Pension Credit: assessed income periods

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Pension Credit – the main means-tested benefit for pensioners – was introduced in October 2003. Awards to people aged over 65 may include an "assessed income period" (AIP) of up to five years, during which some changes in circumstances do not have to be reported. People aged 75 will often be given an indefinite AIP, and those whose AIP runs out after they reach 80 will not normally need to be reassessed. The AIP ends early in certain circumstances, for example, if the claimant starts or stops being a member of a couple, goes into a care home permanently or is no longer entitled to Pension Credit. In addition, they can request a reassessment of their claim if their income falls.

The Labour Government's intention, with the introduction of AIPs, was to make means-testing less intrusive for pensioners, by no longer requiring them to report changes of circumstance to the Pension Service on a weekly basis. It was also justified by the fact that pensioners' circumstances tended to change less often than those of working age people.

The current Government announced its intention to abolish AIPs in the Spending Review on 26 June 2013. It has tabled an amendment to the *Pensions Bill 2013/14* in advance of Report Stage on 29 October to provide for the abolition of AIPs from April 2016.

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1 Background

1.1 Overview

Pension Credit was introduced in October 2003.[1] It currently has two elements, the Guarantee Credit and Savings Credit. The Guarantee Credit provides financial help for people who have reached the "qualifying age" for Pension Credit (which is linked to the State Pension age for women) and whose income is below a specified amount. The appropriate amount is made up of a standard minimum guarantee (SMG) 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.[2] In 2013/14, the relevant amounts are:

	Rates 2013/14 £pw
Standard minimum guarantee	
single	145.40
couple	222.05
Additional amount for severe disability	
single	59.50
couple (one qualifies)	59.50
couple (both qualify)	119.00
Additional amount for carers	33.30

The Savings Credit element of Pension 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.[3] Information about Pension Credit is on the Gov.UK.

1.2 Objectives

The Labour Government introduced Pension Credit to address a number of problems which it said it had identified in the existing system. A November 2000 consultation document said:

> The current system has been successful in getting more help more quickly to those in greatest need. But it has a number of flaws:
>
> - it sets a savings trap, penalising those getting the MIG by removing a pound of benefit for every pound of second pension they have built up;
> - those just above the MIG level feel let down because they have gained little from having saved – a pensioner with £20 a week of occupational pension on

[1] *State Pension Credit Act 2002*; *State Pension Credit Regulations 2002 (SI 2002/1792)*

[2] *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?,* April 2012

[3] *State Pension Credit Act 2002*, s3 (1); The age of eligibility for SC will rise with the State Pension age

top of the basic state pension can find herself just a pound or two better off than someone who saved nothing;

- it excludes pensioners from extra support, through inappropriate capital limits, simply because over their working lives they have built up a small amount of savings; and
- it involves an intrusive weekly means-test, which contrasts with the less burdensome annual requirements for pensioners in the tax system.[4]

Specific features of Pension Credit were designed to address these issues:

> The key features of the Credit will include:
>
> - higher guaranteed minimum income levels which keep pace with earnings;
> - a cash reward for pensioners on low and modest incomes for every pound of income from their savings, second pension or earnings;
> - abolition of the capital rules and the weekly means-test – the Credit will pave the way for a greater integration with the tax system;
> - streamlined delivery and assessment.

Regarding the treatment of capital, the Government had already increased the amount of capital to be disregarded from £3,000 to £6,000 from April 2001 and increased the upper capital limit (above which pensioners were excluded from entitlement) from £8,000 to £12,000.[5] With Pension Credit it proposed to go further: the capital limit would be abolished and the rules for assuming income from savings would be made more generous. At that time, the Pension Service assumed £1 of income for every £250 of capital. Initially, the Government proposed to take actual income from capital into account. [6] However, after consultation it proposed instead to assume a notional rate of income set at around 10 per cent for savings above £6,000.[7] Effectively, this meant assuming £1 of income for every £500 of capital above the disregard.[8]

Measures designed to improve incentives to save, included the introduction of the Savings Credit element of Pension Credit, which was intended to:

> [...] ensure that pensioners who have save modest amounts – whether it is through an occupational scheme, a stakeholder or personal pension, the State Second pension or other savings – will gain from having done so.[9][10]

2 The assessed income period

2.1 Consultation

In addition to the measures described above, to make the means-test lest burdensome, the Labour Government proposed to award Pension Credit for a longer, fixed period (an

[4] DWP, *The Pension Credit: a consultation*, p 4
[5] HM Treasury, *Budget 2000*, para 5.45
[6] DWP, *The Pension Credit: a consultation*, p 23, para 28
[7] *Pension Credit: the Government's proposals*, November 2001, p 5
[8] *State Pension Credit Regulations 2002 (SI 2002/1792),* regulation 15 (6)
[9] DWP, *The Pension Credit: a consultation*, p18
[10] DWP, *Pension Credit, the Government's proposals,* November 2001, p4; For more detail, see Library Note SN 1439 *Pension Credit.*

assessed income period). The initial intention was to make an initial award fixed for at least a year, but then rolled on unless there were material changes of circumstances:

> 30 The Government based the MIG on the existing Income Support system in order to get extra help to the poorest pensioners quickly. Because of this, whilst many pensioners find they have fairly static incomes overall once they retire, the MIG continues to treat them like those of working age with fluctuating earnings which require up to weekly readjustments in the level of their support. This contrasts with the annual cycle of the tax system.
>
> 31 The Government therefore plans to award the Pension Credit for a longer, fixed period, drawing on experience from tax credits. The Government is consulting on how best to design and operate this new form of award. It will seek to balance the need for secure incomes with the need for a system which is sensitive enough to ensure that vulnerable pensioners get the help they need. One option would be an initial award at the point of retirement, fixed for at least a year, but rolled on unless there are material changes of circumstances, such as the death of a spouse.[11]

In November 2001, following consultation, the Government said it had decided reassess awards every five years, unless there had been a major change of circumstances or a fall in income:

> We also want to make it much easier for pensioners to claim all their entitlements. In the past, the system has been intrusive and bureaucratic, and crucially, pensioners do not like it. That system is going to end. Instead at the point of retirement, we will work out how much Pension Credit pensioners are entitled to at the same time as we work out their basic State Pension. Once they reach 65, we will only need to reassess a pensioner’s award every five years, unless there is a major change in their lives (we will explain to pensioners what this means in practice) or unless they report a fall in income.[12]

2.2 Debate in Parliament

In Second Reading debate of the *State Pension Credit Bill 2001-02,* the then Secretary of State for Work and Pensions Alistair Darling said:

> [...] five-year assessments will apply from the age of 65. People whose circumstances have changed and who are entitled to more will be able to come back, but as the vast majority of pensioners' circumstances do not change, I am reasonably confident that most people will not be troubled that often.[13]

The then Shadow Secretary of State, David Willetts, questioned the difference this would make:

> The right hon. Gentleman says that he will try to prevent changes in bureaucracy for five years, but he cannot prevent changes in pensioners' circumstances. If pensioners approach the pension service, detailed recalculations of entitlements to benefit will be necessary; if they do not, but their circumstances have deteriorated and their income is lower, they will get less credit than they are entitled to. I therefore fail to see how the five-year blanket fixed payment will solve the problem that the Secretary of State

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[11] Ibid, p23

[12] DWP, Pension Credit: the Government’s proposals, November 2001

[13] HC Deb 25 March 2002, c607

> claims to understand. There is a problem with take-up now, and there will still be a problem under the pension credit.[14]

The then Liberal Democrat spokesperson, Steve Webb, asked the Government for an estimate of the proportion of people who would have to claim again within the five-year period.[15]

These questions were raised again at Committee stage. Mr Webb said:

> Although the attraction of means-testing somebody every five years rather than every week is self-evident, five years might not be the outcome if many people have changes in their circumstances that require them to report more regularly, or have changes in their circumstances that they would want to report because if they did not do so they would lose out. I should be grateful if the Minister were to tell us the Department's assessment of how many people will, even if the period in the clause is set to five years, be reassessed more frequently. Will it concern a minority, or will the typical pension credit recipient find themselves in contact with the Department far more frequently than every five years? That is critical to our assessment of how far that is humane means-testing, or how far it will end up being regular contact with the Department, and I should be grateful for clarification.[16]

The then Pensions Minister, Ian McCartney responded that:

> We expect the vast majority of assessed income periods not to change during that period. The main ongoing changes concern those with earnings: only 2.5 per cent of those entitled to pension credit would be in that group. Other changes are life events, such as the unfortunate death of a partner, of which people would notify us in any event for the obvious reason that it initiates other benefits. Furthermore, when income goes down we do not want pensioners to lose out. The whole system is designed as an intervention measure, more for pensioners' intervention than the state. That is the difference from what has gone on in the past.[17]

Mr Webb said it was not in fact the case that pensioners would "not have to touch the authorities for five years at a time". For example, people aged between 60 and 65 would still have a weekly assessment. He also said the Minister had failed to address two problems:

> The first is take-up. If people are given the impression that the amount is for five years, and that they will have no contact with the authorities for that period, when reassessment takes place, I reckon that hundreds of thousands of people will be uncovered who are not getting what they should because they have failed to report falls in their income. The system is so complicated that the chances are that people will not appreciate what has happened. The Government are using a five-year assessment period, but leaving the onus on the individual to report falls. Why not 10 or 20 years? There is a trade-off. The Minister has given no justification for selecting a five-year period. The longer the period, the greater the chance that there will be people whose circumstances have changed but they have not reported it, and those people will be missing out. However, the shorter it is, the more intrusive the assessment. That is the trade-off that he has not addressed.[18]

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[14] Ibid, c613
[15] Ibid, c628
[16] PBC Deb 23 April 2002 c146
[17] Ibid, c149-150
[18] Ibid, c154

The then Shadow Work and Pensions Minister, James Clappison, suggested assessed income periods would not be enough to reconcile pensioners to means-testing:

> They have a resistance to means tests for a variety of attitudinal reasons, and simply do not want to undergo them. It may be less intrusive for pensioners to undergo just one means test every five years, but they do not like them at all. There is a wealth of evidence for that, including some from the Institute for Public Policy Research, which I invite the hon. Member for Cardiff, West to consider. Proof of that fact will be found in take-up rates, on which we shall have to keep a close eye.[19]

2.3 Overview of the provisions

The *State Pension Credit Act 2002* requires the Secretary of State to specify an assessed income period in relation to a Pension Credit who is aged (or whose partner is aged) at least 65. During that period, their income and capital is assumed to be fixed, with automatic uprating applied. However, the claimant can report reductions in income. The duration of the assessed income may be up to five years. It will end prematurely in certain circumstances.[20]

Pension Service leaflet, A detailed guide to Pension Credit and others explains:

> **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 (we treat payments from the Pension Protection Fund or Financial Assistance Scheme in the same way as a pension), 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 is aged 80 or over, or will become 80 during their assessed income period, it will not end automatically after 5 years and will only end if one of the circumstances described under When the assessed income period ends early applies.
>
> [...]
>
> **Changes to pensions and annuity income during an assessed income period**
>
> Your customer does not have to tell us about changes to their pensions, annuity income or equity release payments during the assessed income period. We will estimate the amount of any increase based on information given in the original Pension Credit application. We will send your customer details of how their Pension Credit is worked out. However:

[19] Ibid, c155

[20] Sections 6-9; *State Pension Credit Regulations 2002 (SI 2002/1792),* regulations 10-12

- if the estimated amount of pension, annuity or equity release payment is more than your customer is actually getting, they need to tell us straight away; or

- if your customer's pension, annuity income or equity release payment goes down, or they stop getting a pension, they can tell us and ask for their Pension Credit to be recalculated. If this happens, we will ask for details of all (non-state) pension and annuity income, any equity release payments and capital at that point. If the total is less than the figure we have been using, their Pension Credit will go up. If the total is the same as, or more than, the figure we have been using, their Pension Credit will stay the same.

Changes to capital during an assessed income period

Your customer does not have to tell us about changes to their capital during the assessed income period. However, if their capital changes and they think they could be entitled to more Pension Credit, they can tell us and ask for their Pension Credit to be recalculated. If this happens, we will ask for details of all (non-state) pension, annuity income, any equity release payments and capital at that point.

If the total is less than the figure we have been using, their Pension Credit will go up. If the total is the same as, or more than, the figure we have been using, their Pension Credit will stay the same.

The end of an assessed income period

When the assessed income period ends early

An assessed income period will end before the planned date if your customer:

- starts to be treated as a member of a couple

- stops being treated as a member of a couple (for example, if their partner dies or goes permanently into a care home or they or their partner go into hospital for more than a year)

- goes permanently into a care home

- temporarily stops getting a pension or annuity, or the amount they get goes down temporarily (for example, payment of a pension from abroad stops because of problems in the country in question) and they ask for their Pension Credit to be recalculated,

- is no longer entitled to Pension Credit. […][21]

See also, Age UK – Pension Credit factsheet (April 2013).

2.4 Policy developments

The *Pensions Act 2008* provided for claimants aged 75 or over to generally be given an indefinite assessed income period (AIP):[22]

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

[21] Pension Service, A detailed guide to Pension Credit for advisers and others, PC10S, September 2011 – Assessed income periods

[22] *Pensions Act 2008*, Section 105

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. [23]

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. [24]

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.[25]

The *Welfare Reform Act 2012* provided for the introduction of the Universal Credit for people of working age. This is to be new integrated working-age benefit, replacing existing benefits including Housing Benefit. Because Housing Benefit was to be abolished, the Bill provided for the introduction of a Housing Credit in Pension Credit.[26] It also made provision for "assessed income periods" not to apply to the Housing Credit in certain circumstances.[27] DWP explained:

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,

[23] DWP, *Pensions Bill Impact Assessment,* December 2007
[24] Age Concern Press Release, 5 December 2007, *Our response to the publication of the Pensions Bill*
[25] PBC Deb, 7 February 2008, c466
[26] Clause 34 and Schedule 4
[27] Schedule 4, para 5

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.[28]

3 Abolition of AIPs from 2016

3.1 Spending Round 2013 announcement

The Government announced its intention to abolish AIPs in the Spending Review on 26 June 2013. It estimated that there are around one million Pension Credit cases with an AIP with a fixed end date and that the measure would save £15 million in 2016/17 and £45 million in 2017/18.[29] From this, it would appear that the change is expected to take effect in 2016/17. HM Treasury explained:

Measure description

The Assessed Income Period (AIP) allows some households in receipt of Pension Credit to go for a period of at least five years without reporting changes to the value of capital or other retirement provision that would result in a reduction in the level of Pension Credit received.

This measure removes the AIP so changes in the value of capital or other retirement provision will result in a change of the Pension Credit award, where appropriate.

The cost base

There are currently around one million Pension Credit cases with an AIP that has a fixed end date. These cases are typically reviewed once every five years.

Administrative data from the Generalised Matching Service (GMS) have been used to estimate the average change in entitlement once all changes have been processed at the end of an AIP.

Costing

The post-measure costing is estimated on the basis that changes in circumstances, giving rise to the overpayments identified in the cost base, are evenly spread across the lifetime of a claim. The costing is then estimated by calculating the difference between the pre-measure cost base and post-measure costing.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
AME	0	0	0	+15	+45

Areas of uncertainty

A reduction of 10 per cent has been applied to the AME saving in order to account for any overpayments that may result from any error in reporting changes of circumstance.[30]

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

[29] HM Treasury, Spending Review 2013, Table 3

[30] HM Treasury, Spending Round 2013 – policy costings, June 2013

In November 2012, there were some 2,479,000 claimants of Pension Credit: 2,178,000 claimants were aged 65 or over and 319,000 aged between 60 and 65.[31] In 2012/13, expenditure on Pension Credit was £7.5 billion.[32]

There has been little response to the announcement. Craig Berry of the TUC said:

> Less attention will be received by the ending of the 'assessed income period' for Pension Credit. It is a bizarre decision (explicable only in the sense that it saves the Exchequer some cash) […]. The assessed income period means your entitlement to Pension Credit is fixed for five years. If your income changes – which in theory could lead to a lower benefit award – within the five year period, you do not have to tell DWP. This policy is vital to reduce complexity within the means-tested benefit system for pensioners – an extremely complex system marred by low take-up rates.[33]

3.2 Amendment to *Pensions Bill 2013/14*

The Government has tabled an amendment (new clause 3) to the *Pensions Bill 2013/14* to provide for the abolition of AIPs Pension Credit from April 2016.[34] An accompanying briefing paper explains that:

> AIPs were introduced on the basis that pensioners are more likely to have relatively stable incomes and capital, and fewer changes in their circumstances, so less onerous reporting requirements were deemed necessary. However, fixing a claimant's retirement provision for such a period has caused inaccuracies to build up and led to a situation in which claimants can retain their benefit awards despite having obtained significant amounts of capital or new income streams.
>
> Amendment NC3 therefore amends the *State Pension Credit Act 2002* to provide for the abolition of AIPs from April 2016. This has the effect that any change in retirement provision from April 2016 should be reported when it occurs, triggering an immediate review and change of the benefit award, where appropriate, so that it reflects the claimant's current circumstances. The removal of the AIP will apply to new customers and to those existing customers with a 5-year AIP already in place at April 2016 (regulations will be made to gradually phase these out), while indefinite AIPs will remain in place until they end under existing rules (e.g. if a claimant goes into a care home permanently or dies).[35]

For more information on the Pensions Bill – see Library Note SN 6634 Pensions Bill 2013/14.

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[31] DWP tabulation tool; NB. In some cases, a claimant aged 60-65, may have a partner over the age of 65.
[32] DWP Benefit Expenditure Tables (Budget 2013)
[33] Craig Berry, Touchstone blog, 26 June 2013
[34] House of Commons, Notices of Amendments given up to and including Monday 21 October 2013
[35] Gov.UK, Government amendments to the Pensions Bill 2013 – briefing paper