some elements of magnifying what you see in particular groups as being especially true in London.

Q48 John Howell: Do you know if we see that in other large cities?
Mr Curry: Again, that is not something that I know much about.

Q49 John Howell: It would be interesting to know that if you find that. The third group that I want to look at is disabled pensioners. Your submission listed disabled people as a group at particular risk of poverty. Would you like to say a bit more about why?
Mr Curry: Yes, a lot of the issues are very closely related to the issues that we have just been talking about for black and minority ethnic groups. About a fifth of the working age population could be described as disabled under the Disability Discrimination Act. What you tend to find are quite similar findings during people's working lives if people have a disability, 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 kinds of issues. There is also a particular issue for people with disabilities in retirement which relates to the level of the benefits that they receive for disability and the costs of disability themselves. There has been some work which was done a couple of years ago now which looked at what the costs of disability were and compared those to the amount of actual benefit, suggesting that the 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. It is not something which is always immediately obvious from the official figures that we get. I think in the report which we plan to publish next week there is some analysis of that within there and I will certainly send that forward to you so that you can see the analysis that we have done in that.

Q50 John Howell: Amongst that group do you see also a reduction in their willingness to claim because of their isolation and vulnerability and so on?
Mr Curry: I think that that can work both ways. It depends as to the extent of the disability and the support that the disabled person gets. Quite often if there is a carer involved the carer might be able to help during the claim process. If it is a lower level of care and a lower level of disability then I am sure that isolation, vulnerability and aspects such as that can

act as a barrier to firstly being aware of what it is that you are entitled to as well as claiming any benefits that you might be eligible to receive.
Professor Hills: Could I emphasise the point Chris made there which I think is relevant to your overall inquiry, which is curiosity at the way we measure poverty, particularly for pensioners who are receiving certain disability benefits. Those 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 poverty rates amongst disabled pensioners, so in a sense we are looking at too optimistic a picture of pensioner poverty at the moment if you allow for that. Again, that is something possibly worth your while exploring a bit more.

Q51 John Howell: Are there figures that strip that out and show that?
Professor Hills: There has been some work done by colleagues of mine at the LSE looking at different ways of allowing for either the costs of disability or stripping out extra cost benefits from people's incomes when you calculate poverty rates.

Q52 John Howell: Thank you. The last group is older pensioners, particularly the very old pensioners who are at particular risk. Is that a factor of age now or is that something that is always going to be there? Will the next generation be different?
Mr Curry: There is a combination of reasons why older pensioners tend to have lower income. One is, as we have described already, the process of how income changes during a retirement or as people age, in that poverty levels are linked to the income of the population as a whole, which tend to increase broadly, but not solely, in line with earnings and once someone reaches retirement, benefit income, income from private pensions, and income from other sources tend to increase more slowly than that, so people's incomes decline relative to poverty levels as people age. This will be offset to a certain extent by the earnings link with the basic state pension as it goes forward. The other factor is a cohort effect in that each subsequent group of pensioners reaching pension age tends to have a higher income than the previous generation, partly because of the way in which things like the state earnings related pension and the state second pension work at the moment where they are linked to what their earnings were during life, and as earnings have risen people receive a relatively higher benefit compared to previous the generations, but also up until now it has been things like subsequent generations being more likely to have been in occupational pension schemes and are more likely to have saved in private pension schemes. Whether that will continue indefinitely is something which is still not clear but ideally, with the use of auto-enrolment, that should continue until it at least reaches a steady state where virtually everybody has some private pension saving. Of course, the other factor is that most people when they reach pension age are in a couple. When you look at older pensioners they are much more likely to be single, so the impact of bereavement, and in particular widowhood, can have quite a marked impact on pensioners' incomes.

Q53 John Howell: That presumably was behind your thinking in the Turner Report that those over 75 should be eligible for more than the basic state pension?
Professor Hills: It was a way of cutting through some of the administrative complication and saying either we are going to be paying people something fairly equivalent through the pension credit system or they will have entitlement calculated on the basis of their partners' contributions and why not just cut through all of that and do it automatically. As I said earlier, that was not something that found favour.

Q54 John Howell: Even for that restricted group of the very old?
Professor Hills: Even for that restricted group. Chris is right in pointing to there being two things going on here. One is that as people age their incomes are less likely to keep up, they fall behind other people's living standards anyway, although they themselves may by their own standards not feel worse off, but the other thing that is happening is a cohort effect, and in particular if you look at people currently in their 90s, some of them would have retired more than 30 years ago when overall levels of both state provision and private provision were much lower. They are being followed by this better provided for generation currently in their late 60s or early 70s, but what happens beyond that generation is obviously the focus of the long-term reforms. The reason for the need for the reforms was the worry about what we were going to end up with without action.

Q55 Greg Mulholland: Following on in terms of the vulnerable groups, it has already been touched on the issue of people in rented accommodation with regard to the incentive to save. I think it is important to flag up that people living in rented accommodation are at particular risk of poverty. Do you think that is primarily because of the current rules on eligibility for housing benefit and also the take-up of that benefit? Do you think that is the key factor for people in rented accommodation being at particular risk of poverty?
Professor Hills: I think the key reason is that tenants are much more likely to have low incomes in their working lives and much lower levels of employment in general, depending which group of renters you are talking about, and lower lifetime incomes. 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, but if you have not had an income or if you have not had inheritances that have allowed you to buy a house or inherit a house, you will be renting in retirement, and whether you can afford to do that will depend on whether you have accumulated income in some other way or the

assistance you get through the state through housing benefit, so the fundamental problem is one of low lifetime incomes. We try and do something about that through the safety net system, but the safety net system has holes in it because not everybody claims the benefits to which they are entitled.

Q56 Greg Mulholland: Why do you think that is? Is enough being done to encourage take-up?

Professor Hills: Going back to our earlier discussion, I think there are things that could be done that would be worth exploring more vigorously to make housing benefit and council tax benefit receipt more automatic and to run on for a longer period than they do at the moment. I am afraid I do not know the exact details of how changes in circumstance of the older population affect their council tax benefit and housing benefit entitlements, but certainly one of the problems with both of those benefits with the younger population is that they are supposed to change the whole time. That makes them very difficult to administer and it makes them confusing for recipients. There may well be, for the older population in particular, be ways in which you can move towards a system where once a payment is decided on it continued for a longer period with less hassle, so if it was automatic that people received support and if that then continued for a longer period, that might help towards that problem.

Mr Curry: I guess one other issue is that potentially people eligible for housing benefit might be—and I think it is all relative—at a higher income than people eligible for things like the guaranteed credit and pension credit because of the way in which benefits are withdrawn using a taper system and because it depends very much on how big the rent is to start off with, where you can actually have eligibility for housing benefit at relatively high income levels, for a pensioner anyway, so it could be that some of the take-up issues are around trying to identify a different group of people from the ones who need the core support of things like guaranteed credit and savings credit.

Q57 Harry Cohen: Could I raise issues in relation to pensioners and work because some people think that one way pensioners could alleviate their poverty is to continue working in one form or another, and the Government themselves have talked of that as being a possibility, or have made the right noises. Are they just noises? Are the Government really serious, in your opinion, about that? Could they be doing a lot more? I am thinking for example of the pension credit disregard which is about £5 for a pensioner or £10 for a couple and then it is a pound for pound reduction on your benefits, which is hardly an incentive in any real way for working, it seems to me anyway. Do you think the Government are realistic about this and should they be?

Professor Hills: It is a very important issue. I cannot remember whether I have said this to this Committee before but if you look at the recommendations which came out of the Pensions Commission, they effectively had three legs to them to try and cope with the problems that we foresaw. The first was an improved and more robust state system but incorporating a rising state pension age reflecting increases in longevity. The second was the opening up of a system of lower cost saving for retirement to people who had not had that available to them before. Those two have been legislated on and are happening. The third was making it easier and more common for people to be able to extend their working lives. There has been less done on the third leg of that tripod than on the first two. Clearly this is a very difficult moment to be talking about the need for people to be working longer, given rising unemployment, and presumably the figures will have come out today, but, on the other hand, it is actually a critical moment to be thinking about this issue. The tragedy that happened in the last two major 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. We had the bizarre situation over the last 20 years until the late 1990s that our lives were getting longer but we were working on average for shorter periods, and part of that happened as a result of the ratchet effect of people who lost their jobs in the shake-outs in the early 1980s and the early 1990s. It seems to me to be a very high priority to try and avoid that happening again this time round. In terms of the general issue, I think it is a very important one. I am not sure that enough has yet been done. In terms of the specific issue about the incentives for people or the ability of people to carry on working longer, I would point perhaps to three things. First of all, there is the oddity of the default retirement age still being there and that employers still have the ability to say, "You are 65, therefore you must go." That seems to me to be unhelpful, and I think a large number of people would argue that that is discriminatory, although of course it is very difficult for employers to say, "We are not asking you to go because you are 65, we are asking you to go because you cannot do the job any more." That is clearly a much bigger problem for employers. The second thing is that there is actually a little known, very valuable part of the state pension system that does offer quite a big return to people who defer claiming the state pension. For every year you defer claiming the state pension it will be 10% higher for the rest of your life. That is probably the best investment anybody can currently make, I would have thought, unless you are in poor health, and certainly for women. It could be made much more likely to be taken up. It is also something where you do not even have to do anything. You just do not claim the state pension and you automatically do not get it and it gets rolled up. I think few people understand the advantage of that. If you are worried about your future retirement income, if you have got the ability to work a few years later, perhaps 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. That is quite a strong encouragement for people to do that. The third thing is that as a Commission we did suggest that the Government might look at the employers' national insurance contribution system, but not have a complete free-for-all. We stop employee national insurance contributions when they reach state pension age but the employer contributions keep on. I think there are some people who think that it might not be very progressive to relieve employers of their employer national insurance contributions for those on very high salaries, but for people on lower incomes I think there is something there that could be looked at. Again, that is one of the ideas that has not been taken up so far from the Commission's report. I think the basic answer—and I do not know the details of how pension credit interacts with people carrying on working—in terms of your general point of is this a big issue, yes, I think it is and I think currently, despite the difficulties, 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.

Mr Curry: I would agree. It is a very important issue. It is certainly one where there has been less legislation and I think less is known than there has been in the other two areas which John identified that the Commission mentioned. I think there are a couple of things that are worth mentioning. One is that perhaps people have been lulled into a false sense of security by what has been happening in the recent past where trends have been for more people to work past pension age anyway. With hindsight, that is probably a combination of economic factors, of people being in health and wanting to work, and there being tight labour markets and therefore demand for people to carry on working. Whether that lasts or has lasted through the past few months and will last through the next few months is another question. What is potentially missing in this area is any real analysis or thought of what will happen naturally anyway. One of the big issues here is the ageing of the working age population as well. I think the Government Actuary's Department is projecting that the average age of people of working age will be going up to by between a year and two years in the next 50 years, and so it is likely with fewer younger and more older workers there will be employers wanting to continue to employ older workers anyway. I have not seen any analysis which looks at how this might work and what kind of improvements that might mean, not just people working past state pension age but also people in their 50s and early 60s carrying on working. I think you have to bear in mind that a lot of people do stop working before they even get to state pension age, so we want to keep them in the labour market before they even get to state pension age at that point. There needs to be more work done of what will happen naturally and then we can focus on whether or how much of an improvement there needs to be in employment rates in older ages in order to help people meet the type of replacement rates that John and his fellow Commissioners were proposing would be acceptable in the future.

Q58 Harry Cohen: You have already covered a number of areas where you think the Government should act and I was going to ask about that, but the one that comes to my mind is the need for part-time work. A lot of pensioners as they are getting older would want to do part-time work because we have a very long hours culture. Should there be particular tax incentives that go along with doing part-time work? Could that be brought into system or is it inherently very difficult to do? It would be unfair to those still doing full-time work for example. Could anything be done in that context?

Professor Hills: The system partly helps part-time work because you get a tax allowance and you are not paying national insurance contributions, so that if you are only doing part-time work you may not be paying very much tax at all, so in a sense there is already a little bit of that built into the system. If you had a specific different treatment of part-time work as opposed to full-time work, how do you then cope with the person who says, "I used to be paid £10 an hour and I did 40 hours but now I am paid £20 an hour and I do 20 hours so please give me more favourable treatment because I am now part-time." I am not quite sure how one would structure that.

Mr Curry: I think I would want to look very closely as to whether the issue is that people did not want to work part time or did want to work part time but there were no employers for them to work for. I suspect it might be the latter case rather than the former which means you might want to look at how you can encourage more employers to take on older workers working part time or arrange the workplace to fit in with the needs and requirements of workers rather than the other way round.

Q59 Harry Cohen: Do you think this is the sort of area where it would pay the Government to so some research?

Mr Curry: I think so.

Q60 Harry Cohen: My last point really, we have covered it on a number of reports, but I am thinking particularly of carers, predominantly women; should that, in your opinion, be more overtly recognised as work in this context and paid for? We have done a report on what benefits there should be for carers but how would that fit into this situation?

Professor Hills: I will hand over to Chris in a second, but clearly when you are thinking of people who are at most risk of going into retirement with very low incomes, and people who are unable to extend their working lives, for many, but not all, people in their 50s and 60s the reason for that is caring and many of those people are women. The level of income people get through their whole lives, but particularly in retirement when they have had caring responsibilities, is lower than that of the rest of society, so we are making a judgment as a society that people who are doing that work will as a result of it have a lower standard of living in retirement. It is clearly a very large issue.

Q61 Harry Cohen: I accept that and I think that is still a very relevant point, but the point I am making is that this is about age and pensioners carrying on working, so elderly people are still carers but we do not recognise them as carers. I am saying there would be a whole raft of jobs created, or work, if we recognised them as carers. Should we do that?

Mr Curry: I think in a way it is an extension of what we have just been talking about on working at older ages. What you are suggesting, and I think what is certainly true is that people over pension age are continuing to work, it is just not paid employment; it is either voluntary or caring work. I guess something that you would need to consider if you were looking to increase the amount of paid work over the pension age whether these people who are currently caring would then be in paid work or not. Whether you can try and match up caring responsibilities and payment for that and turn it into a job rather than something that people want to do to enable them to look after their families is a different matter, but I think the two things are very closely linked. If more people are working then less people are caring or vice versa, because one of the reasons for not working is because you are meeting some caring responsibilities, and maybe trying to find some way to enable people to do both would be a good way forward.

Harry Cohen: Thank you.

Q62 Chairman: Thank you both. We are very grateful for your expertise and experience backed up by solid research over many years which is really useful. You keep using phrases like "so far" and "unfinished business" so this debate is never going to end, is it, but despite expertise, experience and research, I am going to ask you to speculate. I am amazed that there has been no suggestion, hints, whatever, from business that maybe we should delay personal accounts because of the economic situation. Do you envisage anything on the horizon in that sphere?

Professor Hills: 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. They know the tax advantages of making employer contributions. Many of them make much more generous contributions than the minimum that is going to be required. 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.

Chairman: Thank you very much. It has been a very good session.

Wednesday 13 May 2009

Members present

Mr Terry Rooney, in the Chair

Miss Anne Begg
John Howell
Tom Levitt

Witnesses: **Mr Alan Barton,** Social Policy Officer (Older People's Benefits and Pensions, and Community Care), Citizens Advice Bureau, **Ms Sally West**, Policy Manager, and **Mr Mervyn Kohler,** Special Adviser, Age Concern and Help the Aged, gave evidence.

Q63 Chairman: Good morning and welcome to our second evidence session on our Tackling Pensioner Poverty inquiry, a particular welcome to our witnesses; it is good to see you all again—old friends. Last week we saw the household below average income statistics published and they showed essentially no change in pensioner poverty. What is your reaction to this?
Ms West: I think it is very disappointing that we have not seen any reduction in pensioner poverty this year. There was good progress in the first years of this decade, particularly in terms of poverty after housing costs where we saw a gradual reduction in pensioner poverty, then last year there was quite a substantial increase, and then the latest figures show very little change. On an after housing costs basis we have still got two million pensioners living in poverty, on a before housing costs basis it is 2.5 million, so I think it is disappointing that there are so many pensioners still in poverty.
Mr Barton: We would agree with that as well. The levels are still considerably higher than4 in 2004 and 2005, which is disappointing.

Q64 Chairman: You are much more used to analysing these things. Were there any structural issues within those statistics or anything that particularly stands out as to why there has been no improvement?
Ms West: I suppose it is because there has been no real change or increase in the benefits of older people. One of the things that was seen as a reason why there was a jump in poverty last year was because one of these one-off payments was paid the year before and it was not paid last year. That is showing that quite small amounts of additional income can make a real difference to older people, so just stopping a relatively modest one-off payment can mean that more people fall into poverty.
Mr Kohler: I think Sally is right there. The numbers of pensioners clustered around the 60% margin, which is the definition for poverty, is really very, very substantial, and 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.

Q65 Chairman: In that event there were a number of measures in the Budget. What was your response to those and are they going to be particularly helpful, marginally helpful or not?
Ms West: The one that we were really pleased to see was the increase in the capital limit for means-tested benefits so, as you know, from November, pensioners will be able to have £10,000 disregarded before it starts to bite into their benefits. We have had a lot of complaints about the current system for assessing assumed incomes, as I am sure you have, and particularly with interest rates so low people have felt really penalised for having very modest levels of savings, so I think that is a really welcome move which will both make the system fairer but also easier for administration because I think it is 88% of pensioners will not have their savings assessed because they have got less than £10,000, so that was good news.
Mr Kohler: Whilst that was good news, Chairman, the issue of fuel poverty was scarcely addressed in the Budget and that has been a particular concern of pensioners. I know it is only a relatively small part of your consideration of poverty as a whole but at a time when we are trying to bear down on fuel poverty, and when we are trying to combat climate change, it was particularly disappointing not to see measures in the Budget which would have speeded up that process and provided more resources for improving the quality of the housing stock in which too many of our pensioners actually live.

Q66 Chairman: I thought more money was announced for Warm Front?
Mr Kohler: The Warm Front budget has been flexed in a number of different ways.

Q67 Chairman: That sounds impolite, like you are saying something naughty!
Mr Kohler: What we are worried about on the Warm Front front is that although money has been brought forward into this year and next year, by the time we get into the last phase of the current round of spending Warm Front is going to be a pale shadow of its former self. It is going to be functioning on almost half the income that it was last year.
Ms West: But there were some welcome announcements just after the Budget on the maximum amounts for Warm Front which is something which has been a major problem among older people.
Mr Barton: We have certainly seen a big increase in the number of clients coming to CABs with fuel debt problems. In quarter four of 2008–09 it was 46% higher than it had been in the previous year so there is clearly a big issue here.

13 May 2009 Mr Alan Barton, Ms Sally West and Mr Mervyn Kohler

Q68 Chairman: Is that pensioners?
Mr Barton: We have not got it broken down by who they are—this is overall—but we know that a substantial proportion of them are pensioners. Ofgem pointed out in their report last October that pensioners are much less likely to have switched their fuel supplier than other people and so they are much more likely to be paying at high rates because they are still with their original electricity supplier who was in that area and they tend to be paying on standard credit terms rather than on the internet and monthly payments and that kind of thing. So fuel costs really are a big issue for pensioners.

Q69 Chairman: Does CAB give them advice on how they can reduce their fuel bills without much hassle?
Mr Barton: We do not help them to do the switching but we certainly give advice about all the schemes, the Warm Front schemes and the schemes run by individual fuel companies who provide help with home insulation and that kind of thing, yes.

Q70 Chairman: Is there any organisation that you can refer them to that can step up that activity?
Mr Barton: Yes, we can refer them to Warm Front to have a survey done of what can be done.

Q71 Chairman: I understand that. I am talking about actually reducing the amount of money they are paying in their current circumstances.
Mr Barton: Yes, we would discuss that with them.

Q72 Chairman: But you said for instance you do not do switching. What I am asking you is whether there is an organisation that you can pass them on to who can help them with switching?
Mr Barton: There are organisations, yes. I do not have the names of them in my head, I am afraid, but we would refer people in that way, yes.

Q73 Chairman: One of the constant themes that comes up in this inquiry is access to information and the availability of it and what I am trying to drill down to is if this is a real problem and if it is not obvious where people can go to for advice is that something that the Government should actually be looking at?
Mr Kohler: I think you have cottoned on there to exactly the point, Chairman. There is a paucity of information. 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.

Q74 Chairman: Right. Just going back to those measures that were taken in the Budget, and I do not know what the projected cost of those was, do you think that was the right way to spend whatever money was available or were there other measures that you would rather have seen take place? I know that Age Concern has particularly welcomed the £10,000 but would there have been a better way or is that the best thing that could have been done in those circumstances?
Ms West: I suppose it is always difficult trying to think whether one group of disadvantaged older people should get precedence over another. That was a welcome one because it picked up something that was causing real problems at the time, and that was the people that have saved and maybe got £12,000 or £13,000 savings, very modest levels of the saving which are their life savings and their comfort and support in retirement, and were having to dip into that money because they were being charged very high levels of tariff income. I am sure we could probably come up with a list of others.

Q75 Chairman: I understand what you are saying but people who save for retirement presumably intend to spend those savings in retirement. They might not want to pay it by losing out on benefit but it has always seemed an oddity to me that people complain that they have savings for retirement they are having to spend. Presumably that is the intention of savings for retirement?
Ms West: People are thinking about the length of their retirement and, if you are 65 and all you have got is £12,000 savings, you are not going to want to be spending all that money on high bills in the first couple of years of your retirement. It is always difficult to know how to run down your savings but we are not talking about people with very high amounts of saving who would be way above the benefit system under any assessment. 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.

Q76 Chairman: Finally from me, are you aware of any publicity or advertising that Pension, Disability and Carers Service is doing about those changes in the Budget to do with pension credit eligibility?
Ms West: We have been contacted by the DWP to see whether we could work together to ensure that people—

Q77 Chairman: So if they do not know what to do they will come to you for ideas, is that what you are saying? They are looking to you for your expertise?
Ms West: I think they would say they want to work in partnership.
Mr Barton: I think we would welcome that because as well as the people who are already on pension credit who will be receiving a bit more, there will be

some people who actually come into eligibility as a result of the changes and I think we will be wanting to have discussions with them about how they are going to try to identify those people and make them aware of this.

Q78 Chairman: Anne has some questions on take-up and I do not want to tread on her toes.
Mr Barton: Can I mention one other thing, Chairman. One of the other things in the Budget was that there was going to be a further tax back campaign to ensure that pensioners who should not be paying tax on their savings income are aware of this. The HMRC has done this of course a few times before but we do not think that has been terrifically successful. We understand that the PDCS is planning to write to all pension credit recipients drawing attention to this, which will be quite a costly exercise. We do see scope for PDCS and HMRC and voluntary agencies and local authorities to have further discussions about how to have as effective a campaign as possible on that, so that is something we would like to see.

Q79 Chairman: I understand what you are saying but, frankly, would this not be better done by the savings institutions and to deal with it by taxation at source?
Mr Barton: We think they should be involved in the discussions, yes. There are various organisations that have information that could be useful in this and it seems to us that rather than just one of them rushing off and doing something it would be best if all met together and tried to thrash out what the best way to do it is and how information could best be used. Obviously the banks have a part to play in it.
Ms West: It is a very good point because in the past when we have been working with different organisations and also with the HMRC on the tax back issues, 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.

Q80 Miss Begg: As the Chairman says, I want to draw down the figures on exactly where the poverty line lies with regard to pensioners but before I do that could I just ask another question. On the basic guaranteed element of pension credit the poorest pensioners still get almost twice as much as those who are on JSA, for instance, and for somebody who is on JSA and retires their income almost doubles overnight. If you are a carer your income is less than a pensioner's, if you are disabled your income is less than a pensioner's, so there are lots of groups who are on benefit and depending on benefit who are in a worse state than pensioners. If the Government has got a finite amount of money to spend and it is looking at raising poverty levels would it not be better spending it on these other groups rather than giving more to pensioners? I know you are probably going to say no but give me a rationale for that.
Mr Kohler: There is no rationale, is there? These things have been posted as benchmarks at different times in history and moved according to the availability of money or the index of inflation, or something of that nature. Yes, there are plenty of groups in our society who are poor and we ought to be worrying about them, but the HBAI last week pointed out that single pensioners living alone are the group most at risk of being in poverty. We often hear from ministers about their achievements in reducing pensioner poverty but there still remains a problem amongst that particular part of our pensioner population.

Q81 Miss Begg: Can I take you up on that because that contradicts the briefing I have got here. If the poverty line is 60% of median income that makes the poverty line for a single person £115, but the guaranteed credit is £130 which puts single pensioners above that, whereas with pensioner couples the poverty line at 60% of the median is £199 but the pension credit guarantee is only £198 so it puts them below. On everything I have got the people who have benefited most in terms of the reforms from the Government are actually single pensioners where the proportion of single pensioners on household below average income has halved over the last decade. For pensioner couples while it started at a lower level it has not come down nearly as much. You are saying that single pensioners are more likely to live in poverty but that does not seem to be borne out in the raw statistics, so explain that please.
Mr Kohler: I chose my words carefully—single pensioners living alone. I think the apparent contradiction lies in the fact that an awful lot of that group do not claim their benefits. If they did claim their benefits then there would be a significant number who found themselves moving out of poverty, but it is our old problem with take-up here.

Q82 Miss Begg: One of the problems is that a lot of the uncertainty about the level of pensioner poverty is because the figures are based on survey data rather than actual figures, and that was certainly borne out when we went out to Cambridge and we met a group of the older pensioner cohort where many of them did not know what their income was and they did not know what they were claiming. If they were widows, their husband had been the one that had done all the financial things in the house, then a daughter or son had taken over, so they were not sure whether they were on pension credit or what level of benefit. If they had been asked as part of the survey what kind of level or whether they are claiming, you would not get an accurate picture.
Ms West: Mervyn mentioned take-up and we will probably come back to take-up quite a bit. It is such an important point and I think poverty among pensioners would be reduced by about a third if

everybody claimed all the benefits to which they were entitled. As Mervyn said, a lot of the single people would be the ones who are missing out.

Q83 Miss Begg: The other thing you could maybe clarify for me, the figure I quoted in terms of the guaranteed element of pension credit and the income, that does not include all the add-ons that pensioners get. I am thinking of the winter fuel payment, and that is where single pensioners do better because they are getting the same as a pensioner couple because it is per household, the free TV licence, Warm Front, which we have talked about and it is called something different in Scotland (I was going to ask you about differentials between Scotland and other places but I will come back to that), and the free bus fares that pensioners now get. Are they included when you are talking about pensioner poverty because there are sources of income that pensioners have that lie outwith the basic pension guarantee?
Ms West: I think the income figures on which the poverty figures are based would include things such as the winter fuel payment. I am not sure that they can take into account things like free bus passes because of course some people would use it and some people would not. You are also raising the very interesting issue about how you treat single people and couples and I think you had a discussion about that with John Hills and Chris Curry, your previous witnesses. One point I would say on that is that the figures that you quote, the £115 and £199, are the most recent poverty figures but they are 2007–08 figures. I think I am right saying the comparison should be the 2007–08 guaranteed credit rather than the current £130. I think it is also very interesting as to whether the balance in the different measures is right, and this is the equivalence scales discussion that I think you had before. The poverty figures suggest that a single person needs 58% of the income of a couple. The couple is the benchmark for the poverty figures, and then they are reduced for a single person or increased if there are other people in the household, so the relative balance is that the single person's poverty threshold is 58% of the couple's. 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.

Q84 Miss Begg: What I am wondering then is, because we are looking at household incomes, we are looking at couple incomes, the cohort of pensioners, particularly the cohort of older pensioners who will have had a much more traditional working life where the wife stays at home and does not get national insurance contributions because it was before we brought in things like the home responsibilities payment and all of those kinds of things and is therefore dependent, even once she is widowed, on the husband's pension and the husband's contributions, as a result as a couple they are obviously much poorer. Will the reforms that have gone through Parliament in recent years where more and more women will have those contributions in their own right, so a pensioner couple will become two single pensioners effectively in terms of their income, shift the poverty figures in any dramatic way or have we still got a lot of years to go before we start to see that working its way through the system?
Ms West: You would expect in the future if more women are having more comparable incomes to men that you would have reductions in the poverty level in couples. I think we have got quite a long way to go because, as you know, the changes to state pensions coming in next year that make a much fairer system will only apply to people reaching state pension age from that date onwards. Even though in the future state pension incomes will be much more equal, women still have lower earnings and they will have lower private pensions. So I think things are moving in the right direction but, as you say, it will still be a long time before you get a much more equal system overall.

Q85 Miss Begg: Is there something you think the Government should be doing in the short term to help smooth out these differences between the single pensioner and pensioner couple?
Ms West: We have always argued that the very welcome state pension reforms should apply to people who are already over state pension age so that women now who are getting a small pension who would have benefited from the 30 years rule or the additional carer payment should also receive the same amount as people who reach the state pension age from 6 April 2010 onwards. That has always been rejected by the Government on the grounds of cost but we know that many older women will feel that it is unfair.

Q86 Miss Begg: Again would it actually reflect in costs because many of those people are eligible, even if they are not claiming the guaranteed pension credit anyway—and I will come back to take-up in a minute—so is it not just a different hand they are getting the same money from?
Ms West: Some people would have a reduction in benefits. Other people would be taken over the benefit line, particularly the people with quite modest levels of private pensions who are the ones who feel that they are very little better off or no better off for having saved. I think that group would really be helped.

Q87 Miss Begg: I said that I was going to come back to the differential perhaps between different parts of the UK with regard to the fact that not all pension policy is in the hands of Westminster. Things like Warm Front and the fuel poverty measures are devolved to Scotland. Have you got separate figures for pensioner poverty in Scotland taking into

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account the different policy objectives of the Scottish Government as opposed to England, and whether there are different measures that have been taken north and south of the border? I am not so sure of Wales obviously but have you got anything that would suggest that the figures are any better or any worse?
Mr Kohler: Those figures are extractable from the households below average income series. Just to give you a flavour, the number of pensioners in poverty after housing costs in the UK is 18%; Scotland is 16%; Wales is 19%; Northern Ireland is 20%. And the same is true on the BHC scale at a slightly levered up set of numbers, obviously[1].

Q88 Miss Begg: But you do not know whether that is just in general income terms or whether it is any measures that have come through the Scottish Parliament?
Mr Kohler: As Sally said earlier on, things that the Family Resources Survey can measure like the winter fuel payment and things like that do get taken into account but you just cannot put a price on free health care or personal care in Scotland or on the value of bus passes and things of that nature but I think it is interesting that even on the headline figures Scotland does appear to be doing marginally better than other parts of the United Kingdom.

Q89 Chairman: I had another question in my head on that but I cannot remember what it was. I will go on to take-up which we said we would. It would appear from all the take-up figures that housing benefit is the best is terms of take-up and the guaranteed pension credit is second best in terms of percentage of take-up but council tax benefit and the savings credit score very poorly. Is that the same cohort of pensioners, the ones who would possibly qualify for council tax benefit and savings credit, in other words, the slightly better off who own their own houses who have never qualified for anything in the past and therefore do not realise that they now do qualify for something?
Ms West: I think that is one of the reasons because the 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.

Q90 Miss Begg: Is that group also much more reluctant to disclose their income and their savings than those who will be entitled to housing benefit and the guaranteed credit, because I suspect that if they are entitled to housing benefit once they are a pensioner they were possibly entitled to housing benefit before they retired and they have just carried that through, so they have got a history in declaring what their income is in order to claim benefit?
Ms West: I am not sure that we have got any clear evidence but it sounds like that is likely to be a reason. Also if you have not been involved in the system it may be not quite as bad as you think to claim benefits. We do know that although some people struggle with the benefits system, quite a lot of older people claim their pension credit by telephone and are quite surprised that it was a relatively straightforward procedure.

Q91 Miss Begg: Is that still the myth because I think we picked up in some of our visits that some pensioners think that it is going to be complicated because other people say it is complicated. I had a pensioner saying to me when we went to the slightly younger pensioner group, "It is just so complicated, you get this huge form." I said, "No, you can do it over the phone," "Oh no, you get this huge form and it is so complicated you couldn't do it."
Mr Kohler: I think you are absolutely right there and credit where credit is due, the Government has actually made the process of claiming a great deal smoother and of course the automatic transfer of data now from claiming pension credit through to claiming council tax benefit and things like that is a step forward as well. It is a pity the flow does not go the other way.

Q92 Miss Begg: It does not work the other way of course.
Mr Kohler: That is true. I think you have raised an interesting philosophical point. A lot of pensioners do not use the buses because they did not like them the last time they used them, which was about 20 years ago, and they do not realise that buses have probably got a bit better even if bus drivers have got worse!

Q93 Miss Begg: To be fair to the bus drivers of Aberdeen, they are not too bad.
Mr Kohler: Sorry, let us not go there. I do think that we have a long haul task here trying to encourage our pensioner population to claim the benefits that are out there for them. The benefits system is complex, the forms may be getting easier and some of the processes are getting easier, but we have still got a huge awareness issue to try and tackle there as a matter of public concern.
Mr Barton: In relation to council tax benefit, I think there is this group of owner-occupiers who are either not claiming or may not even be eligible for pension credit because their income is just that bit too high who do not see themselves as people who ought to be claiming benefits. We have suggested in our evidence 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 older people if the council tax benefit was called a rebate rather than a benefit because there is a stigma about benefits in people's

[1] *Note by Witness*: A longer answer could have explained that for the analysis by country within the UK, a three-year average figure is used (05/06-07/08). The UK figures for comparison are 18% (AHC) and 22% (BHC) and:

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minds. Also some responsibility should be placed upon the local authorities to identify who the people who might qualify for this rebate would be.

Q94 Miss Begg: That is a problem, that the flow of information does not go from the council to the DWP, only from the DWP to the council?
Mr Barton: Even within councils, obviously there are data protection issues, they have quite a lot of information about their population. They know who is over 70 because of the electoral roll. They know a very high proportion of the people who are over 60 because they have applied for bus passes.

Q95 Miss Begg: They also must have other information in terms of care costs so they must have already done some assessment for some people in order to decide how much care they are going to get as well.
Mr Barton: Yes for the people who are using care services that would be true.

Q96 Miss Begg: Obviously we are coming on to that later on.
Mr Barton: Generally of course there will have been a financial assessment for the care services and one would hope that when that is done that the people who do it look at whether the person has actually maximised their income by claiming what they are entitled to anyway.

Q97 Miss Begg: So is there anything else the Government should be doing in terms of encouraging more take-up?
Ms West: To pick up on the point you are making about the flow of information, I think there are two changes that could be made. 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. There seems to be no reason why if you go into the system in one place you can get all your benefits worked out but if you go into the system through the local authority you would then have to make a completely fresh claim for pension credit.

Q98 Miss Begg: In my list of underclaiming it could be the same person who is not claiming housing benefit so therefore is not claiming council tax rebate so therefore is not claiming pension credit. Those who may have been in the system before they retired will possibly be getting everything, is that a fair assumption, or likely to be getting everything, but those whose income is dropping in retirement and have never been in the system before, they are the ones that are probably in that bulge not claiming? Have I summed it up correctly?
Ms West: If you are in the system in one place you are more likely be in the system elsewhere, but not necessarily. I suppose that feels to us quite easy, although the DWP would probably disagree with me on that, but it seems possible to be linking up all the information. Also the other thing that we would look to see is people being able to claim housing benefit and council tax benefit through a single telephone line. At present, if you claim pension credit through the telephone line they will also take the details for your housing benefit and council tax benefit claim, but if you do not want to claim pension credit, or you know that you are not entitled to it or even as you are going through the phone call they are saying, "It does not look like you will be entitled to pension credit," you are likely to be told, "But go to the local authority because you might get help with your council tax and housing benefit." We would like to be able to promote a single telephone line and say, "If you think you might be entitled to pension credit, housing benefit or council tax benefit here is one number that you can ring," rather than having to give the message, "Here is the number for pension credit and if you can claim pension credit also housing benefit and council tax benefit." Again that seems to be something that could be done within the current system.
Mr Kohler: Benefits remain the Government's answer to the whole problem of pensioner poverty but you heard from the Pensions Policy Institute last month that doing the projections going forward, even by 2050, we are still going to be looking at 35 or 40% of our pensioner population who will be dependent on pension credit, so we have got an on-going uphill task here to actually help get people into the system, as Sally is describing. Things like the issue of automatic payment of benefits, which I guess you will probably come to later, are again a modest beginning which we would applaud but we want to see more interventions. You said what more can be done. Let us see if we can actually make the whole business of a benefit entitlement check something which becomes the norm and happens at different stages in your life or every five years or something of that nature.

Q99 Miss Begg: That might take some of the stigma away from those who are very reluctant to claim benefit?
Mr Kohler: Absolutely, if it did become something that everybody did you could chat about it in the pub and compare notes and get a lot wiser about the whole system.

Q100 Miss Begg: I have just remembered the question I was going to ask before I went on to take-up. In the Budget it said that the increase to pension credit would be tagged at 2.4% regardless of whether inflation had dropped. Obviously part of the reason why the pensioner poverty figures have got worse is because inflation was higher than projected last year but it is projected to possibly be lower this year. If you are saying it is often marginal whether people are on one side or the other of the poverty line, will the fact that we are guaranteed that it is going to go up by 2.4% next year help in terms of the figures which seem to have got worse?

Mr Kohler: Figures year-by-year can actually throw up strange wrinkles. Work that the IFS and Age Concern have been publishing in the last year shows that actually over a 20-year period the Retail Price Index and the way in which benefits for pensioners have gone has been roughly the same but in any one year or another there can be wild fluctuations, and undoubtedly in the last couple of years, with the absolutely enormous increases we have seen in fuel and consequentially on food and things like that, have been particularly bad news for pensioners.
Miss Begg: I am not sure if one of my colleagues has got a question on it they will stop me but I have a question on the reclaiming of tax for pensioners where they have overpaid tax. I had an example from my own constituency where a lady—
Chairman: We have just done that.

Q101 Miss Begg: It is slightly more than what the Chairman said. The lady got in touch with me because she thought it was a 10 pence tax and she was getting absolutely walloped when it was abolished. On a very brief look at her pensions she should not have been paying tax at all because she was even below the old threshold far less the increased threshold. It turns out—and this is part of the education of the women—she had been paying tax on her husband's occupational pension for the past 20-odd years when she should not have been and she did not know. She got money back but it only went back six or eight years. It was a reasonable amount of money she got back and if it had not been for the publicity about the 10 pence tax she would never even have questioned it. I wonder whether there has been any work done with regard to again particularly women pensioners who have just inherited a pension from their husband, have not understood what is going on, have never had a tax return done because you do not, and they are actually paying tax they should not be because it is being deducted at source?
Ms West: There are a lot of problems with the interaction between the different systems. This is a different issue from the tax back work which is about overpaid tax on savings.

Q102 Miss Begg: This was actually on income because it was a local government pension that her husband got and they were automatically taking the tax off.
Ms West: Both Alan and I are active in the Low Incomes Tax Reform Group and there is a linked organisation called Tax Help for Older People which deals with masses of enquiries from older people where there are problems with the tax system. I think it partly goes back to something I was going to say a little bit earlier about the different government departments working together, so in terms of take-up I would like to see other departments, particularly the Department of Health, thinking that increasing people's income was a very good way of increasing people's health and well-being, and being more actively involved in that. I think there is a good case for much closer working between HMRC and DWP because a lot of the customers, if you like, are shared individuals and that if people were not just looking at the tax or the benefits or the health but looking in a more holistic way we could start to sort out some of those issues with people who are known to the DWP and known to HMRC but who are not necessarily getting the right income or paying the right amount of tax.
Mr Barton: Historically HMRC has found it quite difficult to get the tax right for pensioners because they often have more than one source of pension income and the PAYE system works on the basis of the employer. They are changing the way they do all this but it gets into difficulty because it does not know that this person is getting income from several sources. Of course there is also a problem that the state retirement pension is taxable but not taxed, which works all right for people like myself with one occupational pension because they just take the tax due from your state pension off your occupational pension. However, if you have got several occupational pensions there are issues. Also if your state pension takes you to a taxable level, which is an issue for women aged up to 64 because they do not have the higher tax allowance and it can be an issue for men because some SERPS people are now getting quite big state pensions, DWP has no mechanism to deduct tax from that and so people whose only taxable income is their state pension have to go into self-assessment, which is a bit of a nonsense really and it can cause problems for their pension credit as well because they are paying tax retrospectively and it is their net pension income that should be taken into account for their pension credit not the gross.
Miss Begg: That just adds complexity to a system. Again these will be people on quite marginal incomes, marginal either side of the poverty line, and it might make all the difference.
Chairman: Just two quick observations. Groups of people get extremely exercised about government departments sharing information and it has caused one or two other difficulties, but we will not go into that. A couple of weeks ago I was with my electoral registration office on something completely different and they were absolutely adamant that nobody anywhere is going to get access to their information, they do not care what it is for or if it is to anybody's benefit, they are just not going to get it. If that is the common attitude then even if you get over the sensitivity hurdle, there is a problem. I must pick you up, Mervyn, yet again on the PPI because they do say that is subject to a high variety of variables and it actually might be as low as 15%. It also assumes there are still recessive benefits in 2050. Sadly, we will not be here to know! Tom Levitt?

Q103 Tom Levitt: I am going to ask a couple of questions on pension credit and I would like to direct the first couple to CAB. You have proposed in your submission that people who are not on the full basic state pension should get savings credit as though they were. Can you tell us more about that idea and how much it would cost and how many people would benefit from it if that was implemented?

Mr Barton: This is something we suggested at the time when we gave evidence when pension credit had just come in. We suggested it because it seems quite unfair that people who have saved into a private pension or occupational pension but have got a low level of basic state pension effectively lose the value of that occupational pension pound for pound in the calculations that are done for their pension credit. Of course the whole purpose of savings credit is to give some reward to people who have actually made their own arrangements to have some pension income. That is the rationale behind it. We are not geared up to do analytical work on numbers. I would think that the numbers involved would really be pretty small and consequently the costs would be pretty small. They would certainly be completely dwarfed by the extra costs of improving take-up generally of pension credit.

Q104 Tom Levitt: Thank you. You also suggested that pension credit recipients should be automatically eligible for housing benefit and council tax benefit across the board, subject to the usual calculations, but not to the £16,000 savings limit. Why do you differentiate between those?
Mr Barton: There are one or two areas where there is a distinction between the treatment of people who are just receiving savings credit and the treatment of people who are receiving guaranteed credit or guaranteed credit and savings credit which seems to us to introduce an unnecessary complication into the system. The particular one you have drawn attention to is that if you are only getting savings credit you cannot get any housing benefit or council tax benefit if your savings are over £16,000. This means that there is a cliff edge at £16,000. If you are in this situation and you have got £15,999 of savings then you can get housing benefit and council tax benefit, subject to the calculation including the tariff income aspect. If you have got £16,001 of savings you do not get any housing benefit or council tax benefit at all. It seems to us that these sort of cliff edges in themselves are undesirable and that there is not really any great rationale for it. If you are on guaranteed credit you obviously get full housing benefit and council tax benefit anyway, but you could have very, very substantial savings and providing they are not great enough to stop you getting guaranteed credit you would still be eligible for housing benefit and council tax benefit. There are some other areas where there is a problem that savings credit is treated differently to guaranteed credit. The main one is in relation to being exempted from health charges.

Q105 Tom Levitt: You use the phrase "unnecessary limits" in there, but surely having capital limits—and I accept that at any cut-off point you are going to get that edge effect you describe, that would happen at any level—means that the system is focused on those with the least resources and is that not the right thing to be doing?
Mr Barton: I think the tariff income is the mechanism to deal with that issue and by not having a capital limit in guaranteed credit it seems that it has been conceded that it is not appropriate for pension credit recipients to be subject to a capital limit in housing benefit and council tax benefit, so I do not think there is any point of principle involved in what we are suggesting.

Q106 Tom Levitt: Would either of the others like to comment?
Ms West: We have also argued that the savings should be treated in the same way for housing benefit and council tax benefit as they are for pension credit, so that is with no capital limit but taking into account the tariff income. Even with the increase in tariff income from £6,000 to £10,000, by the time somebody has got, say, £16,000 or £20,000 in savings you have got quite a high level of income assumed from your savings, far more than you would actually be receiving so it does taper off fairly steeply.

Q107 Tom Levitt: Coming back to pension credit and take-up, as you know, there are pilots going to be taking place or rather research going to be taking place on the feasibility of making pension credit take-up automatic. Is that going to help solve the problem of low take-up of pension credit?
Mr Kohler: We would all sincerely hope so. Obviously, as you say, it is a pilot at the moment and the DWP are going to be discovering the difficulties with it as time goes on, but this has got to be the right way forward. We have got to use the data that exists to try and identify better the people who are entitled to this miasma of different benefits that we have got. You have two choices: you can either simplify the benefits system (please!) or make the whole thing easier to claim and more automatic to claim.
Ms West: We are really pleased that the DWP are going to start piloting different ways of making the system more automatic. The ideal would be that everybody would receive the benefits that they are entitled to based on the information that is there. 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.

Q108 Tom Levitt: Research suggests that about one in nine of those who do not claim pension credit have actually chosen not to claim it. Is there evidence that those are the people with least to gain from claiming it and therefore those least likely to benefit from automaticity?
Ms West: I think it is interesting to see what is meant by "chosen not to claim". If you said to people, "We are just going to increase your state pension by £20; would you like us to or not?" I suspect that most of those people would say, yes, that is fine. The fact that people are telling the Pension Service staff that they do not want to have an assessment and they do not want help filling in the forms might reflect some of the things that we talked about earlier, that people are thinking that it is too much trouble, they do not want to give personal details, or 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. I fully accept that there are people who say to the Pension Service, "Don't visit me, don't ring me, don't send me any more letters," but it may be the reason is not because they do not want additional money onto their weekly income but that they have other reasons to suggest that they do not want to pursue any claims.

Mr Kohler: I think amongst that cohort 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," without realising that pension credit is a passport to all sorts of other benefits and that those sorts of things can stack up. Again, it is the inter-relationships between parts of our benefit system which the public just do not understand. You actually need a university degree to understand it.

Mr Barton: It is also important to remember the people who would benefit who would be pleased that they were benefiting from this because 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.

Q109 Chairman: I have been to a number of Age Concern centres and spoken to them and it is a very common pattern, they all say that in terms of helping people to get what they are entitled to, less than 5% of enquiries come from the individual themselves. About half come from other family members and the rest come from postmen or milkmen, social workers, health visitors, which to me suggests that people are willing to claim if it is done through the right channels. You would probably say yes but if the Government gave a wedge of money to Age Concern and Help the Aged, do you think you could make a real difference on this? Is there a resource issue for you to be able to maximise that take-up?

Ms West: We would certainly like to have a go, yes. There is an issue about going to independent organisations. Actually a lot of people that come to our local organisations and get help with pension credit claims or attendance allowance claims do not come in and say, "Can you help me fill in this pension credit form," or, "Can you help me claim attendance allowance; I think I am entitled to the middle rate." People come in and say, "I have got a problem with my neighbour," or, "I am worried about my fuel bill," or, "There is a leak in my roof," so they come in because of something that is causing them a particular problem at the time, and then the adviser will talk about that issue and then just explore other issues and say, "Well, actually, yes, I am afraid you have got to pay that fuel bill, that is correct, however have you thought that there might be some extra weekly entitlement?" One of the big differences that an independent local voluntary organisation can make is they can look at all aspects of somebody's life and there is also the independence issue.

Q110 Chairman: I understand that but what your information officers say to me is that when they get, from whatever source, a name and a number that says this person might need some help, when they ring them up in about 90% of cases where there appears to be an entitlement to pension credit, when your people say to that individual, "Can I get somebody from the Pension Service to ring you?" they say yes, whereas the evidence we get from the DWP is that there is a huge number of people who are entitled who they have contacted who say, "Go away, I don't want to know, leave me alone." There seems to be a mismatch there.

Ms West: 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. As you know, we work with the Pension, Disability and Carers Service quite a bit and we are certainly talking about ways in which we can work more closely together, and 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.

Q111 Miss Begg: Just what the Chairman is saying, the fact that if I say to a constituent it might be worth you sitting down with somebody from the Pension Service they will accept it but they probably will have rejected the calls. There is also a very widespread feeling that if you get pension credit you do not qualify for housing benefit, so that may be one of the main barriers. You did mention the Pension Service and it used to get plaudits when it was the Pension Service. It is now the Pension, Disability and Carers Service and I notice from the submissions that CAB is particularly critical of the service that it provides. Is it improving? Is it getting better? What are the main problems still?

Mr Barton: We welcomed the establishment of the Pension Service because we thought that an organisation that actually focuses on that group of customers and seeks to maximise their take-up of benefits is highly desirable. If you look at the business model of pension centres but a local Pension Service for the people who need face-to-face contact, that seemed to work quite well, particularly once they had got themselves going. I think it was during 2008 we did see more bureaux saying that they were having problems dealing with the pension centres. These were problems to do with where there are complications in claims or changes in people's circumstances where there are really quite lengthy delays occurring, it being quite difficult to get through to somebody at the pension centre who can actually deal with the enquiry because the first person you speak to does not have the detailed knowledge and advisers were complaining of spending 20 minutes before they got through to somebody who could actually deal with the problem, or quite often not being able to get through at all and being told there would be a call back, quite a high incidence of call-backs then not being received, and also problems of individuals and advisers being assured that the issue was being dealt with and would be sorted out in a few days, and we have seen cases where the same thing has been said for over six months and the issue is still not sorted out. We are a bit concerned particularly below the level of the headline target processing times. They have a processing time for new claims of 15 working days and there was a PQ earlier this year that showed that throughout 2008 nationally that target had been met, but of course that is an average and so that means there are quite a lot of people—and there is quite a long tail on those cases—of people really waiting a long time for their pension credit claims to be dealt with. It was a bit worrying that across the different centres the performance was really quite variable and some were consistently doing better than the target and some were consistently doing worse than the target.

Q112 Miss Begg: How much of that was teething problems of bringing in a new service?
Mr Barton: No, this was in 2008, so it was not a teething problem, I think.

Q113 Miss Begg: So it should have settled down?
Mr Barton: What was slightly worrying was that they nationally missed the target in January and February (I have not seen any figures later than that) though not by much. We know that the PDCS is under pressure to reduce its staffing numbers continually. They have recently announced that the Stockport Pension Centre is going to be closed and the staff transferred to Jobcentre Plus, so it looks as though the management are under constant pressure to get the numbers down, which means that the worry is that they work on a good enough service, they worry about the new claims target which is monitored and is quite public, that once you get into having a complicated case there are problems and 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.

Q114 Miss Begg: So the same body can do better elsewhere, you are saying?
Mr Barton: It is a different structure, of course, because they are more centralised on the disability benefits. It is a different situation because Jobcentre Plus, obviously, is a more disseminated service, but again it is organised locally. Bureaux do have escalation numbers so that if there is a particular problem on a case that does not seem to be getting dealt with properly it can be taken up with somebody more senior.

Q115 Miss Begg: That is a recommendation, is it, that for more complex cases there should be a fast track for advisers?
Mr Barton: Yes.

Q116 Miss Begg: Is that the feeling of the others?
Ms West: I think so. A lot of straightforward cases go through easily but there continues to be a problem with the more complicated cases.

Q117 Miss Begg: There is the training of staff as well that is obviously crucial from what you are saying, that they just do not have enough staff on the more complex cases, but the front line on the simple cases is okay?
Ms West: It does not appear that the more complex case can get quickly transferred to more experienced staff, and then there are all the continuing issues about carers' additions and the overlapping benefits, which you know very well so you probably do not want to go over that again, but that issue continues, and making sure that people get their severe disability additions.

Q118 Miss Begg: So those are the cases that at the moment are being failed by the Pension Service, the more complex cases?
Mr Barton: Yes. One interesting group we have had a problem with is men in their early sixties who are made redundant because they can claim pension credit, of course, but generally there is a 15 working day timing for dealing with cases, which is slower than Jobcentre Plus's targets, I guess because the thinking is that generally people who are claiming pension credit have already got a pension, but these people may be eligible for £200 a week pension credit and if their case is one that turns out to be a bit slow, we have seen cases of people waiting months and months to get anything.
Mr Kohler: I think there is a systemic problem too with the service which relies principally on the telephone as a way of communicating with people. You can ask questions over the telephone from a checklist about income and expenditure and things like that but you cannot begin to form a judgment about whether that person may be entitled to attendance allowance or they are a carer.

Q119 Miss Begg: Especially when carers do not always self-identify.
Mr Kohler: Indeed, absolutely. As I say, it is a systemic problem. I am not bringing up these matters as a hard criticism of the way the PDCS works. It just seems to me rather a tragedy that we do see people who drop through the holes in the net.

Q120 Miss Begg: So basically you are looking for some early signposting that this is likely to be a more complex case and should be handed on to the people who can deal with it at an earlier stage?

Mr Kohler: Yes, and I think that was where the Chairman was talking about people acting on the advice and with the support of colleagues, friends, neighbours and things like that. Often it probably does take a prompt from somebody external saying, "Do you realise that you are probably providing about 30 hours' worth of care for your husband/wife/elderly aunt", or whatever. "Why do you not look at what is available in the carers' system?".

Q121 Chairman: Can I pick you up on the CAB submission because in many ways you were fairly scathing about PDCS, but, of course, CAB, like MPs, always sees the people when the system has not worked. Nobody ever comes in and says, "I made an application, I got it in nine days". Would you be able to supply the Committee with some numbers of people that you have seen that have had these problems?
Mr Barton: We will see what we can come up with, yes. We can certainly give you individual case examples as well.[2]

Q122 John Howell: I want to pick up on the council tax and housing benefit on the local government side that we have touched on briefly. We have three different benefits—council tax, housing benefit and pension credit. We have problems with take-up with all three. Is it the same problem with the same group of people with all three? I am trying to get a feel for how separate those problems are and how much they overlap in terms of the individuals.
Mr Kohler: Housing benefit is obviously slightly different, because clearly you have got to be a tenant and the great majority of the older population are outright home owners, so you are dealing with a different-ish problem there. By and large, however, I think it is fair to say that the people who are entitled to pension credit would certainly find themselves entitled to council tax benefit. There will be people, of course, who are entitled to council tax benefit who do not qualify for pension credit, so it is that sort of balance that you have in a relationship between them.
Ms West: These are some of the issues we were talking about earlier, that some of the people who are missing out on council tax benefit will be the home owners who perhaps have incomes slightly too high for pension credit or maybe a little bit of savings credit. I do not think any of our organisations have got any statistics on this but I think it is something the DWP analysts ought to be able to provide for you, to look at where the overlap is. As we talked about earlier, we know there are some people getting one benefit who are missing out on others. 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, but I suppose the question then is the way you reach people.

Q123 John Howell: Exactly. That is precisely where I am going on that. If you know what the overlap is and what the characteristics are or whether there are none it changes the practicalities of the way in which you can reach those groups and how quickly.
Ms West: I think it is an interesting issue and perhaps one that we should be talking to DWP more about in terms of looking at where we put the take-up work. There is certainly some work that is going on within the Pension Service to try to contact people who are, for example, receiving pension credit but not housing benefit and council tax benefit, and some of those may be living with family and not entitled to it, so there have been some exercises where they will be contacting people indicating that maybe they should be claiming council tax benefit, and sometimes a little bit the other way round. Some local authorities will be trying to target help at their pensioners who are getting housing benefit or council tax benefit who look like they should be getting pension credit but, as we said earlier, these things ought to be working more automatically. Local authorities, DWP and organisations like ours ought to be concentrating on the people out of the system because if the system was working better at joining up we could focus more on the people who are, as we said earlier, not receiving anything.

Q124 John Howell: The National Audit Office seems to believe that by concentrating more on council tax and housing benefit we could take more pensioners out of poverty rather than that they be on pension credit. Have we put too much emphasis on pension credit?
Ms West: I think one of the positive things is that you might get people a bit more prepared to come forward because 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 because if you could ring a number to check your entitlement with council tax benefit and then they said, "Oh, and, by the way, we will just ask you a couple more questions and perhaps we can get you pension credit as well", that would be ideal. I think it is looking at all the different ways of encouraging people to check their entitlements.
Mr Barton: I have already said something about our views about council tax. I do think that the owner occupier who may not be eligible for pension credit or is not claiming it may be eligible for a substantial amount of council tax benefit and the whole thing on

[2] *See* Ev 162

this for people on low incomes ought to be turned round so that it is a rebate and the local authority should be expected to seek to identify these people because I do not think that by just saying to them, "It is a benefit that you are entitled to", it will pull in anything like all the people it ought to.

Q125 John Howell: You have made comments about improving the flow of information. Are there some examples of local government situations where it is working well in your view?

Ms West: There are some local authorities that have done a lot of work; Tameside is one that comes to mind where I think for some years they have spent quite a lot of time looking at people on their books and trying to contact them, but the overall system does not work in the sense that information is passed to the Pension Service, so really the local authorities that are doing a lot of work have in a sense to start from scratch and use their records to identify, for example, people who look like they are entitled to pension credit, and then the Pension Service are writing to them, phoning them, visiting them, so they have to do it in a sense manually rather than the system working to transfer the data across.

Mr Barton: I think the position is really quite patchy across local authorities in terms of how active they are. There are opportunities with the local strategic partnership arrangements. As well as working for Citizens Advice I work as an adviser in a CAB and in our locality we have been instrumental in getting the local strategic partnership to have reducing poverty in the district as one of its key objectives. In fact, our manager is chairing a sub-group of the strategic partnership that is drawing up plans for how not only the local authority but also the voluntary agencies that are involved with the partnership as well can work together in this field, and tackling the under-claiming of council tax benefit would be one of the aspects of that.

Mr Kohler: I think it is important to have local authorities and voluntary organisations and so on working in partnership; I totally agree with Alan about the potential in local strategic plans. A few years ago we did see some shining examples put into practice when the DWP was funding the LinkAge Plus projects which were generally deemed to have been a great success, but, of course, it was only a limited budget for eight projects. There are good examples like that which show how you can give people more information, more assistance to claim their benefits and probably, in the case of LinkAge Plus, give them other information about what is available in their locality and what they can do to improve the energy efficiency of their home and so on all at the same time.

Q126 John Howell: In terms of the changes that you would like to see on the local government side to make this work better, can you give us a feel for the scale of that? Is it just a change of orientation in terms of what they are doing now or is it a big step up?

Mr Kohler: You have stumped us.

Q127 John Howell: Always a pleasure!

Mr Kohler: I think it probably is a fairly major step up from what we have at the moment. 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. The Chairman referred earlier on to whether we could solve the problem by giving Age Concern and Help the Aged a great wadge of money. We do actually spend a great wadge of money already on providing the telephone advice services we do and reprinting leaflets every year when the numbers have to be changed and so on. It is a costly old process.

Mr Barton: Obviously, for Citizens Advice Bureaux the biggest source of funding that individual bureaux have is from their local authorities. It is a constant fight for the individual CAB services to try to maintain their income. Obviously, part of it is to do the work we have just been talking about.

Ms West: I think there are some relatively straightforward steps that could be taken, like the things we talked about earlier such as a single telephone line, but there are others that would be major structural effects to make the systems work better together. 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 The DWP worked 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.

Q128 Tom Levitt: I turn to the attendance allowance and the disability living allowance. In the past we have heard that the PDCS were not very good at raising the take-up of DLA and attendance allowance. Has this changed at all?

Mr Kohler: The truth is we are all grasping for information in this area without having a very secure grip on it. We take some punts and guesses about the numbers of people not claiming pension credit but we really have not got a feel on how many people might be entitled to attendance allowance, so there is not really a target against which we can try to up our game one way or another, and when I say "we" I mean including the Pension Service.

Q129 Tom Levitt: Is there a feeling that the number claiming has gone up?

Ms West: I think figures have gradually gone up.

Mr Barton: The numbers have gone up. It is quite a difficult task for PDCS in this field. I think there are signs that they are beginning to address it. I was at a DWP forum in Birmingham last week and one of the senior people from PDCS was talking about work that she has in hand. It is not in relation to this type

of work; it is about claiming child disability living allowance, and they are trying to work with the Departments of Health and Children, Schools and Families and the agencies that deliver the services to try to raise awareness amongst the professionals working in those fields to encourage the families whose children would be eligible for DLA to apply for it. That seems a very positive approach and obviously it could be extended in relation to older people. I know that CABs do quite a lot of work in helping people to claim DLA and AA, and a lot of their referrals do come from health and social care professionals, so there is quite a lot that goes on in that field, but I think there is probably more that PDCS could do to help the professionals to be aware of these disability benefits and, where appropriate, to encourage people to claim them or point them in the direction of somebody who can help them to claim them.
Ms West: We were talking about the pension centres earlier, but, of course, there is a local service and the staff in the local pension service will visit people in their own homes and they will give a more comprehensive assessment and fill in attendance allowance and DLA claim forms as well as pension credit forms. I guess on the take-up numbers, as Mervyn says, we really do not know what the figures are, but again the DWP have been looking at this and they have published some research on how you might start to try and estimate those figures, so hopefully some time in the future we will have a better idea, but that will still take some time. In terms of promoting benefit take-up by the DWP, they are at least trying to give out the message that it is about looking at general income rather than just pension credit, partly for the reasons we said earlier, that letters saying "pension credit" often go in the bin fairly quickly, so we are trying to look at different messages that might resonate more in older people.

Q130 Tom Levitt: I think that we would all agree that coming up with a scientifically justifiable figure of what the target audience is is almost impossible. We can only go on absolute take-up figures rather than percentage take-up rates.
Ms West: I can only say from our experience on the ground that a lot of our local Age Concern organisations and the Help the Aged services spend a huge amount of their time filling in attendance allowance forms. That is a core activity, doing home visits, filling in forms, and it makes a huge difference to people's lives.

Q131 Tom Levitt: And each form takes an awfully long time to fill in.
Ms West: It does, yes.
Mr Barton: About two hours.

Q132 Tom Levitt: The DWP claims to justify the difference in eligibility criteria between DLA and AA on the grounds that disability is more financially disruptive for a person of working age than it is for a pensioner, to summarise their position, and we know that a pensioner can only get DLA if they start their claim before they reach pension age. Do you think that justification stands up?
Mr Barton: No. It seems to 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. Many are the older persons I have seen as a CAB adviser who have come in and they have got severe mobility problems which cost them quite a lot of money because they have to use taxis and this kind of thing, and they say, "What help is available to me?", and we say, "I am afraid that no help is available to you from the Government because you are too old to qualify".

Q133 Tom Levitt: Because there is no mobility element in attendance allowance?
Mr Barton: Because there is no mobility element in attendance allowance.
Ms West: I think it is very difficult to justify why you should not pay DLA to people over the age of 65. It is clearly an issue of cost from the Government's point of view but in terms of any other justification I find that very difficult to accept because they are intended to be benefits to help with the extra costs of disability and if you look at the debates around disability living allowance when it was introduced, it has always been seen as an extra cost benefit and if you are 66 the cost of getting a taxi is the same as if you are 64. I think particularly that cut-off point people feel is really unfair, especially for people who were disabled before the age of 65 but just did not know to make a claim. We feel that the rules are very unfair. It is not just the mobility component; it is also the knock-on effects with car tax and the ability to buy a car under the motability scheme, so it has quite far-reaching effects as well as the weekly income.
Mr Kohler: It also flies in the face of the concept to which we are all signed up these days that we want to promote active ageing, that we want people to live independently in their own homes competently and satisfactorily, and if that has extra costs for them because they are disabled then that ought to be part of what the benefit system exists to support.

Q134 Tom Levitt: So can a person of pension age who is already claiming DLA can claim attendance allowance as well?
Ms West: No.

Q135 Tom Levitt: So it is one or the other?
Ms West: Yes. You can continue having your DLA but you would not get the attendance allowance on top of that.

Q136 Tom Levitt: So in effect you can choose?
Ms West: You cannot choose because it depends what age you are.

Q137 Tom Levitt: If you are a pensioner who is already on DLA when you became a pensioner at the age of 65—

Ms West: You would continue to get DLA.
Mr Barton: There is no advantage to switching.
Ms West: It is always better to be in the DLA system. People on attendance allowance get no advantage over people on disability living allowance, only disadvantage.

Q138 Tom Levitt: When the King's Fund looked at attendance allowance they came to the conclusion that it might be better (if you can have a "might be" conclusion) to pay that money to older people through better social services and care services rather than directly through attendance allowance. Again, that seems to be against the current trend, but what do you think of that suggestion?
Mr Kohler: Undoubtedly there is a logic behind that. It is a resource which is there in order to provide care in one sense or another. If we had a social care system which was adequately catching all the people who needed help and providing them with enough help to make a difference to their lives I think I would probably be prepared to say, "Yes, all right, maybe we do need to look at attendance allowance as part of the funding of that package", but we are so many light years away from meeting my first premise that I think I would rather stay with the stuff we know about.
Ms West: Also, attendance allowance is not intended just to pay for care. In fact, if you are getting social care services you will be assessed and normally you will be expected to pay your attendance allowance towards your care, so it is not as though you get your attendance allowance on the one hand and all your social care services free on the other. It is something that you use to pay for care. Also, there is a whole range of other disability costs that people have, such as transport, extra heating, special diets, which are nothing to do with the care system, and it has always been very clear that attendance allowance and DLA are to help with extra costs generally. Also, it is an entitlement and we know that there are issues about local authorities' assessments for care services. The whole move, as you say, is going towards giving people money to spend as they wish to control their own choice, and in a sense attendance allowance and DLA are direct budgets *par excellence*. You have the money and you spend it in the way that you need and is best in your own individual circumstances.
Mr Barton: I very much agree with what my colleagues have said. The whole history of social care in recent years has been for local authorities to tighten and tighten the eligibility criteria and there is lots of evidence of that from work done by the CSCI when it was still in existence, and so if the switch was made the result would be that there would be very substantial numbers of people who are currently receiving DLA or AA who would get nothing from their local adult care services. The fact that the disability benefit is an entitlement based on your needs is a very important one.

Q139 Tom Levitt: Of course, amongst the people who get the highest level of care are those who are residents in care homes and their personal expense allowance is just £21.90. I understand that a review of that has either been postponed or cancelled. Discuss.
Ms West: I thought you were going to ask, "Is that level high enough?", and that would have been a nice easy question for us to answer. We have been campaigning on this. We do not think that is an amount that you can live in dignity on. People in care homes have costs such as toiletries and basic extras and like to have a social life. We have heard of somebody who is disabled and would love to join a choir but cannot because she cannot afford the cost of the transport to get there, and, as you say, a review of the level was promised and now we are told that this will not go ahead.

Q140 Chairman: Do you know where this originates from, that the Department of Health pays this, because I would have thought that it would have been easier to pay a reduced amount of pension credit or the basic pension?
Ms West: They do not pay it. That is the amount they leave you with.

Q141 Chairman: Why is that money provided by the Department of Health?
Mr Barton: It is not provided by the Department of Health. This is what you are allowed to keep from your income. There is a statutory charge for social care that is subject to a means test and if you are a person who is on a low income you have to pay all but £21.90 of that income towards your care fees.

Q142 Chairman: Forget that one. Let us move on. What do you know about Moneymadeclear?
Ms West: Moneymadeclear is the FSA's initiative to provide information about money and pensions and related issues. We know a bit about it.

Q143 Chairman: Does anybody else?
Ms West: If you went out in the street and asked the people who it was aimed at you would probably find less knowledge. Indeed, the Financial Services Authority itself is not well recognised. Their most recent customer service research suggests that less than a third of people know about the Financial Services Authority, and I guess the ones that do know about it are more likely to be better off people, not the lower income people that may need information about basic income and debt issues.

Q144 Chairman: There was a survey done in West Yorkshire on what "FSA" meant to people, and the few that recognised the initials all thought it was the Food Standards Agency. Nobody came up with Financial Services Authority. There is a real issue here. I know we have been down this path before, about even if it is only generic financial advice to people, particularly as they are reaching the later stages of their working life, and once again we come back to things like lifestyling when you are in defined contributions. There is patently a massive gap there. What is the best way of filling that gap, or is there a way?

Mr Barton: We certainly recognise that there is a big gap in this and we have been involved in discussions with the FSA and the Treasury, and as part of the whole of the Moneymadeclear work and the things that come under that we currently have been awarded a contract for a pilot project in the north east.

Q145 Chairman: So it is your fault?
Mr Barton: We are trying to do something about it.
Ms West: He is the solution, not the problem.
Mr Barton: That is something that is just starting and we will be evaluating that, and there is another scheme run by another organisation in the north west We have also been involved in a project called Money Plan, under which independent financial advisers do *pro bono* work in CABs. It is funded by a couple of financial institutions and an evaluation of that is going to be published quite soon That is going to show that the big issues that people are bringing are to do with their mortgages and their pensions. 75% of the clients to that service are over 50 and 25% of them are over 65, and 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. It will be a gap that will get even more important with the pension changes in 2012 where people will have to decide whether to opt out or not and where 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 and they will need to know.

Q146 Chairman: Yes, you can say things like that.
Mr Barton: That is what the IFAs tell me as well. That is another reason why it is not a very attractive proposition to them.
Mr Kohler: I think there is a lot of need for general money advice in the older population coming up to retirement. I am optimistic that the money guidance projects will help to lift the veil on this a little bit. 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. We have to help people with advice about de-cumulation as well. There are plenty of financial advisers around who will help people to accumulate money and take a cut of it but there is no cut to be taken if you are helping people to de-cumulate, so we have to find some other strategy, some other structure, to help people take decisions which might involve cashing in savings, equity release, things of that nature.
Ms West: I suppose in terms of your asking what is needed, clearly it 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. Mervyn mentioned annuities. The Pensions Advisory Service have also got an online annuity checker, so I think there is scope for that. We are also involved in the local Pathfinder projects for money guidance, both in the north east and the north west, so we are pleased that it has been accepted that there is a role for information and advice for older people as part of that. If you are moving forward 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 group of people who have a problem and they are looking round and saying, "Where shall I go?", and they may go to the Pensions Advisory Service and get Moneymadeclear.

Q147 Chairman: So you need a CORGI?
Ms West: Yes, something like that. The New Zealand example of their "Sorted" website is often given, that kind of thing where people seem to know about it. NHS Direct is the place to go for information about health services, so a money brand is needed. Also, there are a whole lot of people who do not know they need information. It is one thing if you think you have got a problem and you are trying to find out where to go. It is another thing if you are just drifting on happily and you have never thought about saving or pensions or what to do with your debts, and again a known brand would need to be something where people think, "Oh, I had better check out whether I am overpaying on my credit card", or something like that. We need to go towards something which means there is one place for people to go, we hope very much building on existing services. We certainly would like to be part of the local solution, the face-to-face service. The Pensions Advisory Service, I think, does a very good job, has very good information, good individual guidance, so there might be a bigger role for them to be leading on the pensions front.

Q148 Chairman: All these things are very good if people know about them.
Ms West: Yes, which is why there has to be greater recognition.

Q149 Chairman: I know we have been down this road before, presumably when we did our report on personal accounts, but people are going to make huge decisions in their fifties, hopefully, that can

have credible consequences. The decision on annuitising—do you do it at 65 or 64? Do you shop around? People who do not will lose out. The ideal would be that everybody has somebody come to see them for free once a month, but that is not going to happen, is it, because it is going to cost an absolute fortune? If you can reflect on that and if anything does come to mind over and above what you have said in your submissions, that would be very helpful. I cannot remember when it was—Andrew Smith was the Secretary of State; that is how long ago it was—that this enhanced increase in basic state pension if you defer was brought in and yet still relatively few people seem to do that. Is that because it is not worth it or is it again something that people just do not know about? If they do not know about it what more can the Pension Service and others do to promote it?
Mr Kohler: I think it is an idea which is yet to have its day. It represents an incredibly good deal, does it not?

Q150 Chairman: Yes.
Mr Kohler: You will not get anything on interest payments as good as a 10% enhancement per year. The fact that not a lot of people choose to defer is probably because not a lot of people realise that they have that option. 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. However, I do think, and I think we are likely to get into this in more detail, we still have a huge problem in providing the potential employment for people over the state pension age.
Ms West: On the deferment issue, you can get a nice guide from the DWP on this and it is over 100 pages long. One of the issues with all these decisions is that for people on low or modest incomes they are very hard. If you have got a very high income I think some of these decisions are easier and, of course, you can afford to have advice; there will be people falling over themselves to give you advice about what to do with your money, but the sort of people that we are most worried about have pretty modest incomes and small pension pots. They have got to decide can they take it as a lump sum? Is that the best thing to do? Is it worth paying into a personal account when you are 55? They are tricky decisions partly because with all these decisions you never quite know what is going to happen in the future but you have to consider the interaction with the benefit system and you have also got to think about the options. A lot of people underestimate their life expectancy. As Mervyn says, deferring your pension is a great thing to do financially as long as you have a reasonable life expectancy, but often people will think, "I am not going to live five years. It is not worth putting off drawing my pension", and in a sense they 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 than just having a 100-page guide on deferring your state pension.

Q151 Chairman: As things stand at the moment, and I know it is rapidly going to change, I think it is a particularly good deal for women at 60.
Ms West: Yes, absolutely.

Q152 Chairman: In the general population their life expectancy is another 25 years, and if you defer for five years the health of most people presumably is still going to be really good and yet nobody tells them about it. Maybe that is why, because it is such a good deal.
Ms West: People get information about it but it goes back to someone gives you a bit of information in writing and you do not fully understand the options, but, yes, at 60, if you have got average life expectation it is a really good deal and, of course, then you can have a lump sum rather than an increased income and that lump sum does not affect your benefits, but the more choices people get the harder it is to decide which is the right choice for them.

Q153 John Howell: Can we just put aside for a second abolishing the default retirement age because we will come to that separately, and I know you have got views on that? What more could be done to encourage people over 65 to work?
Mr Kohler: I think an awful lot depends on working much harder with this concept with employers. I think 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. In all the pension reform discussions over the last five or six years working longer has always been the answer, and we have done very little indeed to promote the idea of working longer. There are not enough training and retraining opportunities for older people. As I say, if you are asking employers to split a job and that leaves them with two bits of PAYE to do instead of one bit, "Thank you very much. That is my Sunday afternoon gone". We have to make these things easier for employers.
Ms West: I would agree. I think also there are issues about helping people when they are 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 fifties 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. We need to be really sure that we are not

losing people so that they have not got the options to then get back into work and carry on working. I know this part of it is about being retrained, being able to work part-time, flexibly, so it is about work patterns that fit in as they are coming up to pension age and beyond.

Q154 John Howell: What about the low earnings disregard?
Ms West: Pension credit? That is something that we have called for, an increase in the past. I know this Committee has also recommended the earnings disregard increases. You can earn £5 a week without affecting your pension credit. That has been the same since 1988. Even with the supplementary benefit system it was £4. Some of us go back a long way on some of these things. 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 wellbeing 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 but I think it would have a lot of benefit for people just maintaining that bit of contact with the labour market.

Q155 John Howell: So what would you set the disregard at? What level?
Ms West: You might look at a minimum of a day's work at the minimum wage.
Mr Barton: That would be £70 a week.

Q156 Chairman: You said £40 last time.
Ms West: I think a couple of hours a day per week would be a minimum amount, or you might just say it was easier to disregard earnings altogether with pension credit.
Mr Barton: Of course, you have the example of someone who is doing this.
Ms West: But not receiving pension credit.
Mr Barton: No, not receiving pension credit. I do receive a state pension and I work. At the moment I work two days a week and I work as a volunteer one day a week, so the flexibility point I think is very well made, and I think there is quite a lot of evidence that more and more of this is happening. There was a time when the participation rates of people even approaching state retirement age was really quite low and it has been going up, and one reason is that people's private pensions are not what they thought they were going to be, so that is the push factor, but otherwise I do think greater flexibility is needed. There may be one issue to look at with DWP when you see them, which is Jobcentre Plus. I think they regard anyone who is over pension age as absolutely nothing to do with them. Is that right? Even for people who are below, obviously, there are some good schemes for over-50s to help them get back into work. We have not got a lot of evidence of problems in that area, but just one of a few things have been coming back to us on is people in their fifties complaining that they do not seem to be getting much encouragement to retrain, as Sally was talking about. I think there is a question for them of, "Do you have a positive enough attitude to helping people near retirement and do you think you ought to be doing something for people who are over state pension age who do still want to be working?".

Q157 John Howell: Is Alan's picture particularly of Jobcentre Plus driving that something you would share as well, the lack of a role perhaps?
Ms West: Yes, I think we see the focus on younger unemployed people. Of course, it is incredibly important to get younger people back into the labour market, but we do think there is a need to also have a focus on older workers, particularly because, as I said earlier, if you are out of the labour market for a certain period of time that might be it. You are then starting to draw on your savings and it affects your retirement income as well as your current income.
Mr Kohler: There is a notable difference between the number of training opportunities that are put in front of the under-25 population and the number of training opportunities put in front of the over-50s. In the modern workplace we all need new training every whatever-it-is, 10 years or something. You cannot expect that your skills are going to last you for life. I am wrestling with a Blackberry at the moment which I do not understand myself. The need to get more training provided by the "W" bit in the DWP is, I would have thought, of absolutely paramount importance if we are going to make this working longer agenda work and therefore solve the pensions problem.

Q158 John Howell: My last question is about the default retirement age. You all want to see it go?
Mr Kohler: Of course.

Q159 John Howell: Would you like to provide a justification for us for that?
Mr Kohler: Again, it 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.

Q160 John Howell: What effect do you think that would have in practice if we were to remove that today? How many people would stay on, as a rough guess?
Mr Kohler: The evidence from companies that have either raised their default retirement age or even

abolished it altogether is 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. It is not going to be a sort of nuclear explosion, but it is important to get rid of it because that is the way the future is going.

Q161 John Howell: Sally, do you want to add anything?
Ms West: I am not sure I have got anything to add to what Mervyn has said.
John Howell: In that case, no further questions.

Q162 Chairman: I am intrigued by that because my instinct would be that people would work longer but shorter weeks. You are saying they are carrying on working full time for a short period of time?
Mr Kohler: I was not saying that, Chairman, and I would not like to say that because I am not sure enough of the records that I am quoting from Nationwide, but I will look that up[3] and inform the Committee about it. I think the point that you are hinting at, which is obviously a hugely important one, is that the attraction of doing work part-time is a very interesting one which we have seen growing in the UK. Interestingly, it hardly exists on the continent of Europe, but we have to develop more of it and find satisfying part-time jobs that encourage people to work. After all, we do not want to compel people to work; we want to encourage them.
Mr Barton: I will vouch for the satisfaction you get from being able to do some part-time work.
Chairman: Of course, in the early seventies we had the three-day week. We were well ahead of our time. Thank you very much. It was very interesting.

[3] *Note by Witness*: Nationwide, Asda and Marks & Spencer are the blue chip pioneers, but I fear there does not seem to be an authoritative research report I can refer you to. The companies have been happy to support requests from older workers who want to work beyond the age when they qualify for their pension, but their experience is that most of those choosing to do so work on for a further year or two only. Obviously it takes time for this sort of information to accumulate (which is presumably why a definitive report has not emerged), but it is clearly an issue worth trying to understand better.

Wednesday 20 May 2009

Members present

Mr Terry Rooney, in the Chair

Miss Anne Begg	John Howell
Harry Cohen	Mrs Joan Humble
Michael Jabez Foster	Tom Levitt
Mr Oliver Heald	Greg Mulholland

Witnesses: **Rt Hon Rosie Winterton MP,** 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, gave evidence.

Q163 Chairman: Good morning, everybody, and welcome to this final evidence session on our inquiry into tackling pensioner poverty, and a particular welcome to you, Rosie, on your first appearance before this Select Committee; you are very welcome. I understand you want to make a quick statement.
Ms Winterton: If possible. I just wanted, first of all, to introduce my team, which is Charlie Massey, who is our Ageing Society Director, and Alan Woods, our Director for State Pensions. As you said, Chairman, it is my first appearance before the Committee and I am extremely pleased that it is an inquiry into pensioner poverty because one of my main priorities, as Minister for Pensions and the Ageing Society, is to tackle pensioner poverty, but also to promote greater independence and well-being in later life, which is what is set out in our Public Service Agreement 17. I think that, since 1997, we have tried to make a robust and sustained effort to tackle pensioner poverty and I think we have got some solid foundations in place which has meant that something like 900,000 pensioners have been lifted out of relative poverty in the last 10 years. An important part of that has been the introduction in 2003 of the Pension Credit and the measures in the Budgets that we have taken, for example, in winter fuel allowance increases, the increase in personal tax allowances for the over-65s and also increasing the Pension Credit capital disregard, but in no way are we resting on our laurels. We believe that there obviously is a lot more that we need to do and, in particular, we need to recognise the problems that are caused for pensioners by the downturn, and that is why we took measures, such as increasing the Christmas bonus. In the wider sense, obviously the demographics of our society are changing enormously and that is why we have taken some radical steps to reform state and workplace pensions. We will also be publishing soon our refresh of the Ageing Strategy because I do think it is important to recognise that, in a sense, if we are to tackle many of the quality of life issues for pensioners and older people, then we certainly need a cross-government approach, so shortly, as they say, we will be publishing that strategy which will form part of the way we want to take forward, as I say, not just more tackling of pensioner poverty, but also quality of life improvements.

Q164 Chairman: Thank you for that. We have questions on most of those areas, which probably will not surprise you. This week, we saw the publication of the household below-average income statistics and there has been no further progress on pensioner poverty. Is there an explanation or a justification for that?
Ms Winterton: Well, obviously, I think the statistics showed that there were something like two million pensioners, which is 18% of the pensioner population, who were in relative poverty. Again, I would emphasise that overall, since 1997, we have reduced pensioner poverty by 900,000 and it is also true to say that today's pensioners are no more likely to be living in poverty than the population as a whole. I think the figures for pensioners are 18% and for the population as a whole it is something like 23%. I also think you are quite right to say that we do need perhaps to take a step back and say, "Where are the particular problems that people are facing in terms of pensioner poverty?" In the statistics, in terms of older women, for example, and people from ethnic minorities, there is a high incidence there of pensioners living in poverty, so, first of all, the steps that we have taken in terms of reducing the qualifying years for women pensioners and allowing people to buy back some of their National Insurance contributions will mean that, overall, we will be seeing a situation where more people are entitled to the basic State Pension, which will have an effect, but also in the longer term looking at how we introduce the reforms to make sure that people have workplace pensions into which they are automatically enrolled.

Q165 Chairman: I understand all that and that structure of the pension system for the future, but, in the meantime, we have still got 2.5 million pensioners today in poverty who will not benefit from almost all of those changes, and the numbers are the same as last year, there has been no change, so what we are asking is: what is the Government planning to do because this is still, allegedly, a priority of DWP and the PSA to reduce pensioner poverty, so what action is going to be taken so that we do see a continuing reduction in that number who are in poverty today?
Ms Winterton: Well, first of all, the important part of the changes that we have brought about, particularly this year, are obviously increasing the Winter Fuel Payment, introducing an increased Christmas bonus, increasing the basic State Pension and increasing Pension Credit, but one of the key issues which relates to pensioner poverty is about benefit

take-up, so how can we make sure that our efforts to increase take-up come to fruition? The other week we wrote, for example, to around 230,000 pensioners to say, "Please be aware that you need to look at whether you are taking up Housing Benefit and Council Tax Benefit", which can make an enormous difference in terms of pensioner poverty, so there is a very strong emphasis at the same time on some of the take-up campaigns that we want to introduce.

Q166 Chairman: Is there any difference going on about the take-up? You will get more questions later about take-up, but are there any different strategies being looked at on take-up because it strikes me that the Pension Service has done an incredible job of contacting an awful lot of people, but, for whatever reason, that has not converted into an increase in that take-up, particularly for the Guaranteed Credit itself.

Ms Winterton: 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. Also, what we are doing through the introduction of a single phone line for State Pension, Pension Credit, Housing Benefit and council tax means that, in the first instance, people will automatically be passed through to some of the other benefits, like Housing Benefit and council tax, which is one of the real problems, so with new people we are making a real effort to make sure that they do not just get their Pension Credit, but they also get the other benefits as well. I do not know whether, Alan, there is anything that you would like to add.

Mr Woods: Perhaps I could add in terms of the other big dimension of how we use data across government and how that might help us promote take-up, and there is quite a lot of, I think, quite exciting work going on there. The Minister mentioned the use of data-matching to identify people who might be entitled to Housing Benefit, Council Tax Benefit and write to them. We are also piloting how we can move people directly from working age benefits on to pension benefits using existing data, and of course we are seeking powers in the current Welfare Reform Bill which will enable us to pilot other ways of using data from across government to help us get money to people who are likely to be entitled. A further thing just to mention there is that 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 offers quite a promising long-term way forward, and I think we are now making some real steps to get us towards that.

Q167 Chairman: One of the most welcome announcements in the Budget, particularly to Age Concern and Help the Aged, was the raising of the capital limit to £10,000. Why was that measure particularly chosen? I presume you had a limited amount of money you were able to spend, so why particularly on that one?

Ms Winterton: Well, it is quite right to say that there probably were not huge amounts of money, and I think that the change that we have made cost something like £130 million. It builds on a lot of the changes that we have made with regard to how savings are taken into account in terms of Pension Credit and the contribution that people are expected to make towards their living costs. The reason why we chose that route rather than others is because either we could reduce the notional amount and even make that up to, say, £1 in every £1,000 or we could simply raise the capital disregard. 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 and much better than the other one of changing the notional amount. First of all, it aligns the capital limits with the limits that people have in care homes, so that immediately becomes simpler, but also it does help those with a lower amount of savings more so than the alternative would have done, so we thought it was the simplest and the most effective in terms of helping people on the lowest savings.

Q168 Chairman: Is there an estimate of how many that measure will help to get out of poverty?

Ms Winterton: Well, what it will do is it will lead to about half a million people being about £4 a week better off. The effect on the relative poverty statistics is likely to be quite marginal, but it will mean that half a million people are about £4 a week better off.

Q169 Chairman: What are the Pension, Disability and Carers Service doing to make the public aware of this change?

Ms Winterton: Well, as I say, about half a million of the poorest pensioners will benefit and what the Pension Service will be doing is making sure that, for the people whose information they have and for whom they can make the calculation, that will be automatically done in November. Now, on top of that, there are probably about 50,000 who would become newly eligible and are going to have to apply for Pension Credit. What the Service will be doing is using the usual way that they do try to communicate changes and how we look at the media in order to make sure people are aware of it and national and regional campaigns. I have got, because I asked the Chief Executive, a summary of exactly how they are going to do that operationally, which I am more than happy to pass on to the Committee, if that would be helpful.[1]

[1] See Ev 157

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Q170 Chairman: So, for those that already have claims in and payments, they will be adjusted and it will all happen on the day. Are you confident of that?
Ms Winterton: Yes.

Q171 Chairman: A deep breath first! There are obviously people who have previously made claims for Pension Credit and they have not been eligible. Is that information stored and could it be resurrected easily if there would be reasonable savings?
Ms Winterton: I think the information 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 successful and we think there are better ways that we can actually reach out to people.

Q172 John Howell: I was intrigued by the reference that you made to the new Ageing Strategy, and I may actually come back to that at the end. I do not want to underplay at all the importance of improving benefits take-up, but there has been an impression, as far as I am concerned from this inquiry, that the Government's approach to pensioner poverty has been somewhat one-directional in being focused on pensioner poverty in terms of taking up benefits and increasing benefits take-up. Is that a fair assessment?
Ms Winterton: Well, it is certainly true to say that, in terms of where government spending has been directed, we have tried to focus on some of the poorest pensioners and that part of that means that we have introduced systems whereby, instead of, if you like, a kind of universal approach, we have tried to take a targeted approach. Inevitably, that means that there is the need for people to apply for them to be assessed and, therefore, take-up does become very important, but it is the way that we can make sure that we get the extra £13 billion a year that we are now spending and that we get the focus on the poorest pensioners. I do accept that that means that you have to have a system which requires, in a sense, people applying for it and, therefore, getting them to apply for it does become quite a target because we know, if we could get that take-up, we could really get a lot of pensioners out of relative poverty.

Q173 John Howell: I will come to the take-up point in a moment, but my question was really that there is an emphasis on pension take-up, yes, but is there anything else?
Ms Winterton: Well, there are a whole range of other things that we do. For example, yes, Winter Fuel Payments are universal, yes, the Christmas bonus is universal, free bus passes, something which is actually worth quite a lot of money, TV licences, *et cetera*, but the effect on the poorest pensioners is obviously more than it would be on better-off ones, so, whilst some might say, "Should you use that money and target even more?", I do think that that means that the relative effect on the poorest pensioners, even from universal policies, can make a considerable difference.
Mr Woods: Perhaps I can add one quick structural point which, I think, is sometimes taken for granted. Probably, the big structural thing is the level of the Guaranteed Credit of the basic Pension Credit which has gone up by a third in real terms and we have now legislated for that to go up with earnings, and that will be one of the most important factors structurally in helping to work against pensioner poverty.

Q174 John Howell: I will move on to the Pension Credit take-up because that seems to have flattened off, so what do you think is achievable in terms of the Pension Credit take-up which you can actually realise?
Ms Winterton: Well, the fact is that we know that we have had success. We do do a certain amount of research into what actually prevents people from taking up benefit. I think it is fair to say that we are learning all the time and do try to adjust our policies accordingly. As I say, we have found that the regional approach is working quite well. We think that the introduction of the one-stop shop is a good way of making sure that, at the very beginning, people are passported through to Housing Benefit and council tax benefit, but obviously that will take some time to feed through, and, as Alan Woods said earlier, we are looking in the Welfare Reform Bill at doing some pilots on automaticity.

Q175 John Howell: But the autumn performance report for 2007 showed that there was slippage in terms of the then measures that you had for paying out Pension Credit, and that is not entirely a success story, is it, so I ask my question again: what do you think is actually achievable?
Ms Winterton: What we are trying to do, as I say, is try other methods. We have set obviously targets for the PDCS to improve Pension Credit take-up, we do work with local authorities and we have not set, if you like, an overall target outside that which is set for the Service itself, but we have tried to keep the focus on that, so our target is clear, Alan may wish to add?
Mr Woods: Yes, we have had targets that have been gradually moving up for the Pension Service, so in the first year we set them a specific take-up target of 235,000 new claims and in the year that has just ended it was 250,000, and those targets, I think, have been effective in driving activity. It does remain quite a challenge and the total caseload at the moment has stabilised at somewhere around 2.7 million households, which is equivalent to about 3.3 million people, but I do think some of the initiatives that we have been talking about, particularly those that make better use of data, do offer us some hope to improve on those as we move further into the future.

Q176 John Howell: I am surprised at the comments that you have made on the targets because this was a major discussion that we had with Sir Leigh and there was a certain sense of unhappiness about the replacement of precise targets with "general direction of travel" targets, the replacement to

reduce the percentage of pensioners on low incomes being replaced with moving, not in precise numbers, but in terms of—
Mr Woods: Yes, I know exactly what you mean.

Q177 John Howell: I am trying to find the exact words, from memory, of what Sir Leigh said, but you obviously know them by heart.
Mr Woods: I think that discussion was about the PSAs, the public service agreements, and there was in the early days of the PSAs a specific caseload aim set as a PSA for Pension Credit which was set, ultimately, at 3.2 million which, it became apparent, was completely unachievable. In the latest set of PSAs across government that were introduced in the last Spending Review, the general approach was to say, "Perhaps it doesn't make sense in every area to set lots of specific targets. Perhaps it is best to have a sense of direction", so our overall PSA on tackling poverty and improving well-being in later life does not itself have a specific target attached, but underneath that we do look at a variety of mechanisms on how we can make sure we deliver and one of those, for us, has been setting a specific target for the Pension Service in terms of how many new claims it gets for Pension Credit. Sorry if that is a bit complex, but I hope it makes sense.

Q178 John Howell: So you are saying that there are a series of precise targets underneath that?
Mr Woods: It is very specifically, in the case of Pension Credit take-up, the key target that we have set for the Pension Service there.

Q179 John Howell: I am not sure we know what the precise targets are, so it might be useful if you could make that available.
Ms Winterton: Absolutely.[2]

Q180 John Howell: There does seem still to be a difference in the way that the Government is approaching child poverty and the way it is approaching pensioner poverty. In child poverty, you have an aspiration to eradicate child poverty by 2020, but there does not seem to be the same oomph behind the pensioner poverty aspiration.
Ms Winterton: Well, there is certainly oomph, I can assure you, from ministerial commitment to making sure that we do tackle pensioner poverty, and, as I have said, our PSA17 is very clear that we must tackle poverty, but also look at improving well-being. I know it is arguable, yes, we do not use the word "eradicate", but that does not mean that we are not committed to doing everything that we can to reduce relative pensioner poverty, backing that up, as I have said, by research into what are the reasons for people not taking up benefit and new approaches, wherever possible, to saying how can we ensure maximum take-up.

Q181 John Howell: Far be it from me to encourage the Government to indulge in further spin, but do you not think it would be a good effort to have the same sort of words and the same sort of focus for pensioner poverty that there is in terms of the upfront headlines and upfront commitment on child poverty?
Ms Winterton: Whilst it is true to say they are not the same words, I can assure you, there is the same commitment.

Q182 John Howell: Okay, I hear that. Well, let me pick up on your Ageing Strategy. Will you be tempted now to tell us what the main difference between the refreshed Ageing Strategy and the existing one might be?
Ms Winterton: Well, it is building on what, I think, have been some of the successes in the existing strategy. I think that, out of 33 commitments, about 30 have been achieved, but it is saying, "What is it that the world is looking like now, something like three or four years on from the previous document? What do we know more about people's aspirations for later life? How do we put the Ageing Strategy in the context of some of the radical reforms that are going to take place which will mean that, as people approach their retirement, they are thinking about where they want to live, what their social activities are going to be, what their educational aspirations are going to be? What can we do to help create an age-friendly society?" The way I see this is that I do think there is now a greater awareness of some of the challenges of the demographic changes as well as some of the huge opportunities it presents and I think that, as a society, we do realise, and I think that across local government, across national government and across the private sector actually there is a greater realisation, that we need to make sure we are shaping our debate about our culture and our approach to ageing which means that we do need to take, in a sense, the strategy on and look at where we have had successes, but look also at where we need to do more.
Mr Massey: I think I would just probably add three quick points. The first is that this year for the first time we have got more people over 65 than under 16, so, when the Minister talks about the demographic changes, I think there is a real opportunity to seize the fact that it is the first time that the dependency ratio has inflected on itself. I think the second point in terms of the difference with Opportunity Age is in relation to a much stronger emphasis on empowering engagement for older people. We published our *Empowering Engagement* Report in early February, and there are some real measures to give older people a stronger voice, which leads me to the third area which is around how to really influence delivery at the local level, and giving older people a stronger voice is going to play a very key role in that, but also working very closely across government, with local government and regional government about the role that local authorities need to play in creating that age-friendly society.

Q183 John Howell: The last question I have is about the discrepancy in terms of the poverty line and the guaranteed element of Pension Credit between single

[2] See Ev 157

people and couples. Do you think that is sustainable and, more importantly, do you think that is really fair?
Ms Winterton: Well, I think that successive governments have actually used the 1.5 limit in terms of looking at what couples are, in effect, entitled to in terms of Guaranteed Credit. Obviously, we have taken note as well from independent research, and I think the Joseph Rowntree Foundation actually supported the calculation at something like 1.5 times the single person household, but also I think we do need to take into account that there are other things that go alongside some of the income that people have over and above the basic guaranteed minimum, things like, as I have said, the Winter Fuel Payments, free bus passes, free TV licences for the over-75s, so, when we look at some of the benefits of that which do come to couples, I think it is important to take those into account as well.

Q184 Tom Levitt: Perhaps I can move on to some of the questions on Pension Credit, and we have touched on one or two of these already. Thousands of older people every year talk to organisations like Age Concern and CAB to help them sort out pension problems, and the DWP is at the forefront of working with the third sector organisations to deliver its aims. Why, therefore, is there not a dedicated telephone helpline that advisers from the third sector can use within the pension centres to help sort out particularly complex pension cases or benefit cases which they are taking up on behalf of older people?
Ms Winterton: 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 because certainly a lot of the campaigns that we run at the moment we do try to run in conjunction with third sector organisations, and Age Concern and Help the Aged come to mind particularly, and we always welcome new ideas to test how we could make that more effective.
Mr Woods: Perhaps it is worth adding quickly that the ability now to make a claim for Pension Credit which also feeds directly through to Housing Benefit and council tax benefit is a very positive step, I think, in the direction that you are highlighting. You also, I think, highlighted the issues about complex cases and I do know that this is something which is very much on the minds of the senior management of the PDCS and they are looking to see how some of the issues that have arisen can be addressed, so it is certainly very much in the Department's mind.

Q185 Tom Levitt: That sounds like a goal for the Select Committee! The Citizens' Advice Bureau have suggested that people who are not entitled to the full basic State Pension, but do nevertheless have an occupational pension actually miss out on the savings credit because part of their occupational pension has been topping up their low basic State Pension. Would you consider allowing people who are in that position to be dealt with, as far as savings credit is concerned, as if they were in receipt of the full basic State Pension and, if you were to do that, how much would it cost?
Ms Winterton: I think the idea put forward by the CAB would cost something like £230 million a year. We have looked at the various options. What we think is that it would actually add a degree of complexity to what is already a fairly complex area. In terms of the savings credit, it was, as you will know, introduced in order to, in a sense, recognise the fact that there were people who had tried to save during their lives and we wanted to make sure that they did not feel sort of penalised by that, but we do not think that the approach from CAB is the right one, as I say, because we think it would actually add a degree of complexity and it is already quite complex at the moment.

Q186 Tom Levitt: A move that might reduce that complexity elsewhere is to take up the suggestion of the Lyons Review that all Pension Credit recipients should be eligible for Housing Benefit and Council Tax Benefit, subject to the usual income calculations, but not subject to the £16,000 capital limit. Why are you not taking up the Lyons Review suggestion?
Ms Winterton: Well, obviously Pension Credit applicants who are on the Guaranteed Credit are automatically processed now for Housing Benefit and Council Tax Benefit. There is an upper limit, that is true, but we think that that actually strikes, in a sense, the right balance between protecting people who are less well off, but also saying that there is an issue about how much taxpayers' money can be devoted in this area, so we think that this is the right balance because, if people did have really quite large amounts of capital in the bank, there does become a level at which it is considered reasonable to expect people to be kind of contributing to their own finances and their own quality of life.

Q187 Tom Levitt: A couple of references have already been made to automaticity, and we are aware that there are some pilot projects already going on. Do you see automaticity as being the future of means-tested benefits and is the aim of the pilots to develop a system which could be rolled out thereafter?
Ms Winterton: Well, what we are doing at the moment is working with a number of organisations on what the automaticity pilots should look like, and 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 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, so we do want to learn from the pilots, but I do not think any of us should underestimate some of the very complex issues that there are around this and, as I say, not least the issue of people's personal data and sometimes a fear about, if they were, because of automaticity, perhaps overpaid, they would then

have to repay it. Sometimes, that can get in the way of people saying that that is what sounds, in the first instance, to be the absolute answer and it can prove more complex than we would perhaps expect.

Q188 Tom Levitt: I understand that you are working on a figure of around 62% of entitlement being within £5 of the correct limit, but the legislative framework requires 100% accuracy, so what is going to have to change—making the system more accurate or making the legislation slightly more tolerant?
Ms Winterton: Well, I think that 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 to take account of the lessons that have been learnt in the pilots or the kind of legislation that we have got at the minute.
Mr Woods: Perhaps I could just add briefly that we hope that we can find further data sources that would get us better than 62%, so part of it is actually improving the data so that you can focus better, but I think it would be a real struggle just on that alone to get to an acceptable level, so then you get to whether we can change the benefit rules, and it is a formidably complex benefit, Pension Credit, so maybe you say that, 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, and I think that is very much a judgment which, in the end, the Government will have to make in the light of not just the pilots, but of further work in all of these areas and one which Parliament, I think, will want to be very actively engaged in, or I very much hope so anyway.

Q189 Tom Levitt: There is a significant under-take-up of Pension Credit and clearly any programme designed to eliminate pensioner poverty is going to have to try and target that group of people. There is some evidence that some people choose not to make a claim for credit. They are aware of their entitlement, but they choose not to take it up. Automaticity could certainly help tackle that, but do you think there would then be a problem with people resenting being given money which they do not feel they have earned?
Ms Winterton: It is absolutely true to say that there are people that we have written to over and over again who eventually have said, "Please stop bothering me. We know we're entitled to this, but we don't want to do it". Again, this is about looking at some of the kind of ongoing research as to why that is. Is it because people say, "This is a benefit for people in poverty and I don't consider myself to be in poverty and, therefore, I don't want to"? Are we phrasing it wrongly? Are we not stressing enough the fact that this is an entitlement, it is not a benefit? Is it that people fear that doing this means that people will start looking at their personal finances and they do not particularly want that to happen because they wonder if the information is going to be secure? It is looking at all those reasons why somebody to whom, as I say, we do really try to write personal letters and say, "You are entitled to this", and eventually they say, "Please stop writing to me", and then it is an ongoing debate as to why it is that that happens and we need the research to back it up so that we can overcome it.

Q190 Tom Levitt: I think you have just answered the earlier question about elimination. It makes elimination very difficult if some people refuse to be eliminated; I do not mean the people, but the problem!
Ms Winterton: Our new policy!

Q191 Mrs Humble: Can I take a bit further this issue about data and the lack of it because it particularly affects the vulnerable groups, which obviously you referred to right at the beginning, and you mentioned women and I am going to refer to some other vulnerable groups. The Committee has found a contrast in the amount of information we have had available to us when we did our child poverty inquiry, so we had lots of information about those specific groups where children were likely to be in poverty, some very small groups like travellers and disabled Bangladeshi families. When we looked at this inquiry of pensioner poverty, we found an absence of data about vulnerable groups, even a large group like Londoners and, when we have asked about Londoners, people have said, "Oh, there are all sorts of different issues". Are you then, as a Department, trying to build up some data, and I was interested to hear your earlier answer when you were talking about having a regional focus, so do you see that as a way forward?
Ms Winterton: I certainly do. I am also the Regional Minister, so I am very keen on the regional approach and, for example, in the households below average income series, which is the main source of data that we have for both pensioner and child poverty, I noticed that 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. I can send that to the Committee[3], though I am sure you already have that, but the breakdown regionally is very interesting indeed. We are looking at whether we can measure material deprivation amongst pensioners and we are looking at how we could take forward some of that work because that is measured at the moment in terms of child poverty, but we want to see whether we can do that for pensioners which again would help to build up a picture, coming at it from a slightly

[3] See Ev 160

different angle, but again just giving us more of the information that we need. We have also got quite an extensive research programme relating to the ageing society and private pensions and we have looked at research to understand older people's experience of poverty and material depravation, which pensioners do not spend their income and why they do not spend it, because we want this to feed very much into, as I was saying earlier, the kind of approach that we feel we need to take as a Government and also to encourage at local government level to see what exactly is people's experience and not only now pensioners' experience of their quality of life, but also what people in the future will expect from their retirement and the finances that they will need in order to support what they want to do.

Q192 Mrs Humble: I am pleased that you have mentioned the issue of material deprivation because I am sure I am not unique amongst Members of Parliament who regularly meet older pensioners who are asset-rich, but income-poor. When they first retire, and especially those who retire early at 55 or 60, they are actually quite well off, but, by the time they are 80, their income has reduced proportionately and they cannot replace capital assets, they cannot replace furniture and furnishings, white goods or cars even, so there is an issue about material depravation. We have had some interesting evidence from Age Concern about homeowners and whether they were less likely to claim Pension Credit because they were not aware that they were eligible or because they were more uncomfortable about sharing personal information, and that links into what you have just said about sending letters out to people and, in spite of this blitz of information, people are not responding. Is that a matter of the Department acquiring more information or is it to do with a change of people's perceptions and saying, like your television advertising, "This is your entitlement"? What is the answer there?
Ms Winterton: Well, as I was saying earlier, we constantly look at what it is that prevents people from taking up their entitlement. My experience so far is that we just need to look at the different points where people access information and the different organisations that perhaps do reach out to people, whether that is organisations like Help the Aged, Age Concern, the National Pensioners' Convention or whether it is about working through some of the old people's advisory groups at local council level, but we just constantly need to make sure that we are getting the message out there. I think the take-up of the Guaranteed Credit is between something like 68 to 78%.

Q193 Mrs Humble: What percentage of that is for homeowners, owner-occupiers?
Mr Woods: I have not got the precise figures, but I think you are right, that take-up tends to be higher amongst people who are renting and I think that is often because they see quite clearly the need for help with their rent which takes them towards Housing Benefit and then, although we do not always completely pick up every Housing Benefit connection and ensure that they get Pension Credit, there are quite a lot of connections in the system that are likely to make that happen, so I think owner-occupiers are, in some ways, a big challenge for us. That is why one of the things we are very keen to do is to continue to see how we can push forward the take-up of Council Tax Benefit which of course, in its own right, is important for many owner-occupiers, but, in turn, might also help lead to Pension Credit.

Q194 Mrs Humble: But it goes back to my earlier point about homeowners who, when they first retire, may well feel that they are well off and, therefore, see themselves as being outside of any social security system, and it is only when they get much older and they are living in poverty that they ought to be applying, but, for some reason, they are not and we really need to focus in on those. Representing the seaside towns that I do, very many of my constituents have retired to the seaside, a bungalow by the sea, and enjoy a very nice lifestyle, but I meet many who, as they get older, because they have never had anything to do with the system, either do not think that they should have anything to do with the system or do not know how to get involved in the system, and it is a challenge for you.
Ms Winterton: Yes, and I think that some of this is about understanding retirement, is it not, and part of what we are trying to do in the Ageing Society refresh is to say that, if we are talking to people about the fact that they are going to spend a long time in retirement and they need to plan for it now, how do we also, within that, get over the message that, "Your life in retirement may well change as well and you need to start thinking, as you get older, how to take account of changing circumstances as well".

Q195 Mrs Humble: Can I move on to people with disabilities because PPI have found that a third of people with disabilities and over a third of ethnic minorities will not build up an entitlement to S2P even after the pension reforms. What is the Department doing to address that?
Ms Winterton: Well, I think some of the changes that we are making from 2010 will make a difference in that disabled people no longer need a work history to get into the state second pension. Everyone getting employment and support allowance will be credited into S2P and credits will operate on a weekly basis, so this means that people who get credits for a succession of short periods will still build up entitlement. In terms of the ethnic minorities, after 2010 about a quarter of all working-age people will not qualify for S2P, but that increases to a third when looking at people from ethnic minority groups. I think that was one of the issues that came out, and certainly we think that the changes that are coming into effect in terms of the 30-year rule will make a difference there as well.
Mr Woods: I would just quickly add on the sick and disabled that I think the system of S2P credits which we are bringing in from 2010 ought to be pretty comprehensive. Essentially, if you are on employment and support allowance for more than a year, you will be credited for your S2P for all of that

period. You will not get a complete correlation, of course, with people who say they have got a disability because many people with a disability work and contribute and so on in a variety of other ways, but those are quite big improvements and, in total, bring about another one million people into S2P which, I think, is quite a positive step forward. On the ethnic minorities issue, I think the other point to highlight is that 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.

Q196 Mrs Humble: The other group which is a challenge as well are the self-employed, and you will recall that in our earlier report on personal accounts we pointed out that self-employed people are not going to be automatically enrolled into personal accounts, but they also do not receive the state second pension. Is there anything that you can do to help those individuals because not all self-employed people are wealthy? A large, large number run small businesses and they are required to plan ahead for their own futures, so it is going back to your earlier point about raising awareness about what that future is and a good number of years as a pensioner.
Ms Winterton: I think it was in the Green Paper 2002 and in the White Paper that we did look at the position of the self-employed. There was an option to compel self-employed people to join S2P, but that would have meant quite a big hike in their National Insurance contributions. We certainly felt that, if they had existing pension provision, you would not necessarily want to compel people to join into something else because that would then disturb what they have already decided to do personally. To a certain extent, what we feel is that, having looked at all those options, it is better to actually allow the self-employed to opt into personal accounts rather than perhaps having a quite confusing choice of either opting into that or S2P, so we have looked at a lot of the issues around the self-employed, but it is certainly right to say that one of the real factors that we took into account was the big hike that it would have meant for them in National Insurance contributions and, as you say, not all self-employed are very wealthy in big businesses and there is that sector where we need to be very aware of additional burdens on them.

Q197 Mrs Humble: But it also goes back to the information that is given to them so that they are making informed choices about whether they invest in personal accounts or have a private pension. A lot of self-employed people are assuming that they are going to be able to sell their business and then the income from the sale of the business will provide them with security in the future, but certainly at this time that is not an option for many of them, but nor, sadly, is sometimes keeping the business going either, so it is again about informed choices, and I am not sure how you can make sure that self-employed people are given the information on which to base informed choices.
Ms Winterton: I think that is a very important issue that we need to look at in terms of our communications campaign leading up to 2012, which is when we will be building on, in a sense, the parameters we are trying to set through the refresh of the Ageing Society Strategy and encouraging people to think about their futures, about their retirement and, when it comes to personal accounts, making sure that we are out there with the options very firmly for people who are self-employed. As you say, at the moment, because of the kind of economic downturn, I think there is a focus where people are beginning to say, "Um, am I thinking enough about the future?" and there is that uncertainty around and we need to make sure we are harnessing that thinking to certainly put the options in front of people.

Q198 Chairman: Can I ask whether contributions are still relevant in the modern age? Is it time to just start again? I will take that as a yes, if you want!
Ms Winterton: Well, I think we certainly have to constantly look at the effectiveness of how our communication strategies are, about the different contributions and how they do play into the wider debate that we are trying to encourage which is about people thinking much more in terms of what is going to give them security later, or not always just later on, but sometimes in the immediate term as well because some of these can have an effect on access to other benefits, and make sure that we are, as I said before, harnessing some of the circumstances at the moment to really press home the case.
Mr Woods: I think that is right and I think that probably many of the self-employed who do pay substantially lower National Insurance than particularly the combination of an employer and an employee, and in many cases it might be perhaps as little as a third of what an employer and an employee combined would pay I think a lot of them would say, "Well, I am making some separate pension provision for myself and actually I think it's right that I should be paying lower National Insurance because of that", so it is difficult territory to see how you could move particularly to a different set of National Insurance, but of course it is essentially a matter for the Treasury.
Chairman: But the fact remains that there are very significant numbers of self-employed who are making no provision at all. I think at least it is worth, not a Green Paper, just a straightforward consultation document for the self-employed sector, saying, "What are your views? Should we carry on in this way or should we be looking to change it?" I think it is worth asking the question because it was highlighted in the Turner Commission that, I think it was, 60 or 70% are making no provision.

Q199 Miss Begg: I have some questions on council tax and Housing Benefit, but perhaps I can start by giving you the example of a constituent who came to see me just last week, which may help to explain why there is a low take-up, particularly of the savings credit. This gentleman qualified for a small amount of Housing Benefit and council tax rebate, but was afraid of claiming for the savings credit element of the Pension Credit because he thought that the interplay with that extra money might possibly, and he did not know whether he would get it or not, and my reckoning was that he probably would, but he was afraid that the interplay between that benefit and council tax and Housing Benefit would mean that he would be no better off, and indeed he was afraid he might actually be worse off. Now, if that is a general feeling amongst pensioners, then that may help to explain why there is such a reluctance to sign up to the savings credit, so could you give me the assurance, because I could not give it to him, despite the fact that I know this stuff reasonably well, that in fact, if he were to qualify for the savings credit element of Pension Credit, that he would still qualify for the same amount of Housing Benefit and council tax rebate and, if not exactly the same amount, he would still be better off and not worse off, as he feared?

Mr Woods: Perhaps I could just help with the technicalities of that. You are absolutely right, his Housing Benefit would go down if he got the savings credit, but his total income should be higher.

Q200 Miss Begg: I have given his number to the local pension service in the hope that they might do something, but he was very reluctant and he was quite concerned. What he came to see me about was the unfairness of the assumed income that he was getting from his savings, savings of around £10,000 which I think have come down to just over £6,000 now because he has got a car, but he has still got £600 which will have an assumed income, and I have forgotten what the calculation was, but way beyond anything he possibly could get in terms of interest, so that is the other question. In terms of assumed income, are you going to be looking at that in the light of the present economic crisis and the very low returns? I explained about the expectation in the drawing down of the capital, but he is drawing down his capital in a far quicker way than would have been the case a year ago, I think. Then, if you answer that question, I have another one for you.

Ms Winterton: That is what I was referring to earlier, which is the change that we made in the capital disregard from £6,000 to £10,000.

Q201 Miss Begg: Yes, but that is on Pension Credit which, remember, he is not claiming because of his fear of losing out. It does not apply, or does it, to council tax and Housing Benefit?

Ms Winterton: It does.

Q202 Miss Begg: So that will take him out because he has got less than £10,000. But say he had £11,000. That would still give him a problem of the assumed income.

Ms Winterton: Yes. I think we need to be pretty clear that there is no connection between the notional amount which people are asked to contribute towards their finances, if you like, and the £1 for every—it is not about an interest rate. These are the regulations that were in in something like 1987 which laid down the fact that at that point it was £1 for each complete £250 in excess of £3,000 but not exceeding £6,000. It has not tracked interest rates because, obviously, if it did, it would be going up and down all the time. What we have done as a Government, as I was saying earlier, is that we have first of all increased it to £1 for every £500, there is no upper limit, and the disregard we did change in the Budget to £10,000. I know there is a feeling that somehow it is connected to interest rates but there is not actually a connection. It is something which has always been assumed as a contribution where people whose capital savings above a certain amount are taken into account in terms of allocating them a benefit.

Q203 Miss Begg: So the answer is no, you are not going to look at the assumed income again? You think it is reasonable?

Ms Winterton: We have just done it in the Budget, yes. We have just raised the amount of disregard but we have kept it as £1 in £500.

Q204 Miss Begg: The thresholds have gone up.

Ms Winterton: Yes.

Q205 Miss Begg: Have you got any estimate as to how many pensioners therefore have been caught in the raising of the threshold who in fact will be quite a bit better off because of the threshold rising?

Ms Winterton: Yes, about half a million will be about £4 a week better off.

Q206 Miss Begg: This constituent of mine has fallen into the trap which we have heard about and you have mentioned already this morning, the fact that the DWP will do assessments on Housing Benefit and council tax, but he has not been through the DWP; he has been through the council who will not do the assessment on Pension Credit. Are there any plans to allow the councils or local authorities to do that assessment so that when they get someone who has got Housing Benefit or Council Tax Benefit there is a pretty good chance they are going to qualify for Pension Credit, and that might help some of the take-up figures if the flow of information can work that way?

Ms Winterton: Certainly we do try to work very closely with local authorities. What we do want to see though is a single point of access to benefits because otherwise people can get a little bit confused. We have got a lot of joint working partnerships at local level where we try to ensure that as much as possible there is information available to people about their entitlements. On top of that the PCDS does something like 13,000 home visits every week in order to make it as easy as possible.

Q207 Miss Begg: But some of this is still not answering the fundamental position of my constituent. He was frightened to invite the Pension Service either into his home or to look at what he was claiming because he thought he might be better off by claiming more Pension Credit as a result of his

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Housing Benefit. That is the trick that perhaps we miss, that there are too many pensioners out there who probably would qualify for the savings credit, who have never really qualified for very much because they know they have got savings, but actually are put off because they think that somehow somebody might be out to trick them and therefore they will end up being worse off unless you make that a clear unequivocal message that you will be better off if you go and get this calculation.
Ms Winterton: Exactly. I have been, and I am sure members of the Committee have been, up to some of the centres—I do not know whether we call them call centres—where you can sit with people listening to them going through with people what their savings are, what they may or may not qualify for, and I think it is encouraging people to do that in a very open way. There are two issues here, are there not? It is people thinking, but I am sure this would not apply to your constituent, "Maybe I am not claiming properly", but it is the ability to have that very open conversation about what their circumstances are; that is what we try to encourage, and, as Alan Woods has said, in your constituent's circumstances he thinks that the person might be better off, but it is important that they have that conversation with the experts.
Mr Woods: I think that is right. It is certainly an issue that Pension Service staff are aware of and it is part of their job to give exactly the reassurance I was able to give you earlier, but it is a good point for us to look again at some of our marketing material and just make sure that we are covering enough.

Q208 Miss Begg: This is not a gentleman who does not know about pensions. Part of the problem is that he is trying to do the calculation himself but these calculations are so complex that he himself is not able to see whether he would qualify or not, and that underlying concern that somehow, whether it is the Benefits Agency or the Pension Service, they are out not to give you money but to take money off you is quite prevalent. He is prepared to show what his savings are in terms of applying for Council Tax Benefit, so he clearly knows what that is about, which is a barrier for many, but here he is still sitting there, knowledgeable but afraid because of the complication of it all.
Ms Winterton: As Alan Woods says, that is very helpful. We are always looking for feedback on what some of the barriers might be, so we are very happy to take that away.
Mr Woods: I spent a couple of days with a Pension Service local service a couple of months ago and it was very interesting seeing the visiting officers going out, quite often to places like sheltered housing and lunch clubs and so on, and doing some of that stuff where you get out, meet quite a lot of people and sit and natter with them can be extraordinarily important in getting across (a) that we are a friendly face, and (b) getting to the surface these concerns and being able to address some of them. There is a lot that goes on to try and address that but it is a point well made.

Q209 Miss Begg: Can I turn the question on its other head? How far is the failure to take up council tax rebate a bigger problem, because the take-up rates on that and on Housing Benefit are the lowest figures? That is a bigger problem than failure to take up Pension Credit.
Ms Winterton: That is right. We have got this single point of access which started in October, which is where people can get their State Pension, their Pension Credit, Housing Benefit and Council Tax Benefit without having to fill in a lot of separate forms, and we are automatically passporting it through. Last week we wrote to something like 200,000 people who we thought might be eligible for that extra help with Housing Benefit or council tax. I think what we need to do is make it absolutely clear that this can be a quite substantial amount of money. The average payout for Housing Benefit is £61 a week. The average payout for council tax is £14 a week. We need to be saying to people, "If that adds on to your £130 if you are a single person it is getting up to quite a considerable amount of money that you might be missing out on", but we also must not lose sight of the fact that, yes, we need to make sure that people are very aware of the savings credit as well. Part of our strategy is that a few extra pounds can make a big difference, so it might be something where people say, "It sounds a bit complicated", or, "I do not think I would qualify". Our message is, "Do have a go. Get the information. Nobody is going to cart you off and throw you in jail". It is about empowering people to get the information.

Q210 Miss Begg: Do we need to change the name of Council Tax Benefit to council tax discount, because, again, going back to what Joan Humble talked about, for the owner occupiers who have never claimed anything from the state in their lives that might be the biggest hurdle for them. That is possibly where they would get the most money and for those who are asset rich but income poor that Joan talked about the biggest hurdle to get over is the psychological one. Have you any plans to change the name?
Ms Winterton: 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.

Q211 Miss Begg: Some of them will be claiming their single person discount; quite a lot of them will be claiming the single person discount. I am quite happy to claim the single person discount.
Ms Winterton: It is the word "benefit".

Q212 Miss Begg: It is the word "benefit" that is the problem. My final question is that Departmental Strategic Objective 6 has targets for Housing Benefit fraud and error and the time taken to process claims but not for take-up. Why not?

Ms Winterton: Certainly through DSO 6 it is about making sure that the department is very focused on paying customers the right benefit at the right time, but we also have other strategic objectives within the department. I think DSO 6 is one of seven objectives that we have got and, of course, one of our other Strategic Objectives, which is DSO 4, is about promoting independence in later life, about tackling pensioner poverty and about implementing pension reform, and there are indicators below that, one of which is about the percentage of pensioners in low income, so we are not in any way saying that fraud is more important than take-up, though, obviously, it is something that we need to take very seriously. Within this House we get constantly asked about what is being done to combat fraud but that does not mean that we do not focus as much attention on take-up as well.

Q213 Michael Jabez Foster: Just before leaving Anne's point about it is all in a name can I suggest that it is important because I know that when pensioner credit replaced income support a lot of pensioners felt a lot better about it because it was not the same as those guys outside McDonalds with a dog? They do see a difference and I do think names are really important so I am hoping maybe some of those things will get picked up. I want to ask about attendance allowance. With the Equality Bill before Parliament now is there any justification for treating DLA eligibility and AA eligibility differently, the consequence of which is often, as you know, that people that are eligible for DLA do not get attendance allowance? Is that not just straight age discrimination?
Ms Winterton: DLA has always been focused by successive governments on helping people who are disabled early or relatively early in life and therefore have fairly limited opportunities to either work or perhaps save for their retirement. It is this question of do you say when somebody is over 65 they would then have the DLA? I think we need to recognise that this is going to be an issue that perhaps increases attention as our society ages and therefore changing that benefit would in the future have enormous repercussions. With regard to the Equality Bill, there are principles within the Equality Bill which say that sometimes it is possible to highlight the difference between a benefit that people might receive during what is considered to be their working life and a benefit which comes into play when different conditions arise in their pensionable time. We do not think that the different rules are discriminatory, and attendance allowance already has a six-month qualifying period, so we think it is possible within that Bill to distinguish between the two benefits and the age element of that, but, as I say, DLA has always been about younger people who are particularly affected by disability earlier in life.

Q214 Michael Jabez Foster: I understand that, and I understand that there may be a financial reason absolutely and above all that makes it difficult, but it is discriminatory. It costs the same amount of money to deal with a particular disability when you are old as when you are young, and it might cost even more because you do not have the natural strength and abilities that maybe a disabled person of a younger age may have, particularly with the greater activity of older people nowadays. They want to get out in the same way as young people get out, and so it is discriminatory. What I am really saying is, do you simply justify that discrimination?
Ms Winterton: 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. There is a distinction and I think we will see that perhaps in different bits of the Equality Bill. The Equality Bill is quite careful about age discrimination so that, for example, we can continue to have free bus travel for the over-60s because there are those who have argued does that not mean that you would not be able to target certain policies on older people, and there is still, obviously, that ability within the Bill itself.

Q215 Michael Jabez Foster: Until we reach Utopia when we have free bus travel for everybody, I guess that is probably the next best thing. The King's Fund, chaired by Sir Derek Wanless, said would it not be better if the attendance allowance cash was used for providing more direct services to individuals, which seems to be counter to the Government's idea of more independence and budgets of individuals and all the rest to decide for themselves. Do you have a view about what the King's Fund says in that regard?
Ms Winterton: Yes, I do. I feel that what we are talking about in terms of essentially giving you money through social services would not meet the agenda of having quite personalised services, and I think increasingly people want to see that. They want to decide that they have the right to choose the services that they want when they want to have them, and I am saying that with my MP/ constituency hat on because of meeting people who I feel increasingly do want to have that control.
Mr Massey: Just to add to that, obviously, we are at the moment in the middle of a review of social care and the Budget announced that the Green Paper would be published next month. I think the whole basis of that has been very much in terms of trying to look at the whole system and not ruling anything out, and as part of that one of the issues has been the question of alignment between the benefit system and social care and that is one of the things we have been investigating with colleagues in government in terms of the role that the individual and the state might play. It is one of the questions that has been on the table and one that we have been considering as part of that review.

Q216 Michael Jabez Foster: The personal expense allowance, which is paid, as you know, to those who are in residential care, is just £21.90 a week. It so happens, I have worked out, that it is about a third more than it would have been if we had simply added

inflation to what it was in 1997. It was absolutely awful then but it is still not very much now. Is £21.90 a week really justified for clothes, toiletries, hairdressing? Is there some other way that we should be looking at supporting those in residential care on such meagre sums?
Ms Winterton: The PEA has been uprated each April in line with earnings and I think that has been the case since 1948. It is not a benefit. It is the minimum amount a care home resident must be allowed to keep, and 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.

Q217 Michael Jabez Foster: You rightly make the point that it is not a benefit; it is simply the bit that you can hold back, and therefore it matters, surely, how many pensioners really have to make do with this amount of money. It may be that there are not large numbers. Has there been any estimate made as to how many really do have to cope with £21.90 a week? If it is a substantial amount, or even if it is not, is there a case for a supplement for those who do not have any other resource beyond that limit?
Ms Winterton: We do have estimates and we think that is probably in line with people receiving public assistance and so about 250,000 people. That is our estimate.

Q218 Michael Jabez Foster: So if it is such low numbers then presumably it would be possible to pay a supplement to just those few without increasing the limit substantially overall?
Mr Massey: We do not collect that information centrally so the 250,000 is an estimate of what is collected locally, but the £250 million that the Minister quoted was from that figure. If you imagine £20 per week for 250,000 people, it would cost £250 million, so even quite small changes could have some quite big implications for the Exchequer.

Q219 Michael Jabez Foster: Why is it that DLA or AA is counted as income when poverty figures are calculated? Are there any independent figures showing what the numbers would change by if DLA and AA were excluded?
Ms Winterton: Yes. DLA and AA are included because, obviously, they do provide a straight cash contribution. We do that in line with a lot of the discussions that go on about what the protocols are about collecting information into the HBAI, but we have also done some other work and I think that if we removed those from the data collection it would increase the level of low income by about three points, is the estimate that we would make. Overall it would not affect particularly the downward trend that there has been but we think it is about three percentage points.

Chairman: Can I just make the point that those that are on PEA by any definition are in poverty but because they are in care homes and not households they are excluded from the poverty figures. I just make that observation.

Q220 Harry Cohen: Can I ask if the Government has done any assessment of the economic downturn on pensioner poverty?
Ms Winterton: We have not done a completely separate assessment because the information that we collect is done through things like the HBAI, and what we want to make sure is that we are sticking to the ongoing research that is done, and it just might be a bit confusing if we started doing other types of research because these are fairly massive surveys and fairly accurate surveys, and that is the way we measure it. In terms of working with organisations looking at what we all know have been the concerns that have been raised, that is ongoing, which is why we made some of the changes that we made in the Budget as a recognition of the fact that there were some difficult issues around food and fuel prices; hence those changes that were made.

Q221 Harry Cohen: First, then, if you have got some assessment and we are doing this report, can we have a look or can our Clerk come along and have a look at your assessment so that we can consider them for our report?
Ms Winterton: As I have said, there is a certain time lag between things like the HBAI and the other information that comes through, and this is something that we cannot publish ourselves as Ministers. This is published by the statisticians separately. We do look at what we can sometimes pull out of surveys that are ongoing. In fact, I asked to see whether we could do some of that recently. If we can share any of that I am more than happy to but we would need to write to you about first of all the practicality of doing that and whether under the protocols we can do it. Sometimes it is rather carefully guarded until they have made sure that it absolutely stands up to public scrutiny before publishing it.[4]

Q222 Harry Cohen: You mentioned about food and fuel in the Budget and I know there have been increases in food costs. Did the Government do enough to help the poorest pensioners with food or fuel costs ?
Ms Winterton: If we look at this year and we look at the increase in Winter Fuel Payments, the increase in the Christmas bonus and, with a particular eye on the fuel situation, the tripling of the cold weather payments, I think last year we spent something like £4 million on cold weather payments. I think we have spent something like £209 million this year on cold weather payments. It was quite an enormous increase and for those individuals it was that tripling of the amount that they were paid per week. Over and above that, as has been said, we have been working very closely with DECC to make sure that

[4] See Ev 158

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.

Q223 Harry Cohen: Can I ask you about people with savings? In a way the Government saved savers because the banking system would have collapsed completely, so I think that should be acknowledged, but nevertheless with the collapse of the interest rates some pensioners who rely on their savings have had a big drop in their income. The Clerk has given me some statistics that the average tends to be about £50 a week of savings income, but the median is £7 a week and some of those who have a standard deposit account might have lost as much as a fiver of that. I do not know if that is accurate, but has the Government done enough to help pensioners, particularly with those low levels of savings that have lost such a lot?
Ms Winterton: As I was saying earlier, the capital disregard was quite important in ensuring that people with the lower level of savings would have assistance, and I think the figures are that with the changes that have been made this will mean that something like 88% of pensioners on Pension Credit will be covered by the capital disregard because of it increasing to £10,000. Again, some of the issues here are around what we can do as a Government to help people get good advice about their finances. Whilst we as a Government obviously do not give financial advice, I think it is important to get messages out to people about what they can do to ensure, for example, that they are getting the best rates. You mentioned some accounts that might have a very low rate of interest. I know from my constituency work that there will be people who come and see me and say—in fact, I rang somebody up the other week who had written a letter about difficulties that she had with savings, and she said, "I have looked around a little bit now and I have got something which is a better rate for me". I know that that can be quite difficult but what we do try to do through things like the "Let's Talk Money" campaign, Direct.gov, the Pensions Advisory Service, working with Help the Aged and Age Concern—in fact, after the Budget we worked very closely with Age Concern to say, "What can we help put on your website that can give advice to people about some of the implications of the changes in the Budget?", but more generally what people can do in these times to protect their savings, although, as you quite rightly say, the biggest issue people would have faced was if we had not stepped in and taken the action because many people would have been in a far more precarious position if we had not taken those initial steps.

Q224 Harry Cohen: Can I ask you about lifestyling funds where people can have their money coming up to retirement? I am told that about half have lifestyling funds and half do not, and people are vulnerable in a way to the stock market if they have got funds that are related to that, but people who have got these lifestyling funds are not necessarily safe either. We are told in some of the submissions that "[for] those who would retire a few years later lifestyling might crystallize losses and prevent them benefiting from a recovery".
Ms Winterton: 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. It is also important to recognise that when it comes to annuitising the rates have not dropped as dramatically. We have got something called the open market option, which means that people are encouraged to shop around again and find the best annuity rates. There are options around deferral. Some people are making decisions that they would like to carry on working for a little bit longer if they do not feel it is appropriate at the moment for them to retire, but again this is very much about the perception and the reality and making sure that people do understand that they have got the ability to make certain choices in these circumstances and how do we empower them to do that and how do we make sure that a lot of people in the pensions industry are getting good advice to them.
Mr Massey: Just on the specific question around lifestyling, our latest data tells us that of the 9.8 million people or so who contribute to DC pensions about 5.9 million are in lifestyle funds. Of course, you are absolutely right: 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. I think it is that question about taking a long-term view. We recently published a savings report that looked 70 years ahead and which looked at some more pessimistic scenarios in terms of rates of return but eventually also generated a positive return. I think that message of saving for the long term is an important one not to lose.
Ms Winterton: And I think also in the evidence that we sent to you, if you look at particularly the low income pensioners, I think over a quarter of mainly low income pensioners do not receive any investment income at all.

Q225 Harry Cohen: Do you expect more people to opt out from personal accounts because of this current situation and do you expect to see some pressure from businesses, especially small businesses, to scrap personal accounts?
Ms Winterton: 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. I am sure that there will be those who say, perhaps from the small business sector, "We are concerned about this", but I think we have to say two things. One is that we are doing everything we can to minimise the burdens on business. We are doing everything we can to make sure that we are getting accurate figures about the cost of first implementation, but there is a real issue here about the longer term, which is that 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 are not saving enough to meet their retirement aspirations; this is an active measure by Government to help those people, but in the wider society approach this is something that we really do need to grasp because of the ongoing effect it could have on individuals but also on businesses.

Q226 Harry Cohen: My last question is on the link between pensions and earnings. The Pensions Commissioner said that it should really commence in 2010–11 and the Government has said that there will be an announcement in the next Parliament to be implemented before the end of the next Parliament. That could be 2014–15. Can the Government not bring this forward?
Ms Winterton: 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 than if it had been uprated with earnings, 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.

Q227 Mr Heald: It is good to be able to question you on a subject I think we have discussed before, and I think I have discussed it with Mr Woods on a previous occasion, which is this thorny subject of financial advice. We all know that most of the people who are on the point of retirement or who are retired do not have a really detailed knowledge of a lot of financial issues which they face. We have heard from experts, like Mr Kohler from Help the Aged and so on, that it can probably affect your income in retirement by a quarter or something like that, making the right decisions about things like which annuity to buy, whether you take a lump sum on retirement, issues to do with tax, where you invest your money and then issues like decumulation, equity release and so on. How are we going to solve this problem? Who should be giving this advice in a dispassionate, objective, accurate way to senior citizens in our country?
Ms Winterton: First of all, there are a number of initiatives that I think I have already touched on where there are sources of information, and the FSA has recently launched their Moneymadeclear service. That is about information through the web, a telephone service, a face-to-face service, and I think that is piloting—Pathfinder, we call it—in the north west and the north east. That was launched in April. Looking beyond that, I think it is absolutely right (and it is something we want to look at in our Ageing Society refresh) to look at how can we use some of the modern communications methods of getting good advice to people. It is always very clear that Government has to be very careful about giving advice, but how can we signpost people to the most effective sources of information? There is work we can do, as we have said, through the Pensions Advisory Service, through the Pension Service, through Citizens Advice, through Help the Aged, and we will continue to do so. I think when we look at Ageing Society as well we will be talking about how we can even improve on what is already out there.
Mr Massey: There is clearly no one-size-fits-all approach here, and I think there is a range of different ways in which we reach different audiences already. The Minister mentioned earlier the PDCS local service in terms of poorer pensioners and 13,000 visits each week. Of course, we have got the Pensions Advisory Service that takes over half a million hits on its website, over 60,000 calls a year, but the question is about how do we play our role in signposting along with others like the FSA and so on to make the best of places like Direct.gov in terms of providing hubs through which we can start to do things around information that are going to be increasingly important.

Q228 Mr Heald: The witnesses we have had disagree with you. CAB and Age Concern said that what is needed is something that is a bit one-size-fits-all, namely, a trusted national brand where people know that that is where you go to get your senior citizen advice. That is what they are suggesting. What do you think about that idea of finding some way of branding a place as where you go as a senior citizen to find out information? Of course, I know you have got the website which the FSA have launched, but with the best will in the world do people know about the FSA? We all do but have senior citizens heard of them?
Ms Winterton: I think that is a good point.

Q229 Mr Heald: What about silver surfers? There are some, are there not, but we are not at the point where all our senior citizens do it.
Ms Winterton: Yes. I think the branding thing is interesting. The NAPF did a quality assurance scheme, did they not? I think that was just around pensions. 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. Again, part of the Ageing Society refresh is about

saying if you are going to help people prepare for later life then they do need to be able to have access to good information. I heard of something recently, and I think it is a private pension fund provider that does it, but you can go on the internet and feed all your details in and say, "This is what I want to do in retirement", ie, keep up the number of foreign holidays, keep up the number of visits to family and friends, or whatever, and out pops an assessment of how much longer you are going to have to work if you want to achieve that, or it is achievable or it is not. I think that is what a lot of people are going to need if they want to prepare for their older life, slightly separate from how they then get financial advice. That is where I think your idea of the branding of particular companies or services, if that is what you are getting at—

Q230 Mr Heald: Yes, I am. I am saying that you might go for a national brand where, if somebody went, for example, to a particular Citizens Advice Bureau it would say, "Seniors' advice here", or whatever your brand was, and equally if it was another law centre doing it, but it would have a brand so you knew where you got your seniors' advice, and if you looked in the telephone book it would be there, "Seniors' advice" and a list of where you go.
Ms Winterton: I would doubt that the Citizens Advice Bureaux though would want to give financial recommendations.

Q231 Mr Heald: I agree; it is a very difficult issue.
Ms Winterton: It might say, "You need to be thinking about X, Y, Z".

Q232 Mr Heald: But, of course, you are in Government and this is a national problem. Mr Kohler, when he gave evidence to us, was saying that the number of people who just plump for their own provider's annuity without shopping around is frightening. That is the word he used. He said, "They need shedloads of advice", and they are not getting it. It is an issue given the amount of money involved. I am not saying that I have got the answer but I do want to know if you have.
Ms Winterton: That is why we have looked at how we can make people more aware of things like the open market option when it comes to annuities and so on. As I say, 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.
Mr Massey: The only point I would add to that is that the Ageing Strategy that we will be publishing soon was helped by a discussion paper that we published in the autumn of last year where we asked the question not simply relating to financial advice but advice and information more generally about what people thought Government and others might be doing to improve access to information and advice, and that helped us get to issues of trust as well, because clearly, whether in a single brand or in multiple brands or with different providers, the question of where people trust their information looked to be a critical factor to take into account as we plan to implement not only pensions reforms but broader things around ageing more generally.

Q233 Mr Heald: I know with this pension mis-selling we have all been very worried about this issue and I understand your reticence, but is there not a case for just saying to people, "Look: you need advice. Go and get advice", just because it is such an imperative?
Ms Winterton: And it is part of the campaigning that we do have to do in the communications strategy that we want to build up around the whole issue of personal accounts.

Q234 Mr Heald: And what are you going to do about this "Claim Back Tax" campaign which was announced in the Budget to make sure people actually do that and get their credit repayments?
Ms Winterton: I believe that HMRC are contacting all 2.7 million Pension Credit customers to encourage them to claim back tax that they may have overpaid.

Q235 Mr Heald: The last point I want to ask you is that Professor Hills, who we all know, was saying that deferring the State Pension is probably one of the best investments anyone can make but nobody really knows about it. You do have a very long leaflet all about it; it is 100 pages long, and apparently there is a form, but can you do more to raise awareness of this option because it does seem to me quite a good one?
Ms Winterton: Yes to both questions. We do need to perhaps do more to make that clear, and I am not sure why the leaflet has to be 100 pages. Obviously, we will look at it and see if it can be made shorter. I have not seen the 100-page leaflet but I will do so and see if it is possible to cut it down.
Chairman: I just make the observation that if you stop 1,000 people in the street, of those that recognise the initials FSA five times as many think it is the Food Standards Agency as think it is the Financial Services Authority.

Q236 Greg Mulholland: My apologies for being late. I was speaking in a debate on older people and healthcare. The Pensions Commission report had three legs to it, and the third of those was making it easier and more common for people to extend their working lives. The evidence that we have had to the Committee has very much said that they believe that the Government has not taken that leg seriously and has not really taken that agenda on very much at all. How would you respond to that?
Ms Winterton: In terms of people working longer, I think the changes that we made in something like 2006 were hugely important. Before the DRA came in companies could just decide what their own retirement age was and the fact that we have said that employers cannot force people to retire under

the age of 65 unless they can objectively justify a lower age is incredibly important. Before that people had very little protection to enable them to continue to do that. The Age Positive campaign that we launched has been important in emphasising to companies the benefits of older workers. I think we do have some good examples out there now whereby you see adverts on the television which feature older workers as one of the reasons why you should go to a particular store, and I suppose we can all think of which one that is. We have said that we will review the DRA in 2011 and if that review shows that it is no longer necessary to have that default retirement age 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.

Q237 Greg Mulholland: Big strides but a long way to go is very much the message that we are getting, and in terms of the default retirement age the problem is that the length of time you are talking about is too long according to most of the witnesses we have heard from, and specifically from Age Concern and Help the Aged. They have basically said that it is clear that the default retirement age is giving employers permission to force older workers out of employment during a recession as a cheap and easy way to make savings. Why is it taking so long for the Government to make its mind up on this very important issue?

Ms Winterton: Because when we made, as I say, what I think was quite a bold step forward, quite a radical reform, in 2006 we did say that we would give it five years so that we did have an adequate amount of time to then carry out the review and have a good evidence base to rely on. I think the view has been that that was about the appropriate timescale to say that we were introducing something which would have an enormous effect on quite a number of workers and therefore a five-year period was considered to be appropriate. As I understand it, the review will be completed by the end of 2011, so we are effectively talking about a four-year period if it takes that amount of time.

Q238 Greg Mulholland: Do you not think there is a case for bringing it forward precisely because of the recession and the concerns about pensioner poverty? Could that be something the Government could look at?

Ms Winterton: I think you would want to make sure that you were doing a careful review of it because it is a contentious issue and it is something that you would want to say needs a thorough examination of the evidence that has been built up during that period. I think if people felt that what you were just doing was hurtling into it and not looking at it in depth—you would have to accept that in terms of changes that could be achieved you could not just do that overnight today and say that by next week X, Y, Z will have happened. You would want a review, and I know people are feeling that there is a focus because of the economic downturn on older workers but I do not think any of us would say that you could do a review, as I say, overnight. I think people would be concerned if we did that. However, in general what we have tried to do during the downturn itself is to have access for people over 65 through the Jobcentre Plus work so that we can provide people with assistance in terms of looking for jobs and so on. I do feel that the Age Positive campaign has been a positive campaign and that it has led to a far greater recognition of the benefits of older people, and something that I feel very strongly about as well is the skills of older people. We talk a lot about skills. I think there are a lot of skills that older people have and that we do need to look at how we can pass those skills on to future generations and that employers recognise the importance of that and that an older person has not only a lot of wisdom but practical skills as well, practical knowledge that is incredible valuable and needs to be harnessed when we are talking about the skills and training issues that we do at the moment.

Q239 Greg Mulholland: You mentioned Jobcentre Plus. Do you think the Jobcentre is doing enough to help the over-50s, not only the over-65s, to find work? I draw to your attention a case that was brought to our attention, the case of a 59-year old man attending the Runcorn Jobcentre Plus. He retired early, received an occupational pension but, due to the downturn, found his retirement income was not sufficient and so he signed up for some part-time work and he went to the Jobcentre and was asked if he claimed benefits, and when he said no he was told, "There is nothing we can do for you". That is not acceptable, is it?

Ms Winterton: We certainly do not want people to be told that there is nothing that can be done because there is obviously job search help, on-line vacancy information and other ways that older people can find work, and of course we are rolling out a lot of programmes in terms of Flexible New Deal and Pathways to Work that we hope will benefit all people. We certainly would not want to see somebody of that age not being signposted to some of the immediate help that is available but also to some of the new schemes that may be coming on. A 59-year old would be equally able to access, for example, extra help for people unemployed over six months.

Mr Massey: It would be interesting to know exactly what happened in that case. That should not be what is happening, and I am thinking particularly where, although the focus of our labour market introductions are generally for people of all ages, there are some things that will particularly benefit older people, the Rapid Response Service, for example, where last year we doubled funding from £3 million to £6 million and now we have doubled it again to £12 million to provide skills and support for people facing redundancy which older workers may face a greater risk of in addition to the six-month plus unemployed help, particularly as there are more self-employed people in the older population. I think about 18% of 50–64 year olds who work are self-employed compared to 13% of the wider population, so there are a number of things that should be benefiting older workers, and, obviously, we hold ourselves to account through the public service agreement in relation to employment of older workers.

Q240 Greg Mulholland: Can I ask you to look at that case specifically because it is, I think you will agree, a concern?
Ms Winterton: Yes.

Q241 Greg Mulholland: I also think it would be useful for the Committee if you could provide us with advice to Jobcentre Plus staff about dealing with older people[5] because clearly we hope that is a one-off of a member of staff not doing their job, but we want to be convinced that proper advice is being given to Jobcentre Plus staff. In terms of people over 65, going back to that particular issue, again do you think enough is being done to encourage people over 65 to work and do you think that the low earnings disregard on Pension Credit is a disincentive to many people of that age?
Ms Winterton: It is the role of Government, as I see it at the moment, to facilitate those people who want to carry on working and to make sure that they have got all the information they need, whether it is about deferral of State Pension, whether it is about how to access work if they want to get it. It is a fine line to cross, is it not, saying we want to encourage everyone to carry on working because some people probably do not want to and if they feel that they have worked long enough I do not think we should be saying, "We think you should carry on", if it is not their choice. I see our role as making it easy for people if they want to do it but I am not sure we should be in the business of necessarily encouraging people because they will want to make their own decisions about it. We do not have any plans to change the £5 earnings disregard. We think it would probably again cost around £155 million a year.

Q242 Chairman: It was £5 in 1988. It is basically seven hours working at minimum wage.
Ms Winterton: What we are looking at is what are the incentives already in the system, obviously things like Working Tax Credit, the abolition of the 16-hour rule in Pension Credit and so on. Of course, people over 65 do not pay National Insurance, so again that is a way that we can intervene and are intervening at the minute.

Q243 Greg Mulholland: I have to make the comment that I do not possibly see how trying to address the disincentive of a very low level can possibly then push people who do not want to work into work. I do not feel there is any logic in that at all. You have made the position quite clear on the disregard. The Pensions Commission suggested that keeping the age at which someone becomes eligible for the Guaranteed Credit a couple of years below State Pension age might be a way of protecting those with lower than average life expectancies and, given that the State Pension age is set to rise from 60 next year and with unemployment increasing, is there not an argument to maintain the guarantee credit age at 60 to protect those not able to find work at 60? Is that something that the Government would consider?
Ms Winterton: I think this is where the Commission proposed that we look at it when the State Pension age has increased and I think we have agreed to do that.
Mr Massey: The Commission suggested that we should look at that at the time when we are increasing the State Pension age. I think we intend to look at it when we do that.

Q244 Greg Mulholland: So it could be good news?
Mr Woods: It is the changes that start to come in from 2024 that the Pensions Commission said you should have a look nearer the time, at whether it would be right to raise the Guarantee Credit age at the same time or not, and I think the Government in their White Paper say that indeed we will look at that as we get nearer the time.

Q245 Greg Mulholland: I am talking about next year; I am not talking about 2024.
Mr Woods: I think the Pension Commission were talking about the longer term reforms in their recommendations.

Q246 Greg Mulholland: So what about looking at it when the change happens next year in terms of State Pension age? Is that something someone will look at?
Ms Winterton: What we are doing is concentrating on the longer term at this point and not making changes next year. There are quite a few changes coming in next year that we are very keen to make sure are implemented as smoothly as possible and in as least complicated a way as possible, so we would rather reserve that for the slightly longer term.
Greg Mulholland: So nothing happening next year, unfortunately?

Q247 Mr Heald: How do you justify saying to people, "Look: you have got to work longer in order to pay for your pension in retirement, but, by the way, you lose your main employment rights when you are 65"?
Ms Winterton: We are not saying to people that they have got to work longer.

Q248 Greg Mulholland: No, but you are encouraging them to.
Ms Winterton: As I say, I do not think it is necessarily that we are encouraging them to. We are responding to what people have told us they want to do and what was happening before 2006 was a very clear impediment to them doing so. What we have said is that not only have we removed that impediment, ie, companies being able to decide

[5] See Ev 158

whatever their own retirement age was and workers having no ability to go beyond that. What we have said is no, we respond to the fact that some people say that is not fair. We introduced therefore the fact that people were entitled to work till 65. We have said that we will review that in the longer term because of wanting to make sure that we have had a thorough review of what evidence has emerged from it, and therefore when people make those choices I do think it is important that they, as you say, have the balance of information available to them, the maximum information about things like employment rights and pension deferral and so on. Doing the default retirement age was pretty radical and within that there was a certain amount of balancing perhaps certain organisations lobbying for the rights that have been given, and in some instances concerns from others about what the actual effect of that might be. We thought we had got the right balance but all these things are things that can be reviewed in 2011.

Chairman: Thank you, Minister.

Written evidence

Memorandum submitted by Dr Ros Altmann (TPP 01)

SUMMARY

- Government policy to combat the credit crisis will worsen pensioner poverty.
- Relying on pension credit will not solve the problem.
- Government should change the 10% interest rate assumption in pension credit.
- Government should ensure that the £5 per week earnings disregard is raised.
- Pensioners are the silent victims of policies designed to bail out banks.
- Radical reform of the state pension, to pay a residents pension to all those over age 70 or 75 would finally deal properly with pensioner poverty.

1. *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?*

The Government's main policy for addressing pensioner poverty has been via pension credit. This does not actually deal properly with the problem due to low levels of take-up. The take-up problems are a function of many factors, including older people not wanting to tell the "authorities" all about their income, pride, lack of awareness and the complexity of the system. Groups at risk are those who live alone, or are infirm but struggling to manage on their own, perhaps those who cannot read. Older single female pensioners are particularly at risk, but newly retired males or females who have become unwell and don't know how to claim their entitlements are also extremely vulnerable.

Government needs to radically reform the system, to ensure that pensioner poverty is properly tackled. The simplest, most reliable, fairest and most comprehensive way to do this is to pay a flat-rate resident's pension to all those over age 70 or 75, above the pension credit level. Say £140 per week. In order to do this, it would be possible to redeploy existing spending on pensions to cover the costs—and of course there would be significant administrative cost savings from ending the means test for most older people (defining old as over 70 or 75). Those younger pensioners who need it could still claim pension credit as now, but older people would not need to do so, they would be paid as of right. Around half of pensioners are entitled anyway, it can be taxed back from higher income groups and this would finally end the means test and poverty for almost all older people, be properly fair to women and other groups who are let down by the gaps in the national insurance system.

2. *Impact of the financial crisis on pensioner poverty—for example on savings income and on older people nearing retirement.*

The financial crisis has already had and will continue to have a very negative impact on pensioners and will worsen pensioner poverty. Policy for the 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 £10 per week as a result of falling rates. 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. Many pensioners are struggling to make ends meet as savings income falls and are cutting back on their spending. Official statistics show that nine million pensioners in 2007 received investment income, they will all have lost out. The inflation rate they face, meanwhile, has continued to soar, so in real terms they are considerably worse off. Food and drink inflation is still over 10%, household expenses inflation is over 14%, council tax keeps rising, which will all mean more pensioners in poverty. Pension credit still assumes that poorest pensioners are earning over 10% interest on any savings above £6,000. They are not earning anything like that amount, so their pension credit savings credit is far less than it should be if the 10% assumption had been revised to reflect the new reality.

Is "lifestyling" enough to mitigate the effects?

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. Anyway, many pensioners are in balanced or managed funds without lifestyling, so they have suffered the full force of the falls.

What is the potential impact of the financial crisis on annuity rates?

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.

How will the financial crisis impact upon the numbers of pension credit claims?

It is inevitable that the loss of private pension income will lead to an increase in those eligible for pension credit. Not all of them will claim, but the number of claimants is likely to rise as people retire without much other income apart from their state pension.

3. *Benefits take-up—why do some people not take up their entitlement to benefits (eg Pension Credit, Housing Benefit, Council Tax Benefit) and how can take up rates be improved?*

Many older people are too proud to claim, or do not like having to tell the authorities about every aspect of their finances, or are unaware of their entitlements. The system is hugely complex so that most people do not understand it.

4. *Basic State Pension—will the 2010 changes create a fairer state pension system?*

The system will be slightly fairer, but still won’t be fair.

5. No comment.

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

Gimmicks such as winter fuel payments do not address pensioner poverty properly at all. Even those who live in Spain all winter or those who are very well off and therefore do not need these payments, can receive them. Such universal benefits do not help poorer pensioners specifically, they are available to everyone. They cost over £2 billion a year and the money would be better spent improving the state pension.

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

No, Government policy desperately needs to encourage older workers to stay in the labour force, but policy is acting as a barrier instead. Age discrimination legislation stops at age 65 and the pension credit earnings disregard is still just £5 per week, so that poorer and older workers can be penalized by policy decisions which count against them. This must change as soon as possible.

February 2009

Memorandum submitted by Anthony Cooke (TPP 02)

My main gripe is with the tax system, in that it is unjust for pensioners. Coupled with this is that the cost of living for pensioners is much higher than the norm.

1. When will the Government get rid of the tax trap which affects persons over 65? At that age every pound over the current threshold (£21,800) is taxed at a higher rate of 33%; that is the Government claws back with one hand what it has given with the other. It becomes worse when you are over 75! This is unjust.
2. The Governments system of tax penalises those who have worked hard, saved, or contributed to a pension, whilst giving out handout to those who could not be bothered!
3. Make the tax system simpler and fairer for all.

February 2009

Memorandum submitted by Counsel and Care (TPP 03)

Introduction

About Counsel and Care

1. Counsel and Care is the national charity working with older people to get the best care and support. We provide personalised, in-depth advice and information, which informs our research and campaigning work. Established in 1954 to address the needs of older people unable to access care and support, we see ourselves as the experts in elder care. Through our advice service, our website, publications, and campaigning work, we reach around 250,000 people every year.

Summary

This submission will cover the following areas:

- Specific groups who are more vulnerable to poverty in old age such as low earners, people from black and ethnic minority groups, and older people with low awareness of the benefits available to them.
- The impact of the recession on pensioner income, specifically the collapse of the housing market, and the effect of the financial crisis on pensioner savings income.
- Reasons for non take up of benefits and solutions: better advice and information, and better training for benefit staff.
- The complexity of the eligibility rules and application processes for Disability Living Allowance, Attendance Allowance and Carers Allowance. These affect professionals and older people and their families and carers alike.
- Our views on lump sum payments such as Winter Fuel Payments: the views of older people participating in Counsel and Care's *VotingAge: an older people's manifesto* campaign. This section gives solutions as to how older people can maintain a decent standard of living throughout the year.
- Our views on the Government's welfare reform programme in terms of pensioners who wish to continue working: solutions for more flexibility, a review of the national minimum wage, and the challenges of there being more older carers in the workplace who wish to maintain their standard of living. The role of employers and government in facilitating this in the face of an ageing population.

Key Areas

In this section we have focused on the questions most relevant to the work of Counsel and Care.

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?

2. The Government's 2007 Public Service agreement to "tackle poverty and promote greater independence and well-being in later life" was welcome because there had not up until this time been a PSA specifically directed at older people. However, in the present financial climate, it will be necessary for the DWP to recognise the specific issues facing poorer older people who have not maximised their income because they are unaware of the benefits available to them. Advice and information services in the third sector can work with the Pension Service to ensure that older people are kept informed and that the information is brought to them in the places that they frequent—the GP surgery, sheltered housing schemes, day centres, as well as outreach work.

3. Specific groups who are more vulnerable to facing poverty in older age are people from minority ethnic groups, and low earners whose assets are just above the threshold, not qualifying them for state support.

What is the impact of the financial crisis on pensioner poverty—for example on savings income and on older people nearing retirement?

4. One of the main impacts on older people of the financial crisis is the collapse of the housing market. People entering into residential care who have reached the point where they need to sell their homes to provide funds for the care fees may be eligible for a "deferred payment", when the council provides payment for the care home place on a loan basis which is paid off when the property is sold or the older person passes away. Figures obtained and published by the Conservative Party showed that in 2007–08, 46% of councils failed to use the discretion to disregard the value of a property in the older person's financial assessment if

a carer or relative who is over 60 or is "incapacitated" is still living in the property when the older person moves into a care home. In addition, 20% of councils did not offer any older person the option of a deferred payment loan and more than half of councils cut their spending on care for older people last year.

5. Savings income has now dropped to almost nothing, and no group in society has been worse affected than older people on fixed incomes. It is vital that the tariff income (£1 in every £250 for Pension Credit) currently taken into account for benefit calculations is now fully disregarded, especially as it has no relation to the reality of 0% interest rates.

Why do some people not take up their entitlement to benefits (eg 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?

5. Non take up of benefits happens for a number of reasons. For example, in some cases it is because older people simply do not know that the benefits are there, due to a lack of advice and information, or they are discouraged by cumbersome and lengthy application processes. It should also be remembered that for those who have never had to claim benefits before, there are negative connotations for many older people around taking up benefits, even though they may be entitled to them.

6. Take up of benefits can be improved by removing these barriers. For example, providing user friendly advice and information available in a range of formats, and better training for call centre staff so that older people are not discouraged from making telephone calls would be helpful. Too often older people report that when applying for benefits they are treated with suspicion by staff who leave them feeling that they are trying to cheat the system, when they are simply seeking benefits that they are entitled to.

7. The planned pilot for automatic take up of benefits proposed in the Welfare Reform Bill is welcome. This will remove some of the stigma attached to claiming benefits, and remove the need for older people, their families and carers going through lengthy application procedures.

With regard to 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?

8. The eligibility rules for Disability Living Allowance, Attendance Allowance and Carer's Allowance are made all the more complicated by a confusing array of overlapping benefit rules. For example, as currently, people over 65 can make a claim for Carer's Allowance, but rarely receive it if they have contributed enough to receive a State Retirement Pension. As was called for in Counsel and Care's policy discussion paper, *A New Strategy for Carers: better support for families and carers of older people*, it is essential that the Government reviews these existing benefit rules so that carers over 65 are able to claim and receive both Carer's Allowance, and the State Retirement Pension, in recognition of the important role of older carers and the savings they make to the health and social care system.

9. In addition, some older people seem unaware of the potential for a real increase in income as a result of claiming Attendance Allowance (which enables a person to claim SDP on Pension Credit if they live alone and no one is claiming Carer's Allowance for supporting them). Many older people are unaware that if the person caring for them starts to claim Carer's Allowance, they will lose their entitlement to claim SDP. The potential for income maximization must be better promoted, especially for the most vulnerable older people and the housebound, without carer support.

10. Eligibility rules for Attendance Allowance are also an example of age discrimination, as if you are under 65 you can claim the mobility component of Disability Living Allowance (and continue to receive it if you move into a care home), but there is no such component attached to Attendance Allowance for the over-65s.

11. The rates for Disability Living Allowance and Attendance Allowance increase in line with inflation, but are a drop in the ocean compared to the huge increases that have occurred in the cost of care over recent years, with, according to Counsel and Care's annual care charging survey: *Care Contradictions 2008: putting people first?*, some councils are now charging an average of £12.84 per hour and care hitting £18 an hour in one council surveyed.

12. The forms for all the above benefits are complicated and time-consuming to fill in. Older people generally require professional input in completing the forms for such non-means tested benefits to ensure eligibility as the terminology used and the level of detail required in the responses is not easily accessible. Anecdotal evidence to our Advice Service shows that professionals, such as social workers or occupational therapists, find the forms difficult to complete, let alone a frail older person in need of care and support, or a pressurised carer or relative.

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

13. Lump sum payments are one way of alleviating pensioner poverty, but they should not be seen as a panacea. Counsel and Care undertook a consultation in 2008 with older people entitled *VotingAge: an older people's manifesto*, and one of the themes raised by participants was the challenge of poverty. Older people we spoke to felt that poverty can be addressed by looking at a range of options, such as reallocating public spending to eradicate pensioner poverty, so that older people are not forced to choose between basic amenities such as food and fuel. Older people need support in maximising their income so that they are able to take up all of their benefit entitlements and enjoy a decent standard of living throughout the year, without having to wait for the next lump sum payment to come through.

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

14. Providing more flexibility for people over 50 who need to claim incapacity benefits, and the pilot to assess the barriers faced by older people in the workplace are of course positive in terms of overarching reforms, however there is more that can be done practically to help people over 60 who are, and wish to remain, in the workplace.

15. Participants in our *VotingAge: an older people's manifesto* campaign felt that the national minimum wage should be increased, so that older people approaching retirement should be able to enjoy a better living in those last few years of working. A higher national minimum wage would also enable them to save more for their retirement.

16. With a growing number of older carers in the jobs market, there also needs to be provision for carers who wish to work. Counsel and Care, along with other organizations has been campaigning for tax exemptions on adult care vouchers to help employees pay for care and support services for older or disabled relatives. This would complement the existing scheme for those working parents with childcare responsibilities.

February 2009

APPENDIX 1

SUPPORTING DOCUMENTS

(a) *A New Strategy for Carers: better support for families and carers of older people.* Counsel and Care, London, 2007.

(b) *Care Contradictions 2008: putting people first.* Counsel and Care, London 2008.

(c) *VotingAge: an older people's manifesto* pamphlet/poster. Counsel and Care, London 2008.

Memorandum submitted by Kenneth Molloy (TPP 04)

1. *Are there specific groups who are more vulnerable to facing poverty in old age?*

I am not clear what definition you are using for poverty because there are clearly several.

However, those who are most vulnerable to suffer poverty, by any definition, or financial hardship in retirement are those who for a variety of reasons have been unable to save for retirement or have lost all or some of their savings. The loss may have been due to any number of institutions failing or not meeting their commitments. The Government has a responsibility to compensate these people when these thing occur due to poor legislation, inadequate or inefficient Government supervision or poor Government administration.

Clearly the individuals covered by FAS are one group that is adversely affected and needs help. I will use the term "PAG" to refer to these people in my further comments.

2. *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?*

The failure of the Government to fully compensate those covered by FAS (PAG) will have terrible affects on many of these people especially if the current measure to stimulate the economy result in inflation further down the road. Many have already had to extend their working life, others are not capable to do so and are having to manage or will have to manage the best they can.

Many have suffered because buying an annuity is more expensive than receiving a pension from an ongoing scheme plus they have had to pay fees to financial advisors, sometimes accepting a pension scheme such as a draw down scheme that may not be suitable for them especially during times when the stock market is declining.

Government incompetence during the last 15 years, the miss-selling scandals and the current financial crisis have pretty much destroyed the older generation's faith in financial institutions and people are at a loss as to where to put their money just to keep it safe let alone beat inflation. The Government have created a deep seated problem that requires major structural changes to resolve.

With regards to pensions credits, who understands them apart from a few professionals and the professional benefit claimers?

Compared with the overall problem pension credit is just tinkering with the system.

3. *Benefits take-up—why do some people not take up their entitlement to benefits (eg 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?*

Despite the labour government's best efforts to create a benefit dependent society most people in the private sector are not used to asking for handouts, many are unfamiliar with the benefits available while others are too proud to ask and therefore will suffer silently because of the uncaring attitude of the Government. To give you an example most people know that one is disqualified from receiving government handouts if they have earnings, savings or assets above a certain amount. Different benefits have different qualifications and most people do not know what the limits are or what limit applies to which benefit. The whole system needs simplifying. And the Government should be putting more effort into looking after the people who have worked and saved rather than looking for ways to give money to those who have not.

4. *Basic State Pension—will the 2010 changes create a fairer state pension system?*

The answer is yes but the state pension will still be inadequate. People should either be given incentives to save with guarantees or obliged to so in a Government run plan that treats all workers fairly ie provides a pension based on contributions without caps.

5. *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?*

I don't know enough about these to comment but please see my comments in 3 above.

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

This seems a very inefficient way to spend money because it has no relation to the heating needs of the individual or that person's need for help. Stop the allowance and increase the pension.

7. *Is the Government's programme of welfare reform the right approach for supporting pensioners who wish to continue working?*

What a lovely euphemism "wish to keep working". Some might "wish to" but the majority "have to" because of the lousy pension system and this Government's bungling of pensions. If the Government is concerned about pensioners, let them start with pensions. If they get that right a lot of the other issues will go away or at least will be greatly diminished.

They could start by giving those covered by FAS full compensation. Their organisation will then only be too happy to help you resolve these other problems.

February 2009

Memorandum submitted by Unite (TPP05)

THE NATIONAL FEDERATION OF ROYAL MAIL & BT PENSIONERS

Executive Summary

1. UNITE welcome the opportunity to submit evidence to the Work and Pensions Select Committee Inquiry into tackling pensioner poverty in Great Britain.

2. We recognise the significant strides made by the Government in improving pension provision particularly into the future, and look forward to the increase in the state pension to £95.25 per week in 2009–10.

3. However, many of our members are on low and fixed incomes and depend on life savings to make ends meet. They are increasingly affected by the recession and we believe that the Government should be taking further steps to help pensioners to deal with the current economic situation.

4. We believe that more needs to be done to secure pensioners' income in the future. The link between pension increases and average earnings should be introduced at the earliest opportunity. We also believe that more needs to be done to boost pension savings and to protect defined benefit pension schemes.

5. We believe that the impact of the recession on pensioners' income is a significant problem which will lead to significant increases in pensioner poverty if no action is taken. The impact will be felt for many years to come as people see their pension savings shrink. Furthermore the current financial crisis is leading to falling income levels and hence people are or are considering taking pension contribution holidays.

6. We believe that poor take-up levels of pension related benefits remains a serious issue. The current means test based system puts people off applying for benefits and means testing discriminates against those who have small levels of saving. The marginal rate of tax for those just above the means test limit is very high, with the loss not just of Pension Credit but Housing and Council Tax benefits as well. We believe that the system needs to be reformed.

7. The increase in the pensionable age for women is about to start and we accept that rising life expectancy means that it is reasonable to increase the pensionable age. We do however call for progress to be made in reducing the huge differences in mortality between different groups in the UK.

8. Current arrangements which mean that Disability Living Allowance is only available to those who become eligible aged under 65, is unfair. We believe that help should be available on the basis of need not age.

9. Increases to the overall level of the state pension would be preferable to the system of concessions and concessionary payments. The current system of lump sum payments does, however, provide a welcome boost to the pensioner incomes. We welcome the supplementary payment to the Christmas bonus and believe that payment should be kept at at least £70 and indexed to maintain its value.

About UNITE

10. UNITE, the National Federation of Royal Mail and BT Pensioners, is the oldest and largest occupational pensioners' organisation in the UK, with over 100,000 members nationwide organised into 200 Branches.

11. We campaign on behalf of our members and older people more generally, on issues such as improving pensions, health services and social exclusion.

12. The Work and Pensions Select Committee has invited wide ranging views on tackling pensioner poverty. We have, however, limited our evidence to those areas that are of most relevance to our members.

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?

13. Further reforms to the State Pension, including restoring the link between the Basic State Pension and earnings, delivering a fairer deal for women and carers will help to reduce pensioner poverty.

14. Currently only 30% of women retire on a full state pension as opposed to 90% of men, because women are more likely to have taken a career break to look after children or care for relatives.[1] We welcome the recent reduction in the necessary number of qualifying years of National Insurance contributions for men and woman to 30 years, which will increase the proportion of women who are eligible for a full state pension. The fact that the change will only come into effect for those reaching retirement age after 6 April 2010 will mean that thousands people who have taken time out of their careers to care for others will lose thousands of pounds. This cliff-edge change is unfair and the Government should use this year's budget to introduce new arrangements to phase the system in.

15. Pensioner organisations have fought for many years to reinstate the state pensions earnings link, which was abolished in 1980. We were delighted that this was the key recommendation of the 2005 Turner Report. However, we are concerned that the link will be reinstated by 2012 at the earliest. This is at least two years later than the recommendations of the Pension Commission. We believe that reinstating the earnings link at the earliest opportunity would go a very significant distance in helping to maintain to value of the state pension and helping to address pensioner poverty in the future.

16. Those without occupational pensions, who rely on the basic state pension for their sole income, are most vulnerable to facing poverty in old age. 43% of young people aged 20 to 29 have no savings[2] and figures from 2004 suggest that less than 50% of the under 30s have a pension, compared to 62% of those born in the 1970s and 73% of those born in the 1960s.

[1] DWP 2007.
[2] FSA, 2006.

17. Reasons for the decline in savings are complex and include the retreat of employer schemes, student debt, high property prices and poorly paid graduate jobs. Personal Accounts, which we have welcomed, will help address this problem but will have little effect for many years. Because of this the current pensions settlement can be viewed as a "poor deal" for young people. At the same time as contributing to their own Personal Accounts, young people will be funding the pensions of the "baby boomer" generation who will be able to retire earlier they them and enjoy better level of income in retirement. We are concerned that this group of people will be vulnerable to pensioner poverty in the future.

18. We have argued for occupational pension schemes to be safeguarded, strengthened and encouraged and we believe that where possible Defined Benefit (DB) schemes should be preserved and companies should be encouraged to run and even open new schemes with risk sharing such as career average. This would provide more of an incentive for young people to save.

19. To prevent pensioner poverty into the future, the DWP should do all it can to encourage savings and further improvements to pensions.

Impact of the financial crisis on pensioner poverty

20. Interest rates have been cut to their lowest levels for 300 years and at the moment there are only a few savings accounts paying 4.5% or more interest. This is down from 507 accounts a few months ago.

21. Thousands of pensioners rely on interest from savings to top up their income. The recent significant fall in interest rates means that these pensioners have seen their investment income drop dramatically. Therefore, pensioners who rely on income from savings are suffering disproportionately from the financial crisis through no fault of their own.

22. Although inflation rates have been falling, there is evidence that because pensioners tend to spend their income on a smaller range of goods than the average population, the rates of inflation felt by them is much higher. This means that many pensioners are suffering a double hit of falling incomes and high rates of inflation.

23. 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. We believe that this should be examined by the Committee and recommendations made to the Government on how to assist those most greatly affected, particularly those close to retirement who can do nothing to repair the damage done by irresponsible behavior of financial institutions.

24. We believe that these impacts of the economic situation on pensioners' incomes haven't been properly considered by policymakers and there is an urgent need for the Government to consider the effect on pensioner poverty and to consider taking steps to increase pensioners' income.

25. The current recession will also impact on pensioner poverty into the future. According to research by AXA[3] undertaken in 2008, around one in 12 people feel that they will be left will little choice but to take a pension "holiday" in the next two years, with 35 to 44 year olds the most likely to cut contributions. This figure is likely to increase as the recession continues.

26. If an individual takes a pension "holiday", the value of their pension fund will reduce significantly. For example, according to AXA, a 28-year-old man putting £300 a month into a stakeholder plan would end up with almost £60,000 less in his pension fund on retirement at 65 by taking a two-year payment holiday. Therefore the current financial crisis could increase poverty amongst the next generation of pensioners.

Benefits take-up

27. A large number of older people feel extremely uncomfortable with means testing and because it is a system designed for the poorest of the poor, it has become stigmatised in their minds.

28. It is clear that take-up of the pension credit still falls well short of the Government's targets, resulting in many pensioners living in poverty on very small weekly incomes, albeit many think that they are "coping".

29. The complexity of the application system and pensioners' discomfort about means testing mean that many are reluctant to apply. We support improvements to State Pension Credit and believe that efforts should not be reduced to reach those entitled to claim but do not do so.

30. We believe that means testing discriminates against people who have acted responsibility and have built up small amounts of savings. However, we accept that Pension Credit has given significant help to many, including those who receive the Savings Credit, albeit in small amounts. Those whose incomes are just over the Pension Credit threshold lose out on other benefits such as help with Council Tax. We believe that it should be possible to devise a system where small amounts of private pensions savings are disregarded for Pension Credit assessment, ensuring that those who believed that they were doing the right thing by building up a pension don't end up worse off by falling just above the credit threshold.

[3] AXA,Press Release 15 November 2008.

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

31. We welcome many of the changes to the basic State pension which will come into force in 2010. We particularly welcome the reduction in the number of necessary qualifying years for a full State pension to 30 years for men and women. We also welcome the replacement of the Home Responsibilities Protection with National Insurance credits for carers looking after children or people in receipt of certain disability related benefits. We look forward to the Government coming forward with more details about how the scheme will work for people with other caring responsibilities.

32. We believe that the equalization of the pension age does make the system fairer and we believe that the fact that people are on average living for longer makes it reasonable to increase the pensionable age.

33. There are, however, significant inequalities in life expectancy between different geographical areas and different social classes. In some occupations it might be reasonable to expect people to work beyond the age of 65, but there are still significant numbers of people in the UK who undertake manual and other physically challenging work which it isn't reasonable to expect someone over the age of 65 to continue. Furthermore, mortality rates differ in different regions of the UK and this must be addressed if pension age is to increase above 65. We therefore believe that more needs to be done to tackle these inequalities before the pensionable age is increased further.

Disability Living Allowance, Attendance Allowance and Carer's Allowance

34. Disability Living Allowance, Attendance Allowance, and Carers Allowance are vital support for those who have difficulty looking after themselves, but we believe that it is unfair that Disability Living allowance isn't available to those who become disabled after the age of 65. Those who become disabled after the age of 65 are only eligible for Attendance Allowance which is paid at a lower rate. Disability Living Allowance provides support to help mobility which isn't available to those on Attendance Allowance. Recipients of Disability Living Allowance also have access to other benefits such as the Mutability Scheme and are exempt from paying Vehicle Excise Duty.

35. The removal of help for mobility problems means that many older people are left isolated. We believe that access to help should be on the basis of need and not of age and that the current criteria ought to be reformed.

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

36. We believe that pensioner poverty could be more effectively addressed by improvements to the basic State pension, including an increase to the Pension Credit Guarantee Credit level, phased in if necessary for affordability and the linking of pension increases to earnings.

37. However, lump sum payments provide welcome respite for many pensioners. UNITE, with the Civil Service Pensioners' Alliance had campaigned to increase the Christmas Bonus which had been £10 per year since 1972, to £100. We were delighted that it was increased to £70 in the 2008 Budget and we urge the Committee to recommend that the Government maintain the bonus at the level or above and index it annually in the future.

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

38. We welcome moves to help older workers to continue to work. Recent welfare reforms have increase the help available for those aged 50–59 but there is a gap in provision for men who could become job seekers between the 59 and 65.

39. The introduction of the age discrimination legislation in 2006 which outlaws age discrimination in employment has been a positive step. It is now illegal to force people to leave work under the age of 65, based solely on age and people now have the right to request to work beyond the default retirement age of 65. However, we believe that the Mandatory Retirement Age of 65 goes against the Government's policy of asking people to work longer, encourage flexible retirement and choice and should be reviewed as a matter of urgency.

40. We believe that it is important that continuing in work is a beneficial choice rather than enforced hardship and we recommend the introduction of a more sophisticated, tailored system of tax allowances benefits to encourage and reward individuals for remaining in the workplace.

CONCLUSION

41. We welcome the steps that have been taken by the Government over recent years to reduce pensioner poverty, but there is clearly still more to be done to boost pensioners' incomes.

42. There is more to be done to help those who have taken career breaks to care for others, whilst we welcome the recent reductions in the number of years of National Insurance needed to gain a full state pension to 30 years, the changes must be phased in to stop those who fall just under the cut off date losing out by one day in some circumstances.

43. Linking increases in pensions with increases in average earnings is key to reducing pensioner poverty in the future. We welcome the fact that the Turner Report has recommend reintroducing the link with earnings, but we are concerned that this will only happen by 2012 at the earliest. We believe that the Government should reconsider and reintroduce the link to earnings next year as the Pensions Commission recommended.

44. We believe that the current economic down turn will lead to significant increases in pensioner poverty in both the short and long term. We believe that savings levels will be boosted if people had more confidence that saving will lead to a decent pension income in the future. We believe that more should be done to protect existing defined benefit schemes and to help companies to develop new ones. We also believe that the current system of means testing needs to be reformed to ensure that those with small levels of pension savings don't end up losing out because in doing the right thing they fall on the wrong side of the Pensions Credit threshold.

45. We want to see a fairer pensions system, this is why we believe that the equalisation of pensionable ages between women and men was fair.But raising pensionable age above 65 will only be fair if there is a greater equality in life expectancy between different groups and the Mandatory Retirement Age is removed.

46. UNITE would welcome the opportunity to present further information to the Work and Pensions Select Committee in writing, or in person.

February 2009

Memorandum submitted by Independent Age (TPP 06)

ABOUT INDEPENDENT AGE

Independent Age works to keep older people independent and out of poverty by providing them with practical support, financial help and lifelong friendship.

We focus on supporting those who are:

— Over 70.
— In financial need.
— Lonely or isolated.
— Have made a sustained and significant contribution to society, particularly through voluntary work.

The charity has around 6,000 current service users across the UK and Ireland. It is currently developing its services in order to better meet the needs of older people in today's society. Our aim is make sure that all those we help are receiving their entitlements from statutory and other providers and then to provide additional support tailored to the individual's particular needs. This support is likely to be a combination of:

— Regular befriending and support from an Independent Age volunteer visitor.
— Financial help in emergencies.
— Additional practical support, such as providing household items and toiletry packs for hospital visits.
— Membership of the Independent Age community, including regular correspondence, magazines and cards on birthdays and at Christmas.
— Increasingly, the opportunity to meet and correspond with other members of the Independent Age community.

OUR RESEARCH

Independent Age is currently expanding its research capacity. We have restricted our answers to this inquiry to the areas in which we have specific evidence. Our answers draw on the results of the following research:

I. Our Annual Survey 2008, in which a series of topical questions on life, society, and our services were posed to 6,500 of our beneficiaries, to which 3,315 responded.

II. A series of focus groups and interviews conducted by a research agency on behalf of Independent Age in 2008. Seven focus groups were held comprising between three and seven beneficiaries, and lasted between one and a half to two hours. Eighteen in-depth interviews were conducted involving one interviewer and one respondent, and in some cases they were paired, involving some couples. These lasted between forty five minutes and an hour and a half. In total, 69 respondents were interviewed across three regions in England, including the North East, the Midlands and the South West.

We are currently in the process of conducting a series of 12 focus groups and in-depth interviews in six localities across the UK, and have included some preliminary evidence from our findings to date.

Summary

This response will cover the following areas:

1. Benefits take-up:
   - Older people find out about their benefits entitlements from a variety of different sources but this can be problematic.
   - Those that are already in contact with their local authority are more likely to be aware of their entitlements.
   - Those that are not in contact with their local authority rely on adverts by support organisations and word of mouth to find out about their entitlements, but this information is insufficient.
   - With no single, well publicized, point of access to the system, older people are often confused about their entitlements and how to claim them.
   - A large proportion of older people face a psychological barrier to becoming part of the benefits system.
   - Difficulty experienced when attempting to access the system often undermines the notion of entitlement.
   - A high number of older people say that they would need face to face contact with one individual to receive sufficient guidance on finding out about, and claiming, their entitlements.

2. The rules and application processes of Disability Living Allowance, Attendance Allowance and Carer's Allowance:
   - The eligibility rules are too complex.
   - In the experience of Independent Age staff, high numbers of older people are turned down the first time they make a claim, but on appeal are later deemed eligible. This can be traced back to a lack of understanding about the appropriate forms and the claims process.
   - The support and guidance offered by the DWP is insufficient.
   - The DWP's interpretation of applications is too literal and does not take into account an individual's overall experience of their disability.
   - Assessments that must be undertaken in relation to health, social care and benefits, often contain the same or similar components and can be extremely taxing for the individual involved.
   - The level of assessment required can act as a deterrent to those who would otherwise make a claim.

3. The rates of Disability Living Allowance, Attendance Allowance and Carer's Allowance:
   - The rates of these allowances are barely sufficient to cover the basic needs of older people, and are not high enough to secure any form of quality of life.
   - The older people claiming these benefits are often financially restricted from engaging in basic social activities, which can have a detrimental effect on their physical and mental wellbeing.
   - The rates of these allowances can be particularly insufficient for older people due to the removal of the mobility component of the Disability Allowance after the age of 65.

Benefits take-up

1.1 Research among our beneficiaries has demonstrated that older people find out about benefits entitlements from a variety of different sources. Our 2008 Annual Survey reveals that 65% of benefits checks performed on beneficiaries had been undertaken by the local authority, 8% by Age Concern, 6% by the local Citizens Advice Bureau, and 2% by other charities. This raises a number of interesting points which Independent Age has explored more thoroughly via its qualitative research, as follows:

1.2 Those already in contact with their local authority, often via local authority housing, are more likely to be aware of their benefits entitlements, as well as services and social opportunities available to them. Those that do not already have this established contact may have little or no knowledge of the benefits available to them, or indeed, of how to go about claiming them. Beneficiaries that are not in touch with their local authority find out about organisations offering advice and support via word of mouth, or adverts in their local newspaper. Some cite television as a source for finding out more information. However, as the television is a primary form of entertainment for a vast number of beneficiaries, it is underutilized as a resource for informing people of their entitlements.

1.3 A large proportion of beneficiaries express a desire to find out more about their benefits entitlements, but do not know who to contact about this. While, as demonstrated above, there are a number of organisations able to offer support in this area, respondents frequently express a desire for one single point of access to the system, such as a national helpline.

1.4 Beneficiaries are frequently confused about whom to contact with regard to different inquiries, from benefits entitlements, to difficulty with fuel bills. "Signposting" between organisations, while useful in theory, is also recognised as a cause for concern. A number of respondents resent the greeting offered by many helpline staff, who take a, "what's your postcode?" approach. A significant number cite stories of being passed from one organisation or department to another, and of being required to give the same information repeatedly, at the expense of their phone bill. When signposting, help lines must ensure to ask enough questions to pass an individual to the correct organisation or department and, if possible, notify the recipient organisation that they will be contacted with a specific inquiry.

1.5 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.

1.6 Many of our beneficiaries express a desire for face to face contact with one individual that is able to inform them about, or guide them through, the claims process. A common complaint about the Citizens Advice Bureau is that it is not always possible to make an appointment and go into a branch.

The rules and application processes of Disability Living Allowance, Attendance Allowance and Carer's Allowance

2.1 The eligibility rules are regarded by both Independent Age beneficiaries and staff as particularly complex. In our experience, it is common for older people to be turned down the first time they make a claim, and many are disheartened by this. Yet, when encouraged to make an appeal, higher numbers are successful. Refusals can often be traced back to a lack of understanding about how the appropriate forms should be filled in. When guidance is offered, a higher number are able to access the benefits they are entitled to. Independent Age staff have found that the DWP's interpretation of applications can be too literal, and fail to take into account an individual's overall experience of their disability.

2.2 The support and guidance offered by the DWP varies greatly from the support offered by charities such as Independent Age, Age Concern and Help the Aged. The key difference experienced here is the level of encouragement that is offered.

2.3 Difficulty can arise during the assessment process when older people are asked to acknowledge and admit the level of their disability or support needs. Different individuals have different ideas about the extent to which they should be struggling to complete daily tasks, before asking for additional support. Subtle questions such as, "while (s)he does it, how difficult is it?", and, "would it be advantageous for this individual to receive additional support?" are often left unanswered in the current system, but would help unearth the true degree of an individual's support needs.

2.4 It is important to recognise that older people can be subject to a constant assessment process before receiving all of their entitlements. Assessments relating to health, social care and benefits, which often contain the same or similar components, can be extremely taxing, particularly for those with higher support needs. The level of assessment can act as a deterrent to those who would otherwise make a claim. This highlights the need for one access point for all disability related benefits and services.

The rates of Disability Living Allowance, Attendance Allowance and Carer's Allowance

3.1 In the experience of Independent Age staff, the rates of these allowances are barely sufficient to cover the very basic needs of older people. They are not high enough to secure any form of quality of life. Examples we have encountered include older people that are unable to afford travel costs to the supermarket, or assistance in undertaking basic social activities such as going to the cinema. We have also found that being unable to partake in social activity has a direct and detrimental effect on the physical and mental wellbeing of beneficiaries, placing them at significantly higher risk of loneliness and isolation.

3.2 The rates of these allowances can be particularly insufficient for older people due to the removal of the mobility component of the Disability Allowance after the age of 65. Many beneficiaries have found this removal to be particularly confusing, occurring at a time when their need for travel assistance is increasing.

February 2009

Memorandum submitted jointly by Dr Edmund Cannon and Professor Ian Tonks (TPP 07)

Summary of the Main Points

- With a savings rate of 10%, most investment strategies result in a pension fund at retirement which is too small to provide an income comparable to final earned income.
- Using a "lifestyle" investment strategy in the pension fund usually results in a pension fund which is smaller than investing in equity alone.
- In the UK the "lifestyle" investment strategy has only out-performed an equity investment strategy in a few years, in most of which both funds did relatively well compared to the historical average.
- Despite large falls in interest rates, annuity rates have actually risen in the last year. There is currently no reason to be concerned about the annuity rates being offered.

About the Authors

Edmund Cannon is a Reader in Economics at the University of Bristol and Ian Tonks is a Professor of Finance at the University of Exeter. Together they have conducted several pieces of research on the UK annuity market, including two research reports for the Department for Work and Pensions. Their book *Annuity Markets* was published by Oxford University Press in 2008. Ian Tonks has also researched pension fund management.

Factual Information

Context

Countries around the world are responding to the rising ratio of elderly-to-young persons (The Pensions Crisis) by shifting their pension policies away from pay-as-you-go systems towards individual-based savings schemes.

In the UK, the Government's white paper on Personal Accounts (DWP, 2006) outlines the proposed quasi-compulsory new defined contribution pension scheme. It is anticipated that six to 10 million people will pay around £8 billion a year into Personal Accounts. There will be a default fund "structured to deliver an appropriate trade-off between risk and return for the target group" (Para 5.11). In addition the UK's occupational pensions industry has seen a shift from Defined Benefit schemes to individual–based Defined Contribution schemes.

National Association Pension Funds figures for 2006 and 2007 suggested that the rate of closure had stabilized: 31% of large funds remain open to new DB members and 95% of schemes allow existing members to accrue benefits. Additional Costs Allowance figures suggest closures are still continuing for smaller companies: 80% of company DB schemes closed to new members and companies predicting more closures. But the ACA notes that employer contributions in a DC scheme are typically lower than DB. Employer contributions to DB schemes average more than 20% of earnings; but employer contributions to DC schemes average less than 10% of earnings.

The financial crisis of 2007–08 can only exacerbate these trends. The collapse of the banking sector and the fall in equity values since May 2007, has resulted in "renewed volatility in funding levels resulting in an overall decline in defined benefit (DB) scheme surpluses" (UBS Pension Indicators 2008, p 6). This latest crisis is likely to result in a new shift of DB closures, and transfer to DC schemes.

The accumulated savings in a defined contribution pension scheme need to be converted into pension at retirement and annuity markets perform this function. Cannon and Tonks (2008) provide a comprehensive study of annuity markets. Their book starts by outlining the context of public policy towards pensions and explains the different types of annuities available, focusing on the UK—which has the largest annuity market in the world. They examine how annuities are priced and describe the techniques of mortality measurement. As a background, they provide a history of annuities, and the experience of annuity markets in a number of other countries. They outline the economic theory behind annuities and explain how annuities insure consumers against longevity risks. They go on to describes how annuities markets function: how they work, and whether they are efficient, leading onto a discussion of the annuity puzzle, including behavioural explanations. Their book concludes by discussing the regulatory framework, assets available to back annuity liabilities, and recent developments in annuity markets.

Risks to individuals in Defined Contribution Schemes

A major issue with the switch to individual-based DC schemes is that investment risks are transferred to individual. In a DB scheme, the employer bears the risk of scheme underperformance, whereas in a DC scheme it is the individual contributor who bears this risk, since the pension that the individual receives depends on the size of the individual's pension fund, which is subject to the fluctuations in security returns.

Cannon and Tonks (2004) have examined the risks in simulated life-time investment strategies for the UK; Shiller (2005), and Poterba *et al* (2006) conduct similar analyses for the USA and Burtless (2003) extends this to Japanese, German and French financial markets.

These studies all conclude that there are significant risks of receiving only a small pension fund; and that an equity allocation tends to dominate other more conservative asset allocation strategies. There is very little evidence that "lifestyling" investment strategies protect individuals against poor pension outcomes.

"Lifestyle" Investment Strategies

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 10 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.

The most commonly discussed alternative strategy to lifestyling is to invest in equity for the entire period that the pension fund is being accumulated. Equities tend to earn higher rates of return than bonds but be more risky.

Our analysis suggests that the average rate of return is so much higher for equity that it more than dominates the additional risk.

In our current research we have calculated hypothetical pension fund : wage ratios for 16 countries over the period 1948–2007 (details of this research are available on request). Someone retiring in 2007 would have a larger pension fund than someone retiring in 1948 purely because of the massive increase in incomes and prices over that period. To overcome this issue we look at the ratio of the pension fund to the final wage. Our simulations assume that a hypothetical individual had saved in a pension fund for 40 years: for each of those years he earned the average wage of that country and invested 10% of his income in a pension fund with tax privileges equivalent to those in place in the UK today.

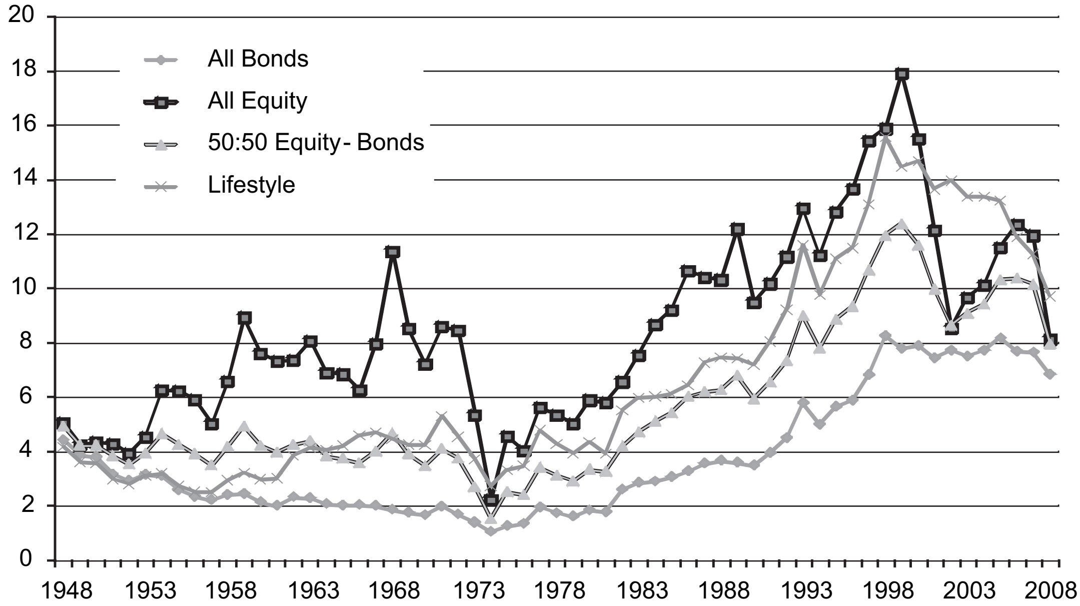
For example we calculate that someone in the UK who worked every year from 1968–2007 and who had invested in a lifestyle fund would have a pension fund equal to 11.9 times their final income. Someone who had invested in equity alone would have a pension fund equal to 11.3 times their final income. With annuity rates of about 6% for a 65-year old man, this would imply a pension income of 72% and 68% of final income, close to the level recommended by the Pensions Commission.

Figure 1 below shows the pension fund ratios for different hypothetical individuals in the UK retiring in each year from 1948–2008. In most of the years we consider, all of the investment strategies fail to produce a sufficiently large pension fund to provide a pension even close to the final wage, suggesting that a savings rate of 10% too low.

When we compare investment strategies, the "lifestyle" investment strategy leads to a better fund ratio than the equity investment strategy in only seven of the 61 years for which we calculate the fund ratio. Six of these occasions are very recent (2001–05 and 2008) and are years when both of the fund ratios are very high relative to the historical average.

Figure 1

SIMULATED PENSION FUND: WAGE RATIOS, UK



We have conducted the same analysis for 15 other countries in the post-War period. Table 1 below illustrates the average pension fund : wage ratio for each country and Table 2 illustrates the pension fund : wage ratio in the fifth worst year (ie the lowest decile).

Table 1

AVERAGE PENSION FUND : WAGE RATIO

MEAN	*Equity Investment Strategy*	*Lifestyle Investment Strategy*
Australia	8.3	6.2
Belgium	7.6	6.6
Canada	7.0	5.8
Denmark	5.2	5.0
France	5.5	5.0
Germany*	5.1	4.7
Ireland*	8.7	7.0
Italy	4.0	3.6
Japan	5.4	4.8
Netherlands	8.4	6.0
Norway	4.5	3.9
Spain	7.4	5.7
Sweden	9.7	7.5
Switzerland	5.6	4.3
UK	7.6	6.1
USA	9.2	7.1

Average over period 1948–2007 except Germany and Ireland
Source: author's calculations, details on request.

Table 2

FIFTH-WORST PENSION FUND : WAGE RATIO

Lowest Decile	*Equity Investment Strategy*	*Lifestyle Investment Strategy*
Australia	4.2	3.0
Belgium	2.0	2.4
Canada	4.5	3.6
Denmark	2.3	2.4
France	1.6	1.5
Germany*	3.4	3.8
Ireland*	4.0	3.1
Italy	1.5	1.2
Japan	1.9	0.6
Netherlands	2.8	2.9
Norway	1.7	1.6
Spain	1.3	1.9
Sweden	3.5	2.6
Switzerland	3.0	3.1
UK	4.0	2.8
USA	5.4	3.2

Lowest decile from the period 1948–2007 except Germany and Ireland.
Source: author's calculations, details on request.

The simulations based on international data yield similar conclusions to those of the UK: on average equity outperforms lifestyling and even when equity does badly it tends to do better than lifestyling. Some of the countries have very low ratios. For example Japan does very poorly if invested in a lifestyle fund because bond returns were so poor in the 1990s.

Data on pension fund sizes

The previous section reported simulations on the size of pension funds. Information on the size of actual pension funds can be inferred from data on annuity purchases. Statistics from the Association of British Insurers which we reported in Cannon and Tonks (2008, p 62) show that the distribution of annuity fund sizes was similar over the period 2002 to 2006, but highly skewed. In 2006 around 42% of pension funds in the Association of British Insurers data were less than £10,000, and another 24% were between £10,000 and £19,999.

An annuity purchase of £10,000 in 2008 would only provide an income of about £600 per year or £12 per week. Although many pensioners may have more than one pension and thus have total incomes much higher than this, the message from these numbers is that personal pensions may be insufficient to provide pensioner income.

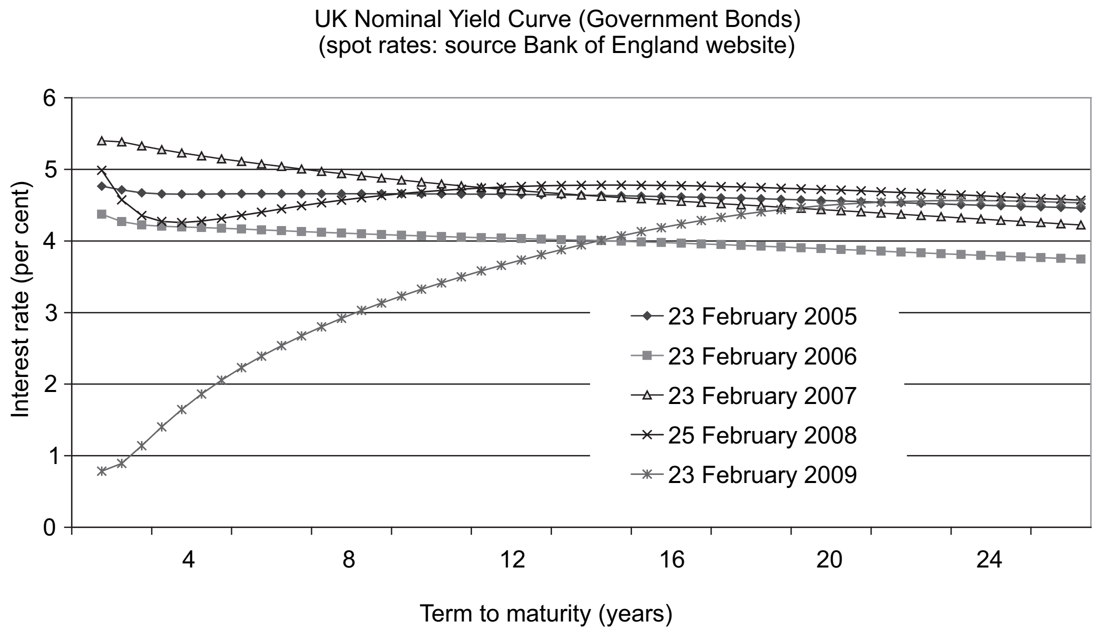
It should be noted that this is due to a failure to save enough in the accumulation phase of the pension, rather than a problem with investment strategies or annuitisation.

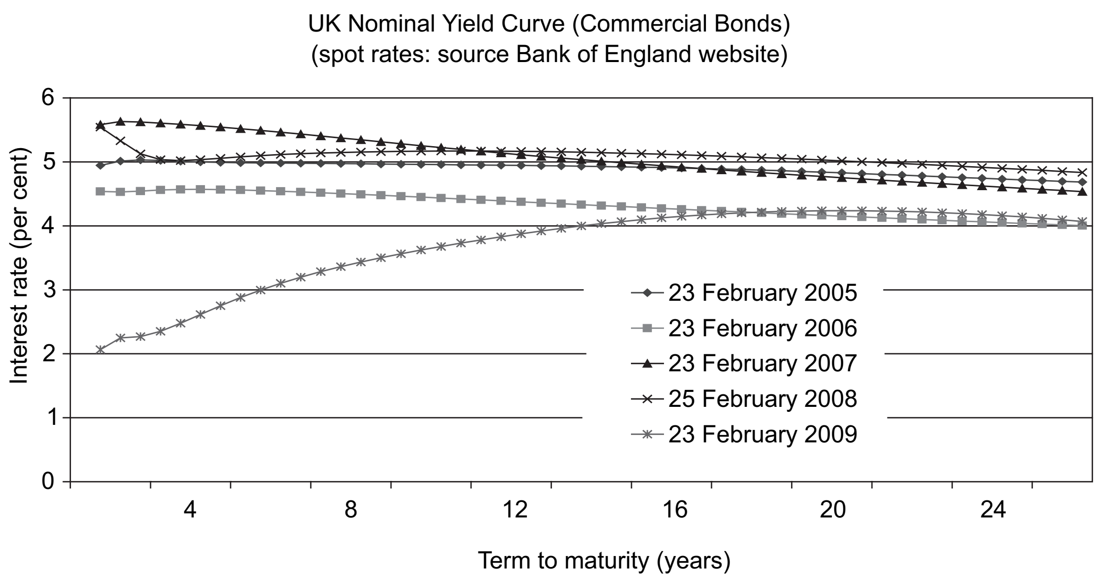
The effect of the financial crisis on annuity rates

Cannon and Tonks (2004) show that annuity rates in the voluntary annuity market ("purchase life") track interest rates closely over the period 1957–2002. The "money's worth" of these annuities is about 98%: ie the actuarial value of the money received by an annuitant is just a little less than the purchase price paid (which seems reasonable since the life insurer issuing the annuity has to cover its costs).

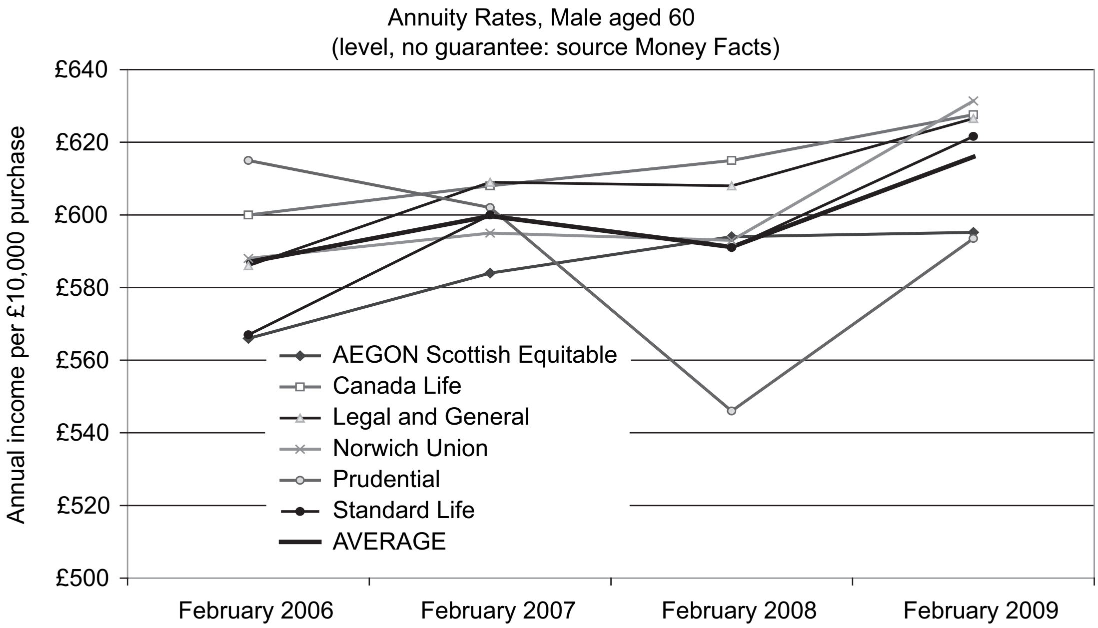
Cannon and Tonks (2009) show that the money's worth of annuities in the compulsory purchase market was about 100% over the period 1994–2000 and then fell to about 86% over the period 2004–2007. During this period there were substantial revisions to life expectancy data and life insurers became increasingly concerned about the risks of large increases in longevity raising their liabilities.

We are still analysing data for the period 2007 to 2009, but have produced a preliminary analysis for this Inquiry. Interest rates have fallen dramatically in the last year for maturities of up to about 10 years in both government bonds and commercial bonds as can be seen in the Figures below. Since life insurers typically match their annuity liabilities by holding such assets, we should expect annuity rates to fall as a consequence.


UK Nominal Yield Curve (Government Bonds)
(spot rates: source Bank of England website)
Interest rate (per cent)
0
1
2
3
4
5
6
4
8
12
16
20
24
Term to maturity (years)
23 February 2005
23 February 2006
23 February 2007
25 February 2008
23 February 2009


UK Nominal Yield Curve (Commercial Bonds)
(spot rates: source Bank of England website)
Interest rate (per cent)
0
1
2
3
4
5
6
4
8
12
16
20
24
Term to maturity (years)
23 February 2005
23 February 2006
23 February 2007
25 February 2008
23 February 2009

However, annuity rates have risen over this period as can be seen in the graph below which plots the annuity income which could be purchased with a pension fund of £10,000 from various providers.



The six life insurers for which we have data provide the majority of annuities purchased in the UK. The simple average of these six pension incomes has risen from £587 to £616. This is despite the large fall in interest rates.

Our preliminary money's worth calculations suggest that the money's worth in February 2009 has returned to 96%, close to its long-run level.

February 2009

Memorandum submitted by the National Pensioners Convention (TPP 08)

Summary

— The UK basic state pension does not abolish pensioner poverty. At least one in three older people are eligible for the means tested Pension Credit, yet even this, when added to the basic state retirement pension, provides an income below the poverty level.

— Means testing has failed in its attempt at getting money to the very poorest pensioners in society, because they remain amongst those who do not claim, and has at the same time unfairly penalised those with income just above the eligibility threshold.

— Women and minority elders are disproportionately represented amongst the poorest pensioners; largely because of broken work records, low paid employment and a lack of recognition of their domestic responsibilities.

— The continuing policy of freezing the state pensions of over 540,000 expat pensioners living across 150 countries has caused unnecessary hardship, is preventing pensioner emigration and imposes a higher net cost to the tax payer than that of a policy of universal uprating.

— The current economic crisis has adversely affected both those pensioners relying on income from their modest savings to supplement their retirement and those due to retire shortly who have seen the value of their private pensions suffer.

— The economic situation has also highlighted the weakness of private pensions and their inability to provide a guaranteed income in retirement. Changes to occupational schemes will result in a transfer of investment risk onto individuals.

— The changes contained in the Pensions Act 2007 will have no impact on existing pensioners. The delay in restoring the link with earnings, changes to the state retirement age and the proposed Personal Accounts will not help tackle pensioner poverty.

— The National Insurance Fund remains the most secure way of funding decent pensions in retirement, but its status is being undermined by the Government's policy of using the excessive balance held in the fund for public expenditure other than that of pensions and benefits for which it is intended.

— The basic state pension provides the most obvious and effective method of tackling pensioner poverty, both now and in the future. It should be set above the officially recognised poverty level and paid universally to all pensioners. This could be easily afforded by introducing a number of changes to the National Insurance and taxation systems.

1. Introduction

1.1 UK pensions' policy is at a crossroads. The basic state pension remains amongst the lowest and least adequate in Europe, supplemented by a means tested benefit; Pension Credit, that despite all recent efforts, stubbornly refuses to reach more than around 70% of those eligible to claim it[i]. As a result, the number of older people considered to be living below the officially recognised poverty line of 60% median population income (£151 a week before housing costs in 2006) is a staggering 2.5 million[ii].

1.2 Coupled with the ineffectiveness of the State system to tackle poverty in retirement, is the over-reliance by successive governments on the provision of occupational pensions to supplement income in later life. However, the current economic crisis has highlighted how these too are now in systematic decline and the prospect of rising pensioner poverty for future generations is now extremely likely. A recent survey by the National Association of Pension Funds has found that two thirds of occupational schemes open to new employees are planning to close within the next five years[iii].

1.3 Attempts to reach the nine million existing workers who are currently without any occupational or personal pension also raise a number of significant problems. The proposed system of Personal Accounts will ultimately transfer the investment risk onto individuals and as a result the coverage and scale of future pension provision is likely to be drastically reduced.

It is against this background that the Committee therefore conducts its inquiry.

2. The Scale of Pensioner Poverty

2.1 Over the last decade, the scale of pensioner poverty (determined as 60% of median population income) has fluctuated, yet stubbornly refuses to respond to any attempts by the Government to abolish it. The 2.5 million pensioners known to be living below the poverty threshold in 1997–98 is exactly the same figure as in 2006–07[ii].

2.2 Britain currently spends around 5% of Gross Domestic Product (GDP) on state pensions, about half the average for the 15 countries in the EU before 2004[iv]. Our pensioner poverty rate is already among the highest in Europe and the widespread need for means tested benefits demonstrates the inadequacy of our state pension system.

2.3 A host of official statistics show the shocking scale of pensioner poverty currently in the UK:

— Between 1997 and 2006, the number of people living in severe poverty—defined as living on less than 40% of median population income—increased by 600,000[ii].

— The poorest quarter of pensioner households saw their incomes rise by less than 1% last year, and the poorest single pensioners saw their real incomes drop by 4%[ii].

— At least 15% of pensioners—over 1.5 million older people—are living in persistent poverty (below 60% median population income for three out of the last four years)[ii].

— Pensioner poverty has risen in the last year by 300,000—equivalent to 822 people a day—and now reaches 2.5 million (one in four older people). Two thirds of these pensioners are women[ii].

— Almost two thirds (63%) of pensioner households receive the majority of their income from state pensions or benefits[v].

— 1.3 million pensioners have no source of income other than the state pension or benefits[vi].

— 2.7 million pensioner households receive pension credit, but a third of those eligible do not claim. Council Tax benefit has the lowest take-up rate of all benefits, with over 40% of older people entitled but not receiving it[i].

— One in three pensioner households—around 2.6 million homes—are currently spending more than 10% of their income on energy bills and are regarded as suffering fuel poverty[vii].

— Around 61% of pensioner couples have an annual income of £15,000 or less, and 45% of all single pensioners have an annual income of £10,000 or less[vi].

— 23% of single female pensioners, 20% of single male pensioners and 14% of older couples have no savings at all[v].

— In a recent EU survey, only pensioners in Latvia, Spain and Cyprus were considered more likely to fall into poverty than those in the UK. The Institute for Fiscal Studies has concluded that the proportion of pensioners below the poverty threshold will remain at its current level for at least the next decade, despite Government reforms.

2.4 Since 1997, the Government has pursued a policy of reversing the ratio of pension provision in Britain, from 60% state and 40% private, to 40% state and 60% private. For a decade, the Government's Pensions' Policy has been based on two key pillars:

(i) The widespread use of means tested benefits for today's pensioners.

(ii) The reliance on occupational pension schemes to take future generations of pensioners out of poverty.

2.5 Based on the principles of "progressive universalism", the Government has provided some level of state support for everyone, but above that, the balance between personal and public contributions towards the cost and access to pensions has been determined by an individual's economic circumstances. However, the weakness of this approach is that the universal provision remains completely inadequate and the security of private occupational pensions, particularly in recent months, has been seriously undermined by the economic crisis.

2.6 In terms of the state provision, both the basic state pension and the means tested Pension Credit provide an income well below the official poverty level, and the state apparently sees no contradiction in supporting people to live in poverty. In fact, Government Actuary's Department estimates show that if current policies were to continue, the state pension as a proportion of average earnings is likely to continue with its recent decline, falling from around 14% today to just 6% by 2050[(viii)].

2.7 With regards to occupational pensions, these too are in decline. Over the last few years, the trend has been to close down final salary based schemes to new entrants and replace them with less generous defined contribution schemes, with a pension payout that depends on the fluctuations of the stock market. However, in the current economic crisis, even these less generous schemes are being closed.

2.8 Around 8.8million people paid into employer pension schemes of all types last year, down from 9.2million in 2006. Only 47% of men aged up to 59 and 38% of women are currently contributing to a private pension and the average private pension pot of £25,000 will give a man of 65 an annual income of just £1,960. In the last 12 months pension funds have lost an estimated £157 billion[(ix)]. The Pensions Policy Institute suggests that most existing workers will eventually have a retirement income typically worth precisely 7% of their respective salaries.

2.9 It is our view that this situation therefore strengthens the argument for a stronger and more inclusive state pension scheme which can provide a decent and secure income for the majority of people in retirement.

3. Continuing Pension Inequality for Women and Minority Elders

3.1 The present UK pension system has not served women well. At least three quarters of existing women pensioners do not qualify for a full basic state pension in their own right, because they lack the required number of National Insurance contributions or credits. Furthermore, those women who rely on their husband's contributions receive just 60% of a full state pension. Persistent poverty is also concentrated among older women, with the proportion experiencing such poverty being three times that of the whole population[(ii)].

3.2 The main reasons for these partial pensions are women's typically low earnings, part-time work and broken career patterns often associated with domestic responsibilities. Whilst the Pensions Act 2007 will help more working age women to obtain a full basic pension by allowing a full pension after 30 years of contributions or care credits, the changes will do little to help existing women pensioners. On average, their total personal income is only 57% of men's; hence the poorest pensioners, those eligible for means tested Pension Credit, are mainly women.

3.3 Even the recent announcement that those (mainly women) with a reduced National Insurance contribution record will be able to buy back an additional six years' worth of state pension, on top of the existing six years that is already permitted, is only open to those who reached state pension age after April 2008.

3.4 In private (occupational or personal) pension schemes, women's typically restricted careers also place them at an even greater disadvantage. While around 71% of older men receive some private pension income, only 43% of older women do so. For those lucky enough to receive a private pension, women's pensions are on average 53% of their male counterparts[(x)].

3.5 In a similar way, black and minority ethnic pensioners also experience a greater risk of poverty. For example, 39% of Pakistani and Bangladeshi, 33% of Indian and 29% of Black Caribbean elders live in households with incomes below 60% of the median population income[(ii)]. These pensioners are more likely to have experienced unemployment during their working lives, limiting their chances to save and were disproportionately found in low-paid jobs, with very limited access to occupational pension schemes.

4. The Plight of Expat Pensioners

4.1 The Government's practice of freezing the annual increase in the state pension of UK pensioners living outside the country, not only imposes poverty on such individuals, but also has potentially a significant impact on the availability of funds to address other concerns.

4.2 The freezing of UK state pensions in 150 countries around the world actively discourages older people from emigrating. Looking at the reasons for the wish to emigrate amongst such pensioners, the desire to spend their remaining years with their families becomes predominant. These individuals (often widows) are acutely aware of the fact that their frozen pension will result in their becoming an increasing burden on their family as the effective value of the pension is reduced over the years. This inhibits them from making such a move and impacts adversely on their basic right to freedom.

4.3 Current figures for expat frozen pensioners indicate that it would cost the Treasury around £900 per capita to provide full pension parity with pensioners resident in the UK. Against this, the average cost of benefits over and above the basic pension plus health care costs for the over 65s, is estimated at £8,400. Each emigrating pensioner can therefore save the state some £7,500, in addition to the £4 billion which the Treasury has already received from the 541,000 frozen pensioners, who have already emigrated.

4.4 There can be no doubt that providing pension parity for all these expat pensioners, existing and potential, is not only morally right, but it can be shown have a significant favourable financial impact on the country.

5. The Failure of Means-testing

5.1 In 1993, the then shadow Chancellor, Gordon Brown, announced that he wished to achieve that which no other politician had done before, and end the means testing of Britain's pensioners. Despite this claim, on gaining power in 1997, he became the architect behind the biggest expansion of means testing since WWII; firstly through the Minimum Income Guarantee and later with the Pension Credit.

5.2 After a decade, attempts to relieve poverty by expanding the use of means-testing have failed to reach those most in need, with take-up figures showing around 1.8 million eligible pensioners having yet to make a claim[i]. For reasons that have been well documented, such as complexity, inaccessibility, social stigma and a reluctance to deal with officialdom, it is clear that means testing and pensioners simply do not mix.

5.3 One of the effects of means testing has been the unfairness it creates for those whose incomes are just above the eligibility threshold. For example, whilst those in receipt of Pension Credit can also gain access to Council Tax Benefit, those "nearly poor" have to find the money to pay these bills in full. The net effect is that their disposable income may end up being well below such poverty or benefit thresholds.

5.4 Since the early Victorian days of means testing and the concept of a "deserving poor", governments have struggled to achieve a 100% take-up of benefits. Moreover, the very poorest in society who were supposedly meant to gain from a targeted approach, are the very ones who do not claim. The right to a universal state pension would immediately end the need for the bureaucracy surrounding the administration of means testing and be guaranteed to reach those most in need. Quite rightly, the taxation system could then be used to take back any additional income from those for whom it was felt to be unnecessary.

6. The Impact of the Economic Crisis on Pensioner Incomes

6.1 Prior to the recent reduction in interest rates, a significant number of pensioner households relied on savings income to supplement their retirement. Figures published in June 2008 showed that 5.6 million pensioner households received some investment income. For those households with savings, 70% of them receive less than £20 a week in interest[vi].

6.2 However, the present economic situation has meant that any pensioner with modest savings of £10,000 will have seen a reduction of at least £25 in their monthly income. Despite this, the Department for Works and Pensions still regards individuals as enjoying a 10% interest rate on their savings on when applying for Pension Credit.

6.3 Millions of people nearing retirement also face a pensions' disaster because of the economic crisis. An estimated 5 million workers are paying into defined contribution schemes which generally invest large sums of money in shares and advertisement 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.

6.4 These defined contribution pensions invest in a mix of shares, property, cash and bonds, but more than 90% of people opt for the default fund, where between 75 to 100% of investment is in shares. For those in their late 50s or early 60s who had been hoping to retire within the next five years, the fall in share prices will have undoubtedly damaged their pension prospects.

7. Will the 2010 Changes make the State Pension System Fairer?

7.1 The Pensions Act 2007 has ushered in a number of alterations to the pension system, including:

(i) Reinstating the link between the state pension and average earnings between 2012 and 2015 (if affordable).

(ii) Reducing the number of years of National Insurance contributions or credits needed to qualify for a full basic state pension from 39 to 30 for men and women and removing the minimum 10 year qualification rule.

(iii) Introducing a weekly Carer's Credit in the basic state pension and State Second Pension (S2P).

(iv Gradually changing the S2P into a flat rate scheme.

(v) Phasing in an increase to the state pension age to 68 by 2046, ie for those born after 1978.

(vi) Introducing a savings scheme known as Personal Accounts, additional to S2P, in 2012.

Despite some welcome elements in the 2010 changes, there remain some major concerns and weaknesses in the Government's approach.

7.2 Linking the basic state pension to average earnings from 2012 (at the earliest) will be irrelevant for the three million of today's pensioners who will have already died by that time. Furthermore, because the value of the pension will have continued to fall in the intervening years, the extra that the link will give in 2012 will be just £1.40 a week more than pensioners would have got anyway under the existing system. As a result, even after the Government's reforms, a third of all pensioners are still expected to be reliant on means tested benefits in 2050.

7.3 Whilst the reduction in the number of National Insurance qualifying years is welcome, the Government refuses to apply it retrospectively to existing pensioners—despite around 70% of all older women failing to receive a full state pension because of time spent out of the workplace raising a family, caring for dependents, or through being in low-paid or part-time employment.

7.4 Increasing the state pension age to 68 will also disadvantage many low paid, manual workers, who need to retire before 68 due to health or caring commitments and who cannot afford to stop work without a pension. Moreover, it may be difficult for many to find or retain a job in their 60s, due to employers' age discrimination. In effect, by removing the right to a decent period of retirement for ordinary working people, we are accepting the myth that increased longevity necessarily enables people to work longer, whether they want to or not.

7.5 The Government's aim is to introduce a Private Savings Scheme, known as Personal Accounts, aimed at the nine million existing workers who are currently without any occupational pension is also seriously flawed.

7.6 Many low paid workers, particularly women, will opt out of the scheme because they will be unable to find the extra money to put aside. A survey by Building and Civil Engineering Benefits Schemes, which helps manage a large number of workplace pension schemes, recently found that 28% of workers thought they would be unable to afford the 4% contribution[(xi)].

7.7 Furthermore, some employers may encourage workers to opt out so that they don't have to pay the 3%; or may keep part time pay below £5,500 per annum for the same reason. Those employers who are currently paying more than 3% into their company pension schemes may also reduce their contributions to that level.

7.8 The most serious flaw however is that the Government is unable to guarantee that after a lifetime of contributing to the scheme, the individual will have enough to prevent them from still needing means tested support when they retire. In this situation, many workers will wonder whether it is worth bothering with the scheme at all. In addition, charges are expected to be at least 0.5% of the fund each year, and unless higher contributions are paid, Personal Accounts will typically provide an annuity of about £3,000 per annum.

8. The National Insurance Fund

8.1 The National Insurance scheme was established on 5 July 1948 to provide unemployment benefit, sickness benefit, retirement pensions and other benefits in cases where individuals meet the contribution and other qualifying conditions.

8.2 The system of National Insurance remains a fundamentally sound way of financing state pensions—ensuring that both employers and employees contribute to the pensions of earlier generations on a pay-as-you-go basis. Unlike private schemes, the fund does not rely upon private funding or the financial market, company strength or reliability in order to guarantee payment. Furthermore, the audited accounts are presented annually to Parliament, and the rate of contributions and pensions are subject to parliamentary approval.

8.3 Whilst there maybe a need to reform certain aspects of the way in which individuals become eligible for a state pension or the level of contributions, particularly for high earners, we reject the idea that the fund should be used as simply another form of general taxation.

8.4 There is no financial crisis in the National Insurance system. In fact, the latest Government Actuary's Report shows that the balance in the fund has been rising by over two and a quarter times that of expenditure, and has now reached a record-breaking £47 billion. In just five years, this is forecast to reach £102 billion—the equivalent of 113% of expenditure and substantially more than the 16.7% surplus balance recommended for fiscal management[xii].

8.5 Pensioners are therefore understandably concerned that the level of their state pension is being kept unacceptably low, because the balance in the fund is being invested in Government stocks and gilts; enabling the Treasury to use the money for other public expenditure, which would otherwise require increases in income tax.

8.6 In view of this, there is now an urgent need to find a suitable mechanism for effectively maintaining the adequacy of pensions and benefits while ensuring fairness in regard to the interests of contributors, pensioners and other benefit claimants. In recognising that such issues are political, more than the mere management or auditing of the fund, any changes will ultimately require action by parliamentarians. It is essential that the Government therefore begin to use the excessive balance in the fund to substantially raise the basic state pension for all men and women.

9. The Way Forward

9.1 The National Pensioners Convention believes that the economic crisis provides us with an almost unique opportunity to reassess how, as a society, we provide for our retirement. 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 (60% of median population income, which is estimated to be £165 per week in 2009).
- 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.
- Retaining the State Second Pension (S2P) as a good earnings-related pension for all workers, maintaining the higher replacement rate for the low paid as an alternative to the new proposed system of Personal Accounts.

9.2 As a way of financing these proposals, the Government should:

- Use the existing excess surplus in the National Insurance Fund, which has been paid in by today's employees and employers, as part of the pay-as-you-go system to provide state pensions and other benefits.
- Abolish the upper earnings limit of £43,888 on National Insurance contributions, ending the injustice in which the higher paid contribute a smaller proportion of earnings than the lower paid. This would raise between £8–10 billion a year.
- Require employers to pay at least 15% of payroll into NI, as in many EU countries.
- Reform tax relief on private pensions. This currently costs the Treasury around £30 billion a year—with the top 1% of taxpayers receiving around 25% of the rebate. This is neither the most effective nor equitable way of using public money, giving a massive incentive to save to those who least need it. Initially tax relief should be limited to the standard rate of tax, before considering phasing it out altogether.

9.3 Despite Government claims that they have reformed pensions there remain some very striking inequalities and disadvantages for millions of existing and future pensioners. However, if we strengthen the state pension system, not only would we ensure real financial security for everyone in retirement, but we would also begin to end the power of the private pension funds and the risks they take with the retirement prospects of millions of ordinary workers.

References

(i) DWP Income Related Benefits Estimated Take-Up 2006–07.

(ii) DWP Households Below Average Income 2006–07.

(iii) NAPF Annual Survey 2008.

(iv) OECD Fact Book 2005.

(v) DWP Family Resource Survey 2006–07.

(vi) DWP Pensioners Income Series 2006–07.

(vii) BERR/DEFRA UK Fuel Poverty Strategy 6th Annual Progress Report.

(viii) GAD Report 2007.

(ix) *Guardian* 19 December 2008.

(x) NPC Wise-Up on Women's Pensions 2009.

(xi) *The Independent* 25 October 2008.

(xii) GAD Report 2009.

March 2009

Memorandum submitted by E.ON UK plc (TPP 09)

E.ON UK welcomes the Committee's inquiry. Our response focuses on Question 6 and the actions of energy suppliers in helping pensioners out of fuel poverty.

Question 6—*Are lump sum payments, such as the Winter Fuel payment, an appropriate way of addressing pensioner poverty?*

Winter Fuel Payment

1. The Winter Fuel Payment is a means of helping all people of pension age over the winter period when fuel costs will be highest. This is an entirely legitimate public policy goal although it is an option for the Government to adjust these payments so that available resources are more focussed on the elderly on low incomes who are most in need of help with their fuel payments.

2. This issue is fundamentally a matter for Government. However what is important is that Government devotes sufficient resources as a whole to tackling fuel poverty and to achieving its statutory objective of ensuring that, as far as reasonably practicable, people do not live in fuel poverty by 2016.[4]

3. E.ON gives additional cold weather payments through our Age Concern product over and above what the Government offers. In 2007–08 we made payments totalling £2.1 million to 150,000 customers.

4. The benefits system is the best method to provide immediate relief; ensuring help reaches those who need it most and not penalising those who would not benefit from support through their energy bills because they are, for example, off the gas network. However this focus on meeting energy costs alone is not effective in providing a longer term solution to the underlying causes of fuel poverty amongst the elderly. Short term solutions must be accompanied by a more long term sustainable approach.

Energy Efficiency

5. The most effective and sustainable way of tackling fuel poverty is through improving the energy efficiency of housing which allows either consumers to reduce their fuel costs or to achieve a higher level of warmth at the same cost. The potential savings are greater, and are sustained, and target those in lower standard housing and hence most vulnerable to rising prices.

6. At present suppliers are committing very substantial resources to improving energy efficiency. Through the Carbon Emissions Reduction Target (CERT) (£3.4 billion) and a new Community Energy Saving Programme[5] (£350 million) suppliers are spending £3.7 billion for the period 2008–11. There is a requirement for 40% of the CERT target to be met from installing measures in the homes of priority group[6] customers. E.ON's share of the CERT programme is around 16%.

Other supplier actions

7. In April 2008 it was agreed that energy suppliers would treble the value of their social programmes to £150 million in 2011; an additional £225 million spend over three years. Our overall social investment doubled to £13.2 million between 2006–07 and 2007–08. In 2007–08 we spent more per customer account on our social programme than any other main energy supplier.

8. On 1 December 2008 we announced the launch of WarmAssist, a new product introduced as part of our commitment to helping government tackle fuel poverty. WarmAssist has been developed to provide sustainable support to our most vulnerable fuel poor customers, who are aged 60 or above and in receipt of Pension Credit, by offering a 15% discount on our standard electricity and gas prices. As we believe the long term solution to fuel poverty is improvements to the thermal efficiency of properties, we are asking customers to work with us by agreeing to have loft and cavity wall insulation measures installed where it is possible.

9. E.ON also works with Age Concern to offer an electricity and gas service dedicated to meeting the needs of older people.

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4 In England and Scotland. 2018 in Wales.
5 Jointly funded by energy suppliers and electricity generators.
6 Households with a resident over 70 years or claiming certain benefits.

10. All customers who call our Caring Energy Helpline are offered a Benefits Entitlement Check. In 2007–08 we conducted 1,458 checks, of which 994 (68%) were found to be eligible for additional benefits. The average annual increase per successful check was in excess of £2,000.

11. E.ON commits £150,000 per year to help fund the Home Heat Helpline, a free, central phone number offering practical energy advice for people concerned about paying their energy bills. This is an impartial, single-point of advice for vulnerable customers set up by the Energy Retail Association in conjunction with energy suppliers.

Future strategy

12. We believe the current balance is reasonable with suppliers delivering a programme of energy efficiency measures with a cost of over £1 billion/year and a £225 million increase in social programmes over a three year period, in addition to £1 billion[7] from Expert Advisory Group on AIDS and Government action on social housing and winter fuel payments.

13. Looking to the future, we welcome the recent publication of the Government's consultation on the Heat and Energy Saving Strategy with its focus on moving to a more co-ordinated street by street and whole house based approach from 2012, building on the Community Energy Saving Programme. We believe community-led approaches are particularly helpful in supporting customers to accept changes to their property and take-up new technologies.

14. There is one critical issue with respect to the risk of becoming fuel poor. A strategy is required to help pensioner couples future proof their property early in retirement, to avoid the surviving spouse falling into fuel poverty later the Government needs to promote awareness amongst this group and also consider different eligibility criteria from the current over 70s or on benefits rule; for instance to give increased support to pensioners in their 60s, perhaps subject to some limit on income or house value.

March 2009

Memorandum submitted by Continuing Care Conference (TPP 10)

CCC and its Members

CCC is a unique coalition of commercial, charitable and public service organisations with a mutual interest in providing better care for current and future generations of older people. Its members include financial service providers, care providers and commissioners, trade and professional bodies and providers of advisory and advocacy services for older people. CCC, was founded in 1992, and was known as the Continuing Care Conference until 2004. A list of members is shown in Appendix 1.

CCC's Mission

CCC's mission statement is:

> "We believe that all older people in Britain should live their lives in dignity, comfort and in a place of their choosing. We want all elements of society to make the necessary individual and social investment to ensure that happens. Our task is to ensure that policy-makers pursue this goal and to encourage the public to join with us in our mission to persuade them to do so."

We believe a better understanding of pensioner poverty, and are seeking ways of reducing it, would make a valuable contribution to reducing social exclusion and resolving our fractured communities. Going forward we would be very happy to assist the Committee in any way whatever with its important work.

Summary

These are our summarised responses to the seven questions posed by the inquiry and detailed below:

— How do you define what "poverty" means, how many pensioners fall within the definition and how can the available public welfare funds be fairly spread so that those in most need, at all ages, receive appropriate support and that state benefits don't go to people who don't need them? The solution to the pensioner poverty problem lies in a mixed economy of solutions, where the state, the Individual and their family, their affinity groups, and providers old and new, combine to fund and provide working and retired people with the fair and transparent means to protect both their lifestyles and health in old age.

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[7] The budget of £785 million available for the three years commencing April 2008 was increased to £859 million in September 2008. A further £100 million was announced by the Chancellor in November 2008.

— The uptake of Pension Credit by those entitled to it is not good and a communications programme around removing the stigma associated with claiming entitlements would have a far bigger impact on improving the uptake of all benefits than the financial crisis will.

— The provision in the Welfare Reform Bill, to introduce a power to pay Pension Credit automatically in some pilot areas, is an important step forward for the Government in ensuring the poorest older people can access the benefits they are entitled to and is welcomed.

— The introduction of Personal Accounts in 2012 could radically change the pension picture for low to medium earners, the most unpensioned group at present, but all of this is too late for anyone over 60. Under National Pension Scheme a minority of pensioners may not even get their contributions back due to the interaction of their saving with means tested benefits. This could have a detrimental impact on wider public confidence in the pension system.

— An education and information programme for those people who are likely to claim such benefits is required and there must be a role for the not-for-profit sector in disseminating the relevant information to the people who need it, when they need it.

— Lump sum payments are made principally because the state pension is so low, and they are cheaper than raising the pension level. While some older people are financially well off enough not to need these benefits, considering the numbers in fuel poverty, many depend upon them. Again organisations that work closely with older people and other disadvantaged groups would be best placed to advise on the distribution of such benefits.

— No one who wants to work should be written off simply on the grounds of age from the labour market and the support offered to benefit claimants as they attempt to return to work is welcomed. The declining economic climate won't help and unemployment among those over 50 is rising at double the rate of any other age group. When people over 50 drop out of the labour market, they are much more likely to stay unemployed for longer periods than other age groups—and it is hard to see how this squares with the current personalisation and poverty reduction strategies.

Submission

These are the seven questions with our detailed responses:

A. *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?*

1. In order to address pensioner poverty the starting point is to recognise that for over 100 years, since the start of the modern era of pensions as we now know them, pensioner poverty has always existed for some pensioner cohorts—but must it continue do so in the future? The issue is how you define what poverty means, how many pensioners fall within the definition and how can the available public welfare funds be fairly spread so that those in most need, at all ages, receive appropriate support and at the same time ensure that state benefits don't go to people who don't need them?

2. Plainly, compared with 100 years ago, very few elderly people suffer the grinding poverty of cold and hunger that was often the lot of the destitute poor of all ages in Victorian times. Modern definitions of poverty have moved away from conceptions based on a lack of physical necessities towards a more social and relative understanding. The European Union's working definition of poverty is:

> "Persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life . . .."

This is now the most commonly used definition of poverty in the industrialised world. It recognises that poverty is not just about income but also about the effective exclusion of people living in poverty from ordinary living patterns, customs and activities.

3. There are four main official sources of data on social exclusion in Britain:

— Households Below Average Income (HBAI) statistics are derived from an analysis of the Family Resources Survey. It uses relative incomes on both Before Housing Costs (BHC) and an After Housing Costs (AHC) basis and adopts a 60% of median income as a proxy for the poverty line. The after housing costs measure provides the best indicator of disposable income. It also uses the British Household Panel Survey to provide estimates of the persistence of poverty.

— Opportunity for All monitors progress towards the UK Government's goal to create a "fairer, more inclusive society where nobody is held back by disadvantage or lack of opportunity". As well as reviewing policy the report includes a set of indicators including those covering older people.

— The UK National Action Plan on Social Inclusion—At the Lisbon summit in 2000, the European Council agreed to adopt an "open method of coordination" in order to make a decisive impact on the eradication of poverty and social inclusion by 2010. Member states adopted common objectives at the Nice European Council and all member states drew up National Action Plans against poverty and social exclusion.

— The Department for Work and Pensions (DWP) use an approach based on absolute low incomes, relative low incomes and material deprivation and low incomes combined. These measures will all be on a before housing costs basis but there are plainly issues where children and/or older people form part of that household and thus incomes and spending are skewed.

4. Using these measures the Government allege that pensioner poverty in the UK is in fact falling. For example, using HBAI Relative pensioner poverty between 199–97 and 2004–05 was from 2.2 million to 2 million BHC, and reduced by one million AHC, from 2.8 million to 1.8 million. In reviewing household incomes ONS(1) found that one of the largest positive changes in the composition of the income distribution over the last 30 years was in the position of retired households. In 1977, the majority of retired households were in the bottom quintile group (51%). By 1996–97, this proportion had fallen to 29%, and it remained at a similar level between 1996–97 and 2006–07. However it is fair to recognise that "retired households" covers people living in very different economic circumstances. Those who have retired at 60 after 40 years service from an index linked two thirds final salary scheme are much better off than those for example in receipt of Pension Credit because they did not make enough National Insurance contributions earlier in life to qualify for the full state pension. Ie Groups such as women who never went back to work after having children, immigrants who arrived in Britain in their 50s or 60s and older people who live in rented accommodation and receive Housing Benefit. The latter groups would struggle to agree that their standards of living have increased over the same period.

5. Conversely the proportion of children living in households in the bottom quintile group increased from 19% to 29% between 1977 and 1996–97. This was mainly due to an increase in the number of one adult households with children. In 2006–07 the proportion of children living in households in the bottom quintile group was 25%. This is an important point for if we are to be truly fair in the way wealth is redistributed then managing child poverty, rightly a significant target for the present government, must be given equal sway to eradicating poverty in old or any other age and thus any measure that applies equally to younger people as much as it does to older people will find favour both politically and amongst the general population. Also using either AHC or BHC can skew the issue and while AHC is probably more appropriate for families with children, BHC is more accurate in the context of older people. No single measure is the magic bullet, and until all possible indicators are pointing in roughly the same direction, we cannot be satisfied that we are making fair progress in reducing Pensioner Poverty.

6. Moreover an important point from the EU definition above shouldn't be overlooked here, namely "exclusion from ordinary living patterns, customs and activities". For older people it is as much about being deprived of access to what you were used to and expected in terms of living standards as it is about absolute wealth. Social exclusion is as much about social mores, discrimination and attitude as it is about physical mobility and access. An education and information programme as to what is available nationally and locally by way of benefits and support, and advice in obtaining it, would be of great social value. While we understand the economic arguments against "universal benefits".

7. Trust and honesty in the older population by those who govern us would also be very welcome. Many older people like the idea of a universal "Citizens Pension" provided as of right. Plainly with the worsening demographic and economic landscape the funding of this from taxation is simply out of the question. Politicians of all parties will need to be much more honest regarding what people will receive in old age. This collusion between an "it will all be all right" political mantra and a compliant public who are only too ready to believe it, means that individuals will never save enough from disposable income to provide for themselves in old age unless they are incentivised in some way.

8. For example a key public misconception is that current state pension system is fully funded, with a box with everyone's name on which is gradually filled up over a working lifetime by employment based NI contributions—thus there is a general feeling of entitlement, of it being "my money", a benefit as of right paid for by an individual's own contributions. In fact as we know it is a "pay-as-you-go system" where this week's National Insurance pays for next week's pensions, which is rapidly becoming unsustainable. The current system of a minimum level of age related benefits for all, with means testing for the very poor, was designed when few lived long enough to claim their pension. This mechanism worked well when there were six or eight workers for every pensioner, but changing demographics mean there are now 9.8 million people over 65 in the UK(2), with 3.3 people of working age for each person over pension age. This former figure is due to rise to 16.1 million by 2032, with only 2.9 people of working age to support each of them.

9. Many will be very elderly with increasing ill health burdens, currently 1.3 million are over 85, rising to 3.1 million by 2032. It is now widely understood that after retirement about a third of men and half of women will need some form of Long Term Care (LTC) in old age. Much of this care will be costly, and in cases of dementia for extended periods, which means rising bills for both the state, individuals and families. Thus pensions will not have to fund just lifestyle choices for a few years, but possibly for many years, and also for most have to fund an element of care fees.

10. Plainly income in old age is a significant impactor on the ability to fund LTC and that funding may deprive the family group, and not just a single elderly individual, of lifestyle choices. This issue of "being a burden" can be a dominating concern for many older people; so rather than the individual, is it about the family group as the discrete funder and provider of lifestyle and care with Long Term savings income and assets having a key role to play? Pensions are a key part of that funding landscape, but then so are housing equity and legacy/estate expectations.

11. This means that current concepts of achieving retrospective social justice through means testing and preventing the inter-generational transfer of assets, has to be reappraised. If people choose to save for their lifestyle in old age, and the NPSS system due in 2012 (see below) seeks to include more lower earners within the pensions net, then there is no point in them doing that if they lose £1 for £1 from their final payout through means testing—why bother they may well ask?

12. The problem lies in managing expectations and education and also recognising that if we encourage younger people to exist within a social welfare cocoon they will do so all their lives. This means that whatever state support is given to the current elderly poor for whom it is too late for self-funding, it must be made very clear to younger age cohorts that this is not what they can expect, but rather, if they can, then they will be expected to provide largely for themselves—not electorally popular rhetoric for politicians. For this "Social Contract" to work then the Government will have to demonstrate clearly that they will live up to their side of the bargain in that if you contribute X then you will be guaranteed Y level of hypothecated benefits, and not be told when you come to claim—"sorry we haven't got the money!" Sadly the public perception of the performance, in terms of pension pot values, long term care insurance and long term savings, of both public and private sectors in delivering sound solutions for people who would like to make provision for themselves is basically below par. Distrust, perhaps justifiably so, abounds and much work will be required before that trust is rebuilt and people start to save again in the volumes required.

13. One key area that poses a threat to the next generation of pensioners is the virtual disappearance of final salary pension schemes. These schemes are actually supporting a significant percentage of the retired population, ensuring that they live above pension poverty. The DWP and its predecessors have never got anywhere near developing a national scheme that delivers a robust alternative. The result has been that many working people have carried a belief that somehow their housing equity will solve all their retirement challenges—a belief that the current economic downturn is already showing to be rather redundant.

14. Clearly the solution to the pensioner poverty problem lies in a mixed economy of solutions, where the state, the individual and their family, their affinity groups, and providers old and new, combine to fund and provide working and retired people with the fair and transparent means to protect both their lifestyles and health in old age.

B. *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?*

15. It will need a dramatic change in lifestyle to move us from where we are now to a better place in terms of pensioner poverty but we cannot pin all our problems on the current financial crisis. Lack of forward planning has been the main cause and for many, a lifestyle change will make no real difference. The Financial crisis has impacted annuity rates adversely and will continue to do so as long as interest and equity rates remain low and public acceptance of the continued "gold-plating" of public sector defined benefit pension schemes versus private sector Defined Contribution (DC) schemes, which require fund annuitisation, is very doubtful.

16. But that is not the only factor to be considered, retirement at 60 is quite common, particularly in the public sector, despite all the rhetoric that we will all have to work until we are 70. The 10 year later life gap is not likely to be pensionable in the traditional sense and therefore the main pension annuity may well start at 60 and go on for 30 odd years, which is the key factor influencing annuity rates. Again education is required because currently most people show a lack of vision, when they annuitise out of a Defined Contribution scheme at normal retirement date. Often the open-market option is disregarded through lack of awareness and the preference is for a single life, non-escalating, non-guaranteed pension, simply because it is bigger at inception. The uptake of Pension Credit by those entitled to it is not good and a communications programme around removing the stigma associated with claiming entitlements would have a far bigger impact on improving the uptake of all benefits than the financial crisis ever will!

C. *Benefits take-up—why do some people not take up their entitlement to benefits (eg 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?*

17. As stated above, benefits are not taken up because of pride, stigma and prejudice and the fact that claiming is too complicated. Means tested benefits are primarily not claimed because people do not know that they exist, or do not think they are eligible, or do not realise that changing income levels and eligibility levels means that they might have become eligible. This points to the need for an annual (or at least quinquennial) benefit health check. In addition there is no direct action taken to empower the individual to step up and ask for what they are entitled to. Older people need face-to-face counselling, help with forms and total trust in the people they are engaging with. The current system is so bureaucratic that many would-be claimants give up. Socio-economics and education are also significant impactors and the educated middle class will always win the day by fighting persistently for what is theirs by right. The provisions in the Welfare

Reform Bill to introduce a power to pay Pension Credit automatically in some pilot areas is a vital step forward for the Government in ensuring the poorest older people can access the benefits they are entitled to and should be warmly welcomed.

18. The Government has placed much hope in "Personalisation" or "Individual budgets" reasoning that most people want to have control over their lives and that individual budgets are about mediating this in a way that makes sense for them. These are similar in style to direct payments in that users are given a pot of money to spend on their own "self-directed support" but much more versatile. They can be a cash direct payment managed by the user, but the local authority or a broker on the user's behalf can also manage them. If all goes to plan, various funding streams from different parts of Government will be converted to individual budgets. However many commentators worry that personalisation could be under-funded, and that disability-related social security benefits, received as of right by those who meet the criteria, could be transferred to the new system, moving from a rights-based system, with councils responsible for things like advocacy, to a discretionary system of funding where the council decides whether it can afford to pay. What is certain is that personalisation will only work if eligibility thresholds for services are lower than they are now and it would be very regrettable if gate keeping remained paramount because eligibility criteria are so tight. We mustn't raise people's expectations and then say personalisation doesn't apply because they don't qualify.

D. *Basic State Pension—will the 2010 changes create a fairer state pension system?*

19. A number of changes to BSP are proposed over the coming four years. Specifically in 2010 a reduction to 30 in the number of years contributions required to qualify for BSP and the increase of the minimum retirement age to 55 should make the system fairer. The introduction of Personal Accounts in 2012 could change radically the pension picture for the low to medium earners, the most unpensioned group at present, but all of this is too late for anyone over 60. A recent study by the Department for Work and Pensions concedes that under National Pension Scheme a minority of pensioners could receive as little as 76p back for every £1 they put into a pension, after taking account of inflation due to the interaction of their saving with means-tested benefits. This category includes those who would receive Pension Credit because they did not make enough National Insurance contributions earlier in life to qualify for the full state pension, such as women who never went back to work after having children. All this could have a detrimental impact on wider public confidence in the pension system.

E. *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?*

20. The short answer is no and no! Again an education and information programme for those people who are likely to claim such benefits is required and there must be a role for the not-for-profit sector in disseminating the relevant information to the people who need it, when they need it.

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

21. These payments are made principally because the state pension is so low, and they are cheaper than raising the pension level. While some older people are financially well off enough not to need these benefits, if the numbers in fuel poverty are considered then many older people depend upon them. Again organisations that work closely with older people and other disadvantaged groups would be best placed to advise on the fairness and context of lump-sum benefits versus means tested benefits as effective methods of delivering help to those who need it.

G. *Is the Government's programme of welfare reform the right approach for supporting pensioners who wish to continue working?*

22. No one who wants to work should be written off simply on the grounds of age from the labour market and the support offered to benefit claimants as they attempt to return to work is welcomed. However the introduction of further conditionality into the benefit system to those aged over 50 requires more research evidence by age before it is undertaken. 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. Before the withdrawal of benefits sanction is applied many factors will need consideration, issue such as are there enough jobs available and is sufficient tailored back-to-work support provided? This applies across all ages and abilities and indeed many of the providers currently bidding for these contracts share these reservations and for cash flow reasons are consequently, in mid-tender, seeking a revision of the proposed balance of up-front payments to outcome payments.

23. The declining economic climate won't help either and the Government's own figures show that unemployment among those over 50 is rising at double the rate of any other age group and older workers were hit very hard by job cuts in the last two recessions. When people over 50 drop out of the labour market, they are much more likely to stay unemployed for longer periods than other age groups—and it is hard to see how this squares with the current personalisation, individual budgets and poverty reduction strategies.

(1) Income Inequality—Little change since 1980s, ONS December 2008

(2) Benefits and challenges of an ageing population, ONS Population Trends 134, Winter 08.

In summary a better understanding of pensioner poverty, and seeking ways of reducing it, would make a valuable contribution to reducing social exclusion and increasing the health and wellbeing of older people. Going forward we would be very happy to assist the Committee in any way whatever with its important work.

February 2009

APPENDIX 1

CCC Membership

Confirmed as at 27 January 2009

President: Lord Richard Best

Adams & Remers Solicitors
Age Concern England
Anchor Trust
Anson Care Services
Association of British Insurers (ABI)
BUPA Care Services
Careful Decisions
Commission for Social Care Inspection (CSCI)
Counsel and Care
County Councils Network
Coventry City Council
Elderly Accommodation Counsel (EAC)
Eminence Grise
English Community Care Association
Essex County Council
Extracare Charitable Trust
Grace Consulting
Help the Aged
HICA Group
Joseph Rowntree Foundation
Local Government Association (LGA)
NHFA
Partnership
RNHA
Salvation Army
SPPR Consulting
Tunstall
UNITE
UKHCA
UNUM
Westminster City Council

Memorandum submitted by the Parkinson's Disease Society (TPP 11)

We welcome the opportunity to submit a Memorandum of Evidence to this Inquiry.

1. Summary

We would like to highlight the following areas for particular attention:

— The Government's plans for welfare reform should include a stronger focus on employment retention for people with a disability; including an immediate increase in funding for the Access to Work Grant.

— We have a number of concerns with the suitability of Carer's Allowance—in particular the low level of the benefit, the rigid earnings limit, the 21 hour study rule and the overlapping benefits rule.

— DWP staff should play a more proactive role in signposting claimants to other benefits they might be entitled to.

— Attendance Allowance should include a mobility component equivalent to that in Disability Living Allowance.

2. About the Parkinson's Disease Society

2.1 Parkinson's Disease Society (PDS) was established in 1969 and now has 30,000 members and over 330 local branches and support groups throughout the UK. It provides support, advice and information to people with Parkinson's, their carers, families and friends. It also provides information and professional development opportunities to health and social services professionals involved in their management and care.

2.2 This year, the Society is expected to spend £4 million on research into Parkinson's Disease. The Society also develops models of good practice in service provision, such as Parkinson's Disease Nurse Specialists, community support, and campaigns for changes that will improve the lives of people affected by Parkinson's.

About Parkinson's Disease

2.3 It is estimated that 120,000 people in the UK have Parkinson's. Parkinson's is a progressive, fluctuating neurological disorder, which affects all aspects of daily living including talking, walking, swallowing and writing. The severity of symptoms can fluctuate, both from day to day and with rapid changes in functionality during the course of the day, including sudden "freezing".

2.4 Parkinson's affects people from all social and ethnic backgrounds and age groups. The average age of onset of Parkinson's is between 50–60 years of age, though one in seven will be diagnosed before the age of 50 and one in 20 will be diagnosed before the age of 40.

2.5 Evidence from the Parkinson's Disease Society members survey published last year,[8] showed that 82% of people with Parkinson's were reliant on benefits and/or pension; including 19% on Council Tax Benefit, 41% on Attendance Allowance and 30% on Disability Living Allowance and 10% of those of pensionable age in receipt of Pension Credit. Nearly a third of people with Parkinson's reported that they were "just getting by" or "getting into difficulties with" their finances.

Issues and Evidence

3. *Impact of the financial crisis on pensioner poverty*

3.1 The PDS has recently had a significant increase in calls to our Helpline from people who are worried about redundancy or other employment-related issues. Older people with a disability feel at particularly high risk of losing their job, which impacts on both their immediate financial position and their ability to save for a pension. As discussed section 7 below, we would like the Government's plans for welfare reform to include a stronger focus on employment retention for people with a disability or long-term medical condition.

3.2 Means tested benefits, pension and tax credits and local authority charging policies for care services are all founded on the assumption that those with savings will receive income from those savings. In the current economic climate, with low rates of interest paid on savings, those people who rely on their savings as a source of income are likely to find it difficult to manage.

4. *Benefits take up*

4.1 People with Parkinson's and carers tell us that they find the benefits system overly complex, with a range of benefits the different rules of which are not always made clear. Other complaints focus on complex forms and the need to repeat the same information. People tell us that when they go through the claims process for one benefit they assume they will be told about the other benefits they might be entitled to, though in reality this is rarely the case. It is important that DWP staff inform any claimants they come into contact with about other relevant benefits, particularly in relation to "passporting" benefits.

4.2 Feedback from members highlights that people with Parkinson's rarely receive information about benefits from JobcentrePlus or other DWP sources. Instead they are heavily reliant on the PDS for information, through local PDS branch, their Information and Support Worker, the PDS website or our freephone helpline.

4.3 The PDS welcomes pilots and initiatives to increase take-up of Pension Credit, including the use of automated take-up. However, it is difficult to comment on the proposals without viewing draft regulations outlining how these will be taken forward.

[8] *Life with Parkinson's today—room for improvement,* Parkinson's Disease Society, 2008.

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?

5. Disability Living Allowance (DLA) and Attendance Allowance (AA)

5.1 DLA and AA are essential sources of income for people with Parkinson's, which help to meet a wide range of costs associated with Parkinson's. Over half of respondents to the PDS members' survey identified additional spending requirements as a result of Parkinson's, including: heating and laundry costs, incontinence supplies, additional insurance premiums, mobility and transport costs and charging for care services such as domestic help. Our membership survey revealed that 30% of members were in receipt of Disability Living Allowance and 41% in receipt of Attendance Allowance.

5.2 The high numbers of people with Parkinson's in receipt of DLA and AA obscures the difficulties a number of people have had claiming these benefits. Our Helpline and advice staff hear from claimants who have had to appeal their initial decision, or who have had to reapply several times before their application was successful, or who missed out on the benefit for several years because they weren't aware of it.

5.3 It is worth stressing the high level of support provided by the PDS to people with Parkinson's that facilitate this level of benefit take-up. The PDS employ a network of over 100 Information and Support Workers (ISWs), now in place in nearly every area of the UK, who in addition to informing people of the benefits available, can also assist those than need help in completing forms. Our ISWs helped people with Parkinson's and their carers make benefit claims worth more than £2 million per year in the period from January to October 2009. Without this support many people with Parkinson's would miss out on the benefits they are entitled to.

5.4 The upper age limit of 65 for claiming DLA means that many older people with Parkinson's are excluded from claiming the mobility component, which can place them in a position of financial hardship. This has the knock-on effect of excluding older people from the Mobility Scheme, which can provide help to disabled people buying or leasing a car. The PDS believes that financial support should be available on the basis of need, not age, and that this differentiation between older and younger disabled people is discriminatory.

> "Currently we are discriminated against on grounds of age because our diagnoses were made after we reached 65."

6. Carer's Allowance

6.1 The current rules governing Carer's Allowance mean that carers face a number of unnecessary and artificial barriers to work and training. As we stated our evidence to the Committee's inquiry into Carers last year, the earnings limit and 21 hour study rule both pose barriers to those carers seeking to combine work with their caring role.

6.2 The major frustration for older carers is the overlapping benefit rule, which means that those in receipt of a full state pension do not qualify for any payment under Carer's Allowance. This means that they get no redress for costs attributed to caring, let alone any financial recognition for the essential support they provide. The nature of their caring role also means that older carers are unable to top up their income with part-time work. The PDS fully supports the proposals for reforming carers' benefits set out in Recommendation 25 of Valuing and Supporting Carers.

> "My state pension is reduced because I get a company pension, my Carers Allowance is stopped because my pension (£86.00) is higher than Carer's Allowance. From an income of £35,000 per annum I am reduced to around £11,000".

6.3 In addition to receiving complaints about the injustice of the overlapping benefits rule, the PDS has received complaints from carers confused by the letter informing them about the decision. The wording of these letters is unclear and hard for carers to understand.

7. *Is the government's programme of welfare reform the right approach for supporting pensioners who wish to continue working?*

7.1 Older people with Parkinson's face potential discrimination because of both their age and their disability, yet are given scant attention within the Government's plans for welfare reform. The PDS would like to see a greater focus on improving the rights of older people seeking to remain in or return to work.

7.2 We would like to see a stronger focus on employment retention for disabled people of all ages: supporting disabled people to remain in employment can improve their ability to prepare for old age, including enhancing their pension entitlements. The Department should actively engage with employers; to highlight the benefits of retaining older workers and employees with a long term condition; to remind them of their duties under the Disability Discrimination Act and to ensure that employees and employers are able to access information about the support that might be available, including examples of best practice.

7.3 We welcome the Government's commitment to double the budget of the Access to Work Grant and to explore ways to make the Grant more responsive to the needs of claimants with fluctuating conditions. However, we would like to see this additional funding introduced immediately, so that the support is available to those disabled people whose jobs are at risk in the current economic climate.

March 2009

Memorandum submitted by the Occupational Pensioners' Alliance (TPP 12)

Introduction

1. The Occupational Pensioners' Alliance (OPA) comprises members from 36 occupational pensioner organisations nationwide and represents the interests of over 50 pension schemes with over two million members.

2. The OPA welcomes the opportunity to make a submission to the Enquiry *Tackling Pensioner Poverty on Great Britain*.

3. Occupational pension provision has been devastated on the UK over recent years. Defined Benefit Schemes have been closing in ever increasing numbers and those that are left are under threat because they are suffering large deficits.

4. The OPA urge the Committee to recommend that the Government halt its policy of reducing regulation of pension schemes. Recent experience of the complete failure of "light touch" regulation of the Financial Services industry should be a stark warning.

5. Our response will be restricted those areas concerning occupational pensions.

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?

6. The Government's pension policy over the last 12 years has been concentrated on focusing help to those most in need. The poorest have certainly had significant increases in their incomes through Pension Credit, Winter Fuel Allowance etc. However much of the help has been delivered through means testing. As a result a large number of eligible pensioners have not applied.

7. Many OPA members will have small occupational pensions either from broken work patterns or more likely they are widows of pensioners who retired up to 20 years ago, often on small pensions. As a result they may just miss out on Pensions Credit and therefore also will not receive Council Tax and Housing Benefits. The Savings Credit element of the Pension Credit gives some help but at a low level. The marginal rate of tax for those just above the means test cut off can be as high as 100%. The Government must review the Pension Credit and make it fairer for those with small extra incomes.

8. The retreat from good occupational pension provision by companies has been well documented. Defined Benefit (DB) schemes have often been replaced by inferior Defined Contribution Schemes (DC). The following issues will lead to future pensioner poverty unless tackled now:

— Contribution rates to the DC schemes are in general insufficient to deliver pensions approaching the level of those from DB schemes.

— Since the employee takes all the risk in DC schemes, the current total lack of confidence in investments will lead to reluctance to make sufficient contributions.

— Employer contributions are also usually significantly smaller than in DB schemes, even ignoring any deficit payments.

— Most people will tend to choose the least risky investments and therefore receive the smallest long term returns further reducing their pension pots.

— With long term reductions in interest rates the returns from annuities will also be reduced affecting the pensioner for all of their retired lives.

9. The issues raised above will apply to the Personal Accounts when they are introduced so we urge the committee to recommend that the Government take urgent steps to reduce their impact.

10. The Pension Protection Fund and belatedly the Financial Assistance Scheme have certainly been life savers for many workers in failed DB schemes following collapse of their companies. The Committee should urge the Government to ensure the long term viability of both schemes by guaranteeing them should they get into financial difficulties. The OPA would be strongly opposed to any reduction in benefits provided by the Pension Protection Fund.

Impact of the financial crisis on pensioner poverty

11. The current financial crisis is bound to discourage many from taking out Personal Accounts given that those who currently have DC schemes have seen their investment fall in value by at least 20% with the prospect of further falls to come.

12. The Committee should be considering a radical rethink of the whole scheme. The average employee is far from being financially sophisticated and defined contribution schemes are never going to be the answer for them. Perhaps the Government's contributions would be better spent on encouraging and subsidising employers to set up at least a basic career average scheme so that they are not exposed to the degree of risk present in DC schemes.

13. The Government should be considering ways of preserving and encouraging the defined benefit schemes in the private sector albeit maybe at a lower cost to the employer than the current levels. Accrual rates could be reduced in line with increases in longevity for example.

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

14. With unemployment rising to 12 year highs, the OPA see little prospect of any job opportunities for pensioners for some years to come. Those who have experience of having to apply for jobs after the age of 50 or so know only too well how difficult it is to obtain work other than stacking shelves in B&Q.

15. The mandatory retirement age should be scrapped to prevent employers getting rid of older people based solely on age.

March 2009

Memorandum submitted by Advice NI (TPP 13)

Vision

Advice NI's vision is of a society of confident, informed, and active citizens who can access their rights and entitlements.

Mission Statement

The following mission statement guides our work.

Advice NI's mission is to develop an independent advice sector that provides the best possible advice to those who need it most.

Our Values

Advice NI holds a set of core values which are central to both what we do and how we do it. These values guide us in our work as a membership organisation and as a staff team and influence how we engage with our wider range of stakeholders.

— We respect and promote the independence and diversity of our membership.
— We address and represent the needs and interests of our members in a fair, flexible and equitable way.
— We are accountable and transparent in all our work and actively seek ways to include our stakeholders.
— We provide a quality, professional and relevant service to our members.
— We promote a community development approach in all our work.
— We work in creative and collaborative ways in the interests of all our members and those they serve.
— We promote equality, social justice and well being.

1. Introduction and Background

1.1 Advice NI welcomes the opportunity to submit this briefing paper in relation to Tackling Pensioner Poverty in Great Britain.

1.2 This briefing paper specifically refers to issues around pensioner poverty, the Welfare Reform Agenda and benefit take-up.

1.3 The paper summarises our many years experience of benefit take up amongst older people whilst highlighting particular successes and examples of good practice.

1.4 On the issue of tackling pensioner poverty, Advice NI is currently developing a training package that will help equip participants with the knowledge, skills and confidence required to advise older people on a variety of issues. Research into the development of this course is attached to the email.

1.5 Advice NI has been actively engaged in the Government's welfare reform debate including attending conferences and producing briefing papers. A number of these papers are attached to the email.

1.6 Advice NI was formed in 1995 and aims to provide leadership, support and representation for the independent advice sector.

1.7 Advice NI members are either generalist or specialist in function. Generalist providers tend to have been formed by local people in response to local need, in areas of high deprivation and need. Specialist providers either focus their service on a specific issue or target their service towards a specific group of clients (for example Age Concern NI & Help the Aged provide targeted services for older people & Disability Action, Rethink, STEER Mental Health and Mencap provide services for people with disabilities).

1.8 Advice NI members provide extensive advice provision to people living in disadvantaged urban and rural communities and to particular social groups such as lone parents, older people, people with disabilities and black & minority communities.

1.9 Over the past 30 years independent advice centres in local communities of need have provided a lifeline for vulnerable people in need of information, advice and representation on a whole range of social welfare issues.

1.10 The following is taken from Advice NI's latest Membership Profile Report:

Total Enquiries:	213,970
Total Clients	110,302
Total Income Generation	£14,989,256
Tribunal Representation	722 tribunals represented (independent statistics from The Appeals Service)
Workload	57% of total enquiries social security related 14% of total enquiries housing related 3% of total enquiries debt related 2% of total enquiries employment related

2. Benefit Take-Up Experience

2.1 Advice National Insurance has unsurpassed experience in benefit uptake activity. Advice National Insurance members have engaged in maximising entitlements of clients for many years, the latest Membership Profile Report highlights annual income generation totalling £14.9 million. 57% of members' work is Social Security benefits related.

2.2 Advice National Insurance was exclusively retained by the Social Security Agency (SSA) in **2005** to pilot their first engagement with the advice sector in relation to contracted benefit uptake activity. This activity targeted 2,250 older people in the most deprived wards across Northern Ireland and older people from a rural perspective. The results were very encouraging, with £400,000 generated in arrears and £500,000 generated in awards.

2.3 In 2006 Advice National Insurance again secured benefit uptake work from the SSA. This time the client base was approximately 3,000 older people across the 100 most deprived super output areas in Northern Ireland, both rural and urban. The 2006–07 SSA benefit uptake programme resulted in £6million of benefits being paid to some of the most vulnerable people in Northern Ireland.

2.4 In 2007 Advice National Insurance secured three SSA contracts aimed at tackling poverty and increasing benefit uptake through targeting 7,500 people including older people, carers and people living in areas of high unemployment. This exercise resulted in a value for money ration of 16:1.

2.5 All SSA/Advice National Insurance Benefit Take-Up activities have involved the SSA making intelligent use of their internal databases to target people who maybe entitled to benefits across Northern Ireland. These people were then invited to contact Advice National Insurance for a full holistic independent benefits check.

2.6 In Addition, Northern Ireland Electricity (NIE) has, since 2007 engaged Advice National Insurance in Benefit Uptake/Energy Efficiency work. This work has proven to be very successful with a **44% claim rate**, so much so that Advice National Insurance has secured a 30 month contract with NIE to conduct 3,000 further Benefit Entitlement Checks.

2.7 The NIE Benefit Take-Up Project involves using a range of targeting methodologies including; the use of local champions, poster/leaflet campaigns, media campaigns, online web referral resources, outreach events and a strategic use of NIE client databases.

2.8 Other benefit uptake activity includes engagement with Access2Benefits (initially in 2006) regarding two separate pieces of benefit uptake activity aimed at developing methodologies for maximising benefit uptake amongst older people.

2.9 Since 2005 Advice National Insurance working in partnership with HM Revenue and Customs (HMRC) has undertaken various projects aimed at increasing the take-up of Tax Credits particularly for vulnerable low income households and Black Minority Ethnic (BME) communities.

2.10 Finally Advice National Insurance is currently piloting a Free School Meals uptake initiative within the Western Education and Library Board geographical area, in partnership with WELB and we are working with two benevolent funds (Elizabeth Finn Care and Perennial) aimed at increasing the take-up of grants administered by these benevolent funds.

2.11 We are happy to be contacted by the committee should they require further information.

March 2009

Memorandum submitted by Macmillan Cancer Support (TPP 14)

1. SUMMARY OF MACMILLAN CANCER SUPPORT'S SUBMISSION

1.1 In order to tackle the financial hardship faced by older people with cancer, Macmillan is calling for the Work and Pensions Select Committee to recommend that the Government:

- Improve the support for people with cancer who want to stay in or return to work.
- Improve the often low levels of benefits take-up among cancer patients.
- Introduce a single benefits assessment process and pilot more automatic benefits take-up schemes.
- Extend the Winter Fuel Payment to cancer patients under 60 in need.

2. *What more does the Government need to do to address pensioner poverty?*

2.1 The two most important things the Government should do to reduce poverty among older cancer patients are:

Improve the support for people who want to return to work

2.2 Evidence around the quality of return to work support for cancer patients in their 50s and early 60s is limited but growing. Macmillan's 2007 report, The Road to Recovery, found that cancer patients who do return often do so without medical or rehabilitation advice. Many find their earning capacity is permanently affected.[9] Research by Cancerbackup, Working with Cancer and the CIPD (2006)[10] and DWP (2007)[11] suggests that only one in five employers is aware that cancer is covered by the Disability Discrimination Act. Three quarters (73%) of employers do not have a formal policy in place for managing employees with cancer. A Macmillan survey of Occupational Health (OH) practitioners found that nearly half (48%) felt their training had not equipped them to support employees with cancer. Two thirds felt that doctors did not understand the role of OH or what information employers required.[12]

2.3 Cancer patients need far better back to work information and support. At present, many employees, particularly those working for small and medium-sized companies, have no access to vocational rehabilitation services. We welcome the Government's proposed Fit for Work pilots as a step in the right direction. We hope the Committee will recommend that the needs of cancer patients are taken fully into account in the pilots' design, implementation and evaluation and that there should be an early national roll-out if the pilots prove effective. We would also like the Committee to recommend that the Government ensures its other employment programmes for sick and disabled people, eg Pathways to Work, are also sensitive to the specific needs of cancer patients.

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9 Macmillan 2007 report, *The Road to Recovery,* November 2007 http://www.macmillan.org.uk/Documents/Support_Material/Get_involved/Campaigns/Working_through_cancer/Working_through_cancer_Report.pdf

10 Cancerbackup, CIPD, *Working with Cancer: Survey Report 2006.*

11 Simm C, Aston J, Williams C, Hill D, Bellis A, Meager N, *Organisations' Responses to the Disability Discrimination Act,* DWP Research Report 410 (2007).

12 797 members of the Society of Occupational Medicine were surveyed in 2007–08. This research has not been published.

Case Study

Hilary, 63, breast cancer: "At the time I was diagnosed with breast cancer, I had a full-time management job. I was off for almost a year during my treatment but when I returned I wasn't made to feel welcome. I'd turned 60 and was due to retire at 62 but I couldn't face another two years of this pressure without the energy to fight it. I opted to take early retirement but as no one offered to talk me through the benefits system, I've lost out financially because of this decision".

Improve benefits take-up

2.4 Levels of benefits take-up are often very low among cancer patients for a variety of reasons which are outlined in more detail below (3–4).

3. *Are there specific older groups who are more vulnerable to facing poverty?*

3.1 Cancer occurs predominantly in older people and causes significant financial hardship. Nearly three quarters (74%) of cases are diagnosed in people aged 60 and over.[13] Macmillan's Cancer costs report found that 91% of cancer patients' households suffer a loss of income and/or increased costs as a direct result of cancer.[14] Another Macmillan study in 2008 found that household income is lower among cancer survivors than the general population.[15] This financial hardship was acknowledged by the Prime Minister in his 2008 Labour Party Conference speech in explaining his decision to exempt cancer patients in England from prescription charges.[16] However, prescription charges are just one of a number of significant additional costs faced by cancer patients. For example, cancer patients are forced to pay £325 on average in travel and parking costs just to go to hospital for life-saving treatment.[17] They also face very high utility bills (for reasons explained below), and have to pay for special diets, clothing, wigs and care services.

4. *Benefits take-up—why do some people not take up their entitlement to benefits and how can take up rates be improved? Are the eligibility rules and rates for the respective benefits sufficient? Are these rules and application processes understood by pensioners who claim them?*

4.1 In our experience, there are four main reasons why cancer patients do not take-up the benefits to which they are entitled:

Cancer patients are not told they are eligible for financial help

4.2 The National Audit Office found that 77% of cancer patients are not given any financial support information or advice at any point in their cancer journey.[18] Macmillan thinks this is a major reason why benefits take-up among cancer patients is so low—especially among people who may not have had anything to do with the benefits system prior to having cancer.

4.3 Ensuring every patient with a long term condition gets an Information Prescription (IP) which provides personalised information about financial support information and signposts to sources of advice is clearly important in helping to raise awareness among cancer patients. However, IPs are unlikely to be the panacea the Government claims they will be as older cancer patients often need support, as well as information, to help them successfully navigate the claims process.

The claims process continues to be extremely difficult to navigate

4.4 The complicated and burdensome nature of the benefit claims process means that Macmillan's benefits advisers are frequently overwhelmed with requests from older cancer patients for help. In any one year our benefits advisers will handle nearly 50,000 cases but more than 280,000 people will be told they have cancer. Macmillan's 2005 report *Access Denied* found that poor understanding of the main disability benefits—Disability Living Allowance (DLA) and Attendance Allowance (AA)—among patients and health professionals was a major barrier to take-up.[19]

13 UK cancer stats http://info.cancerresearchuk.org/cancerstats/incidence/age/?a = 5441
14 *Cancer Costs,* Macmillan Cancer Support report, June 2006
http://www.macmillan.org.uk/Documents/Support_Material/Get_involved/Campaigns/Cancercosts.pdf
15 Macmillan Cancer Support, *Health and Well-being Survey 2008,* 2008.
16 Gordon Brown's September 2008 speech http://www.labour.org.uk/gordon_brown_conference
17 *Cancer Costs,* Macmillan Cancer Support report, June 2006
http://www.macmillan.org.uk/Documents/Support_Material/Get_involved/Campaigns/Cancercosts.pdf
18 National Audit Office, *Tackling Cancer: Improving the Patient Journey,* February 2005.
19 www.macmillan.org.uk/Documents/Support_Material/Get_involved/Campaigns/access_denied_executive_report.pdf

Case Study

Richard, 63, anal cancer: "When you've got cancer you feel so unwell that dealing with bureaucracy is impossible. Things collapse around you with the total exhaustion of it all. Applying for help was very tough as they asked for all sorts of documentation and it took months before I got any money. When we got threatening letters from the energy supplier, I ignored them as I felt unable to cope. My poor wife is out working, trying to keep us going through all this. We're in a continual state of hardship and live on overdraft".

The difficulties caused by the qualifying criteria in accessing DLA/AA

4.5 DLA and AA claimants have to meet certain qualifying criteria including in the case of DLA that a person must have needed help for at least three months already and be expected to need help for at least a further six months. The qualifying criteria work well for people with chronic conditions where onset of need is gradual. However, unlike many other disabilities, cancer is unpredictable. Onset of impairment is often very sudden—usually arising as a result of cancer treatment or surgery—and can then fluctuate widely throughout the patient's cancer journey making it difficult for them to meet the criteria despite being in clear need of assistance because of the extra costs associated with having cancer.

Case Study

Graham, 62, oesophageal cancer: "I've had my gullet removed and another built, yet I was put on the lowest level of DLA. When that ended, I've had to live on Pension Credits which has been a terrible struggle. There are so many extra costs when you've got cancer: change of diet, travelling to treatment, new clothing, and part time care. Someone in my position should not have the stress of finding money for these essentials. My illness is obvious so why should I have to go through all sorts of demoralising tests in order to receive benefits?"

4.6 Access to DLA and AA also often acts as a passport for other government benefits—eg the *Warm Front Scheme*. Cancer patients can therefore be penalised twice because of their difficulty in accessing DLA or AA.

4.7 Macmillan strongly supports the removal of the qualifying periods for cancer patients.[20] Waiving the qualifying periods is not the same as automatic entitlement to DLA or AA. Cancer patients would still need to satisfy the care and mobility tests.

Poor integration between different agencies and benefits

4.8 Macmillan spent over nine months as part of our lobbying on the Welfare Reform Act 2007 convincing the Government of the need for Jobcentre Plus staff to inform disabled people about the disability benefits available to them when they claimed Employment Support Allowance. It was only when we showed Ministers that the scripts used in Jobcentre Plus call centres had no prompts to give claimants information about disability benefits that they finally accepted that more needed to be done to join up the benefits information and advice provided at Jobcentre Plus.

4.9 We believe the introduction of a single benefits assessment process is one way that take-up could be improved. DWP pilots to streamline the AA and social care application processes in Islington and Greenwich in 2007–08 were encouraging.[21] No doubt there are also many more opportunities for effective "cross selling" of benefits if departments and agencies could be encouraged to work more closely together in the way we were eventually able to convince Jobcentre Plus to do.

5. *What impact will the pilots for automatic take up of pension credit proposed in the Welfare Reform Bill have on take up?*

5.1 We expect automatic take-up will be extremely helpful in supporting more pensioners. We feel the Government needs to be piloting automatic take-up for other benefits as well.

[20] www.macmillan.org.uk/Documents/Support_Material/Get_involved/Campaigns/access_denied_executive_report.pdf
[21] http://www.dwp.gov.uk/asd/asd5/rports2007-2008/rrep534.pdf

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

6.1 The Winter Fuel Payment (WFP) is vital for so many older people with cancer who are struggling to pay their energy bills this winter. Cancer patients spend longer periods of time at home in order to recuperate during treatment, are unable to engage in hypothermia prevention measures, such as keeping active,[22] and can often feel the cold more.[23] In 2008 approximately 40% of the people who received financial help from Macmillan asked for assistance with their fuel bills. In total we helped over 11,000 people with fuel payments, spending over £2.2 million, but we know there are lots more people who need support.

6.2 The main problem with the WFP is that cancer patients under 60 (approximately one in four) are not eligible for it despite often being in similar (or worse) financial dire straits as cancer patients in their 60s.[24]

Case Study

George, 59, prostate cancer: "I had to stop work when I was diagnosed with prostate cancer and can barely walk now from the pain. It was a shock dropping from a good income onto DLA. It's hard to accept that I'm not entitled to other benefits, not even the Winter Fuel Payment. To top it off, my wife has been made redundant so I haven't a clue what we'll do now. When I phoned the benefits office they just asked me when I'm expected to die. It will just be hardship until I do die".

6.3 The WFP should be extended to cancer patients aged under 60 who are in particular need—which we have identified as those who have undergone treatment in the past year, who are terminally ill, or in receipt of Council Tax Benefit or Housing Benefit. Macmillan estimates it would cost £23.6 million per year for people who have undergone treatment in the past year and those who are terminally ill to receive the WFP. There are no official figures for the number of people under 60 with cancer on benefits which makes estimating the costs involved extremely difficult.

7. *Is the Government's programme of welfare reform the right approach for supporting pensioners who wish to continue working?*

7.1 Cancer patients do not need to be compelled to return to work. Macmillan's research shows that cancer patients have a strong desire to return to work both for financial reasons and because work is seen as a key part of returning to normality. As outlined above, Macmillan would like the Government to focus far less on conditionality and far more on providing the right support to both cancer patients and employers to keep the former in jobs wherever possible and to help them get back into work successfully after cancer treatment.

8. *What about cancer patients in their 50s who are also in severe poverty?*

8.1 While the focus of the Committee's inquiry is around pensioner poverty, what happens in the last 10 years before someone becomes a pensioner can have a very significant effect on their quality of life in retirement. Seven out of 10 under 55s suffer a loss in household income following a cancer diagnosis with the average fall being by 50%.[25] Many people who get cancer in their 50s are forced to retire early for the reasons outlined above. Many can be in an even worse financial position than those in their 60s. We would urge the Committee to examine the long term financial impact on those who become disabled in their 50s and make recommendations for how their financial circumstances can be improved given the positive impact this will have on levels of pensioner poverty.

March 2009

Memorandum submitted by Lancashire County Council (TPP 15)

1.1 Lancashire County Council is the fourth largest Council in England and Wales. Whilst many parts of Lancashire are well off, there is also poverty. Four districts—Burnley, Hyndburn, Pendle and Preston—are amongst the most socially deprived in the country.

1.2 Lancashire County Council Welfare Rights Service is located within the Adult and Community Services Directorate of the authority. Established by the County Council in 1987, we are a non-statutory service dedicated to providing the 1.17 million residents of Lancashire with information, advice and advocacy to enable them to secure their legal entitlements within the benefits system. Six area teams deliver a casework service to all types of client groups, and we also have a specialist benefit take-up team.

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22 Rising fuel bills could mean more die of cancer, The Press and Journal, 14 October 2008.
23 *Shivering in acutely ill vulnerable populations,* Holtzclaw, AACN Clinical Issues, Volume 15, No 2, pp 267–279. http://www.npower.com/health_through_warmth/about_htw/Health_impacts/index.htm
24 CancerStats, Cancer Research UK http://info.cancerresearchuk.org/cancerstats/incidence/age/?a = 5441
25 *Cancer Costs,* Macmillan Cancer Support report, June 2006 http://www.macmillan.org.uk/Documents/Support_Material/Get_involved/Campaigns/Cancercosts.pdf

1.3 Improved benefit take-up amongst Lancashire's older population has always been a high priority for the Service, and resources have over the years been specifically allocated to achieve this, for example, via:

— targeted postal campaigns, using data supplied by district council Housing Benefit records;

— two specialist take-up teams in the Accrington and Burnley area, funded through the Neighbourhood Renewal Fund (NRF); and

— special take up projects, funded as part of a Public Service Agreement (PSA)/Local Area Agreement (LAA) since April 2003, to increase the number of over 60's claiming Pension Credit and Attendance Allowance.

1.4 It is with this extensive background in benefit issues that we always welcome the opportunity to contribute to Select Committee inquiries relating to benefit take-up amongst older people. On this occasion, however, written evidence timescales prevent us submitting a detailed response but it is hoped that the following brief comments will prove of assistance to the Committee.

Benefit take-up

2.1 Years of benefit take-up experience with older people has shown us that there are still a significant group of pensioners (likely to be in the "hard to reach" group of potential claimants) who cannot manage the benefit claim process by phone. The lack of Local Pension Service offices increases their difficulties, and that of carers/family members.

> "An 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."

2.2 One of the crucial factors in encouraging this hard to reach client group to engage with our service has been the offer of a "personalised service"—ie one based on personal face-to-face contact, or the allocation of a named caseworker, rather than dependence on a "scripted" telephone or postal based service. Claimants, whatever their age, need to have access to caseworkers that are experienced and knowledgeable enough to address their "whole benefit" situation—eg to be able to identify all the benefits that a household is potentially entitled to, and to be able to offer support and advice to guide them through the various claim processes. This is particularly important for our older customers who respond better to having just one adviser dealing with their case (ie one individual taking responsibility for all follow up work), rather than being passed from pillar to post every time they ring the office, as happens when claimants contact the Pension Service. In our experience, the Pension Service does not carry out this holistic approach to benefit take-up.

2.3 The people we have identified as least likely to be claiming are those that have got no friends or relatives to help them deal with the paperwork. They may have some slight dementia, and can manage on a basic day to day level, but have difficulty coping beyond that. Most of these people have only engaged with our service because the invite letter for a benefit check came via their GP. Others have only been encouraged to claim, because we have been able to tell them how much Pension Credit they are likely to qualify for, something the Pension Service do not do.

2.4 All frontline services are judged on the way they treat their customers, and the skills and experience of frontline staff are, in our experience, crucial to this. To improve benefit take-up, the Pension Service needs to improve the skills and knowledge of their frontline staff.

> "Many leaseholders in owner-occupied sheltered schemes have not had their housing costs included as part of their Pension Credit because, in our view, of a lack of understanding on the part of Department for Work and Pensions visiting officers. This has resulted in underpayments going back many years. Many of the people we have identified in this situation have also been missing out on Housing/Council Tax Benefits, because they should have been on Guarantee Credit instead of Savings Credit (even where they have more than £16,000 in capital). It has also led to people having claims incorrectly refused. DWP should undertake a specific project aimed at identifying these people, and ensuring their correct benefit entitlement is assessed and paid (and arrears awarded). Databases of these types of housing schemes will likely be held by local authority supporting people teams."

2.5 A high proportion of Pension Credit claims need chasing up and checking to ensure that the customer receives their correct entitlement. Our advisers usually have to make several phone calls on each case. This would rarely be necessary with its predecessor, the Minimum Income Guarantee (MIG).

2.6 In our experience, older people still do not like means testing and any relaxation on the bureaucracy or intrusiveness of this would likely help increase take-up.

2.7 One way to help cut down on bureaucracy would be the provision of a "one stop shop" approach to claiming benefits. Systems should be able to be set up to enable local authority benefits staff, as well as those based in the Pension Service, to be able to automatically identify all the benefits an individual is entitled to (particularly the means tested benefits, where the same basic calculation eg re-capital and income applies).

This would reduce the need for services like ours to run annual take-up campaigns, which year-on-year continue to identify many people who have missed out on their legal entitlement. It is hoped that the proposals in the Welfare Reform Bill on automatic take-up will start to address this issue.

> "The law could be changed to enable a claim for one of the means tested benefits to automatically be treated as a claim for others. For example, if someone claims Pension Credit but does not claim Council Tax Benefit until two years later, the award of the latter benefit would be backdated for the same two year period. We would not envisage too great an administrative burden for this, as income and capital would have been checked when Pension Credit was claimed."

2.9 Another way of reducing (unnecessary) bureaucracy would be to simplify the rules for establishing entitlement to the Pension Credit Carers Addition. This could be done, for example, by automatically awarding the Carers Addition in cases where both partners in a couple get Attendance Allowance without the need to go through the process of establishing underlying entitlement to Carers Allowance. Older people do not understand the process (ie claiming a benefit that they will not get) and, in our experience, neither do a lot of DWP staff—which is why people who should qualify miss out.

What more does DWP need to do to address pensioner poverty?

3.1 The Government should re-introduce the 12 month backdating period for Pension Credit and Housing/Council Tax Benefits. In our experience, there are still too many mistakes being made by decision-makers, and there are still pensioners who have not claimed Pension Credit etc. If tax rebates can go back six years, why not benefit entitlement?

> "We recently dealt with an older customer whose Pension Credit claim took six months to sort out. She was advised by her local authority benefits section that she was not entitled to Council Tax Benefit because she had savings in excess of £16,000. Consequently, she did not bother making a claim until the Pension Credit was in payment and we advised her that she should make a claim for Council Tax Benefit. No money was lost in this instance because our client could claim up to 12 months backdating. She did in fact receive nine months backdated Council Tax Benefit; under the new rules she would have only received three months."

3.2 The rules regarding tariff income should also be aligned more with actual interest rates (eg £1 per £1,000 rather than the current £500). This rate of benefit reduction was always quite high, but is even more so when compared to the interest pensioners are getting on savings in the current economic climate. A lot of our customers rely on their savings (given their age many will have no or quite small works pensions) so interest rates can have a major impact on the income they rely on.

3.3 Another suggestion would be for the Government to remove the capital limit for Housing and Council Tax Benefit for pensioners in receipt of just the Savings Credit of Pension Credit, as well as those in receipt of the Guarantee Credit. People on Savings Credit, who by definition have qualified for a means-tested benefit, will not get any help with their rent and/or Council Tax if they have £16,000 or more in capital. However, claimants on the Guarantee Credit with far more in savings could qualify. Why not just remove the upper capital limit for pensioners on Pension Credit; the tariff income rules will determine how much Housing/Council Tax Benefit they are entitled to?

As previously stated we, like a number of other local authority Welfare Rights Services, have extensive experience of benefit take-up, experience which would benefit all parties involved in such initiatives (including the Pension Service) and experience which we would be only too willing to share for the benefit of all customers.

March 2009

Memorandum submitted by Just Retirement (TPP 16)

Summary

— Just Retirement believes that alleviating pensioner poverty is a multi-faceted task with short and long-term considerations impacting on public and private sector provision.

— We believe that, in the short-term, it is important for the Department for Work and Pensions to ensure that all pensioners are made aware of their entitlements, both public and private, in a clear manner conducive to making an informed decision.

— We believe that the current financial crisis has exacerbated issues that dominate retirement provision in the UK, specifically concerning a lack of awareness, planning and saving from consumers with regards to their retirement income.

— We believe lifestyling to be a valuable feature of pension investment when the majority of scheme members have little or no engagement with their pension plan.

— In the long-term, we believe that it is important to ensure that state and private pension systems are properly integrated to encourage a higher rate of individual pension provision.

Background to Just Retirement

1.1 Just Retirement is a financial services company offering financial products and advice to people at and in retirement. The company actively campaigns on a range of issues focused on ensuring pensioners receive the best opportunity to improve the return they receive from assets they have upon reaching retirement.

1.2 Our Campaign for Better Annuities has involved working actively to improve awareness of the right to shop around for a better pension at retirement with government, advisers, industry bodies and the public and as been embraced by more than 5,000 independent financial advisers. Senior management at Just Retirement was instrumental in the formation of Safe Home Income Plans (SHIP), introducing essential safeguards to retired people releasing equity from their homes. Since 2005 we have actively supported and helped the development of SHIP's agenda to ensure the security of all such arrangements and enable pensioners to extract maximum value from their homes.

1.3 The nature of the products and services we offer gives the company a view of the issues faced by a large number of people seeking to provide for their retirement. Through customer research and the activities of our team of advisers we have an understanding of the effect of the complex nature of decisions taken at retirement, both with regard to state benefits and financial products.

Response to Specific Questions

1.4 Alleviating pensioner poverty, in our opinion, is a multi-faceted task with short and long-term considerations impacting on public and private sector provision. We have restricted our comments to areas directly related to our experience with the services we provide and make no comment with regard to issues such as level of benefits.

Q1 *What does the DWP need to do to address pensioner poverty?*

1.5 In the short-term we believe it most important to ensure that all pensioners are made aware of their entitlements, both public and private, in a clear manner conducive to making an informed decision. While there is a lot of information available to retired people, or those approaching retirement, much of it is presented badly or is overwhelming in its quantity without providing clear guidance. As such we have actively supported initiatives by the DWP, HM Treasury and the FSA to improve the quality of information sent to pension policyholders prior to retirement.

1.6 It is also the case that our advisers frequently encounter individuals who are unaware of sometimes significant entitlement to state benefits and similarly unsure of how to investigate and claim these benefits. While we believe there have been improvements in the availability and clarity of information there is still, as with private pension provision, further improvement to be made.

Q2 *Impact of financial crisis on pensioner poverty*

1.7 The current financial crisis has exacerbated issues that dominate retirement provision in the UK, specifically:

— Lack of planning and monitoring of retirement provision at an individual level.

— Lack of awareness of life expectancy and the cost implications.

— Lack of saving generally.

— Lack of understanding of investment principles.

1.8 Many pensioners relying on interest from savings will have seen their income fall, perhaps dramatically, but there are signs that steps are being taken to replace this income including an increased interest in the level of guaranteed income available from annuities in one form or other, albeit with sacrifice of capital that annuity purchase involves. It is worth noting that generally pensioners' incomes come from a variety of sources but that a heavy reliance on income from savings (interest) is concerning as it may indicate a lack of appropriate investment planning despite a commendable attitude to saving generally.

1.9 Within pension planning, automatic "lifestyling" has been the subject of some comment recently. To some extent we believe the criticism is akin to treating the symptom, not the disease.

1.10 Lifestyling attempts to address the issue of lack of investment awareness, understanding or planning among a significant proportion of UK pension scheme members in defined contribution arrangements. Its aim is to protect prospective pensioners against volatile investment markets closer to retirement by moving their funds to match the instruments that will eventually be used to provide their income. In many cases this may mean sacrificing some return in order to reduce volatility. This may cause problems if the period selected for lifestyling is short or if large tranches of funds are switched on each occasion. While this may not be an ideal solution, it is a reasonable safeguard when the majority of individuals pay very little attention to the investment of their funds until far too close to retirement. Those who do monitor the allocation and performance of their pensions (and other investments) usually have the ability to opt out of lifestyling. We would expect to see experience in current market conditions drive further refinements of the concept in future. In the absence of greater engagement with pension provision among scheme members, lifestyling may prove to be the least worst option to protect retirement income.

1.11 Annuity rates are affected by a number of issues and it is common practice to criticise rates for being low, having fallen considerably since the early 1990s. Criticism generally ignores the fact that, in a low inflation environment, future returns on many asset classes are also likely to be lower than they once were and that increasing life expectancy means that all funds will have to be stretched over a longer period, thus reducing the income available. Annuity rates are dependent mainly upon the yields available on long-term fixed interest securities rather than short-term interest rates. While rates may not be as high as we have seen in the past, or even in the past year, we do not envisage a significant drop in rates as a result of the crisis.

Q3 *Benefits take-up*

1.12 Aside from agreeing that many people do not take-up benefits to which they are entitled, we do not believe we can add any more insight to this issue. We do believe, however, that any reform to state benefits available to people in retirement should be integrated as closely and as clearly as possible with the requirements for private provision (eg Personal Accounts) so as to reduce confusion and encourage the belief that saving for retirement, whether income or care needs, is worthwhile and will be rewarded.

Q4 *Basic State Pension*

1.13 We believe that the reforms in 2010 will make for a fairer basic state pension but we also believe that there is further scope to ensure that state and private pension systems are properly integrated to encourage a higher rate of individual pension provision which is a central plank of government policy and that will contribute considerably to the alleviation of pensioner poverty in the long-term.

March 2009

Memorandum submitted by Association of Consulting Actuaries (TPP 17)

Summary

1. Government has endeavoured to address pensioner poverty by improvements to the basic state pensions, by introducing new means tested state income guarantees and—importantly—has looked to the growth in occupational pensions to assist in this process.

2. However, the rapid decline in occupational pension provision in recent years, for a range of reasons highlighted below, has meant its contribution to alleviating pensioner poverty may seriously diminish in the years ahead.

3. Recent Government pension reforms have failed to address the decline in quality occupational private pension provision and this is likely to have an increasingly serious impact on the pensions of millions of individuals on lower (and middle) incomes. The 2012 Personal Accounts and auto-enrolment reforms may bring benefits to some of the un-pensioned, but may be unhelpful to many others who might not benefit from saving into such schemes, and to members of some quality schemes where benefits may be levelled-down.

4. As a consequence of action and in-action, pension risks are increasingly being passed to employees, many of whom are ill-equipped to deal with the issues involved. The Association of Consulting Actuaries has for some years argued that there needs to be greater pension design freedom in UK legislation, so employers feel able to offer quality occupational provision where pension risks are more evenly shared between employers and members.

Introduction

5. The Association of Consulting Actuaries (ACA) welcomes the opportunity to submit a response to the Work and Pensions Select Committee inquiry into Tackling Pensioner Poverty in Great Britain.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes.

Members of the Association are all qualified actuaries, subject to the code of professional conduct of the Faculty and Institute of Actuaries. The FRC is responsible for the independent oversight of the UK Actuarial Profession and the setting of actuarial technical standards. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

6. The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

7. The enquiry raises a number of issues. However as the ACA is primarily involved with occupational pension provision then we have restricted these initial comments to this area.

8. In work, the main source of income for most of the UK population is the wages and salaries paid by employers. For those not in work then the state provides a subsistence level of income.

9. Pensioners' income however can come from different sources—interest from savings, state pensions and other benefits, personal pension arrangements and also pensions from work place based occupational pension schemes.

10. The current retired generation are probably the most affluent ever. They grew up in the post war era when with less state assistance than there is today the culture was very savings related.

11. They were also part of a generation that were part of a significant growth in occupational pension provision—employers deciding that they should not only be responsible for providing an income to staff whilst in work but also deciding to provide a decent level of predictable income once employees retired so that staff could look forward to retiring with living standards comparable to those achieved whilst in work.

Decline of Private Sector Occupational Pensions a Major Problem

12. However it is unlikely future generations of pensioners will be as fortunate. Certainly over the last 20 years the culture within Britain has been more of a spend now save later culture fuelled by the availability of credit—arguably this period may now be coming to an end although for many it will be too late having failed to save sufficient retirement savings to date.

13. There has also been a sea change in the world of work placed based occupational pension provision. A minority of employers continue to strive to provide employees with decent predictable levels of pension provision via defined benefit schemes. However the increase in regulatory and compliance costs in running these schemes and a shift of focus from long term to short term cost measurement, has meant that many employers have become disillusioned with the defined benefit pensions regime. They are now closing down these schemes and replacing them with schemes—principally defined contribution schemes—that are unlikely to provide the same actual levels and predictability of levels of income in retirement for future pensioners.

Pension Risks are Falling on Employees

14. Any form of long-term saving includes many different risk elements—erosion of value through inflation, loss of savings through investment risk etc. A key issue is who should bear these risks. The replacement of defined benefit schemes with defined contribution schemes represents a full risk transfer from employer to employee. However employers' time horizons and attitudes to risk are very different when compared to those of employees. Without adequate education of long-term financing issues and the related risks, and so left to their own devices, employees are unlikely to make informed decisions in terms of future pension provision. As a result they are likely to be left disappointed with the levels of income in retirement that subsequently emerge. Such disappointment ultimately means less private retirement income, and more dependence on support from the state and future taxpayers.

15. The ACA recognises that the issue of risk in all forms of pension provision requires proper consideration. If the trend of full risk transfer from employer to employee continues then the consequences are inevitable—poverty levels amongst future generations of pensioners will increase. Therefore if this is to be avoided then we have to encourage the following:

- General encouragement/education to swing the balance of the spend/saving culture in the UK back towards more saving and less spending.
- Facilitate a regulatory regime that encourages/allows employers to make arrangements available that will mean that employees can once again look forward to a reasonable standard of living in retirement. This does not necessarily mean the employer accepting all of the inherent risks via pure defined benefit schemes. The ACA has long advocated risk sharing schemes as the "middle ground" between pure defined benefit and defined contribution schemes.

16. The UK has for the past 150 years been at the forefront of the development of occupational pension provision with the objective that its citizens can look forward to a comfortable retirement after many years of endeavour. Many countries around the world have set up systems based on the UK model. However the UK can no longer claim to be the model to follow and other countries now lead the way.

17. The ACA believes that unless we can return to a culture within the UK where both employers and employees are encouraged to save for predictable and adequate levels of income in retirement then an increase in pensioner poverty is inevitable.

The trend away from quality pension schemes that aim to provide adequate and relatively predictable benefit levels to arrangements that are low cost/low benefit and also deemed too risky by employees can only exacerbate the potential problem.

If you have any queries or wish clarification on any aspect of our submission please do not hesitate to contact us.

March 2009

Memorandum submitted by the Actuarial Profession (TPP 18)

Executive Summary

- State pension provision was introduced a century ago and, during that time, the proportion of pensioners remaining "below the poverty line" has remained largely the same, with some 40% of pensioners currently being eligible for Pensions Credit.
- The effects of the current financial crisis could increase the proportion of pensioners being eligible for Pensions Credit, as interest rate cuts may cause them to use their savings to supplement income. Increasingly, individuals are working on past retirement age, often in a part-time capacity, and this trend seems set to continue. Going forward, flexibility between savings, pensions and part-time working will be crucial.
- Foundations for a future system should focus on the need to be realistic, flexible (to reflect that things change over time) and to reduce complexity. Long term strategic planning for the future of pension provision is also important so that the pensioners of tomorrow can plan reliably for their own futures today.
- Increasing reliance on personal savings (whether in a pension or other vehicle) may result in serious under-provision and/or an increased reliance on means tested benefits as those on low incomes will be unable to afford to save enough.
- As a general point, care should be taken to structure any change to avoid disincentives to save.

Introduction

1. The Actuarial Profession welcomes this inquiry into Tackling Pensioner Poverty in Great Britain and is pleased to be able to offer this submission. It considers how the present position has been reached and suggests what we can learn from history. Our submission draws heavily on the book *100 Years of State Pension Provision* recently published by the Actuarial Profession.

Basic State Pension

2. The first state pension scheme was the 1908 Scheme with payments commencing to be paid from 1 January 1909. It was a means tested arrangement for the population aged 70 and over and was funded by the Treasury. The great majority of payments were at the maximum weekly rate of five shillings (25p)—this representing about 18% of national average earnings.

3. In 1926 the National Insurance Scheme, which already provided unemployment, sickness and medical benefits, was extended to provide pension benefits linked to the insured person's contribution record. The means tested arrangements of the 1908 Scheme remained in force since the new scheme covered only part of the adult population; contributions were paid by the insured, their employers and the Treasury.

4. In 1948 the National Insurance Scheme as we know it today was established providing a universal basic state pension funded by contributions from the insured, the employers and the state. The scheme covered the whole adult population with the amount of state pension received linked to the person's contribution record. By means of employed (employee and employer), self- employed and voluntary contributions, all at flat rates, together with credits in certain circumstances being granted in lieu of contributions, all working age adults could build up a full contribution record. This entitled them to receive the full weekly basic state pension of £1.30 (18.5% of national average earnings). However many of working age, who were not in employment and not entitled to receive credits in lieu of contributions, failed to make relevant voluntary contributions and so their entitlement to the basic state pension was reduced and in some circumstances became nil. This still applies today although the changes applying from 2010 will improve the position significantly but only over time.

5. Over the next 30 years, the basic state pension, as measured against national average earnings, gradually improved and rose from about 18.5% in 1948 to 26% in 1979; since then it has been falling and by 2008 was just under 16%. The basis of uprating the basic state pension is due to be altered from the Retail Prices Index to national average earnings but this is planned not to occur until 2012 at the earliest, by which time the basic state pension may well have fallen further relative to national average earnings.

6. The 1948 Scheme had fixed rate contributions for fixed rate benefits so that all those making contributions were treated alike. However, by the 1950s, it was clear that National Insurance contributions were being kept at a low level so that they could be afforded by the less well off members of society and this kept the benefits low. Ultimately it led in 1975 to earnings related contributions for a flat rate basic state pension, thus seeking to provide an adequate basic pension for all via a cross subsidy from higher earners to those on low incomes.

7. If the basic state pension continues to decline in relation to earnings, people will increasingly have to rely on making personal savings for their retirement. However, assuming those on low incomes do not have sufficient disposable cash, relying on personal savings (whether in a pension or other vehicle) may result in serious under-provision as those on low incomes will be unable to afford to save enough for retirement.

Pension Credit

8. The actuary Ralph Price Hardy estimated in 1891 that more than 40% of old people at the time became chargeable to the poor rates. Although standards of poverty have changed since 1891, nevertheless a significant and similar proportion of the aged population is still below what might be considered the poverty line.

9. Over the past 100 years, various means tested arrangements have been in force to protect the less well-off but one of their consequences has been to deter those on low incomes from saving as they would lose entitlement to means tested benefits. A number of measures for determining poverty have been adopted with the current one underpinning Pension Credits being roughly 22% of national average earnings.

10. On this measure, the DWP estimated that there were 2.72 million Pension Credit claimants (3.32 million including partners) at August 2008. In addition it has been estimated that there could be a further 1.8 million who, although eligible, do not claim the benefit. This suggests that about 40% of pensioners qualify for the means tested Pension Credit; this may increase over time as the National Pensioners' Convention estimates that currently as many as nine million workers may have no pension arrangements outside the state scheme. It is often heard that the complexity of the system deters many from claiming benefits to which they are entitled, along with, for many, the stigma of doing so. Despite this, the current financial crisis could further increase dependency on Pensions Credit as falling interest rates cause pensioners to use their savings to supplement their income. Indeed, over time, dependency may increase even further as low interest rates cause savers to dip into their capital prior to retirement, reducing their available nest egg.

11. Any benefit system, if it is to meet its purpose, should be simple and capable of delivering what it seeks to achieve ie does not overpromise. In practice, this will always need to be balanced against providing a disincentive to save and against the very real pressures on government finances which could result in rising taxes and a reduction in the resources for means tested benefits.

Pension Provision Additional to the Basic State Pension

12. Since 1961, there have been successive additional state pension arrangements sitting on top of the basic state pension. They started with the graduated scheme (1961 to 1975), the state earnings related pension scheme (SERPS—1978 to 2002) and S2P (2002 onwards). None of these arrangements applied retrospectively and consequently gave no benefit improvement to existing pensioners.

13. In addition, 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 dramatically, eroding public confidence in stock market investment. In time, this could also lead to a reduction in saving, as for some the uncertainty of the value of the pension pot at retirement is a disincentive to save at all, which would result in even more individuals being drawn into the means tested Pensions Credit.

14. It is currently not clear the impact that Personal Accounts, to be introduced in 2012, will have. Personal Accounts, together with individual and employer sponsored money purchase schemes, have their fund values linked directly to stock market performance, thus placing the risk on the individual, who may have little or no choice as to when they retire. Lifestyling or switching funds gradually as expected retirement

approaches can partially address this. However, for the individual retiring when the stock market is low, the problem is compounded by annuity rates which are linked to interest rates at the time. It could be argued that Personal Accounts will make saving easier for many who might otherwise lack the discipline of regular saving. However, there is likely to be a proportion of low and middle income earners who either do not have the spare income to save in whatever form or who are otherwise poorly equipped to handle Personal Accounts.

15. The current economic crisis has brought into sharp focus for many the need to consider their finances and to address current needs as well as, if possible, make provision for the longer term. Thus we are seeing an increase in those working on past retirement age simply to make ends meet, although the facility to continue to work is impacted by higher unemployment rates. Conversely, with more older members of the population continuing to work (either full- or part-time) the stigma which might once have been associated with working beyond retirement age seems to be diminishing.

Measurement of Pensioner Poverty

16. Since the introduction of a universal basic state pension with the 1948 Scheme, its amount has been below the level that would eliminate the need for means tested support for pensioners, currently Pension Credit.

17. The poverty line, which reflects a threshold of need below which people are counted as poor for the purposes of social security, is generally conceived in terms of an income standard, typically a proportion of median or average incomes. Whilst this has the merit of simplicity and is useful for international comparison, it can be somewhat arbitrary (eg Pension Credits kicking in at 22% of national average earnings). Other alternatives, such as household budget standards (a specified basket of goods and services which represent particular living standards) could also be used.

18. In order to address poverty effectively (across the population, not simply in relation to pensioners), it is necessary to define how it should be measured. Only once a definition has been agreed can a system be developed to address it.

Conclusion

19. State pension provision was introduced a century ago and the provisions of the Pensions Acts 2007 and 2008 are bringing about positive changes in state pension entitlement particularly for parents, carers and those with interrupted careers. However these changes will take time to have effect.

20. Over the last century, the proportion of pensioners remaining "below the poverty line" has remained largely the same, with some 40% of pensioners being eligible for Pensions Credit. This raises the questions (a) whether we have the balance right between social insurance, means testing and personal provision through individual and employer sponsored schemes and (b) the equity between generations.

21. The effects of the current financial crisis could increase the proportion of pensioners being eligible for Pensions Credit, as drastic cuts in interest rates are likely to cause them to use their savings to supplement their income. As turbulence in the world's stock markets reduces the value of the pensions pots of members of defined contribution pension schemes, increasingly, individuals are working on past retirement age, often in a part-time capacity, and, subject to the impact of higher unemployment rates, this seems set to continue. Going forward, flexibility between savings, pensions and part-time working will be crucial. Long-term strategic planning for the future of pension provision is also important so that the pensioners of tomorrow can plan for their own futures today.

22. Since the 1970s, if not before, governments have indicated their desire to eliminate means testing in retirement but so far this has not been achieved. It is for the Government to determine how it wishes to address pensioner poverty but it would seem logical that any changes to the system should be realistic, flexible (to reflect that things change over time) and aim to make the system less complex.

23. Assuming those on low incomes do not have sufficient disposable cash to save enough for retirement, increasing reliance on personal savings may result in serious under-provision and/or an increased reliance on means tested benefits as those on low incomes will be unable to afford to save enough.

24. The interaction between pensions and savings is critical and, as a general point, care should be taken to structure any change to ensure that people are not discouraged from saving otherwise, for most, the changes would merely result in different sources of retirement income rather than in an overall, higher level of income in retirement.

About The Actuarial Profession

The Actuarial Profession is governed jointly by the Faculty of Actuaries in Edinburgh and the Institute of Actuaries in London, the two professional bodies for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuing professional development and a professional code of conduct supports high standards reflecting the significant role of the profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of mortality tables used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles—from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long-term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds—either as their direct employees or in firms which undertake work on a consultancy basis—but they also advise individuals, and advise on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The profession also has an obligation to serve the public interest and one method by which it seeks to do so is by making informed contributions to debates on matters of public interest.

In January 2009, the Actuarial Profession published a book *100 Years of State Pension: Learning from the Past*. This submission draws on the research undertaken for that publication and also on the expertise of the book's authors. A copy of the book will be sent to the Select Committee's Clerk along with a hard copy of this submission.

March 2009

Memorandum submitted by Department for Work and Pensions (TPP 19)

Summary

This memorandum is provided by the Department for Work and Pensions (DWP or "the Department") as a contribution to the Work and Pensions Select Committee's inquiry—"Tackling pensioner poverty in Great Britain".

Tackling poverty and improving financial security amongst older people is one of the Department's key priorities. The strategy since 1997 has been to focus help on the poorest pensioners while providing a solid foundation of support for all.

Pension Credit targets support at those who need it most by topping up their income up to a minimum level. Today, it ensures that no pensioner need live on less than £124 a week (rising to £130 from April this year). This compares to around £69 a week in 1997—an increase around a third in real terms.

As a result of targeted measures such as Pension Credit around 900,000 pensioners have been lifted out of poverty since 1998–99 (measured as below 60% of contemporary median household income after housing costs are taken into account). Today, pensioners are less likely to be in poverty than the population as a whole.

A key priority for the Department is to ensure that pensioners receive the support to which they are entitled. The Department has already taken a number steps to improve take-up of income related benefits. For example the claims process has been simplified—claims for Housing Benefit and Council Tax Benefit can be made by telephone alongside Pension Credit without the need to complete and sign claim forms. And the Department continues to look at ways of making further improvements.

For the pensioners of the future the Department has taken forward a radical package of reforms in the Pensions Acts of 2007 and 2008 which will deliver a state pension system that is fairer, more generous and more widely available. The reforms will also extend the opportunity of workplace pension saving to millions, many for the first time.

However, the challenges presented by an ageing society are broader than a narrow focus on pensioner incomes would imply. Last year, for the first time ever, there were more pensioners than children in Britain and by 2050 there will be 50% more pensioners than today.

The Department is working with other Government departments in leading the development of a new Ageing Strategy which will set out opportunities presented by the increased numbers of older people in coming years. The strategy will set out practical steps that can be taken to address the needs of an ageing population and make a real difference to people's lives.

1. Pensioner Poverty

Introduction

1.1 Poverty is a complex, multi-dimensional issue affecting many aspects of pensioners' lives, such as their health, ability to take part in social interactions and general quality of life, as well as income.

1.2 Tackling poverty and improving financial security amongst older people is one of the Department's key priorities. The strategy since 1997 has been to focus help on the poorest pensioners while providing a solid foundation of support for all.

1.3 In 2003 the Department introduced Pension Credit, a means tested benefit which targets support at those who need it most by topping up their income up to a guaranteed minimum level. Pension Credit is a key element of the Department's strategy for tackling pensioner poverty.

1.4 The guarantee element of Pension Credit ensures that today no single pensioner need live on less than £124 a week (£130 a week from April) and no couple on less than £189.35 a week (£198.45 a week for couples from April). By comparison, in 1997 the poorest pensioners had to live on around £69 a week, an increase of over a third in real terms since 1997.

1.5 In addition the Savings Credit is designed specifically to reward pensioners with low or modest second pensions or savings. The notional amount of income from capital is also qualifying income for the Savings Credit.

1.6 The Pension Credit rules relating to the treatment of capital are significantly more generous than those of its predecessor the Minimum Income Guarantee. With the introduction of Pension Credit in 2003 the rule excluding pensioners with savings above £12,000 was abolished, which enables those with higher levels of capital but low income to potentially qualify for Pension Credit. The calculation of notional income on capital is also more generous: the notional income taken into account was reduced from £1 for every £250 (or part of £250) above the threshold to £1 for each £500 (or part of £500).

1.7 Around 900,000 pensioners have been lifted out of relative poverty since 1998–99 (measured as below 60% of contemporary median household income after housing costs are taken into account). The number of pensioners in relative poverty has reduced from 2.9 million (29% of pensioners) in 1998–99 to 2.1 million (19% of pensioners) in 2006–07. See Annex 1 for figures on historical levels of pensioner poverty.

1.8 Other support provided to pensioners includes:

— An annual winter fuel payment of £200 to households with someone aged 60–79 and £300 to households with someone aged 80 and over, increased to £250 and £400 for 2008–09.

— Additional one-off payment with the Winter Fuel Payment in 2008–09 (£100 to households with someone aged 80 or over, £50 to households with someone aged 60–79).

— Increased cold weather payments from £8.50 to £25 for winter 2008–09.

— Payment of £60 to pensioners in early 2009 (taking the total value of the Christmas bonus this year to £70).

— Free off peak bus travel.

— Free eye tests and NHS prescriptions.

— Free TV licences for those aged 75 and over.

— Free swimming from April 2009.

— Insulation/free central heating measures for vulnerable groups, including Pension Credit recipients (up to value of £2,700).

— Those over 70 also entitled to Free loft and cavity wall insulation (up to value of £300).

1.9 There is no official single measure of pensioner poverty, but it is generally accepted that low income is key to any poverty measurement.

1.10 When referring to pensioner poverty, most commentators tend to refer to the 60% relative measure.

1.11 However as part of the Government's Public Service Agreement 17—*"tackle poverty and promote greater independence and well-being in later life"* the Department for Work and Pensions measures progress in tackling pensioner poverty by using a basket of three key thresholds of income after housing costs are accounted for. These are:

— 60% of contemporary median income (this is often referred to as relative poverty);

— 50% of contemporary median income; and

— 60% of 1998–99 median income uprated in line with prices (this is often referred to as absolute poverty).

1.12 The Department measures pensioner poverty by looking at income after housing costs because around two thirds of pensioners own their homes outright. Income after housing costs therefore presents a truer picture of pensioners' incomes.

1.13 When it comes to international comparisons, like-for-like comparisons are complicated. Each EU country has its own poverty line based on its national income, which means relatively well off countries like the UK have a higher line. For example, the latest Eurostat data shows that the median income of older people in the UK compares well with other EU countries. It is the fifth highest in the EU, when differences in living costs across countries are taken into account, placing the UK above countries such as France and Sweden.

Pensioner Incomes

1.14 Pensioner incomes have consistently risen over the past decade. The average gross income in 2006–07 was £508 for a pensioner couple and £247 for single pensioners—demonstrating a real terms rise of a third since 1997.

1.15 Since the mid-1990s pensioners' incomes have risen almost twice as fast as earnings. Between 1996–97 and 2006–07 pensioners' incomes rose by 29% in real terms. Over the same period average earnings increased by 16%.

1.16 Due to more generous benefits, the incomes of the poorest pensioners have risen at around the same rate of those of the richest pensioners. Some of the increase in average pensioner income is due to new cohorts retiring with more private pension and SERPs/S2P entitlement.

1.17 Overall, due to the tax and benefit changes introduced since 1997 pensioner household are 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 week, better off.

1.18 The Department will be spending over £13 billion more in 2008–09 on pensioners compared to if 1997 policies had continued (around half of which is going to the poorest third of pensioners). Total departmental expenditure on pensioners in 2008–09 will be around £90 billion.

Groups who are vulnerable to facing poverty in old age

1.19 Pensioners today are less likely to be in poverty, measured by below 60% of contemporary median income after housing costs, than the population as a whole.

1.20 But within this, some groups of pensioners are at a greater risk of being in low income than the population as a whole. This may be because they have been either less able or simply chosen not to build up entitlement to a full basic state pension and/or second pensions such as SERPs or an occupational pension over their working life. These groups include:

- Older pensioners—25% of pensioners aged 85 and over have incomes below the relative low income threshold compared with 19% for all pensioners. Older female pensioners have a higher risk of being in low income than older male pensioners.
- Pensioners from non-white ethnic groups—32% of Asian or Asian British pensioners and 29% of Black or Black British pensioners have incomes below the relative low income threshold.
- Pensioners living in rented accommodation—28% of pensioners living in the social rented sector and 38% of pensioners living in the private rented sector have incomes below the relative low income threshold.

Continuing to tackle pensioner poverty

1.21 The Department will continue to build on the good progress it has already made in tackling pensioner poverty.

1.22 To protect the incomes of the poorest pensioners over the long term the Department has legislated, in the Pensions Act 2007, to continue to increase the Pension Credit minimum guarantee at least in line with earnings over the long-term. From April of this year the guarantee will increase by £5.95 a week for single pensioners and £9.10 for couples meaning that from April no single pensioner need live on less than £130 per week. This increase is the largest since the Pension Credit standard minimum guarantee was introduced in 2003.

1.23 Reforms contained in the Pensions Act 2007 will deliver a state pension that is fairer, more generous and more widely available tackling the historic inequalities in the system, particularly for women. The Act will reduce the number of years needed to qualify for a full basic state pension—as a result around three quarters of women reaching state pension age in 2010 will be entitled to a full basic state pension compared to around a third now.

1.24 The Pensions Act 2007 also includes a commitment to re-link the uprating of the basic state pension to earnings rather than prices. 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. Earnings uprating from 2012 would mean the basic state pension would be worth more than twice its value by 2050 compared to if current uprating policies were continued.

1.25 The Department is also taking forward reforms of the private pension system in the Pensions Act 2008 which, from 2012, will extend the opportunity of workplace pension saving along with an employer contribution, to millions, many for the first time.

1.26 The reforms will overcome the inertia which has been such a barrier to saving in the past and will mean that all eligible employees will be automatically enrolled into a workplace pension scheme. We estimate this will result in between six and nine million people newly participating or saving more in workplace pensions.

1.27 The Department's pension reforms will provide equality of opportunity for people to build pension provision in their own right and are an integral part of the Department's strategy to ensure today's and tomorrow's pensioners can enjoy security in their retirement.

1.28 For tackling poverty among today's pensioners the immediate priority continues to be ensuring pensioners receive the support to which they are entitled. The Department is working hard to improve take-up through a number of initiatives, further information on benefit take-up is provided in section 2.

2. Benefit Take-up

2.1 Promoting take-up of income-related benefits is one of the key levers in preventing pensioner poverty: estimates suggest that around one-third of pensioners in poverty are in poverty because they are not taking up their entitlements to income-related benefits. Encouraging take-up of income-related benefits remains a key priority for the Department.

What are we doing to drive take-up of income related benefits?

2.2 The Department has in place a number of initiatives and campaigns to encourage take-up of income related benefits amongst eligible non-recipients:

- Since November 2008 claims for Housing Benefit and Council Tax Benefit can be made entirely by telephone alongside Pension Credit, without the need to fill in and sign claim forms.
- The Department undertakes around 13,000 home visits a week for vulnerable customers to ensure they are receiving all benefits and services to which they are entitled.
- The Department is rolling out targeted take-up activity, based on partnership working, across 20 regions/areas where operational data suggests there are high numbers of eligible non-recipients of Pension Credit and where the Pension, Disability and Carers Service (PDCS) has sufficient local operational capacity.
- PDCS currently has Joint Working Partnerships, either live or at the implementation stage, with all 203 primary tier Local Authorities in England, Scotland and Wales.

2.3 The Department cannot at present accurately assess and make a Pension Credit award without a claim being made by the customer. This is because the Department requires the most up-to-date information to accurately assess entitlement.

2.4 The Department has set out plans in the recent Welfare Reform Bill for a pilot programme which will be used to explore whether better use of the information the Department already holds could help to improve take up in the longer term. Although the detailed design of the pilots has yet to be decided, they are likely to be relatively small scale and are intended to inform the development of future policy and processes rather than to have an immediate effect on take-up.

2.5 The real tangible benefit from this initiative will be to provide the Department with evidence about how we can use information more effectively. We are determined to explore the potential for using the information that is already available to us as a tool to help improve take-up while ensuring that public funds are properly protected. In particular we want to assess how suitable currently available data is for estimating awards of Pension Credit, whether we should seek new or improved sources of data, or consider simplification of the benefit rules to allow the claims process to be streamlined in the future. Of course we also need to understand how people feel about their personal information being used in this way.

2.6 As part of its Housing Benefit Reform programme, the Department has had significant success in making the administration of benefits by local authorities both simpler and more efficient, and work is ongoing to further modernise benefit delivery. Efficient administration is vital in overcoming some of the identified barriers to claiming Council Tax Benefit (CTB) and helping to ensure that the process of claiming does not deter potential customers.

2.7 The Department runs regular campaigns aimed at encouraging people to claim Council Tax Benefit (CTB), and funds the production of publicity materials for local authorities to use in local activity to raise awareness of CTB. It also carries out a periodic exercise to identify people in each local authority area who are getting Pension Credit and could be eligible for CTB but are not claiming it. We pass this information to local authorities for them to contact the customers concerned. We estimate that there are around 200,000 such people. We will write to encourage them to contact their local authority and establish their full benefit entitlement.

3. Lump Sum Payments

3.1 Lump sum payments, in particular Winter Fuel Payments (WFP) and Cold Weather Payments (CWP), are primarily focussed on providing help with fuel bills for pensioners on fixed incomes. But, the Government's strategy for tackling fuel poverty goes wider than these payments.

3.2 The £1 billion package of fuel poverty measures announced on 11 September 2008 will enable households to take advantage of help that could save them over £300 every year on their energy bills.

3.3 The Government will propose legislation to require an estimated £910 million commitment from energy companies including, for the first time, electricity generating companies, to invest in making homes more energy efficient. This is in addition to the existing obligation on companies to spend £2.8 billion over the next three years helping customers save energy.

3.4 On top of the fuel poverty measures announced on 11 September 2008, the 2008 Pre-Budget Report announced an additional Warm Front funding of £100 million, and £50 million of existing allocation to be spent a year soon than planned.

3.5 The Department also introduced legislation in the Pensions Act 2008 which allows the Secretary of State for Work and Pensions to make regulations to share data on Pension Credit recipients with energy suppliers. The Department, together with the Department for Energy and Climate Change is in discussions with energy suppliers about the details involved.

Winter Fuel Payments

3.6 The Winter Fuel Payment (WFP) provides reassurance to older people that they can afford to keep warm in the winter months when heating bills are higher. It helps to tackle fuel poverty[26] by increasing the incomes of older people.

3.7 WFPs are paid as simple tax free lump sum payments. Most payments are made automatically, before Christmas, without the need to claim. Most people aged 60 or over will qualify.

3.8 The WFP has increased substantially since its introduction in 1997–98 from £20 to the current value of £200 for households with someone aged 60 to 79 years of age, and £300 for households with someone aged 80 or over.

3.9 Those over 80 receive a higher amount as they are more likely to live alone, in older and less energy efficient homes. They are also more likely to have a lower income than recently retired people, to spend a greater proportion of this income on fuel and to be in fuel poverty.

3.10 This winter (2008–09) the WFP will be increased by £50 for households with someone aged 60–79 and £100 for households with someone aged 80 or over.

Impact on poverty

3.11 In addition to providing older people, who are usually on fixed incomes, with reassurance that they can turn their heating up in Winter, WFPs provide a valuable boost to pensioners' incomes. DWP estimates that without WFPs, the percentage of pensioners in relative low-income after housing costs would increase by two percentage points.

Cold Weather Payments

3.12 Additionally, for periods of very cold weather, extra help with fuel bills is available to poorer, vulnerable households through Cold Weather Payments. Broadly speaking, those eligible are people in receipt of an income-related benefit who are pensioners, disabled or who have a child who is disabled or under the age of five.

3.13 Cold Weather Payments were increased from £8.50 to £25 per week of cold weather for Winter 2008–09. So far this winter, 2008–09, for Great Britain, over 8 million payments are already committed to be made, worth around £200 million.

Christmas Bonus

3.14 A Christmas bonus of £10 is usually paid to around 15 million beneficiaries in December each year, including around 12.5 million pensioners. This year an additional payment of £60 will be paid in early 2009 (taking the total value of the Christmas bonus in 2008 to £70). This will provide additional direct financial support to help vulnerable groups and those on fixed incomes, in recognition of the current economic conditions.

[26] A household is said to be in fuel poverty if it needs to spend more than 10% of its income on fuel to maintain an adequate level of warmth (usually defined as 21 degrees for the main living area, and 18 degrees for other occupied rooms).

4. Pensioners and the Economic Downturn

Impact of the financial crisis on pensioner poverty

4.1 The Government knows people are concerned about their pensions and finances in the current economic climate and is reviewing all areas of the pensions system to ensure that it is robust in the face of the current economic climate.

4.2 Falling interest rates and asset values will reduce the resources available to some pensioners in retirement. However, there are measures in place to support people at the current time.

4.3 Pension Credit can help to soften the blow of falling incomes amongst lower income pensioners. As discussed in section two we are working to increase take-up of income related benefits to ensure that pensioners get the financial support they are entitled to.

4.4 The Government has already taken steps to strengthen and protect people saving for their retirement in defined benefit pensions. The Pension Protection Fund (PPF) provides a safety net protecting the benefits of nearly 12 million members of defined benefit schemes in the event that employers become insolvent. Over 20,000 people are receiving, or will receive, compensation from the PPF.

4.5 Over half of people approaching retirement in Defined Contribution (DC) pensions are in lifestyle funds. These funds shift the members' investments from high risk equities to low risk investments such as bonds and cash, with the goal of reducing investment risk as people approach retirement.

4.6 Some of the minority, who are not invested in these funds, will not be fully invested in equities, or will have other products designed to smooth investment risk, such as with profits funds. This means that their funds will not feel the full impact of stock market falls.

4.7 It is important to remember that pension saving is about the long-term. The Department estimates that the average DC fund had fallen in value by approximately 20% over the year to January 2009. However, the same fund will have increased in value by 20% over the five years to January 2009, despite the recent sharp declines.

4.8 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 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.

Annuity rates

4.9 Annuity rates are influenced by a number of factors, including interest rates and projected longevity, but annuity rates do not follow interest rates perfectly.

4.10 Annuity rates[27] have declined steadily from 7.92% in July 2008 to 7.39% in January 2009. However, despite the historic low level of interest rates, annuity rates are not significantly lower than their levels in recent years—7.41% in January 2008, 7.20% in January 2007 and 7.10% in January 2006.

4.11 A competitive annuities market is essential in ensuring that people get the best possible deal when they buy an annuity. The Government is working with external organisations to increase the number of people exercising the Open Market Option (OMO), which gives people the right to shop around when buying an annuity. The Pensions Advisory Service (TPAS) launched its online annuity planner in May 2008. In July 2008, the FSA published the results of its review of the quality of firms' literature explaining the OMO to their customers, requiring remedial action to be completed by December 2008. The ABI has also issued good practice guidance to its members.

4.12 Current Government policy on annuitisation age is clear and flexible, allowing an individual to annuitise at any time between the ages of 50 and 75. 95% of people with pension savings annuitise before they are 70 at a time that is right for them, meaning that the upper age restriction affects very few people. Annuitisation protects the individual from running out of money before they die.

4.13 Increasing levels of unemployment are expected to translate into increased claims for Pension Credit, particularly amongst 60–64 year old men. There is currently insufficient evidence to accurately assess the size of the likely impact on the number of Pension Credit claims.

4.14 Overall the impact of the downturn on pensioners is variable, with the precise impact depending upon the specific circumstances of the individual. Those in defined contribution schemes are likely to be the most directly affected by recent declines in stock market values. However, strategies such as lifestyling will help to mitigate the impact for many members. It is also important to remember that pensions are long term savings vehicles—while assets fluctuate over the short term it is the long term that is important for pensions. The decline in interest rates will have affected many pensioners. However the evidence shows that, generally, savings comprise a comparatively small proportion of most pensioners' overall income. Though clearly any reduction in income, however small, is unwelcome. Which is why the Government is, alongside a range of other measures, continuing to support pensioners appropriately through the downturn through: a payment

[27] This rate is for a 65-year old Male, Single-Life, Level annuity, based on a lump sum premium of £100,000.

of £60 to pensioners in early 2009 (taking the total value of the Christmas bonus this year to £70); an additional payment alongside the winter fuel payment (£50 for households aged 60–79; and £100 for those aged 80 or over) and an increase in cold weather payments from £8.50 to £25 for this winter. Annuity rates have seen a modest decline recently though they do not appear to have deviated significantly in value. At this stage it is difficult to assess the longer term and more indirect effects of the downturn such the potential impact on Pension Credit claims.

4.15 Meanwhile, there remains a competitive market for savings and a number of institutions are offering interest rates significantly above the Bank of England base rate through, for example, ISAs, so savers can ensure they get the best possible income from their savings by shopping around. In addition, around one in ten pensioners have a mortgage, many of whom are likely to be benefiting from lower interest rates.

5. Pension Reform

Reform overview

5.1 As a result of changes implemented by this Government many of today's pensioners have benefited from vastly improved standards of living. However the Department's estimates suggest that approximately seven million people are currently not saving enough to meet their retirement aspirations.

5.2 In the Pensions Acts of 2007 and 2008 the Department has taken forward a radical package of pension reforms which will provide equality of opportunity for people to build up pension provision in their own right. The Pensions Act 2007 will deliver a state pension system that is fairer, more generous and more widely available ensuring people have a solid foundation on which to save.

5.3 The Pensions Act 2008 implements the remaining part of the Pensions Commission's blueprint for a new pensions system. The reforms are planned to be introduced in 2012 and will extend the opportunity of workplace pension saving to millions, many for the first time, through reform of the private pension system.

5.4 As a result of these reforms:

- By 2010 three quarters of women reaching state pension age will be entitled to a full basic state pension compared to around a third now.
- Around 6–9 million people will be newly participating or saving more in workplace pensions as a result of automatic enrolment.

State Pension reforms

5.5 The Pension Act 2007 introduced significant reforms to basic State Pension and State Second Pension. Changes start from 2010 and include:

- Increasing the State Pension coverage:
  - reducing the number of qualifying years needed for a full basic State Pension to 30 (from 39 for women and 44 for men currently);
  - abolishing the current minimum contributions conditions so 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; and
  - making it simpler and fairer for people with children and other carers to build up basic State Pension and State Second Pension entitlement through National Insurance credits.
- Uprating the basic State Pension in line with average earnings subject to affordability and the fiscal position, in 2012 or by end of the next Parliament at the latest.
- Raising the State Pension Age to account for increased longevity—to 66 by 2026, 67 by 2036 and 68 by 2046.
- 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.
- During the period 2010 to 2020 State Pension Age for women will be increased from 60 to 65 (under the Pensions Act 1995).
- Reforms will also stop the spread of Pension Credit up the income distribution and re-focus Pension Credit on those pensioners with less substantial savings.

Headline effects of reform

5.6 The reforms will deliver fairer outcomes to women and carers. Improved State Pension coverage will mean that around three quarters of women will reach State Pension age with a full basic State Pension in 2010 compared with around a third now. Over 90% of women and men reaching State Pension age in 2025 will be entitled to a full basic State Pension.

5.7 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.

5.8 A low earner with a good working and caring life would retire on a contributory State Pension of over £150 a week in the 2050s. Without reform this amount would be between £40 to £50 a week less.

5.9 Almost 12 million pensioners will gain from the commitment to uprate the basic State Pension in line with earnings growth.

5.10 Increasing State Pension age to 68 by 2046 will mean that the proportion of life pensioners spend in retirement today will be roughly the same into the future, while making reform more affordable.

5.11 Total pensions expenditure with reform will be 6.4% of GDP in 2050 compared with around 5% now.

6. Ageing Society

6.1 As we have previously set out, poverty is a multi-dimensional issue affecting many aspects of pensioners' lives. That is why the Department for Work and Pensions is working with other areas of central and local Government to deliver a wide range of initiatives, including leading on Public Service Agreement 17, "Tackle poverty and promote greater independence and well-being in later life".

6.2 The Department for Work and Pensions, Department of Health and the Prime Minister's Strategy Unit are leading the development of a new Ageing Strategy, due for publication in Spring 2009, which will set out practical steps that can be taken to address the needs of an ageing population and make a real difference to people's lives. The strategy will focus on four themes: promoting age inclusiveness; preparation for later life; participation in later life; and providing better protection from the risks to well-being in later life.

6.3 Other work across Government for older people includes:

— Introducing a new national dementia strategy to increase awareness of dementia, ensure early diagnosis and intervention and radically improve the quality of care that people with the condition receive.

— Implementation of Lifetime Homes, Lifetime Neighbourhoods, the national strategy for housing in an ageing society.

— The Supporting People programme, which helps over 800,000 older people a year to maintain independent living.

— The Equality Bill, to be introduced during 2009, which will include provisions to outlaw age discrimination in the provision of goods, facilities and services (GFS) and the exercise of public functions.

Extended Working Lives

6.4 As the Pensions Commission made clear, in an aging population, alongside increased levels saving and higher taxes allocated to retirement provision working longer is necessary at a societal and individual level if pensioners are not going to become poorer.

6.5 The Department is committed to increasing the employment rate of older workers, and closing the gap between their employment rate and the overall employment rate. We know from research that many 50 to 69 year olds would have considered carrying on working if part time or flexible working options had been available.

6.6 The Income Tax, National Insurance, State Pension and private pension systems support longer working by providing flexibility and financial gains from working longer. In 2006 the Government introduced legislation allowing people to draw an occupational pension while continuing to work for the same employer (where the scheme allows), and the State Pension can be drawn while in work, or deferred to build up a lump sum or higher payments when it is drawn. As no-one pays National Insurance contributions if they are in work over State Pension Age, and most of those over 65 have a higher personal tax allowance, those in work over State Pension Age get to keep more of what they earn.

6.7 The Department has prioritised tackling age discrimination and improving the position of older people in our society. The Public Service Agreement to tackle poverty and promote greater independence and wellbeing in later life includes an indicator on the employment rate of those aged 50–69 and the difference between this and the overall employment rate.

6.8 The Government has made it unlawful to discriminate in training, recruitment and employment on grounds of age, and have made compulsory retirement under age 65 unlawful, except where an employer can objectively justify a lower age in their particular circumstances.

6.9 Since 2000 the Department's Age Positive initiative has been actively tackling age discrimination in employment and promoting older worker issues to employers and leading business organisations. The Department 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.

6.10 The Flexible New Deal (phase 1 of which rolls out in October this year) will build on the success of the New Deals it replaces, and gives older people access to intensive back to work support from Jobcentre Plus Since October 2004 individuals in receipt of Pension Credit have access to all our back to work help on a voluntary basis.

6.11 Employment among older people has been increasing. Between 1997 and 2008, the rate of employment for people aged between 50 to State Pension Age has increased from 64.8% to 72%. This means the gap between the overall employment rate and the rate for this cohort has decreased from 8.6 percentage points to 2.7 percentage points.

7. Allowances for the Disabled People and Carers

Entitlement conditions

7.1 Entitlement to Disability Living Allowance (DLA) and Attendance Allowance (AA) is not generally "condition specific" nor is it based on the nature or level of disability that a person has. Rather, it is based on the effect that the disability has on the need for help with personal care or getting around. These needs can vary considerably between individuals with similar disabling conditions and over time. A condition may deteriorate or an individual may become more or less adapted to coping with a disability. It is the level of need that determines access to the benefit and the rate awarded.

7.2 Carer's Allowance (CA) was conceived as a working age benefit to help maintain the income of those who had forgone the opportunity of full-time employment to provide a substantial amount of care for a severely disabled person. CA could be claimed by people up to their 65th birthday, but someone could remain entitled to it after they reached aged 65 if they continued to fulfil the entitlement conditions ie, they earn £95 or less a week and provide 35 hours or more of care a week for a person who receives a qualifying benefit, usually Attendance Allowance, or the highest or middle rate of the Disability Living Allowance care component.

7.3 In October 2002, the Government removed the upper age limit for claiming. The number of pension age carers entitled to CA increased by over 300% between August 2002 and August 2008. Carer's Allowance is not normally payable at the same time as State Pension. However, low income pension age carers who meet the entitlement conditions for Carer's Allowance, may be eligible for the carers additional amount in Pension Credit, currently worth £27.75 a week. At August 2008, 30,000 pensioners were receiving Carer's Allowance, and 246,000 had the additional amount for carers included in their Pension Credit assessment. These figures show how the change targeted extra help on the lower income pension-age carers who receive Pension Credit.

Benefit rates

7.4 AA and DLA are intended to provide a significant, tax-free contribution towards the generality of extra costs faced by severely disabled people and were not designed to meet specific costs disabled people may have. The tiered level of help available provides a practical way of targeting additional financial help on those who are most severely disabled and who are likely to have the highest extra costs. For instance, some 193,000 pensioners are currently on the highest rates of DLA and receiving £113.75 a week (£119.45 per week from April 2009) and 858,000 people over the age of 65 are on the higher rate of AA and receiving £67.00 a week (£70.35 from April 2009).

7.5 Last year the Government undertook a major review of its National Strategy for Carers, which involved extensive consultation with carers and organisations which represent their interests. Following this review, the Government has made clear its commitment to review the benefits available to carers in the context of wider benefit reform and the fundamental review of the care and support system.

Application process

7.6 The Department places a great importance on ensuring its customers understand the eligibility rules and processes for claiming AA, DLA and CA. In the latest Customer Survey covering these benefits conducted for the Pension, Disability and Carers Service (PDCS) the main aspect of the claims process that customers aged 65 years and over considered very important, but were not very satisfied with, was that the claim form itself should be easy to fill in.

7.7 It is in response to concerns such as these that the PDCS has been working with customer representative groups, for instance those represented on the PDCS Advisory Forum, to further improve the claiming process. For example the AA and DLA claim forms have recently been changed to make them easier for customers to complete and there is an e-claiming service for those who have access to the internet. For those who have difficulty completing a claim form PDCS offer help, including claim completion, over the telephone; 10% of pension-age customers receive help from PDCS when filling in their claim form.

7.8 Face-to-face visits are offered to the most vulnerable pensioners. In the 2007–08 financial year, Local Service staff carried out over 750,000 home visits. During a face-to-face visit, full benefit entitlement checks are carried out by the Local Service to ensure that pensioners are receiving all the benefits and services to which they are entitled.

7.9 For pension-age CA claimants the Department has produced a shorter version of the CA claim pack to simplify the claim process. Additionally, the Department recognises that many older carers have to claim CA just to qualify for the additional amount for carers in Pension Credit, and that this can be confusing for them. The Local Service of the PDCS has been piloting a system of making decisions on both Pension Credit and CA entitlement at the time of their visit. The learning from the trial is now being taken forward.

Annex A

PENSIONER POVERTY STATISTICS

PERCENTAGE OF PENSIONERS LIVING IN HOUSEHOLDS WITH INCOMES BELOW VARIOUS INCOME THRESHOLDS, 1998–99 TO 2006–07, AFTER HOUSING COSTS, UNITED KINGDOM

	Percentage of pensioners in low income		
Year	*Below 60% contemporary median income*	*Below 50% contemporary median income*	*Below 60% 1998–99 median income uprated by prices*
1998–99	29	13	29
1999–2000	28	13	25
2000–01	26	11	20
2001–02	26	11	14
2002–03	24	11	12
2003–04	21	10	10
2004–05	18	8	8
2005–06	17	8	8
2006–07	19	10	10

PERSISTENT LOW INCOME: PERCENTAGE OF PENSIONERS BELOW 60% CONTEMPORARY MEDIAN INCOME AFTER HOUSING COSTS IN AT LEAST 3 OUT OF 4 YEARS

Percentage of pensioners below 60% contemporary median income after housing costs in at least 3 out of 4 years	
1991–94	18
1992–95	17
1993–96	17
1994–97	19
1995–98	21
1996–99	21
1997–2000	22
1998–2001	22
1999–2002	18
2000–03	16
2001–04	15
2002–05	13

Source: British Household Panel Survey 1991–2005

March 2009

Memorandum submitted by Carers UK (TPP 20)

About Carers UK

1. Carers UK is the leading organisation representing the views and interests of the six million carers in the UK who care for their frail, disabled or ill family member, friend or partner. Carers give so much to society yet as a consequence of caring, they experience ill health, poverty and discrimination. Carers UK seeks to end this injustice and will continue to campaign until the true value of carers' contribution to society is recognised and carers receive the practical, financial and emotional support they need.

2. Carers UK is an organisation of carers, for carers, with a reach of around 1,500 organisations, including many run by carers, who are in touch with around 950,000 carers between them. Including Carers Week our reach extends to around 4,000 groups and 2.5 million carers.

3. Carers UK runs an information and advice service and we answer around 16,000 queries from carers and professionals every year. We also provide training to over 2,600 professionals each year. Our website is viewed by nearly 300,000 unique visitors and nearly 1,000 carers are members of our website forum.

4. Carers UK has offices in Wales, Scotland and Northern Ireland and we also run a specific project in London. This response reflects the views of the organisation, UK-wide.

Carers and pensioner poverty

5. We know that many carers are living in poverty, and for older carers the impact of this can be even more serious. Our research[28] has found that carers are cutting back on food, heating and other essential expenditure. Nearly two thirds are living in fuel poverty, suggesting that measures to combat fuel poverty are not reaching the households that need it. We also found that two thirds of carers are spending their own income or savings to pay for care. 49% have cut back on caring support services or supplies (like extra breaks, equipment or supplies) because they cannot afford them. This risks damaging the health of the carer and the person they care for. We know that carers often miss out on benefits,[29] including pension credit, because the system is complex and people are often not aware of what they are entitled to. Across the UK Carers are missing out on an estimated £746 million in unclaimed benefits.

Carers' benefits and pensioner poverty

6. Many carers do not take up their entitlement to Carer's Allowance or other benefits to which they may be entitled. There is currently no reliable estimate of take up of Carer's Allowance and the National Audit Office[30] recently recommended that the DWP attempt to make estimates. The NAO's report found that many carers do not claim Carer's Allowance because they do not see themselves as carers and do not expect that they will be entitled to support from the State. A fifth of carers also had difficulties applying for Carer's Allowance and very few said that the DWP's publicity material was the main source of information about the benefit.

7. All of these problems are likely to apply to older carers who may not know about the carer addition in Pension Credit. However they are also faced with additional complexity around applying. The current process for carers aged over 60 to apply for the Carer Addition in Pension Credit is a confusing and contradictory process. Carers must first apply for Carer's Allowance, be turned down (as they are receiving a state pension and cannot receive both under the "overlapping benefit rule"). They are told they have "underlying entitlement" for Carer's Allowance. They can then re-apply for Pension Credit, which they may have been turned down for on a previous occasion. The NAO found that carers were confused by the concept of underlying entitlement and that the process is causing duplication of work across different parts of the DWP. Whilst we welcome the CASPER review (which is trialling a single claim process for Pension Credit and the Carer Addition in some pension centres), the ultimate solution lies in an overhaul of the whole benefits system for carers.

8. There is also a need to promote the Carer Addition strongly within messages about Pension Credit because many carers do not know about it. The incorrect belief that people over 60 cannot claim Carer's Allowance can easily enter into a carer's consciousness and make the provision of correct information much harder.

9. The other major problem with the current rules is that older carers receive no recognition of their caring role, even though it may intensify once they are over state pension age, and their own health may make it harder for them to manage. The recommendation made in the Committee's previous report Valuing and supporting carers to pay all carers, regardless of age, a payment to cover the cost of their caring role, would help give older carers the recognition they deserve. We also welcome the Committee's wider recommendations about reforming the wider benefits system, and their acknowledgement that the current system is outdated.

[28] Carers in Crisis, Carers UK, 2008.
[29] Caring and pensioner poverty, Carers UK, London, 2005.
[30] Department for Work and Pensions: Supporting Carers to Care, National Audit Office, February 2009.

Automatic payment of Pension Credit

10. Carers UK welcomes the pilots to pay Pension Credit automatically, but we believe that they should also find a way to also pay the Carer Addition automatically. Approximately 240,000 Pension Credit claimants received the Carer Addition in May 2008. Out of a total of 2.7 million Pension Credit claimants, this is nearly 10%. If the automatic assessment is only based on income then it may miss out a large proportion of older carers who would be entitled to extra Pension Credit if their caring responsibilities were known about.

Forthcoming changes to State Pension

11. We believe the changes being introduced in 2010 will create a fairer state pension system, in particular by increasing the value placed on social contributions such as caring, alongside that of paid contributions through the National Insurance system. The 30 year rule will help many people who have missed out on contributions through giving up work to care.

12. The removal of the "first contribution condition" is an important development, because it now means that contributions made by caring are valued equally to those made through paid contributions, in other words someone could be a carer for 30 years and their Basic State Pension is the same as someone who has made contributions through paid work.

13. It is critical that carers are supported to build up their State Second Pension, which will help them build up a decent income and avoid poverty in retirement. This is why it is critical that carers are identified and supported to claim the new Carer's Credit, which will protect both the Basic State Pension and the State Second Pension. We welcome the Government's support for the professional certification scheme, which will help carers claim the Credit even where the person they care for does not receive disability benefits.

14. We have ongoing concerns about the support that carers need to make decisions about saving and whether it will pay for them to save into a private pension. Since carers with a low income receive an additional amount in their Pension Credit, the amount they need to receive through a private pension is higher to ensure they see the benefit from this saving. Whether it is going to pay to save depends very heavily on unknown risk factors, and caring is one of the key factors. If someone has to give up work during their fifties, it is going to affect their ability to save. In extreme cases, carers even have to sell their homes because of their caring situations. Since it is impossible to predict whether someone will become a carer, the aim should be to mitigate the effects as far as possible. Crucially, ensuring that fewer carers have to give up work to care will mean they can continue to save for their pension for longer.

Long term care

15. It is crucial that the debate about pensions and saving links with discussions about long term care. There is now a greater awareness than ever that people should save for their retirement, but there is still confusion and a lack of support for families to plan how to fund their long term care needs.

16. We welcome the Department of Health's engagement process on reforming care and support, and look forward to the publication of a Green Paper later this year. This process must link with the DWP's efforts to encourage people to save for a pension, and we believe work must be done on the practical application of different funding options and how people will react to different systems.

17. It is essential that we have a transparent system, which makes clear what people will receive from the state and what individuals and families will be expected to provide, so that they can have confidence that they will see the value of any saving. At the moment this is not at all clear and many families perceive the system as unfair and one that penalises savings. Yet at the same time too many families are outside the social services support systems and are forced to find services themselves, without any form of assessment or care management.

18. Although families should be encouraged and supported to plan for later life, even with the most thorough planning people can often find themselves struggling. For example an increasing number of people need to care for older relatives well into their own retirement. So even if they have their own pension, and have thought about their own care needs, they may be facing the immediate costs of care which very quickly eat into their savings leaving them relying on means-tested benefits. Good quality, universal services are therefore essential.

19. Coupled with this is the disappointment of not being able to enjoy retirement and other interests, such as grandchildren. This is often made worse by the loss of Carer's Allowance when a carer starts to receive a State Pension. This policy leaves these carers feeling undervalued and ignored, as if they are no longer recognised as carers despite providing what can be increasing levels of care. Other discrepancies such as the lack of a mobility component for Attendance Allowance, which means older disabled people cannot access services like Motability, are seen as unfair and discriminatory. All these issues need to be tackled by the care and support Green Paper.

Older carers and welfare reform

20. We welcome the objective of creating opportunities for older people to remain active and participate in society, including remaining in employment. We know that many people with caring responsibilities are forced to retire early. Others have caring responsibilities which start in their late forties and fifties and end after a few years, but they find it very difficult to return to the labour market after missing such critical years in their career paths. They may also have developed health problems of their own because of their caring role. Government policy, particularly as the forthcoming welfare reform proposals are implemented, needs to ensure that older carers and former carers are given sufficient support. In particular they should receive a supportive and tailored service from Jobcentre Plus with proper recognition given to their caring role and practical solutions sought.

21. We welcome the commitments made in the National Carers Strategy *Carers at the heart of 21st century families and communities* to improve the support carers receive from Jobcentre Plus, backed up by £38 million of funding. This is the first time that carers have had tailored support through Jobcentre Plus. The commitments, including the introduction of Care Partnership Managers, specialist training for advisers who work with carers, funding for replacement care for those who are participating in approved training and ensuring that carers have access to appropriate employment programmes, are absolutely essential for giving carers a genuine choice about returning to work. We also welcome the recent proposal in the New Opportunities White Paper to give a £500 payment to carers who have been out of the labour market for five years or more to be able to study. These kinds of courses can be critical for those trying to get back into work and a lot of the Government funded courses focus on basic skills rather than giving support to those with qualifications higher than a NVQ level 2. Many carers need this vital step up in order to return to work.

22. For older people with low level caring responsibilities, who wish to work, there need to be social care services available which give them the back up they need. When assessing these carers, local authorities need to take just as much notice of these carers' wish to work as they would a younger carer. For those who are unable to work, the system must recognise them as carers and ensure that they can access tailored support.

23. Other barriers exist within the benefits system. There are 165,000 carers aged between 50 and 65 who are receiving Carer's Allowance. Many of these people may wish to combine their caring with paid work, but are unable to earn more than £95 per week. This rigid earnings limit means carers face a cliff edge with no incentive to increase their earnings (or seek promotion, for example). We should not forget that the risk of losing Carer's Allowance and having to go through the application process again is a considerable disincentive for many people.

24. Our research has found that carers retired an average of eight years early and if more carers are leaving the workforce prematurely this has damaging financial consequences for individuals and families, and a serious economic impact for employers, in terms of loss of skilled and experienced workers and additional recruitment costs. Research has shown that once carers fall out of work, they can find it difficult to return, even when their caring responsibilities end.[31] More than two million people move out of caring each year, and the majority are aged over 50, so they need tailored support to enable them refresh their skills and return to work.

March 2009

Memorandum submitted by eaga Plc (TPP 21)

Summary

eaga Plc has worked tirelessly for the past 17 years to deliver both environmental and social policy objectives on behalf of Central, Devolved and Local Government. As well as delivering on the government's primary Fuel Poverty alleviation scheme, Warm Front, under which we have assisted in excess of 1.6 million households, We have also pioneered the development of Benefit Entitlement Checks (BEC) throughout the UK.

BEC is a telephone service that offers confidential advice to people regarding the benefits they claim and what further benefits they may be entitled to. Through our dedicated team of qualified benefits advice agents, eaga plc delivered 70,000 BEC's in 2007–08 and we have the additional resources in place to reach our 2008–09 target of 90,000.

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[31] Caring Costs Alliance (1996), The true cost of caring, London: Smith's Charity and Carers National Association.

Key Questions

1. *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?*

1.1 There are two principle ways in which pensioner poverty could be addressed by the Department: either through an increase in the basic rate of the state; or by improved targeting and uptake of income related benefits such as Pension Credit and Housing and Council Tax Benefits.

1.2 Increasing the state retirement pension has the advantage of reaching everybody, thus dealing with the take-up issue with Pension Credit benefit easy to administer. The drawback is that unless the level of the state retirement pension is raised above that of current Pension Credit levels the benefit of the increase will largely go to relatively less vulnerable pensioners.

1.3 For pensioners with the lowest income an increase to the basic state pension would only replace one benefit with another. Given the rates at which Hosing and Council Benefit are withdrawn (85 pence for every extra pound of income above Guarantee Pension Credit for someone receiving both Housing and Council Tax Benefit), this again means that those with the lowest incomes would benefit least from an increase to the basic state pension. A judgement therefore has to be made as to the merit of such an increase, which guarantees every pensioner will have a minimum income, as opposed to changes to the system designed to target the poorest pensioners and potentially offer them a greater rise in income from the available resources.

1.4 Targeting and take-up would have to be improved and I would recommend that this be undertaken at certain key stages en route to retirement, ie the retirement of a spouse or civil partner, bereavement etc. At this point a full assessment could be undertaken automatically against all means tested benefits and then co-ordinated as a single claim to mitigate the inevitable negative impact of the application process upon levels of take-up.

1.5 Use should also be made of data and National Insurance records to identify those whose contributions record would indicate that they are not entitled to a full pension and be proactive in approaching these people long in advance of retirement.

1.6 Contributions records would also show people whose record was made up of credits rather than payments from wages and this would identify people who where unlikely to have been able to make significant alternative pension provision because of periods out of work because of poor health, family of commitments as a carer.

1.7 It is of course an argument that the over use means tested benefits acts as a disincentive to save and make provision for retirement, but those on the lowest incomes are the least able to make such provision from marginal income that may be called on for more immediate needs; Stakeholder Pensions should help in this.

2. *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?*

2.1 The current financial crisis will have a short to medium term effect in reducing both the income from and value of saving and investments and a long term effect in that the reduction in pension funds value for those retiring or being obliged to take out an annuity now.

2.2 Both of the above will have the affect of driving more pensioners into relative poverty and dependence on means tested benefits, including Pension Credit, in some cases potentially permanently.

2.3 The position of those with modest savings will be made worse by the fact that for every £500 above £6,000, a weekly "tariff income" of £1 is assumed. Prior to the credit crunch this already exceeded actual income from savings and is now completely unrealistic.

2.4 It is to an extent legitimate to ask people to support themselves from accumulated capital, but this surely has limits and not in the public interest that people erode saving to the level of becoming unable to budget for major items, it is also a disincentive to save in the first instance.

2.5 "Lifestyling" does not then in our view offer a reliable means of addressing the issues arising from the above and as it basically means a reduction in spending might not be thought to be a beneficial in it's affect on the overall financial situation if applied generally.

3. *Benefits take-up—why do some people not take up their entitlement to benefits (eg 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?*

3.1 A small minority do not take up pensions because of pride and the belief that anyone who does take up pensions is somehow inferior. Here may be some negative reactions by this group to automatic take up, and/or forcible take up of pensions.

3.2 The biggest single cause for people not taking up pensions, in our experience, is the near total lack of education and solid information available to the elderly, outside of a Job Centre or directly calling the Department for Work and Pensions. Consequently then, as way of an example, many clients believe simply having Occupational Pensions rule them out of benefits, and are unaware that applications are subject to the values of these pensions.

3.3 The following are further examples of barriers to take-up which our Benefit Entitlement Advisers report having encountered on a regular basis:

- Having savings over £6k will rule you out, or not knowing that there isn't a capital limit for Pension Credit, the number of hours you can work etc.
- Two people in the same house hold can't claim a benefit like Disability Living Allowance or Attendance Allowance at the same time and therefore if their partner is already receiving a disability benefit, they won't claim it for themselves.
- Completing long forms as they look too complicated. It needs to be advertised that home visits can be arranged for face to face advice.
- Some people just don't know what benefits are out there. Pension Credit needs to be advertised more effectively.

4. *Basic State Pension—will the 2010 changes create a fairer state pension system?*

4.1 The following comments were collated during a consultation session with our senior Benefit Entitlement Advisers:

- Linking state pension to wages, rather than prices, will be beneficial.
- Stakeholder pensions should help many of the pensioners currently in or close to pensioner poverty.
- With regard to social justice, government still needs to be conscious of cases of the plight of older women with no private provision.

5. *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?*

5.1 Attendance Allowance and Disability Living Allowance are very poorly understood among the public and not well co-ordinated with other befits or social services.

5.2 The care component is awarded on the basis of help with personal care and "bodily functions" and the criteria should be broadened to those tasks that would allow a person to remain in their home with some dignity, such as cleaning the home and doing laundry.

5.3 It is also questionable that no help is given with mobility problems for new claimants aged over 65 years. People over 65 need to go out for basic things like shopping and social interaction and a cash support may help avoid becoming dependent on others or local Authority services.

5.4 If the assessment of care and mobility needs was undertaken in a co-ordinated way and linked to local authority "Personal Budgets" there would be clear benefits in having just one assessment and not have to deal with different people on different forms and using different criteria, so that a person could be assessed as in need by one agency and denied by another.

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

6.1 The advantage of lump sum payments is that they can be timed to meet the purpose for which they are given, such as Winter Fuel Payments made when large bills are being incurred and therefore actually used for the intended purpose by some.

6.2 Lump sum payments have a use therefore, but we would contend that their use is limited and in general pension provision should be such that people are able to budget and plan for major items as this offers people choice and independence.

7. *Is the Government's programme of welfare reform the right approach for supporting pensioners who wish to continue working?*

March 2009

Memorandum submitted by Age Concern and Help the Aged (TPP 22)

Introduction

Age Concern and Help the Aged welcome the opportunity to respond to the Work and Pensions Select Committee Inquiry into Tackling Pensioner Poverty in Great Britain. After a number of years of progress, pensioner poverty is rising again. The PSA framework published alongside the last Comprehensive Spending Review weakened the focus on tackling pensioner poverty by moving from specific targets to tracking change. This stands in contrast to the Government's commitment to enshrine the pledge to end child poverty in legislation. A recent poll conducted for Age Concern found that almost 90% of people think that the Government should match its commitment to legislate to end child poverty with a similar pledge to end pensioner poverty.

In 2006–07, 23% (2.5 million) of pensioners were in poverty in the UK (that is, had incomes below 60% of median income) on a before housing costs basis and 19% (2.1 million) when measured after housing costs)[i]. These figures include the 13% (1.4 million) of pensioners in severe poverty on a before housing costs basis and 11% (1.1 million) after housing costs.

Although since 1997 pensioner poverty has fallen, the downward trend has faltered with 2006–07 figures showing a worrying increase by 300,000.

In the context of rising fuel prices, fuel poverty is also a pressing concern. Around half of the estimated 5.4 million households currently living in fuel poverty are pensioner households. The Government must do much more to protect the poorest and most vulnerable people from fuel poverty.

Ultimately the best way to tackle pensioner poverty would be to implement a step change in the mechanism for and level of the state pension. However, the most pressing priority in the short term is to ensure that pensioners are claiming the benefits they are entitled to. Currently up to up to £5 billion of means tested benefits are unclaimed by pensioners each year. Up to 1.8 million older people are missing out on Pension Credit and up to 2.1 million are not receiving the Council Tax Benefit due.[ii]

Recommendations

- There should be specific targets to tackle and abolish pensioner poverty and the Government should match its commitment to legislate to end child poverty with a similar pledge to end pensioner poverty.
- The DWP should match its data on state pensions with HMRC data on private income[iii] to identify those pensioners who are likely to be eligible for benefits and pay these automatically.
- This year's Budget must including a package of measures targeted at low income pensioners, including further emergency cash payments for pensioners entitled to benefits and an announcement that last year's increases in the Winter Fuel Payment and Cold Weather Payments will be rolled forward to next year.
- Measures to assist savers should concentrate on specific issues that currently penalise those with modest savings. The £6,000 lower capital limit should be raised to £10,000 and the assumed income rate should be changed to £1 for every £1,000 over the lower limit.
- The Savings Gateway scheme should be accessible to people receiving Pension Credit.
- As part of its refresh of the UK Strategy on Ageing the Government should ensure that all older people have access to information and advice.
- Following the Incentives to Save report action is needed to ensure clarity in communications around personal accounts and access to personalised information and guidance.
- The state pension should be increased and uprated in line with earnings or prices—whichever is highest, at the earliest opportunity.
- The age limit for claiming Disability Living Allowance must be removed.
- The benefits system should be reformed so that older carers receive better financial recognition.
- There should be greater support to enable people to combine caring and employment.
- More evidence on what works best for the 50+ age group should be gathered before any decision to increase conditionality for people over 50 in receipt of benefits is made.
- The Default Retirement Age should be abolished.

- There should be an increase in the level of earnings that older people can receive without losing their Pension Credit or other income-related benefits.
- The Government must implement radical changes to its fuel poverty strategy and ensure that low income pensioners and other vulnerable groups are on the lowest available tariffs.

1. *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?*

1.1 We recognise the Government's considerable investment in alleviating poverty, for example through the introduction of Pension Credit and additional lump sum payments, and initiatives such as campaigns to encourage benefit take-up. However poverty levels remain unacceptably high, and much more needs to be done to tackle pensioner poverty in the long term.

1.2 The current system in which the onus is on older people to claim, rests on the flawed assumption that older people are "active" in their approach to their own financial hardship. Many older people have been poor their whole lives. This may create a mindset in which they do not expect to be helped and are often unaware that support systems exist. We believe this necessitates a complete overhaul of the benefits system and call upon the Government to use the data it has to introduce automatic payments. Estimates show that the full take up of means-tested benefits by pensioners over 65 would reduce pensioner poverty by 500,000, and cost an estimated £3.9 billion a year.[iv]

1.3 Age Concern and Help the Aged believe that automatic payments should be tested for particular groups. For example:

- Data matching could be used to make Pension Credit payments to people aged 75 and over. Older pensioners are at greater risk of poverty and their circumstances are generally fairly stable.
- Bereaved people could be awarded a payment of Pension Credit guarantee for a month and then invited to claim if they wished to continue to receive benefit.
- Local authority, HMRC and DWP data could be shared and used to make Council Tax Benefit automatic to people aged 70 and over living alone.

1.4 The DWP should match its data on state pensions with HMRC data on private incomes[v] to identify those pensioners who are likely to be eligible for benefits. The Pension Credit pilot introduced in the Welfare Reform Bill is very welcome and we hope will provide a basis to assess how automaticity will work in practice.

1.5 Even once legislation has been introduced to pilot automatic payments, we know that it will take some time to make the changes. In addition to continuing publicity, and targeted take-up work—including working closely with the voluntary sector to target the most vulnerable non claimants— the DWP should look at other administrative changes to improve the systems. In particular:

- A single claim line: We welcome the changes that now allow those claiming Pension Credit by telephone to also claim HB/CTB, but believe the system should be extended so that the line can be used to claim any or all of the three benefits, making the system easier to promote and understand.
- Information passed from local authorities to the Pension, Disability and Carers Service (PDCS): If people claim HB/CTB directly from their local authority then they should also be asked if they wish to claim Pension Credit. If so, information should be passed to the PDCS to assess entitlement. Although information is currently passed from PDCS to local authorities, the system does not work the other way around.

Groups at risk of poverty

1.6 Income in retirement generally reflects people's opportunities and abilities to work and save over their life. People who have had lifetime low earnings are therefore vulnerable to low income in later life, as are those whose ability to carry out paid work has been restricted due to caring responsibilities or disability. A particularly vulnerable group are the oldest pensioners, usually women, whose pensions and savings often reduce in value over time. An estimated 32% (25% after housing costs) of people aged 85 and over are living in poverty and, as set out below, the oldest and poorest have in recent times been facing the highest rates of inflation.

1.7 Women generally have lower state and private retirement incomes due to employment disadvantages and caring responsibilities, and are particularly vulnerable after widowhood or divorce if they had been reliant on their partner's income. It has been estimated by the Government Actuary's Department that only 30% of women retiring in 2005–06 were eligible for a full basic state pension.[vi] In May 2008, nearly three quarters (73%) of male claimants were receiving a weekly pension of £100 or over, as opposed to a third (33%) of female claimants.[vii]

1.8 29% of pensioners in households with one or more disabled adults, in which they are not in receipt of disability benefits, are in poverty. The figure is 11% in cases where disabled adults are in receipt of disability benefits.[viii]

1.9 Older people from some black and ethnic minorities (BME) groups are at particular risk of poverty. This reflects lower earnings when younger and, for those who have moved to the UK during their working life, less time to build up state and private pensions. In 2002 Help the Aged found a very high prevalence in the BME communities of older people in poverty—(45% of over-60s). These figures were especially high amongst Pakistani (67%) and Somali (77%) older people, in deprived inner city areas.[ix] The latest DWP national poverty figures also show a high incidence of poverty among Pakistani and Bangladeshi older people—this was 43%—about 2.5 times higher than among the white population.

2. *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?*

2.1 In 2008, analysis by the Institute of Fiscal Studies found that the oldest and poorest section of the population were facing the highest rates of inflation due to rising costs of living, especially the costs of food and fuel.[x] In August 2008 annual inflation for the oldest and poorest section of the population was 9% compared to 5.4% for non-pensioners. The proportion of total expenditure allocated to food, energy bills and council tax rises with age, because older people have to spend similar amounts on these items out of reduced incomes.[xi] Although inflation is now starting to fall, this has been largely driven by reductions in the price of items such as mortgage interest and petrol, which will be of limited relevance to older people on low incomes who are still having to meet high bills for essential items. For example, while the retail price index for the year ending January 2009 had fallen to 0.1% the price of fuel and light was still around a third higher than the previous year and food 10% higher.

Fuel and food are also exempt from the reductions in VAT announced in the Pre-Budget Report. This year's Budget should include a package of measures targeted at low income pensioners including further emergency cash payments for pensioners entitled to benefits and an announcement that last year's increases in the Winter Fuel Payment and Cold Weather Payments will be rolled forward to next year.

2.2 In addition to being hit hard by the high cost of living, low-income pensioners with modest savings are also seeing their incomes eroded by the recent fall in interest rates. For many low-income pensioners, income from savings provides a modest but important top up to their pension and benefits. The average gross savings rate on an instant access account fell from 4% to 1.6% over the year to January 2009.[xii] For a pensioner couple with savings of £10,000 between them, this represents a reduction in income accrued from interest from £400 to £160 over the course of a year—a loss of £4.62 a week.

2.3 Any measures aimed at helping savers must be targeted at those with modest savings. Age Concern and Help the Aged are therefore concerned that the recent debate about how to help savers has focused on reducing tax on savings income and raising personal allowances. This would provide most benefit to those with large amounts of savings, while doing less for those with modest savings, and would not benefit the majority of pensioners who have incomes below the tax allowances.

2.4 Instead of focusing on changes to Income Tax, measures to assist savers should concentrate on the specific issues that currently penalise those with modest savings. In addition, the Savings Gateway scheme should be accessible to people receiving Pension Credit.

2.5 Feedback from older people with modest savings indicates that they feel unfairly treated by the way the savings and means-tested benefits systems interact. Under the current system for calculating income-related benefits, any savings in excess of £6,000 are assumed to provide an income of £1 a week for every £500 saved—equivalent to an interest rate of just over 10% for savings above the threshold. The £6,000 lower capital limit has remained unchanged since 2001 and should be raised to £10,000 which also would bring it into line with the Pension Credit limit for those in residential care homes. In addition the assumed income rate should be changed to £1 for every £1,000 over the lower limit, and the upper capital limit for Housing Benefit and Council Tax Benefit should be removed.

People approaching retirement

2.6 The recession will have considerable impact on pension savers approaching retirement.

- People in defined benefit occupational schemes are dependent on their employer maintaining their support of the scheme. We welcome The Pension Regulator's statement that employers should prioritise pension contributions over dividend payments. However, in order to ensure confidence in schemes is maintained, the Government should also give an explicit guarantee for the Pension Protection Fund.
- People in defined contribution schemes will be affected by both falling investment returns and falling annuity rates. Even though annuity rates from the top providers are still relatively high, the combined impact means that a 65-year old man retiring in January 2009 with a £100,000 pension fund could receive an income of between £4,200 and £5,500, whereas someone of the same age retiring a year earlier might have received between £6,800 and £7,500.

2.7 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. There appears to be no published research on how lifestyling has performed in practice, and we defer any comment on lifestyling until the Personal Accounts Delivery Authority (PADA) has looked at methods of dealing with volatile investment markets.

2.8 In any case, the growth in lifestyling has been recent, and long term investors are less likely to have this protection. Just under 90% of active members of DC occupational pension schemes had access to a lifestyle fund in 2007, but in 2004, only 40% had a choice of a lifestyled fund.[xiii] In addition to falling investment and annuity returns, people in with-profits funds may have restricted room for manoeuvre. Insurers may apply charges called market value adjustments for those who do not retire on a set date.

2.8 If there is to be any review of the requirement to annuitise pension funds, it is crucial that it addresses the needs of people with small lump sums trapped in a pension scheme that cannot be drawn as cash. A cash payment of small sums is possible in some cases, but not all.

2.9 Pension providers must do more to ensure that people approaching to retirement are aware of the options available to them, and how shopping around for an annuity can significantly increase retirement income. Everybody retiring with a DC pension should have access to advice and information. The DWP should be more active about co-ordinating information in the form of combined pension forecasts.

Pension Credit claims

2.10 Older workers may be particularly hard hit by the recession. Unemployment among older workers could increase the numbers of people aged 60 or over needing to claim Pension Credit and the numbers of people in their 50s claiming Jobseeker's Allowance. Unemployment in later life not only impacts on current income but can affect future retirement income. People may need to use up savings and will not be able to contribute further to private pensions. This could have an impact on the numbers of people who in the future will need to rely on means-tested benefits in retirement.

2.11 Among those already retired, who are currently managing on pension and savings income, reductions in interest rates will force some to dip into their capital which may bring them into the entitlement threshold.

3. *Benefits take-up—why do some people not take-up their entitlement to benefits (eg 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?*

3.1 Awareness is fundamental to the problem of benefit take-up. Some people, particularly the oldest and most vulnerable simply do not know of the existence of benefits and how to go about obtaining these. Although awareness of Pension Credit is generally high, a recent Age Concern survey found that one in eight older people had still not heard of it.[xiv]

3.2 Lack of perceived eligibility is a further issue. People will not pursue a claim if they do not think they will be entitled to help. Some make incorrect assumptions—for example they may believe they are ineligible for help because they are a homeowner or have a private pension.[xv] Even if they have a general understanding of who can qualify, some people want to be sure that they will be entitled in their particular circumstances before proceeding. Given the complexities of the systems it can be hard to know this in advance.

3.3 The process itself is extremely off-putting. A Help the Aged survey of 2007 found that 53% of pensioners find dealing with the Government's tax and benefit system confusing.[xvi] People may be put off by the idea of being asked many questions, completing long forms or having to provide detailed personal information. Some groups may face particular difficulties due to disability or because English is not their first language. If a claim has been turned down in the past they may be reluctant to try again, even if their circumstances have changed.

3.4 Finally, some older people do not claim because their pride will not let them ask for help or they have negative perceptions about benefits. Others will say they do not need additional help even if they have a very low income.

3.5 Levels of take-up of means-tested benefits have always been a concern despite ongoing efforts from voluntary organisations, local authorities, the DWP and others. This is why more must be done to move towards a system where the onus in on the government to ensure that people receive their entitlements automatically.

3.6 Access to independent Information and advice is important to ensure that older people are able to claim the financial support to which they are entitled. As part of its refreshing of the UK Strategy on Ageing the Government should ensure that all older people have access to information and advice.

3.7 We wholeheartedly support the Pension Credit pilots in the Welfare Reform Bill and believe these will be a good test of this system. It must be supported by greater data sharing between Departments and with local government.

4. *Basic State Pension—will the 2010 changes create a fairer state pension system?*

4.1 The 2010 changes are very welcome, and are a positive step for future pensioners. They will create a fairer system for women and carers and will help to support those with fragmented careers. However we are extremely disappointed that these will only apply to people who reach state pension age on or after 6 April 2010. This will lead to a cliff edge between people reaching state pension just before or after these dates and will leave many older women at a disadvantage.

4.2 The extension of the opportunity to buy-back years through voluntary contributions is welcome although we are concerned that an increase in the price of almost 50% may make this difficult for some people to afford.

4.3 The 2007 Pensions Act also provides for a restoration of the earnings link for the basic state pension. Whilst we have welcomed this, we are concerned that this will not happen until 2012 at the earliest and that the level of the state pension continues to be too low. The aim should be to increase the state pension to the level of the pension credit guarantee reducing the need for means-tested top ups. The state pension should be increased and uprated in line with earnings or prices—whichever is highest, at the earliest opportunity.

4.4 However, reform to the basic pension alone will not be enough to end pensioner poverty. The state second pension plays an important role, although it will be many years before people receive full benefit and the rules for its accrual and uprating differ from the state pension. The success of auto-enrolment and personal accounts is also critical. Due to the interaction with the benefits system, the question of whether it pays to save in personal accounts or another workplace pension is key—particularly for those on the lowest incomes.

4.5 We have been pleased to contribute to the DWP work looking at incentives to save which has recently been published. This has indicated that the vast majority of people will benefit from saving and therefore gives support to the policy of auto-enrolment. However, saving in a pension will not be the right thing for all individuals at all times of their life, so it will be essential that people have access to information and guidance to help them make informed decisions. The report also looked at the impact of other policy changes. We are considering these further to assess whether there are options that will encourage and reward savings without producing other disadvantages such as an increase in means-testing.

5. *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?*

5.1 It remains wholly unacceptable that Disability Living Allowance has an upper age limit of 65. We believe this is a blatant example of age discrimination, and sends out a signal that older people are not valued as equal citizens. Older people miss out on the many advantages that DLA has over AA. These include the mobility component, the lower care rate, a shorter waiting time before becoming eligible for the benefit, the ability to buy a car under the Motability Scheme and an exemption from road tax.

5.2 One argument for the age limit is that people who become disabled over the age of 65 have had time to save to provide for themselves. This argument is flawed. Even if we were to accept this position—which we do not—there are many problems with this reasoning. Firstly this does not take into account the many people who develop a disability unrelated to old age or those who following an accident, are left with a high level of need that could not have been anticipated. Furthermore, those people, in particular women, who have taken time out of work due to caring responsibilities, have not accumulated wealth to spend on their own mobility needs. We believe the age limit must be removed.

5.3 With 2.8 million people aged 50 and over and 5% of people aged 85+ providing unpaid care,[xvii] older carers must get the financial recognition they deserve. The current system of benefits for carers is financially inadequate, does not do enough to encourage the combination of paid work and caring, and is too complicated. We support the Committee's conclusions in its enquiry on carers that Carer's Allowance is outdated and that carers benefits should be "radically overhauled at the earliest opportunity". We are very disappointed that the Government, whilst recognising problems with the current system of benefits for carers, has not announced any improvements as part of the current stage of the welfare reform process. Many older carers receive no support due to Carer's Allowance "overlapping" with the state pension. Even those who should be entitled to help through the means-tested benefits system often miss out due to the complex and poorly understood procedure of having to apply for Carer's Allowance which cannot be paid in order to receive a carer addition in Pension Credit and other benefits.

5.4 The benefits system should be reformed so that older carers receive better financial recognition. In the context of the current system there should be changes to administrative procedures to simplify the process for older carers claiming means tested benefits.

5.5 Another way to address this carer gap for those able to carry out paid work would be better support to enable people to combine caring and employment. Measures that might contribute to this aim include work-related support, engaging with employers to promote understanding of the needs of carers, and simplification of the benefits system to remove disincentives to working. Caring responsibilities often result in giving up work, so welfare to work programmes should prioritise carers wishing to find a job.

5.6 Older people are also missing out on AA and DLA because they are not aware of these benefits. Many of those missing out see their doctor or other health professionals on a regular basis. Healthcare staff should work more closely with DWP benefit advisers and voluntary sector advisers to spread awareness of these benefits.

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

6.1 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. A higher state pension would play a major role in removing the need for one off "sticking plaster" concessions. 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. Increases in payments of winter fuel payments and cold weather payments for this winter were welcome. As set out above given that fuel remains a high proportion of older people's budget these should be continued next winter.

7. *Is the Government's programme of welfare reform the right approach for supporting pensioners who wish to continue working?*

Welfare reform and workers aged 50 to State Pension age

7.1 Whilst the proposed package for supporting older workers is welcome, we do not believe that there is sufficient evidence to introduce conditionality for older workers.

7.2 People over the age of 50 have particular support needs. More than a million 50–65 year olds who want to work cannot get a job because of barriers to retaining or recruiting older staff.

7.3 Current support for helping people into work is often not suitable or appropriate for older workers who face many barriers including lack of IT skills or unfamiliarity with modern methods of recruitment. We have commissioned further research into the barriers facing older people returning to work and would be happy to make this available to the committee during the course of the inquiry.

7.4 The Government has insufficient evidence that increasing conditionality will work for those aged over 50. Professor Paul Gregg's independent report: *Realising potential: a vision for personalised conditionality and support* only contains one reference to people over 50. In the absence of this evidence, we do not support increased conditionality proposed within the welfare reform programme for people over the age of 50.

7.5 Should this legislation be passed, then at the very least, sanctions to withdraw benefits must not be implemented among the over 50s unless three tests have been passed (i) there are enough jobs available; (ii) better back-to-work support is provided, tailored to the needs of this age group; and (iii) improved training is available for personal employment advisers which focuses on older people's employment needs.

Extending working life

7.6 Although the welfare reform agenda mainly focuses on those under state pension age we also believe there should be more opportunities for those who have already reached state pension age to work if they wish to and are able to.

7.7 Mandatory retirement ages create a barrier to opportunities for selection, promotion, training and job mobility for people in their late 50s and early 60s. A "fixed" point at which individuals can be asked to retire, inevitably influences employer decisions about their personal development and opportunities in the years leading up to it. This is particularly pertinent in the current economic climate as older workers were disproportionately affected by job cuts in the last two recessions.

7.8 The Government's stance on mandatory retirement ages is contradictory. Only last week, at the Counsel and Care annual conference Phil Hope spoke of the "Grey Ceiling—getting to grips with the hidden attitudes that stop older people from staying at work as long as they would like". However it is the Government itself that has created this ceiling through mandatory retirement ages. A fixed point at which individuals are forced to retire also undermines people's ability to boost their retirement income and feeds dependency in later life.

7.9 Abolishing mandatory retirement ages is a key measure that is needed. Age Concern are challenging the UK's implementation of a European Directive on equal treatment in employment by arguing that allowing employers to force employees to retire at the age of 65 contravenes EU law.

7.10 We would like to see employers offer more flexible working and retirement options and adopt "age management" measures to enable older workers remain in work. Such measures consist of progressive human resources policies, touching on for example, health, training, the design of work and many others. There is also greater need to tackle age discrimination in the workplace and to reduce the disparities in the provision of in-house training.

7.11 Ill health is still a major cause of early retirement. 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 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.

Earnings limits and benefits

7.12 Currently a single person can generally receive just £5 a week (£10 for a couple) in earnings before they start to lose benefits £1 for £1. This limit should be raised to enable older people on low incomes to supplement to their income with modest earnings. This is an issue that older people have raised with us—for example one older person told us, "*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".*[xviii] There should be an increase in the level of earnings that older people can receive without losing their Pension Credit or other income-related benefits. This Committee has also in the past urged the Government to reconsider the policy on earnings and Pension Credit.[xix]

8. One question which the Committee did not expressly highlight, but has a bearing on pensioner poverty is the practice of freezing payments to people with state pension entitlements who choose to migrate to countries where there is no reciprocal uprating agreement. Clearly this directly impacts on the increasing impoverishment of the migrant.

8.1 Institute for Public Policy Research and Age Concern research has also shown that significant numbers (up to 3 million) of older people would entertain the idea of settling abroad for family and personal reasons if the circumstances did not cause them to become dependent on their relatives. Were they to migrate, they might be happier personally, and they would also "save" the UK taxpayer expenditure on other pension benefits and NHS costs. These savings could amount to £8,400 per annum per pensioner, less the cost of uprating their state pension (average £900 per person), a net of £7,500 per migrating pensioner.[xx]

9. Fuel Poverty

9.1 Fuel poverty like income poverty is having a major impact on older people. Around half of the estimated 5.4 million households currently living in fuel poverty are pensioner households. The DWP has a major role to play in addressing this through ensuring state pensions and benefits meet older people's needs and maximising take-up. However addressing fuel poverty needs a cross Government commitment.

9.2 A new fuel poverty strategy is needed, based on a nationwide drive to improve the housing stock. In the meantime, the Government must intervene to end unfair price discrimination between different methods of payment and introduce mandatory social tariffs to ensure that low income pensioners and other vulnerable groups are on the lowest available tariffs

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v HMRC tax people on their private income and assets and therefore holds data on their financial liabilities from which their savings can be calculated.

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[xx] Figures derived from DWP correspondence and Parliamentary Questions.

March 2009

Memorandum submitted jointly by Tony Salter, Andrew Bryans and Colin Redman (TPP 23)

Summary

— The reduction in value of the basic state pension over the last 30 years and the decline of final salary schemes has left a huge gap in retirement provision and will lead to increasing numbers of people reaching retirement without adequate pensions on which to live and so claiming means tested Pension Credit.

— Personal Accounts, to be launched in 2012, will not solve this gap in provision and there is a strong risk these products will be mis-sold. The recent turmoil in the world's financial markets demonstrates the unsuitability of these plans as savings vehicles for those on low and medium incomes. They are clearly not suitable for those who would lose entitlement to means tested Pension Credit if they made personal provision.

— Despite the recent reforms, which over time will improve the position, inequalities that exist during people's working lives are carried over into retirement.

— A modernised and revitalised national insurance scheme could provide better pooling of risk, lower costs and greater stability and certainty for ordinary people to save for adequate pensions on which to live in old age.

— Such a scheme would require the recipients to make or be credited with a personal contribution so it would not provide something for nothing.

— The key to ensuring adequate incomes for everyone in retirement is to simplify the benefits system and to channel more of the limited resources into producing a basic state pension at least equal to the level guaranteed by the Pension Credit.

Introduction

1. In looking at the question of pensioner poverty, we have confined our comments to the future of the state pension scheme, in particular the basic state pension. Our submission addresses the key areas 1, 2, 3 and 4 of the Inquiry. It is important that in dealing with this matter we consider how the present position has been reached.

Basic State Pension

2. The first state pension scheme was the 1908 Scheme with payments commencing to be paid from 1 January 1909. It was a means tested arrangement for the population aged 70 and over being funded by the Treasury. The great majority of payments were at the maximum weekly rate of five shillings (25p)—this representing about 18% of national average earnings. By 1911, when the disqualification in respect of those receiving poor law relief was removed, just over one million were in receipt of the state pension, ie over 80% of the population aged 70 and over.

3. In 1912 the National Insurance Scheme was introduced to provide unemployment, sickness and medical benefits with this extended in 1926 to provide pension benefits linked to the insured person's contribution record. However the scheme covered only part of the adult population with contributions being paid by the insured, their employers and the Treasury. As a consequence the means tested arrangements of the 1908 Scheme remained in force.

4. In 1948 the National Insurance Scheme as we know it today was established providing a universal basic state pension funded by contributions from the insured, the employers and the state. The scheme now covered the whole adult population with the state pension being linked to the person's contribution record. By means of employed (employee and employer), self employed and voluntary contributions, all at flat rates, together with credits in certain circumstances being granted in lieu of contributions, all working age adults

could build up a full contribution record. This entitled them to receive the full weekly basic state pension of £1.30 (18.5% of national average earnings). People over the state pension age in 1948, who were already in receipt of a state pension, were granted the basic state pension as of right. However many of working age, who were not in employment and not entitled to receive credits in lieu of contributions, failed to make relevant voluntary contributions and so their entitlement to the basic state pension was reduced and in some circumstances became nil. This still applies today although the changes applying from 2010 will improve the position significantly but only over time.

5. Beveridge, the architect of the 1948 Scheme, believed in social security being achieved by co-operation between the state and the individual citizen, ie the state should offer security in return for service and contribution. He therefore proposed that the scheme should be based on the insurance principle providing, in return for flat rate contributions paid by the working aged population, employers and the state, flat rate benefits at the subsistence level to meet basic needs as of right and without means test. Although many of Beveridge's principles were adopted in the 1948 Scheme, however, the level of the basic state pension, as throughout the period from 1909 to date, was below the subsistence level and therefore means tested arrangements had to be maintained for the poor.

6. Over the next 30 years, there was a gradual improvement in the basic state pension, as measured against the national average earnings, rising from about 18.5% in 1948 to 26% in 1979 but since then it has been falling and by 2008 it is just under 16%. The basis of uprating the basic state pension is due to be altered from the Retail Prices Index to the national average earnings but this is planned not to occur before 2012. By the time of the change it was expected that the basic state pension would have fallen further relative to national average earnings. It is difficult to predict with certainty how the credit crunch and its after effects will affect earnings and price inflation but some commentators are predicting already that as a result of the credit crunch this uprating change will be deferred. By then the basic state pension could be even less as a percentage of national average earnings.

7. Those on low incomes do not have sufficient disposable cash to save enough for retirement. The 1948 Scheme had fixed rate contributions for fixed rate benefits so that the rich and poor were treated alike. However, by the 1950s, it was clear that National Insurance contributions were being kept at a low level so that they could be afforded by the less well off members of society and this kept the benefits low. Ultimately it led in 1975 to earnings related contributions for a flat rate basic state pension. The only way of getting an adequate basic pension for all is through a cross subsidy from the better off members of society towards those on low incomes. If the basic state pension continues to decline in relation to earnings and people have to rely on making personal savings for their retirement then serious under-provision is inevitable as these people cannot afford to save enough.

8. The Treasury made specified yearly supplements to the National Insurance Scheme from its inception in 1912 but in the 80s these payments, as a proportion of the total, were reduced over a number of years and ceased by the beginning of the 90s. A few years later the Treasury Grant legislation came into force and, although such grants were made in the 90s, no such payments have been made since March 2000. The removal of these supplements has occurred during the same period that the level of the basic state pension has been falling.

Measurement of Pensioner Poverty

9. Since the introduction of a universal basic state pension with the 1948 Scheme, its amount has been below that the level that would eliminate the need for means tested support for pensioners, currently Pension Credit. The persistence of pensioner poverty in the UK reflects in part the political failure to provide a state pension based on a concept of adequacy related to a bench mark definition of human needs.

10. The poverty line, which reflects a threshold of need below which people are counted as poor for the purposes of social security, is generally conceived in terms of an income standard, typically a proportion of median or average incomes. Whilst income standards have the merit of simplicity and are useful for international comparison, they are nevertheless somewhat arbitrary.

11. Arguably people are poor when their incomes fall below an actual threshold of need. It accordingly seems appropriate that any poverty standard chosen should incorporate or at least be underpinned by some objective measure of needs. Needs, however, are not static so that the poverty threshold changes over time; nor are needs entirely material. They include social and psychological needs as well as food and shelter.

12. Need is admittedly a contestable concept. Nevertheless a useful way to evaluate and measure a relative concept of need is provided by household budget standards. These are specified baskets of goods and services which when priced represent particular living standards. They can be low cost or poverty budget standard below which health is at risk, or modest but adequate budget standard which aims to meet the prevailing standards of what is necessary for health, housing costs, for general living and participating in social/community activities.

13. Budget standards, regularly updated, are useful indicators of human needs. The idea was developed by Seebohm Rowntree in his study of poverty in York in 1901 and the methodology was used by Beveridge in calculating social security benefit rates for his 1942 report. It has also been used to determine the US poverty line since the 1960s.

14. Consequently, before dealing with pensioner poverty, it is necessary to be clear how poverty should be measured.

Pension Credit

15. Over the past 100 years, various means tested arrangements have been in force to protect the poor but one of their consequences has been to deter those on low incomes to save as they would lose entitlement to means tested benefits. A number of measures for determining poverty have been adopted with the current one underpinning Pension Credits being roughly 22% of national average earnings—this still being significantly lower than the basic state pension was in 1979. On this measure, the DWP estimated that there were 2.72 million Pension Credit claimants (3.32 million including partners) at August 2008. In addition it has been estimated that there could be a further 1.8 million who, although eligible, do not claim the benefit. This suggests that about 40% of pensioners qualify for the means tested Pension Credit.

16. It is worth noting that the actuary, Ralph Price Hardy, estimated in 1891 that more than 40% of old people at the time became chargeable to the poor rates. In his view, this was a grim commentary upon our social system. Although standards of poverty have changed since 1891, nevertheless a significant and similar proportion of the aged population is still below the poverty line.

17. Pension Credit, which is funded by the Treasury and paid by the DWP, has succeeded in taking many pensioners out of poverty. However, whilst benefiting many in the short term, problems are being stored up for the future as, although Pension Credit treats savings in a less penal way than previous arrangements, the system is still detrimental in encouraging saving. Further the benefit is costly to administer and dependency increases. Many do not claim because of a mixture of the attaching stigma or the complexity of the claiming process or the perceived small value of the benefits or the ignorance of entitlement. Although the government is trying to address these problems through further proposed legislation, this could result in increasing the numbers actually receiving Pension Credit.

18. Number of claimants could be further increased due to the effects of the credit crunch. Interest rates have fallen drastically with many commentators predicting zero interest rates. This has had a dramatic effect on pensioner's incomes so causing pensioners to use their savings. This, over time, will drag more into claiming Pension Credit.

Pension Provision Additional to the Basic State Pension

19. Since 1961, there have been successive additional state pension arrangements sitting on top of the basic state pension. They started with the graduated scheme (1961 to 1975), the state earnings related pension scheme (SERPS 1978 to 2002), S2P (2002 onwards) and still to be introduced the Personal Accounts. All these arrangements applied prospectively and consequently gave no benefit improvement to existing pensioners. Further these arrangements have a link between earnings and benefits and so have maintained into retirement the inequalities that exist during people's working lives.

20. Moreover these arrangements incorporate some provision for contracting out resulting in the individuals having part or all of these benefits provided under alternative arrangements. Many in the past adopted the contracting out route but we do not believe it is possible to judge accurately how beneficial or not those decisions have been.

21. 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 expectation that many will cease future accrual of benefits for existing members. The National Pensioners Convention estimates that currently as many as nine million workers may have no pension arrangements outside the state scheme. This again will result in dependence on means tested Pension Credit increasing.

22. Because of the above factors, at some point, 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 arrangements.

23. At the present time, it is believed that, besides state provision, around half the workforce has saved nothing or very little towards their retirement. Personal Accounts, to be introduced in 2012, will not do enough to improve matters. They are suitable savings vehicles for those on good incomes to build on the pension provided by the state. However they are not suitable for those on low and medium incomes. The Personal Accounts, together with individual and employer sponsored money purchase schemes, have their fund values linked directly to stock market performance. This means too much uncertainty for many workers who have no choice as to when they retire. The reality is that they are much more likely to have to retire when the economy is in difficulties and the stock market is low. Lifestyling or switching funds gradually as expected retirement approaches can only partially deal with this problem. At retirement, the individual

faces yet more uncertainty when they try and buy an annuity with rates linked to interest rates at the time. The recent turmoil in the world's financial markets demonstrates the unsuitability of these plans as savings vehicles for those on low and medium incomes. If these people are to be encouraged to save for retirement they need savings vehicles with low charges and less volatility.

24. The design of Personal Accounts makes them too costly and volatile products for those on low incomes to save. They are no substitute for good final salary schemes, deferred annuities and even with profits plans, all of which have declined or disappeared.

Conclusion

25. State pension provision has been out of favour and political parties have seen little value in promoting the benefits of social insurance and the contribution it can make in creating a stable and socially cohesive society. Yet a modernised and revitalised national insurance scheme could provide better pooling of risk, lower costs and greater stability and certainty for ordinary people to save for adequate pensions on which to live in old age.

26. The provisions of the Pensions Acts 2007 and 2008 are bringing about positive changes particularly for parents, carers and those with interrupted careers. However these changes will take time to have effect. Consequently despite the recent reforms, inequalities that exist during people's working lives are carried over into retirement.

27. The current approach to policy raises the questions (a) whether we have the balance right between social insurance, means testing and personal provision through individual and employer sponsored schemes and (b) the equity between generations. There are huge gaps which mean that a large part of our society have and will reach retirement without enough to live on and be reliant on means tested benefits.

28. We therefore welcome this Inquiry but consider that its remit may be too narrow as it is addressing the effect and not the cause. We believe a better structure can be constructed that would reduce substantially, if not eliminate, the need for means testing in retirement. To do this we need to reopen the debate asking and obtaining answers to such questions as:

- What is the state's role to ensure adequate social pension provision for the elderly?
- Should a state pension sufficient to live on be paid on a universal basis, or should there be reliance on self provision (including employer's arrangements) and restriction of state spending with targeting of those in need on a means tested basis?
- How should entitlement to a universal state pension be earned—on the basis of a National Insurance contribution record or as a citizen's right?
- How should taxation be used to the best effect?
- How can the system be used to encourage saving for retirement as opposed to increasing numbers of the population requiring in retirement means tested benefits?

29. The key to ensuring adequate incomes for everyone in retirement is to simplify the benefits system and to channel more of the limited resources into producing a basic state pension at least equal to the level guaranteed by the Pension Credit. SERPS and S2P could be rationalised further towards this end so mitigating the cost. It is necessary to ensure that any change does not discourage people to save in order to provide a higher level of income in retirement. It is likely that tax breaks will need to be used to provide an incentive to save but that such breaks should not favour the rich.

30. We appreciate that this change by itself would not remove the current need for Pension Credit as not all people in retirement have qualified to receive the full basic state pension. Since the 1970s, if not before, governments have indicated their desire to eliminate means testing in retirement but so far without effect. By making this change would demonstrate the state's commitment that by contributing to the state pension arrangements it provides, as a minimum, a pension at the subsistence level for those who have contributed to it during their working lifetime. If the state cannot demonstrate this to the current pensioners, why should the next generation consider that the position would be any better.

31. Despite the achievements of recent reforms, there is much that still needs to be done to build a structure that ensures everyone receives an adequate income in old age without widespread dependency on means testing.

March 2009

Tony Salter, Andrew Bryans and Colin Redman with Martin Hewitt are the authors of the book "100 Years of State Pension" published in January 2009. It looks at the state pension system since the first payment was made in January 1909, following the introduction of the Old Age Pensions Act 1908.

Memorandum submitted by Citizens Advice (TPP 24)

Summary

Citizens Advice Bureaux continue to see pensioners who are living in poverty. Often this is because they are not claiming the benefits to which they are entitled. It remains to be seen if the Government's plans to reduce the contribution requirements for the state pension in 2010, and to introduce new pension obligations for employers from 2012 will in fact reduce the current high reliance on means testing to prevent pensioner poverty.

We have a number of recommendations to improve matters in the short to medium term:

- Simplify pension credit by making savings credit available at 60, and extending exemption from health charges to all recipients, not just those getting guarantee credit. Reinstate 12 month backdating.
- Reduce the assumed income from capital for Pension Credit recipients.
- Remove the £16,000 savings ceiling for Savings Credit recipients who could otherwise claim Housing and Council Tax Benefits.
- Automatic transfer to Pension Credit at age 60 for recipients of working age means tested benefits.
- Replace Council Tax Benefit by entitlement to a council tax rebate for people on low incomes. Local authorities should be obliged to seek to identify who is entitled to the rebate.
- Disablity Living Allowance, including the mobility component, should be extended to older people.
- Carer's Allowance should be available as of right to all people providing 35 hours care a week to an eligible person. The overlapping benefits rule and the earnings limit should be removed.

Introduction

1. Citizens Advice is the national representative organisation for the 420 bureaux in England and Wales. In the year 2007–08 these CABs saw 1.9 million clients, 34% of whom were over 50 and 11% of whom were aged over 65.

2. Citizens Advice Bureaux have seen a 100% increase in the number of debt enquiries over the last 10 years. Older people are very much in the minority amongst these debt clients, with 10% being aged 55–64, and 5% age 65 and over. However, the period from 2004 to 2008 saw the over 65 group grow from 3% to 5% of the total, which is a discouraging trend.[32]

3. Most older people are dependent on state and private pensions and savings for their income. Many are entitled to means tested Pension Credit, Housing Benefit and Council Tax Benefit, although low take-up is a problem. As people get older they may face higher living costs because they need to spend more on heating, on transport because of mobility problems, or to pay for personal care. Government policy attempts to address these issues but there are significant weaknesses and inconsistencies in the Government's approach. Also the sheer complexity of the arrangements that are in place can make it hard for people to claim their entitlements, and leads to mistakes by the agencies delivering benefits and services.

4. Citizens Advice is concerned about the viability of government policy towards low-income pensioners, for two main reasons. The first is that pensioners resent means-testing, and this limits the extent to which any strategy based on it can ever succeed. On current policies, there is likely to be a substantial increase in the proportion of pensioners that qualify for the means-tested pension credit. The need to claim is a real issue for many pensioners. Many of our pensioner clients believe strongly that they should receive an *adequate* state pension, and not have to claim means-tested benefits. Our second concern is that the government commitment on pensioner poverty, in PSA17,[33] lacks the clarity of its commitment to eradicate child poverty. There needs to be a clear, easily understood commitment on pensioner poverty to focus and drive the debate on solutions and cost.

5. This response seeks to draw on the experiences of CAB clients to suggest where improvements are needed to eliminate pensioner poverty.

1. *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?*

6. The Government has taken a number of steps to improve the financial position of older people: it established the Pension Service in 2002, it introduced Pension Credit in 2003, it introduced winter fuel payments for all over 60s from 1997, it replaced SERPS with the State Second Pension in 2002, it is reducing

[32] "A life in debt: The profile of CAB debt clients in 2008". CAB briefing, Citizens Advice—February 2009.
[33] 2007 Pre-Budget Report and Comprehensive Spending Review. October 2007.

the National Insurance contribution requirements for the State Pension from 2010, and introducing new employee pension arrangements from 2012. It has also greatly increased the income tax allowance for most over 65s. Other changes have been less favourable. The State Pension has been increased by price rather than earnings inflation, which reduces its relative worth compared to people who are working, there has been a slump in defined benefit pension schemes, and council tax has increased ahead of price inflation. In 1997–98 average Band D council tax of £688 was equivalent to 11 weeks basic state pension, by 2008–09 the council tax had doubled to £1,373, or 15 weeks basic pension and represented a much bigger burden to pensioner households.[34, 35] Pensioner poverty has fallen since 1997, but it is worrying that the downward trend reversed in 2006–07 when there was an increase of 300,000 in the number of pensioners in poverty.[36]

7. In our evidence to the Committee's 2004 Inquiry into the introduction of Pension Credit,[37] we welcomed the establishment of the Pension Service because it had a specific focus to ensure that older people get all the benefits to which they are entitled. We suggested that this was motivating for staff. We welcomed the take-up target for Pension Credit, although we considered it was not ambitious enough. In the event the Pension Service could not reach the target and it has since been dropped[38] which is disappointing.

8. Operationally, we have concerns that CABs report too many cases in which the standard of service provided by pension centres is not acceptable. Common problems are delays in processing new claims and changes of circumstances for Pension Credit, taking up to 20 minutes to get through to the right person on the telephone, key staff not contactable by phone, promises that payments are about to be made that are not fulfilled, failure to make a record of calls, and failure to call back after promising to do so. These problems suggest the pension centres are understaffed, their staff inadequately trained and their telephone systems not fit for purpose. Examples of the impact on CAB clients are:

> A northern bureau have a client who had just reached 60 and had been waiting two months from applying for his first PC payment. He had tried to contact the Pension Centre on numerous occasions and was constantly told that he would be paid but had not received any money. His only income at the time was DLA which should be used for care/mobility needs. He and his wife had therefore struggled to cope with bills and general housekeeping costs due to the lack of income for two months.
>
> A London bureau and their client each tried a number of times to chase up reinstatement of a pension credit award over a period of six months. They were always told by the pension centre that it "would be sorted out in a few days" but it never was.

9. Pension Credit remains far too complex, and should be simplified. In our 2004 evidence[39] we suggested a number of improvements to Pension Credit. It is disappointing that only one of these has been implemented:

- People on less than the full basic state pension should get the same amount of savings credit as they would if they were getting full basic state pension and had the same other income. Not done.
- Savings Credit should become payable at 60. Women in their early 60s who have supplemented their basic state pension are unfairly treated by not being able to access the savings credit. Not done.
- Assumed income on capital should be reduced to a rate that reflects the income likely to be obtained. Not done.
- All Pension Credit recipients should be exempt from health charges. Not done.
- All Pension Credit recipients should be eligible for Housing Benefit and Council Tax Benefit, subject to the usual income calculations but not the £16,000 capital limit. Not done.
- Pension Credit should remain payable in full during a 13 week absence abroad. Done—but at the price of reducing PC backdating from 12 months to three months.
- All savings credit should be disregarded when assessing care home fees. Not done.
- All recipients of income support should be automatically transferred to Pension Credit when they reach 60, instead of having to make a claim. Not done.

Adopting these measures would have a beneficial financial impact on the older people affected, and would reduce pensioner poverty.

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[34] DCLG Local Government Finance Statistics.
[35] Institute of Fiscal Studies Benefits Time Series.
[36] Households below average income, 1994–95 to 2006–07. DWP, 2008.
[37] "Inquiry into the introduction of Pension Credit—CAB Evidence to the Work and Pensions Select Committee" October 2004.
[38] Ministerial Written Statement on Agency Plans and Targets, 27 March 2008, *Official Report*, columns 20–22WS.
[39] "Inquiry into the introduction of Pension Credit—CAB Evidence to the Work and Pensions Select Committee" October 2004.

Backdating

10. Until October 2008, Pension Credit claimants had access to 12 months backdating without the need for good cause. This was a welcome feature to help people deal with the effects of the poverty they had been experiencing and an incentive for people to claim. We saw no justification for the Government's decision to limit backdating to three months. It runs contrary to the Government's wider and overarching policy to tackle pensioner poverty and promote the wellbeing of older people (PSA 17).[40]

11. While we welcome the introduction of a one-call claims process for Pension Credit, Housing Benefit and Council Tax Benefit for older people, and the decision to allow Pension Credit to be retained for up to 13 weeks of a temporary absence abroad. We do not believe that this compensates for the loss of potential income from backdating, nor that the reduction in backdating is necessary in order to facilitate the one-call process.

12. The Government has said that the reason for the reduction in backdating was that older people are reluctant to provide the amount of personal information necessary to support a 12-month backdated claim. Bureaux do not believe this to be the case—indeed our evidence is that claimants are very pleased to have the opportunity for such backdating and the additional income it will provide. In any event, the current system allows the decision as to whether to backdate, and for how long, to rest with the claimant, which we believe to be the most appropriate arrangement.

> An east midlands bureau saw a man in his 60s who had received the full twelve month backdate as he claimed just before the cuts were implemented and was living much more securely as a result. He had been doing voluntary work since he stopped caring for his mother seven years ago and had been living on his inheritance since then and did not think he was eligible for any benefits. He had been managing on £50 per week for the last two years. The bureau adviser helped him claim Pension Credit and Council Tax Benefit (CTB). The backdated amount of Pension Credit was £6,450 and for CTB was £1,040—this helped significantly with his debts. If he had only been eligible for three months backdated he would have received only £1,728.
>
> In the north east a bureau recently saw a woman in her 60s who was struggling to live on incapacity benefit of £102 per week. She was advised to make a claim for Pension Credit which would make her £22 per week better off. She would now only receive this backdated by three months and miss out on nine months worth of payments which totals £850. The client has accumulated debts while living on a low income and a larger backdated payment would have helped pay these off.

Assumed Income on Capital

13. For Pension Credit recipients with more than £6,000 of capital (excluding the value of their home), an assumed income from the capital is deducted from their Pension Credit entitlement. This is at a rate of £1 a week for every £500 of capital above £6,000, equivalent to over 10% per annum. 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, and we have recently written to the Secretary of State for Work and Pensions, urging that this assumed interest rate should be reduced and generally should be kept comparable to actual interest rates on savings. A copy of the letter is attached as an Annex. No response has yet been received.

Specific Groups affected by Pensioner Poverty

14. Many women, carers, disabled people and people with varied work patterns currently qualify for much less than the full basic state pension because they have incomplete National Insurance records. This accounts for much pensioner poverty.

15. The 2001 National Census revealed that the vast majority of carers (80%) are of working age.[41] Gaps in employment records, decreased earnings due to caring and health problems caused by caring,[42] which then becomes a barrier to work, all affect carers; abilities to build up a pension. One in five carers give up work to care,[43] and many more will reduce their hours—with part time working having a long-term impact on earning ability.[40] It is not sufficient to expect carers to save to avoid poverty in retirement.

16.There is also a gender aspect to pensioner poverty and the provision of care. Women in their 40s are the age/sex group cited to be least likely to be contributing to a private pension. The peak age of caring is between 45 and 64,[44] when one in four people provide care. Caring responsibilities and inadequate pension provision are part of a pattern that is linked to childcare and other barriers to pension provision faced by women.

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40 "Reducing the time period for claiming backdating of pension credit, housing benefit and council tax benefit: Submission to Social Security Advisory Committee", Citizens Advice May 2008.

41 Office of National Statistics (2001) Census.

42 www.eoc.org.uk

43 "Inquiry into the introduction of Pension Credit—CAB Evidence to the Work and Pensions Select Committee" October 2004.

44 Census 2001, *op cit.*

17. Citizens Advice has welcomed the introduction of the Pensions Act 2007, which will go a long way to recognising carers' contributions to society and begin to ensure that they do not suffer poverty in retirement. A number of measures will help carers to build pension entitlement and reduce reliance on means-testing in the future, including:

- introducing a new Carer's Credit for people caring for 20 hours a week or more for someone who is severely disabled. This should mean that thousands more carers are eligible for a full basic state pension and state second pension;
- reducing the number of qualifying years for the full basic state pension to 30. This will mean that carers with disrupted contribution records can still build up entitlement to a full basic state pension;
- removing the first contribution condition. This will mean that someone who has never worked, because of the nature of their caring responsibilities, can still qualify for a full basic state pension; and
- introducing personal accounts with employer contributions. This should help working carers build up entitlements.

2. *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?*

18. People in their 50s and early 60s are likely to be badly hit financially by the recession and the fall in interest rates. If they lose their jobs, they are likely to find it more difficult to get another than younger people are. They will suffer a large fall in income, which will threaten savings for their pensions. If they become dependent on means tested benefits, their savings over £6,000 will lead to tariff income deductions at over 20% per annum (if they are under 60), and at over 10% per annum if they are 60 or over. In any event, there will be an erosion of savings that would have formed an important part of their financial planning for retirement. They may have been planning to keep working and to defer their state pension in order to have more when they do retire. Instead they will have to claim the state pension as soon as they can, and will not get the benefits of deferring.

19. There is likely to be an increase in Pension Credit claims, as many men aged 60 to 64 who become unemployed will be able to claim Pension Credit guarantee at the full rate of £124.05 a week, since they will not yet be eligible for the state pension.

3. *Benefits take-up—why do some people not take-up their entitlement to benefits (eg 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?*

20. CABs continue to see people who are eligible for Pension Credit, Housing Benefit and Council Tax Benefit but who have not claimed it. Research has shown[45] that the main reasons why people do not claim these benefits are that they do not know about the benefits, they know about them but do not think they are eligible, or they object to having to reveal all their financial details in a means test. All these issues need to be addressed.

21. We welcome the measures that DWP is now taking to try to increase take-up of Pension Credit through local campaigns in the 20 PDCS local areas with the lowest take-up rates. It is essential that these campaigns are developed in conjunction with local stakeholders such as CABs, and with local councils which are well placed to integrate the campaigns with work to increase take-up of housing and, particularly, Council Tax Benefits. The low take-up of Council Tax Benefit by older owner occupiers is a source for particular concern. CABs seek to ensure that older people who use CABs are helped to identify if they are eligible and to help them to claim. Many older people think, wrongly, that they are ineligible if they do not qualify for Pension Credit.

The benefit of take-up work

22. With funding from the DWP's Partnership Fund between 2005 and 2007, 23 Citizens Advice Bureaux in England and Wales generated thousands of pounds in extra income for vulnerable older people, who might otherwise never have realised that help was available, let alone claimed it. For example:

- Over 12 months, Middlesborough CAB saw 724 clients, resulting in 519 new benefit claims, and an estimated £834,681 in new benefits awarded to older people.
- Salisbury CAB carried out more than 250 visits to vulnerable elderly clients in their own homes, and raised over £400,000 in previously unclaimed income in the first year. Results for the second year were expected to exceed £600,000.

[45] "Understanding the relationship between the barriers and triggers to claiming Pension Credit". DWP Research Report 336, 2006.

23. Despite the Government's work to encourage the take-up of older people's benefits, older people continue to miss out on huge amounts of financial help and struggle to make ends meet. Only half of eligible older people claim Council Tax Benefit and as many as four in ten are still missing out on Pension Credit, estimated to total between £2.5 and £4.2 billion a year. For example:

> A Northumberland CAB's client struggled to get by on her basic state pension of £125, and a tiny occupational pension of £1.77 each week. She had cancer and was living alone in privately rented accommodation. She had been using her savings to pay her rent of £91.15 a week, and was concerned that her savings would only last another 11 months. She had no idea that she was entitled to additional benefits and was living in poverty. The bureau commented that, because the client was receiving the single person discount on her council tax, the council should have been prompted to carry out a full benefit check and determine that the client was entitled to housing benefit and Council Tax Benefit.
>
> A CAB in south east Wales reported that their client and his wife had missed out on Pension Credit and Council Benefit for two years because they thought they wouldn't be eligible. They told the adviser that they had had the forms, but were put off by the lack of information about entitlement, and felt it wasn't worth making a claim for something they might not be entitled to. The adviser found that they had, in fact, been entitled to Pension Credit worth approximately £120 a week for the past two years, as well as full Council Tax Benefit.

Automatic Payment of Pension Credit

24. We welcome the provision in the Welfare Reform Bill for DWP to run pilot schemes for the automatic payment of Pension Credit to people whose circumstances indicate that they are eligible. We shall be happy to work with DWP in the development of these pilot schemes.

25. We consider that other opportunities exist to promote better take-up, and that these should not be put on hold while the pilot of automatic take-up is carried out:

- When an older person gets awarded attendance allowance, this may bring them into eligibility for Pension Credit, or increase the amount of Pension Credit they should be paid. The disability part of the Pensions, Disability and Carers Service (PDCS) should automatically notify the relevant pension centre so that the Pension Credit award can be increased, or a new claim sought.
- Councils should be empowered to share information about older people who are receiving Housing Benefit and/or Council Tax Benefit with PDCS, so that people who are currently missing out on pension credit can be identified and a claim sought from them.

Council Tax Benefit

26. The position regarding the payment of council tax by people on low incomes is profoundly unsatisfactory, the more so because the means that councils use to enforce council tax arrears are so punitive. It cannot be right that someone who cannot afford to pay their council tax assessment has to apply for a benefit in order to get the money to pay the tax. The system needs to be turned around so that those on low incomes are entitled to a rebate, and the local authority is required to seek to identify who is entitled to the rebate. The language is important here, because many older people are resistant to the idea that they should have to reveal personal information in order to qualify for a benefit. They will find qualifying for a rebate far more acceptable. We consider that local authorities should be required to seek to identify all older people in their area who have a council tax liability and to check with them if they are eligible for a rebate. Internally, councils have relevant information on the electoral roll, which shows who is over 70, and because they know who has applied for a free bus pass. They could be assisted by PDCS informing them of Pension Credit and state pension recipients in the area.

4. *Basic State Pension—will the 2010 changes create a fairer state pension system?*

27. We welcome the reduction in the number of years of National Insurance Contributions that will be needed to get a full basic state pension from 2010. The beneficiaries will be women who paid the married woman's stamp, carers and people who have not worked in the UK for most of their working life. As the new rules will not be applied to revise the pensions of existing state pensioners, the changes will only have a gradual impact on pensioner poverty. There may be a sense of grievance amongst existing pensioners who would have gained if the new rules had also been applied to them.

28. The phased equalisation of the state pension age for men and women from 2010 to 2020 is widely accepted as fair, and necessary in the light of increases in longevity. There will be adverse effects for people over 60 who are not working as the starting age for Pension Credit will rise at the same time, so that by 2020 non-workers aged 60–64 will be restricted to the much lower working age benefits.

5. *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?*

29. The denial of disability living allowance to people who have care or mobility needs which develop after age 65 is clear discrimination against older people. Attendance Allowance is a poor alternative because it lacks a mobility component and has a six month (rather than three month) qualifying period.

> A bureau in the north east saw a man aged 90 who was finding it difficult to manage on his own as his wife had recently died. He was unable to prepare and cook a meal for himself, could not walk outdoors without assistance and struggled with personal care. He has extra outgoings now that he has to take taxis and have different foods. However there is no provision within attendance allowance to reflect these extra needs.

> A bureau saw a couple in their late seventies/early eighties who lived in an isolated area. They were living on a fixed income and were contemplating giving up their car as they were struggling to afford the running costs. They did not want to do this as they both have long term illnesses—one had severe mobility problems—and wanted to know if there was any financial help available to keep them mobile. Without the car they would not be able to get to the local village.

The current rules are rightly considered unfair by older people who are faced with extra expenditure because of their mobility needs, but have to be told by CABs that they are too old to qualify for mobility DLA. This denies older people with severe mobility problems the opportunity to get a Motability car, car tax exemption, or to qualify automatically for a Blue Badge. We consider that DLA, including the mobility component, should be extended to older people, allowing AA to be abolished.

30. For many older people, care needs which would qualify them for attendance allowance develop gradually. As a consequence individuals and their families often do not realise that they would be eligible. CABs are active in helping people to claim attendance allowance through home visiting and other channels. Campaigns to promote take-up of Pension Credit, Housing and Council Tax Benefits should be geared up to identify people who may also be eligible for attendance allowance.

Caring over 65

31. For many carers, their long-held idea of "retirement" is never realised. Older carers continue to provide high levels of care into their retirement. The benefits system does not recognise this. Carers lose their Carer's Allowance when they reach retirement because the benefit is seen simply as an income replacement. Yet they continue to provide care with little or no recognition, and many have been unable to build up sufficient pension provision, or have seen their savings whittled away, by years spent caring.

> A CAB client in the West Midlands was upset to discover that she could not get Carer's Allowance because she received the state pension. She told the bureau adviser that she felt it was unfair to expect her to care for no recompense whatsoever. Her underlying entitlement to Carer's Allowance did increase her pension credit and entitle her to full council tax benefit, but she felt that her caring role should be recognised.

> A client in the North of England felt it was unfair that she would lose her Carer's Allowance when her husband reached state pension age because she would be entitled to a share of his pension. As she told the adviser, the client would be doing all the same chores—helping with bathing, dressing, cooking—but she would not receive any recognition for it.

32. Carer's allowance is an unsatisfactory benefit. It is excessively mean, paying only £50.55 a week to people who provide a minimum of 35 hours care, and who may not earn more than £95 a week. For older people, it will rarely be paid at all because of the overlapping benefits rule, which means carer's allowance is not paid to anyone getting a state pension of more than £50.55 a week.

33. For carers who are getting pension credit, the current requirements are little short of farcical. They have to apply for carer's allowance so that they can receive a letter saying that they do not qualify because of the overlapping benefits rule, but that they do have an "underlying entitlement". This can then lead to a payment of £27.75 a week carer's addition to their pension credit.

34. The rules regarding the payment of severe disability premiums and carer's premiums in respect of an individual who requires care are complicated and hard to understand. They can lead to very unfortunate results if a carer claims carer's allowance, only for this to cause the person needing care to lose their severe disability premium.

35. We believe that it is time for the government to give better financial recognition to carers, without hedging the eligibility with arcane rules. We consider that someone who is the principal carer for a person getting middle or higher rate care DLA or getting AA should have a right to receive carer's allowance, and that this should be paid to everyone at a rate of the current carer's allowance (£50.55) plus the carer's addition for pension credit (£27.75)—a total of £78.30 a week. This new benefit should be treated like AA and DLA and not be treated as income for people claiming means tested benefits.

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

36. Older people are likely to be at home more of the time than people of working age. This is likely to increase their heating costs, and the huge rise in fuel prices in 2008 has hit older people particularly hard. Winter fuel payments have become an essential part of the budget for older people on low incomes. It could be argued that the payments should be restructured to concentrate on households that are in poverty. If the government wishes to change the arrangements it makes to help pensioners to keep warm, we believe it will be essential to consult widely to ensure that any new arrangements are an improvement.

7. *Is the Government's programme of welfare reform the right approach for supporting pensioners who wish to continue working?*

37. The approach in the government's welfare reform programme to people over age 50 is generally to treat them the same as younger people. Since older people are likely to take longer finding a job, we suggest that particular measures should be explored to help them keep in touch with the labour market. We would like to see earnings disregards increased to enable claimants over 50 to work a few hours a week: at present, they can only work an hour a week without losing their benefit, even though so-called "mini-jobs" can be a good way of maintaining contact with the labour market. We welcome the arrangements that are already in place for the 50-plus element of working tax credit to make work of over 16 hours more attractive for over-50s who have been out of work for six months.

38. The facility to defer claiming state pension in order to increase the pension when it is paid, and the Age Positive programme, should both encourage pensioners, who wish to work, to do so.

Annex

LETTER OF 10 FEBRUARY 2009 TO JAMES PURNELL
FROM DAVID HARKER, CHIEF EXECUTIVE OF CITIZENS ADVICE

TARIFF INCOME ON MEANS RELATED BENEFITS

I am writing to you to draw attention to our concern about the impact that falling interest rates are having on people with modest savings who are in receipt of means related benefits. People who have savings of more than £6,000 have their weekly benefit payments reduced by a tariff or assumed income for any savings above this threshold. The rate of this tariff income depends on the age of the benefit claimant and is £1 a week for every £250 of capital for claimants aged up to 59 (over 20% per annum), and £1 for every £500 for those age 60 and above (over 10% pa). These rates are far in excess of the interest that is actually earned on the savings, which means that people have to run down their savings in order to pay their way. This effect is particularly marked now that interest rates paid on savings are at an historically low level.

Many of our clients, particularly older people who have followed the government's advice to save during their working life, feel that it is unfair that the assumed income on their savings is so much higher than what they actually receive. With the fall in interest rates, they currently feel particularly penalised. We appreciate that the tariff income for older people is half that for those of working age, but older people are more likely to have savings and also likely to be receiving means related benefits for much longer. People of working age who lose their job or who face a drop in household income because of shorter working hours, will be subject to a tariff income of 20% on their savings if their circumstances make them eligible for income support or income related JSA or ESA, or if they qualify for housing and council tax benefit. This means they face rapid erosion of any savings above £6,000. Two examples from our client illustrate how the current rules bear hard on affected people in both age groups:

— A pensioner in Surrey is having £20 a week deducted from her pension credit entitlement because she has savings of £16,000.

— A lone parent with a young child in Hampshire who has had to stop working because of illness, is very concerned that her savings of £15,000 will result in a £36 a week reduction in her entitlement to means related benefits. The worry is making her health problems worse.

Our clients feel that the current tariff income rules are unfair in the light of the large recent fall in interest rates. People who have saved are already experiencing a large drop in the income from their savings, and feel that the retention of the existing high tariff income rates further penalises them. This sends the wrong message to the public about the benefits of saving.

We should like to request you to review the rules on tariff income and to reduce the rates. One approach might be to adjust tariff income rates in line with changes in interest rates. This is the method adopted for helping benefit recipients with their mortgage payments, so it would be a workable approach and should tie in with the existing systems used to calculate individuals' benefit payments.

March 2009

Memorandum submitted by The Pension Policy Institute (PPI) (TPP 25)

Summary

I. The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique in the study of pensions, as it is independent (no political bias or vested interest); focused and expert in the field; and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision.

II. The reforms to state pensions introduced in the Pensions Act 2007 will reduce inequalities in state pension incomes over time. For example, currently only 30% of women qualify for a full basic state pension. The Government estimates that as a result of the reforms by 2025 90% of women will be eligible for a full basic state pension. But there are still inequalities in state pension incomes for those retiring before 2010, and for generations reaching state pension age before the reforms are fully fed through.

III. Some other inequalities will remain, as a large part of the pension system is still linked to the working histories of individuals due to the contributory nature of state pensions. Individuals with low earnings and/or career breaks not covered by the system of credits will still receive lower state pension income.

IV. As a result of this continued but reduced inequality in state pension incomes, and continued inequalities in private pension incomes, some groups will still remain more at risk of pensioner poverty, although at lower risk than before the reforms. These include groups more likely to have characteristics associated with low state and private pension incomes, such as low earnings, broken work histories and self-employment. These groups include some women, disabled people and people from ethnic minorities.

V. The current financial crisis is likely to impact on different individuals in different ways, according to their age and to the type of pension and savings that they have. The benefits of members of Defined Contribution (DB) schemes are less secure than they appeared to be before the financial crisis, though there is some support from the Pension Protection Fund.

VI. Members of Defined Contribution schemes are more directly exposed to the recent fall in investment returns, and despite attempts to reduce this exposure through "lifestyling" investment methods most will have seen the value of their pension assets fall significantly in the past year. Those approaching retirement are less likely to be able to make up for the shortfall than younger workers who have more time to make up any shortfall and for investment returns to recover.

VII. 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.

VIII. The current financial crisis is likely to increase the risk of individuals becoming eligible for means-tested benefits in future. However, given that there is already considerable uncertainty as to future levels of eligibility for means-tested benefits, and the impact of the financial crisis on long-term employment and savings levels, it is not possible to predict the impact of the current financial situation on future levels of eligibility for means-tested benefits.

Introduction

1. The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique in the study of pensions, as it is independent (no political bias or vested interest); focused and expert in the field; and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision.

2. This response focuses on the issues surrounding specific groups who may be more vulnerable to poverty in old age, the fairness of the UK state pension system after the changes to be introduced in 2010, and the potential impact of the financial crisis on pensioner poverty (Questions 1, 2 and 4 in the call for evidence).

The fairness of UK state pensions after the recent reforms

3. The Government has recognised the need to increase state pension incomes for some groups who are currently disadvantaged in the system, particularly women and those with caring responsibilities.

4. A number of reforms to state pensions were introduced in the Pensions Act 2007 that are designed to make the system fairer. These include:

- Reducing the number of years required for a full Basic State Pension (BSP) from the current level (39 for women, 44 for men) to 30.
- Strengthening the system of credits for carers so that more qualify for a credit towards BSP, and counting credits for caring as a qualifying year, (rather than just reducing the number of qualifying years needed to qualify for a full BSP as in the pre-2010 system).
- Removing the minimum number of contributions needed to get any Basic State Pension.

— Requiring the BSP to be uprated with average earnings rather than prices, possibly from 2012 or from 2015 at the latest.

— Extending the system of credits used within State Second Pension (S2P) so that more individuals caring for children, or for people with disabilities, will receive credits.

— Increasing the speed at which S2P becomes "flat-rate"—that is, awarding the same contribution to all individuals who qualify in a particular year, irrespective of how much they have earned. This will now happen around 2030, rather than 2050 as originally envisaged.

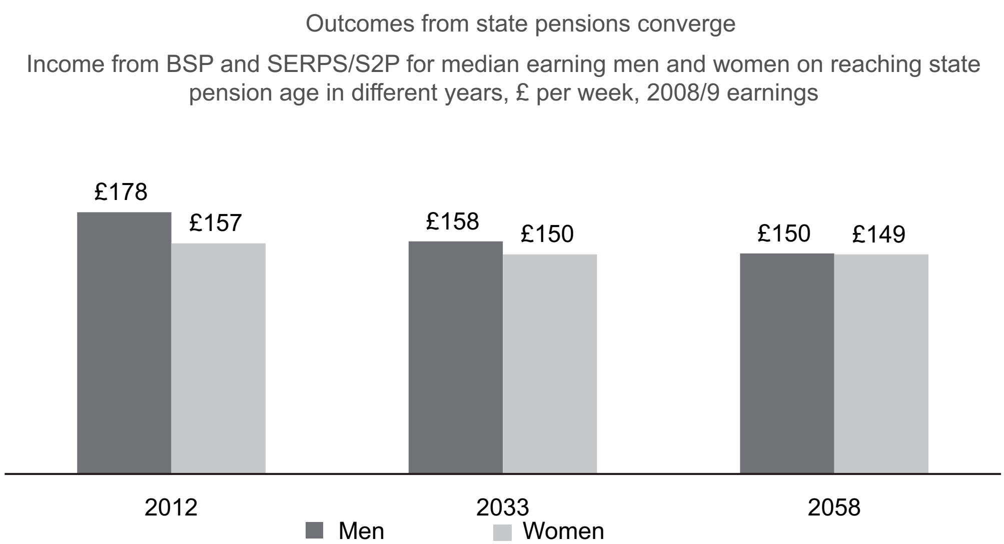
5. The change in the number of qualifying years required to receive a full BSP will only apply to individuals reaching state pension age (SPA) from April 2010 onwards. People already over SPA and those reaching SPA before 2010 would see no change in the proportion of the full BSP they receive as a result of the proposals.

6. One effect of the Government's reforms to state pensions will be to increase the proportion of women who receive the full BSP. Currently only 30% of women reaching SPA receive the full amount of BSP. In the absence of reform, this could grow to 50% by 2010 and to 80% by 2025. With reform, 70% of women reaching SPA in 2010 could receive the full amount, rising to 90% by 2025.[46]

7. The overall package will mean that outcomes between men and women converge, although full convergence will take decades. For example, a median earning man who reaches SPA in 2012 could have around £21 a week more in BSP and S2P combined than a median earning woman (Chart 1).[47] In this hypothetical example the difference is purely because median pay for men is higher than median pay for women.

8. This difference would reduce to around £8 a week for those reaching SPA in 2033, and to around £1 a week for those reaching SPA in 2058.

Chart 1

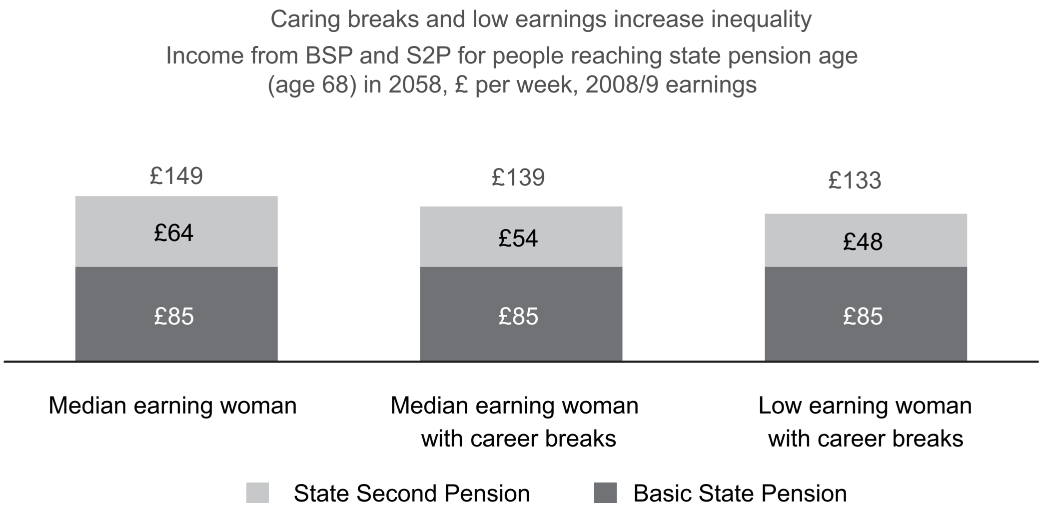


9. The individuals modelled qualify for S2P for most of their working life, either through working or credits. However, based on working patterns in 2004–05, around 25% of working age people will still not qualify for S2P each year even after the reforms.[48] Therefore, some people will receive less income from S2P at SPA than these individuals do.

[46] Department for Work and Pensions (DWP) (2007) *Pensions Bill Regulatory Impact Assessment.*
[47] PPI analysis using the Individual Model, assuming both male and female have a working life of 47 years.
[48] PPI estimates based on the Family Resources Survey 2004–05.
[49] PPI analysis using the Individual Model. The career breaks modelled are seven years of caring from age 29 to 35 inclusive that do qualify for credits to BSP and S2P, followed by five years of part-time work, and five years of inactivity (from age 55 to 59 inclusive) that do not qualify for credits (for example caring for relatives but not for enough hours each week to qualify). Low earnings are classed as those at the 30th percentile of female earnings.

10. An individual with five years spent with career breaks that do not qualify for S2P could see a state pension income £10 a week lower at SPA. A combination of low earnings and career breaks could reduce state pension income by £16 a week (Chart 2).[50]

Chart 2

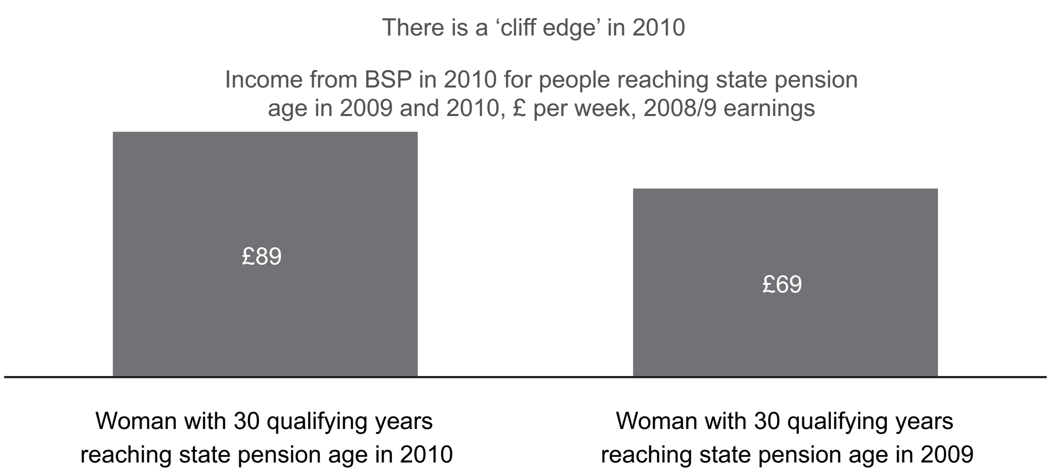


11. Overall as a result of the Government's reforms, in the long term the state pension system is made more fair, with less difference in outcomes between individuals when they reach state pension age. (Although some differences are likely to remain, see below). However, there will remain considerable inequalities between different generations.

12. Perhaps the biggest inequality is between those retiring just before the introduction of the reforms in 2010, and those just after. Two women with identical working histories but who reach SPA in different years can have very different pension outcomes. A woman retiring in 2009 rather than 2010 will have BSP income £20 a week lower in 2010, compared to a woman identical in every respect but one year younger who retires in 2010. (Chart 3)[51] She would receive this lower amount every week throughout her retirement.

13. Although the Government will be changing the rules surrounding the number of qualifying years that can be bought to fill gaps in contribution records, not all individuals will be able to afford to make payments to do so. The cost of purchasing an extra qualifying year through voluntary Class 3 National Insurance contributions for an individual is currently £421.20.[52]

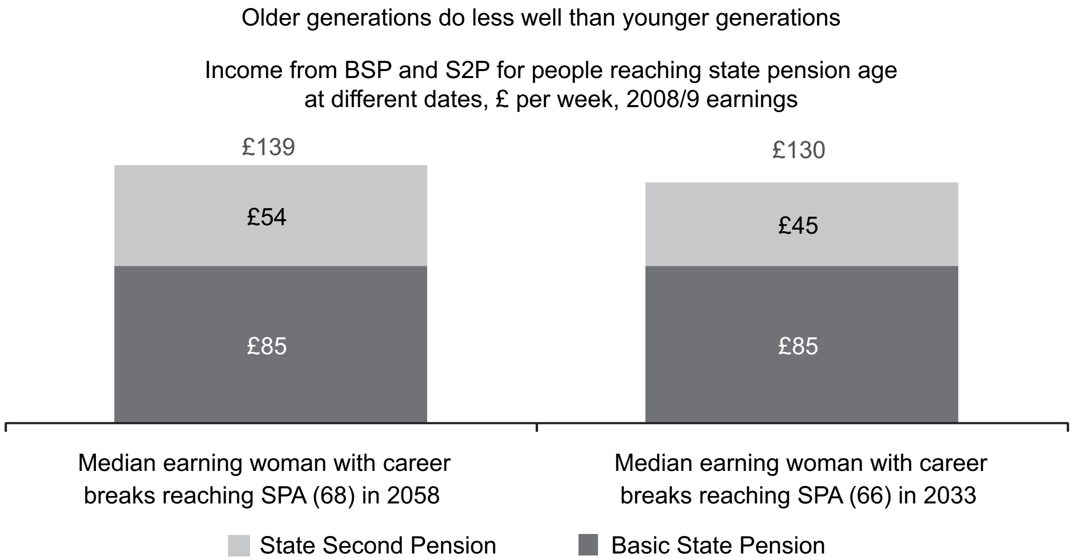
Chart 3



[50] PPI analysis using the Individual Model. The career breaks modelled are seven years of caring from age 29 to 35 inclusive that do qualify for credits to BSP and S2P, followed by five years of part-time work, and five years of inactivity (from age 55 to 59 inclusive) that do not qualify for credits (for example caring for relatives but not for enough hours each week to qualify). Low earnings are classed as those at the 30th percentile of female earnings.
[51] PPI calculation, 2008–09 earnings terms.
[52] Tax year 2008–09.

14. Similarly, individuals who reach SPA before the reforms have fully worked through will receive lower pension incomes than younger individuals. This is because the reforms for S2P only apply to future, rather than past, accruals. So individuals who have periods of no, or low, accruals in their second pension history from time spent in State Earnings Related Pension Scheme (SERPS) (which had no system of credits and was strictly earnings-related so that low earners received only a low accrual) will receive lower incomes at SPA (Chart 4).[53]

Chart 4



Some groups remain at risk of low pension incomes

15. Despite the state pension system becoming more equal over time, some groups will remain more at risk of pensioner poverty.

16. In November 2008 the Pensions Policy Institute (PPI) published research, commissioned by the Equality and Human Rights Commission (EHRC), examining the likely future pension incomes of disabled people and people from ethnic minorities.[54]

17. Overall, the research found that disabled people and people from ethnic minorities have many of the "alarm bell" characteristics that are associated with lower pension incomes, such as lower earnings, or being more likely to be unemployed or self-employed. If current trends continue, they are likely to have lower pension incomes in future than the traditionally-employed median-earning male.

Women

18. Female pensioners currently have lower incomes than male pensioners. Although (as discussed above) the Government's reforms to state and private pensions are likely to improve pension incomes for men and women, and significantly increase coverage of the basic state pension for women, some differences in their average incomes are likely to remain.

19. This is because reforms to state pensions, and S2P in particular, will take many decades to filter through the system. Although the link between individuals' earnings and their state pension entitlement is reducing, private pension income is linked to paid employment. The gender pay gap is improving but women still earn less than men on average, so their private pension incomes are likely to remain lower than men's on average for some time.

[53] PPI analysis using the Individual Model.
[54] Steventon and Sanchez (Pensions Policy Institute) (2008) *The under-pensioned: disabled people and people from ethnic minorities* Equality and Human Rights Commission (EHRC) Research Report number 5.

Disabled people

20. Using the broadest definition of disability, one-fifth of today's working-age population is disabled.[55] These disabled people have many of the characteristics that are associated with lower pension incomes. For example, they:

— *Are less likely to be in work:* Only 50% of working-age disabled people are in work, compared to 80% of working-age non-disabled people.[56] This is of concern because the UK pension system is built upon the contributory principle, so the amount of pension received is closely linked to employment.

— *Are less likely to qualify for state pensions:* The crediting system to state pensions, which rewards certain non-work activities, helps many disabled people build up entitlement. 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.[57]

— *Have lower earnings when in work:* Lack of affordability is the main reason people give for not saving in a private pension.[58] But disabled people in full-time employment earn less than non-disabled people at every age and disabled people are also more likely to work part-time.

— *Are less likely to be saving for a private pension:* Disabled workers are less likely than non-disabled workers to be saving in a private pension at every age. For example, 55% of 45 to 54 year old disabled people in work are saving for a pension, compared to 64% of comparable non-disabled people.[59]

— *Are less likely to work after state pension age:* For example, only 9% of 65 to 69 year old disabled people are in employment, compared to 19% of equivalent non-disabled people.

21. Disabled people are not a homogeneous group. Some types of disability can have a more acute impact on pension incomes than other types. For example, only 21% of people whose main disability is a mental health condition and 27% whose main disability is a learning difficulty are in employment, compared to 65% of people with diabetes.

22. To illustrate the potential implications of these characteristics for future pension incomes, the PPI's research uses two hypothetical case studies of disabled individuals.[60] These are compared to a median-earning man with a full savings history. The median-earning man illustrated is likely to have an above-average pension income, receiving around £254 a week in a combination of state and private pensions when he reaches state pension age. In comparison:

— Robert is a manual worker who saves for a pension from age 25. At age 55, he becomes disabled with a back condition and stops work. His pension income is around £199 a week, which is £55 a week lower than the median-earning man.

— Deborah has a stress-related disability in her thirties. Although she returns to work after five years, her earnings on returning to work are lower than they would be if she had not become disabled. Her pension income is around £182 a week, which is £72 a week lower than the median-earning man.

23. Additional state help is available to some disabled people in retirement, in the form of Attendance Allowance and Pension Credit. The single pensioners who receive these state benefits have higher incomes on average than other single pensioners.[61] However, some organisations have expressed concern that these state benefits may not fully meet the extra cost that some disabled people face, for example, for care and mobility.[62]

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[55] PPI analysis of the Labour Force Survey (Q2 2007) using disability as defined in the Disability Discrimination Act (1995) and self-reported work limiting disability. Unless otherwise stated, all statistics in this section are from this source and use this definition of disability.

[56] ONS Labour Force Survey Historical Quarterly Supplement, Q2 2007.

[57] PPI analysis of the Family Resources Survey 2005–06; illustrates what proportion of working-age people would have received a qualifying year towards state pensions if the Pensions Act 2007 reforms had been in place in 2005–06. Disabled people are those registered with their Local Authority, or with a long-standing disability or illness that limits their behaviour.

[58] Department for Work and Pensions (DWP) (2007) *Attitudes to pensions: The 2006 survey.*

[59] PPI analysis of the Family Resources Survey 2005–06; Disabled people are those registered with their Local Authority, or with a long-standing disability or illness that limits their behaviour.

[60] For further details see Steventon and Sanchez (Pensions Policy Institute) (2008) *The under-pensioned: disabled people and people from ethnic minorities* Equality and Human Rights Commission (EHRC) Research Report number 5.

[61] PPI calculation using the DWP Pensioners' Incomes Series 2005–06. Figures are for gross income, ie income from all sources received by the pensioner benefit unit including income from state benefits (including Housing Benefit), earnings from employment and self-employment, any private pension income, and tax credits, before the deduction of taxes and housing costs.

[62] See for example Buchardt, T and Zaidi, A (2003) *Comparing incomes when needs differ: Equivalisation for the extra costs of disability.* CASE paper 64, Centre for Analysis of Social Exclusion.

People from ethnic minorities

24. 10% of the UK population belong to an ethnic minority group.[63] Ethnic minority groups in the UK are younger on average than the rest of the population and there are currently very few older people from this segment of society. This means that the number of older people from ethnic minorities could increase rapidly in future. Pension provision for this group is, therefore, of particular interest to policy.

25. There is a great deal of diversity among ethnic minority groups. In this section, "ethnic minority" is taken to mean non-white, rather than non-British. Of course, many people from ethnic minorities are British Citizens and some white people are not.

26. Taking an overall view across all of the different ethnic minority groups, we can say that people from ethnic minorities are more likely than the rest of the population to have the characteristics associated with lower pension incomes. For example, they:

— *Are less likely to be in work:* 60% of working-age people from ethnic minorities are in employment, compared to 76% of working-age white people.[64]

— *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.[65]

— *Have lower earnings when in work:* Full-time employees from ethnic minority groups have lower earnings than white people at most ages.

— *Are less likely to be saving for a private pension:* Ethnic minority workers are less likely than white workers to be saving for a pension at every age. For example, 54% of 45 to 54 year old people in work from ethnic minorities are saving for a pension, compared to 63% for comparable white people.[66]

— *Are less likely to work at older ages:* For example, 32% of 60 to 64 year old people from ethnic minorities are in employment, compared to 45% of corresponding white people.

27. People in some ethnic minority groups are more likely to work part-time or be self-employed. For example, around a third of Pakistani (31%) and Bangladeshi (35%) people work part-time compared to around a quarter (26%) of white people and, as with the white population, women in these groups are considerably more likely than men to work part-time. Around 26% of Pakistani people are self-employed, compared to 13% of white people, and the self-employed do not qualify for State Second Pension.

28. Two hypothetical case studies of ethnic minority people illustrate some of the impacts of these characteristics:[67]

— Ayesha is a Bangladeshi woman who only begins to work at age 40, after spending time at home with her family. When she does work, she works part-time. Her pension income is around £127 a week, which is £127 a week lower than the median-earning man.

— Sayeed is a Pakistani man who is in full-time employment for the first half of his adult life. At age 40 he becomes self-employed when he takes over the family business. His pension income is £141 a week, which is £113 a week lower than the median-earning man.

29. The relatively few ethnic minority pensioners who are currently in the UK have incomes that are substantially lower than the rest of the population.

The impact of the financial crisis

30. The current financial crisis is likely to impact on different individuals in different ways, according to their age and to the type of pension and savings that they have.

31. For future pensioners, the impact will vary between individuals with Defined Benefit (DB) pension provision and Defined Contribution (DC) provision.

32. The provision of DB pension schemes has been declining for a number of years. Between 2006 and 2007 the number of active members of DB schemes in the private sector fell by 10%, from three million to 2.7 million. In the 1960s, there were approximately eight million members of private sector DB schemes.[68] There have been a number of reasons for this decline,[69] including:

— Increases in life expectancy.

— Falling expectations of future investment returns.

[63] PPI analysis of the Labour Force Survey (Q2 2007). Unless otherwise stated this is the source for figures in this section.
[64] ONS Labour Force Survey Historical Quarterly Supplement, Q2 2007.
[65] PPI analysis of the Family Resources Survey 2005–06; illustrates what proportion of working-age people would have received a qualifying year towards state pensions if the Pensions Act 2007 reforms had been in place in 2005–06.
[66] PPI analysis of the Family Resources Survey 2005–06.
[67] For further details see Steventon and Sanchez (Pensions Policy Institute) (2008) *The under-pensioned: disabled people and people from ethnic minorities* Equality and Human Rights Commission (EHRC) Research Report number 5.
[68] National Statistics (2008) Occupational Pension Scheme Survey 2007.
[69] See Pensions Policy Institute (2006) *The changing landscape for private sector Defined Benefit pension schemes.*

— The increasing costs associated with Government regulation to increase the value and security of member benefits.

— The business cycle and volatility in the solvency of employers.

33. The pressure from all of these different factors is likely to remain into the future. The current financial crisis has increased uncertainty surrounding future investment returns, and reduced the solvency of many DB scheme sponsors. To this extent, the benefits of members of DB schemes are less secure than they appeared to be before the financial crisis.

34. This will be limited to a certain extent by the existence of the Pension Protection Fund (PPF) which will provide benefits equivalent to approximately 90% of those offered in the individual schemes. However benefits are capped, (as at April 2008 at £27,770.72 at age 65, although the cap is adjusted according to the age at which compensation comes into payment), so individuals with larger pensions will get less than 90% compensation.

35. The PPF is funded by a levy on Defined Benefit pension schemes. If more companies become insolvent, then the PPF may need to increase the levy paid by the remaining schemes to meet its obligations. This would increase the costs of provision for remaining DB schemes.

36. Members of Defined Contribution schemes are more directly exposed to the recent fall in investment returns, and most will have seen the value of their pension assets fall significantly in the past year.

37. For those younger individuals who are a long way from retirement there will still be time for the pension assets to recover—perhaps from higher investment returns in future, increased contributions or working and making contributions for a longer period of time.

38. For those approaching retirement, the situation may be less encouraging. Even allowing for "lifestyling" and the investment of pension assets into less volatile asset classes, fund values will have been reduced.

39. Individuals in this group will have less time to allow for pension assets to recover, and may not be in a position to benefit from higher returns in the future, increase contributions or to work for longer if they are approaching 65, are in ill- health, or have caring responsibilities.

40. These individuals will also be affected by the recent fall in annuity rates, linked to the falls in interest rates. For these individuals incomes in retirement are likely to be lower that expected.

41. 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 2006–07.[70] 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.[71]

42. One aspect of the fall in income received from savings that has attracted comment is the treatment of income from savings in Pension Credit and other means-tested benefits.

43. Income from saving is not counted directly against eligibility for Pension Credit. Instead, the first £6,000 of saving is ignored for eligibility purposes. Then for every additional £500 (or part) of saving above £6,000, a "tariff" income of £1 is assumed. So for example, an individual with £7,000 of saving is assumed to have an income from that saving of £2 a week. This tariff income rate of £1 for every £500 has not changed since the introduction of Pension Credit in 2003.

44. The tariff income level is not set to reflect market interest rates, and assumes that some capital is used to contribute towards weekly expenses.[72] As interest rates change, the implicit contribution that comes from capital changes. One way to illustrate this is to calculate "effective" rate of interest in the tariff income calculation—the rate of interest that would have to be paid on a capital sum to generate the amount of tariff income for Pension Credit.

45. Around 85%[73] of current pensioners receiving Pension Credit have savings of less that £6,000 and so their savings do not affect their eligibility for means-tested benefits and they generate no tariff income in the DWP's calculation (Chart 5).

46. Approximately 500,000, or 15% of current pensioners have savings above £6,000 which is taken into account by the DWP in calculating their eligibility for means-tested benefits and does generate tariff income. Approximately 7% of pensioners receiving Pension Credit have savings of between £6,001 and £10,000, and less than 5% have savings of more than £15,001.

[70] Department for Work and Pensions (2008) The Pensioners' Incomes Series 2006–07.
[71] PPI calculation based on Bank of England table G1.3, and the change in the interest rate available on notice-based deposit accounts between March 2007 and December 2008. Assumes interest is paid annually.
[72] Rosie Winterton MP in House of Commons *Hansard* 13 January 2009 Column 578w.
[73] Based on the DWP Pension Credit Quarterly Statistical Enquiry: February 2005. More recent estimates, given in *Hansard* 13 January 2009 Column 578w suggest that around 80% of pensioners receiving pension credit have savings of less than £6,000.

Chart 5

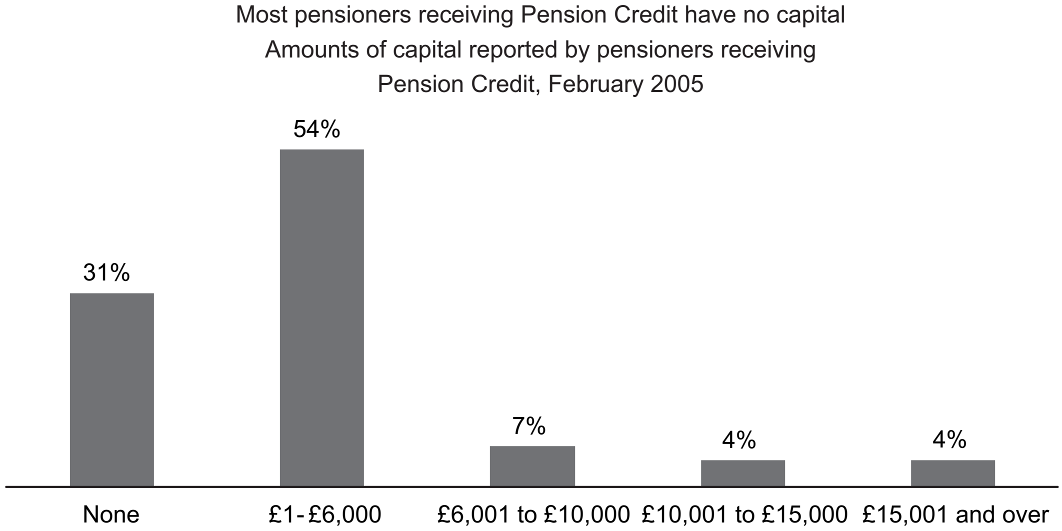
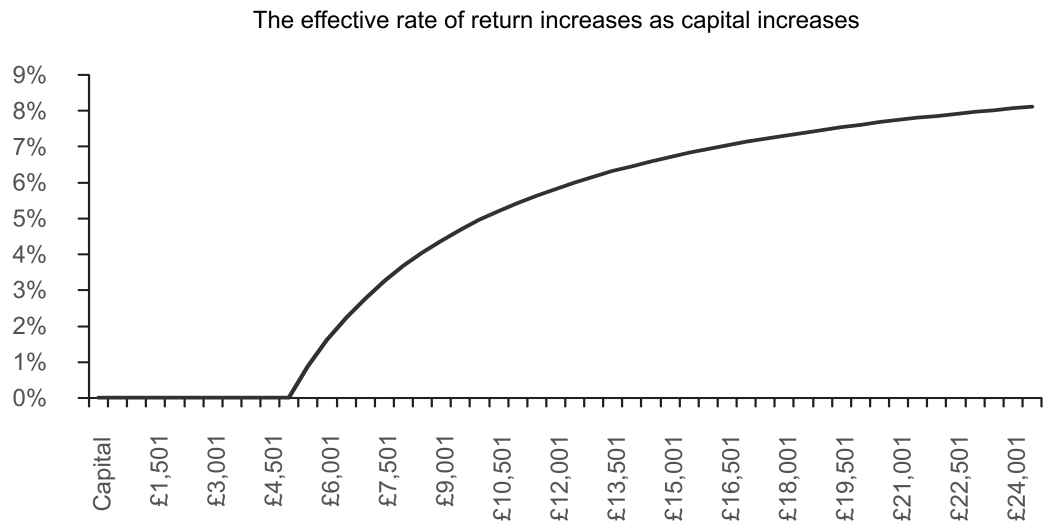


Chart 6



47. Chart 6 shows how this "effective" rate of interest increases as the amount of saving increases. For example, the 7% of Pension Credit recipients with savings between £6,001 and £10,000 will face an "effective" rate of return on savings of between 1% and 4.5%. The 4% of recipients of saving between £10,001 and £15,000 will face an "effective" rate of return of between 4.5% and 6.5%. The remaining 4% of recipients with savings of more than £15,001 will face an "effective" rate of return of more than 6.5%.

48. In the current low interest rate environment current pensioners with more than £6,000 of savings will be able to achieve lower returns on their saving than in previous years. This means that they will have lower income, or that more of their capital will be eroded in maintaining their overall income levels, as the DWP tariff income calculation is not sensitive to changes in interest rates and so does not adjust as income changes for these pensioners.

Longer-term impacts on eligibility for Pension Credit and other means-tested benefits

49. The PPI published projections of future eligibility to Pension Credit and other means tested benefits in December 2007.[74]

50. Future levels of eligibility for means-tested benefits are very uncertain, especially when looking as far as 40–50 years into the future. The projections are therefore presented as a range. A central scenario is given, which is based on a detailed underlying projection of pensioners' incomes, as well as an optimistic and pessimistic scenario (Chart 7 and Table 1).[75]

Chart 7

Future eligibility for means-tested benefits is uncertain

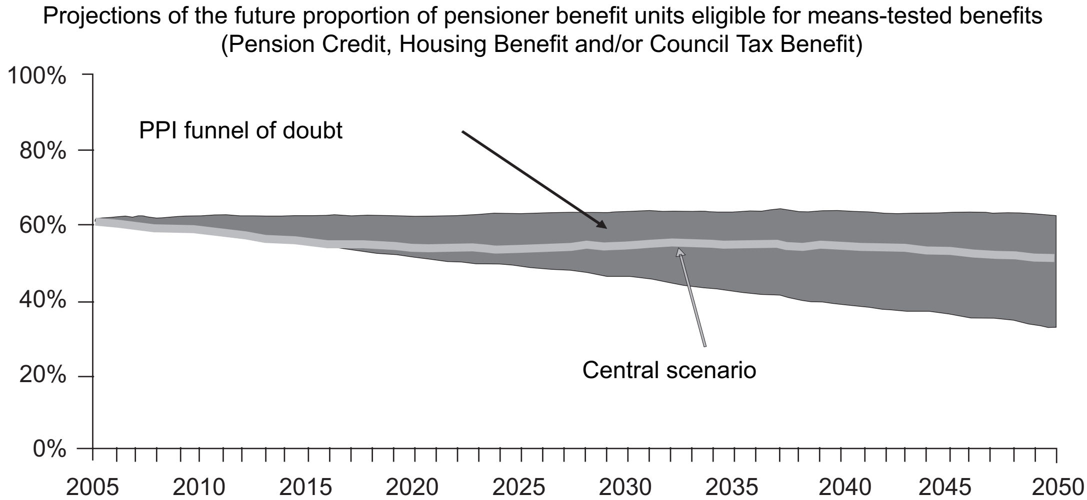


Table 1[76]

PROJECTED PROPORTION OF PENSIONER BENEFIT UNITS ELIGIBLE FOR MEANS-TESTED BENEFITS IN 2050 UNDER DIFFERENT SCENARIOS

	Pension Credit	*Housing Benefit*	*Council Tax Benefit*	*Any means-tested benefit*
Optimistic scenario	25%	10%	25%	35%
Central scenario	40%	15%	40%	50%
Pessimistic scenario	55%	15%	55%	65%

51. *Future levels of eligibility for means-tested benefits are very uncertain, especially when looking as far as 40–50 years into the future*. This is because whether or not pensioners will be eligible in future will depend on their income. There is considerable uncertainty involved in projecting future pensioners' incomes over such a long time period:

- Future incomes from Basic State Pension are more certain now that individuals need only 30 qualifying years to be eligible for the full amount.
- There is more uncertainty about future eligibility to State Second Pension. Future incomes from State Second Pension will depend on the number of years in work, earnings when in work and the number of credits received for caring.
- Future incomes from private pensions will depend on the number of years and levels of contributions made, earnings, investment returns, charges and life expectancy.
- The amount of income from earnings after state pension age will depend on the availability of employment opportunities and willingness to work.
- Future Pension Credit entitlement also depends on future levels of capital, such as saving in bank accounts and ISAs. This will depend on how much people save and how these are invested.

[74] PPI (2007) *PPI Projections of future eligibility for means-tested benefits.*

[75] PPI modelling analysis. To analyse the potential range of eligibility for the different means-tested benefits in 2050, the standard optimistic and pessimistic income growth scenarios have been used, based on varying the average annual growth rate of overall pensioners' incomes by +/− 0.5%. This is a broad approach designed to illustrate the general uncertainty of these projections rather than any particular detailed scenario. In addition, rents and council tax rates are assumed to increase 0.5% a year more slowly in the optimistic scenario, and 0.5% a year more quickly in the pessimistic scenario.

[76] PPI analysis using the Aggregate and Distributional Models. All figures are rounded to the nearest 5%.

52. 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.[77] 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.

53. It is also likely that if private pension income were substantially lower than expected in future, individuals may try to gain income in other ways rather than solely relying on means-tested benefits, for example through longer working. The analysis of eligibility to means-tested benefits in this submission does not allow for this kind of behavioural response.

March 2009

Memorandum submitted by The Royal British Legion (TPP 26)

1. Introduction

1.1 The Royal British Legion ("the Legion") protects the interests, welfare and memory of British serving and ex-Service people and their dependants. Around 10.5 million people of all ages are eligible for Legion support. The Legion also has an active membership of over 400,000 people.

1.2 The Legion appreciates the opportunity to make a submission to this inquiry on issues of direct relevance and great importance to many of its stakeholders. The Legion has a particular interest in issues regarding older people as those over 65 make up the majority of the adult ex-Service population. In the main, they are veterans of World War II and National Service, their spouses or widow(er)s. Approximately 60% of the 8.43 million adults in the ex-Service community are thought to be aged over 65 years of age—a total of over five million people. A further 15% are in the pre-retirement years of 55–64 representing a further 1.3 million.

1.3 In 2005, the Legion carried out extensive research into the size, demographic profile and welfare needs of the ex-Service community in the UK. This research demonstrated that amongst our beneficiary group, older people (those aged over 65 years) were living on the lowest incomes.

1.4 During June 2008 we carried out a survey of 500 veterans, spouses and widow(er)s aged over 65. The survey, conducted by Ipsos MORI, found that 38% reported existing on an income lower than that considered necessary for a healthy lifestyle: £7,072 per annum or £136 per week for a single person, and £11,200 per annum or £216 for a couple.[78] We also found that over 15% of people surveyed go without full central heating and 10% without enough money to buy the food considered necessary for a healthy lifestyle.

1.5 This situation needs to be addressed as a matter of urgency, particularly at a time of rising food and utility costs, by increasing the incomes of older people. We believe that the Government is failing in its lifelong duty of care to older members of the ex-Service community. Large numbers of them are now living in poverty, and many have effectively been forced to ration everyday essentials, similar to their experiences during and after World War II.

1.6 In response to this unacceptable situation, in September 2008 we launched a campaign titled "Return to Rationing?" (supported by Age Concern). This makes a number of recommendations for policy reform that would help address the issue of pensioner poverty amongst both the general population and ex-Service community. Coming so soon after the presentation of a 25,000 signatures-strong petition to Number 10 (on 25 February), this inquiry is very timely.

1.7 To maximise the relevance and usefulness of our submission for the purposes of the inquiry, the following sections address key issues raised by the campaign in the context of specific questions—namely questions 1) and 3)—listed in the inquiry's terms of reference. (*NB Given the current focus of the "Return to Rationing?" campaign on the need to rebrand Council Tax Benefit as a rebate and our belief that that would be a most cost-effective measure in today's straitened economic climate, question 3 is answered first).*

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[77] For example DWP (2008) *Projections of entitlement to Income Related Benefits to 2050.*

[78] Minimum Income for Healthy Living (MIHL) was developed by The London School of Hygiene. This combined current best evidence on the needs for healthy living in regards to nutrition, physical activity, housing, psychological relations, mobility, medical care etc with corresponding minimal costs for such needs. This concluded that the current state Pension and Pension Credit Minimum Income Guarantee are below the amount required by older people for a healthy lifestyle. The report uses 2007 prices, so we have updated the figures in line with RPI for the period.

2. Inquiry Question 3—*Benefits take-up—why do some people not take-up their entitlement to benefits (eg 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?*

2.1 As part of our "Return to Rationing?" campaign we have called on the Government to address the low take up rates of Council Tax Benefit (CTB). We are though also concerned by the low take up rate of other benefits pensioners are entitled such as Housing Benefit and Pension Credit.

2.2 In our experience many pensioners fail to take-up benefits they are entitled to for a variety of reasons:

— some older members of the ex-Service community believe they are not entitled to benefits;

— others have never claimed benefits and do not intend to start doing so at a late stage in life;

— others are averse to having their income assessed for entitlement to benefits; and

— some find the application process too complex.

2.3 Council Tax is probably the most significant household expense for older people. The current take-up rate of Council Tax Benefit (CTB) is estimated at between 55–61%. We believe that two changes would increase the rate of take=up of CTB:

— development of an automated payment system; and

— rebranding CTB as a "rebate" to reflect its true nature.

2.4 Whilst the first recommendation would probably prove the most effective, it is also likely to be a complex, and perhaps costly, reform to implement. We are therefore calling on the Government to commit now to rebranding CTB as a "rebate" before the next general election.

2.5 The Government should rebrand Council Tax Benefit as a "rebate" to reflect its true nature.

2.6 We believe that the rebranding of CTB as a rebate would increase take-up rates and implementation would be fairly straightforward and low cost. Indeed, according to the 2007 Lyons Inquiry into Local Government, up to £1.36 billion of CTB is left unclaimed by older people each year, so we know it would not require additional net benefit expenditure.

2.7 As part of the Legion's survey of older members of the ex-Service Community in June 2008 it was found that 56% of respondents believed eligible veterans would be more likely to claim CTB if it were known as a "rebate" rather than a "benefit". Independent Age found that one in seven pensioners would not undergo means testing for benefits even if it meant foregoing income.[79]

2.8 The Lyons Inquiry into Local Government (2007) highlighted that when the old domestic rates regime was in place the term "rebate" was used rather than "benefit". Take-up rates at that time were around 90% for older people; far higher than the current estimated take-up rate of 55–61%.

2.9 CTB is not a straight benefit, but rather a reduction of tax liability in line with a household's ability to pay. It is our belief that if CTB was known under the more accurate title of "rebate", it would encourage more people to take-up their entitlement. The name or label applied to a payment from the state in this case is acting as a barrier to some people claiming. This proposal is supported by other organisations and groups including Help the Aged, Age Concern, the House of Commons Communities and Local Government Committee and the Lyons Inquiry into Local Government.

2.10 As if to underline the potential benefit of such a change, the 2006 National Audit Office report, *Progress in tackling pensioner poverty: encouraging take-up of entitlements*, estimated that just a 10% increase in pensioner take-up of CTB could lift 47,000 pensioners out of poverty. On the basis of the figures outlined above, we estimate that some 20,000 Armed Forces pensioners could benefit.

2.11 We would be very grateful if the committee felt able to question Ministers on this particular point, if possible, with reference to the "Return to Rationing" campaign (about which letters have been sent to both the Parliamentary Under-Secretary of State, Kitty Ussher MP, and the Prime Minister) and also make a recommendation in its inquiry report in support of rebranding CTB as a rebate before the next general election.

2.12 The Government should implement an automated payment system of Council Tax Benefit for older people.

2.13 The Legion believes that the Government should act on the recommendation of the Lyons Inquiry into Local Government to develop an automated system of payment of CTB to pensioners. The Department for Work and Pensions (DWP) has already considered ways to pay CTB automatically. Such a move would mean bills would be received with any rebate entitlement already deducted. This would avoid the need for claims to be made and enable significant savings in administrative costs. It would overcome many older peoples' reluctance to provide information for means tested benefits and remove many of the complexities that put off other claimants.

[79] Independent Age submission to House of Commons Communities and Local Government Committee report Local Government Finance on Council Tax Benefit, 8th report of session 2006–07.

2.14 This model would involve data sharing between government agencies, including HM Revenue and Customs, to assess eligibility for CTB. The Government holds information on people's incomes, pensions and savings—enough information to decide who is likely to be entitled to a rebate. The individual involved would then be asked to respond if the information held was incorrect.

2.15 The Legion accepts that there are some risks with automatic payment and that there would be challenges in setting up the system, but these must be balanced with the benefit of greatly increased income to the millions of disadvantaged older people whom the CTB is currently not reaching.

2.16 An automated system could dramatically improve on the current 55–61% take-up rate amongst pensioners and help to distribute the estimated £1.5 billion of benefit that is currently not reaching those entitled to it.

2.17 Welfare Reform Bill proposal for pilot for automatic take-up of Pension Credit.

2.18 The Legion fully supports the pilots for automatic payment of Pension Credit as proposed in the Welfare Reform Bill. As present little detail of how the scheme will operate in practice is available so it is difficult to asses whether a considerable increase in take-up will be achieved. Nevertheless the Legion believes that if the scheme is operated and targeted correctly many thousands of pensioners could receive an important increase in their incomes.

2.19 The DWP should now take the next step and look to pilot an automated system of Council Tax Benefit for older people.

3. Inquiry Question 1—*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?*

3.1 The Legion's "Return to Rationing?" campaign outlines a number of policy recomendations that we believe if implemented would start to address the problem of pensioner poverty. Some of these are related to later questions and so are outlined under the relevant answers.

3.2 The Government should double the Personal Expenses Allowance for residents of care homes.

3.3 Although this issue is the responsibility of the Department of Health rather than the DWP, it is vital that it be addressed. An often forgotten group of pensioners are those living in care homes who rely on the state for financial assistance with their fees. These people are currently forced to ration everyday essentials. Nearly 300,000 of those in care homes are reliant on the state for financial support to pay their fees.

3.4 The Personal Expenses Allowance (PEA) is a small amount of money which these residents are allowed to keep to pay for personal expenses not covered by their care package. This money 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.

3.5 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.

3.6 An adequate level of disposable income is vital to allow residents to retain a sense of independence. An inability to maintain social contact with family and friends can lead to isolation and feelings of loneliness. These very vulnerable older people are now rationing essentials such as clothes, toiletries, books, leisure and recreational activities, transport and telephone calls.

3.7 Mr Sam Ridler, 86, a resident of Halsey House Poppy Home, finds that whilst his standard of living in the care home is good, he cannot afford to do many of the things in life that others take for granted. He likes to keep a good appearance and maintain a social life but he finds he cannot afford both. His £21.15 per week is not sufficient to cover the costs of new clothing, toiletries, haircuts and newspapers. He also likes to have a couple of drinks one or two nights a week with friends, maybe go for a meal occasionally and have a little spending money for the occasional day trip.

3.8 Age Concern's recent budget calculations have found that the PEA needs to be at least doubled in order to allow residents to live a life with dignity. To raise it to £40.00 in England, Wales and Scotland might cost in the region of £317 million. To ensure that the allowance remains at a realistic level the Government should link its annual rise to the average rise in earnings.

3.9 The Government should remove the £16,000 capital limit for Council Tax.

3.10 Probably the most significant household expense for older people is their Council Tax bill. Council Tax bills have, on average, more than doubled since introduced in 1993. This has taken the average annual bill up to £1,145. The Legion is regularly contacted by older people who struggle to pay their Council Tax from their fixed incomes. We believe that reform of the Council Tax Benefit (CTB) system is vital to improving the situation for many poorer veterans and their dependants.

3.11 Currently anyone with capital savings above £16,000 is ineligible for CTB. Removing this limit would make the system fairer for those with modest savings and low incomes and bring the rules in line with Pension Credit. The current system is a disincentive to save for the future. Currently, many older people must spend their savings before they can receive help with Council Tax, and often feel they are being penalised for having saved for their future. People are now living longer than ever before and modest savings have to be stretched further.

3.12 The current limit can result, for example, in an older couple living in their own home, with a combined income of £190.00 per week (below £10,000 per year), paying the same level of Council Tax as the couple next door with a joint income of £60,000.

3.13 Removing the capital limit for older people would deliver benefits to a significant number of older households. It is estimated that to fully abolish upper capital limits for people over retirement age would cost £220 million but would benefit 420,000 households, including over 175,000 of the poorest, at the rate of £10.00 per week on average.[80]

3.14 As the Lyons Inquiry concludes, the costs are significant, but are targeted at households bearing a relatively high Council Tax burden. Although the cost is high, it is still only around a quarter of the £800 million price tag of the £200 one-off council tax rebate to pensioner households in the 2005 budget. £10.00 per week extra income would make a huge difference to many of the 38% of veterans and their dependants who reported living on an income below that required for a healthy lifestyle in the Legions' survey.

3.15 Further to 2.11 above, The Royal British Legion would be very grateful if the committee could also explore these further issues in its hearings with Ministers and make supportive recommendations in its inquiry report.

March 2009

Memorandum submitted by The Equality and Human Rights Commission (TPP 27)

Who We Are and What We Do

1. The Equality and Human Rights Commission (the Commission) is working to promote fairness, eliminate discrimination, reduce inequality, protect human rights and to build good relations, ensuring that everyone has a fair chance to participate in society. The Commission is a non-departmental public body (NDPB) established under the Equality Act 2006—accountable for its public funds, but independent of Government.

2. The Commission brings together the work of the three previous equality commissions, the Equal Opportunities Commission (EOC), the Commission for Racial Equality (CRE) and the Disability Rights Commission (DRC) and also takes on responsibility for the other aspects of equality: age, gender identity, sexual orientation and religion or belief, as well as human rights. A separate Scottish Commission for Human Rights, with whom we work closely, covers aspects of the human rights remit in Scotland.

Summary

— The Commission recognises the work of the DWP in keeping pensioner poverty at the forefront of the work it continues to do, not least in its efforts around improving the take up of Pension Credit.

— The EOC and subsequently the EHRC are very supportive of the pension reform agenda and we look forward to when the reforms will be implemented, and to the difference that they will make to future cohorts of pensioners.

— The groups most vulnerable to poverty as pensioners are women, ethnic minority groups, people with disabilities and the older old. The first three groups all having similar characteristics during working age, that put them at greater risk of not accruing an adequate level of pension income.

— As our population ages flexible working can play a vital role in helping keep older people in work for as long as they wish or need to be there. EOC research (The EOC's research report "*Older workers and options for flexible work*") found that up to one million older (50+) workers want to return to work. A lack of flexible working arrangements, such as flexitime or job sharing, is preventing many from remaining in or returning to the workforce. Just 16% of older men and 25% of older women are currently employed on a flexible working arrangement. The report revealed a potential "missing million" people who at the age of 50 plus would still be working if the workplace was more flexible to their needs around caring and work-life balance. Keeping these people in work would have a positive impact both on the economy and also on their pension entitlement.

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[80] *Lyons inquiry into local government*, final report, London Stationary Office, March 2007.

Question 1: *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?*

3. The Commission welcome's the opportunity to submit evidence to this inquiry. Pensioner poverty is an issue of concern to the Commission because of the increased risk of poverty an individual faces if they belong to certain groups, including, women, people with disabilities, ethnic minorities, and the oldest old.

Women

4. Female pensioners currently have lower incomes than male pensioners, are at greater risk of poverty and therefore are more reliant on means-tested benefits:

- Women's median income in retirement is only 57% that of men's.
- Only 30% of women reaching SPA are currently entitled to a full BSP, compared with 85% of men.
- 1 in 5 single women pensioners risk being in poverty in retirement.
- Almost 63% of divorced and separated older women have no private pension income at all.

5. Although the Government's reforms to state and private pensions are likely to improve pension incomes for men and women (for further discussion of the effects of state pension reform, see Q4), some differences in their average incomes are likely to remain.

6. This is because reforms to state pensions (State Second Pension (S2P) in particular), and private pensions will take many decades to filter through the system.

The State Second Pension

7. Unlike the Basic State Pension (BSP), every year still counts for S2P accrual, there is no equivalent reduction in the reforms to 30 qualifying years for S2P.

8. S2P accrual will form an increasing part of an individual's state pension entitlement, once the reforms fully feed through. An individual with a full BSP and high (40 years plus) entitlement to S2P at retirement will receive approximately equal amounts of income from Basic and Second state pensions.

9. Achieving a high level of accrual of S2P is a vital underpin for private saving, reducing the interaction with means tested benefits and helping to ensure that is pays to save.

10. Although the link between the level of the BSP and average earnings will be restored at some point between 2012 and 2015, S2P will continue to be indexed with prices in payment. So as individuals build up their entitlement to S2P they can be sure that its value will keep pace with earnings, but once an individual reaches SPA and begins to draw their S2P the benefit they receive will be linked to prices, not to earnings. Over the duration of an individual's retirement the real value of their S2P will reduce.

11. This means that an individual may start their retirement above the poverty threshold, but find themselves slipping below it later in retirement, when they are more vulnerable, and may find making a claim for Pension Credit harder.

12. This situation is more likely for women than men because they are likely to start out with a lower level of S2P, live longer, and therefore see the value of their S2P fall further during their lifetime. The impact on their overall retirement income is likely to be greater because of their greater dependency on state pensions income.

Private and occupational pensions

13. Although the link between individuals' earnings and their state pension entitlements is reducing, private pension income is, and will remain directly linked to an individual's income over their working life.

14. The gender pay gap is improving but women still earn less than men on average (the full time gender pay gap remains a stubborn 17.2%, and the part-time pay gap 35.6%), so their private pension incomes are likely to remain lower than men's on average for some time.

Disabled people

15. Research conducted for the EHRC by the Pensions Policy Institute (PPI), "The Under Pensioned: disabled people and people from ethnic minorities"[81] showed that people with disabilities:

- are less likely to be in employment;
- when in work are less likely to be accruing pension provision than their non-disabled counter parts at every age;
- have on average lower earnings;

[81] http://www.pensionspolicyinstitute.org.uk/news.asp?p=322&s=2&a=0

- are more likely to work part time;
- may also face additional costs of living due to their disability, which may not be fully met by state disabilities benefits, further reducing their ability to save; and
- less likely to make regular private pension contributions than non-disabled people.

16. The crediting system to the BSP helps many disabled people build up entitlement. Although almost everybody is expected to receive the full amount of BSP in future, this is not true for S2P. The PPI research showed that if the new rules had been applied to working age people in 2005–06 that 33% of disabled people would possibly still not have had a qualifying year for S2P that year, compared to 24% of non-disabled people.

17. There are additional state benefits available to disabled people in retirement, such as attendance allowance which 1.5 million people are in receipt of.[82]

18. On average these additional state benefits make up one fifth of the household income of those who receive them. Around one-quarter of claimants of Pension Credit receive extra amounts due to severe disability.[83]

19. However, according to one study a single pensioner with medium severity of disability may face extra costs of up to 70% of income.[84] The PPI research showed therefore that although a single person with a disability has an income of £194 per week before disability benefits, this increases to £245 per week with the additional benefits. However once their addition costs are taken into account this is equivalent to an income of only £109 per week, somewhat lower than the average income a non-disabled pensioner of £223 per week.

Ethnic minority groups

20. Taking an overall view across all of the different ethnic minority groups, we can say that people from ethnic minorities are more likely than the rest of the population to have the characteristics associated with lower pension incomes:

- 60% of working-age people from ethnic minorities are in employment, compared to 76% of working-age white people.
- 33% of bangladeshi women and 35% of Pakistani women are economically active, compared to 75% of white women.
- 35% of people from ethnic minority groups might not qualify for the S2P each year, compared to 24% of white people.
- Ethnic minority workers are less likely than white workers to be saving for a pension at every age. For example, 54% of 45 to 54 year old people in work from ethnic minorities are saving for a pension, compared to 63% for comparable white people.
- 32% of 60 to 64 year old people from ethnic minorities are in employment, compared to 45% of corresponding white people.

21. The relatively few ethnic minority pensioners (around 3% of people above State Pension Age) who are currently in the UK have incomes that are substantially lower than the rest of the population:

- Asian and black pensioners are more dependent on income from means-tested benefits, like Pension Credit. Nearly half (46%) of Asian and Black pensioners receive means-tested benefits, compared to less than one-third (31%) of White pensioners.[85]
- On average, incomes from means-tested benefits only make up 5% of the total income of white pensioner households, whereas they account for around 15% of the total income of Asian and black pensioner households.

The Older Old

- The number of people aged 65 years and over is expected to rise by nearly 60% in the next 25 years—from 9.6 million in 2005 to over 15 million in 2031.
- The biggest growth in relative terms will be amongst the oldest old.
- The number of people over 85 in the UK is predicted to double in the next 20 years and treble in the next 30.
- The total number of centenarians is expected to rise even more sharply, trebling in the next 20 years and quintupling in the next 30 years.
- The population over 75 is projected to rise by over 70% in the next 15 years, while the under 16 population is set to decline slightly.

[82] DWP, 2008.
[83] DWP 2005.
[84] Buchardt and Zaidi, 2003.
[85] DWP, 2007a.

What more could the DWP be doing?

22. *Greater support for those already retired*: The changes will do little to support the over 50s, especially women, who are still at risk of not getting even a full BSP in their own right. This generation of women need help even more than younger women, because many may have spent longer caring for their families, working part-time and on low pay. They have provided unpaid caring work throughout their lives, which may not have been captured by previous pension crediting systems.

23. *Backdated national insurance contributions*: After significant lobbying and consensus building by Baroness Hollis, the EOC and subsequently the EHRC, members of the Women & Pensions Network and many other stakeholders, we welcome Government's recognition of the need for an amendment to be tabled in the Pension Bill 2008 to introduce more flexibility to the buyback rules for National Insurance Contributions (NIC's).

24. This will benefit many people in particular women who, owing to their different working patterns and caring responsibilities have gaps in their NICs. Because of the unpredictability in their work and caring patterns, many women have difficulty planning within the six year time frame previously allowed for Class 3 NICs buy back. Even more likely is that they are completely unaware that these gaps exist until it is too late to do anything about it.

25. People do not consider the consequences for their future pension entitlement when making the decision to care. The success of the lobbying campaign around this amendment gives people an opportunity to buy back a limited number of qualifying years towards their BSP at a later stage in their life, for example when they are closer to SPA and more likely to be aware of their pension entitlement.

26. We are therefore pleased that the Government has now found a targeted and affordable solution that will enable many women to take action to increase their state pension entitlement. *This change must be publicised and promoted by the DWP in order that it is able to make that difference to peoples pension outcomes.*

27. *Extending national insurance credits to cover grand parenting activity*: Would recognise the vital work that many older people, in particularly women play by caring for their grand children to enable their children to work. The EHRC is currently working with Grandparents Plus to explore the relationships between grandparents and child poverty.

28. *Restoration of the earnings link for the BSP*: We welcome the Government's commitment to restore the link between BSP and average earnings, at the earliest by 2012, at the latest by 2015. There has been strong calls for this link to be restored at the earliest possible opportunity, however given the current uncertain financial climate there needs to be caution in the short term to ensure that pensioners do not suffer should inflation be above the rate of earnings growth.

29. *Linking State 2nd Pension (S2P) to earnings in payment*: as well as in accrual so its value does not decline during retirement. At present the declining value of S2P after retirement relative to average earnings will mean older pensioners, particularly women who are more dependent on state pension income and who live longer on average, slipping below the poverty threshold later in their retirement. Whilst short term caution may be required around the restoration on earnings links, in the longer term a mechanism for up-rating S2P which takes into account average earnings growth will be of significant benefit for pensioners, ensuring they get to share in rising prosperity.

30. *More flexibility for people to increase their National Insurance record*: This is particularly important for women who are concentrated in low paid part-time work. For example, allowing individuals to add together earnings from more than one job to exceed the Lower Earnings Limit and accrue state pensions; or since four out of five part-time workers are women, allowing people to make NI contributions after they reach SPA if they need to get their BSP contribution record up to 30 years and also to increase their S2P entitlement.

31. *A strong campaign of information and support on the program of pension reform*: The wide reaching reforms to both the state and private pension systems, including both the employer auto enrolment duty and the launch of Personal Accounts, could lead to a great deal of confusion and misinformation that lead to people missing out. For example:

- A carer failing to claim the new self-certification carers credits.
- An individual opting out of auto enrolment and missing out on the opportunity to save in an employer supported scheme.
- A woman missing out on the option to purchase added years, and suffering a reduced income throughout her retirement.
- Someone using their retirement savings to purchase an annuity, but not realising the consequences of purchasing a single life annuity, leaving their partner without a private pension income if they pre-decease them.

32. The reforms place an increased responsibility on the individual to make provision for their own retirement, putting this responsibility on a group of individuals who may not have engaged in complex financial products before. It is therefore vital that appropriate, targeted information and support is available to them, covering both state and private provision.

Question 2: *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?*

33. There are wide reaching potential impacts of the financial crisis on both current and future pensioners.

Current older workers

34. *The implications for older workers who may be more vulnerable to redundancy*, the Commission is to work in partnership with the Department for Work and Pensions (DWP) to assess how the recession may be impacting on different groups of people, for example women, ethnic minorities and older and disabled people.

35. The implications for older workers may be particularly hard felt because of the greater difficulties older workers face in returning to the labour market.

— People aged 55-–64 are twice as likely to be made redundant in organisational restructuring and reshaping exercises.

— Non-employment among older people aged 50–69 could be costing the economy nearly £30 billion per year.

— 28% of men aged 50+ and 34% of women are unemployed or economically inactive.

Those preparing for retirement

36. The current turbulence in the financial markets makes planning for retirement increasingly complex, and individual's face unexpected drops in their potential retirement income, both through pensions and other investments and savings.

37. Lifestyling of funds, (where funds are moved away from equities towards lower risk investments as an individual approaches retirement), will have helped protect some individuals whose schemes commenced lifestyling before the crash in the financial markets.

38. Those investments without lifestyling (perhaps outside of a pension), or those who unexpectedly have to bring forward their retirement date due to redundancy may be at greater risk due to revising their retirement date, and hence missing the benefits of lifestyling.

39. Additionally those slightly further away from retirement, may have already borne the brunt of the collapse in equities, and now have much lower than anticipated savings which are now being lifestyled. This means they will have little chance to recoup any of the decline in the savings because they will not be able to benefit when the equity market begins to recover, and rates for non equity based investments have also fallen significantly.

Those already retired

40. Interest rates are at an historical low, however this is not taken into account with Pensions Credit savings credit calculations. The savings credit element assumes that every £500 of capital an individual holds above £6,000, generates them an income of £1 per week, equivalent to an interest rate of over 10%. Interest rates on savings currently available are more likely to be around 2% or lower especially if branch access is required.

41. The assumed rates of return for calculation of entitlement to the savings credit entitlement of Pension Credit should be revised to take into account the unprecedented drop in interest rates.

42. Even those involved in the means tested system will be getting a substantially lower rate of return on their savings. This may mean the long term erosion of their savings, putting them at risk of having to claim Pension Credit in the long term, meaning the implications of the current financially crisis could be felt over a much longer term amongst the pensioner population.

Those saving for retirement or those who should be starting to save for retirement

43. 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 2012, and help encourage people to opt out the scheme, which may not be in their long term interest.

Question 3: *Benefits take-up—why do some people not take up their entitlement to benefits (eg 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?*

44. We welcome the DWP's efforts to get to the root causes of non-take-up of benefits. If possible, having drilled down as much as possible with the data available, and having assessed the risks to Government, we would encourage the DWP to pursue the idea of targeting certain groups of pensioner, (say those over 75 initially), who from data received appear eligible for Pension Credit (PC) but are not claiming it, to then be given it automatically. We also hope that the work the DWP are doing in the run-up to the pilots around automaticity for PC will extend to Housing Benefit and Council Tax Benefit.

Question 4: *Basic State Pension—will the 2010 changes create a fairer state pension system?*

The EHRC strongly supports the state pension reform program.

45. The changes and their benefits:

— From 2010 the qualifying years for the Basic State Pension (BSP) will reduce to 30 from 39 for women and 44 for men. *By 2010, under reform, government figures predict that around 75% of women reaching State Pension Age (SPA) will be entitled to a full BSP, compared to 50% without reform, rising to over 90% in 2025.*

— Introduce positive weekly BSP & State Second Pension (S2P) credits for parents of children under 12 and carers who care for 20 or more hours for individuals in receipt of the correct qualifying benefits, currently middle to higher rate Disability Living Allowance (DLA) and Attendance Allowance (AA). *Government figures suggest that around 120,000 more people could gain a credit for BSP in 2010, and 180,000 more could accrue entitlement to S2P. Around 1.8 million people are caring for more than 20 hours per week, evidence suggests that these people have lower employment rates than their non-caring counterparts.*

— Reform and simplify S2P, aligning parents and carers credits with the BSP. *According to government figures the effect of these reforms will be that around a further 1 million people will be accruing S2P entitlement; approx 90% of these will be women.*

— Amend category B pensions (if spouse does not have BSP in their own right they can draw 60% of their spouse's pension). *Currently a partner has to wait until his/her spouse draws their state pension before they are eligible to draw theirs. In future the partner will be able to draw the Cat B pension, at their SPA, regardless of when their partner chooses to draw theirs.*

— Restore the link between BSP and earnings from 2012 at earliest, but no later than 2015. *By 2050 the amount of BSP will roughly double in value, compared to if the link had not been restored.*

— Establish a link between Pension Credit's standard minimum guarantee and earnings, to ensures that every pensioner who claims Pension Credit will have an income of at least the poverty threshold. *Department for Work and Pensions (DWP) estimates show that in 2020 around 12% of pensioner households will be entitled to Pension Credit's standard minimum guarantee only, an income at the poverty threshold.*

46. We believe that the changes from 2010 and beyond will improve today's pension system for all the vulnerable groups we have highlighted above, and particularly for women, but there is scope to take the reforms further. A modern pension system that will work for future generations needs to be flexible and needs to recognise the caring and parenting work undertaken by many in this country. Unpaid caring work, including that provided by parents (and frequently grandparents) is valued today at £277 billion. This is set to increase as we deal with our ageing population.

Question 5: *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?*

47. The EHRC does not yet have the in-depth knowledge in this area to answer the questions posed above, and would refer to the experience and knowledge of organisations like Carers UK, Help the Aged and Age Concern.

48. The main benefit for carers is Carer's Allowance and is the lowest benefit of its kind. The 2008–09 rate is £50.55 per week. The rate is the same regardless of how many hours you do or how many people you care for. In September 2008 a House of Commons Select Committee said the benefit was out of date and called for it to be radically reformed.

49. We welcome the changes in the Pension Act 2007 around how Carers will accrue pension rights from 2010 onwards with self-certified credits, but again feel that the DWP have a job of work to do in informing Carers of these changes and ensuring that take-up is high.

Question 6: *Are lump sum payments, such as the Winter Fuel Payment, an appropriate way of addressing pensioner poverty?*

50. Winter fuel payments play an important role for current pensioners, and their non-means tested nature increases claim rates, as there is no associated stigma in claiming. Whilst we welcome any assistance to help support pensioners such measures do not work to address the underlying issues of pensioner poverty as a holistic issue, and their non-targeted nature means many are in receipt of this benefit when they do not require additional support.

51. Whilst we welcome the packages of support and the focus on energy efficiency measures these may not be appropriate for every household, for example those living in older housing stock without cavity walls to insulate, or those living in rented accommodation.

52. It is worth noting that fuel poverty may extend further up the income distribution than other measures of poverty because of the additional costs of heating larger properties, for example where a single older person wishes to remain in the family home, or when additional heating is essential due to disability or illness. The long term focus must be on enabling individuals to accrue an adequate standard of living in their own right.

Question 7: *Is the Government's programme of welfare reform the right approach for supporting pensioners who wish to continue working?*

53. Although we welcome much of the Governments programme on welfare reform much more could be done to support older workers to get back into work. New Deal 50+ aims to help you get a job if you are out of work and offers the opportunity to get new skills and build confidence in order that you find it easier to find work and to stay in work. A Pension Credit claimant, from the age of 60 can access the New Deal 50+, but as it is not a working age benefit and as New Deal 50+ is offered on a voluntary basis we would be interested to find out how often an individual gets signposted to the potential benefits of New Deal 50+ and how in practice that referral works. Certainly the Working Tax Credit element to New Deal 50+ along with earnings from part-time (over 16 hours) employment could potentially improve the income of someone if they were able to return to work and come off Pension Credit.

54. Also many people who are past State Pension Age (SPA) who want to continue to work, but who are not claiming Pension Credit (PC) may benefit from the support that New Deal 50+ has to offer them, for example a woman of 60 wishing to return to work after a break from work due to caring responsibilities. She may not be eligible for PC due to household income being just above the threshold, but would benefit from the additional income from returning to work which may enable her to save for her retirement.

55. The New Deal 50+ is available to the over 50's as additional support in getting back to work, however you have to have been claiming one of a selected list of benefits for six months before you are eligible. Maintaining contact with the labour market is crucial for this age group who may already have perceptions that they will find it difficult to regain employment due to employers being less keen to employ older people. Six months is a significant gap in an employment history and we suggest that this additional support should be available for older workers as soon as they start to claim.

56. More flexibility from employers in both the hours and the type of the work they offer would help this group of people, and also older workers above State Pension Age to remain in the labour market. There is evidence that people of this age want to work. A recent study[86] of 50–69 year olds found that attitudes to work are positive. Those in work wanted to carry on working and half of those who were retired would have worked for longer if there had been part-time or flexible work options available. Over half of the survey respondents thought they might like to do some work after retiring from their main job. Research undertaken for the Joseph Rowntree Foundation under its *Transitions After 50* programme also lends support to the conclusion that some older workers would welcome more flexible work options at the end of their working lives. In a qualitative study of retirement transitions in three organisations[87] 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.

57. It has been calculated that amongst the 2.7 million people aged between 50 and SPA who are not currently in work, between 700 thousand and a million would like some form of work.[88] For those who wanted to work in the future, over half would consider part-time rather than full-time work.[89]

58. Further promotion of The Working Tax Credit for 50 plus which enables older workers to top up their wages for one year from when they start back into work after claiming benefits may help encourage people in this group to take-up offers of part-time work (must work 16 hours plus to be eligible).

March 2009

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[86] Centre for Research into the Older Workforce (CROW) at the University of Surrey (McNair, Flynn, Owen, Humphreys and Woodfield, 2004; CROW, 2004.

[87] Vickerstaff, Baldock, Cox and Keen, 2004.

[88] NAO, 2004a.

[89] Humphrey, Costigan,Pickering, Stratford and Barnes, 2003.

Memorandum submitted by Professor Stephen Pudney, ESRC Research Centre on Micro Social Change, Institute for Social and Economic Research, University of Essex (TPP 28)

1. This evidence summarises preliminary work from a research project "The role and effectiveness of disability benefits for older people" funded by the Nuffield Foundation and supported also by the ESRC Research Centre on Micro-Social Change at ISER, University of Essex.[90] It is particularly relevant to issues 3 (Benefits take-up) and 5 (Disability Living Allowance and Carer's Allowance) highlighted in the Committee's call for submissions.

2. The Wanless Review (Wanless 2006) has argued for the staged diversion of public resources from the disability benefit system into the direct provision of care services. We urge caution in this, given the limited nature of existing research on the way that disability benefits work in practice. To meet this need, the research described here focuses specifically on Attendance Allowance (AA) and aims to answer the following questions:

- How does the AA system work in practice, not in terms of process, but in terms of the achieved pattern of delivery of benefit to potential claimants?
- How effective is the assessment process? Does the chance of success of a claim for AA depend as strongly on measured disability, as we would expect?
- How many potentially successful AA claims are not pursued by the potential claimants?
- What are the influences on claim behaviour? In particular, what are the personal characteristics and circumstances that distinguish AA recipients from potential beneficiaries who do not claim?
- Although AA is not means-tested in any formal way, does the nature of claimant behaviour mean that the AA system in fact mimics the effects of means-testing?

3. We argue that the concept of "take-up" is unhelpful in the case of disability benefits. Means-tested benefits like Pension Credit, Housing Benefit, etc can use objective arithmetic rules based on measurable factors like income, assets, age, etc, whereas the assessment of claims from those "who need help with personal care because they are physically or mentally disabled" (Department for Work and Pensions 2008) inevitably involves judgement about the meaning of "need" and "disabled". Two different assessors processing the same application in the same circumstances may often—quite reasonably—reach different conclusions. Uncertainty is an inherent part of the system design, however carefully the rules are drafted. Rather than a simple distinction between entitlement and non-entitlement, we analyse the probability of a claim being judged successful. Attempts to calculate take-up rates for AA in the same way as for means-tested benefits seem misplaced.

4. Behavioural theories which regard benefit claims as a form of "rational" decision-making behaviour predict that:

(i) People with higher income will be less likely to claim AA.

(ii) People with more severe disability will be more likely to claim AA *unless*:

- disability makes it much more difficult to negotiate the claims process and/or;
- disability reduces the individual's capacity to benefit from additional cash income (eg because of the difficulty of managing the process of buying care).

Point (i) means that the flat-rate non-means-tested AA system may mimic a means-tested benefit to some degree. Point (ii) means that, should we find claim behaviour to be unaffected by the severity of disability, it would suggest a problem of poor targeting of AA, in the sense that disability in itself makes the process of claiming and using the benefit more difficult.

5. Research on this issue is difficult since no large-scale data source tells us everything we need to know. Sources like the DWP's Family Resources Survey tell us about receipt of AA, but not about unsuccessful claims or unpursued potential awards. The DWP's administrative records also tell us nothing about unpursued potential awards and they contain no information on factors like income, which are not required on the AA application form. Our research uses a new method which combines survey and administrative data to distinguish the separate roles of individual claim behaviour and the DWP assessment process.

6. Our main findings (presented in detail in a forthcoming technical paper Pudney 2009) are the following:

Finding 1

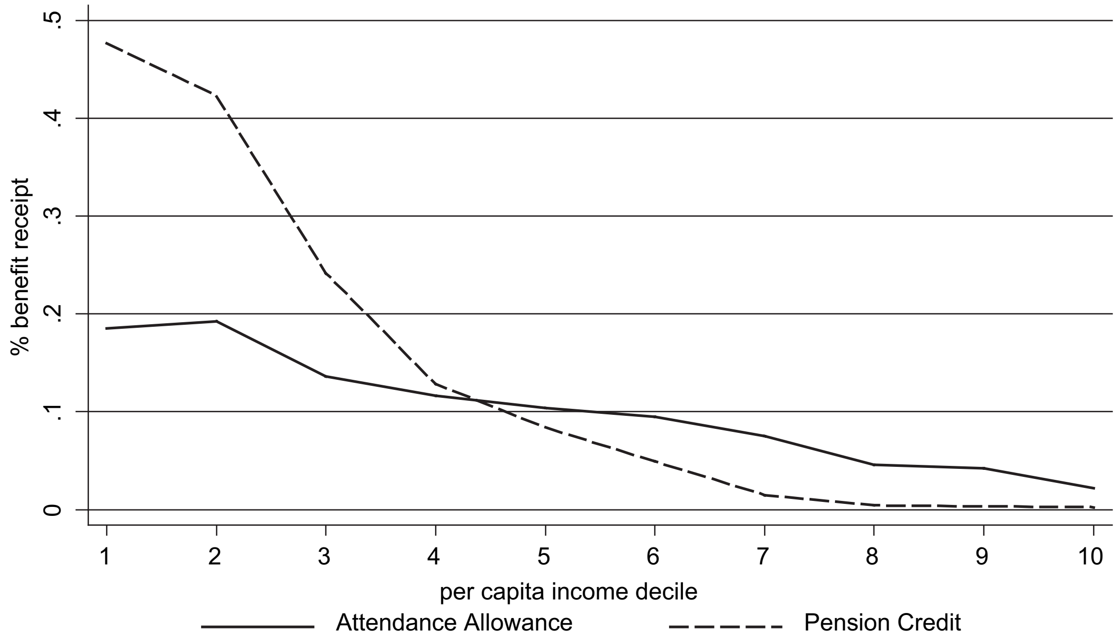
Despite its formal design as a non-means-tested, largely flat-rate, benefit, AA is essentially self-means-tested in the sense that people who could be seen as having greater general need (ie older and with lower incomes) have higher probabilities of claiming AA, for any given level of disability. However, the targeting of AA towards low-income people is considerably less pronounced than for the explicitly means-tested Pension Credit system; for example, around 20% of people in the bottom fifth of the distribution of original per capita income[91] receive AA, compared with 40–50% for Pension Credit (Figure 1).

[90] The Nuffield Foundation is supporting this project to stimulate public discussion and debate but responsibility for the analysis and views expressed here rests with the author. Other members of the team working on the Nuffield Foundation project are: Ruth Hancock and Marcello Morciano, University of East Anglia, Francesca Zantomio, University of Essex and Monica Hernandez, University of Sheffield.

[91] Income before means-tested and disability benefits, divided by the number of benefit unit members.

Figure 1

RATES OF RECEIPT OF PENSION CREDIT AND ATTENDANCE ALLOWANCE AGAINST PER CAPITA PRE-BENEFIT INCOME (Family Resources Survey 2002–03—2004–05)



Finding 2

The probability of an AA claim being upheld is strongly related to the claimant's severity of disability, expressed in terms of the number and nature of daily activities which are affected.

Finding 3

Claim behaviour is strongly influenced by the severity of disability. We predict a much higher probability of a claim for AA being made by people who are severely affected by disability. This tends to support the view that targeting is reasonably good in the sense that the 'hassle' of making a claim and the difficulty of using additional cash income effectively do not become overwhelming for higher-disability groups. This is, however, only a statistical statement about average behaviour for groups of people—there will still exist many particular individuals who suffer because they are put off from claiming by the hassle involved, or by worries about using a cash allowance to pay for care.

Finding 4

Targeting appears to be some way short of the picture suggested by the rules of the AA system. There is evidence of a large group of potential AA awards which are not made, because no claim is put forward. At least a third of over-65s in the household population who are not receiving disability benefit would be predicted to be successful if they were to make a claim. This is a striking finding which is supported by the fact that, of AA non-recipients in the Family Resources Survey, 37% report the existence of disability affecting at least one activity of daily living. Even among those so disabled as to be receiving care day and night, fewer than 60% are recorded by the survey as receiving AA. Similar, or even lower, rates of AA receipt are observed for care recipients in other surveys, including the English Longitudinal Survey of Ageing and the British Household Panel Survey.

7. Our preliminary interpretation of these findings is that they support the view that there is a role for cash benefits like Attendance Allowance within the system of support for older disabled people. There is a significant problem of delivery of these benefits to those who might qualify for them, but we see no reason to believe that a system based purely on direct provision of care services would be more effective in its delivery. The strong disability gradient of claim behaviour suggests that a large proportion of potential beneficiaries do see cash benefits as a valuable form of support.

8. Our work on this project is due to be completed by 30 September 2010. We will keep the committee informed of further findings as they emerge.

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March 2009

Memorandum submitted by the Mayor of London (TPP 29)

Introduction

1. The Mayor welcomes the opportunity to make this submission to the Work and Pensions Select Committee inquiry into tackling pensioner poverty in Great Britain.

2. The Mayor regards tackling pensioner poverty as a key issue for London and has recently undertaken a benefits take up campaign with Citizens Advice, Age Concern London and the Princess Royal Trust for Carers to help tackle this issue. The Energy Saving Trust are also involved in this campaign.

3. The Mayor believes that among the key issues that London faces are low take-up rates among certain groups of key benefits that could help to tackle poverty, the complexity of the claims process and stigma of claiming, and the diversity of London's population. This makes it difficult to get key messages about benefits across to groups that could claim.

4. The Mayor believes that greater targeted work among low take up groups and more face to face claims work would help to boost take-up rates.

What more does the DWP need to do to address pensioner poverty? Are there specific groups who are more vulnerable to facing poverty in old age?

5. Average incomes are higher in London than in Great Britain as a whole but there is also a wider range of income levels in the capital than elsewhere. The financial circumstances of older people span the entire spectrum of incomes, from the very rich to the very poor. Generally speaking, however, older people are found at the lower end of the range and pensioners have a higher risk of living in poverty than working age adults. Indeed London has some of the poorest older people in the country. (DWP: Households Below Average Income).

6. The likelihood of being on a low income is higher for certain groups of pensioners than others. At all ages older women have a lower average income than men; nearly a third of pensioners from black and minority ethnic groups are living on low incomes; disabled pensioners are among the poorest pensioners in London and they face additional costs associated with their impairment. Older LGBT people may also be on low incomes if their employment has been disrupted by discrimination.

7. The Mayor believes that the Government should, as a matter of priority, do more to ensure that people who are entitled to key benefits are encouraged and able to claim them. Take-up rates of key benefits continue to lack behind in London compared to other parts of the country. These benefits are often intended to help alleviate poverty and can make a real difference to older people's living standards.

8. For example DWP data suggests that 30–40% of older people who are entitled to Pension Credit don't claim it. Take up remains especially low among black and minority ethnic communities.

9. Research commissioned by the Department for Communities and Local Government, published in 2007, also showed the take-up rate of Pension Credit in London to be among the lowest in the country.

10. Many groups are unable or unwilling to claim the benefits that they are entitled to for a number of reasons. This includes lack of awareness, difficulty in claiming, perceived stigma in claiming and issues such as language and cultural barriers, and isolation.

11. The DWP needs to fund more directed information campaigns and face to face benefits work aimed at the key groups who are not claiming.

12. Experience shows that face-to-face benefits assessments are more effective at getting people to claim both in terms of numbers and in the amount that they claim than telephone helplines. The Mayor therefore believes that more effort should be put into claims teams going into the target communities to work with possible claimants on a one to one basis.

13. Greater use of the voluntary sector may also be worth pursing. In his recent Know Your Rights campaign the Mayor teamed up with Citizens Advice Bureau, Age Concern London and the Princess Royal Trust for Carers to offer information and one to one advice to possible claimants. Many older people are

reluctant or unable to use telephone helplines and prefer to talk face-to-face with independent advisors. There is evidence that this is a more effective approach both in pursuing effective claims and maximising income for individuals.

14. The Mayor also welcomes the piloting of automatic payments and believes that they could make a real difference to take-up rates in some areas.

What is the impact of the financial crisis on pensioner poverty?

15. The Mayor is very concerned at the likely impact of the current financial crisis on older people.

16. Savings income has dropped to almost nothing and older people are more affected by this than any other group. Many older people have also in the past often had sizeable capital assets but limited income.

17. The collapse in income from investments and in the housing market will lead many people who believed that they had made sufficient provision for their old age into financial difficulties. Older people are often unable to make any alternative provision such as returning to work and saving more.

18. Analysis by groups such as Age Concern England also suggests that older workers are among those most likely to be made redundant.

19. The reaction of many older people will be to tighten their belts rather than imagine that they could get extra help. Indeed, many who have worked and saved all their lives will be reluctant to turn to the state for help.

20. This is why it is so important the Government gets its message right and puts in place processes to make it as easy as possible for people to claim benefits to which they may be entitled.

Why do some people not take up their entitlements to benefits and how can take-up rates be improved? What impact will the pilots for the automatic take up proposed in the Welfare Reform Bill have on pension credit take-up?

21. The reasons for non-take-up of benefits have been fairly well documented and include stigma, language barriers, reluctance to claim, and people being deterred by the often lengthy, difficult and intrusive claims process.

22. There is evidence that face-to-face benefits work is much more effective at getting people to claim money to which they are entitled.

23. The Mayor would suggest that more is invested in face-to-face claims work but also in improving the standard of help and advice given over telephone help lines which will continue to be the first point of contact for many people. The Government should look at how this can be improved.

24. Providing accessible advice and information in a variety of formats will also help to encourage more people to claim. The Mayor's own benefits take up campaign "Know Your Rights" aimed to do just this and he will build on this in the years ahead.

25. The pilots for the automatic take-up of benefits proposed in the Welfare Reform Bill will, the Mayor believes, have a positive effect on benefit take up rates in London for some benefits such as pension credit. But these are of course just pilots at this stage. The Mayor would urge that any positive lessons from these pilots be rolled out across London as soon as possible.

Basic state pension—will the 2010 changes create a fairer state pension?

26. The Mayor broadly supports the changes in the basic state pension especially around wider entitlement which will help to alleviate pensioner poverty. However, there are also many pensioners who need extra help now and the Government should be doing more to help them.

With regard to 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?

27. The eligibility rules for Disability Living Allowance, Attendance Allowance and Carer's Allowance are generally seen as being overly complicated with a confusing number of overlapping benefit rules.

28. Currently, people over 65 can make a claim for Carer's Allowance, but rarely receive it if they have contributed enough to receive a State Retirement Pension. The Government should review existing benefit rules so that carers over 65 are able to claim and receive both Carer's Allowance, and the State Retirement Pension, in recognition of the important role of older carers and the savings they make to the health and social care system.

29. In addition, many older people are unaware of their entitlement to Attendance Allowance. This is a non-means tested benefit that can make a real difference to the most vulnerable older people and the housebound, especially those without carer support.

30. The forms for these benefits are complicated and time-consuming to fill in especially for older people who may require some help. The forms are often full of difficult terminology and the level of detail required in the responses is not easily understood.

31. Eligibility rules for Attendance Allowance are also an example of age discrimination. If you are under 65 you can claim the mobility component of Disability Living Allowance (and continue to receive it if you move into a care home), but there is no such component attached to Attendance Allowance for the over-65s. The justification for this is hard to fathom.

32. The rates for Disability Living Allowance and Attendance Allowance increase in line with inflation but do not match the huge increases that have occurred in the cost of care over recent years partly caused by under funding of these services by the Government. This means that the care and assistance that these benefits can buy has declined over time.

33. The costs of living in London are also higher than elsewhere in the country. This is not reflected in the benefits that people receive.

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

34. Lump sum payments can help but these should also be paid automatically otherwise we have the same barriers to claiming as identified for other benefits. The Mayor understands that there is a claims process that people have to go through to claim the Winter Fuel Payment whereas the Cold Weather Payment is paid directly to those who are eligible.

March 2009

Memorandum submitted by David Luff (TPP 30)

I write to you as chair of the committee on Pensioner Poverty. I watched your committee on "Parliament Live". I was dismayed that during that discussion that no mention was made concerning the way this Government has discriminated against the Elderly. The Chancellor in the Budget this year announced an increase in the threshold for Mortgage Interest Relief for those on Income support. I had the feeling from the discussion that you agreed that the term Guaranteed Pension Credit was introduced to help the elderly accept Income Support under another name. Are you aware then that all pensioners with a mortgage claiming Guaranteed Pension Credit have been excluded from the increased threshold, it would seem to me that this term has been used to discriminate against the elderly. This makes a mockery of the Equality Bill going through Parliament and surely is age discrimination. Your views would be appreciated.

May 2009

Supplementary memorandum submitted by Department for Work and Pensions (TPP 19a)

At my recent appearance before the Committee on 20 May, I agreed to provide you with further information on four issues. These are set out below, following the sequence in which they were raised during the hearing.

Alerting Customers to the Budget Change to the Capital Allowance (Question 169)

As part of my oral evidence, I referred a letter from Terry Moran, Chief Executive, Pensions Disability and Carers Service (PDCS), in which he outlines how we will make customers aware of the increase in capital limit to £10,000. A copy of this letter is attached at Annex A.

Targets for Pension Credit Take-up (Questions 178 and 179)

There was, during the Spending Review 2004 period, a Public Service Agreement that looked to deliver a Pension Credit caseload of 3.2 million. However, it became apparent that this target level was unachievable.

Subsequently, the Pension Service (as it was then), was instead set a target to deliver 235,000 new successful awards of Pension Credit for 2007–08. This was felt to be a better target for the agency, as it is better placed to influence the take up of new awards, rather than achieving an overall caseload level.

Over 2007–08 the Pension Service delivered 235,900 new successful awards, therefore meeting this new take-up target.

For 2008–09 the PDCS was set the target of delivering 250,000 new successful awards, with a target for the total amount paid of £767 million.

Publicly available data shows that in the period April—November 2008, there have been approximately 173,000 new successful awards. This figure, along with internal Pensions Disability and Carers Service (PDCS) management information, suggests that PDCS are on track to meet the take-up target of 250,000 new awards. Verified figures will be published as National Statistics in the Autumn.

For 2009–10, we have set the PDCS a more stretching Pension Credit take-up target—255,000 new successful awards. As part of an attempt to simplify the target regime, and because it did not appear to be having a major impact on agency performance, we have decided not to continue with the financial element of the target.

Impact of the Downturn on Pensioner Poverty (Question 221)

Estimates of the impact of the downturn on pensioners with low income are subject to uncertainties around future income growth, changes in the overall income distribution and individual's responses to policy changes.

The latest estimates of pensioners in poverty are based on 2007–08 and therefore are before much of the economic downturn. This means that they do not take account of a range of factors. For example during 2008, general price growth (Retail Price Index) was 4% and has since reduced. In April 2009 the basic state pension was increased by 5% and the standard minimum Guarantee was increased by 4.8%. The Government has also taken forward a range of additional measures to support pensioners as announced in Pre-Budge Report and Budget 2009 such as the additional payments alongside the winter fuel payments and an increase to the Christmas bonus.

Typically in a recession pensioner incomes remain stable whilst working age income falls. As a result, we might expect a temporary fall in the number of pensioners in relative poverty. For example, Households Below Average Income (HBAI) figures covering the last recession between 1990 and 1993 show that the percentage of pensioners in relative poverty (below 60% of median household income after housing costs) fell from 41% for the years 1988–89 to 31% for the years 1993–95 combined.

In their recent commentary on the latest HBAI results, The Institute for Fiscal Studies (IFS) said that, based on previous recessions, they expect a reduction in poverty overall, driven by a fall in pensioner poverty.

However since the last recession a number of policies have been introduced which reduced the link between the economic cycle and pensioners in low income. Earnings uprating of standard Minimum Guarantee have helped to provide a significant safety net for pensioners, along with the uprating of basic state pension by a minimum 2.5% or RPI, depending on whichever is higher.

The result is that the proportion of pensioners in low income is at a historically low level (at 17% in 2005–06, 18% in 2007–08) as the economy enters a downturn.

Jobcentre Plus Help for Offer Older People Seeking Work (Questions 240 and 241)

Jobcentre Plus policy is to treat all customers with courtesy and respect, regardless of age. Older people claiming a DWP benefit have ready access to a Personal Adviser who will provide advice and guidance appropriate to their needs. For example, those on Jobseeker's Allowance have the full support of the jobsearch regime and Flexible New Deal. Those on Incapacity Benefit or Employment & Support Allowance have access to the Pathways to Work programme.

It is standard practice that older people not claiming a DWP benefit will be referred to self-help materials available through Jobcentre Plus (eg Job Points, Internet Job Bank) and sign-posted to other organisations appropriate to the customer's needs.

Additional Information

Following the hearing on 20 May, the Committee clerk provided my officials with details of three additional points where further information was requested, these are set out below.

Encouraging Pensioners to Take-up Entitlement to Housing Benefit and Council Tax Benefit

The Department used two letters to encourage pensioners to take-up their entitlement to either or both of Housing Benefit and Council Tax Benefit. I attach a copy of each. The letter sent to customers who receive Pension Credit guarantee element but do not receive council tax benefit or housing benefit is attached at "Annex B". The letter for customers who receive the Pension Credit savings element but do not receive council tax benefit or housing benefit is at "Annex C".

DWP Action to Increase Take-up of Housing Benefit and Council Tax Benefit, Including Data Sharing and Project Olive

Data-matching

This Department has been running annual data-matching scans since February 2005, to identify people who are receiving Pension Credit but not claiming Council Tax Benefit. This includes people who are getting the Pension Credit Guarantee Credit but not Council Tax Benefit, and who therefore could be getting all of their council tax covered by Council Tax Benefit. The most recent of these was run in April this year and as a result we identified over 230,000 cases where Pension Credit was in payment with no evidence of Council Tax Benefit, or Housing Benefit, in payment. Not all will be entitled to Council Tax Benefit eg some may be people who do not pay Council Tax.

Terry Moran, Chief Executive, Pension Disability and Carers Service (PDCS), has recently written (this month) to each of the 230,000 pensioners suggesting they contact their Local Authority to make a claim.

At the same time he has also written to the Chief Executives of all Local Authorities urging them to make use of the data we have sent them. We are optimistic that these letters will lead to many more pensioners receiving the Council Tax Benefit to which they are entitled.

New "one-call" Process

We have already made it simpler for pensioners to claim Council Tax Benefit. They can now do this at the same time as they make a claim for Pension Credit. In fact they can claim Pension Credit, Council Tax Benefit and Housing Benefit in a single telephone call to the PDCS.

We have since established a project to introduce a further improvement to the process. From later this year, the PDCS send all Housing Benefit / Council Tax Benefit claims details gathered during the "one call" process directly to the Local Authorities by means of electronic transfer.

Local Service Joint Working

Joint teams of Local Authority and PDCS staff work on encouraging local take-up of Housing Benefit and Council Tax Benefit throughout the country by focusing on these additional benefits as part of the "full benefit entitlement check". Local Service staff now carryout these checks whenever appropriate, with over 13,000 face-to-face visits to customers each week.

Council Tax Benefit take-up best practice guide

We produced "Council Tax Benefit: A best practice guide" for Local Authorities in 2004 which contains information about barriers to claiming Council Tax Benefit and suggests ways these might be overcome, as well as giving case study examples of good practices being carried out by various Local Authorities to improve take-up.

Research—Project OLIVE

The evidence from the data matching exercises we currently run suggest that we are still some way from being able to accurately identify those who are entitled.

We have undertaken research with four Local Authorities to test whether data held by PDCS and used by them to identify customers who may be entitled to Pension Credit could also identify pensioners entitled to Council Tax Benefit.

We sent them the names and addresses of people we believed may be entitled to Council Tax Benefit and asked the authority to make contact with them and invite a claim. The results are still being analysed.

Marketing

This year, with Local Authorities' support, we again ran a national Council Tax Benefit awareness campaign around the time that new council tax bills were issued.

We fund the production of example publicity materials for Local Authorities to use in local activity to raise awareness of Council Tax Benefit. We also placed notices in the regional press to promote Council Tax Benefit with advice about how to claim, and placed articles in publications targeted particularly at pensioners. We gave interviews on several local and regional radio stations encouraging pensioners and other people on low incomes to claim the money they are entitled to.

Re-branding

In response to the campaign led by the Royal British Legion focused on formally re-naming "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.

Pensioner Poverty by Region and Regional Take-up Campaigns

The latest available data we have relates to 2005/06—2007/08. Regional figures are presented as three year averages, because single year estimates are unreliable due to small sample sizes.

The table shows that between 1998/99—00/01 and 2005/06—2007/08 the percentage of pensioners in relative poverty after housing costs has fallen substantially across all regions.

In 2005/06—2007/08 the percentage of pensioners in relative poverty ranged from 16% (in the East of England, South East and Scotland) to 22% (in London as a whole).

PERCENTAGE OF PENSIONERS IN RELATIVE POVERTY

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

Action to Tackle Pensioner Poverty on an Area Basis

PDCS Local Service plays an important role in promoting take-up of benefits at a local level. Local Service carries out around 13,000 visits each week to vulnerable customers to ensure they are receiving all the benefits and services they are entitled to.

PDCS also has Joint Working Partnerships live or at the implementation stage, with all 203 primary tier Local Authorities in England, Scotland and Wales. These partnerships enable the Pension Disability and Carers Service, Local Authorities and the voluntary sector to provide a single point of access to social care and benefit entitlement.

In January 2009 PDCS launched a rolling programme of targeted take-up activity across a number of areas where our insight suggests there are a high number of eligible non-recipients of 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.

The take-up activity is focused initially on those areas that have a high number of customers who appear entitled to, but not receiving Pension Credit. These areas have been identified using PDCS insight that utilises a range of measures to reflect relative poverty at an area level. As the campaign is very resource-intensive for Local Service this is also a consideration in deciding where activity should be focussed, along with: operational capacity, local area knowledge and the strength of existing partnerships. In some areas, for example the North East, the campaign will be extended to the wider region.

The campaign involves Local Service teams working closely with national and local partners, both in planning and delivering the campaign to ensure that all available knowledge is used to deliver a highly effective take-up campaign. We are staggering the implementation of the campaign to ensure that the delivery and high customer service standards are maintained.

I hope this information will be helpful to your enquiry.

RT HON ROSIE WINTERTON MP

Annex A

Dear Rosie,

INTRODUCTION OF THE BUDGET 2009 CHANGE TO THE PENSION CREDIT CAPITAL THRESHOLD

Following the announcement in the recent Budget regarding the increase in the Pension Credit capital threshold, I am writing to update you on the Pension, Disability and Carers Service's plans to implement this change.

As you are aware, this change will benefit around half a million people who will have any capital below £10,000 disregarded in full for the purposes of calculating Pension Credit.

The majority of these are existing Pension Credit customers. These customers will have their entitlement re-calculated automatically and will be paid their new rate of Pension Credit from their first payday in the week commencing 2 November.

Our analysts have advised that around 50,000 people will become eligible for Pension Credit when the rules change in November. These people will have to apply for Pension Credit.

We are using a range of communication methods to make people aware of the changes—both for our existing customers who will see their entitlement rise and for people who may want to apply as a result of the change.

The change will be incorporated into communications materials developed to support the Pension Credit campaign. We will also be using regional media activity to support the campaign by highlighting the change in briefings and press releases to ensure local media are aware that more people in their area will be eligible for Pension Credit and that some people will receive an increase in their Pension Credit.

In addition we will incorporate the message into direct mails and outbound telemarketing scripts to eligible non recipients to encourage them to respond. We are also issuing guidance to our customer advisors so that they can, where appropriate, inform unsuccessful applicants that the rules will change in November and suggest that they re-apply then.

We have considered whether it would be possible to contact previously unsuccessful applicants to inform them of the rule change. We receive around 60,000 unsuccessful applications a year—these are unsuccessful for a combination of reasons and we have no easy way of identifying those claims unsuccessful which were solely on capital grounds.

Even if we could identify such customers, they would still have to re-apply from November as they are required to submit details of their financial circumstances at the time of the claim.

With the plans to publicise the change I believe we will have taken all reasonable steps and made the best use of our resources.

As I said, the vast majority of those that could benefit from this change will do so automatically when our systems are updated. Through our concerted communications efforts we hope that many of our existing customers will be expecting the changes and those people who become eligible will apply from November.

I hope you find this useful.

Kind regards

Terry Moran

Annex B

Dear Customer

Are you missing out?

Our records show that you are getting Pension Credit. But you might be entitled to more help. And we want to make sure you are not missing out on any of the help you are entitled to.

Did you know that, as you get Pension Credit guarantee credit, you are likely to be entitled to Council Tax Benefit, if you pay Council Tax? Which means you may pay less Council Tax. You could even get it backdated for up to three months. But you must make a claim to get it.

And if you rent your home, you may be able to get help with your rent by claiming Housing Benefit.

To claim Council Tax Benefit, or Housing Benefit, you need to get in touch with your local council. You can ring them on xxxx xxx xxxx.

So don't delay—ring them now and make sure you're not missing out on what you might be entitled to.

Yours sincerely

Terry Moran

Chief Executive

The Pension Service

ANNEX C

Dear Customer

Are you missing out?

Our records show that you are getting Pension Credit. But you might be entitled to more help. And we want to make sure you are not missing out on all the help you are entitled to.

Did you know that if you get Pension Credit and you pay Council Tax, you may be entitled to Council Tax Benefit? Even if you have savings of up to £16,000. Which means you may pay less Council Tax. And you could even get it backdated for up to three months. But you must make a claim to get it.

And if you rent your home, you may be able to get help with your rent by claiming Housing Benefit.

To claim Council Tax Benefit, or Housing Benefit, you need to get in touch with your local council. You can ring them on xxxx xxx xxxx.

So don't delay—ring them now and make sure you're not missing out on what you might be entitled to.

Yours sincerely

Terry Moran

Chief Executive

The Pension Service

Supplementary memorandum submitted by Citizens Advice Bureau (TPP 24a)

I noted three things during the evidence session on which the committee requested extra information from me

1. Fuel Poverty

Our website information is athttp://www.adviceguide.org.uk/index/your_world/gas_and_electricity.htm

Also I attach an extract from our intranet information used by CAB advisers when seeing clients (Annex A). I believe we have also run a smaller project giving people more detailed advice on managing their energy bills.

2. Money Guidance Needs of Older People

I attach a briefing on the pilot Money Guidance service that we are running in the north east (Annex B).

3. CAB Caseload on Pension Credit

In 2008–09 58,837 people received advice about PC from CABs in England and Wales. The breakdown of issues was:

Pension Credit	A Eligibility, entitlement, calc.	48,163
	AG Gateway	4,493
	B Poor administration	1,435
	C Complaints	609
	D Revisions + supercessions	1,326
	E Appeals	1,377
	F Backdating	1,732

	G Housing costs(home owners)	2,092
	J Passported help	939
	L Alleged fraud	245
	N Payment	2,047
	S Co-habitation	242
	T Direct deductions rules	246
	W Form filling + checking	3,168
	Y claiming process	7,049
	Z Other	4,138
Pension Credit Total		**79,301**

The total is bigger than the number of people because some had issues under more than one category.

Alan Barton
Social Policy Officer (Older People's Benefits and Pensions, and Community Care)

May 2009

Annex A

REDUCING FUEL COSTS

Extract from Citizens Advice Advisernet (the intranet site used by CAB advisers when seeing clients)

Changing Supplier

The client wants to change supplier

A client can choose the company to supply his/her gas and electricity. The same company can supply both gas and electricity. This is known as dual-fuel supply. Some companies may offer discounts for dual-fuel supply.

It may be possible to save money on fuel bills by changing to a different supplier. A number of price comparison services are available on the internet, including one supplied by Consumer Focus. If using a price comparison service, it is advisable to choose one that has been accredited by Consumer Focus. This will ensure, for example, that the price comparison service is independent of any gas or electricity supplier, although it may take commission from them. Accredited services are listed on the Consumer Focus website at www.consumerfocus.org.uk. The client will need details of how much s/he is paying annually with her/his current supplier in order to make the comparison. S/he can calculate this by looking at her/his last four quarterly bills.

A client who is deciding which supplier to transfer to should consider the following factors:

- whether a standing charge is payable. A standing charge is a fixed amount a customer has to pay for each day s/he is connected to a gas or electricity network. Suppliers may offer deals both with and without standing charges;
- the price of each unit of gas or electricity, including VAT;
- the payment method, for example, paying quarterly, by direct debit or a prepayment meter. Prices may vary according to the method chosen. Prepayment meters are generally the most expensive method of payment; and
- if there is a penalty for cancellation of the contract. This generally only applies to some fixed or capped price contracts.

A client can move from one energy supplier to another very easily, provided s/he does not have any existing debts or only a certain amount of existing debt.

The client should check the terms and conditions of her/his agreement to see whether s/he is tied into the agreement for a minimum period and whether there is a penalty for ending the agreement early. It normally takes six weeks for a transfer to a new supplier to be completed. If a client is moving to a dual-fuel deal, s/he should ensure that her/his gas and electricity transfer on the same day.

A client should pay any outstanding bills that are owed to her/his supplier and take a meter reading on the day s/he changes supplier.

A client who has changed supplier without intending to may be able to change back under the Erroneous Transfer Customer Charter.

Help for Vulnerable Clients

Priority Service Register

The Priority Service Register is a scheme under which a range of extra, free services is offered by gas and electricity suppliers to eligible customers. To be eligible, a client must:

- be of pensionable age; or
- have a disability; or
- have long term ill health; or
- be visually impaired or hearing impaired.

The free services available include the following:

- a password protection scheme;
- quarterly meter readings and/or repositioning meters if the meter is inaccessible to all members of the household, or if no one in the household can read the meter;
- a free annual gas safety check if the client lives in an owner occupied house, receives a means tested benefit, and either all adults in the household meet the conditions for registration on the Priority Service Register or there is a child aged under five in the household;
- special controls and adaptors;
- a bill nominee scheme; and
- services for visually impaired or hearing impaired customers.

There is more information about the free services available to a client on the Consumer Focus website at www.consumerfocus.org.uk

Home Heat Helpline

The Energy Retail Association has set up Home Heat Helpline to provide practical advice for vulnerable customers and those finding it difficult to pay their bills, and to help advisers and customers contact specialist teams within each energy supplier. Home Heat Helpline is available as an online information service and as a telephone helpline. They both provide the following information:

- information about the Priority Services Register;
- telephone numbers which provide direct access to the suppliers' priority service teams;
- information about grants for free home insulation, flexible payment options, winter rebates, social tariffs and the disconnection safety net; and
- tips for making a home energy efficient.

The online information service is on their website at www.homeheathelp.org.uk. The information is presented through weblinks and a range of fact sheets which can be downloaded. There are separate fact sheets for advisers and customers, and fact sheets targeted at specific audiences, for example, young families, older people and disabled people.

There is also an online enquiries service on their website at www.homeheathelpline.org.uk. This allows a client to log an enquiry online and to arrange to receive a call back. A client or an adviser acting for her/him must complete the short online enquiry form. Once submitted, a specialist Home Heat Helpline adviser will call the client back at the requested time to discuss her/his issue. The specialist adviser will also be able to help her/him to access free home insulation, social tariffs and other specialist help from her/his energy supplier. Contact details for the Home Heat Helpline are:

Home Heat Helpline *(England, Wales and Scotland)*

Free Helpline number: 0800 336699 (Mon-Fri 9.00am-8.00pm; Sat 10.00am-2.00pm)

Free Minicom number: 0800 027 2122

Website: www.homeheathelpline.org

Charitable help with fuel bills

A client may be eligible for help from one of the charitable trusts or hardship schemes set up to assist vulnerable people with fuel debts. The British Gas Energy Trust has produced a booklet listing many of the trusts and schemes. A copy of the booklet is available on the British Gas Energy Trust website at www.britishgasenergytrust.org.uk. If a client's particular fuel company is not included in any of the schemes listed in the booklet, s/he should contact the company direct for further information, and consider applying to other charities for help.

Contact Consumer Direct for vulnerable clients

A vulnerable client (see next paragraph) who has a problem which cannot be resolved directly with her/his supplier should contact Consumer Direct. Where appropriate, the complaint will be referred by Consumer Direct to the Consumer Focus Extra Help Unit which will take up the complaint on the client's behalf.

A client is vulnerable where it is not reasonable to expect her/him to pursue a complaint on her/his own because of:

- mental or physical disability;
- a lack of basic skills, for example, literacy skills. This includes poor, or no, English skills but does not include a client from an ethnic minority who is capable of dealing with a complaint because s/he speaks English reasonably well or has access to alternative language facilities;
- personal circumstances, for example, a recent bereavement;
- the urgency/criticality of the situation and her/his inability to be able to handle the issue within the timeframe in which s/he needs to act;
- the complexity of the problem; and
- any combination of such factors.

If a vulnerable client has had her/his complaint referred by Consumer Direct to the Consumer Focus Extra Help Unit, that complaint will go through the following stages:

- the case will be investigated and the client will receive an acknowledgement in two working days after the day on which the case was received by the Consumer Focus Extra Help Unit;
- the client will receive a response from her/his supplier within ten working days after the day on which the case was received by her/his supplier; and
- her/his supplier's response will be discussed with the client. If s/he is satisfied, the case will be closed and if not, the Consumer Focus Extra Help Unit will continue to negotiate with the supplier.

75% of complaints should be resolved in 35 working days and the majority in 66 working days.

If the client is still not satisfied with the outcome achieved by the Consumer Focus Extra Help Unit, s/he can take her/his complaint to the Energy Ombudsman

Energy Efficiency

A client may be able to reduce her/his fuel bills by using fuel in a more efficient way or by insulating her/his home. Every gas and electricity supplier must have a code of practice on using gas and electricity efficiently and most major suppliers provide energy efficiency advice services to their customers.

The Energy Saving Trust and the Energy Retail Association have advice on their websites about how a customer can reduce her/his bills and use less energy. This information is available from the Energy Saving Trust at www.energysavingtrust.org.uk and the Energy Retail Association at www.energy-retail.org.uk.

In England and Wales, local councils have discretionary powers to make housing improvement grants for improving or repairing a property. Local councils can also assist with minor works such as thermal insulation.

In Scotland, grants are available from local councils for private owners and tenants for improving or repairing property and this may include heating and insulation. Conditions apply and a client should contact her/his local council for details of its policy.

Grants may be available to improve the energy efficiency of a client's home under various schemes in England, Wales, and Scotland. The work that grants can cover includes loft, tank, pipes and cavity wall insulation, draughtproofing of windows and doors, energy saving light bulbs and space and water heating improvements. A grant is available to owner-occupiers and to people renting accommodation who meet the qualifying conditions.

Fuel and benefits

A client who is getting benefit may need benefits advice to ensure that s/he is receiving her/his full entitlement. A client may be eligible for a cold weather payment or a winter fuel payment.

A cold weather payment is a payment from the regulated social fund made to some claimants of income support, pension credit, income-based jobseeker's allowance (JSA) or income-related employment and support allowance (ESA). A cold weather payment is payable to help with heating costs when the weather has been exceptionally cold for at least seven consecutive days.

A winter fuel payment is an annual tax-free payment made to people aged 60 or over. It can be paid at the same time as a cold weather payment.

Warm Front Scheme

Warm Front is the home energy efficiency scheme which provides grants to help cover the costs of home insulation and of improving energy efficiency. It is available to owner-occupiers and to people renting accommodation who meet the qualifying conditions.

The scheme is administered by a company called eaga, which is referred to as the scheme manager. Information about the scheme and details about applying are available from eaga by calling eaga on freephone 0800 316 2805, or from the Warm Front website at www.warmfront.co.uk.

What Warm Front grants are for

The work that can be covered by a Warm Front grant can include one or more of the following:

- insulation measures, for example, cavity wall insulation, loft, tank and pipe insulation, draughtproofing of windows and doors, ventilation, hot water tank jackets;
- space and water heating improvements, for example, gas room heaters with thermostatic controls, electric storage heaters, closed solid fuel fire cassettes, immersion water heaters, timer controls for electric space and water heaters;
- improvement to the energy efficiency, repair or replacement of any part of any space or water heating system;
- provision of gas, solid fuel or oil central heating systems (including systems which generate electricity), conversion of open solid fuel room fires to closed solid fuel room fires, provision of central heating systems connected to the local community heating grid;
- provision of space or water heating systems which use energy from renewable sources; and
- energy advice and energy saving light bulbs.

Who is entitled to a Warm Front grant

Housing status

A client who wishes to apply for a grant must occupy the property for which the grant application is made as her/his only or main residence. S/he must either own the property, or be a tenant or sub-tenant with one of the following:

- a protected occupancy or statutory tenancy under the Rent (Agriculture) Act 1976;
- a statutory tenancy under the Rent Act 1977;
- a secure tenancy under Part IV of the Housing Act 1985 a secure tenancy under Part IV of the Housing Act 1985 or an introductory tenancy under Chapter I of Part V of the Housing Act 1996;
- a licence to occupy which meets the conditions in paragraph 12(a) and (b) Schedule 1 to the Housing Act 1985(almshouse licences); and
- an assured agricultural occupancy under Part I of the Housing Act 1988 a private landlord.

Qualifying conditions for a Warm Front grant

If a client meets the housing status requirements, s/he will be eligible for a Warm Front grant if s/he:

- has a child under 16 for whom s/he, or a partner with whom s/he is living, receives child benefit or has a maternity certificate; and
- receives income support, housing benefit, council tax benefit, income-based jobseeker's allowance (JSA), pension credit or, from 27 October 2008, income-related employment and support allowance (ESA).

If a client meets the housing status requirements, s/he will also be eligible for a Warm Front grant if s/he:

- receives working tax credit that includes a disability element and/or child tax credit, and has a relevant income of less than £15,460 per annum; or
- receives disability living allowance; or
- receives attendance allowance, industrial injuries disablement benefit (if it includes constant attendance allowance), war disablement pension (if it includes mobility or constant attendance allowance) or some payments under the Personal Injuries (Civilians) Scheme 1983, analgous payments or any payment intended to compensate for the non-payment of these benefits; or
- receives any of the following benefits with a disability premium: income support, housing benefit or council tax benefit; or
- is 60 or over and receives one or more of the following benefits: pension credit, income support, council tax benefit, housing benefit, income-based JSA, pension credit or, from 27 October 2008, income-related ESA.

If a client does not qualify for a Warm Front grant under any of the conditions listed in the previous paragraphs, s/he will still be eligible for a grant under the heating rebate scheme if s/he is aged 60 or over, or lives with a partner aged 60 or over.

How much is a Warm Front grant

The maximum Warm Front grant is £2,700, or £4,000 if oil-fired central heating is to be installed. However, on 23 April 2009, the amounts changed to £3,500, or £6,000 for oil-fired central heating. The changes apply to new customers from 23 April and also to customers who have received approval for funding but are still waiting for the work to start.

Heating rebate scheme

A client is eligible for a grant under the heating rebate scheme if s/he is aged 60 or over, or lives with a partner aged 60 or over, but does not meet any of the other conditions for getting a Warm Front grant. A heating rebate is only available where a central heating system is inoperable or where there is no existing central heating system. The maximum grant under the scheme is £300 and it can be used for gas, electric or solid fuel installations.

How to apply for a Warm Front grant

A client who believes s/he is eligible for a Warm Front grant should contact:

Warm Front *(England)*

Applications and enquiries: 0800 316 2805

E-mail: enquiry@eaga.co.uk

Website: www.warmfront.co.uk

Applications can be made through the website at www.warmfront.co.uk.

How Warm Front works

The scheme is administered by a scheme manager with responsibility for:

— appointing and managing contractors, paying grants, setting performance targets, setting standards and ensuring compliance with standards;
— the initial survey of a client's home to assess the measures to be delivered to that particular client; and
— ensuring the delivery of general energy advice.

After the client has applied, her/his eligibility will be assessed by the scheme manager. If s/he is eligible for a Warm Front grant, her/his home will have to be surveyed. The scheme manager will appoint a surveyor who will identify what is needed in the client's home, depending on the type of property and on the heating and hot water arrangements. In rented accommodation, the landlord's consent is needed before any work can be undertaken.

The scheme manager is also responsible for providing initial energy advice to the client and for making sure that appropriate advice is provided when heating systems/controls are installed.

The scheme manager chooses and registers contractors in the area who can do work to the required standards. Registered installers may provide both heating and insulation services, or only one of these.

Grants for rented property

Landlords cannot raise the rent on properties which have benefited from a Warm Front grant for a set period after the completion of the works. A client whose landlord attempts to do this should be referred to a specialist housing adviser.

Complaints

Complaints about registered installers

The scheme manager has a code of conduct which all registered installers must follow. Failure to do so may lead to de-registration. If an applicant has a complaint about a registered installer, s/he should contact the scheme manager. A copy of the code of conduct can be obtained by calling eaga on 0800 316 2805.

Complaints about the scheme

Complaints about the scheme should be made to the officer with whom the client has been dealing.

If the officer is unable to resolve the complaint satisfactorily, the client should contact the Warm Front Programme at the Department for Environment, Food and Rural Affairs (DEFRA). The contact details are:

Department for Environment, Food and Rural Affairs (DEFRA)
Fuel Poverty Team
Zone 4D
Ergon House
Horseferry Road
London
SW1P 2AL
Helpline: 0845 933 5577
Minicom: 0845 300 1998
E-mail: helpline@defra.gsi.gov.uk

If the client remains dissatisfied, s/he can contact DEFRA's impartial Complaint's Adjudicator. The contact details are:

Department for Environment, Food and Rural Affairs (DEFRA)
Complaints Adjudicator
Area 7D
Nobel House
17 Smith Square
London
SW1P 3JR
Fax: 020 7238 5789
E-mail: service-standards.adjudicator@defra.gsi.gov.uk

Other help with home insulation

Remember to check the benefit eligibility of any client asking about help with home insulation.

The Warm Front scheme manager may be able to advise on other grants and assistance available. Warm Front can also provide energy efficiency advice to all clients. There are useful tips on the Warm Front website at www.warmfront.co.uk.

Homeowners and private tenants may qualify for grant assisted or free insulation through government grants administered by eaga Insulation. More information for clients in receipt of benefits is available from the eaga Insulation website at www.eagainsulation.com. For home-owning and private rented clients not in receipt of benefits, more information is available from the eaga Insulation website at www.eagainsulation.com.

Electricity companies may also provide help with energy efficiency measures. This assistance is not always means tested.

Some local authorities have special initiatives for energy conservation and efficiency.

Local energy advice centres should have details of local initiatives. The telephone number for details of local energy advice centres is 0800 512012.

A client may be able to get a disabled facilities grant to provide or improve a heating system, or a grant from the local authority to help with home insulation. S/he may also be able to get a loan or other type of assistance.

Some people who are eligible to apply for Warm Front grants may also be able to apply for a different type of grant or loan. If s/he has a choice, the applicant may wish to seek her/his local authority's advice about choosing the most appropriate form of help.

Energy Performance Certificate

When certain properties are sold or newly let, they are required to have an Energy Performance Certificate. This certificate gives the property an energy rating and an accompanying report contains recommendations to improve the energy efficiency of the property. More information is available from the Directgov website at www.direct.gov.uk.

Tax allowances for landlords

Landlords may be entitled to a Landlord's Energy Saving Allowance of up to £1,500 per property if they carry out certain energy saving improvements.

Annex B

MONEY GUIDANCE SERVICE—MONEY MADE CLEAR

Citizens Advice is involved in an exciting new project to deliver Money Guidance to consumers in the North East of England from 31 March 2009.

The Government is committed to ensuring that, in the future, every adult in the UK can access generic financial advice or "money guidance" and in 2007, commissioned the independent Thoresen Review to design a national Money Guidance service. The final report of the Thoresen Review was published in March 2008, setting out a blueprint for the service and recommending that this is tested and refined through a large-scale pilot or "pathfinder" led by the Financial Services Authority (FSA) in partnership with Government. Further details of this review can be viewed at www.hm-treasury.gov.uk/thoresen_review_index.htm.

The Thoresen report recommended that the principles of the service should be:

— "On my side"—impartial from the government and the financial services industry.

— Supportive—support and guide individuals to help them make better decisions and take action.

— Preventative—not designed for those in crisis. It should help people budget and plan for today and the future and avoid crisis. (People who are in crisis may contact the service but should be referred to the organisations best able to assist them.)

— Universal—available to all, and certainly in the medium term, free the user.

— Sales free—not a product sales channel—it cannot recommend a product from a specific provider or that the user varies or disposes of an existing product.

Where buying a product or taking commercial advice is the right solution, the service needs to refer users effectively to the financial services industry, in line with the other principles.

The Money Guidance Service

The pathfinder Money Guidance service provided by delivery partners will give free, in-depth support, tailored to individuals' circumstances and needs, on a whole range of money matters including:

— Budgeting weekly or monthly spending.

— Saving and borrowing.

— Protecting and insuring the individual and the family.

— Retirement planning.

— Understanding tax and welfare benefits better.

— Translating technical financial language—jargon busting.

The service aims to help people feel confident, informed and able to make the financial decisions that are right for them by giving information about their options and personalised guidance. It differs from regulated financial advice in that it will not make recommendations for particular financial products or services. It will not include casework support. Referrals will be made to other services where needed.

Money Guidance (or "The Moneymadeclear service") is available:

— online at moneymadeclear.fsa.gov.uk;

— over the telephone—0300 500 5000; and

— face to face, delivered by partners across the North West and North East.

The Pathfinder

The service starts with Operational testing beginning on 31 March and will cover the North East and North West regions of England. The formal launch of the service will take place in the week after Easter although clients can be referred to the CAB service in advance of this date.

The pathfinder is jointly funded by the Financial Services Authority (FSA) and HM Treasury. The FSA is co-ordinating delivery of the pathfinder. There will be an ongoing evaluation to inform decisions on how best to roll out the service nationally.

Face-to-face Money Guidance Delivery Partners

All Money Guides will go through a full training programme and will be assessed as competent initially and on an ongoing basis.

In the North-East and North-West, Money guidance will be available face-to-face, delivered by local partner organisations. The lead partners are Citizens Advice in the North East and A4E in the North West who will provide the full range of subject areas over the whole region to a consistent standard and will work with other smaller and specialist partners in their regions to facilitate best practice and provide ongoing training.

We will be working in partnership with a number of local and regional partners to deliver services, as well as taking referrals direct from the public and from the money guidance helpline.

The FSA's Money Made Clear helpline number is 0300 500 5000
Calls should cost no more than 01 or 02 UK wide calls, and are included in inclusive mobile and landline minutes. However, for those clients who would like face to face advice, please contact the appropriate CAB direct on the below telephone numbers, although an appointment can also be made via the telephone helpline service.

Citizens Advice Involvement

Thirteen bureaux will be delivering services covering the whole of the North East area.

Northumberland	Wansbeck CAB
Tees Valley	Darlington CAB Middlesbrough CAB Hartlepool CAB Redcar CAB Stockton on Tees CAB
Tyne & Wear	Washington (Sunderland) CAB Newcastle CAB South Tyneside CAB Gateshead CAB
Durham County	Chester Le Street CAB Derwentiside CAB Sedgefield

Further supplementary memorandum submitted by the Department for Work and Pensions (19b)

Pensioner Poverty Measurements

The PSA target 17 includes a range of indicators related to low income for pensioners as no single measure captures all aspects of poverty. These indicators are:

— percentage of pensioners below 60% of relative median income, after housing costs (AHC)—this is an internationally recognised measure;

— percentage of pensioners below 50% of relative median income AHC—this attempts to identify pensioners with the lowest living standards;

— percentage of pensioners below 60% of 1998–99 (absolute) median income AHC—this shows how real incomes change over time.

In the latest available figures (2006–07) the 60% threshold equated to £112 per week for a single pensioner and £193 per week for a couple. The 2007–08 figures will be published on the 7 May on the UK National Statistics Publication Hub.

Definitions of low income households are set out in the annual National Statistics publication *Households Below Average Income*. This reports the number of individuals in households below or persistently below 50%, 60% and 70% of median household income before and after deducting housing costs.

[92] "The Way Ahead—Benefits for Disabled People" Cm 917 January 1990.

Attendance Allowance / Disability Living Allowance

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"*[93]. 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 people who claim help with their disability-related extra costs when aged 65 or over.

Section 75(1) of the Social Security Contributions and Benefits Act 1992 provides that—*"no person shall be entitled to either component of a disability living allowance for any period after he attains the age of 65 otherwise than by virtue of an award made before he attains that age."* The effects of this provision are two-fold—

[i] The "cut-off rule"

People who do not claim "extra costs" disability benefits until after age 65 are precluded from entitlement to DLA, irrespective of whether their disability and care/mobility needs commenced before or after that age—the "cut-off rule". They can, however, qualify for the higher or lower rates of AA (which equate to the higher and middle rate care components of DLA); but they cannot qualify for:

— the DLA lower-rate care component; or

— the DLA higher or lower rate mobility components. Hence, they cannot gain access to the additional "benefits"—a Motability car, the Blue Badge parking scheme (other than through a Local Authority assessment) and Vehicle Excise Duty (VED) exemption that can go with the DLA higher-rate mobility component.

[ii] The "run-on rule"

People who claim and qualify for DLA before age 65 can keep the allowance after that age for as long as they satisfy the qualifying criteria—the "run-on rule". This rule means they retain access to a Motability car, Blue Badge parking and VED exemption (if they have a higher rate mobility component). Currently[94], there are some 767,880 DLA recipients aged 65 and over—about 25% of all DLA recipients—who benefit from the "run-on rule". Of these, 189,960 get the lower rate care component, 70,260 get the lower rate mobility component, and 634,910 get the higher rate mobility component.

Further supplementary memorandum from the Department for Work and Pensions

Q1. *In the Department's memorandum for the Pensioner Poverty inquiry, you gave us a table of poverty rates going from 1998–99 to 2006–07 as measured under all three definitions of poverty. Could you give us the figures for 2007–08 for all three categories?*

PERCENTAGE OF PENSIONERS IN LOW INCOME

Year	*Below 60% contemporary median income*	*Below 50% contemporary median income*	*Below 60% 1998–99 median income uprated by prices*
1998–99	29	13	29
1999–2000	28	13	25
2000–01	26	11	20
2001–02	26	11	14
2002–03	24	11	12
2003–04	21	10	10
2004–05	18	8	8
2005–06	17	8	8
2006–07	19	10	10
2007–08	18	10	9

93 "The Way Ahead—Benefits for Disabled People" Cm 917 January 1990.
94 August 2008. Next set of figures will be published in May 2009.

Q2. *In the Department's response to questions prior to the APR session you explained that DWP was using the Q4 data for 2008 from the Labour Force Survey to assess whether older people had been adversely and disproportionately affected by the downturn. Could you provide us with the Department's latest assessment as to whether this has been the case?*

The impact of the recession on workers is very mixed across all age and disadvantage groups. As a result no group is clearly being more affected than another, although men have generally been affected more than women. The analysis of the Labour Force Survey data[95] shows that:

- In Q1 2009 there were 7.6 million people in work aged 50–69.The employment rate for this group is 56% and remained stable compared to Q1 2008 (a decrease of 0.1 percentage point). The employment rate for the working age population has decreased from 74.7% in Q1 2008 to 73.5% in Q1 2009.
- The overall employment gap has decreased from 18.6 percentage points in Q1 2008 to 17.4 percentage points in Q1 2009. It is important to note that this is the biggest yearly reduction in the gap since 1992 (the narrowing of the gap has been mainly driven by the decline in the national employment rate).
- The ILO (International Labour Organisation)[96] unemployment rate for those aged 50–69 at 4.3% remains lower than the unemployment rate for the 16–24 group (17.7%) and for the working age population (7.3%). However, between Q1 2008 and Q1 2009 older workers experienced slightly higher proportional increases in the ILO unemployment rate compared to all other age groups. Percentage point increases in the ILO unemployment rate were highest for the 16–24 group.
- So far, there is no evidence that the recession has led to a rise in inactivity rates[97] 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.
- For the purposes of our PSA Target, older workers are defined as people aged 50 to 69.

July 2009

Memorandum submitted by Mr Jeff Williams (TPP 31)

Pensioner Poverty and Equity Release

Helping home owners in receipt of DWP Pension Credit, and Support for Mortgage Interest (SMI), access Equity Release from their home.

One of the biggest financial problems that elderly home owners in receipt of Pension Credit (PC) face is raising capital for major expenses. For instance for home property maintenance, for non-NHS medical costs, for main household goods, or to meet any large unforeseeable or unexpected cost.

The solution to this problem in many cases can be a life-time equity release lump sum. The home owner takes out a lump sum loan from an equity release company—the interest is either serviced month on month, or interest may be rolled up and, with the original loan, taken out of the estate when the borrower dies.

In this respect it should be noted that under DWP regulations (The State Pension Credit Regulations 2002) a home owner may (from November 2009) have capital up to £10,000 with no loss of PC income. Above this threshold PC income is reduced at the rate of £1 per week per £500 savings. An elderly home owner can then take out equity release up to £10,000 with no loss of PC income.

Equity Release then, in the case where a home owner in receipt of Pension Credit has no outstanding mortgage, is or should be straight forward. A matter of raising equity on a property to the benefit of the home owner—no cost to the Exchequer.

Equity Release in the Case of Pension Credit and SMI

However, when an elderly home owner in receipt of PC still has an outstanding mortgage, and therefore will be in receipt of PC SMI, in order to access equity release they will, most often, have to take out a loan from the equity company sufficient to pay off their mortgage before they can access any further equity loan. This is because equity release companies require a "first charge" on the property.

[95] GB data, not seasonally adjusted.

[96] ILO unemployment definition includes all those aged 16 and over who are out of work, want a job, actively sought work in the last four weeks and available to start work in the next two weeks or out of work and accepted job awaiting to start in next two weeks.

[97] The definition of inactivity includes people who are out of work, seeking work but unavailable to start work in the next two weeks (sick, student etc), not seeking work but would like to work (sick, believes no job available etc) or not looking for work because they cannot work (retired, looking after member of family etc).

This means in practice that when equity is released, in the case where the home owner still has a mortgage, in the equity release process a sum equal to the mortgage is transferred from the equity company, to the home owner's mortgage company, to pay off the mortgage.

And the key point here,DWP Support for Mortgage Interest should "follow" this loan. In accord with the State Pension Credit Regulations 2002,[98] Schedule II, Housing Costs, Loans on Residential Properties:

11. (1) A loan qualifies under this paragraph where the loan was taken out to defray monies [a mortgage] applied for any of the following purposes:

(a) acquiring an interest in the dwelling occupied as the home; or

(b) paying off another loan to the extent that the other loan would have qualified under heading (a) above had the loan not been paid off.

However, the sticking point here, for potential Pension Credit home-owner users of equity release, is that this regulation, and its significance, is not it seems widely understood. I am sure Help the Aged or Citizens Advice or Safe Homes Income Plans (SHIP) would correct me if I am wrong, but I believe that the vast majority of elderly PC home-owners, who have even got as far as considering equity release to help themselves, would think they will loose their SMI interest help on their current mortgage if it was transferred to an equity loan.

In a press release in 2006,[99] Peter Fisher Director of Help the Aged said:

> " …reasons for the lack of suitability (of equity release) include eligibility for means-tested benefits, which may be lost or compromised if equity release is taken out."

That is three years ago, none-the-less I would say, under current regulations, it is not so much a matter of "lack of suitability" of equity release in terms of eligibility to mean-tested benefit *as* if the schemes do not or cannot work, more a case of it is not widely understood that the schemes can and should work without loss of means tested income. There need be no loss or compromise of income : (i) SMI should follow and be payable on an "equity loan" used to pay off a "mortgage loan", and (ii) PC recipients may have savings up to £10,000 which could, of course, include an equity release sum to this amount. Or, could be a larger sum, in which case PC income would be reduced by £1 per £500 of savings above £10,000 (Nov 2009).

In short Members, there are no DWP regulations, or equity industry financial rules, why home owners in receipt of Pension Credit, and SMI help, should not be able to make use of equity release plans to enable them manage and afford large financial costs, with no loss of Pension Credit or SMI income.

Equity Release and SMI Working in Practice

In order for equity release to work for home owners in receipt of Pension Credit and SMI it is important that equity companies offer plans which meet DWP qualifying criteria for SMI to be payable. This means that interest on a loan taken out to pay off an original mortgage must be charged, not rolled up. This is a very important "fine point"—if the interest is "rolled up", to be paid out of an estate at end of life, then the interest is not "technically" charged (in DWP terms not an "immediate" housing cost need) and therefore the home owner will not qualify for SMI.

This then undermines the whole project—the home owner looses SMI replaced with an equity loan with compound interest. At 7% interest using the compound interest formulae : $M = P(1 + i)^n$—where M is final debt, P is principle loan, i is interest, and n is number of years, it works out that a loan will double every ten years. A considerable loss then to the home owner borrower, if they move from an SMI supported mortgage to a compound interest equity loan with no SMI.

However, I am pleased to say that having made inquires to the Director of Safe Homes Income Plans (SHIP) I am advised that "mixed" equity loans are available—part of a total loan (the original qualifying mortgage) can be a "serviced loan" with charged interest (qualifying then for SMI on original "housing costs"), and part of a loan (a further equity loan) can be rolled up interest.

That then I am pleased to say is what, it seems to me, is needed, to meet the needs of home owners in receipt of Pension Credit and SMI. A matter of DWP helping (enabling) elderly home owners, on low fixed incomes, with most often no or very little savings, access equity from their homes to be able to help themselves—with no loss of Pension Credit or SMI.

I understand that SHIP is in contact with DWP on this matter and, I understand, a press release from SHIP is expected quite soon.

[98] http://www.opsi.gov.uk/si/si2002/sch2
[99] http://press.helptheaged.org.uk/_press/Releases/_items/_htaequity_release.htm

MAKING ACCESS TO HOME EQUITY FAR MORE STRAIGHT FORWARD

The focus of inquiry of the committee is of course pensioner poverty. How people end up on very low incomes and how best such elderly pensioners can be helped by DWP and other organisations working with the elderly.

My case here is specifically for home owners in receipt of Pension Credit and SMI to be able to help themselves from their own home equity. A matter of DWP *enabling* this group of pensioners to help themselves. Notably this involves no cost to the Exchequer, rather a matter of helping and encouraging the equity industry to work with DWP SMI regulations. The fact is, and I think members will appreciate, £5,000, let alone £10,000, equity release, can make a huge difference to an elderly pensioner's life, their wellbeing and their outlook (new kitchen, new bathroom) when they are managing year on year on a low income.

However, on the "down side", equity loan debt (apart from any SMI loan component) of course mounts up and that is, understandably, of concern to elderly home owners. A crucial point which advisory groups, such as Help the Aged, and SHIP, will draw to the attention of potential borrowers. In this respect it is then important to emphasise that for user best deals interest rates on loans are fixed, and as low a rate (being long time property secured loans) as is possible. To this end I would suggest to Members that it would be to the benefit of all elderly home owner mortgagees if the availability of equity release expanded to include traditional building societies, and all banks, that provide high street mortgages.

My point is that the whole system vis-à-vis property, mortgages, and equity release, could and should be far more fluid and accessible. In terms of pensioner home owners, in one case a mortgage may be paid off, in other cases mortgages and loans may be interest only payments, in other cases mortgage, with further loans, may be turned into life-time equity release with rolled up interest.

These are all aspects of the same "property-mortgage-equity compound". In different cycles of life different aspects of our "property compound" are needed—we pay in to our "property account"—at other times we draw out. Later in life, taking account of inheritance, many are happy to draw out equity release, and roll up costs and interest.

If then, all mortgage and loan companies, offered all mortgage/equity loan options, then the point I wish to emphasise here is that vastly more people would be able to far more readily and far more easily release capital from their homes. And that including all those in receipt of Pension Credit and SMI—instead of in later life having to deal with an unfamiliar and untried equity company, a borrower would simply approach their current lender (bank or building society) and apply for an equity release loan. And that then should be a low cost application and an efficient means of releasing equity. In a word, more companies offering equity release, more competition, better offers.

In all I strongly commend access to equity release as a practical and workable means to more independence, and freedom of choice, for home owner pensioners. Owned equity *released*—not locked up. With SMI continuing, in-so-far as an original mortgage qualifies, but no extra or further costs to the Exchequer.

I hope my input here helps with the work of the Committee and equity release is a policy you will like to support and advance—one important means (readily available means) of working to alleviate pensioner poverty. And this adding to the benefit that Pension Credit in recent years has brought into the lives of many low income pensioners.

Thank you all for your work in this area.

NB I have no connection in any way with the equity industry or the financial sector. I am retired and work to promote issues of interest which come to my notice.

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http://www.parliament.uk/parliamentary_committees/work_and_pensions_committee/wptppingb.cfm

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http://www.opsi.gov.uk/si/si2002/sch2

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July 2009

Letter from Terry Moran CB, Chief Executive, Pension, Disability and Carers Service, to Tom Levitt MP

Thank you for your letter dated 22 May 2009, addressed to Rosie Winterton MP, then the Minister of State for Pensions and Aging Society, about a dedicated telephone advice line for the Third Sector. In the context of concerns you raise on behalf of Help the Aged, Age Concern and Citizens Advice Bureau (CAB), I am responding as Chief Executive of the Pension Disability and Carers Service (PDCS).

I was very interested to read your letter and I recognise the value of your proposal for a dedicated advice line to assist Third Sector organisations with complex cases. We continue to build on existing relationships with a range of customer representing organisations and always welcome suggestions of how our service to customers and their representatives might be improved.

You might be aware that we host a dedicated line for Third Sector organisations with enquiries relating to Attendance Allowance and Disability Living Allowance.

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. I will need to consider what an expanded service might offer, including associated costs and Value for Money. I will share our decision with you once exploratory discussions are concluded.

You may be interested in some aspects of the service we currently provide. Our Local Service operates in the community in partnership with local authorities and voluntary organisations offering a face to face service, either through a home visit or an appointment at a location convenient to the customer. The Service provides a "whole person" approach to the customer, including a financial assessment and benefit service and completion of claim forms. The Local Service is developing even closer working relationships with our partners on a national and local level in addition to those across statutory and voluntary sectors, to best serve our customers in all communities. We continue to investigate new approaches to assist the hardest to reach customers who may need us most, developing partnerships to broaden our means of promoting entitlement and the positive impact on their independence.

We have also taken steps to improve and develop our telephone service to support Third Sector organisations. An escalation route has been established in every Pension Centre where a single point of contact supports the resolution of issues raised by the Third Sector.

I hope that you will recognise that there are many and multiple opportunities to engage with customers, statutory and Third Sector organisations and this remains an important priority for us as we focus on independence and wellbeing for our customers. I will be happy to explore the opportunities to further improve the telephone service in PDCS for Third Sector organisations and will update you once this activity has been fully researched and considered.

15 June 2009

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