The implications of Government policy for future levels of pensioner poverty

On 11 July 2011, the Pensions Policy Institute (PPI) held a seminar to launch a new report, *The implications of Government policy for future levels of pensioner poverty*, which was commissioned by Age UK.

The report projects future levels of pensioner poverty under the current state pension system and under a range of alternative Government policies. Policies considered in the research include changes to the level of existing means-tested and other benefits paid to pensioners and the introduction of a single-tier state pension of £140 a week as proposed by the Government in a recent Green Paper.

The seminar was attended by over 50 people representing a broad range of interests within Government, the pensions industry and the third sector.

Michelle Mitchell, Age UK Charity Director, chaired the seminar. In her opening remarks, she highlighted that while pensioner poverty has been falling in recent years, it still remains at unacceptably high levels for a relatively developed country like the UK. She also remarked that claiming means-tested benefits may have a significant impact on reducing pensioner poverty. In this sense, she highlighted the work of Age UK in helping pensioners to claim the benefits they are entitled to.

Chris Curry, PPI Research Director, presented the main findings of the report. He highlighted that future levels of pensioner poverty will be determined by Government decisions on further state pension reform and on the levels of means-tested benefits paid to pensioners. Among the findings, he noted that under current policy, the percentage of pensioners living in households with income below the 60% of median income poverty line is projected to fall from 16% of pensioners in 2009 to 11% of pensioners by 2025. By contrast, if the Government were to decide to index the Guarantee Credit to the Consumer Prices Index (CPI) instead of to average earnings then the percentage of pensioners living in households with incomes below the poverty line is projected to rise, from 16% of pensioners in 2009 to 19% of pensioners by 2025. Finally, he noted that the introduction of a single-tier state pension of £140 a week as set out by the Government in a recent Green Paper is projected to reduce the proportion of pensioners living in households with income below the poverty line from 16% of pensioners in 2009, to 10% of pensioners by 2025.
Sally West, Age UK Strategy Adviser – Income and Poverty, welcomed the findings of the PPI report.

She noted that the report was being launched at a good time because it was possible to analyse the impact of introducing a single-tier pension, as proposed in the Government’s Green Paper on state pension reform. In this sense, she said it was encouraging that the report finds that future levels of pensioner relative poverty are projected to fall under current policy and under the introduction of a single-tier pension for new pensioners from 2016.

She also highlighted that Age UK is a supporter of a simpler and more generous Basic State Pension for future pensioners. However, she remarked that Age UK is also very interested in the impact of policy changes on current pensioners. In this sense, she welcomed the inclusion in the report of policy options that would also affect current pensioners, some of which are projected to reduce future levels of pensioner relative income poverty.

She also remarked that one of the insights from the report is that it is necessary to reduce both pensioner poverty and reliance on means-tested benefits. In this sense, she highlighted one of the findings from the report that indexing the Guarantee Credit to growth in the Consumer Prices Index may reduce eligibility for means-tested benefits but would increase pensioner relative income poverty. In this sense, she argued that it is necessary to reduce pensioner relative income poverty but making sure that the Guarantee Credit does not lose its value.

Baroness Jeannie Drake, House of Lords, summarised some of the key findings from the report. She highlighted that the report is a useful contribution to the debate on how to reduce pensioner poverty without significantly increasing Government spending on state pensions and other benefits paid to pensioners.

She welcomed the report’s findings that future Government decisions on the indexation of Guarantee Credit may have a significant impact on pensioner poverty. In this sense, she recalled that one of the recommendations from the Pensions Commission was to maintain the value of the Guarantee Credit by uprating it in line with earnings.

On the possible introduction of a single-tier pension, she highlighted that this may reduce entitlement to means-tested benefits and that it may make clearer the incentives to save. However, she also noted that current pensioners would suffer if some means-tested benefits are eliminated. In this sense, she remarked that the introduction of any new incentives to save should not be at the expense of increasing pensioner poverty.
Finally, she highlighted two specific findings of the report: the gender inequalities in the projected number of pensioners entitled to means-tested benefits and the sensitivity of relative poverty estimates to whether or not disability benefits are included as part of pensioners’ income. She argued that these are two significant issues that should be taken into account by anyone concerned with reducing future levels of pensioner poverty.

Steve Webb MP, Pensions Minister, noted that one of the interesting findings of the report is that by continuing with current policy, pensioner relative income poverty is projected to fall in the near future.

On the issue of the indexation of the Guarantee Credit component of Pension Credit, the Minister explained that the Government’s legal obligation in April 2011, was to uprate it by the growth in average earnings. However the Government went beyond this in April 2011 by indexing the Guarantee Credit by an amount equivalent to the cash increase in the Basic State Pension, which represented around three times more than the rise in average earnings. He also noted that the indexation of the Basic State Pension by the higher of growth in earnings, CPI or 2.5% - the triple-lock- will represent around 0.2% more than the evolution of average earnings, according to estimates from the Office for Budget Responsibility. The Minister argued that this would have a significant impact on the future value of the Basic State Pension.

On the general impact of Pension Credit on reducing pensioner poverty, the Minister explained that the department was currently evaluating a Pension Credit research study which has involved paying estimated awards of Pension Credit for 12 weeks to a sample group of around 2,000 pensioners. The department is looking at the initial evaluation findings from the study and the results will be reported in due course.

On the introduction of a single-tier pension for new pensioners from 2016, the Minister explained that the current Basic State Pension and state second pension would be replaced by a new flat rate pension. The Minister acknowledged that with the introduction of a single-tier pension there would be some transitional issues to be addressed and that there would be an impact on contracted out schemes, which would stop receiving contracted-out rebates. The Minister stressed that all these issues would be carefully looked at before any decisions are made.

Finally, the Minister remarked that the declining share of private pensions in the total income of pensioner couples aged 68, as shown in the report, constitutes a reminder about the need to reinvigorate private sector pension provision. In this sense he highlighted the key role that auto-enrolment in workplace pensions may play in the future.
Questions and Discussion:
The following points were raised during the questions and discussion section. They do not necessarily reflect the views of the PPI or the PPI seminar speakers.

- It was noted that assumptions about future levels of inflation will have an impact on relative pensioner income poverty levels. It was also noted that general measures of inflation such as the Retail Prices Index (RPI) or the Consumer Prices Index (CPI) may not reflect the inflation experienced by pensioners, who may be affected by higher food and fuel price increases.

- It was highlighted that relative poverty measures constitute only one type of poverty measure and that it is also necessary to look at others such as measures of deprivation, which do not tend to overlap with relative income poverty measures.

- It was argued that the introduction of a single-tier pension could reduce the knock-on impacts on means-tested benefit eligibility for the use of equity release. It was felt that this might enable individuals to release housing equity to fund long-term care.

- It was agreed that the general message of the report is that pensioner poverty may decline in the future but that the Government could do more to achieve this goal.

- It was also agreed that any changes to the structure of the state pension system will need a good communication strategy to explain future changes and their effect on current and future pensioners.

- It was highlighted that the gains from full take-up of means-tested benefits would equal those from introducing a single-tier pension. However, it was also noted that full take-up would be very difficult to achieve in practice.

- It was noted that one interesting finding of the report is that the introduction of a single-tier pension for new pensioners from 2016 would decrease the projected levels pensioner income poverty and also the percentage of households eligible for any means-tested benefits. However, it was also noted that there could be a temptation to let the value of the Guarantee Credit to go down over time in a post single-tier world and that this would have a negative impact on pensioners who would not qualify for the single-tier pension.

The chair thanked the speakers and also asked what could be done better to reduce future levels of pensioner poverty. There was a view that if the Government wants to introduce a single-tier pension, the value of means-tested benefits has to be protected to ensure that current pensioners are not worse off. It was also felt that a good communications strategy will be needed to explain the impact of new state pension reforms.