"Age-related TV licence policy" public consultation – Response from the Pensions Policy Institute to the BBC

1. Response

1.1 This is the Pensions Policy Institute's response to the BBC's "Age-related TV licence policy" public consultation.

1.2 The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique 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.

1.3 This submission does not address all of the specific questions in the consultation, neither does it seek to make policy recommendations. Rather, the response provides an overview of existing evidence and explores the challenges and opportunities involved in implementing options of age-related concessions.

1.4 Chris Curry, PPI director, participated in a round table event on 4th December 2018 hosted by the BBC discussing the generational challenges.

1.5 The BBC's initial thinking has been based around the criteria of fairness, financial impact and feasibility.[1]

2. Fairness

2.1 Fairness means different things to different people, and there are many, often conflicting, measures by which fairness can be judged. Options may be assessed based upon:

- Fairness linked to use;
- Fairness linked to ability to pay;
- Fairness linked to the same nominal concession;
- Fairness linked to the opportunity of the concession being available in the future having had to fund it in the present.

2.2 There are both intergenerational and intragenerational considerations of fairness to be made. Fairness will need to be considered between groups considering how any concession is supported, and which groups will need to ultimately make up the funding gap caused by any concessions.

[1] BBC (2018) *Age-related TV licence policy: Public Consultation*

2.3 Where a concession has a stated aim, e.g. benefitting those on the lowest incomes, it will be necessary to consider how closely the application of the concession matches the target definition. That is how many who fit the aim do not qualify for the concession and how many who do qualify for the concession do not meet the aim.

2.4 Any concession will need to be considered in terms of how future expectation is set. Any group that must fund a concession may in turn feel entitled to that concession in the future.

The development of the older pensioner group

2.5 Since the concession was introduced in 2000 the group of people who make up the over 75s in the UK has changed. They will live longer and make up a greater proportion of the UK population.

2.6 Being 75 years old is not as 'old' now as it was in 2000 and is projected to become relatively younger still when considered in terms of both life expectancy and the distribution of the UK population as a whole.

2.7 In 2000 a 75 year old man had a life expectancy of 10 years 2 months and a woman had a life expectancy of 12 years 3 months. In 2020 a 75 year old man is projected to have a life expectancy of 12 years 9 months and a woman is projected to have a life expectancy of 14 years 3 months.[2] Over this ten year period life expectancy is projected to have increased by around 2 years.

2.8 The proportion of the population who are aged 75 and upwards has increased from around 7.5% in mid-2000 to 8.2% in mid-2017.[3]

2.9 7.5% of the UK population is projected to comprise those aged:

- 76 and older in 2017;
- 77 and older in 2023;
- 78 and older in 2026;
- 79 and older in 2030;
- 80 and older in 2036.[4]

2.10 The State Pension age has increased over this period and will increase in future to mitigate the impact of increasing life expectancy and the changing balance of the UK population.

3. Financial Impact

3.1 The finances of older individuals has changed since the introduction of the concession. The benefits system, including the State Pension, has been reformed and the pension landscape has changed. However individuals

[2] ONS (2017) *UK 2016-based life tables*
[3] ONS (2018) *UK population estimates*
[4] ONS (2017) *UK 2016-based population projections*

within this group are unlikely to have any new alternative sources of income and will continue to face the same financial challenges.

The State Pension

3.2 The current cohort of individuals aged over 75 currently receive State Pension comprising Basic State Pension and additional State Pension. From 2026 people aged 75 may be in receipt of the new State Pension.

3.3 In the long term the new State Pension is projected to reduce the number of pensioners eligible for Pension Credit by around 300,000.[5] This means there will be fewer pensioners experiencing the lowest incomes, however the impact will take many years to filter through to the oldest pensioners.

Relative poverty

3.4 The number of people in the UK who are in relative poverty (income below 60% of median contemporary levels after housing costs) has increased from 13.0 million in 2000/01 to 14.3 million in 2016/17,[6] largely reflecting a growing population.

3.5 Over this period the number of older pensioners (aged 75 and over) in relative poverty has decreased by nearly 25% (1.2 million to 0.9 million) despite the population rising from 3.9 million to 5.0 million.[7]

3.6 As a group, older pensioners (aged 75 and over) are no longer as over represented amongst those in relative poverty as they were. This reflects a relative growth in the distribution of pensioner incomes compared to the population at large.

Real increases in income

3.7 Since the introduction of the concession the average income of the older pensioner group (aged 75 and over) has risen faster than the cost of the television licence.[8] This has driven down the cost of a TV licence as a proportion of pensioner income.

3.8 This increase to the median income is largely driven by two factors:

- Increases in State Pension (driven by triple lock indexation), which affects all pensioners;
- Younger individuals with greater pension income reaching age 75 who bring up the averages.

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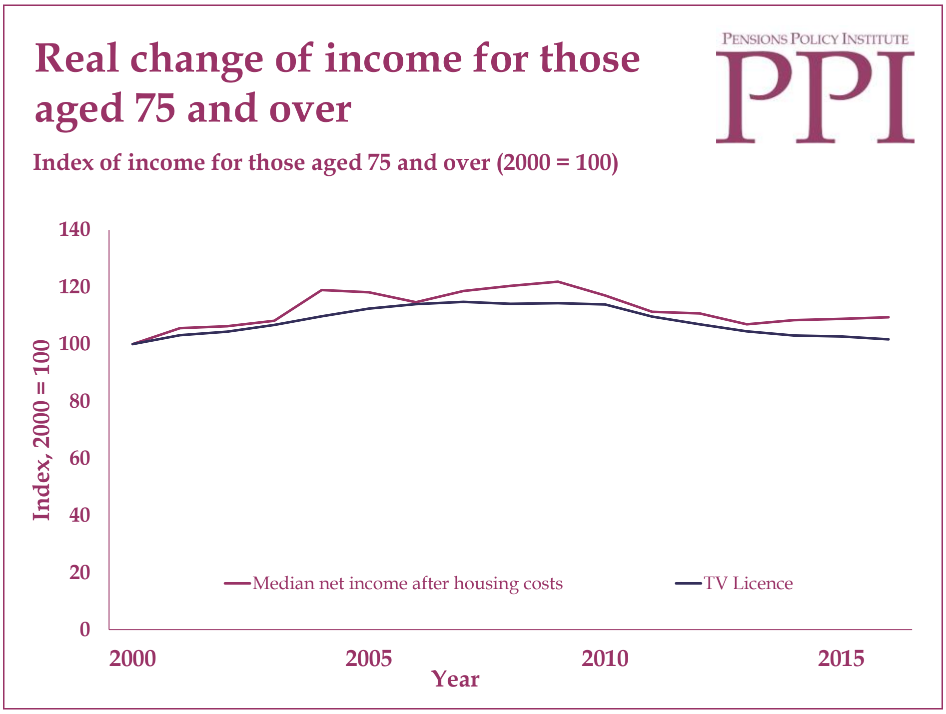
[5] DWP (2016) *Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP*
[6] DWP (2018) *Households below average income*
[7] DWP (2018) *Households below average income*
[8] **Real terms based upon CPIH:** ONS (2018) *Consumer price inflation time series (MM23)*
Median net income: DWP (2018) *Pensioners' Income Series: 2016/17*
TV Licence: BBC (2018)

This results in an increase to the aggregate income of the group.



3.9 As pensioners grow older, their income will generally fall back in relation to the overall retired population. This is due to the evolution of the pensioner population as newer, richer, pensioners join.[9]

3.10 However the individuals within this population will not see their income rise at the same rate as the population as a whole.

- Private pension income may not be inflation linked.
- Only the Basic State Pension component is increased by the triple-lock.

This is not enough to allow an individual's whole income to keep pace with the population.

4. Feasibility

4.1 The review considers options around reforming the current system such as means testing and targeting of the concession to eligible groups. There would need to be a feasible approach to any concession designed to reach a target group which is effective and represents value for money.

4.2 In the Cridland review of the State Pension age the issue of alternatives to a unilateral approach were considered and the challenges acknowledged:

[9] PPI (2018) *PPI Briefing Note 104: Dependency on the State Pension through retirement*

Many responses highlighted the value of the simplicity of a universal State Pension age, and acknowledged the difficulty of designing and implementing a workable alternative. There was little appetite for a variable State Pension age based on region or socioeconomic group, as this would likely prove to be too difficult to target appropriately. Multiple respondents noted that creating an alternative was likely to create new unfairness.[10]

4.3 These challenges would equally be present in any alternative to a unilateral approach to age-related concessions on a TV licence. To make individual assessments could be costly and may not represent value for money.

4.4 Using pension credit uptake as a qualifier to target those with the least income has its drawbacks as there is not a precise correlation between low income and benefit receipt. Those who are in receipt of means tested benefits do not match perfectly those with the lowest incomes.

4.5 Considering single pensioners by quintile of their income after housing costs the proportion in receipt of income related benefits[11] are:[12]

Lowest income				Highest income
38%	62%	35%	30%	10%

4.6 This is due to qualifying criteria for income related benefits (which may include an assessment of assets or other circumstances) and the take-up rates of those who are eligible.

4.7 The take up of pension credit by pensioners aged 75 years old and over is around 60% of eligible people.[13] For a concession to be based upon eligibility to Pension Credit just over 40% of the target group would be unlikely to be able to claim the concession as they do not claim Pension Credit.

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[10] John Cridland Independent Review (2017) *Independent Review of the State Pension Age: Smoothing the Transition*

[11] The main income-related benefits in 2016/17 include Pension Credit, Housing Benefit, local council tax support and Social Fund payments.

[12] DWP (2018) *Pensioners' Income Series: 2016/17*

[13] DWP (2018) *Income-related benefits: estimates of take-up: financial year 2016 to 2017*