Pensions Policy Institute

PPI

Incentives to save and means-tested benefits

February 2007

Summary of Conclusions

I. Personal Accounts could give many people access to a low-cost pension savings product with an employer contribution for the first time. As a result of the low charges and employer contribution, incomes from saving in Personal Accounts are likely to be higher than incomes from saving in Stakeholder Pensions for many people.

II. Returns from saving in Personal Accounts will vary from person to person. Many different factors affect returns from saving, including the employer contribution, investment returns, charges, the tax system and means-tested benefits.

III. If Personal Accounts are not suitable for everybody, then this does not necessarily mean that individuals should not be auto-enrolled. But it does have important implications for what information is needed to help people make informed decisions about whether they should opt-out.

IV. Policy options may exist to reduce the risk of Personal Accounts being unsuitable for some of the individuals who are auto-enrolled. Potential options include:

- The provision of generic advice to assist people to decide whether they should stay in or opt-out of Personal Accounts.
- Not auto-enrolling some groups of individuals, for example, today's older people or people with low earnings.
- Changes to the tax or benefit system, for example, increases to the trivial commutation limit.

V. There are currently three means-tested benefits that can affect the returns from saving in a Personal Account. Housing Benefit, Council Tax Benefit and Pensions Credit. For some individuals saving in a Personal Account may mean that they are eligible to less in means-tested benefits. There is therefore widespread interest in the extent of means-tested benefits that will remain after the Government reforms.

VI. Both the PPI and the Department for Work and Pensions produce projections of future Pension Credit eligibility. However, projections of future eligibility for Housing Benefit and Council Tax Benefit are not produced.

VII. Future eligibility for Pension Credit is very uncertain. In order to project future Pension Credit eligibility, one first has to project how much income pensioners will receive from four different sources:
- Basic State Pension: the proposed reduction in the number of years required to qualify for a full BSP to 30 will mean that incomes from BSP will be more certain in future. In 2050, the majority of people will be entitled to the full BSP.
- State Second Pension: how much State Second Pension (S2P) individuals will have depends on how many years they qualify for S2P and, until S2P becomes flat-rate, how much they earn.
- Private pensions: the amount of income from private pensions will depend on how much individuals and/or employers contribute, how contributions are invested, and on annuity rates.
- Other savings and earnings: the amount of income from other savings will depend on how much people save and how these are invested. The amount of income from earnings will depend on the availability of employment opportunities, and willingness to work.

VIII. The PPI central scenario for the White Paper proposals is that the proportion of pensioner benefit units eligible for Pension Credit remains at around 45% over the period 2004 to 2050.

IX. It is especially important to reflect the uncertainty around the proportion of pensioner benefit units who are eligible for only the Guarantee Credit component of Pension Credit (and not the Savings Credit element).

X. In terms of the characteristics of those eligible for Pension Credit in the PPI projections for 2050:
- Three-quarters of pensioner benefit units eligible are single pensioners rather than pensioner couples.
- More than half of single women are eligible.
- Older pensioners are more likely to be eligible than younger pensioners.
- Around one-quarter of pensioner benefit units eligible for Pension Credit are eligible for a higher level of Pension Credit due to caring or disability.

XI. Future eligibility for Pension Credit could be considerably higher or lower than the PPI central estimate of 45%. Given the inherent uncertainty in projecting eligibility for Pension Credit in 2050, it is essential to recognise that there is a range of plausible outcomes.

Incentives to save and means-tested benefits

Introduction

1. The Government set out its intention to introduce major reforms to the UK pension system in its White Paper, ***Security in Retirement: towards a new state pension***, in May 2006[1]. These include substantial reforms to both state and private pensions in the UK.

2. The Pensions Bill that is currently being scrutinised in Parliament will, if enacted, implement the Government's proposed reforms to the state pension system. The Government's latest White Paper, ***Personal Accounts: a new way to save***[2], sets out more details of how the Government proposes to implement the new Personal Accounts. The Government intends to introduce a second bill in the autumn of 2007 to implement these proposals.

3. There has been extensive discussion and debate among stakeholders on the details of the Government's state and private pension reform proposals. This has included discussion of the impact that reforms are likely to have on individuals, on society as a whole and on existing markets for financial services products.

4. The Pensions Policy Institute is an independent, educational charity promoting the study of retirement provision through research, analysis, discussion and publication. The PPI has published a number of reports on and responses to the Government's proposed reforms. These include two major reports:
   - ***An evaluation of the White Paper state pension reform proposals***[3]. The PPI modelled the aggregate costs and the distributional impacts of the Government's proposed state pension reforms.

[1] DWP (2006) ***Security in retirement: towards a new pensions system***
[2] DWP (2006) ***Personal Accounts: a new way to save***
[3] PPI (2006) ***An evaluation of the White Paper state pension reform proposals***

- ***Are Personal Accounts suitable for all?***[4] This report analyses the interaction between Personal Accounts, state pensions and the tax and means-tested benefit systems in order to identify the impact this has on incentives to save and the suitability of Personal Accounts for different individuals.

Incentives to Save in Personal Accounts

5. Personal Accounts could give many people access to a low-cost pensions savings product with an employer contribution for the first time. As a result of the low charges and employer contribution, incomes from saving in Personal Accounts are likely to be higher than incomes from saving in Stakeholder Pensions for many people.

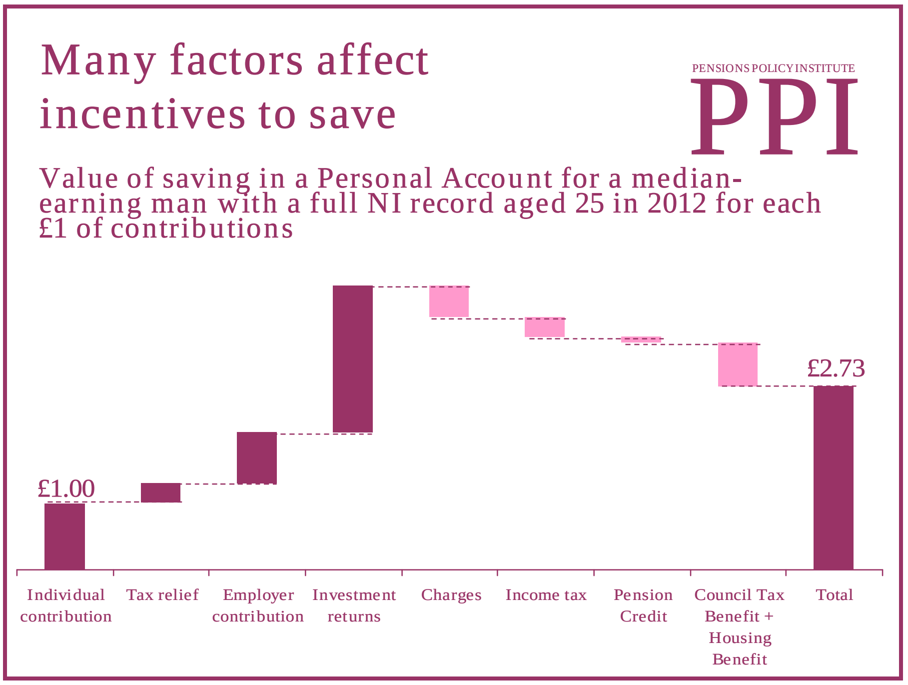
6. The PPI has analysed the incentives to save in the new Personal Accounts by calculating the internal rate of return that different hypothetical individuals could receive when contributing to a Personal Account.

7. Returns from saving in Personal Accounts will vary from person to person:
   - An individual's contribution, their employer's contribution, the tax relief and the investment returns on these contributions could all increase the value of an individual's Personal Account.
   - On the other hand, income tax, charges, and any means-tested benefits that the individual may otherwise have been entitled to if they had not saved in a Personal Account could reduce the value of the individual's Personal Account.

8. How these factors interact is complex, so that the internal rate of return will vary from individual to individual. Chart 1 shows how these factors interact for a median-earning man with a full National Insurance record who is aged 25 in 2012.

[4] PPI (2006) ***Are Personal Accounts suitable for all?***

Chart 1[5]



9. In the PPI's analysis, hypothetical individuals are categorised by being at low risk, medium risk or high risk of Personal Accounts being unsuitable for them, depending on the internal rate of return that they are likely to receive[6].

10. People at 'low risk' of Personal Accounts being unsuitable for them are likely to receive back the value of their individual contributions to Personal Accounts protected for inflation, together with a full investment return on their contributions. Examples are:
    - Single people in their twenties in 2012 with full working histories.
    - Single men in their forties and fifties in 2012 who have a full working history and large additional savings.

[5] PPI calculation. For more information see PPI (2006) ***Are Personal Accounts suitable for all?***
[6] For a full discussion of the PPI analysis conducted and the benchmarks used see PPI (2006) ***Are Personal Accounts suitable for all?***

11. People at ‘medium risk’ of Personal Accounts being unsuitable for them would receive back the value of their individual contributions, protected for inflation, and some investment returns on their contributions, although they may not receive full credit for the investment returns. This group includes:
    - Single people in their twenties in 2012 with low earnings and broken working histories, whether because of caring breaks or unemployment.
    - Single people in their forties and fifties in 2012 with low earnings and full working histories.
    - Single people in their twenties in 2012 who stay opted in to Personal Accounts while employed, and then become self-employed at a later date.

12. People at ‘high risk’ of Personal Accounts being unsuitable for them are likely to receive back less than the value of their contributions into Personal Accounts. This group includes:
    - Single people who are likely to rent in retirement and have no additional savings. These people may be entitled to less Housing Benefit in retirement as a result of their saving in Personal Accounts.
    - Although they would not be auto-enrolled, single people in their forties and fifties in 2012 on low to median incomes who are self-employed.

13. Other factors can affect whether or not Personal Accounts are suitable:
    - Returns from saving in Personal Accounts could be higher for people who are married at some point in retirement, rather than always single as the above examples assume. The majority of pensioners are married at some point in their retirement, so this could improve suitability for many people.
    - It may still be advisable for some people in the high-risk category to save. For example, they could have a strong preference to smooth consumption over their lifetime.
    - Conversely, it may not be advisable for some people in the low-risk category to save, for example if they have high levels of debt. Levels of both secured and unsecured debt appear historically high and a sizeable minority of people carry over credit card balances from month to month.

- Whether contributions are affordable will depend on individual preferences on current expenditure and saving.

14. If Personal Accounts are not suitable for everybody, then this does not necessarily mean that individuals should not be auto-enrolled. But it does have important implications for what information is needed to help people make informed decisions about whether they should opt-out.

15. Policy options may exist to reduce the risk of Personal Accounts being unsuitable for some of the individuals who are auto-enrolled. Potential options include:
    - The provision of generic advice to assist people to decide whether they should stay in or opt-out of Personal Accounts.
    - Not auto-enrolling some groups of individuals, for example, today's older people or people with low earnings.
    - Changes to the tax or benefit system, for example, increases to the trivial commutation limit.

16. The PPI's analysis shows that individuals' incentives to save in Personal Accounts depend on their circumstances. This is because their internal rate of return will depend on the level of contributions, the investment returns, and on how they are affected by the tax and benefit system. Although means-tested benefits are only one factor, there has been much discussion about the extent of means-tested benefits that will remain in the system after the reforms and the effect that this will have on incentives to save.

Pension Credit and other means-tested benefits

17. There are currently a number of means-tested benefits for which individuals over state pension age may be eligible. These benefits include:
    - Pension Credit
    - Council Tax Benefit
    - Housing Benefit

18. Pension Credit (PC) consists of two elements, Guarantee Credit (GC) and Savings Credit (SC). When PC was first announced, the Government's aim in introducing GC was stated as ensuring that

the poorest people over age 60 have a minimum level of income, while the aim in introducing SC was to reward savings[7].

19. Both GC and SC are means-tested benefits, so the amounts individuals receive will depend on how much income they have in retirement. Pension Credit is a way of targeting extra spending where the need is greatest.

20. Official estimates for eligibility of PC in 2003/4 were presented as a range: from 44% to 51%[8]. Estimates for current eligibility continue to be uncertain because of data limitations.

21. PC has imperfect take-up. It is a benefit that has to be claimed but not everybody who is eligible claims. Around three-quarters of households who are eligible for the GC element (whether or not they are also eligible for the SC element) take up their benefit[9]. Take-up is lower for households who are only eligible for the SC element with less than one-half of such households taking-up their benefit.

22. Council Tax Benefit is a rebate scheme to provide help with up to 100% of an individual's council tax. In 2004/5, between 50% and 55% of 'pensioner benefit units[10]' were entitled to Council Tax Benefit. Take-up of Council Tax Benefit in 2004/5 was estimated to be between 53% and 58%[11].

23. Housing Benefit is designed to help with housing costs. This includes rent and some accommodation related service charges. Around 20% of pensioner benefit units were eligible for Housing Benefit in 2004/5. Take-up is relatively high; between 81% and 87% took-up this benefit in 2004/5[12].

[7] Department of Social Security (2000) ***Pension Credit: A consultation paper***
[8] House of Lords ***Hansard*** 25 April 2006 Column WA15
[9] Midpoint of ranges of take-up estimates by caseload in DWP (2006) ***Income Related Benefits Estimates of Take-Up in 2004/2005***
[10] A pensioner benefit unit refers to a single person or a couple that can apply for Pension Credit
[11] DWP (2006) ***Income Related Benefits Estimates of Take-Up in 2004/2005***
[12] DWP (2006) ***Income Related Benefits Estimates of Take-Up in 2004/2005***

Projecting future eligibility to means-tested benefits

24. There has been much debate about the likely extent of means-tested benefits that will remain after the Government's state pension reforms have been introduced.

25. Neither the DWP nor the PPI produce projections about the future proportion of pensioner benefit units eligible for Council Tax Benefit or Housing Benefit. However, they both publish projections of the future proportion of pensioner benefit units eligible for Pension Credit, under the recent White Paper proposals.

Modelling future PC eligibility

Both the PPI and the DWP have constructed models that can analyse long-term outcomes from the current UK pensions system and possible reforms. The models, however, use different approaches.

The DWP use a ***dynamic*** micro-simulation model called Pensim2 for projecting future eligibility for PC. This takes information from a representative sample of the UK population today and models each individual, over a number of time periods, using equations to give the probabilities of a series of different life events occurring. Essentially, the model uses a 'bottom up' approach to build a picture of future pensioners by constructing future life histories based on a sample of the entire current population and assumptions about how their lives progress.

The PPI takes another approach by using ***static*** micro-simulation models. These models take a 'top down' approach, projecting how the labour market and caring patterns change across the whole working age population (rather than for different individuals), and using this information to estimate how the future distribution of pensioners' incomes will differ from the distribution among the current pensioner population.

The PPI approach is a more sophisticated version of the approach used by the DWP until Pensim2 became available. Comparisons between PPI and earlier DWP static micro-simulation models (and in particular the Policy Simulation Model (PSM)) suggested that using similar assumptions in the PPI models led to similar results as in the PSM model.

PPI and DWP Pension Credit projections

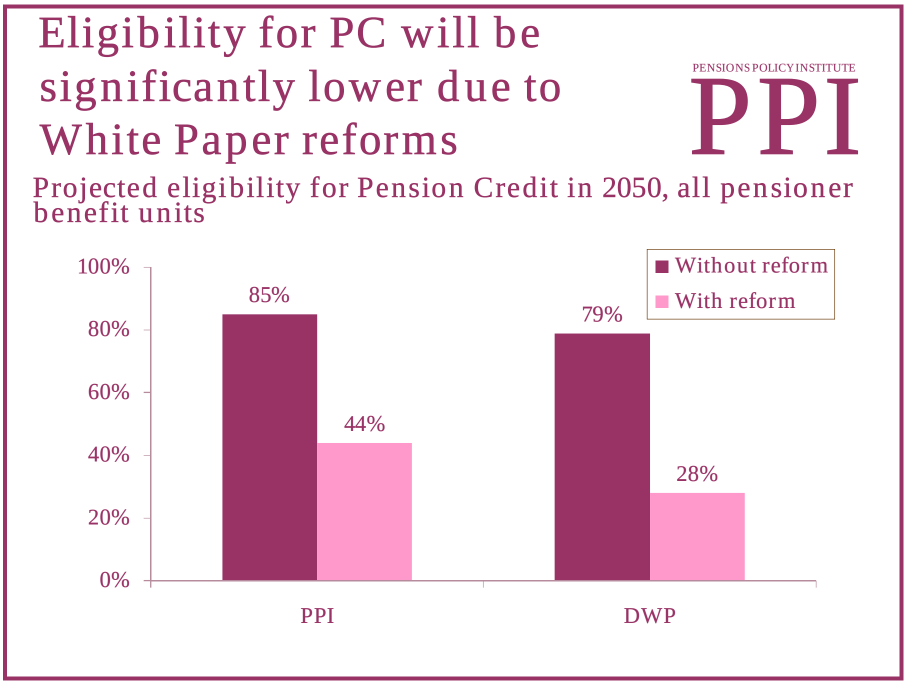
26. The PPI published a detailed description of its Pension Credit modelling in July 2006[13]. The DWP produced a useful fact-sheet in November 2006 setting out more technical details of their Pensim2 modelling[14]. The rest of this document provides some additional information on the assumptions underlying the PPI's projections.

27. Projecting future levels of Pension Credit eligibility is difficult. In order to project future Pension Credit eligibility, one first has to project how much income pensioners will receive from four different sources:
    - Basic State Pension: the proposed reduction in the number of years required to qualify for a full BSP to 30 will mean that incomes from BSP will be more certain in future. In 2050, the majority of people will be entitled to the full BSP.
    - State Second Pension: how much State Second Pension (S2P) individuals will have depends on how many years they qualify for S2P and, until S2P becomes flat-rate, how much they earn.
    - Private pensions: the amount of income from private pensions will depend on how much individuals and/or employers contribute, on how contributions are invested, and on annuity rates.
    - Other savings and earnings: the amount of income from other savings will depend on how much people save and how these are invested. The amount of income from earnings will depend on the availability of employment opportunities, and willingness to work.

[13] See PPI (2006) ***An evaluation of the White Paper state pension reforms*** modelling appendices
[14] DWP (2006) ***Projections of Pension Credit entitlement***

28. Both the PPI and the DWP agree that the White Paper proposals are likely to mean a large fall in future Pension Credit eligibility, relative to what would be the case in the absence of reform (Chart 2). Estimates, however, differ about the extent of that reduction.

Chart 2[15]



29. In the PPI central scenario for the White Paper proposals, Pension Credit eligibility is projected to stay relatively constant until at least 2050, at around 45% (Table 1).

[15] PPI analysis using the Distributional Model. DWP figures from DWP (2006) ***Pensions Bill Regulatory Impact Assessment.*** Note that in past publications PPI projections for Pension Credit eligibility are shown rounded to the nearest 5%, to reflect the inherent uncertainty. Here, projections are shown to the nearest 1% to allow for detailed comparisons.

Table 1[16]: Projected proportion of pensioner benefit units eligible for Pension Credit in 2050 under the central scenario for the White Paper proposals, and Government projections

	Government projections	PPI central scenario
2004	45%	46%
2010	44%	44%
2020	41%	45%
2030	36%	46%
2040	32%	46%
2050	28%	44%

30. While the PPI central projection stays constant, there are significant changes over time in the underlying income distribution and in the characteristics of the pensioners who are eligible. The next sections present more detailed results for the central scenario.

31. Given the inherent uncertainties in projecting future eligibility to PC, the PPI has calculated a range of possible outcomes. The need for a range is underlined by the nature of modelling. Modelling can most robustly be used to show the differences between different policy options, rather than to 'forecast' outcomes under any one particular policy option.

32. The next section provides the detailed assumptions and results for the PPI's central scenario. The final section describes the PPI's optimistic and pessimistic scenarios and presents a range of possible outcomes for future Pension Credit eligibility.

[16]PPI analysis using the Distributional Model. DWP figures from DWP (2006) ***Pensions Bill Regulatory Impact Assessment.*** Note that in past publications PPI projections for Pension Credit eligibility are shown rounded to the nearest 5%, to reflect the inherent uncertainty. Here, projections are shown to the nearest 1% to allow for detailed comparisons.

The PPI central scenario

33. Both the PPI and DWP have central projections of PC eligibility. This section provides more information on the PPI's central scenario for future Pension Credit eligibility under the White Paper proposals.

34. In broad terms, where PPI and DWP modelling differ is in the absolute outcome under each policy. The 'world view' used in the DWP models appear to be more 'optimistic' than the PPI models suggest. This is a consequence of the (explicit or implicit) assumptions being used. It highlights the underlying uncertainty in the estimates.

PPI assumptions for central scenario

35. Projecting PC eligibility requires assumptions on the different elements of future income growth. For state and private pensions, these assumptions are based on detailed underlying projections from the PPI's Aggregate Model (Table 2):

Table 2[17]: Projected annual rate of real growth in the average income received between 2005 and 2050 in the PPI central scenario for the White Paper proposals

	Total income, £ billion, 2006/7 prices		Average income per head, £ per week, 2006/7 prices		Implied annual rate of real growth in average income per head
	2005	2050	2005	2050	
BSP	42	150	69	180	2.2%
SERPS/S2P	7	45	12	55	3.4%
Private pensions	49	110	79	130	1.1%
Other (non-pension) saving	11	40	19	45	2.0%
Income brought to account for PC[18]	94	270	153	335	1.8%

[17] PPI analysis. Figures rounded to the nearest £1 billion for 2005 and to the nearest £5 billion for 2050. Figures have been rounded independently.
[18] Income brought to account includes earnings and the impact of income tax, and so will not equal the sum of the other components of the table

36. In the PPI central scenario:
- Average incomes from BSP grow at 2.2% a year on average between 2005 and 2050, in excess of prices. This is higher than average earnings growth of 2.0% a year, reflecting improvements in coverage and the reduction in the number of qualifying years needed for the full BSP. This assumption is in line with Government expenditure projections for BSP.
- Average incomes from SERPS/S2P grow at 3.4% a year on average. This is higher than average earnings growth, reflecting the maturing of S2P, as well as improvements in coverage. This is in line with official DWP expenditure projections (i.e. DWP expenditure models project a 3.5% real growth rate for S2P[19]).
- Average incomes from private pensions grow at 1.1% a year on average. This reflects an assumed decline in Defined Benefit pension provision, increasing longevity, and no increase in contribution rates to Defined Contribution schemes. This compares to the Pensions Commission's projections of 1.3%[20]. The DWP assumes incomes from private pensions grow at 1.4%[21]. PPI, Pensions Commission and DWP estimates therefore, all imply a decline in incomes from private pensions relative to average earnings.
- Incomes from non-pension saving are also significant for Pension Credit eligibility. Both the PPI and DWP assume that incomes from non-pension saving grow at 2% a year on average.

[19] DWP (2006) ***Pensions Bill Regulatory Impact Assessment*** paragraph A.36
[20] Pensions Commission figures are derived from the estimates of private pension income as a percentage of GDP in Pensions Commission (2005) Figure 1.16, page 57
[21] DWP (November 2006) ***Projections of Pension Credit entitlement*** Table 3**.** DWP modelling has since been refined for the Pensions Bill Regulatory Impact Assessment. Updated figures have not yet been published; however, the changes made are unlikely to mean the assumed growth in private pensions is significantly different.

37. The PPI central projection allows for the proposed system of Personal Accounts, assuming that the rate of opt-out of Personal Accounts is in line with the central Government estimate of around one-third[22]. DWP analysis currently does not include the effect of Personal Accounts.

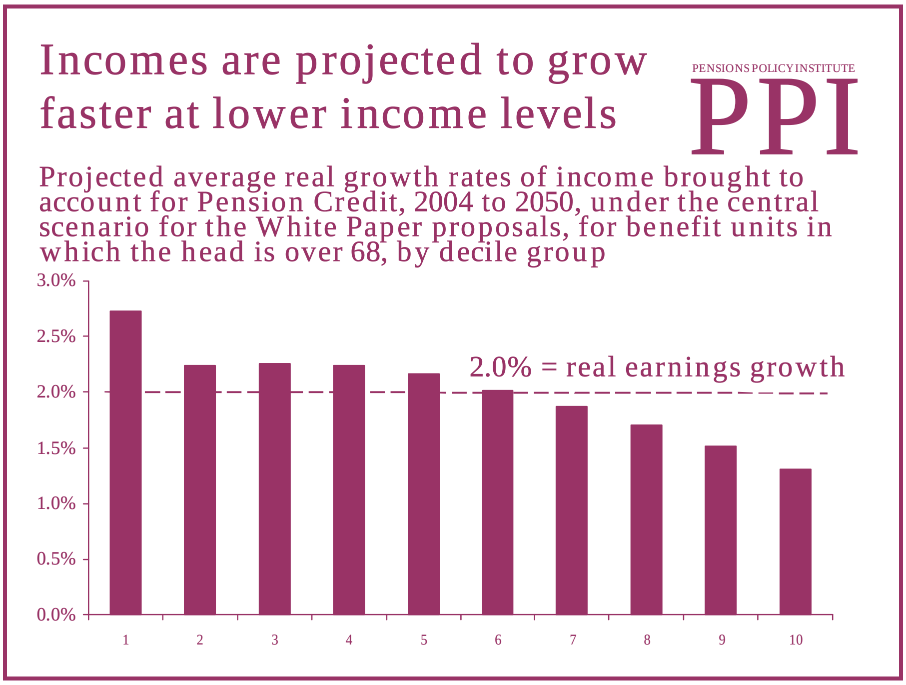
38. However, it is worth noting that the projected effect of Personal Accounts on Pension Credit in 2050 is small[23]. This is because Personal Accounts are projected to form only approximately 10% of the stock of private pension assets in 2050, in line with Government estimates[24], and Personal Accounts would not be fully mature by 2050.

39. Overall, average 'income brought to account for Pension Credit'[25] is projected to grow by 1.8% a year in excess of prices. This growth rate determines how the average pensioner incomes are assumed to change in future in the modelling. While projecting average incomes is the first step in projecting future Pension Credit eligibility, eligibility will also depend on how the distribution of pensioner incomes changes in future.

40. In the central scenario, incomes are projected to grow faster than 1.8% in the lower part of the income distribution and more slowly than 1.8% in the upper part (Chart 3). For example:
    - Incomes in the bottom 10% of the distribution are projected to grow on average by 2.8% a year, which is faster than assumed earnings growth of 2.0% a year.
    - Incomes in the upper 10% of the distribution are projected to grow on average by 1.4% a year.

[22] DWP (2006) ***Personal Accounts: a new way to save Regulatory Impact Assessment***
[23] See PPI (2006) ***An evaluation of the White Paper state pension reform proposals*** chapter 5 and modelling appendix 4
[24] DWP (2006) ***Security in retirement: towards a new pensions system Regulatory Impact Assessment*** paragraph 2.111
[25] This is the definition of 'income' used in the Pension Credit projection. It includes the impact of the disregards on income from earnings and non-pension saving, and is net of income tax.

Chart 3



41. Amongst other factors, the projected distributional change reflects the fact that state pensions are projected to rise more quickly than private pensions in future. So lower income groups - who are likely to see a relatively high proportion of their retirement income coming from state sources – receive a higher rate of growth overall. DWP analysis using Pensim2 found a similar pattern to Chart 3[26].

42. Charts 4 and 5 show the projected distribution of income brought to account for Pension Credit, for singles and couples. For comparison with the charts produced by the DWP[27], the frequency counts have been subdivided to show the composition of income at different points in the income distribution:
    - The components of each bar represent the proportion of the gross income of those pensioners coming from three main sources: BSP, S2P[28] and private income.

[26] DWP (2006) ***Projections of Pension Credit entitlement***
[27] DWP (2006) ***Projections of Pension Credit entitlement*** Figures B and C
[28] Although the wording in this document uses 'S2P' for simplicity, figures include incomes from its predecessor SERPS. Most of the contracted-out equivalent of SERPS and S2P are excluded, being treated as private income. See paragraph 63 for more details.

Chart 4

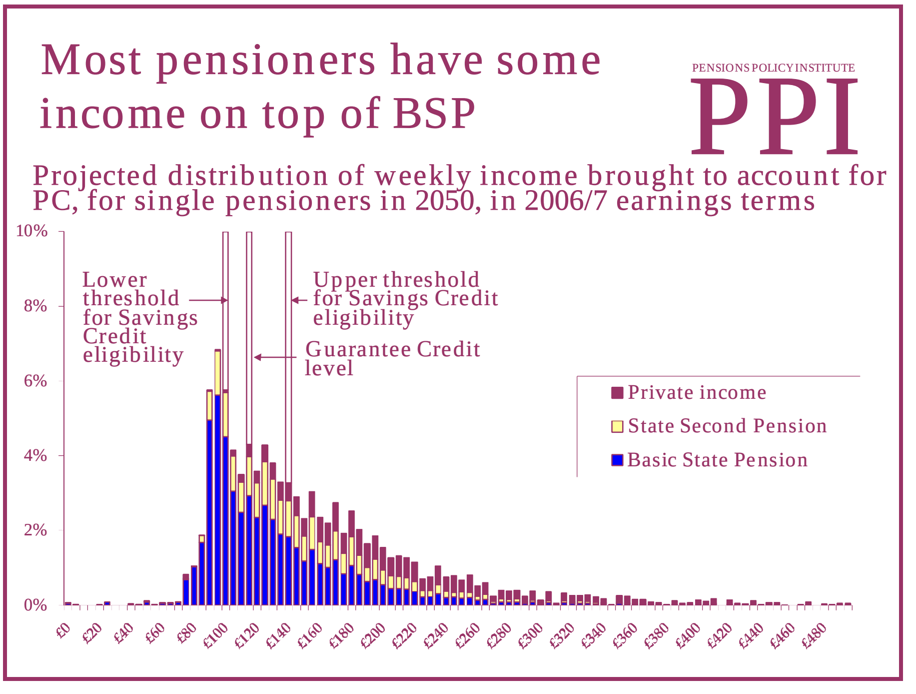
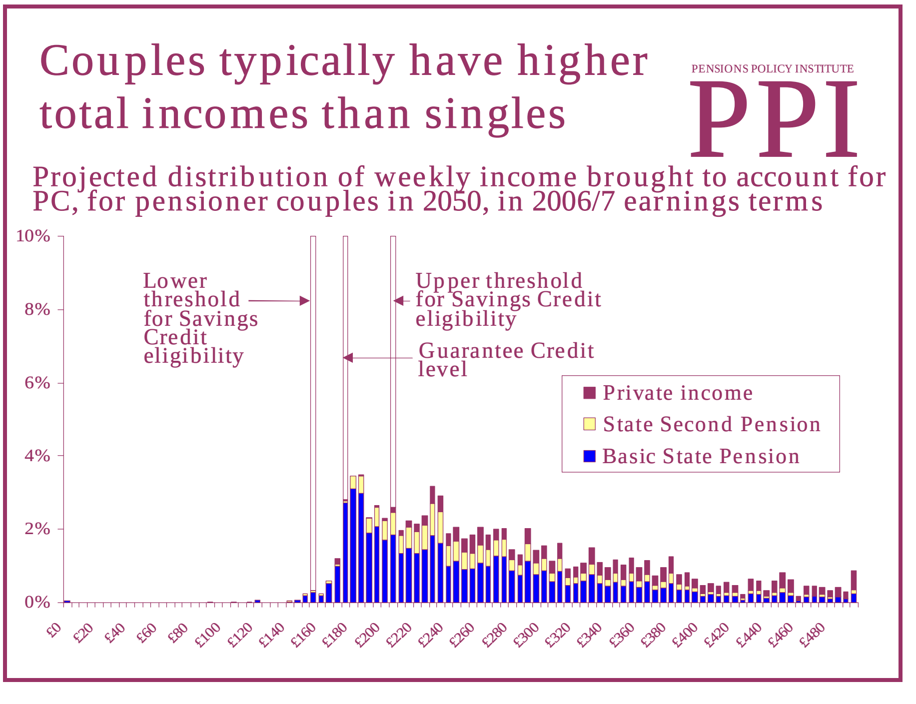


Chart 5



43. The charts show that:
    - Almost all pensioner benefit units are projected to have some income on top of the Basic State Pension.
    - Pensioner couples are projected to typically have higher total incomes than single pensioners and are less likely to be eligible for Pension Credit.

44. The thresholds marked in Charts 4 and 5 give an indication of the Pension Credit that households with different levels of income would be entitled to[29]. Households with income:
    - Below the lower threshold for Savings Credit will be eligible for GC but not SC.
    - Between the lower threshold for the SC and GC level will be eligible for GC and SC.
    - Between the GC level and the upper threshold for SC will be eligible for SC but not GC.
    - Above the upper threshold for SC would not be eligible for Pension Credit.

45. Of the 44% of pensioner benefit units projected by the PPI to be eligible for Pension Credit in 2050, a total of 13% are projected to be eligible for only the Guarantee Credit component (Table 3). This figure is relevant for policy, as people in this category who have saved privately may not see a gain from their private saving (as they face a 100% withdrawal rate). This figure however, is particularly uncertain.

[29] However, some households are eligible for higher Pension Credit amounts (for example, due to severe disability). Different thresholds apply to households in this position. See paragraphs 54-56.

Table 3[30]: Projected proportion of pensioner benefit units eligible for Pension Credit in 2050 under the central scenario for the White Paper proposals, by type of Pension Credit, and Government projection

	DWP projection	PPI projection
Guarantee Credit only	6%	13%
Guarantee Credit and Savings Credit	9%	13%
Savings Credit only	12%	18%
Total eligible	28%	44%

46. The percentage of benefit units that are entitled to only the Guarantee Credit component of Pension Credit is especially uncertain. In the PPI modelling, there is a large concentration of single pensioners who have incomes just below the lower threshold for Savings Credit eligibility in 2050 (as shown in Chart 4). Small changes to the underlying distribution of incomes may mean that more or less than 13% of benefit units are in this category. The DWP's equivalent estimate is 6%.

47. It may therefore be especially important to reflect the uncertainty around the proportion of pensioner benefit units who are eligible for only the Guarantee Credit component of Pension Credit. A range may be a suitable way to present this figure.

Characteristics of those eligible for Pension Credit

48. This section considers the characteristics of those eligible for Pension Credit, in the central scenario for Pension Credit eligibility for the White Paper proposals.

Marital status

49. In the PPI central scenario, around three-quarters of the pensioner benefit units who are projected to be eligible for Pension Credit in 2050 are singles rather than couples. This is partly because single individuals can receive higher rates of Pension Credit than individuals in couples.

[30] PPI analysis using the Distributional Model and DWP figures

50. DWP's findings are similar. In the Government's projections, over 90% of those eligible for Pension Credit in 2050 are single pensioners[31].

Gender

51. Single women are projected to be more likely than single men to be eligible for Pension Credit. In the PPI's central scenario, 43% of single men and 61% of single women are projected to be eligible in 2050. In comparison, the DWP found that just over half of all single female pensioners are projected to be eligible for Pension Credit in 2050[32].

Age

52. In the PPI central scenario, older pensioners are projected to be more likely to be eligible for Pension Credit in 2050:
    - 43% of single pensioners aged 70-74 are projected to be eligible, compared to 66% of the over 85s.
    - 14% of pensioner couples in which the head is aged 70-74 are projected to be eligible, compared to 36% for the over 85s.

53. The DWP found that age has a limited effect on eligibility for Pension Credit in 2050[33]. In the Government's projections, around 25% of pensioner benefit units within 5 years of state pension age are entitled to Pension Credit (compared to around 30% of pensioner benefit units of all ages).

Receipt of premiums

54. Some households are eligible for higher levels of Pension Credit than the standard amounts. These include households with individuals who are severely disabled or are carers or have housing costs.

55. The PPI's models allow for these higher rate premiums for the severely disabled and carers. They do not allow for the premiums for housing costs, although these currently affect fewer claimants than the other types of premium[34].

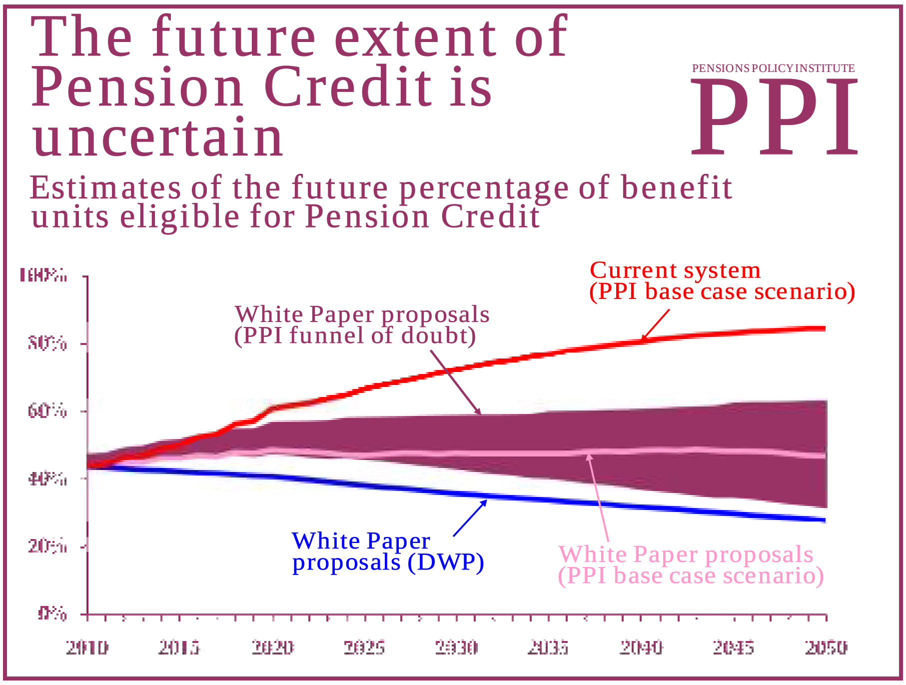
[31] DWP (2006) ***Projections of Pension Credit entitlement***
[32] DWP (2006) ***The Gender Impact of Pension Reform*** paragraph 95
[33] DWP (2006) ***Projections of Pension Credit entitlement***
[34] DWP ***Pension Credit Quarterly Statistical Enquiry: February 2005*** Tables 6.5 and 8.1

56. In the PPI central scenario, around one-quarter of pensioner benefit units eligible for Pension Credit are eligible for one or more premiums. In comparison, the DWP found that approaching a half of those eligible for Pension Credit in 2050 would be eligible for a premium[35].

PPI optimistic and pessimistic scenarios

57. PPI has undertaken sensitivity analysis to gauge the level of uncertainty surrounding estimates of future Pension Credit eligibility (Chart 6). A range has been generated by varying the overall growth in pensioners' incomes over time by +/- 0.5%. Rather than focussing on precise changes in policy or behaviour this analysis acts as a proxy for more fundamental uncertainties in the modelling, such as changes in labour market or caring patterns, and changes in savings behaviour[36].

Chart 6



[35] DWP (2006) ***Projections of Pension Credit entitlement***

[36] PPI (2006) ***An evaluation of the White Paper state pension reforms*** chapter 4 and modelling appendix 3

58. Chart 6 suggests that future eligibility for Pension Credit could be considerably higher or lower than the PPI central estimate of around 45%. The optimistic scenario suggests that around a third of pensioner benefit units may be entitled to PC. The pessimistic scenario suggests two-thirds. However, for PC eligibility to be much higher than 45% would require a significant shift in labour market, caring or savings patterns compared to current trends.