The impact of Pension Credit reform for mixed age couples

PENSIONS POLICY INSTITUTE
PPI

PPI Briefing Note Number 113

Summary

On 15 May 2019, the rules governing how some people qualify for Pension Credit changed. Before this date, mixed age couples, where one person is above State Pension age (SPa) and the other below, would both qualify for Pension Credit when the older person reached SPa. Now, they will have to wait until the younger person does. The Government believes that 60,000 couples will be affected by this change within 5 years, generating annual savings of £385million.

For mixed age couples on a low income, this policy change could have serious effects. The expectation from the Department for Work and Pensions (DWP) is that they would claim Universal Credit instead of Pension Credit – a benefit designed with the sole aim of encouraging working age people to find and increase paid work, and was never intended for pensioners to claim. As a result, mixed age couples receiving Universal Credit are very likely to be significantly worse off than those claiming Pension Credit.

The basic rates of income from Pension Credit and Universal Credit for couples are very different (Figure 1). Under Pension Credit, a couple would receive a Minimum Guarantee of £255.20 per week,[1] compared to £115.13 under Universal Credit. However, the differences do not end there, as Pension Credit can provide access to other sources of social security income that Universal Credit does not:

- A mixed age couple on Pension Credit would expect to be 'passported' to other social security benefits, such as Housing Benefit and Council Tax Benefit. In both of these cases, where people who qualify for the Minimum Guarantee of Pension Credit are likely to receive a full rebate for both, those on Universal Credit will typically only receive a partial reduction.
- Mixed age couples who live in social housing would also be subject to the spare room subsidy (or 'bedroom tax') which could further reduce their income if their home is deemed to be larger than they need.
- Disabled people will face tougher eligibility criteria to qualify for additional payments under Universal Credit than Pension Credit, though more severely disabled people will see a slight rise in income from additional payments.
- Additional payments for carers may be higher on Universal Credit than Pension Credit, but nowhere near enough to offset other losses.
- Income (whether real or notional) from pensions is treated as earnings in both benefits, but the lower ceiling means that a pension of more than £480 per month will wipe out any eligibility for Universal Credit.
- Universal Credit has been frozen since 2016/17, while Pension Credit has continued to be uprated annually, meaning that the disparity between the two has grown and will continue to do so.
- Under Universal Credit, the older person in a mixed age couple would not be expected to look for work, but the younger person still would, and they would have to abide by strict conditionality rules or risk losing a proportion of their benefit which would have a detrimental impact upon household income.
- Passporting to the Warm Homes Discount Scheme and Cold Weather Payments will also be different, with Universal Credit claimants not having an automatic right to these benefits if they do not meet further criteria.

It is difficult to measure the effects of all of these changes with real accuracy, but on the bases of the differences in applicable income in Universal Credit and Pension Credit and the additional effects on Housing Benefit and Council Tax Reduction, PPI calculates that in some specific circumstances a mixed age couple could be over £10,000 per year worse off on Universal Credit than they currently would be on Pension Credit, a drop in income of 45%.

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Introduction

On 14 January 2019, the Government announced, via a written Ministerial Statement, that it would be implementing a section of the Welfare Reform Act 2012, making changes to the age at which some people could claim Pension Credit. These changes took effect from 15 May 2019. Before this date, mixed age couples, where one person is above State Pension age (SPa) and the other below, would both qualify for Pension Credit when the older person reached SPa. Now, they will have to wait until the younger person does.

This Briefing Note examines the potential effects of this change for mixed age couples who have yet to claim Pension Credit, or who may have to end and re-start a claim. The expectation is that they would have to claim (or continue to claim) Universal Credit.

As a result of this policy, mixed age couples who make a claim after 15 May 2019 will be more likely to:

- Experience financial hardship,
- Struggle to afford existing housing costs,
- Experience degradation in their relative standard of living relative to other pensioners.

This briefing Note covers the following areas:

- The numbers of people affected by the policy change.
- Estimated savings to the Government.
- How Pension Credit works.
- How Universal Credit is intended to work.
- How mixed age couples are affected by the policy changes.
- How people with additional needs are affected.
- The significance of Housing costs under the new policy.
- How the new policy deals with income and capital.
- How other social security benefits are affected.

Figure 1: Pension Credit pays out at a higher rate than Universal Credit

Maximum standard amount per week for a couple for each benefit (2019/20)

There are currently 115,000 mixed age couples receiving Pension Credit

Current claims in payment for mixed age couples on Pension Credit are shown in Figure 2. Some people who do not qualify for Pension Credit will still receive Housing Benefit if they live in rented accommodation, these people will also be affected by the changes to Pension Credit if they need to start a new claim.

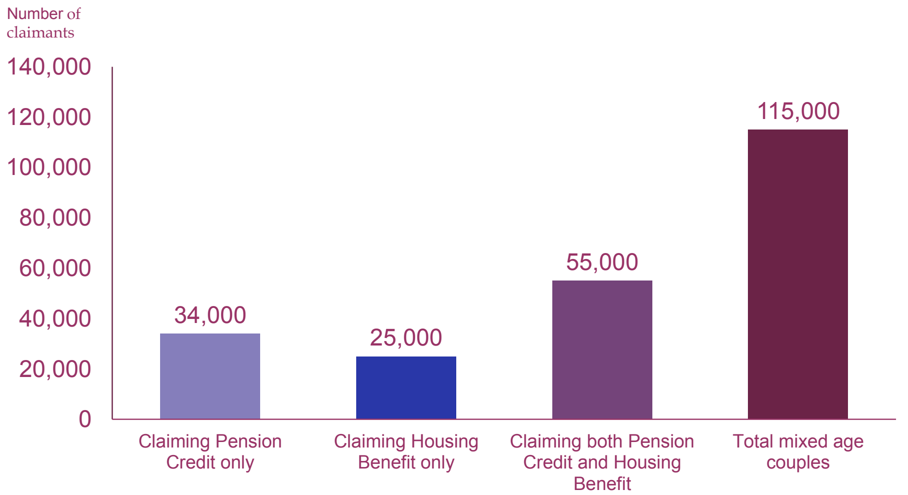
It is estimated that within five years, 60,000 couples who would have qualified for Pension Credit will be affected by this new policy

DWP estimates as to the number of mixed age couples who would have been entitled to and claiming Pension Credit and/or pension age Housing Benefit without the policy

Figure 2: 115,000 mixed age couples claim Pension Credit

Current Pension Credit claims in payment for mixed age couples, 2018

DWP Work and Pensions Longitudinal Study. Figures may not total due to rounding



change are set out in Figure 3. Please note these represent the estimated number in each specific year, and will comprise both estimated new claimants and claimants estimated to have started in a previous year. It is not appropriate to sum the figure to obtain a cumulative total.

Estimated savings to the DWP budget

The policy was originally introduced on the basis of addressing a perceived unfairness in the system whereby a working age person could effectively be claiming a retirement benefit rather than as a cost saving measure. Although there will be relatively small savings in the first year of the new regime, there will be more significant savings to the Department's Annually Managed Expenditure (AME) budget over time (Figure 4).

Pension Credit is the main means-tested benefit for pensioners

For people reaching SPa before April 2016, Pension Credit had two components—Guarantee Credit and Savings Credit.

Guarantee Credit is generally the more valuable of the two components, and is designed to top up low incomes to the Standard Minimum Guarantee (the basic amount that the Government believes is necessary for pensioners to live on). The standard minimum amount is £255.20 for a couple. People with caring responsibilities, responsibility for a child (or qualifying young person), disabled people and people with certain types of housing costs; may qualify for additional payments associated with Pension Credit above the Standard Minimum Guarantee, and those that are, are awarded a higher Minimum Guarantee. This means that some people qualify for Pension Credit even if their income is above the standard level of Guarantee Credit.

Savings credit acts as a small disregard of 60 pence in every pound

Figure 3: Within 5 years, 60,000 couples will be affected by Pension Credit reform

DWP modelling based on 2018 budget caseload and spending estimates. Figures rounded to the nearest 5,000

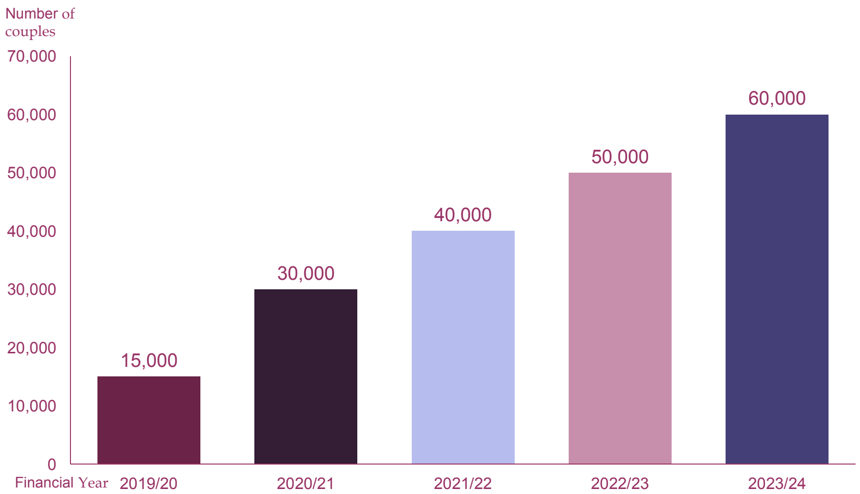
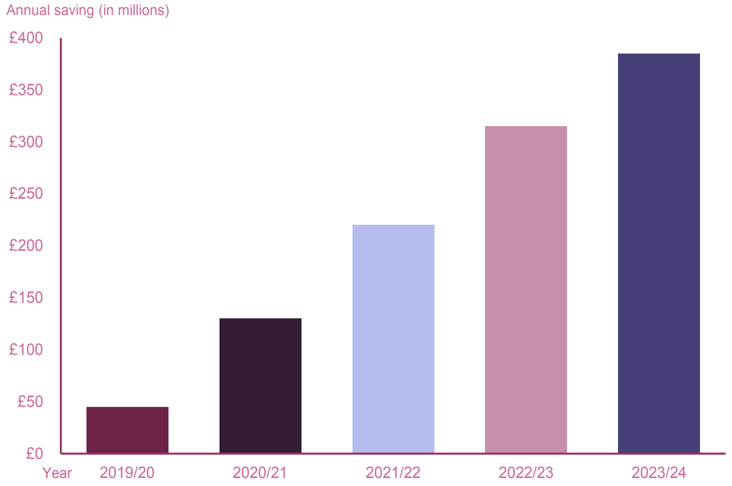


Figure 4: By 2023/24, annual savings are estimated to reach £385million

DWP policy modelling based on 2018 Budget caseload and spending estimates. Figures are rounded to the nearest £5million.



of income over a threshold of £144.38 a week for single people, and £229.67 a week for a couple, up to a limit of £13.73 per week for a single person and £15.35 per week for couples. It was intended for people age 65 and above who had made some provision for their own retirement, was discontinued in 2016 for those who had not reached SPa before 06 April 2016, on the basis that the new State Pension (nSP) would be above the level of means-tested support and therefore be redundant. People who reached the SPa before this time may still be entitled to Savings Credit if a Pension Credit claim is made.

People in receipt of Pension Credit can also receive passporting to other benefits (Figure 5).

The qualifying age for Pension Credit is increasing along with the SPa. Until 2010, the qualifying age for Pension Credit was 60, the same as women's SPa. The qualifying age increased in line with women's SPa to meet age 65 in 2018 The qualifying age is now rising with both men and women's SPa to meet age 66 in 2020. As of May 2019, SPa stands at 65 years and four months for both men and women.

Changes to the eligibility criteria for Pension Credit will mean that mixed age couples will no longer qualify until both reach State Pension age

Before 15 May, 2019, people in mixed age couples (where one person is above SPa and one below) could claim Pension Credit when only one partner had reached the

Figure 5: People claiming Pension Credit can be passported to a range of other social security benefits.

qualifying age. From 15 May 2019, new claims for Pension Credit can normally only be made once both partners have reached SPa. People who meet the qualifying conditions before this date can make a backdated claim until 13 August 2019, provided they can establish an entitlement on 14 May 2019.

This will also apply to Housing Benefit for people over SPa. Mixed aged couples who are only receiving Housing Benefit for pensioners on 14 May, 2019 may still make a claim for Pension Credit on or after 15 May 2019, provided they are still entitled to Housing Benefit for pensioners at the time of the claim, and vice-versa.

As well as mixed age couples where one reaches or has already reached SPa, the following will also be unable to remain on, or re-claim Pension Credit or Housing Benefit for pensioners:

- Single pensioners in receipt of Pension Credit and/or Housing Benefit for pensioners, who, on or after 15 May, 2019, start living with a partner who hasn't reached SPa.
- Mixed age couples in receipt of Pension Credit and/or Housing Benefit for pensioners who cease to be entitled to both benefits following a change of circumstances and later need to make a new claim before their partner has reached SPa.

The Government defines a partner as "a person you live with as if you were a married couple", regardless of whether or not they are married or in a civil partnership.

Following implementation of Pension Credit reform, Universal Credit will generally be the only income-related benefit available to mixed age couples (who are ineligible for Pension Credit and Housing Benefit for pensioners) subject to the level of their income and capital. Entitlement to Universal Credit will depend on whether income (including State and other pension income that becomes available when the older partner attains SPa) exceeds the amount of their Universal Credit award and whether they have savings and/or capital in excess of the Universal Credit limit.

Universal Credit is a new benefit for working age people designed explicitly to encourage them to seek paid work

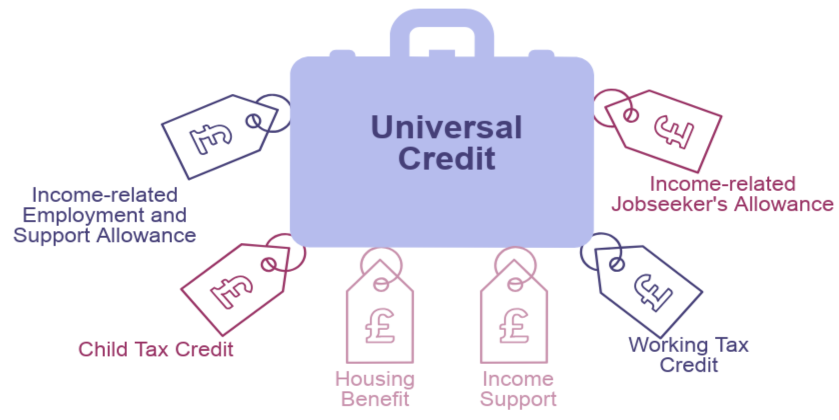
Universal Credit combines a number of legacy benefits into one system (Figure 6).

It is designed for people who are out of work or who are on a low income, and explicitly encourages claimants to take up and/or increase paid work. There are a number of features intended to incentivise this, including a tapered earnings reduction whereby for every pound earned (above a work allowance if applicable) while working and claiming Universal Credit, the claimant can keep 37p, the remaining 63p being deducted from Universal Credit).

Mixed age couples receiving Universal Credit are likely to be worse off than those claiming Pension Credit

At a basic level, there is a significant difference between the rates of Pension Credit and Universal Credit, and mixed age couples that would have been entitled to the maximum pension credit of £255.25 per week (from April 2019), would, after 14 May only be able to claim the maximum universal credit of £115.13 per week. This scenario is unlikely to affect large numbers of people, but the complexities of the benefits system for working age people mean that there will be many future claimants who will be less well provided

Figure 6: Universal Credit combines a number of benefits into one system



for compared to current claimants (see Figure 7 for a hypothetical case).

The reason that the amount allowed for living costs under Universal Credit is lower than that allowed for in Pension Credit is in part because the Government wants to encourage greater participation in paid work, and partly because working age benefits have not been uprated since 2016-17.

How much money claimants are entitled to in practice depends on other income and savings - and the above figure also doesn't take into account the fact that they could lose access to other social security benefits. For example:

- Claimants with more than £16,000 in savings are ineligible for Universal Credit, and there is a tapered withdrawal of Universal Credit from savings over £6,000.
- For every £1 of earned income, the rate of Universal Credit payment reduces by 63p, whilst unearned income is reduced by £1 (this includes pensions in payment). Therefore, a couple eligible only for the standard couple allowance of £115.13 with a monthly income of £791.89 or more would not qualify.
- People living with partners will have their partner's income and savings taken into account, even if their partner does not meet the eligibility criteria for Universal Credit
- Unlike pension credit, where only one partner is required to meet

Figure 7: In a hypothetical case, Pension Credit is worth £192.77pw, £10,024.04pa or 45%, more than Universal Credit

The potential differences faced by a hypothetical mixed age couple, Abigail and Hugh, claiming PC before May 15, 2019 or UC after that date

Abigail and Hugh live in a two-bed social housing flat in Bournemouth. They pay rent of £150 per week and are in Council Tax Band A.

This analysis does not take into account additions that may be applicable within the wider PC or UC regimes, nor the effects of pensions. If the couple were renting in the private sector, LHA regulations would apply in both cases, and there would be no application of spare bedroom subsidy.

Under Pension Credit they would:

- Receive their Applicable Minimum Guarantee of £255.20 per week.
- Not pay Council Tax, so would save £21 per week.
- Be eligible for full Housing Benefit, saving £150 per week.

The total value of their Pension Credit claim would be £426.20 per week

Under Universal Credit they would:

- Receive their applicable amount of £115.13 per week.
- Receive a Council Tax rebate of £15.80 per week.
- Be subject to the Spare Bedroom Subsidy at £21.00 per week.
- Have Housing Benefit of £123.50 per week.

The total value of their Universal Credit claim would be £233.43 per week

The above hypothetical case is not intended as a prediction, and makes assumptions based on the currently available information about the differences between PC and UC, in the absence of any official estimates, as to the effects of the policy change.

the qualifying conditions and claims for both, under Universal Credit, both partners are required to qualify for it.

People with additional needs and responsibilities will be likely to be worse off under Universal Credit

Disabled people who live alone[3] and receive Attendance Allowance (AA), the middle or higher rate care component of Disability Living Allowance (DLA) or the daily living component of Personal Independence Payment (PIP), or Armed Forces Independence Payment (AFIP), and for whom no other person is in receipt of Carer's Allowance, may receive an additional severe disability payment as part of Pension Credit. This amounts to an extra £65.85 per week for a single person and £131.70 for a couple.

Disabled people making a new claim for Universal Credit will usually have to undertake a Work Capability Assessment in order to receive the Limited Capability for Work and Work-Related Activity (LCWRA) element worth £336.20 per month. This element replaces income-related Employment and Support Allowance (ESA), and has far tighter eligibility rules. While any eligibility to AA, DLA, PIP or AFIP are unaffected, there is also no longer an additional Severe or Enhanced Disability Premium for new claimants in Universal Credit as had been the case under ESA.

While those people in receipt of LCWRA do have a slightly higher additional payment than those receiving the severe disability payment under Pension Credit (£78.58 per week as opposed to £65.85) the eligibility criteria are far stricter, meaning that many people who would have been eligible for ESA before the introduction of Universal Credit will have no additional payment at all, leaving them significantly worse off.

Carers who are already in receipt of Carer's Allowance (worth £66.15 per week), or who are eligible for it, but cannot receive it because they receive a State Pension or other benefit that precludes payment of Carer's Allowance can receive an extra £36.85 per week as a single claimant (either living alone or as one of a couple) or £73.70 for a couple under Pension Credit. Under Universal Credit, people who provide care for at least 35 hours a week for a severely disabled person who receives a disability-related benefit can receive an additional carer's payment of £160.20 per month (£36.97 per week).

This means that carers who meet the eligibility criteria would have a slightly higher additional payment under Universal Credit of 12p per week, or £6.24 per annum.[2.]

People can also claim for help with meeting their housing costs

Those who rent from either the social or private sector can apply for Housing Benefit. Those who qualify for the Guarantee Credit element of Pension Credit will have any savings and income disregarded in the calculation of their Housing Benefit award, meaning that they are entitled to the full eligible amount of Housing Benefit, including eligible service charges but less any non-dependant deductions. People who have reached SPa, but who do not qualify for Guarantee Credit may also receive Housing Benefit subject to income and savings and if on a low income will receive full eligible Housing Benefit.

There is also assistance for mortgage interest payments in the form of a loan that must be repaid with interest when the property is sold or from the estate if deceased. The payments are made direct to the lender. The repayable loan may also help with eligible interest on loans in respect of certain home improvements.[4]

Under Universal Credit, Housing Benefit is worked out by comparing a claimant's income with their applicable amount (the amount that the government believes that a claimant needs to live on). Housing Benefit for working age people is currently being phased out and replaced by a Housing element within Universal Credit. It is expected that a Housing Credit within Pension Credit rules will be payable when Housing Benefit for pensioners is phased out.

For people renting privately of all ages, housing costs are calculated using the Local Housing Allowance (LHA). The LHA rate is based on rental prices in the local area and the number of rooms the claimant is deemed to need based on the size of the benefit household. A couple living together would be deemed to only need one bedroom and the amount of help with housing costs they receive would reflect this, irrespective of the size of the property.

The spare bedroom subsidy will apply to Universal Credit claimants

People who rent from the social sector also have their housing costs element of Universal Credit based on eligible rent. However, a size restriction is applied when calculating this award (this is the spare room subsidy, also referred to as the 'bedroom tax') This means that eligible rent may not be taken into account in full if it's considered that a property has more bedrooms than are deemed required (Figure 8). This applies irrespective of the number of people in the household.

If a property is considered to have spare bedrooms, the eligible rent which is used for the calculation will be reduced by:

- 14% for one spare bedroom.
- 25% for two or more spare bedrooms.

The spare bedroom subsidy does not exist in Pension Credit. This means that a mixed age couple sharing a multi-bedroom house where they have raised children who have moved away from home will (in most cases) either have to lose a portion of their Housing Benefit or seek smaller alternative accommodation, which may not be easy to find.

The amount of housing costs met may be reduced if a non-dependant adult lives at the property. Such an individual would be expected to make a contribution to housing costs, and a reduction is made irrespective of whether they actually do so or not. The current basic deduction is £15.25 per person per week. It applies to non-dependants over 25 and in receipt of an income-related benefit or over 18 who is working or not in receipt of an income-related benefit and earning under £139 per week. A sliding scale is introduced with reductions ranging from £35.80 per week to a maximum of £100.65 based on the non-dependant's earnings. No deduction is applied if the non-dependant is under 25 and receiving an income-related benefit or over SPa and receiving Pension Credit. This also applies to people receiving help with their mortgage payments.

The spare room subsidy and the effect of a less generous housing allowance in Universal Credit combine to make it highly likely that mixed age couples will be worse off under Universal Credit than under Pension Credit.

Income, capital and disregards are different in Pension Credit and Universal Credit

Different sources of income are treated differently in calculating Pension Credit eligibility. Among those that are counted as income are all pensions in payment and any income from annuities, most earnings (save for small weekly disregards), most DWP social security payments (except for extra-cost disability benefits), deemed income from capital, payments from equity release schemes and payments from the Pension Protection Fund.

Untouched pensions are regarded as generating notional income to the level of full eligible payment in the case of an unclaimed State Pension or Defined Benefit pension or the

Figure 8: The spare room subsidy ('bedroom tax') will affect mixed age couples in social housing

purchase of an annuity for Defined Contribution pensions. Notional income or capital can also be generated if a claimant is deemed to have deliberately reduced their capital or income in order to increase their eligibility for Pension Credit.

Capital refers to property, savings and investments (not including the value of a home), and is only taken into account for sums in excess of £10,000. Every £500 or part of £500 over the £10,000 threshold is deemed as generating £1 per week of income that will be taken into account when calculating the eligible amount of Guarantee Credit.

While under Pension Credit rules, a pension pot is regarded as generating notional income, this is not the case in Universal Credit until a claimant reaches SPa. However, for the older partner in a mixed age couple, their pension will be seen as generating notional income to the level of an annuity if unaccessed, or as representing unearned income if it is accessed, either case seeing benefit withdrawn pound for pound. To this end, anyone in receipt of a pension greater than their applicable amount of Universal Credit will not be eligible for the benefit.

Under this system, a mixed age couple where one member receives a pension that is equal to or greater than the applicable Universal Credit amount, but less than the current applicable Minimum Guarantee in Pension Credit would lose out compared to current Pension Credit claimants whose pension income would be increased to their Appropriate Minimum Guarantee amount.

There are other benefits where the rules for Pension Credit and Universal Credit are likely to have an impact

Council Tax Reduction

For Pension Credit claimants in England (and everyone in Scotland, Wales and Northern Ireland, Council Tax Reduction (CTR) is based on the default system, which calculates the difference between the applicable amount and income, then charges 20% of this as Council Tax. For working age people in England, Council Tax Reduction is decided by the Local Authority. As with Housing Benefit, there may be reduction in CTR if a non-dependant adult lives with the claimant. It is currently unknown what rules will apply after May, but any move to the rules generally applied to working-age people is likely to result in decreased benefits for mixed age couples.

Warm homes discount scheme

This scheme is designed to help with heating costs for people on a low income, with a one-off payment of £140 (in 2018/19) to a claimant's energy supplier (so long as that supplier has signed up to the scheme) to be discounted from their energy bill. People in receipt of the Guarantee Credit element of Pension Credit automatically qualify for this scheme, though they do have to apply. Other groups receiving benefits may be able to apply for this scheme, but the decision as to their eligibility is at the supplier's discretion. Each supplier will only have a limited number of discounts to grant, and it is likely that mixed age couples not in receipt of additional payments in Universal Credit will not be deemed eligible.

Cold weather payments

Cold weather payments provide £25 for each 7-day period of extreme cold weather between 1 November and 31 March. People on Pension Credit will usually receive cold weather payments automatically. People in receipt of Universal Credit, will usually only get Cold Weather Payments if they are not employed or self-employed. One of the following must also apply:

- Claimant has a health condition or disability and have limited capability for work (with or without work-related activity).
- Claimant has a child under 5 living with them.
- Claimant has a disabled child amount in their claim, whether they are employed or not.

Again, mixed age couples who do not meet these additional criteria in Universal Credit will be ineligible for cold weather payments and will be less well off ass a result.

Differences in rules between Pension Credit and Universal Credit will disadvantage some people

There are also significant differences between the rules for Pension Credit and Universal Credit, such as differences in rules about when couples separate. For example, a mixed age couple claiming Universal Credit post-May 2019 separate temporarily for more than 6 months. Under Universal Credit regulations, that means they are no longer treated as a couple and must claim separately. However, the older partner would not be able to claim Pension Credit as a single person until the temporary separation has exceeded or was expected to exceed 12 months, so the Pension Service would simply refuse the claim. They also can't claim Universal Credit as a single person because of their age.

Universal Credit has not been uprated, unlike Pension Credit

Since 2016/17, working-age benefits such as Universal Credit have been frozen, while Pension Credit has been uprated annually, meaning that the disparity between Pension Credit and Universal Credit has widened and will continue to grow.

Sanctions and deductions in Universal Credit will affect household income

Although the older partner in a mixed age couple will not face employment-related conditionality in Universal Credit, they will still be subject to the effect of sanctions on the household if the working age partner fails to fulfil the conditions that form part of their claim.

Additionally, in cases where Universal Credit claimants incur debt in housing or utility costs, deductions of up to 40% can be made from Universal Credit before payment in order to meet arrears. The number of people affected by deductions appears to be growing in both real and relative terms, with October 2018 seeing 53% (532,000) of claimants facing some degree of deduction, with 25% of these facing deductions of more than 30%, compared to 33% in April 2018, 20% in December 2017 and 10% in May 2017.[5]

There will be further changes to Pension Credit as other social security benefits are phased out

As a result of the introduction of Universal Credit, benefits such as Tax Credits and Housing Benefit will be phased out. These benefits will all eventually become elements of Universal Credit and when this happens it will mean that pensioners who currently get Housing Benefit will instead have this replaced by a new housing credit which will be paid as an integral element of Pension Credit.

If pensioners are claiming for children they will also no longer be eligible for Child Tax Credit and instead additions for children will be payable as part of their Pension Credit.

Next Steps

The technical details, including the rates of payment of changes to additions in Pension Credit and Universal Credit have yet to be revealed. As more information becomes available, this Briefing Note will be updated.

Notes

[1] All social security benefit rates are as uprated for 2019/20.

[2] Calculated using the *12/52 formula commonly used by DWP when converting monthly into weekly amounts.

[3] 'Living alone' does not mean that a claimant does not live with other people. For example, in a couple where both people are in receipt of one of the qualifying rates of disability benefit, both are treated as 'living alone'.

[4] Eligible improvements include essential works for making a home more accessible for a disabled person, for safety and health-related purposes (heating, bathroom provision electrics, cooking, dealing with damp or water supplies, etc).

There is also some help available for people living in homes where there are service charges or ground rent payable. Not all service charges are eligible for payment, and those that are, are converted into a weekly payment added to the appropriate Minimum Guarantee payment.

[5] DWP answer to Parliamentary Question 218206, 20.03.19.

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