Pension Credit - background

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Pension Credit was introduced in October 2003, replacing the Minimum Income Guarantee (MIG) as the main means-tested benefit for pensioners. There are currently two parts to Pension Credit: the Guarantee Credit and Savings Credit. Guarantee Credit provides financial help for people aged over the "qualifying age" for Pension Credit (linked to the State Pension age for women) whose income is below a set amount. Savings Credit is an extra amount for people aged 65 or over, who have made some provision for their retirement (such as savings, or a second pension). Changes have been made to the Pension Credit rules since its introduction. In October 2008, a package of changes were introduced which included: extending the length of time for which Pension Credit could be paid during a temporary absence abroad; changes to the process for claiming and the requirements to report changes of circumstances. In addition, the length of time for which Pension Credit can be backdated was reduced. In November 2009, the amount of capital that can be disregarded increased from £6,000 to £10,000.

Further changes will be introduced by the *Welfare Reform Bill 2010-11*. This would provide for the introduction a new Universal Credit (an integrated working-age benefit, paid to people in and out of work, replacing a number of existing in and out of work benefits). The Bill also makes changes to Pension Credit. In particular, it provides for the introduction of a new Housing Credit element to replace Housing Benefit for people of Pension Credit qualifying age. Also, in future, both partners in a couple will need have to have attained qualifying age in order to receive Pension Credit. The entitlement conditions for the carer's additional amount are changed to remove the explicit link to Carer's Allowance.

In April, the Government published a Green Paper on options for State Pension reform. One of its proposed options (the introduction of a single-tier flat-rate State Pension set at the level of the standard minimum guarantee in Pension Credit) would reduce the number of pensioners needing Pension Credit in future.

This note looks at how the Pension Credit works and some of the issues raised in connection with it. For a fuller discussion of the background to Pension Credit, see Library Research Paper 02/19 *The State Pension Credit Bill [HL]*.

Contents

1 What is Pension Credit?

Pension Credit was introduced on 6 October 2003, replacing the "Minimum Income Guarantee" as the main means-tested support for pensioners.[1] Minimum Income Guarantee" was the name the Labour Government gave to what was still, formally, Income Support for people aged 60 or over.[2]

Pension Credit currently has two elements: the Guarantee Credit, which provides a minimum level of income; and the Savings Credit, which aims to provide an additional amount for those who have made some provision for their retirement. The total Pension Credit received is the combination of the two elements.[3] The *Welfare Reform Bill 2010-11* contains provision to introduce a new Housing Credit in Pension Credit. This is necessary because Housing Benefit is to be abolished and, for people of Working Age, incorporated into the Universal Credit (see section 3.2 below).

The table below shows the number of Pension Credit claimants and average amounts paid in May 2011:

Pension Credit claimants -May 2011

	Guarantee Credit only	Savings Credit only	Both Guarantee & Savings Credit	All
Number (000s)	937	590	1,148	2,674
Average amount of Pension Credit (£pw)	92.51	13.57	52.04	57.74

Source: DWP WPLS data http://83.244.183.180/100pc/tabtool.html

1.1 Guarantee Credit

The Guarantee Credit provides financial help for people who have reached the "qualifying age" for Pension Credit and whose income is below a specified amount. How much they get depends on how much other money they have (such as other pensions, earnings and savings). The Guarantee Credit bridges the gap between this other money and their "appropriate amount." The appropriate amount is made up of a "standard minimum guarantee" and additional amounts, which can apply if the claimant or their partner: has a severe disability; looks after a severely disabled person or; is liable for certain housing costs, like mortgage interest payments.[4] A detailed account of the conditions of entitlement to these additional amounts is in Pension Service leaflet, *a detailed guide to Pension Credit for advisers and others (September 2011).*

The rates of Guarantee Credit in 2011/12 are in the table below:[5]

1 *State Pension Credit Act 2002*

2 *Income Support (General) Regulations 1987*, SI 1987/1967, Schedule 1B. This was amended from October 2003 to remove the "persons aged 60 or over" category (SI 2002/3019)

3 Except that people under 65 only qualify for the Guarantee Credit

4 *State Pension Credit Regulations 2002* (SI 2002 No. 1792), reg 6; For more detail, see Pension Service leaflet, *A detailed guide to Pension Credit for advisers and others,* (January 2009). For an overview, see Pension Service leaflet, *Pension Credit – Do I qualify and how much could I get?,* August 2011

5 *State Pension Credit Regulations 2002* (SI 2002 No. 1792), reg 6; as amended by *Social Security Benefits Up-rating Order 2011,* reg 27 (2) (a) and (b)

	Rates 2011/12 £pw
Standard minimum guarantee	
single	137.35
couple	209.70
Additional amount for severe disability	
single	55.30
couple (one qualifies)	55.30
couple (both qualify)	110.60
Additional amount for carers	31.00

The qualifying age for Pension Credit is linked to the State Pension age (SPA) for women.[6] The SPA for women is rising to 65 by November 2018, then to 66 by October 2020. Under existing legislation, the SPA is then scheduled to rise to 67 between 2034 and 2036; and to 68 between 2044 and 2046.[7] However, the Government announced on 29 November that the increase to 67 would happen between 2026 and 2028.[8] It has also indicated that the increase to 68 may be revisited.[9] This is discussed in more detail in Library Standard Note SN 02234 *State Pension age.*

1.2 Savings Credit (SC)

The major change introduced by the Pension Credit was the Savings Credit. Under the previous system, Income Support (or MIG) was reduced by £1 for every additional £1 of income. So someone with £20 in income above the level of the basic State Pension was no better off than someone with no income in addition to BSP. Before the introduction of the Pension Credit in October 2003, the BSP was £77.45 a week for a single person and the MIG was £102.10 a week. A pensioner with £20 a week from a private pension would have received £4.65 MIG, while a pensioner with no income above the BSP would have received £24.65, giving them both identical net incomes of £102.10.

The Savings Credit aims to reward people over 65 with modest levels of "qualifying income" (including state, occupational and personal pensions) above the Savings Credit "threshold", up to a maximum. The figures for 2011/12 are in the table below:

6 *State Pension Credit Act 2002*, s1; *Pension Credit – Do I qualify and how much could I get?,* April 2010, p 2

7 *Pensions Act 1995,* schedule 4, as amended by *Pensions Act 2007 and Pensions Act 2011*

8 HM Treasury, *Autumn Statement 2011,* Cm 8231, November 2011

9 DWP, A state pension for the 21st century, Cm 8053, April 2011, para 136

Savings credit	2011/12
Threshold - single	103.15
Threshold - couple	164.55
Maximum - single	20.52
Maximum - couple	27.09

One of the conditions of eligibility for the Savings Credit is that the claimant (or their partner) has attained the age of 65.[10] The earliest age of entitlement to Savings Credit is to rise from December 2018, in line with the SPA (see below).[11]

The Pension Service explains how Savings Credit is worked out:

> **Savings Credit**
>
> [Legislation 60]
>
> Savings Credit is extra money for people aged 65 or over – or whose partner is 65 or over – whose qualifying income is above the Savings Credit starting point. This is called the Savings Credit threshold in the legislation.
>
> The Savings Credit starting point is:
>
> £103.15 for a single person
>
> £164.55 for a couple.
>
> **Savings Credit calculation**
>
> If your customer's Savings Credit qualifying income is the same as, or below, the Savings Credit starting point they cannot get Savings Credit.
>
> If their qualifying income is more than the Savings Credit starting point they may be entitled to Savings Credit. It is worked out as follows.
>
> **'Amount A'**
>
> First, work out 'Amount A'. This is 60% of the difference between your customer's qualifying income and the Savings Credit starting point, up to a maximum of £20.52 for a single person and £27.09 for a couple.
>
> If your customer's qualifying income is the same as, or more than, the standard minimum guarantee, the maximum Amount A applies.
>
> If your customer's qualifying income is less than, or the same as, their 'appropriate amount', their Savings Credit will be the same as Amount A.
>
> If your customer's qualifying income is more than their 'appropriate amount', work out Amount B.

10 *State Pension Credit Act 2002*, s3 (1)

11 *Pensions Bill 2010-11* [HL Bill 37], schedule 1, para 9 (b), which would amend *Pensions Act 2007,* s13 (3)

'Amount B'

Amount B is 40% of the difference between their total income and their 'appropriate amount'.

Take Amount B from Amount A. What is left is your customer's Savings Credit.

If your customer seems to be eligible then get them to call The Pension Service who will be able to help them claim in one phone call.[12]

Savings Credit can be claimed from age 65 – although the minimum age at which it can be claimed will increase with the State Pension age (SPA).[13] The SPA is rising – see section 1.1 above.

1.3 Level of income at which entitlement to Pension Credit ceases

The amount of Pension Credit a person gets and the level of income at which a person ceases to qualify, depends on their circumstances. The Pension Service leaflet, *"Pension Credit – Do I qualify and how much do I get?"* explains this as follows:

How much could I get?

The amount of Pension Credit you get depends on how much money you have coming in each week, and how much you have saved or invested.

If you have a partner, we will add together your income and capital and your partner's income and capital when working out your Pension Credit.

The Guarantee Credit

The Guarantee Credit works by topping up your weekly income to the amounts below. This means that if you or your partner have reached the qualifying age, you are likely to get the Guarantee Credit if the money you have coming in is less than:

- £137.35 a week if you are single, or
- £209.70 if you have a partner.

These amounts may be higher if:

- you or your partner (or both of you) have a severe disability
- you or your partner (or both of you) look after a severely disabled person, or
- you have certain housing costs, like mortgage interest payments

The Savings Credit

If you or your partner are aged 65 or over and you have saved some money towards your retirement, like a second pension or savings, you may get the Savings Credit. You could get up to:

- £20.52 a week if you are single, or
- £27.09 a week if you have a partner.

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12 Pension Service, A detailed guide to Pension Credit for advisers and others, PC10S, September 2011 Figures for 2010/11 have been inserted by the Library

13 *Pensions Act 2007*, Sch 1, Part 8, para 44; *Pensions Bill 2006-07* – RIA, para 2.48

We can pay the Savings Credit on its own or with the Guarantee Credit. You may still get the Savings Credit even if the money you have coming in is up to about:

- £188 a week if you are single, or
- £277 a week if you have a partner.

These amounts may be higher if:

- you or your partner (or both of you) have a severe disability
- you or your partner (or both of you) look after a severely disabled person, or
- you have certain housing costs, like mortgage interest payments.

You could get Pension Credit even if:

- you live with your grownup family
- you own your home, or
- you get money from friends, family or charities.[14]

The Directgov website has an online calculator to help individuals estimate how much Pension Credit they may be entitled to. It explains that the calculator will not cover everybody's circumstances and that people can contact the Pension Service for more information on Freephone 0800 99 1234.

1.4 Delivery

The Pension Service is responsible for the delivery of Pension Credit. From April 2008, it merged with the Disability and Carer Service to become the Pension, Disability and Carer Service (PDCS). The intention was that, in the short-term at least, the change would be largely invisible to customers:

> For the immediate future the establishment of the new agency will be largely invisible to our customers as we continue to operate with both our Pension Service and Disability and Carers Service brands. Over time, however, we aim to bring greater visibility to our new agency with its own brand and identity but only when we are clear that we are offering something even more special than the former Pension Service and Disability and Carers Service.[15]

The Pension Service conducts much of its business over the telephone, mainly through its network of Pension Centres and a Pension Credit Application Line. The Directgov website explains how to apply.

In addition, there is a Local Service able to provide face-to-face contact for pensioners. The Local Service is able to conduct home visits to the most vulnerable customers and works with local partners, sometimes in "Joint Teams" with the aim of ensuring that pensioners receive the right benefits and services. The Pension Service Business Plan for 2007/08 said:

> Where a telephone call is not the best or most appropriate way to contact The Pension Service, our Local Service provides face-to-face help and advice to customers in their homes or by appointment in designated community locations.

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[14] Pension Service, *Pension Credit – Do I qualify and how much could I get?* August 2011, pages 6-7

[15] Pension, Disability and Carers Service, Business Plan 2008/09

> Local Service now operates through Joint Working Partnerships with the majority of Local Authorities. It delivers enhanced services to customers in local communities by providing a holistic benefit check and by signposting customers to a wide range of complementary services, tailored to meet local needs with the focus being on delivering improved outcomes for local people. During 2007/08, the visiting service and existing information points in local communities, provided by The Pension Service Local Service will be reviewed with a view to extending the service they provide to Disability and Carers Service customers of all ages, therefore providing greater access and more consistent service provision across the Department.
>
> We will continue to contribute to the modernising government agenda, working across boundaries to ensure the customer receives all the required information in a single visit.[16]

The Business Plan for 2010/11 said that "to give our most vulnerable customers a better service we will target visits made by our Local Service more effectively."[17]

2 Issues

2.1 Extent of means-testing

The Pensions Commission was set up by the Labour Government to "review the evolution of the UK's system of pension provision and to advise on whether the existing system of voluntary private pensions would deliver adequate results."[18] In its Second Report, published in November 2005, the Commission said that if current indexation arrangements were maintained indefinitely, the percentage of pensioner households subject to means-tested withdrawal of state benefits at some point in retirement would rise steadily and be above 70% in 2050. It was concerned that this would act as a disincentive to save:

> **Means-testing.** If current indexation arrangements were maintained indefinitely, the percentage of pensioner households subject to means-tested withdrawal of state benefits at some point in retirement would rise steadily and would be above 70% in 2050 (though the percentage subject to 100% withdrawal rates would fall) [Figure 1.22]. This spread of means-testing would result both from the fact that the BSP would, under current indexation arrangements, fall steadily in value relative to the Guarantee Credit level, and, after about 2035, from the reduction in private pension income as a percentage of GDP. Means-testing, as Chapter 6 of the First Report described, reduces rational incentives to save for many people. Some financial advisers are therefore wary of selling pensions to low earners for fear of mis-selling: indeed it is possible that IFAs perceive the effects of means-testing as greater than the reality [Figure 1.23]. Significant future growth of means-testing, would therefore, both for rational reasons and for reasons of perception, undermine voluntary private pension saving by the very groups of people, average and lower earners, most in danger of under-provision.[19]

This was one reason behind its recommendation that the basic State Pension should be increased in line with earnings, ideally starting in 2010 or 2011 and that the spread of means-testing should be limited by in future.[20]

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16 Pension Service, Business Plan 2007/08

17 Pensions, Disability and Carers Service, Business Plan 2010/11

18 Pensions Commission, A new pension settlement for the twenty-first century: the second report of the Pensions Commission, 30 November 2005, p ix

19 Ibid p 64

20 Ibid, p 21

In response, the Government emphasized the important role played by Pension Credit in increasing the "income of millions of pensioners" and also ensuring that "they are better off for having saved."[21] Nonetheless it agreed with the Pensions Commission that the growth of means-testing in future should be restricted. The May 2006 Pensions White Paper said:

> 1.33 Pension Credit has successfully boosted the income of millions of pensioners and has also ensured that they are better off for having saved. In addition, it has improved incentives to save for some people. For example, research commissioned by DWP estimated that the introduction of Pension Credit led those on low to middle incomes (comprising 12 per cent of the population) to have better incentives to save and to work longer.
>
> 1.34 However, the way in which elements of the State Pension and Pension Credit system are uprated means that the coverage of Pension Credit is spreading. If current indexation arrangements continued, the proportion of pensioner households entitled to Pension Credit would increase from around 45 per cent today to around 70 per cent by 2050. This is discussed further in Chapter 3.
>
> 1.35 The potential future spread of Pension Credit could reduce incentives to save for some people. However, it has never been the Government's intention to move over the long term towards a system where a significant majority of pensioners are entitled to Pension Credit.[22]

Following publication of the White Paper, both DWP and the Pensions Policy Institute produced projections of Pension Credit eligibility for the future.[23] Both agreed that the state pension reforms announced in the White Paper and introduced in the *Pensions Act 2007* were likely to mean "a large fall in future Pension Credit eligibility" compared to what would have happened in the absence of reform.[24] However they differed about the extent of that reduction:

- DWP estimated that following reform of the state pension system, around 30% of pensioner households are projected to be entitled to Pension Credit in 2050 compared with around 45% today. Around 5% could be entitled to Guarantee Credit only;[25]

- PPI provided an estimated range of possible Pension Credit entitlements in 2050, from 25% to 55%. Under its central scenario, eligibility is projected to fall slightly, from 45% in 2005 to 40% in 2050.[26]

The projections included Housing Benefit, Council Tax Benefit and any income-related benefit. DWP said that following reform of the state pension system:

- Around 10 per cent of private pensioner households could be entitled to Housing Benefit in 2050 compared with around 20 per cent today.
- Around 30 per cent of private pensioner households could be entitled to Council Tax Benefit in 2050 compared with around 50 per cent today.

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[21] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006, para 1.33
[22] Ibid
[23] The Pensions Policy Institute is an educational charity which provides non-political, independent comment and analysis on pension policy in the UK
[24] PPI, Incentives to save and means-tested benefits, February 2007, para 28
[25] DWP Factsheet, Projections of entitlement to income-related benefits to 2050, June 2008
[26] PPI, Projections of future eligibility for means-tested benefits, December 2007

- Around 40 per cent of pensioner households could be entitled to any one of the three income related benefits compared to around 60 per cent of pensioner households today.[27]

DWP also estimated the impact of the private pension reforms in the *Pensions Bill 2007-08,* the aim of which was to "encourage more private saving for retirement through automatic enrolment into a qualifying workplace pension including personal accounts with a compulsory minimum employer contribution." It said that "following reform of the state and private pension systems":

- Around 25 per cent of all pensioner households could be entitled to Pension Credit in 2050 compared with around 30 per cent following reform of state pensions only. Much of this difference is due to rounding - the proportion of pensioner households entitled to Pension Credit in 2050 falls by a marginal amount following the reform of the private pension system.

- Pensioners in households with any private pension income are less likely than the pensioner population in general to be entitled to income related benefits in 2050.[28]

PPI's projections also allowed for the system of personal accounts included in the *Pensions Act 2008.*[29] It produced the following projection of the proportion of pensioner benefit units eligible for means-tested benefits in 2050:

Table 2: 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%

Regarding the extent to which the modeling can accurately predict the likely extent of eligibility in 2050 DWP said:

> These projections have been tested for sensitivity to plausible changes in assumptions on life expectancy, employment and private pension accumulation, which taken together produce variations in the overall level and distribution of pensioner incomes. Based on these tests the proportion of households entitled to Pension Credit in 2050 could vary by around five percentage points.[30]

It adds that "estimating the extent of entitlement to different combinations of income-related benefits and how and how these will evolve over time is a complex task."

PPI argued that there is a "wide funnel of doubt" in projections as far ahead as 2050 and that modeling should be used to show the differences between different policy options, rather than to "forecast" outcomes under any particular option.[31]

[27] DWP Factsheet, Projections of entitlement to income-related benefits to 2050, June 2008
[28] Ibid
[29] Pensions Policy Institute, Incentives to save and means-tested benefits, February 2007, para 38
[30] DWP Factsheet, Projections of entitlement to income-related benefits to 2050, June 2008
[31] Pensions Policy Institute, Incentives to save and means-tested benefits, February 2007, para 31

In February 2009, the Labour Government published its analysis of financial incentives to save in a pension following the reforms in the 2007 and 2008 Pensions Acts.[32]

State pension reform proposals

In April 2011, the Conservative-Liberal Democrat Coalition Government published its Green Paper, *A state pension for the 21st century*. This set out guiding principles for reform, which included simplifying the state pension so that it is easier for people to plan and save for their retirement.[33] It argued that there were three main problems with the existing system:

- **The complexity and uncertainty of outcomes in the state pension** – makes it difficult for people to know what they will get when they retire, meaning it is more difficult to plan and save for retirement.
- **High levels of means testing** – can deter people from saving as the incentives are not sufficiently clear and too many pensioners are forced to rely on Pension Credit to top up their income. Around a third of pensioners do not claim the Pension Credit they are entitled to.
- **Significant inequality remains in the system** – groups such as women, the low paid and the self-employed tend to have lower state pensions.[34]

It argued that, under existing legislation, the proportion of pensioners on Pension Credit would not fall far or fast enough:

> 52. Currently, just under half of pensioners (45 per cent) are eligible for Pension Credit to top up their state pension. This is projected to fall to around a third by 2050 as more pensioners qualify for a full state pension in their own right and benefit from a more generous uprating of the basic State Pension. While reliance on Pension Credit is projected to fall gradually the Government is concerned that, in light of the challenges facing current generations of savers outlined earlier, it does not fall fast or far enough.
>
> 53. It is also worth noting that Pension Credit is not claimed by around a third of pensioners who are entitled to it, a proportion which has proved fairly resilient despite efforts by successive governments to encourage pensioners to take up their entitlement. In 2008/09 between £1.6 billion and £2.9 billion Pension Credit was unclaimed by pensioners, with those who do not claim missing out on an average of around £34 a week.[35]

The Green Paper asked for views on two broad options for reform:

> Option 1: acceleration of existing reforms so that the state pension evolves into a two-tier flat-rate structure more quickly; or
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> Option 2: more radical reform to a single-tier flat-rate pension set above the level of the Pension Credit standard minimum guarantee.[36]

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[32] DWP, Saving for retirement: Implications of pensions reforms on financial incentives to save for retirement, Research Report 558, February 2009. See also SN/BT 4847 *Pensions: Automatic enrolment and employer contributions* (section 5.3).
[33] DWP, A state pension for the 21st century, Cm 8053, April 2011, p7
[34] Ibid, p13
[35] DWP, A state pension for the 21st century, Cm 8053, April 2011, p21
[36] Ibid, p9

The Government has said that any reform would not affect people who have already reached State Pension age at the date of change.[37] Accordingly, Pension Credit would continue to be available to them:

> 103. Whatever the shape of the state pension, the Government recognises that there will always need to be a safety net benefit to help those pensioners who do not have sufficient resources to meet their basic needs in retirement.
>
> 104. Pension Credit currently fulfils this support for pensioners' basic needs, and will continue to support today's pensioners who have insufficient resources for their basic needs in retirement.[38]

However, if option two were pursued (the single-tier flat-rate pension), the Savings Credit element of Pension Credit would be abolished for future pensioners:

> 111. As Chapter 2 outlined, there are two potential options for reform of state pension. Under Option 1 Savings Credit would be retained. Option 2 on the other hand would see the abolition of Savings Credit for future pensioners as the vast majority of future pensioners would have a single-tier pension which lifted them above the basic level of support provided by Pension Credit.
>
> 112. Pension Credit is an effective safety net in helping to keep today's pensioners out of poverty. However, we are interested in views as to whether a continuation of the current system of Pension Credit for future pensioners would help achieve the Government's principles of a state pensions system that is simple, fair, promotes personal responsibility, and is affordable and sustainable. Any reforms would need to [be] delivered without increasing public spending in any year.[39]

The Government published its summary of responses to the consultation in July. It found broad support for reform. It would consider further the issues that had been raised before making decisions.[40] These issues are discussed further in Library Standard Note SN 05787 State Pension reform – 2010 onwards.

2.2 Uprating policy

When Pension Credit was introduced in October 2003, the statutory requirement under the *State Pension Credit Act 2002* was for the Secretary of State to review the level of the Pension Credit each year and to increase it if he considered it "appropriate" to do so.[41] In 2011 a requirement to uprate the Standard Minimum Guarantee at least in line with earnings was introduced. This does not apply to the other elements of Pension Credit.

Guarantee Credit

In February 2005, the Labour Government announced that the Standard Minimum Guarantee in Pension Credit would rise in line with average earnings at least until 2008. The March 2005 Budget said:

> 5.63 To ensure that Pension Credit continues to take and keep pensioners out of poverty, in the 2004 Pre-Budget Report the Government committed to increasing the guarantee element of Pension Credit by earnings until 2008. On current forecasts, it

[37] HC Deb, 4 April 2011, c795 ff

[38] Ibid

[39] Ibid

[40] DWP, A state pension for the 21st century: A summary of responses to the public consultation, CM 8131, July 2011

[41] *State Pension Credit Act 2002*, Sch 2, para 16

> will be worth £119 a week by March 2008. This means that the Pension Credit guarantee will rise to £109.45 for single pensioners and £167.05 for couples from April 2005; and the Pension Credit savings credit reward will rise to a maximum of £16.44 a week for single pensioners and £21.50 for couples from April 2005.[42]

In the May 2006 Pensions White Paper, it said this would continue for the longer term:

> 3.60 The Government has committed to uprating the Guarantee Credit in line with earnings until 2008. We can now announce an intention to continue this uprating strategy over the long term. This will ensure that the gains we have made against pensioner poverty are secure into the future. As now, the Guarantee Credit will provide a guaranteed minimum level of income in retirement for those who have been unable to provide adequately for their own retirement. It will also provide a higher income for people with severe disabilities and other specific groups.[43]

Section 5 of the *Pensions Act 2007* required the Secretary of State to uprate the standard minimum guarantee in Pension Credit annually at least in line with earnings with effect from 2008-09.[44]

In the June 2010 Budget, the Chancellor announced that in April 2011 the standard minimum guarantee in Pension Credit would increase by the cash rise in the basic State Pension:

> However, to ensure the value of a basic State Pension is at least as generous as under the previous uprating rules, **the Government will increase the basic State Pension in April 2011 by at least the equivalent of RPI**. To ensure the lowest income pensioners benefit from the triple guarantee, **the standard minimum income guarantee in Pension Credit will increase in April 2011 by the cash rise in a full basic State Pension**.[45]

From April 2011 the weekly rates are £137.35 for a single person (up from £132.60 in 2010/11) and £209.70 for a couple (up from £202.40). This amounted to an increase of 3.6% increase in the standard minimum guarantee in 2011. The additional allowances in Pension Credit were increased in line with prices, now the Consumer Prices Index: a 3.1% increase in April 2011. [46]

In April 2012, the Standard Minimum Guarantee in Pension Credit is to increase by the cash rise in the basic State Pension (£5.35) – to £142.70 for a single person and £217.90 for a couple. This is an increase of 3.9%, higher than the 2.8% that would be implied by an increase in line with earnings. Pensions Minister, Steve Webb, said:

> The standard minimum guarantee in pension credit must be increase each year at least in line with earnings. However, this would have implied an increase of just 2.8%; in other words, the poorest pensioners would have got the smallest increase. We judged that unacceptable, so instead, from April next year, the single person rate of the guarantee credit will rise by £5.35, taking their weekly income to £142.70. For couples, the increase will be £8.20, taking their new total to £217.90 a week.[47]

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42 HM Treasury, Budget 2005, c5.63; HC Deb 22 February 2005, c 197 [Alan Johnson]; HC Deb 16 March 2005, cc 265-266 [Gordon Brown]

43 DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006

44 *Pensions Act 2007*, Explanatory Notes, para 47 and 157

45 HM Treasury, Budget 2010, June 2010, para 1.107

46 *The Social Security Benefits Up-rating Order 2011* (2011 No. 000)

47 HC Deb, 29 November 2011, c802; HM Treasury, Autumn Statement 2011, Cm 8231, November 2011, para 1.143; HC Deb, 6 December 2011, c163 [Steve Webb]

Dot Gibson of the National Pensioners Convention said:

> The biggest concerns currently facing millions of older people are the price of keeping warm, negligible returns on their savings and inadequate increases in their pensions. It was quite amazing that the chancellor therefore managed to ignore them all. Instead he announced that Britain's poorest pensioners would get a below inflation increase in the Pension Credit of just 3.9%, and no extra help with rising fuel bills.[48]

On 12 December 2011, the Government announced full details of the rates for 2012/13. The additional amounts for severe disability would rise to 58.20 (single) and £116.40 (couple, if both qualify).[49] The additional amount for carers would increase to £32.60. This amounts to an increase of 5.2%.

Savings Credit

The aim of Savings Credit is to reward people aged 65 and over who have made additional provision for their retirement. It accrues at the rate of 60p of qualifying income above a threshold up to a maximum figure. Initially, the threshold was aligned with the basic State pension (BSP) and the maximum was set at 60 per cent of the difference between the BSP and the Guarantee Credit. However, the Labour Government became concerned that this would result in an increasing proportion of the pensioner population would become entitled to Pension Credit:

> The maximum Savings Credit award is set at 60 per cent of the difference between the basic State Pension and the Guarantee Credit. The gap between these two has been widening as one increases with average earnings and the other increases by less. Because it draws momentum from both, the maximum Savings Credit grows faster than either of these uprating factors in isolation, which means it grows faster even than the Guarantee Credit, and therefore faster than earnings.
>
> If current uprating policies were pursued indefinitely, an increasing proportion of the pensioner population would be entitled to the Savings Credit. It has never been the Government's intention that a significant majority of the pensioner population would, in the long term, be eligible for Pension Credit. Our reforms confirm this.[50]

It therefore announced changes to the uprating of Savings Credit, with the intention of curtailing the spread of means-testing. The Savings Credit threshold would be increased in line with earnings from 2008. From 2015, the maximum Savings Credit would be frozen in real terms:

> 3.62 To ensure that, before implementing the earnings link of the basic State Pension, means-tested provision continues to be focused on those with small savings, we will take steps from 2008 to target the Pension Credit on this group.
>
> 3.63 We think this is reasonable because the State Second Pension has, since 2002, provided generous provision for low-paid employees. Those who earn between the National Insurance contribution Lower Earnings Limit and £12,500 a year (and those credited in) accrue a pension at a flat rate as though they were earning £12,500 a year and at twice the old SERPS accrual rate. This means low-paid employees get a more than fair return on their contributions. This must, over time, influence the design of the Savings Credit.

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[48] National Pensioners Convention, Autumn Statement Briefing, 1 December 2011
[49] DWP Press Release, 12 December 2011, 'Benefit rates for 2012-2013'
[50] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006, Box 3b

> 3.64 The Savings Credit will continue to reward people who make provision for their retirement. However, as State Second Pension matures, more and more people will have built up State Second Pension entitlement. We agree with the Pensions Commission's assessment that the starting point for calculation of the Savings Credit should be raised as this happens. From 2008 we will uprate the lower threshold of the Savings Credit by earnings. From 2015 the maximum Savings Credit will be frozen in real terms.
>
> 3.65 The impact of this, alongside our reforms to the structure and coverage of the other aspects of the State Pension and the introduction of a low-cost scheme of personal accounts, will be a considerable reduction in the numbers of people whose entitlements will be means-tested in the future. Under current uprating policies projected forward, around 70 per cent of pensioner households will be entitled to some Pension Credit by 2050. Under our reforms, that figure will be reduced to around a third. This will further help to clarify people's savings decisions and retirement planning. Figure 3.v shows how entitlement to Pension Credit is projected to develop into the future under current policy and after the reforms to the state pension system.[51]

The objective was to ensure that "means-tested provision continues to be focused on those with small savings". Entitlement to Savings Credit would reduce over time because "less income will become eligible for Savings Credit than in the current system".[52] In June 2006, the then Work and Pensions Secretary, John Hutton, was asked whether people might question the fairness of this in the future. He said:

> I think it is a question for all of us to address. I have just been pressed over here by someone suggesting that we should continue to restrict the spread of means-testing, and I agree, we should. This is what it means. This is how we do it. You cannot query the means but then desire the outcomes. There is no comfort blanket here, I am afraid.[53]

In 2010, the increase in average earnings (1.3 or 2.0%[54]) was lower than the change in prices so the Savings Credit threshold might have been expected to increase in line with this. However, the basic State Pension was increased by 4.6% and, in order to preserve the differential, a similar factor was used to increase the Savings Credit threshold. In April 2011, therefore, the Saving Credit threshold rose by 4.8% (single) and 4.6% (couple) from £98.40 to £103.15pw (single) and £157.25 to £164.55pw (couple).

In October 2010, the Conservative-Liberal Democrat Coalition Government announced that the maximum Savings Credit award would be frozen for four years, "thereby limiting the spread of means testing up the income distribution and saving £330 million a year by 2014-15." The maximum Savings Credit would therefore remain frozen at £20.52 (single) and £27.09 pw (couple).[55] Pensions Minister, Steve Webb, explained the Government's approach as follows:

> [...] to help manage expenditure, the Chancellor used his spending review statement to announce that we will freeze the savings credit maximum. Over time, the savings credit has resulted in more and more pensioners being caught up in the means-tested system. Freezing the savings credit maximum helps us to focus resources on the poorest pensioners. [...] We have chosen to focus scarce resources on the basic

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51 DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006

52 Work and Pensions Committee, Pension Reform, Fourth Report 2005-06, HC 1068-II, Ev 406, para 8.

53 Ibid, Q 348

54 The increases in the headline rate of average earnings and average weekly earnings to July 2010

55 HM Treasury, Spending Review 2010, page 70

> pension through the earnings link and to constrain the rise in savings credit, which is a relatively ineffective way of reaching poorer pensioners. It has a take-up rate of barely 50%. Half the people who are entitled do not even have it; everyone claims their pension.[56]

However, in April 2012, the maximum Savings Credit is in fact to reduce to £18.54 for a single person and £23.73 for a couple.[57] The Savings Credit threshold is to increase to £111.80 for a single person and £178.35. This is an increase of 8.4% and is higher than would be implied by an increase in line with earnings (2.8%).[58] Pensions Minister Steve Webb explained that this was to pay for the above-earnings increase in the Standard Minimum Guarantee:

> To help manage expenditure, we shall be funding that above-earnings increase to the standard minimum guarantee by increasing the savings credit threshold, which means that those with higher levels of income will see less of an increase.[59]

2.3 Level of Pension Credit

Questions are sometimes raised as to the rationale for the level at which Pension Credit is set and whether it is sufficient to lift pensioners out of poverty.

As explained in section 1 above, the Guarantee Credit replaced the Minimum Income Guarantee (MIG) as the main means-tested benefit for pensioners in October 2003. MIG itself had replaced Income Support for pensioners in April 1999. Income Support, in turn, had replaced Supplementary Benefit in 1988, and Supplementary Benefit had replaced National Assistance in 1966. When the Government considered the prospective rates of Income Support during its review of Social Security in the mid-1980s, it considered the possibility of establishing a method of determining what a 'fair rate of benefit' might be, but decided there would be problems of subjectivity and of determining the relationship between these and levels of rewards in society generally:

> **Setting the level of help**
>
> 2.50 There have been many attempts to establish what would be a fair rate of benefit for claimants. But it is doubtful whether an attempt to establish an objective standard of adequacy would be fruitful. This is for two reasons. First, all such assessments would themselves include judgements on the standards to be achieved. Second, the level of help for those on supplementary benefit cannot be isolated from consideration both of the returns and the rewards that are available to people in society generally.[60]

The problems involved in objectively determining acceptable minimum levels of income were mentioned in a Memorandum by the Department of Social Security to the Social Services Committee's inquiry into minimum income in 1989. The basic difficulty, according to the Department, was that there must inevitably be a large degree of subjective judgement in deciding what items are "essential" at any given time. [61]

The Memorandum also described the way in which the Income Support rates were first established. The basic approach was to identify groups facing particular difficulties and then

[56] HC Deb, 10 December 2010, c314
[57] DWP Press Release, 12 December 2011, 'Benefit rates for 2012-2013'
[58] HC Deb, 6 December 2011, c163 [Steve Webb]
[59] Ibid
[60] Green Paper, *Reform of Social Security: Programme for Change*, Cmnd. 9518, June 1985
[61] Social Services Committee, *Inquiry into Minimum Income*, HC 579 1988-89

to structure the benefit so that resources were targeted on those groups, mainly through the system of premiums:

> **PART A: SETTING THE INCOME SUPPORT RATES**
>
> 2.1 The Green and White Papers set out the case for reforming the Supplementary Benefit System and the Government's proposals for change.
>
> 2.2 In considering the level of the new benefits, the Government looked at the available evidence on the problems facing specific groups. The Department's analysis of low income groups showed a significant change over the previous 30 years in the composition of families in the bottom 20 per cent of income distribution. In the 1950s and 1960s, pensioner families predominated in the bottom quintile. In the following decades, the improvement in both retirement and occupational pensions had substantially lifted the income of many pensioners. At the same time, rising unemployment had resulted in an increased proportion of families of working age being represented in the lowest 20 per cent of income distribution. Unemployment had become the single main factor in placing people in the poorest section of society.
>
> 2.3 There was also significant evidence from a research survey, commissioned by the Government from the PSI. This studied the pressures faced by people managing on benefit, using measures such as the relative difficulties which different groups had in making their weekly income last; their levels of anxiety over money; indebtedness and stocks of clothing. The results showed a consistent ranking of the groups across all these indicators. Amongst householders, couples with children faced most problems, followed by lone parents and families (including single claimants) without children. Non-householders were considered separately but the evidence suggested they were closely in line with families without children.
>
> 2.4 The structure of the new Income Support scheme, with basic personal allowances and with premiums for particular groups made it possible to direct resources to those claimants facing the greatest problems. As a first step, illustrative rates were constructed which delivered roughly the same amounts of money to the various types of claimant as they had been receiving under Supplementary Benefit. These were then adjusted up or down and the effects on claimants were studied using a computer model. The results were evaluated against a number of criteria; in particular:
>
> - the extent to which the new system would provide effective help for the target groups and to which expenditure would be accurately directed to those most in need;
> - the size and distribution of the gains and losses which would be experienced by individuals;
> - the encouragement of increased independence and self-reliance, including the effects on incentives to work and self-support;
> - and the cost to public funds.
>
> Ministers then reached a judgement on the appropriate levels.[62]

As stated above, the ‘Minimum Income Guarantee’ (MIG) replaced Income Support for pensioners in April 1999. The increase in means-tested benefit rates for pensioners in April 1999 was more than three times that which would have occurred under normal uprating (i.e.

[62] *ibid.*

in line with prices, as with Income Support). The 1999 Budget confirmed that in April 2000 MIG would be uprated in line with earnings rather than prices.[63] This policy has been continued and it is now a statutory requirement to uprate Guarantee Credit in line with earnings.[64] This is to "ensure that the gains we have made against pensioner poverty are secure into the future."[65] This is discussed in more detail in section 2.2 above.

The Social Security Committee, in a 1999-2000 inquiry into *Pensioner Poverty* noted that the charity Age Concern had proposed a "minimum income standard" for older people, designed to measure the level of income needed to support a "low cost but adequate" living standard. Age Concern argued that a single pensioner needed at least £90 a week. At that time, the Minimum Income Guarantee was £78.45 for a single person. The then Pensions Minister Jeff Rooker told the Committee he did not think there was an intrinsic logic to the way the figure had been set. It appeared to have grown up "like topsy" over the years, uprated from the previous figure:[66]

> 18. There was broad agreement that it was essential to measure the relative incomes of older people against those of society as a whole, on the basis that their living standards could not be viewed in isolation but had to be measured against those of the rest of the population. Age Concern argued that, whilst this approach was important, it did not measure whether the actual incomes people had were sufficient to avoid poverty and social exclusion. Age Concern had therefore proposed a 'minimum income standard' for older people, designed to measure the level of income needed to support a 'low cost but adequate' living standard. Ms Sally West of Age Concern explained that the low cost but adequate living standard was set at a level above absolute poverty; it recognised that in addition to the need for basic food, warmth and shelter, people also needed enough to be able to participate in their local communities. In the words of Baroness Greengross, "our physical needs are matched by our social needs and our emotional needs."
>
> 19. Work carried out by the Family Budget Unit (FBU) for Age Concern has drawn on a wide variety of sources of information to price the budget needed for a low cost but adequate standard of living, examining costs of food, housing, fuel, transport, clothing, personal care, household goods and services, and basic leisure and other costs, such as presents for grandchildren and a drink in the pub. Sources of information included survey information, discussion groups with older people across the country, and information on defined standards, for example nutritional standards. Based on the FBU research, Age Concern have proposed that a single pensioner needs at least £90 a week and a couple £135 a week (plus rent and council tax) to avoid living in poverty. An estimated 52% of single pensioners, and 24% of couples had net incomes after housing costs of less than these amounts. The evidence provided by the FBU and Age Concern made a strong impression on the Committee and members felt that this approach could be a more transparent and rational way of assessing and tackling pensioner poverty.
>
> 20. By either definition of poverty, both the level of the basic state retirement pension and the level set by Government as the trigger for means-tested assistance through Income Support are below the poverty line. The Minister of State for Social Security, Jeff Rooker, was refreshingly frank about the inadequacy of the MIG level. He admitted, "if you ask me could I live on £78.45, no, I could not...I do not think £78.45 is enough...The £78.45 is a safety net...It is the bottom. There is nothing lower than that."

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63 *Budget 99*, HC 2981998-99, para 5.28

64 *Pensions Act 2007,* section 5

65 DWP, *Security in retirement: towards a new pensions system,* CM 6841, May 2006, para 3.60

66 Social Security Committee, *Pensioner Poverty*, Seventh Report, 1999-2000,

> The Minister was asked to explain why, in particular, the level of the means-tested safety net - the MIG - was set at the level it was. His answer was that there was no intrinsic logic to the figures which had been set:
>
> "I used to question the DSS when I was in opposition about this, how the figures are constructed...The only answer I give you is the way it was uprated from the previous figure...It has grown like topsy over the years. I do not think anybody has ever said, 'This is the way it is calculated.'"
>
> 21. Despite the Minister's own admission that current rates of benefit for pensioners are too low, he said that there were no plans for his Department to carry out its own research into the adequacy of benefit rates for pensioners in meeting pensioners' basic needs. He did not take issue with Age Concern's £90 per week figure. He said, "I have not come to challenge that Age Concern figure. I cannot spell it out any clearer than that." This is despite the fact that, in seeking to tackle the problems of today's pensioners, the Government has set itself indicators of success which measure not only a reduction in the proportion of older people with relatively low incomes, but also a reduction in the proportion of older people with low incomes in an absolute sense.[67]

In November 2000, the Government announced that the level of the Minimum Income Guarantee would increase further:

> ...so that from next April, no single pensioner need live on less than £92.15 a week. For 285,000 of the poorest pensioners in this country, that is a rise of £14 a week between now and next April. When we introduce the new system in 2003, the minimum income guarantee will be set not at £92 but at £100 a week – that is £22 a week more than today. For the first time, a single pensioner will be guaranteed at least £100 a week.[68]

More recently, the Work and Pensions Committee looked at the relationship between Pension Credit and the "poverty line" (defined as 60% of median income, after housing costs) in its recent inquiry on *Tackling Pensioner Poverty.*[69] It welcomed the fact that the package of benefits for single pensioners lifted them above the poverty line, but found that the same was not the case for couples.[70] In response, the Government said it would be exploring further living standards among single and couple pensioners:

> 33. As part of PSA 17, the Department uses a range of measures related to low income for pensioners. The Department will be exploring further the issue of living standards among single and couple pensioners using new data on material deprivation.
>
> 34. Nevertheless the Government believes that the ratio of support provided to single and couple pensioners of 1.5 by Guarantee Credit is appropriate. There is limited evidence available, but external research by the Joseph Rowntree Foundation on budget standards is broadly supportive.

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[67] Social Security Committee, '*Pensioner Poverty'*, Seventh Report, 1999-2000;

[68] HC Deb, 9 November 2000, c453. An article in '*Social Policy & Society'* linked the increase to the Select Committee's inquiry. See Mick Wilkinson, 'Campaigning for Older People: A Case Study Approach to the Input of Voluntary and Community Organisations in the Policy Process', in 'Social Policy & Society, 3:4, 343-352, 2004.

[69] Fifth Report 2008-09, HC 411-I

[70] Ibid, para 106

> 35. The Government will continue to keep levels of benefits under review as part of annual uprating.[71]

A Joseph Rowntree Foundation publication of July 2010 found that Pension Credit paid just enough for pensioners to meet the Minimum Income Support (which is based on what members of the public think people need to achieve a socially acceptable standard of living):

> In 2010, basic out-of-work benefits provide less than half of a minimum income for an adult with no children and about two-thirds for families with children. The safety net benefit for pensioners, Pension Credit, pays just enough for them to meet the MIS, provided they claim this means-tested benefit. The percentage of MIS provided by benefits fell for all these groups, by 1–3 per cent. This is partly because benefit rises of around 2 per cent were less than the inflation rate, and also because of the small additions in household needs identified in the MIS review.[72]

2.4 Claims and backdating

Different rules apply to the backdating of different benefits. Some benefits can be backdated without special reasons. For example, the State Pension can be backdated for a maximum of 12 months from the date of claim. Some other non-means-tested benefits, such as Maternity Allowance and Carers' Allowance, can be backdated for three months. Income Support and income-based Jobseekers Allowance for people of working age can generally only be backdated for up to one or three months and then only in particular circumstances. [73]

When Pension Credit was originally introduced in October 2003, those pensioners already receiving MIG were automatically transferred. Other pensioners were invited to apply and provided they did so by October 2004, they could have their claim backdated for up to 12 months. In Budget 2004, the then Chancellor of the Exchequer Gordon Brown announced that even after October 2004, claims would be backdated for 12 months:

All eligible applications received before October 2004 will be backdated to the start of the Pension Credit in October 2003 or to the date of the entitlement if that is later. Budget 2004 announces that for applications received after October 2004, the maximum period of backdating allowed will be extended from three months to 12 months. To encourage and help people to claim their entitlements, the Pension Service is promoting a range of measures to encourage claims and increase take up including a trial of targeted entitlement checks in one region during the summer for groups including the over 80s.[74]

However, in December 2007, the then Minister for Pensions Reform Mike O'Brien announced that the time limit for claiming Pension Credit was to be reduced from twelve to three months as part of a "package of changes for introduction in October 2008 to simplify further the state pension system":

> I can announce a package of changes for introduction in October 2008 to simplify further the state pension system. The package is cost-neutral over the long term and will be paid for by reducing the backdating of pension credit from 12 months to three months, as from next October. Twelve-month backdating was introduced in 2003 to ease the introduction of pension credit. The new changes will make better use of these resources and, I understand, will be broadly welcomed by Help the Aged and Age

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[71] Work and Pensions Committee, *Tackling Pensioner Poverty: Government Response to the Fifth Report from the Committee, Session 2008-09 - Work and Pensions Committee,* Fourth Special Report 2008-09

[72] JRF Findings, *A minimum income standard for the UK in 2010*, July 2010

[73] Social Security (Claims and Payments) Regulations 1987 (No, 1968), reg 19

[74] HM Treasury, Budget 2004, para 5.38

> Concern. The changes that we intend to introduce will make the system less confusing, less intrusive and more transparent. We want the customer to be able to get their state pension entitlements with the minimum fuss, bureaucracy and form filling.
>
> In 2005, we made some improvements. Those applying for pension credit by telephone have been able to get council tax benefit and housing benefit together, using a shortened claim form completed by the Pension Service. The form is then sent out to the customer to sign and send to their local council. Many pensioners do not send the form on, however, and so lose out. We aim to improve on that by being more efficient and more joined up. We intend for council tax benefit and housing benefit claims to be made over the telephone in exactly the same way as those for state pension and pension credit. The claim will be taken by the Pension Service and automatically passed to the local council for assessment.
>
> No more action will be needed by the pensioner. They can access up to four benefits in one telephone call: pension credit, state pension, housing benefit and council tax benefit. About 50,000 pensioners will gain from the measure by 2010. We also plan to align the rules on backdating of pension credit, housing benefit and council tax benefit with those on the working age benefits. That will reduce complexity and make the application process less intrusive.
>
> These days, some pensioners spend longer periods abroad in warmer countries. They currently lose their pension credit after only four weeks. We intend to change the pension credit rules that relate to the length of time that pensioners can spend abroad before their benefit is affected. We will align pension credit with the rules on housing benefit and council tax benefit, so that benefit will continue for up to 13 weeks. That will mean that almost 90 per cent. of the pensioners who would currently have their pension credit stopped will in future retain their entitlement.
>
> Those changes will be taken with two further measures in the pensions Bill that, with your permission, Mr. Speaker, I hope to put before the House today. Those measures will simplify the rules relating to the additional state pension and remove the need for most pension credit customers aged 75 and over to tell us about changes in their retirement income. More than 1 million pensioners will benefit through not having to complete a review of their income and capital, because we believe that income and capital do not increase much for most people after 75.[75]

Age Concern, while welcoming parts of the package, was critical of the proposed reduction in backdating:

> The Government is dealing many of the very poorest, most vulnerable pensioners a poor hand by cutting the backdating period for Pension Credit, Council Tax Benefit and Housing Benefit to just three months. Millions of older people are already missing out on billions of pounds in cash benefits which, if claimed, could make a huge difference to their quality of life. The loss of additional backdated payments will hopefully provide an even greater incentive for people to make a claim as soon as possible. If the Government is intent on reducing backdated payments, it must work much, much harder to improve the take-up rate of benefits so that people receive help as soon as they are eligible. We want the Government to move towards a system of automatic payments, and introduce a single claim line for all means-tested benefits in the meantime to simplify the process.[76]

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[75] HC Deb, 5 December 2007, c841-2

[76] Age Concern, *Response to pensions minister Mike O'Brien's statement on changes to the state pension and benefits,* 5.December 2007

DWP produced an equality impact assessment of the reduction in the time for claiming. The time limit for claiming Housing Benefit and Council Tax Benefit is also to be reduced from 12 to 3 months.[77]

This change, together with the extension in the length of time for which Pension Credit may be paid during a temporary absence abroad, have been included the *Social Security (Miscellaneous Amendments) (No 4) Regulations 2008* (SI 2008 No. 2424), which come into force on 6 October 2008.[78]

The Social Security Advisory Committee,[79] consulted on the draft regulations.[80] A supplementary memorandum sent from DWP to SSAC on 11 April provided more detail about the length of time taken to make claims and the estimated costs and savings of the simplification package in the wider context of other pensions measures.[81] SSAC:

> …broadly welcomed the changes to the rules on temporary absence abroad, and the other measures which formed part of the overall "simplification" package such as the AIP run on and the improved claims process for Pension Credit customers who claim HB/CTB. However, the Committee found that the Department's rationale for generating savings to pay for such improvements through restrictions to the backdating provisions to be unconvincing, and selected these regulations for formal referral for 3 main reasons:
>
> • The Committee's long standing interest in the backdating provisions for income related benefits;
>
> • An apparent lack of reliable evidence for the assertions made in relation to the rationale for making the changes and to support the costings; and
>
> • The unprecedented number of representations from organisations and individuals expressing their concern about the impact of the proposals on vulnerable groups and upon the Government's policies to reduce poverty.[82]

In response, the Government said:

> 10. The Government believes that the proposals to reduce backdating, which follow improvements to the claims process for Pension Credit and HB/CTB (such as the ability to make a claim by telephone and to make a claim for all three benefits, Pension Credit, HB and CTB, in one simple phone call), supplemented by a continued campaign to encourage potential recipients to claim their entitlements at the time the

---

77 DWP, *Equality Impact Assessment. Changes to the time for claiming Pension Credit and Housing Benefit and Council Tax Benefit for those of Pension Credit age from 12 to 3 months and a change to the backdating period allowed within Housing Benefit and Council Tax Benefit for working age customers from 52 weeks to 3 months,* April 2008; See HC Deb, 5 Jun 2008, c 1092W for estimates of the savings from this measure.

78 *The Social Security (Miscellaneous Amendments) (No.4) Regulations 2008 (S.I.2008 No.2424), Report by the Social Security Advisory Committee under Section 174(1) of the Social Security Administration Act 1992 and the statement by the Secretary of State for Work and Pensions in accordance with Section 174(2) of that Act, September 2008, Cm 7469*

79 SSAC is responsible, among other things, for considering and reporting on draft regulations referred to it by the Secretary of State

80 SSAC Press Release, 4 April 2008, 'Consultation – the draft Social Security (Miscellaneous Amendments) (No…) Regulations'

81 DWP, Supplementary Memorandum sent to the SSAC in connection with the *draft Social Security (Miscellaneous Amendments) (No. 2?) Regulations* on 11 April 2008

82 *The Social Security (Miscellaneous Amendments) (No.4) Regulations 2008 (S.I.2008 No.2424), Report by the Social Security Advisory Committee under Section 174(1) of the Social Security Administration Act 1992 and the statement by the Secretary of State for Work and Pensions in accordance with Section 174(2) of that Act, September 2008, Cm 7469*

> need first arises (rather than waiting, in difficult circumstances, for up to a year before making a claim) is an important and coherent step toward a simpler more streamlined system. When the additional measures being introduced as part of the overall package are also taken into account, the Government believes that it has made significant improvements without the need to make detrimental changes to the rules for existing customers.[83]

The change relating to the improved process for claiming Housing Benefit and Council Tax Benefit would be included in a separate statutory instrument.[84]

2.5 Take up

In 2008-09, take-up of Pension Credit was between 62% and 73% by caseload, compared to between 61% and 70% in 2007-08. Take-up by expenditure was between 71% and 81% by expenditure, compared to between 70% and 78% in 2007-08.[85]

Take-up was highest among those entitled to Guarantee Credit only (between 71-83% by caseload, 72-85% by expenditure) and lowest for those entitled to Savings Credit only (44-54% by caseload, 50-61% by expenditure). Since 2003-04, there is evidence of an increase in take-up of around eight percentage points for Pension Credit as a whole.[86]

Targets

In Spending Review (SR) 2002, the Government set a Public Service Agreement target to have at least 3 million households in receipt of Pension Credit by 2006. In its 2005, Autumn Performance Report, DWP reported that, due to a slow-down in take-up, there was some "slippage in progress towards this target."[87]

In SR 2004, a further target was set to:

> By 2008, be paying Pension Credit to at least 3.2 million pensioner households, while maintaining a focus on the most disadvantaged by ensuring that at least 2.2 million of these households are in receipt of the Guarantee Credit.[88]

In 2007 DWP said this target would not be achieved and that it "would not represent value for money repeatedly to press unwilling eligible people to take up their entitlement".[89] The SR 2004 target was not met. In fact, by April 2008 there were 2.72 million recipients of Pension Credit, with 2.13 million receiving Guarantee Credit.[90]

The Public Accounts Committee said that while the target had not been met, it had focused the Department's attention on raising take-up of Pension Credit. However, it did not cover other benefits, receipt of which was important for reducing poverty:

> 2. Pension Credit is now paid to around 2.7 million households, around a million more than its predecessor, the Minimum Income Guarantee. The Department was committed to a Public Service Agreement target to pay Pension Credit to 3 million

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83 Ibid

84 DWP, SSAC Explanatory Memorandum, *draft Social Security (Miscellaneous Amendments) (No. 2?) Regulations,* para 6

85 DWP, Income-related benefits take-up. Key results for 2008-09, For further information, see the Income-related benefits: estimates of take-up section of the DWP website

86 National Statistics, Take-up of income-related benefits – 2008-09. Pension Credit

87 DWP, *Autumn Performance Report 2005. Progress against Public Service Agreement targets*, p50

88 DWP, *Autumn Performance Report 2007: Progress against Public Service Agreement Targets*, p47

89 Ibid, p48

90 DWP, *Autumn Performance Report 2008. Progress against Public Service Agreement Targets*, p39

households by the end of February 2006, rising to 3.2 million households by 2008. After an initial rapid rise, growth in the number of claimants has reached a plateau at around 2.7 million, although there are small monthly increases (Figure 1 below).The Department believes that it will eventually reach the 3.2 million target, and it has already met its target of paying the Guarantee Credit—the element of Pension Credit aimed at pensioners with the lowest incomes—to 2.1 million households by 2006. In retrospect, the Department believes that the 2006 PSA target was unrealistic, although it was based on the best information available at the time it was set.

3. The PSA target focused the Department's attention on raising take-up of Pension Credit. The target did not, however, cover other benefits, receipt of which is as important for reducing poverty. The Department is currently considering a more general target relating to pensioner poverty and benefits for pensioners in the context of the 2007 Comprehensive Spending Review. It published baseline indicators of the independence and well-being of older people, including material well-being, in October 2006.

4. The Pension Service believes there is a significant group of people who are entitled to Pension Credit but are not taking it up. The Pension Service's Local Service staff see about one million such pensioners a year. Where they do not wish to pursue a claim, the Local Service records the reason. Around one quarter of non-claimants said they had sufficient to live on, while 6% said it was not worth applying (Figure 2).[91]

In the 2007 Comprehensive Spending Review, a new PSA delivery agreement was set to "tackle poverty and promote greater independence and wellbeing in later life." One aspect of this was a reduction in the "percentage of pensioners in low income."[92] Low income" is defined as below 60% median income after housing costs. The baseline is the Households Below Average Income figures for 2007/8.[93]

At an operational level, the Government set targets to deliver a certain number of successful new Pension Credit applications each year:

- In 2007-08, the Pension Service (as it then was) was set a target to deliver 235,000 new successful awards of Pension Credit for 2007-08. This target was met, with 235,900 new successful awards delivered.

- For 2008-09 the Pension Disability and Carer Service was set the target of delivering 250,000 new successful awards, with a target for the total amount paid of £767 million. It was very likely to achieve this target.

- For 2009-10, a more stretching target of 255,000 new successful awards was set. The financial element of the target was dropped "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.[94]

[91] Public Accounts Committee, 'Department for Work and Pensions: tackling pensioner poverty – encouraging take-up of entitlement', 26th Report of Session 2006-07, HC 169, Summary and para 2-4

[92] HM Treasury, Public Service Agreements; PSA Delivery Agreement 17. Tackle poverty and promote greater independence and well-being in later life , October 2007

[93] Work and Pensions Committee, Tackling Pensioner Poverty, Fifth Report 2008-09, HC 411-1, para 110

[94] Work and Pensions Committee, Tackling Pensioner Poverty, Fifth Report of Session 2008-09,HC 411-II, Ev 157; PCDS, Annual Report, 2008-09, June 2009, page 12

The target for 2010/11 was: "to deliver at least 180,000 successful new Pension Credit applications (as measured by National Statistics between April 2010 and March 2011)."[95]

The 2011/12 Business Plan includes a target to improve the rate of accuracy, from its current level of 93 per cent.[96]

Strategy to increase take-up

The Labour Government's strategy to increase take-up of Pension Credit and other benefits includes focusing efforts on the poorest pensioners, encouraging those who may be eligible to claim benefits (rather than relying on ad hoc marketing activity) and making the claim process easier:

> 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.

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[95] Pension, Disability and Carers Service, Business Plan 2010-11

[96] Pension, Disability and Carers Service, Business Plan 2011-12, p8

> 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.[97]

The Government is exploring a "new approach to take-up activity that involves third sector led initiatives and which focuses on areas we believe to have high levels of people entitled to Pension Credit but not claiming and where we have operational capacity to generate new claims."[98]

Section 27 of the *Welfare Reform Act 2009* made provision to pilot, for a period of up to twelve months, ways in which Pension Credit could be calculated and paid in order to increase the numbers of eligible persons receiving benefit. In order to achieve this, it "allows regulations to be made which would permit the payment of state pension credit without a claim being made and with modified rules concerning how the entitlement is determined."[99]

In written evidence to the Public Bill Committee, Age Concern and Help the Aged "wholeheartedly" supported the Government's proposed pilots to test whether more automatic processes could be used to improve take-up of Pension Credit by the poorest pensioners.[100] The Department's current plans for the pilot are explained in an October 2009 document, Pension Credit Payment Pilot. A summary of responses to this consultation was published in January 2010.[101] DWP published Early Findings from the evaluation of the Pension Credit Payment Study in November 2011. It said:

> Early interim findings published today show that by August, nine per cent of trial participants had successfully claimed Pension Credit, compared to just over three per cent in the remainder of the eligible non-recipient population who had not participated in the trial.
>
> Qualitative research with participants showed that people valued the extra income and were positive about the intentions of the trial, although some worried about the administrative burden for Government and about whether the trial was sufficiently well targeted.
>
> People who claimed did so because it raised awareness of the benefit and their potential eligibility, and because they valued the additional income.

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[97] Work and Pensions Committee, Tackling Pensioner Poverty, Fifth Report of Session 2008-09,HC 411-II, Ev 104

[98] Tackling Pensioner Poverty: Government Response to the Fifth Report from the Committee, Session 2008-09, para 41

[99] *Welfare Reform Act 2009*, Explanatory Notes, para 162

[100] Memorandum submitted by Age Concern and Help the Aged (WR 01); See, also Age Concern, 'Flagship or flagging? The impact of Pension Credit five years on', September 2008, p1-3

[101] DWP, Pension Credit payment pilot. Summary of consultation responses, January 2010

> Those who did not claim cited a number of reasons. Some retained the view that they were not entitled or felt they did not need the money, and others did not claim because of health issues, or because they simply forgot. Some had misunderstandings about the trial and confusion around how to apply.[102]

Section 36 of the same Act provides for Council Tax Benefit to be renamed "council tax rebate either generally or for particular purposes." In debate on the legislation, Parliamentary Under-Secretary of State Lord McKenzie of Luton explained that the change could help improve take-up by pensioners:

> A change has the potential to improve the take-up of this important entitlement. We respect that many pensioners, for various reasons, are reluctant to claim a benefit, despite the fact that council tax benefit is, in essence, a rightful reduction in the council tax that they are liable to pay, and despite the fact that claiming it could help to lift them out of poverty.[…] I am very happy to state that the Government intend to make this name change to "council tax rebate". I wish to put that clearly on the record.[103]

2.6 Assessed income period

Pension Credit customers aged 65 or over who have been given an "assessed income period" (AIP) do not need to report changes to pensions, annuities, equity release payments or capital as they happen. Instead, these types of income and capital are normally fixed during the AIP, with automatic uprating applied.[104] The Pension Service explains this as follows:

> **Assessed income period**
>
> If your customer is 65 or over, or if they have a partner and one of them is at least 65 and the other is at least 60, an assessed income period may apply. This means that they do not need to report changes to pensions, annuities, equity release payments or capital as they happen. Other changes in circumstances still have to be reported.
>
> **How long is the assessed income period?**
>
> The assessed income period normally lasts for five years. It may be shorter if, for example:
>
> - your customer or their partner will be 65 in the next five years; or
> - they expect a second pension or annuity to start or change within the next 12 months (other than because of a normal yearly increase); or
> - they expect their capital to change significantly in the next 12 months.
>
> If your customer's Pension Credit started from October 2003, the assessed income period may last up to seven years. In this case, the length of the period will depend on their NI number.[105]

The *Pensions Act 2008* provided for claimants aged 75 or over to generally be given an indefinite assessed income period (AIP):[106]

[102] DWP press release, 1 November 2011 – Publication of DWP research: early findings from the evaluation of the Pension Credit payment study.

[103] HL Deb, 27 October 2009 c1106

[104] *State Pension Credit Act 2002*, s6 and 9 and *State Pension Credit Regulations 2002,* reg 10; See also, Pensions Service, a detailed guide to Pension Credit for advisers and others, September 2011 – what happens if circumstances change

[105] Pension Service, a detailed guide to Pension Credit for advisers and others, September 2011

7.15 An assessed income period is a specific period of up to five years during which time the Pension Credit customer's or partner's capital or savings are deemed to stay the same. Those customers aged 65 and over can have an assessed income period if they satisfy the relevant qualifying conditions.

7.16 The assessed income period is a fundamental part of the design of Pension Credit. It was introduced to reduce the level of intrusion normally associated with an income-related benefit. During the assessed income period the customer is not required to report changes to capital or savings.

7.17 When the assessed income period matures there is a requirement to then consider the setting of another assessed income period. At this point the customer is asked to provide information and evidence of their current circumstances. This process is similar to what the customer would have needed to provide at the outset of their claim.

7.18 To reduce the level of intrusion further and to simplify procedures, we are proposing to remove the limit of five years on the assessed income period for those customers aged 80 and over and for those customers who have an assessed income period spanning their 80th birthday. This means that the assessed income period will continue to run-on and will therefore remove the need for the Pension Service to review the case and the customer to provide detailed information every five years. [107]

Age Concern commented that:

This proposal makes good sense and will be welcomed by people over 75 who will be able to look forward to a guaranteed income without having to go through a reassessment process. However, it is very important that people understand the system and know to ask for a reassessment if their financial situation changes and they become entitled to extra money. [108]

During debate in Public Bill Committee the then Parliamentary Under Secretary of State James Plaskitt explained that the effect of the clause would be:

to introduce a significant easement targeted at those most elderly pensioners who are unlikely to have any significant changes to their income and capital, and who may be worried about the impact of small fluctuations in those things on their benefit payments. Their responsibility to inform us of major changes…of course remains. However, it is worth clarifying that these pensioners will still be able to request a review of their claim should their retirement income or capital reduce.[109]

The *Welfare Reform Bill 2010-11* provides for an assessed income period not to apply to the new Housing Credit in certain circumstances (see section 3.2 below).

2.7 Temporary absence abroad

Pension Credit may continue to be paid for the first thirteen weeks of a temporary absence abroad. The Pension Service explains that:

People who leave Great Britain temporarily

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106 *Pensions Act 2008*, Section 105
107 DWP, *Pensions Bill Impact Assessment,* December 2007
108 Age Concern Press Release, 5 December 2007, 'Our response to the publication of the Pensions Bill'
109 PBC Deb, 7 February 2008, c466

> Pension Credit is for people who live in GB. However, your customer may be able to continue to get it for a short time if they are away from GB temporarily.
>
> **Medical treatment**
>
> Pension Credit can be paid for people who have left GB for medical treatment under the NHS for as long as they are receiving that treatment.
>
> **Other reasons**
>
> In other cases, if the person's total absence is expected to be for less than 52 weeks, Pension Credit can be paid for the first 13 weeks. If your customer is planning to leave GB for a temporary period they should let us know…[110]

The leaflet goes on to explain how the rules apply in different circumstances, for example, where only one partner in a couple goes abroad.[111]

The length of time for which Pension Credit can be paid during a temporary absence abroad has only recently been extended to thirteen weeks. When Pension Credit was introduced in October 2003 it could generally only be paid for the first four weeks of an absence, and in some cases eight weeks.[112] Asked about this during the Common Committee Stage of the *State Pension Credit Bill 2001-02*, the then Parliamentary Under-Secretary of State, Maria Eagle, said that the Government did not want the rules on payment during temporary absences abroad to be out of line with those that applied for other income-related benefits:

> We have to strike a sensible balance, and allow some flexibility while being mindful of the fact that we are still operating a habitual residence test. We do not want abuses to creep back in. At present, a "temporary absence" is four to eight weeks. I think that four weeks takes care of the idea of holidays. Very few of us manage to have holidays that last for longer than four weeks, although we may aspire to them...
>
> A rather strange exception to that arises in the case of the families accompanying children who are receiving treatment abroad. I gather that it arose from the case of the Peto institute. Autistic children needed to stay at that institute for somewhat longer and ran into benefit problems. An exception was made in the income support rules by the then Government. That remains the only exception to the four-week rule. Although the Bill is ambitious, it is not intended to recast the entire entitlement conditions for income-related benefits. [113]

In August 2004, Age Concern campaigned for a change of the rules, arguing that Pension Credit should continue to be payable for a minimum of 13 weeks abroad, to bring it into line with other benefits, such as Housing Benefit. Its press release said:

> The anomaly, which stops Pension Credit after just four weeks overseas, means that pensioners must re-apply for the benefit on their return - leaving many facing mounting bills they can't afford while they wait weeks, often months, for it to be reinstated. The rule particularly affects older people visiting family in countries such as Australia, India, Canada and the Caribbean.
>
> Many older people live on a low income and have to rely on relatives to cover the cost of a trip abroad, so only get the chance to travel every few years. The current rule is

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[110] Pension Service, A detailed guide to Pension Credit for advisers and others, PC10S, January 2009, p 62
[111] Ibid, page 63
[112] See, for example, Pension Service, *A detailed guide to Pension Credit for advisers and others*, May 2008, page 62
[113] SC Deb (A) 16 April 2002 c 29

distressing for many pensioners who feel they are being penalised for taking an extended trip.

The rule also penalises older people who want to travel abroad for medical treatment, as well as those who need to stay longer for faith reasons: older people from Muslim or Hindu religions, for example, may wish to observe periods of mourning with their loved ones overseas which can often last several weeks or months.[114]

The campaign was supported by a Parliamentary Early Day Motion.[115]

In November 2005, the then Pensions Minister, Malcolm Wicks confirmed that the Government was reviewing the issue but would have to "consider any resource implications" and "to make it absolutely clear that this is not an exportable benefit".[116]

In response a recommendation of the Work and Pensions Select Committee, in July 2005 the Government said it believed the existing rules to be adequate, although it would keep the question under review:

Pension Credit is intended to help people whose resources are insufficient to meet their day-to-day living expenses in Great Britain. The Department has considered representations similar to the Committee's recommendation in the past and believes that the current four-week rule represents, for the time being, an adequate period of time for which a person should keep their entitlement whilst temporarily abroad. The intention is to keep this under review.

For people who have gone abroad for medical treatment under the National Health Service, Pension Credit will continue to be paid for as long as they are receiving that treatment.[117]

On 5 December 2007, the Government announced that from October 2008 the Pension Credit rules would be aligned with those for HB and CTB, enabling entitlement to continue for up to 13 weeks:

These days, some pensioners spend longer periods abroad in warmer countries. They currently lose their pension credit after only four weeks. We intend to change the pension credit rules that relate to the length of time that pensioners can spend abroad before their benefit is affected. We will align pension credit with the rules on housing benefit and council tax benefit, so that benefit will continue for up to 13 weeks. That will mean that almost 90 per cent. of the pensioners who would currently have their pension credit stopped will in future retain their entitlement.[118]

This change is contained in the *Social Security (Miscellaneous Amendments) (No 4) Regulations 2008* (SI 2008 No. 2424).[119] The Social Security Advisory Committee (SSAC)

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114 Age Concern Press Release, 20 August 2004, "Check the small print before travelling abroad"

115 Early Day Motion No. 1730. Tabled 13.10.2004

116 HC Deb, 8 November 2004, c559

117 House of Commons Work and Pensions Committee, First Special Report of Session 2005-06: Pension Credit and Delivery of Services to Ethnic Minority Clients: Government Responses to the Committee's 3rd and 4th Reports of Session 2004-05. HC 397. para 29; See also HC Deb, 18 December 2006, c1577-8W

118 HC Deb, 5 December 2007, c841-2

119 *The Social Security (Miscellaneous Amendments) (No.4) Regulations 2008 (S.I.2008 No.2424), Report by the Social Security Advisory Committee under Section 174(1) of the Social Security Administration Act 1992 and the statement by the Secretary of State for Work and Pensions in accordance with Section 174(2) of that Act, September 2008, Cm 7469*

consulted on the draft regulations.[120] It "broadly welcomed the changes to the rules on temporary absence abroad", although it found "the Department's rationale for generating savings to pay for such improvements through restrictions to the backdating provisions to be unconvincing."[121]

2.8 Treatment of capital

Another significant change introduced with the Pension Credit was the treatment of capital. In 1999, when Income Support for claimants aged 60 and over was renamed the Minimum Income Guarantee (MIG), the first £3,000 of savings was disregarded. For each £250 of savings over £3,000, £1 a week of income was assumed. With over £8,000 of savings, entitlement was withdrawn altogether.[122] In Budget 2000 the Government announced that from April 2001, it would "double the lower limit to £6,000 and increase the upper limit from £8,000 to £12,000 to reward savers."[123]

In its 2000 consultation paper on Pension Credit, the Labour Government said it was determined to go further.[124] In addition it proposed to take into account *actual* income from capital, alongside other forms of income:

> 26. The current system penalises pensioners who have prudently built up capital for their retirement by restricting their entitlement to extra weekly support. And the way in which this restriction works – by assuming pensioners get unrealistically high returns on capital held as part of their weekly income – further distorts the system. This contrasts with the rules applied to wealthier pensioners in the tax system where it is the income earned from capital which is taken into account.
>
> 27. As set out in Chapter 2, the Government has already taken the first step in tackling this unfairness, by substantially increasing the capital limits. But it is proposing to go further.
>
> 28. With the introduction of the Pension Credit, the Government proposes to abolish both the capital limits and the assumed £1 a week rate of return for every £250 of capital. Under the Credit, the Government proposes instead to consider income from capital alongside other forms of income. This will also apply to pensioners' claims for Housing Benefit and Council Tax Benefit…[125]

However, in November 2001 the Government said it had decided against taking actual income from capital into account and proposed instead to assume a notional rate of income set at around 10 per cent for savings above £6,000:

> From 2003, the Pension Credit will bring in new rules for the treatment of savings. One option – set out in last year's consultation paper – would have been to look at the actual income pensioners receive from all their savings. It has been strongly put to us that asking pensioners to account for the exact amount of income received from savings each year would be too bureaucratic and confusing. Pensioner's organisations

[120] SSAC Press Release, 4 April 2008, Consultation: The Social Security (Miscellaneous Amendments) (No…) Regulations 2008

[121] *The Social Security (Miscellaneous Amendments) (No.4) Regulations 2008 (S.I.2008 No.2424), Report by the Social Security Advisory Committee under Section 174(1) of the Social Security Administration Act 1992 and the statement by the Secretary of State for Work and Pensions in accordance with Section 174(2) of that Act, September 2008, Cm 7469*

[122] HM Treasury, Budget 2000, para 5.45,

[123] Ibid

[124] DWP, *Pension Credit: a consultation paper*, Cm 4900, page 13, para 14

[125] Ibid, para 30-31

have also recommended that we should keep a 'disregard' so that we ignore small amounts of savings. We agree.

So we intend to introduce a simpler and fairer system of taking into account income from savings. For pensioners with small amounts of savings – less than £6,000 – we will completely ignore any income from these savings. The vast majority of pensioners who will be eligible for the Pension Credit will have savings of less than £6,000. In fact, we estimate that 85% of pensioners getting Pension Credit will see any income they receive from savings ignored entirely.

We will abolish the rule which excludes pensioners with £12,000 or more in savings from any help. For any savings above £6,000, we will assume a notional rate of income set at around 10 per cent. That is, half the current assumed rate of income (of around 20 per cent). In practice, this means that for somebody who has savings of, say, £10,000 the current rules assume an income of £16 a week on those savings. Under the new Pension Credit rules we will assume an income of only around £8 a week from same savings. This is equivalent to an interest rate of around 4 per cent on total savings.[126]

In late 2008 and early 2009, some commentators have expressed concern about the disparity between the interest rates offered by banks and that implied by the Pension Credit rules.[127] The Government has said that the rules are not intended to represent any return that could be obtained from investing capital. The capital limits are kept under review and can be increased only when priorities and resources allow:

Jim Cousins: To ask the Secretary of State for Work and Pensions if he will review the tariff incomes schedule in means-tested benefits and pension credit following the recent reductions in base interest rates. [243938]

Mr. McNulty: Although the capital limits that apply when calculating tariff income are kept under continual review they can be increased only when priorities and resources allow. The tariff income rules are not intended to represent any rate of return that could be obtained from investing capital. They provide a simple method of calculating the weekly contribution that people with capital in excess of £6,000 (or £10,000 if in a care home) are expected to make from those resources to help meet their normal living expenses. As there is no link with actual market rates, deductions remained unaltered throughout the period of rising interest rates, just as they have done more recently, when interest rates have been lower.[128]

In Budget 2009, the Government announced an increase in the capital disregard to £10,000, from November 2009:

5.58 Historically low interest rates have particularly impacted on pensioners, who are more likely than people of working age to draw income from savings. The increases in ISA limits announced in the Budget will help those pensioners who pay tax on their savings. To provide additional support to lower-income pensioners who receive income from savings **the Government will:**

- **raise the capital disregard in Pension Credit, and pensioner-related Housing and Council Tax Benefit, from £6,000 to £10,000 in November 2009.** This will

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[126] Pension Credit: the Government's proposals, November 2001, p5

[127] See, for example, HC Deb, 11 Dec 2008, c696 [Nigel Waterson]; Ian Drury 'Pensions credit 'con' punishes 550,000 as Government exaggerates interest on savings', Daily Mail, 20 January 2009

[128] HC Deb, 15 Dec 2008 , c419W

increase the income of 540,000 pensioner households by £4 per week on average; and

- **launch a new tax back campaign**, contacting all 2.7 million Pension Credit recipients to encourage them to claim back tax they may have overpaid on their savings income and, where possible, register to receive interest on their savings tax-free in future. This will be worth £200 on average to those pensioners who have overpaid tax in the past.[129]

The measure was estimated to cost £60 million in 2009-10 and £130 million in 2010-11.[130]

The disregard was increased by the *Social Security (Deemed Income from Capital) Regulations 2009 (SI 2009/1676).* The Government estimated that around half a million Pension Credit claimants would see an increase in their entitlement following the change. The proportion of Pension Credit recipients seeing their capital fully disregarded was expected to rise to 88 per cent. Around 20,000 people were expected to become newly entitled to Pension Credit. However, a small number of people were expected to lose out by between 20p and £1.60 per week. A one-off extra-statutory payment of some £40 was to be made to compensate for this, regardless of the actual level of the loss.[131]

Pension Service leaflet, *Pension Credit: Do I qualify and how much do I get?* provides an overview of the current rules:

> We add £1 to your weekly income figure for every £500 or part of £500 above £10,000 that you have in savings. Example: If you have £11,000 in savings, this is £1,000 above the £10,000 limit. As £1,000 is twice £500, we add £2 to your weekly income figure.[132]

Clause 74 of the *Welfare Reform Bill 2010/11* allows a capital limit to apply to Pension Credit. The Explanatory Notes say:

> This enables replication of the current position in respect of Housing Benefit, where a capital limit applies. It also enables a capital limit to be applied to the other elements of State Pension Credit.[133]

This is discussed in more detail in section 3.2 below.

2.9 Treatment of earnings

Any pensioner who worked more than 16 hours per week was automatically ineligible for the MIG. This 16 hour rule was abolished when Pension Credit was introduced, but the earnings disregards - £5 for singles, £10 for couples and £20 in certain circumstances (such as carers) which previously existed for pensioners - continued.[134] This means that any earnings

[129] HM Treasury, Budget 2009, HC 407,
[130] Ibid, Table A1, page 153
[131] Explanatory Memorandum to the *Social Security Deemed Income from Capital Regulations 2009* (SI 2009/1676); HC Deb, 12 May 2009. C682W
[132] P8
[133] Ibid, para 292
[134] HL Deb, 25 February 2003, c1273; Pension Service, A detailed guide to Pension Credit for advisers and others, PC10S, August 2011 – Earnings disregards

in excess of the disregards are treated like any other form of assessed income in the calculation of both the Guarantee and the Savings Credit.[135]

The Pension Credit earnings disregards have not been increased. The Work and Pensions Committee recommended in 2005:

> …that the Government reconsiders the treatment of earnings in Pension Credit, with particular account being taken of the number of Pension Credit claimants who might wish to engage in paid work, the possible impact of this on pensioner poverty and the extent to which the current rules are understood and provide the right incentives. [136]

In response the Government said:

> The Government wants both to promote opportunities for older workers and to reward them for their earnings. It believes that the Working Tax Credit, the abolition of the 16 hours work rule in Pension Credit, and bringing forward the existing disregards in the income-related benefits are the best way to promote active ageing and reward earnings. Under Pension Credit the earnings of those aged 65 or over can count towards the savings credit.
>
> A single pensioner is entitled to a £5 per week disregard on their earnings and couples a £10 disregard under Pension Credit. In some other cases, such as carers, lone parents, people in certain occupations or in receipt of certain benefits a £20 disregard applies. This broadly mirrors the current regime for younger workers, and avoids introducing additional complexity.[137]

The issue raised again in debate on the *Pensions Bill 2006-07*.[138] For example, in the House of Lords, Baroness Hollis argued that it should be increased:

> Thirty years ago, the disregard for a single person in retirement was £4. Twenty years ago it was £5—£10 for a couple—and it has not changed since. It is worth less than an hour's work a week at the minimum wage for a single person, or an hour and a half or so for a couple if one of them is working.
>
> Amendment No. 20 would raise the level of disregard so that a woman in her 60s could, if she chose, clean for three hours a week, or a man could do two hours or so a week of gardening—I am sorry; these are very gendered examples—without endangering their pension credit. That is probably good for their health and for socialising with other people, as it gets them out of the house; it is certainly good for their income.[139]

Responding for the Labour Government, Lord McKenzie explained that:

> Pension credit is not intended for people who do substantial amounts of work. While we fully support the principle of working and recognise that for many "in retirement" this is a positive step, pension credit is primarily a safety net entitlement…. While I fully understand and appreciate what my noble friend is trying to do here, I should point out that raising the level of the disregards is likely to attract a considerable cost,

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[135] Alistair Darling, HC Deb, 25 March 2002, c602 and c618

[136] Work and Pensions Committee, *Pension Credit,* Third Report 2004-05, HC 43-I, para 170; Work and Pensions Committee, *Pension Credit,* Second Report 2001-02, HC 638-I, para 39-42

[137] Work and Pensions Committee, First Special Report of 2005-06, Pension Credit and Delivery of Services to Ethnic Minority Clients: Government Response to the Committee's 3rd and 4th Reports of Session 2004-05

[138] See for example, Pensions Bill Committee, 8 February 2007, c419

[139] HL Deb, 4 June 2007, c950-1

> particularly as this would have a knock-on effect for housing benefit and council tax benefit for pensioners.[140]

In its 2008/09 report on *Tackling Pensioner Poverty*, the Work and Pensions Committee again recommended that the earnings disregards should be increased:

> 334. We have previously called for the £5 earnings disregard for Pension Credit to be increased. The current rules are a barrier to pensioners working, and are contrary to the Department's stated objectives. We find it regrettable that the disregard has remained at the same level for over 20 years and is now equivalent to less than one hour's work at the minimum wage.
>
> 335. We welcome the Department's announcement that it will trial raising the earnings disregard for lone parents on income support to £50. We call for the earnings disregard for pensioners in receipt of Pension Credit to also be increased to £50.[141]

In its response, the Labour Government said Pension Credit "was primarily a safety net entitlement which targets help where it is needed most and is not intended for people who do substantial amounts of work." However, it would "keep the policy and disregard that operates within Pension Credit under review."[142]

2.10 Interaction with Housing Benefit (HB) and Council Tax Benefit (CTB)

When Pension Credit was introduced, the fear that all – or nearly all – the benefit of the increased income might be clawed back through consequential reductions in HB and CTB was addressed by the Government: they increased the income threshold for these benefits by the maximum Savings Credit payable. A memorandum submitted to the Work and Pensions Select Committee by the Department for Work and Pensions (DWP) explained:

> Any pensioner who receives the Guarantee Credit will be entitled to full Housing Benefit and Council Tax Benefit. Nobody will lose Housing Benefit or Council Tax Benefit as a result of the Pension Credit. The Government will achieve this by raising the level at which pensioners qualify for help in line with the Pension Credit, and also by mirroring the new rules on savings. This will ensure that pensioners who benefit from the Savings Credit do not see their gains clawed back through a reduction in their Housing Benefit or Council Tax Benefit. The current cut-off point of £16,000 savings for pensioners who do not qualify for the Guarantee Credit will, however, be retained.[143]

The applicable amount used in calculating HB and CTB was raised by the amount of the Maximum Savings Credit for claimants aged 65 and over on 6 October 2003, when Pension Credit was introduced. This should have meant that individuals qualifying for savings credit at the point of change from MIG did not lose HB or CTB (although some pensioners who claimed Pension Credit after 6 October 2003 and had already benefited from the increase in the HB/CTB applicable amount, found that some of that was then clawed back when they were later awarded savings credit.)

To summarise, pensioners who qualify for Guarantee Credit (with or without Savings Credit) are passported to full HB and CTB. For those pensioners who qualify for the Savings Credit only, the existing HB and CTB £16,000 capital cut-off has been retained. Those with less

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[140] Ibid, c954

[141] Work and Pensions Committee, Tackling pensioner poverty, Fifth report of 2008-09

[142] Tackling Pensioner Poverty: Government Response to the Fifth Report from the Committee, Session 2008-09, October 2009

[143] Work and Pensions Committee report on Pension Credit, HC 638-II, Session 2001/02, Ev 100

than £16,000 in capital have their income assessed on the same basis for HB and CTB as under the Pension Credit.[144] Savings Credit counts as income when assessing entitlement, but as the threshold has been increased by the maximum credit payable pensioners should still see the full benefit of their Pension Credit award.

In order to simplify claims for HB and CTB, the details provided to the Pension Service to assess entitlement to the Pension Credit are being used for calculating entitlement to these benefits. The then Parliamentary Under Secretary of State, Baroness Hollis, explained how this would work in response to an amendment at the Committee stage in the House of Lords:

> We have concluded that where there is an award of pension credit there is no need for local authorities to continue to make regular inquiries about income. Where the guarantee credit is in payment, local authorities will award full housing or council tax benefit automatically. Until the Pension Service tells them otherwise, they will continue to pay benefit. In savings credit only cases, local authorities will need to carry out a full assessment, but we are making an amendment to the Social Security Contributions and Benefits Act via paragraph 3 of Schedule 2 to the Bill which will allow local authorities to use the Pension Service's assessment of the claimant's income for the duration of the assessed income period. This figure will be up-dated throughout the assessed income period to take account of the annual increase in benefits and increases in second pensions…
>
> Local authorities will still need to continue to review cases regularly--most tenants have a yearly rent increase and private sector tenancies are subject to the rent officer arrangements--but their inquiries will be limited to matters which concern rent, not the claimant's income. In other words, the claimant's income after the assessed period will be taken over into the housing benefit assessment.[145]

The *Welfare Reform Bill 2010-11* contains provision to introduce a new Housing Credit in Pension Credit. This is discussed in more detail in section 3.2 below.

2.11 Disclosure of information to electricity suppliers

The Labour Government introduced provision in the *Pensions Act 2008* to allow DWP data regarding receipt of Pension Credit to be shared with energy suppliers.[146] In debate on the legislation, Parliamentary Under Secretary of State, Lord McKenzie explained that the provision:

> would allow the Secretary of State to make regulations to share data on pension credit recipients with energy suppliers. It also allows energy suppliers to share customer data in order to identify people to whom they can provide assistance with the cost of their fuel bills.[147]

The Minister recognised that the sharing of information to multiple private commercial bodies gave rise to concern. Safeguards would apply:

> In addition to the legal safeguards already available through the *Data Protection Act 1998*, the amendment allows the Secretary of State to provide in regulations for a new criminal offence to penalise anyone who unlawfully discloses these data. We have also involved the Information Commissioner in our proposals and we will continue to work

[144] HL Deb 29 January 2002, c107W
[145] HL Deb, 29 January 2002, c107
[146] Section 142
[147] HC Deb, 17 July 2008, c1385

closely with his office on the detail to ensure that all practices are fully compliant with the highest standards of data handling, including their security.

We will be working closely with energy suppliers, BERR and Defra over the coming months to ensure the detail of the use of the data and to make sure these agreements are sound and enforceable. We say to energy suppliers that it is up to them to make this work and we have started discussions with them on the detail of their offer of assistance to pension credit recipients. It may reassure noble Lords that we will share our customers' information only when we are satisfied that what is on offer from the energy suppliers is good enough to warrant data-sharing. The offer must be proportionate and customers must be offered a guaranteed benefit. We recognise there may be some concerns that once the suppliers have the information, they may use it for purposes other than awarding help with fuel costs, but each supplier will receive data only on their existing customers and these data may be used only for purposes in connection with enabling the provision of assistance to persons in receipt of state pension credit.[148]

Opposition spokesperson, Lord Skelmersdale was concerned that the process had not yet been fully thought through and the safeguards were not finalised.[149]

Lord Mogg, chair of Ofgem, the energy regulator, talked of the importance of ensuring the money already in the system was "best used and targeted, and that people who need it most are identified."[150] The detail on data handling to be contained in the regulations would be vital. He whether the same approach might also be extended to other groups in fuel poverty.[151]

The Minister explained that a potential opt out was being considered and worked through. He agreed it was important to be clear about the costs of information exchange and who would bear them.[152]

The aim *The State Pension Credit (Disclosure of Information) (Electricity Suppliers) Regulations 2010 (SI 2010/227)* is to enable people aged 70 or over in recent of the Guarantee Credit only to benefit from a new Energy Rebate Scheme:

2.1 These Regulations allow DWP to disclose information to electricity suppliers about persons aged 70 years and over, and their partners, where one of those persons is in receipt of only the guarantee credit element of State Pension Credit1 ("SPC"). This is so that under the Energy Rebate Scheme agreed between the Government and suppliers, suppliers can give these persons an automatic rebate on their electricity bill, offer them help with energy efficiency measures and offer to place these persons on a register that offers priority services. The Regulations also allow electricity suppliers to provide information about their domestic electricity customers to DWP. This is so that DWP can match that data against its own records and then confirm to each supplier which of its customers qualify for a rebate.

2.2 The Regulations also make unauthorised disclosure of information a criminal offence. This is aimed at strengthening the security of data handled and transferred.[153]

148 Ibid, c1386
149 Ibid, c1387
150 Ibid, c1390
151 Ibid, c1391
152 Ibid, c1392-3
153 Explanatory Memorandum to the *State Pension Credit (Disclosure of Information) (Electricity Suppliers) Regulations 2010* (SI 2010/227)

The Energy Rebate Scheme is being developed following a voluntary agreement by the big six energy suppliers[154] to increase their spending on social programmes to help vulnerable customers. The Explanatory Memorandum to the regulations explains current intentions. Further details will be in an Energy Rebate Scheme Policy Document.[155]

Pension Credit recipients wishing to opt out would need to be proactive:

> 25. There is no legal requirement for either DWP or electricity suppliers to obtain customer's consent before sharing their data for the purposes of the Scheme. DWP will not be asking people proactively if they wish to participate in the Scheme, and will automatically put forward their details for the data matching exercise. Electricity suppliers will do the same.
>
> 26. If a customer contacts DWP to ask that their details are not shared, DWP will endeavour to exclude their details from the match. Energy suppliers will take a similar approach with anyone who contacts them about the scheme.[156]

The scheme was generally welcomed by respondents to consultation on the draft regulations, although some issues were raised and some changes made to the draft regulations as a result.[157] Details of the consultation and the Government response can be found on the DWP website.[158] The regulations were debated in the House of Commons on 13 January 2010. They were welcomed in broad terms as "a good place to start", although some questions were raised about individuals who would not qualify and about data security.[159]

Regulations have been made to allow the Secretary of State and suppliers to exchange information to allow Pension Credit claimants to be awarded automatic rebates under the Warm Home Discount Regulations:

> These regulations allow the Secretary of State and energy suppliers to exchange information for the purposes of requiring, under the Warm Home Discount Regulations (SI 2011/1033), those electricity suppliers to give those persons an automatic rebate on their electricity bills and to allow for testing matching arrangements.[160]

3 Welfare Reform Bill 2010-11

The *Welfare Reform Bill 2010-11* provides for the introduction a new Universal Credit. This is to be a new integrated working-age benefit, paid to people in and out of work. It will replace existing benefits such as Working Tax Credit (WTC), Child Tax Credit (CTC), Housing Benefit (HB), Council Tax Benefit (CTB), Income Support, income-based Jobseekers Allowance and income-related Employment and Support Allowance.[161] The Bill also makes

[154] British Gas, EDF Energy, E.ON UK, ScottishPower; Scottish Energy; RWEnpower

[155] Explanatory Memorandum to the *State Pension Credit (Disclosure of Information) (Electricity Suppliers) Regulations 2010* (SI 2010/227) para 7.7

[156] DWP, Energy Rebate Scheme – Draft Scheme Policy Document, December 2009

[157] Ibid, para 8.3

[158] *Energy Costs Support Scheme – Sharing data with energy suppliers to help them better target their social assistance schemes. Consultation on draft regulations and policy proposals, 24 September 2009; Energy Costs Support Scheme (Energy Rebate Scheme). Government response to the consultation on draft Regulations: State Pension Credit (Disclosure of Information) (Electricity Suppliers) Regulations 2010, December 2009*

[159] See, SC Deb, *Draft State Pension Credit (Disclosure of Information) (Electricity Suppliers) Regulations 2010,* 13 January 2010 [See, Nigel Waterson, c6-8, and Steve Webb, c8-10]

[160] *Disclosure of State Pension Credit Information (Warm Home Discount) Regulations 2011 (2011/1830)*, para 2.22

[161] *Welfare Reform Bill 2011-12* – Explanatory Notes,

changes to Pension Credit which consequent upon the introduction of the Universal Credit. In particular:

- In future, both partners in a couple will have to have reached the "qualifying age" in order to claim Pension Credit;

- A new Housing Credit is to be introduced in Pension Credit. This is because Housing Benefit is being abolished and, for people of working age, incorporated into the Universal Credit. The intention is that claimants will be entitled to broadly the same amount of support through Housing Credit as they would have been entitled to by way of HB.

Some issues are outstanding, such as exactly what provision that will be made to replace the financial support currently provided by CTC and CTB for people of Pension Credit qualifying age.

The Bill also provides for carers to be able to access the carer's additional amount in Pension Credit more easily. These issues are discussed in more detail below. The wider issues in the Bill are discussed in more detail in the Library Research Paper RP 11/24 *Welfare Reform Bill – Universal Credit provisions.*

3.1 Qualifying age

As explained in 1.1 above, the qualifying age for Pension Credit is linked to the State Pension age for women. Under current legislation, only one partner needs to have reached the "qualifying age" for Pension Credit in order for a couple to be able to claim.[162] Section 32 and Schedule 2 (paragraph 64) of the Bill provides that in future both will need to have done so:

> 1.45 Paragraph amends the *State Pension Credit Act 2002* so that a member of a couple who has attained the qualifying age for state pension credit may not receive state pension credit if the other member of the couple has not attained that qualifying age. This is to ensure that all claimants who have not attained the qualifying age for state pension credit are required to claim universal credit and, if appropriate, be subject to work-related conditions of entitlement. [163]

Comment

In response to publication of the Bill, Citizens Advice said it would be helpful to have clarification on how the older member of the couple in such cases would be treated. For example, would they be subject to the work-related conditionality of Universal Credit and would they attract a pensioner premium.[164] Age UK argued that couples in this position should not be worse off than a couple entitled to Pension Credit:

> 4.2 We accept there is a case for treating everyone aged below women's State Pension age consistently, in terms of expectations with respect to work, but we would oppose any move which would reduce the overall income of households where one member has reached the age of eligibility for pensioner benefits. Age UK would like further information about the impact of the change for couples in this position and

[162] *State Pension Credit Act 2002*, s1; Pension Service*, Pension Credit – Do I qualify and how much could I get?,* April 2010, page 2

[163] *Welfare Reform Bill 2010-11* – Explanatory Notes, para 145

[164] Source: Citizens Advice

reassurances that they would not be financially worse off than a couple entitled to Pension Credit.[165]

Debate in Parliament

During the Public Bill Committee stage, In Public Bill Committee, Shadow Work and Pensions Minister, Stephen Timms expressed surprise at the way the policy change had been introduced. In its Universal Credit White Paper, published in November 2010, the Government said had said it was "considering an option of allowing those pensioners who choose to extend their working lives to claim Universal Credit, rather than Pension Credit."[166] In contrast, the Bill removed entitlement from those with working age partners. Mr Timms said:

> That is very far from what the White Paper told us – that it would be an offer of which people might wish to take advantage. It is now a requirement and a severe restriction on the availability of pension credit.[167]

He asked what savings the Government expected to make, whether there would be transitional protection for existing claimants and how the Minister would justify discriminating against pensioners on the basis of their spouse's age:

> It seems curious to propose that, for people in otherwise identical circumstances, one will receive pension credit because their spouse is above pensionable age, but someone else, whose spouse happens to be below pensionable age, will not.[168]

Work and Pensions Minister, Chris Grayling explained that the rationale for the change was that "in return for receiving support from the state, working age people should look or prepare for work":

> The pension credit is a means-tested extra support payment for people on the lowest incomes to enable them to top up their income. If there is a couple in a household, one of whom is still of working age, and we are paying that means-tested payment, but the person of working age is not required to work, that does not stack up. Why should we not say to the person of working age, 'Your household is on a low income, you need more money, get a job', rather than, 'Here is an extra means-tested payment from the state without the obligation to look for a job"? This is a sensible change that puts an appropriate balance into the system.[169]

He confirmed that the change would only apply to "new claims, not to couples who are already entitled to Pension Credit." Furthermore, the "work-related requirements" would only apply to the working age partner.[170] The Government had not calculated the savings it expected to be made from this change:

> This is not a saving measure as such. We have not calculated a saving out of it, so we have not produced a number that is now scored somewhere to say that it will be a consequence of this extra measure. This is simply a common-sense step. It does not seem right for the state to say, "We will provide you with some money to top up your household income, because you are on a very low income," while at the same time

[165] Memorandum submitted by Age UK, WR32
[166] DWP, *Universal credit: welfare that works*, Cm 7957, November 2010, para 49-50
[167] PBC Deb, 28 April 2011, c551
[168] Ibid, c552
[169] PBC Deb, 28 April 2011, c553
[170] Ibid.

> saying that that it is fine for somebody who is of working age not to be looking for a job in such a situation.[171]

On 16 May, Pensions Minister, Steve Webb said the Government was considering the support that would be available for couples in this position:

> We believe it wholly appropriate that people below the pension credit qualifying age should receive the support that will be available through universal credit to encourage and enable work. We are still considering the support that will be available for couples in this position.[172]

The Government would publish further information once decisions were finalised.[173]

The issue was debated again at Report Stage on 13 June 2011. [174]

The Bill had its Second Reading in House of Lords on 13 September 2011.[175] The updated Impact Assessment includes figures for the number of households whose income would be notionally lower than it would have been under the old system. It explained that "some of the heaviest notional losses for couples without children are in cases where one member is of working-age and one is currently eligible for Pension Credit."[176]

At Committee Stage, Lady Greengross (a former director of Age UK) moved an amendment to provide for an additional amount to be included in the Universal Credit to reflect the fact that one of a couple is of State Pension age:

> We know that for a long time the means-tested benefit system has supported, and given greater support, to people who have reached retirement age. However, under this Bill, unless couples where one person has reached retirement age receive some additional support, the older person who might be, say, 80, who happens to have a partner of 59, could be worse off financially than someone with a partner of the same age.[177]

The legislation already provides for an award of Universal Credit to include additional amounts in respect of limited capability for work or where the claimant has regular and substantial caring responsibilities for a severely disabled person.[178]

Speaking in support of the amendment, Opposition spokesperson, Baroness Drake, expressed her concern about the impact on older women not in paid work, particularly those with caring responsibilities.[179] Lord McKenzie questioned the logic of requiring a couple to claim Universal Credit where the younger partner would not in any case be subject to the work requirements:

> However, if in fact the working-age partner does not have to be subject to any conditionality because of a caring responsibility, or for any other reason-perhaps they are subject to no work-related requirements under the assessments that take place-

[171] Public Bill Committee, 28 April 2011, c553
[172] HC Deb, 16 May 2011, c102W
[173] HC Deb, 9 June 2011, c421-2W
[174] HC Deb, 13 June 2011, c525-7;
[175] The Bill as introduced to the House of Lords is Welfare Reform Bill HL Bill 75
[176] Welfare Reform Bill – Impact Assessment, p10 and p 11, para 28
[177] HL Deb, 24 October 2011, c174GC
[178] Welfare Reform Bill 2011, Clause 12
[179] HL Deb, 24 October 2011, c175GC

> why then would the Government still force that couple through universal credit? If the rationale of using the universal credit to bring people within conditionality falls away, why should those couples not then have the opportunity of remaining in pension credit if they choose?[180]

Responding for the Government, Lord Freud explained that there were two main reasons why the Government had decided not to include an addition in Universal Credit specifically for people over pension age. One was the possible impact on work incentives. The other was that reforms to the State Pension were still under consideration:

> First, we think that it could reduce the work incentives for the working-age partner if they are paid a higher rate of benefit simply because they have an older partner. We are already including additions for specific reasons such as caring, or limited capability for work, where people are likely to have longer durations on benefit. Clearly, we are raising some of those levels appreciably. If in a particular case these additions are not appropriate, there ought, in principle, to be as much scope for the working-age partner to work as in any other case, so it is not clear why a higher rate of benefit should be paid.
>
> Secondly, as the noble Baronesses, Lady Drake and Lady Hollis, rightly pointed out, there is a significant programme of change under way for people over pension age. Following the Chancellor's announcement in the Budget of 23 March, the Government published the Green Paper *A State Pension for the 21st Century* in April. That paper set out options for reforming the state pension system for future pensioners. In the light of the responses to the Green Paper, we are currently developing proposals for changing the state pension system and at the same time are considering how pension credit may need to change to best meet the needs of future pensioners under any reformed state pension. It would clearly be important to make sure that any arrangements for pensioners dovetail closely with universal credit to ensure a smooth interface and also to ensure that we deal fairly with couples where one person is over pension age and the other is under it. Until our thinking is further developed, we have only one side of the equation. We need both sides of the equation to consider this issue fully. I should just add that clearly once there is a migration on changing pensions the migration strategy into universal credit and the timing of how we take different groups into it will also be hugely relevant.[181]

3.2 Housing Credit

Guarantee Credit currently includes an additional amount to cover certain owner-occupier housing costs (such as mortgage interest).[182] However, those who are tenants in the social or private rented sector claim for help with their housing costs through HB, which is administered by local authorities.

Both Pension Credit and HB are means-tested, so income and capital of the claimant (and their partner if they have one) may be taken into account in calculating entitlement.[183] However, details of the calculations are different. For example:

- there is no upper capital limit in Pension Credit. Instead, where capital falls to be taken into account, £1 of income is assumed for every £500 above £10,000.[184] On the

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[180] Ibid, c178GC
[181] Ibid, c179-80 GC
[182] *State Pension Credit Act 2002*, s2(3); *State Pension Credit Regulations 2002* (SI 2002 No. 1792), reg 6 and schedule 2
[183] *State Pension Credit Act 2002*, s15

other hand, there is a £16,000 capital limit in HB. Although Guarantee Credit recipients are passported to maximum HB, people in receipt of Savings Credit only are not eligible if they have savings in excess of the HB capital limit; [185]

- Pension Credit customers aged 65 or over who have been given an "assessed income period" (AIP) do not need to report changes to pensions, annuities, equity release payments or capital as they happen. Instead, these types of income and capital are normally fixed during the AIP, with automatic uprating applied.[186] Claimants aged 75 and over are generally given an indefinite AIP.[187] There is no AIP in HB.[188]

HB is to be abolished under clause 34 of the Bill.[189] Accordingly, clause 35 and Schedule 4 provide for a new "housing costs" credit in Pension Credit:

> 152. State pension credit is currently made up of two elements: the guarantee credit and the savings credit. *Schedule 4* amends SPCA 2002 to create a new credit to cover housing costs. This will provide support for people who have reached the qualifying age for state pension credit (for couples where both members have reached the qualifying age) once housing benefit is no longer available following the introduction of universal credit.[190]

As is now the case with HB, it is to be possible to be eligible for Housing Credit without being entitled to Guarantee Credit or Savings Credit, or to receive more than one element if the relevant conditions are satisfied.[191]

Schedule 4(4) of the Bill will insert a new section 3A into the *State Pension Credit Act 2002*. Subsection 3 of section 3A will allow the Secretary of State to provide in regulations the manner in which Housing Credit entitlement will be calculated. The Government's intention is that claimants will be entitled to "broadly the same amount of support under the Housing Credit as they would have been entitled to by way of Housing Benefit."[192] DWP explains:

> The primary power therefore needs to be wide enough so that the details of the calculation of benefit may be prescribed in secondary legislation in the same manner as currently provided in regulations relating to housing benefit. The level of detail is such that it is considered preferable to keep it from the face of primary legislation and instead include it within secondary legislation.[193]

The calculation for Housing Credit will be specific to it and will not be the same as the income rules for the other elements of Pension Credit.[194] The Bill also makes provision for "assessed

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[184] *State Pension Credit Regulations 2002* (2002 No. 1792), reg15. The categories of capital that fall to be disregarded is set out in schedule V of the regulations

[185] *Housing Benefit (Persons who have attained the qualifying age for State Pension Credit) Regulations 2006* 2006/214), regs 26, 27 and 43

[186] *State Pension Credit Act 2002*, s6 and 9 and *State Pension Credit Regulations 2002,* reg 10

[187] *Pensions Act 2008,* s105

[188] DWP Memorandum to the House of Lords Delegated Powers and Regulatory Reform Select Committee, Welfare Reform Bill, para 158

[189] Clause 34 (1) (d)

[190] *Welfare Reform Bill 2010-11* – Explanatory Notes, para 152

[191] Ibid, para 153

[192] *Welfare Reform Bill 2010-11* – Explanatory Notes, para 154-5

[193] DWP Memorandum to the House of Lords Delegated Powers and Regulatory Reform Select Committee, Welfare Reform Bill, para 153

[194] *Welfare Reform Bill 2010-11* – Explanatory Notes, para 154

income periods” not to apply to the Housing Credit in certain circumstances.[195] DWP explains:

> 159. This power is needed in order to replicate the current position in respect of housing benefit, which does not have an assessed income period. Were housing costs to fluctuate then the Secretary of State may wish to take into account a person’s actual income for the purposes of assessing the amount of housing credit to be awarded, rather than an assumed income. Also, the applicability of an assessed income period on the housing credit element may be different if a person is in addition entitled to only the guarantee credit or is also entitled to the savings credit.[196]

Furthermore, clause 74 of the Bill allows a capital limit to apply to Pension Credit. The Explanatory Notes say:

> This enables replication of the current position in respect of Housing Benefit, where a capital limit applies. It also enables a capital limit to be applied to the other elements of State Pension Credit.[197]

Comment

In its evidence to the Work and Pensions Committee’s inquiry on the Universal Credit White Paper, Age UK said it supported the proposal to integrate support for rent in Pension Credit (assuming levels of support were not reduced) on the grounds that “greater integration of benefits for older people could make the process of claiming simpler and improve take up.” However, it also argued that there should be a review of the marginal withdrawal rates faced by for older people:

> 7.2 Currently older people can face marginal withdrawal rates of over 90 per cent due to the interaction between Pension Credit, HB, and CTB. In the interest of fairness and consistency we would expect that the maximum taper rates for older people to be reviewed. High marginal deduction rates mean that those with modest incomes in retirement can feel they are not rewarded for having worked and saved.[198]

Debate in Parliament

At Public Bill Committee stage, Shadow Work and Pensions Minister, Stephen Timms, asked why clause 74 had been drawn in such a way that it could be used to impose a capital limit on Pension Credit as a whole, rather than just the Housing Credit.[199] Work and Pensions Minister, Chris Grayling, explained that it was the Government’s intention to replicate the system that was already there in so far as it could. However, to help Pension Credit to continue to operate in a way that was clear once Housing Credit was incorporated, it wanted the power to introduce a capital limit that would be “exercised in respect of one or all of the elements of Pension Credit”:

> I have made it clear that our aim is for the existing housing benefit rules to be broadly carried across to the housing credit element in pension credit, but the picture is complicated, so it is not quite that straightforward. We recognise that it will be important for pension credit to continue to operate in a way that is clear to both customers and staff once housing credit has been incorporated. We want the power to

195 Schedule 4, para 5

196 DWP Memorandum to the House of Lords Delegated Powers and Regulatory Reform Select Committee, Welfare Reform Bill

197 Ibid, para 283

198 UC22, Written Evidence Submitted by Age UK to the Work and Pensions Select Committee

199 PBC Deb, 3 May 2011, c760

introduce a capital limit that can be exercised in respect of one or all of the elements of pension credit, allowing for the possibility of simplification through the alignment of the rules. I will be frank. There are ways of doing that. One could establish a much higher capital limit that applied across the board or apply a limit to the individual element of housing.

Let me put this on the record: it is not our intention to apply a capital limit of the kind that exists for housing benefit—the £16,000 equivalent and the group of people it affects—within pension credit. We might put in place a system that applies a flat rate to a much higher level of capital, or we might equally apply a capital limit to the housing element, but it is not our intention for the measures to disadvantage people who have a sensible level of savings. It is our intention to replicate the system that is already there in so far as we possibly can. Therefore, although I do not rule out an approach that might end up with an across-the-board limit for a much higher level of capital than the current level of £16,000 in order to achieve our objectives, it is not our intention to apply a capital limit of the kind that we know now to claimants.

He could conceive of applying a single limit to all elements of Pension Credit, but this would be substantially higher the current limit applying to Housing Benefit (£16,000):

It is not our intention to disadvantage anybody who is currently in the pension credit mix by applying a capital limit of the kind that exists in housing benefit that would affect the vast majority of claimants. I can conceive of us applying a limit that would affect a small minority at the top end in order to achieve an overall flat rate across the whole pension credit audience, but no decision has yet been taken on whether it is appropriate to introduce a capital cut-off limit of that kind for the whole of pension credit.[200]

Mr Timms said this could be "quite a major, and potentially controversial change" and asked whether the regulations would be subject to the affirmative procedure. Mr Grayling said he would address this question at report stage.[201]

In the House of Lords, Lord Freud explained that the Housing Credit would broadly follow the current rules applying to Housing Benefit, although the Government would look to align rules where possible:

Lord Freud: My Lords, the intention is that the housing credit will broadly follow the current rules that apply in housing benefit. For someone to be entitled to the housing credit element of pension credit they will need to live in Great Britain, have reached the pension credit qualifying age and be liable for housing costs that relate to the accommodation they live in. The extent to which a person is liable for the housing costs, what constitutes the accommodation, how we treat temporary absences from home and how we calculate the amount of the housing credit will also be included in regulations.

A person may be entitled to the housing credit whether or not they receive the guarantee credit or saving credit element of pension credit. This schedule also enables us to specify that rates of support may differ by area. So, for example, different housing allowance rates can apply in different parts of the country.

In introducing the new housing credit we will, however, look for opportunities to streamline the benefit and align rules wherever possible. This includes extending pension credit provisions to the housing credit wherever possible. One such area

[200] PBC Deb, 3 May 2011, c762
[201] Ibid, c762

includes assessed income periods. These are specified periods during which a customer is not required to report any changes in their requirement provision-namely, their occupational pensions and capital.

The schedule provides us with the flexibility to determine in what circumstances retirement provision will not be fixed in relation to the housing credit regulations, which will be subject to the appropriate level of scrutiny. The schedule also contains the consequential amendments to other legislation needed as a result of the abolition of housing benefit and the introduction of the housing credit.[202]

Other issues

The Bill abolishes other benefits claimed by some people of Pension Credit qualifying age, including Child Tax Credit (CTC), Working Tax Credit (WTC) and Council Tax Benefit (CTB).[203] In December 2010, there were some 47,000 in-work households with an adult aged 60 or over receiving CTC (with or without WTC). This included 3,000 single adults and 44,000 couples where the eldest adult was 60 or over. A further 41,000 out-of-work households where the Child Benefit claimant was 60 or over were receiving benefits for dependent children.[204]

For people of working age, CTC and WTC are to be incorporated into the Universal Credit.[205] For pensioners, the Government has proposed introducing a further element in Pension Credit to provide income-related help for dependent children.[206] Citizens Advice notes that the Bill does not make specific provision for this, although it could be made in secondary legislation. It suggests that the approach taken should be examined carefully, to ensure pensioners caring for dependent children (grandchildren, for example) do not lose out. For example, some pensioner households who do not qualify for Pension Credit do qualify for Child Tax Credit.[207] The Government has said that no-one will experience “a reduction in the benefit they receive as a result of the introduction of Universal Credit.”[208] However, this is a commitment to transitional protection only, at the point of change.[209] At Public Bill Committee stage, Chris Grayling said the Government “would provide support through pension credit, which will mirror the approach we propose in the universal credit for working age families.”[210] He confirmed that he did not need to take powers in the Bill for this, but already had the necessary powers to make the required secondary legislation.[211]

In the White Paper, the Government said that as pensioners would no longer be able to access help from WTC, it was “considering an option of allowing those pensioners who choose to extend their working lives to claim Universal Credit, rather than Pension Credit.”[212] However, the Bill makes provision for a clear cut-off point: with one of the basic conditions of entitlement to Universal Credit being that a person “has not reached the qualifying age” for Pension Credit.[213] There is power to make exceptions to this general rule.[214] However, the

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202 HL Deb, 3 November 2011, c484-5
203 *Welfare Reform Bill 2010-11,* clause 34
204 *HMRC Child and Working Tax Credit Statistics*, December 2010, Table 3.1. Data is for provisional awards
205 *Welfare Reform Bill 2011-12* – Explanatory Notes, para 10
206 DWP, *Universal credit: welfare that works*, Cm 7957, November 2011, para 48
207 Source: Citizen’s Advice
208 DWP, *Universal credit: welfare that works*, Cm 7957, November 2011, Executive Summary, para 8
209 See, for example, HC 743-i 2010-11 [Mike Brewer]
210 PBC Deb, 28 April 2011, c559
211 PBC Deb, 28 April 2011, c559
212 DWP, *Universal credit: welfare that works*, Cm 7957, November 2011, para 49
213 Clause 4
214 Clause 4(2)

only example given of where this power might be used for couples of which one is above the qualifying age for Pension Credit and the other below. In this case, regulations could "provide that the couple would still be entitled to universal credit, despite one member not meeting the upper age limit condition of entitlement."[215]

Age UK has suggested that the Government should review the earnings disregards in Pension Credit.[216] The Work and Pensions Committee called an increase in its 2008/09 report, *Tackling Pensioner Poverty*.[217] The treatment of earnings is discussed in more detail in section 2.9 above.

CTB is also to be abolished and a localised benefit developed. The Impact Assessment on Universal Credit explains:

> Council Tax Benefit will be abolished and Local Authorities will be given scope to take account of the priorities of their own communities when determining the amount of support for low-income households to meet their Council Tax bills. There is more work to be done on the details of the new system and the Department for Work and Pensions (DWP) and the Department for Communities and Local Government (DCLG) will work closely together with local government and devolved administrations to flesh out the overall framework. In doing so, the Government will aim to protect the most vulnerable, particularly pensioners, and not undermine the positive impact of Universal Credit on work incentives.[218]

In its memorandum to the Public Bill Committee, Age UK expressed concerns as follows:

> 3.2 Despite a statement that the Government 'will aim to protect the most vulnerable, particularly pensioners' we are very concerned that a national entitlement is being replaced by a local system and that, as yet, there are no proposals as to how this will work. We appreciate that the Government wants to move towards greater localism but we do not believe it is appropriate to apply this approach to Council Tax Benefit (CTB). Once taxes are set, older people and others on a low income need to have the peace of mind of knowing they will be entitled to a certain level of benefit or rebate. Localising benefit would inevitably lead to different outcomes and to introduce this alongside a cut in resources could lead to hardship as well as an uneven system of support.[219]

A discussion of the possible impact of the changes to CTB on pensioners, among others, is in Library Research Paper RP 11/24 *Welfare Reform Bill: Universal Credit provisions* (7 March 2011).

3.3 Carer's additional amount

Clause 73 amends the *State Pension Credit Act 2002* to change the entitlement conditions for the additional amount of guarantee credit in respect of caring responsibilities. The Explanatory Notes say:

> 335. Currently a claimant is entitled to the additional amount if the claimant or their partner is entitled to carer's allowance. Subsection (2) amends section 2(8) of SPCA 2002 so that a claimant is entitled to the additional amount if they or their partner have regular and substantial caring responsibilities. Subsection (3) amends section 17 of the

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215 DWP Memorandum to the House of Lords Delegated Powers and Regulatory Reform Select Committee, Welfare Reform Bill, para 22`

216 UC22, Written Evidence Submitted by Age UK to the Work and Pensions Select Committee

217 Work and Pensions Committee, Tackling pensioner poverty, Fifth report of 2008-09, para 334-5

218 Universal Credit Impact Assessment, para 10, p8

219 Memorandum Submitted by Age UK to Public Bill Committee on Welfare Reform Bill (WR32)

> SPCA 2002 to provide that the Secretary of State will prescribe what is meant by regular and substantial caring responsibilities in regulations. The intention is that this definition will cover, but not be limited to, people entitled to carer's allowance.[220]

DWP explains that the intention is to remove an anomaly by which a person has to claim carer's allowance to be entitled to the carer's additional amount in Pension Credit, even though the rate of carer's allowance to which that person would be entitled is nil because of the "overlapping benefit rules."[221]

Comment

There has long been concern that the requirement to claim Carer's Allowance (despite the fact that there may be no entitlement because it overlaps with the State Pension) was leading some carers over pension age to miss out on the additional allowance in Pension Credit. For example, Carers UK has said that many carers "are probably unaware that they are eligible for the Carer's Addition because they mistakenly believe they are not eligible to apply for Carer's Allowance once they reach State Pension Age."[222] The Work and Pensions Committee, in its 2008 report, *Valuing and Supporting Carers,* concluded that the "overlapping entitlement rules are confusing and over-complicated." It recommended that DWP urgently streamline the application process for carers of State Pension age.[223]

At Public Bill Committee stage, Chris Grayling, explained that:

> Clause 73 ends one of the anomalies of the system that has frustrated many of us when dealing with our constituents. Up until now, in order to be able to receive the carer's supplement to the pension credit, our constituents have also had to apply for a carer's allowance, and demonstrate their eligibility for it, but then not get it, which has caused them enormous confusion. The clause simply deals with that anomaly so that they will no longer have to do that, and I hope it will be welcomed by the Committee.[224]

4 Further information

The Pensions Service has issued two leaflets:

- *Pension Credit: Do I qualify and how much do I get?* PC1L, August 2011

- *A detailed guide to Pension Credit for advisers and others*, PC10S, September 2011

More general information is available on the Pension Credit section of the *Pension Credit* section of the Directgov website.

The main legislation is contained in:

- *State Pension Credit Act 2002*

- *State Pension Credit Regulations 2002*, (SI 2002/1792*)*

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[220] *Welfare Reform Bill 2010-11* – Explanatory Notes, para 335

[221] DWP Memorandum to the House of Lords Delegated Powers and Regulatory Reform Select Committee, Welfare Reform Bill, para 290

[222] Carers UK, *Response to the White Paper – Personal Accounts: a new way to save.* December 2006.

[223] Work and Pensions Committee, 'Valuing and Supporting Carers', Fourth Report of Session 2007-08, 21 July 2008, HC 485-I, para 157

[224] PBC Deb, 3 May 2011, c759

- *State Pension Credit (Consequential, Transitional and Miscellaneous Provisions) Regulations 2002*, SI 2002/3019

- *State Pension Credit (Consequential, Transitional and Miscellaneous Provisions) (No 2) Regulations 2002*, SI 2002/3197

Some voluntary organisations have published more detailed guides to the Pension Credit. These include:

- Child Poverty Action Group, *Welfare Benefits and Tax Credits Handbook 2011/2012*, Chapter 18.

- Age Concern Factsheet 48, *Pension Credit*, (last updated April 2011)