advice and support for older age
Independent Age

For Richer, For Poorer?

A review of the evidence on universal pensioner benefits

Contents

1. Introduction

1.1. Pensioner benefits and debate on austerity

Like many countries, the UK has had to adjust to austerity in public spending since the 2008 financial crisis. Significant cuts to public spending were made under the coalition government, and are set to continue through the 2015 parliament.

In public debate on austerity, one area of public spending has attracted particular attention - so-called **'pensioner benefits'** - specifically, Winter Fuel Payments, free prescriptions, bus passes and TV licences.

Amid cuts to public spending and tough deficit reduction targets, some commentators have asked why these benefits are paid to wealthier older households, while some have argued pensioner benefits should be means-tested as a 'contribution' from the wealthier older population toward 'sharing the pain'. Others have suggested spending should be diverted to some of the root causes of the problems addressed through pensioner benefits, such as poorly insulated homes.

However, despite such criticism, there is another argument that pensioner benefits serve a useful function, influence behaviour in positive ways and improve wellbeing in the older population. In addition, since they represent only a small percentage of public spending on older people, it has been suggested there are other ways this cohort could 'contribute' toward deficit reduction - in addition to paying higher taxes. Indeed, polling research has found that 65% of people think pensioner benefits should remain universal.[1]

Unfortunately, debate about pensioner benefits has been characterised by discussion of short-term savings that could be delivered at a time of austerity. A key argument of this report is that we need to discuss these benefits in their proper context as part of a much wider debate about the costs and opportunities of an ageing society.

1.2. For richer, for poorer? A review of the evidence on universal pensioner benefits

Deficit reduction is likely to put pressure on public spending in the UK right through to the 2020 general election. Difficult choices are inevitable, not just in relation to how to cut the deficit reduction but - in the longer-term - to how the UK pays for its ageing population.

However, debate on pensioner benefits has often failed to make any recourse to evidence, or the full range of options facing politicians. Although the main UK political parties approached the 2015 general election largely promising to preserve pensioner benefits, it is likely that calls for reform will continue through this Parliament.

This report therefore seeks to cut through recent debate on pensioner benefits by exploring:

- **evidence** on the impact of pensioner benefits

[1] The Guardian Ageing Population Survey, (Dec 2014 - Feb 2015, with 1,255 people)

- **options** for reforming pensioner benefits that have been proposed in debate
- some of the longer-term **choices** for politicians seeking a fair and balanced approach to pensioner benefits.

In **Section 2**, public spending on pensioner benefits is put in context of wider public spending, and cuts implemented since the 2008 financial crisis.

Section 3 sets out the **evidence** on pensioner benefits: their scope and take-up, and impact on behaviour and wellbeing.

Section 4 briefly considers some of the **options** for reforming pensioner benefits that have featured in public debate.

Section 5 concludes the report by mapping the key choices for policymakers.

2. Public spending and austerity: Pensioner benefits in context

2.1. Pensioner benefits and public spending

The four principal pensioner benefits in the UK are:

- **free prescription charges**
  Department of Health
  Cost around £4 billion in England[2]
- **Winter Fuel Payments**
  Department for Work and Pensions
  Cost around £2.2 billion[3]
- **free bus passes**
  Department for Transport
  Cost around £1.2 billion in England[4]
- **free TV licences for over-75s**
  Department for Culture, Media and Sport
  Cost around £0.62 billion.[5]

These figures suggest pensioner benefits cost just over **£8 billion** in the UK. This represents around **1.2% of the £666 billion** of total UK central and local government public spending.[6]

2.2. Pensioner benefits and spending on older people

Pensioner benefits, such as the Winter Fuel Payment, also represent a **small proportion of government spending on the older population**, when compared to £85 billion of spending each year on the **state pension**.[7]

In fact, the principal driver of increased public spending on older people in the last few years has been the decision to '**triple-lock**' increases in the State Pension each year by the higher of inflation, average earnings or a minimum of 2.5%.

As a result of this commitment, the annual cost of the state pension has increased steadily from £75 billion in 2010 to £85 billion in 2013-14, and is forecast to be £89 billion in 2016.[8]

In part, the cost of the state pension has been offset by increases in the state pension age for women, and a real-terms cut in the value of the Personal Allowance for older people.

[2] Source: author's estimate

[3] Source: Office for Budget Responsibility

[4] Source: Department for Transport

[5] Source: Office for Budget Responsibility

[6] Source: 2013-14 outturn public sector current expenditure, HM Treasury (2014) Public Expenditure Statistical Analyses, London

[7] HM Treasury (2014) Autumn Statement: Outturn and forecast, London

[8] Measured in 2014-15 prices, HM Treasury (2014) Autumn Statement: Outturn and forecast, London

2.3. Protected from the pain? Austerity and changes to tax and benefits

In its 2015 'Green Budget', the Institute for Fiscal Studies (IFS) examined the impact of tax and benefit reforms on different households during May 2010 to May 2015, assuming full take-up of means-tested benefits.[9] The analysis found that an average single pensioner had experienced a 0.8% reduction in net income during the period, and a pensioner couple had experienced no change.

However, during the same period, a lone parent not in work had experienced a 9.5% reduction in net income as a result of tax and benefit changes, and a couple with children and one earner had experienced a 4.6% reduction in net income.

Exploring the impact of changes by income decile (10%), the IFS found that pensioner households had experienced negligible change in annual net income as a result of tax and benefit changes, apart from pensioners in the top income decile who had experienced a drop of around £1,171 in annual income over the period.

In contrast, all working-age households with children experienced a reduction in annual net income over the period, which actually exceeded £1,000 per year among the poorer half of households in this group.

Given such evidence, some commentators have argued that older people have been unfairly excluded from the effects of public spending cuts at a time of austerity and deficit reduction in public spending.

However, it is important to note that some working-age households actually saw their incomes increase significantly during the period; for example, working-age households without children in the 4th to 9th income deciles experienced increases in their net income that were in excess of any pensioner households.

As such, it is not the case that only pensioner households have been 'protected from the pain' of austerity, in contrast to all other households.

2.4. Protected from the pain? Austerity and public spending

In exploring the experience of different households during a period when UK policymakers have grappled with the effects of the 2008 financial crisis, it is important to look more broadly than just tax and benefit changes.

In order to tackle the deficit, the government has imposed **cuts to public spending**, which have affected **important services** used by older people.

In particular, older people in England are the principal users of **adult social services**, funded through local government. However, 2014-15 was the fifth year of real term reductions to adult social care spending, with local authority social care budgets £3.5 billion lower than in 2010, despite rising demand for services resulting from demographic ageing.[10]

As a result, by 2014-15, 90% of English local authorities limited their support only to individuals with critical and substantial needs, compared to 47% in 2005. The total number of older people receiving any local authority adult social

[9] Browne J and Elming W (2015) Distributional analysis to accompany Budget 2014, IFS, www.ifs.org.uk/uploads/budgets/budget2015/Distributional_slides_post_budget_draft_2015and2017.pdf

[10] ADASS (2015) Distinctive, Valued, Personal: Why Social Care Matters - The Next Five Years, London

services (community and residential support) has fallen from 1,216,000 in 2008-09 to 854,000 in 2013-14.[11]

In addition to a fiscal policy response to the 2008 financial crisis - ie deficit reduction achieved principally through public spending cuts - the UK has responded to the economic difficulties of the period with an exceptional **monetary policy** response in the form of 'quantitative easing' (QE).

The implementation of QE by the Bank of England, as well as cuts to interest rates, have had significant effects on pensioner incomes:

- **Interest rates** for UK savings accounts have dropped to historically low levels since 2008, reducing the incomes of those pensioners who were funding their retirement income through income from interest on savings. The income paid by annuities ('**annuity rates**') bought by retirees with Defined Contribution (DC) pension savings has declined, which is to a significant extent the result of reductions in the rates on long-term governments bonds ('gilts'). For example, 15-year gilt rates were 5.11% in June 2008, but had dropped as low as 1.68% by January 2015.[12]

  Recent analysis from the Financial Conduct Authority found that this reduction in interest rates has resulted in an 11% drop in the pension income offered by a provider for a £50,000 pension pot (£2,879 p.a. compared to £3,196).[13] Although the April 2015 changes to rules on pension taxation relax the requirement to purchase an annuity, QE has meant that annuities offer lower than expected incomes to retirees who do wish to have a secure pension income.

2.5 An ageing population: understanding the costs

By the end of this Parliament there will be a million more over-70s. Looking further forward it is predicted there will be a doubling in the number of over-85s by 2030[14]. The reality is that the demographic changes the UK is undergoing have been well-rehearsed. It is the country's response to these changes that has been found lacking[15]. The Office for Budget Responsibility (OBR) has highlighted that the long-term outlook is for the public finances to come under pressure, primarily as the result of an ageing population[16]. The OBR is not alone in believing tax increases or spending cuts will be required to offset the impact of demographic change.

Tough measures may indeed need to be taken and this could involve difficult trade-offs. However, an honest debate about the future costs of an ageing population will undoubtedly require us to consider what we spend on health and social care. There have been a series of independent commissions set up to look at the fairest and most sustainable approach to raising the revenues the Exchequer will need to fund services for growing numbers of

[11] Source: HSCIC Community Care Statistics, 2013-14

[12] Source: sharingpensions.co.uk

[13] FCA (Dec, 2014) The value for money of annuities and other retirement incomes strategies in the UK. www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-5

[14] National population projections, Office for National Statistics

[15] Ready for Ageing? Report (2013). House of Lords Select Committee on Public Service and Demographic Change

[16] Fiscal Sustainability Report (2015). Office for Budget Responsibility

older people. The most recent of these was established by the King's Fund health think-tank and chaired by the economist, Kate Barker[17].

The inescapable conclusion the Commission reached was that we need to think more radically as a country about how we pay for the care and support many more of us are going to need in old age. Pensioner benefits may end up needing to feature within this debate, but in the end the debate will need to address the more fundamental question about optimum levels of funding for health and social care.

2.6. Conclusion

This section has highlighted:

- That pensioner benefits represent only a very small part of public spending, and of public spending on older people
- although pensioners have been relatively shielded from changes to taxes and benefits during 2010 to 2015, they are not the only households in this situation, and they have also experienced the impact of cuts to important public services
- the effects of fiscal policy decisions (tax and spending) should be considered with monetary policy decisions (such as QE) in evaluating how the 'pain' of responding to the 2008 financial crisis has been felt across the population
- the measures that might be required to prepare the country for an ageing population and why an honest debate about the costs of demographic change in the end require us to more broadly address funding across health and social care.

Nevertheless, at a time of austerity in public spending, it is important that every area of spending is examined, reviewed and represents value-for-money. The next chapter therefore examines the **evidence** on pensioner benefits.

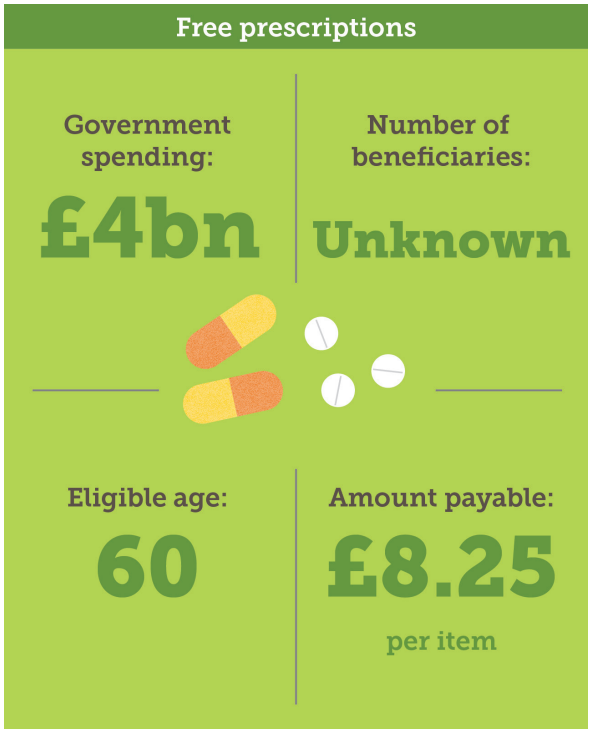
[17] Commission on the Future of Health and Social Care in England (2014). The King's Fund

3. Pensioner benefits: Understanding the evidence

3.1. Introduction

This section sets out **evidence** on pensioner benefits and the impact they have on older people's lives. The four benefits are examined in order of their cost to the Treasury.

3.2. Free prescription charges: Overview



Department of Health

Cost: c£4 billion in England[18]

At the inception of the NHS, all pharmaceutical products were free. However, given a rising drugs bill, prescription charges were introduced in 1952.

People aged 60 and over, children under 16 and those on a low income receive help with the cost of prescription charges and dental appointments, as well as those with a longstanding medical condition. Health and Social Care Information Centre (HSCIC) data reveals that around 60% of prescriptions in England are for older people.

For those not entitled to support, the current prescription charge is £8.25. However, prescription charges in fact only cover a small percentage of the cost of a medicine, so are best thought of as a 'co-payment'.

In the last year for which data is available (2007), the HSCIC reports that 469.1 million free prescriptions for older people in England were provided. If this number is rounded up to 500 million to take account of population ageing, the current cost of not charging older people for prescriptions could be estimated to be around £4 billion.

3.3. Free prescription charges: Impact

Free prescriptions for people aged over 60 subsidise the medical costs of older people requiring pharmaceutical drugs.

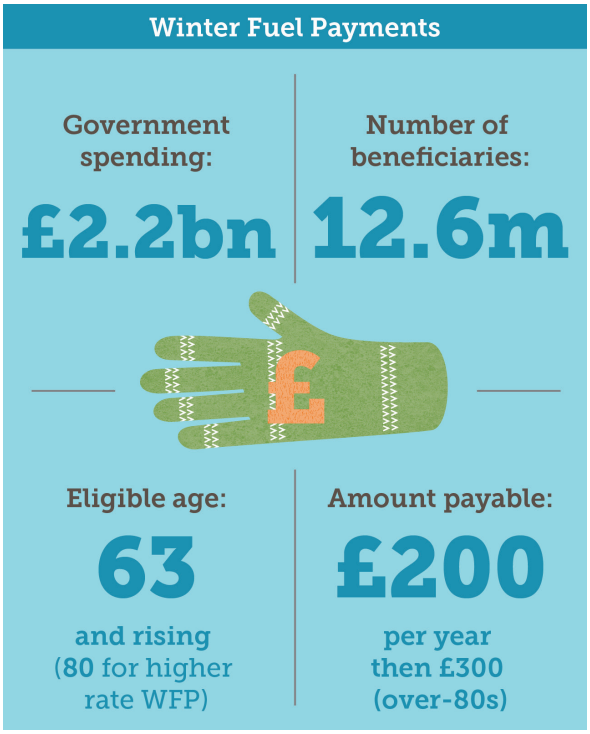
[18] Source: author's estimate

Due to the prevalence of chronic conditions among older people, many are prescribed multiple medicines at the same time, which would quickly prove unaffordable to an older person with an average disposable income.

As such, free prescriptions for older people prevent 'under-consumption' that might result if prescriptions were charged for, avoiding potentially harmful consequences for older people's health - and additional NHS treatment costs - if they did not receive the medicines they need.

Although prescriptions are free for older people, it is unlikely that this results in older people 'over-consuming' pharmaceutical drugs. This is because prescriptions are controlled and rationed by doctors through the process of prescribing.

3.4. Winter Fuel Payments: Overview



Department for Work and Pensions Cost: £2.2 billion[19]

Winter Fuel Payments are a cash payment for people from female state pension age (currently 63). They were first introduced in 1997-98. The 'standard' Winter Fuel Payment for 2014-15 was £200 per eligible household where the oldest person is under 80 and £300 for households containing a person aged 80 or over. Lower rates apply for the second qualifying individual in a household.

The total Winter Fuel Payment caseload in 2013-14 was 12.56 million: 12.45 million of these were GB residents and 139 thousand were resident within the European Economic Area (EEA) or Switzerland.[20] Interestingly, only 400 people have

[19] Source: Office for Budget Responsibility

[20] DWP (2014) Winter Fuel Payment Bulletin, Newcastle

chosen to permanently exclude themselves from the Winter Fuel Payment by opting-out.[21]

The government states that Winter Fuel Payments are "to help pay your heating bills." The payments are not subject to income tax.

According to the ONS, in 2012, when taken as a percentage of disposable income (which includes Winter Fuel and Cold Weather payments, as well as other cash benefits, pensions, and earnings from employment), spending on energy was consistently higher among retired households than non-retired households (7% compared to 4%).[22]

3.5. Winter Fuel Payments: Impact

Winter Fuel Payments do get spent on fuel...

Although Winter Fuel Payments are paid as cash and older people have total control regarding how to spend the money, evidence shows the payments do get spent on fuel.

A 2012 study by the Institute for Fiscal Studies (IFS) examined the impact of receiving Winter Fuel Payments on household fuel expenditure.[23]

The study found an average of 41% of the value of Winter Fuel Payments is spent on household fuel.

If older people simply treated the money as 'cash', households would only be expected to spend about 3% of the payment on fuel.

The authors of the study attribute this result to a 'labelling effect': individuals respond to the name of the payment in deciding how they use the money.

We don't know how people on average spend the remaining part of their Winter Fuel Payments. However, given this evidence of a 'labelling effect', we could expect some of it is spent on keeping warm in other ways, for example, buying winter clothes, and taking taxis to warm environments such as community centres and coffee shops.

Winter Fuel Payments have reduced preventable winter deaths...

Each year, the number of preventable, excess winter deaths attributed to the cold weather totals around 25-30,000. For example during 2012-13, we know 31,280 preventable winter deaths occurred, the majority among the older population.

The number of deaths increases in winter because of multiple factors including more flu viruses circulating in the population, poor insulation, failure to adapt behaviour to the cold and fuel poverty. Nevertheless, **evidence suggests Winter Fuel Payments have been successful in reducing preventable, excess winter deaths.**

A 2014 study examined the effect of the introduction of Winter Fuel Payments

Excess Winter Deaths in England and Wales, 2012-13 (Source: ONS)

Age	0-64	65-74	75-84	85+	All ages
Deaths	2,310	2,960	8,870	17,140	31,280

[21] Rosenbaum M (2015) Winter Fuel Payment Rejected by about 400 Pensioners, BBC News Online, www.bbc.co.uk/news/uk-politics-31963099

[22] ONS (2014) Full Report: Household Energy Spending in the UK, 2002-2012, London

[23] Beatty T et al. (2012) Cash by any other name? Evidence on labelling from the UK Winter Fuel Payment, IFS, London. The study analysed data for 2000 to 2008

on the long-run incidence of excess winter deaths.[24] It found a significant 'structural break' in the trend (number) and volatility (year-to-year variation) of excess winter deaths each year in England and Wales in 1999-2000. It concluded that almost half of the reduction in the number of yearly excess winter deaths since this period is attributable to the introduction of Winter Fuel Payments (an estimated 12,000 prevented deaths).

Winter Fuel Payments help with the costs of the cold for the NHS...

Cold-related illness during winter imposes a burden on the NHS. Many preventable winter deaths are preceded by spells in hospital.

In 2009, the Department of Health estimated the annual cost of cold private homes to the NHS is over £850 million.[25] In 2012, Age UK repeated this analysis using more up-to-date data, and estimated the annual cost to the NHS of cold homes in England to be £1.36 billion.[26]

Given evidence that Winter Fuel Payments are spent on fuel and can account for a fall in excess winter deaths, it is also reasonable to assume they reduce cold-related illness and costs for the NHS by helping to keep the older population warm.

To further capitalise on the public health impact of Winter Fuel Payments, the Strategic Society Centre proposed an annual public health campaign based on receiving Winter Fuel Payments, and refining the name - for example, 'Keeping Warm Allowance' - to increase the effectiveness of the payments at influencing people's behaviour in winter.[27]

"At one time we had the oil central heating on all the time now it has to be put on for less hours. This means we suffer from damp creeping up the walls and on furniture and clothing.... It's no good saying to old folks to only keep one or two rooms warm because the property will deteriorate elsewhere - wood windows will rot, as ours have."

"Thousands of old folks die each year due to the cold and having problems to pay for expensive fuel bills. Many go without food to pay for fuel bills, and bills have soared in the last three decades ....If the fuel allowance was taken away many more old folks would die."

Quotes are from responses to Independent Age consultations and the Guardian Ageing Population Survey (Dec 2014 - Feb 2015, with 1,255 people.

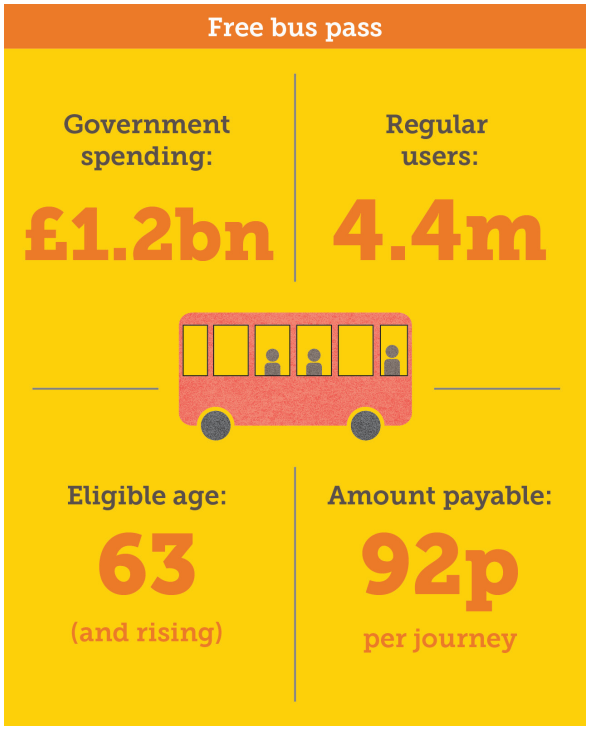
[24] Iparraguirre Jose (2014) "Have winter fuel payments reduced excess winter mortality in England and Wales?" in Journal of Public Health

[25] Source: 2009 Annual Report of the Chief Medical Officer (CMO).

[26] AgeUK (2012) The Cost of Cold

[27] Lloyd J (2013) *Cold Enough: Excess Winter Deaths Winter Fuel Payments and the UKs problem with the cold*, Strategic Society Centre, London

3.6. Free bus passes: Overview



Department for Transport

Cost: c£1.2 billion in England [28]

The bus concession scheme ('free bus pass') for older and disabled people was introduced in 2001. Since April 2008, it has provided free off-peak local bus travel to eligible older and disabled people anywhere in England. The scheme is run by individual local authorities in England, and is a devolved policy in the rest of the UK. In England, the age of eligibility for everyone is the female State Pension Age. In Scotland and Wales, it is 60.

The costs of the bus concession scheme accrue per journey made, rather than the number of passes issued. During 2013-14, £835m was spent in England on concessionary travel for older and disabled people outside London, while the cost in London was around £331m. The average reimbursement cost to bus operators per concessionary journey was 92 pence.[29]

Since its launch, the government has usually promoted free bus passes as a measure to ensure social inclusion among older people.

3.7. Free bus passes: Impact

Use of bus passes is relatively concentrated...

During 2013-14, there were 8.849 million concessionary bus pass holders in England, representing 79% of the older population. However, take-up is higher in London at around 1.148 million (98% of the older population).[30]

Although many older people have bus passes, some use their passes more than others: 21% of pass holders (1.9 million) report using their free pass 1 to 5 times a month, but around half (51%) of the older population in England say they rarely use one.[31]

During 2013-14, outside London, there were an average of 85 concessionary journeys per pass per year - equating to an average of 1.6 journeys per week. In London, there were 221 journeys per pass per year, or 4.2 per week.

Use of bus passes is influenced by need and convenience...

Statistical research into the characteristics of frequent pass users found women and those aged under 85 are more likely to use their pass at least once a week.[32]

[28] Source: Department for Transport

[29] Source: Department for Transport

[30] Source: Department for Transport

[31] Lloyd J and Ross A (2014) The Bigger Picture - Data, Strategic Society Centre and Independent Age, London

[32] Humphrey A and Scott A (2012) Older people's use of concessionary bus travel, NatCen, London

However, the research found no association with other characteristics such as socio-economic group, income, tenure and whether someone lives in an urban/rural area.

Instead, the research found that frequency of usage appears to relate to convenience, specifically: frequency of service; proximity to a bus stop; availability of a private vehicle; and, difficulties going out on foot to a bus stop.

This echoes other research among older people in England who use public transport two or three times a month or less, which found that by far the most common reason cited (around 60%) for not using public transport more often is that individuals simply have no need to use public transport.[33]

Free bus passes have benefits for individuals and public policy...

Various organisations have attempted to estimate the financial benefit of concessionary bus travel. For example, Greener Journeys and KPMG LLP used the Department for Transport's economic appraisal methodology to estimate that **every £1 spent on concessionary bus schemes for older and disabled people generates at least £2.87 in benefits to individuals and the state.**[34]

In this context, free bus passes have been identified as generating benefits for both individuals and public policy by:

- encouraging older people to spend their money on the local economy
- ensuring access to medical services
- enabling voluntary work.

More generally, free bus passes are identified as improving social inclusion, mobility, participation in social activity and maintenance of social networks among older people, all of which are vital for wellbeing and mental health.

In addition, reduced car use because of free bus passes creates spaces on roads and eases people's transition away from car driving in old age, for example, because of failing eyesight. For some individuals, this allows them to give up their car, and the associated running costs.

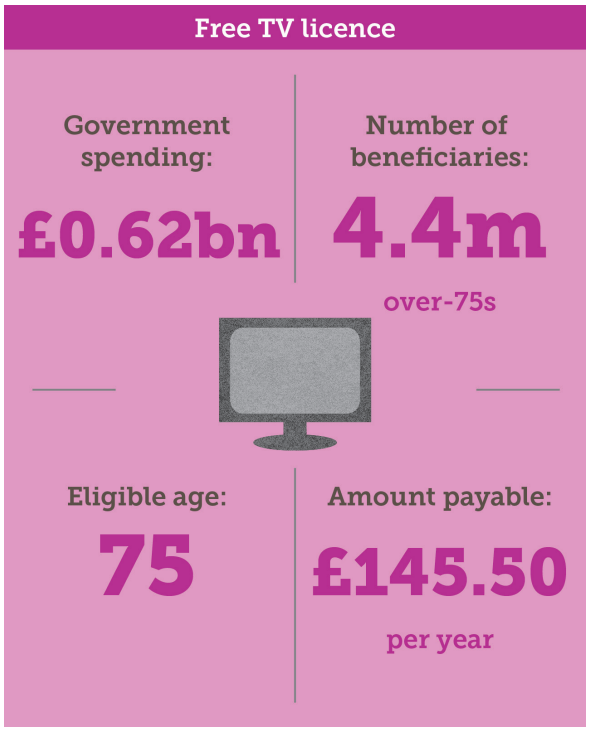
"My bus pass is very useful - as long as I can get myself down to the bus stop I'll be fine. I take myself off to the market for a wander round the stalls.... Getting out of the house each day is much better than staying cooped up inside. It's much easier to avoid negative thoughts this way and it helps me stay healthy."

"I use my bus pass whenever possible. The other winter when it was cold I was on the bus and an older lady said she spent a lot of time just going about on the buses as they were warmer than sitting at home as she couldn't afford heating."

[33] Lloyd J and Ross A (2014) The Bigger Picture - Data, Strategic Society Centre and Independent Age, London

[34] Greener Journeys (2014) The costs and benefits of concessionary bus travel for older and disabled people in Britain, London

3.8. Free TV licences for over-75s: Overview



Department for Culture, Media and Sport

Cost: £0.62 billion[35]

Free television licences for the over 75s were introduced in 2000-01. The policy currently saves over 4 million recipients the £145.50 cost of an annual television licence.

Free TV licences are usually framed as additional support to the over 75s - nearly half of whom live alone,[36] or may struggle to leave their home - for whom company and entertainment may be difficult to come by. In its most recent Budget, the government announced the BBC has agreed to take on responsibility for funding the free TV licence for over 75s from 2018-19, with the full costs being borne by the BBC by 2020-21.

3.9. Free TV licences for over-75s: Impact

Most households have a TV licence, and it is reasonable to assume the vast majority of over-75s would purchase a TV licence if they were not entitled to a free licence from the state (or in future, the BBC). Free TV licences are therefore equivalent to a cash transfer - they do not significantly influence behaviour or expenditure.

For the poorest pensioners receiving Pension Credit (guaranteeing them £151.20 per week), a £145.50 TV licence represents 1.9% of their annual income.

The average (median) 'equivalised' income for a household aged 75+ is around £20,000 a year;[37] the cost for them of a TV licence is 0.7% of their annual income.

As such, free TV licences represent a small additional contribution to people's annual income, as well as providing peace of mind for individuals living on a fixed income who are relieved of needing to plan ahead for the cost.

3.10. Conclusion

This section has reviewed evidence on universal pensioner benefits. It has noted evidence that several of these benefits change behaviour in positive ways, for example, increasing older people's expenditure on keeping warm, or encouraging them to stay active and make trips out of the home. More widely, pensioner benefits contribute to improving wellbeing, reducing financial worries for older people living on a fixed income.

[35] Source: Office for Budget Responsibility

[36] General Lifestyle Survey 2010, table 3.3 (GB), ONS, 2012

[37] Lloyd J and Lord C (2015) Defined Capability, Strategic Society Centre, London


"Older people have paid their taxes why should they not receive these benefits? If the average income is £22,000 then that follows that there can't be that many mega-rich pensioners".

4. Options for policymakers

4.1. Introduction

The previous section set out the detail of the different pensioner benefits and the impact they have on people's lives.

However, despite such evidence, amid painful public spending cuts, various commentators have called for reform of universal pensioner benefits.

This section therefore reviews the options for policymakers, which are:

A. **Do nothing** and preserve pensioner benefits in their current form

B. In future, **increase targeting** of pensioner benefits by focusing expenditure on particular groups such as the oldest-old, or using means-testing to target those on a low income.

4.2. Do nothing

As previous sections have noted, pensioner benefits represent only a very small part of both overall public spending and public spending on older people, and in various ways, improve levels of wellbeing, health outcomes and other outcomes in older people's lives.

As such, there is not a compelling requirement to focus future public spending cuts on universal pensioner benefits in particular.

Indeed, if tax and spending decisions aiming at deficit reduction are to focus on the older population - in addition to social care cuts already made - there are multiple options available to policymakers, wholly separate from changes to pensioner benefits. Doing nothing and preserving pensioner benefits in their current form would therefore be legitimate and reasonable.

4.3. Targeting by income and wealth (means-testing)

Various bodies - such as the Institute for Fiscal Studies, and the Barker Commission on the Future of Health and Social Care in England - have recommended means-testing certain pensioner benefits. The Barker Commission was careful to note the difficult trade-offs that might in future be required to help enhance health and care provision while, at the same time, targeting benefits for wealthier pensioners to pay for improved public services.

The principal options **for means-testing pensioner benefits** are to use the **income tax system** to withdraw pensioner benefits from older people who pay tax - **around 47% of pensioners (5.36 million people) pay Basic Rate tax and 4.5% (517,000) pay Higher Rate.**[38]

Alternatively, entitlement to universal benefits could be restricted to older people receiving means-tested **Pension Credit** (around 2.5 million people in Great Britain).[39]

[38] Source: Hansard 22 Oct 2014 WA (numbers of taxpayers)

[39] Source: DWP caseload statistics

Problems with means-testing

At a general level, a key disadvantage to means-testing older people is that it reduces working-age people's incentives to save for retirement - by doing so, workers may be put off saving because they will simply disqualify themselves from entitlement when they are retired.

However, a more specific problem for using the Pension Credit system to means-test pensioner benefits is that around one third (1.3 million) of older people in poverty do not claim Pension Credit, despite government efforts to increase take-up.[40] So targeting pensioner benefits via the Pension Credit system would withdraw support to some of the very poorest older people in the UK.

Finally, it is important to note that following the introduction of the new state pension in 2016 for new retirees, fewer people in future will be eligible to claim Pension Credit.

Means-testing free prescription charges

In order to introduce means-tested prescription charges for pensioners, politicians could decide to withdraw entitlement to free prescription charges from pensioners who pay Higher or Basic-rate income tax, or limit it to those in receipt of Pension Credit.

It is not possible to estimate potential cost savings from means-testing ***free prescription charges*** *for older people, because data on prescriptions by income and age within the older group is not available.*

However, given some older people may be reliant on using multiple pharmaceutical products, even limited forms of means-testing would likely see some individuals unable to afford important medical treatments, with significant implications for their health.

Means-testing Winter Fuel Payments

Were policymakers determined to target spending on pensioner benefits, the income tax system could be used reduce the value of Winter Fuel Payments for older people who pay income tax, or just those paying the higher rate. Heading into the 2015 general election, the Labour Party and the Liberal Democrats proposed taking Winter Fuel Payments off pensioners who pay higher rate income tax, estimated as saving £105m.

Alternatively, it could be removed for all older people paying income tax which might save £1.2bn or withdrawn entirely from those who don't receive Pension Credit which might save up to £1.7bn.

However, means-testing Winter Fuel Payments by income confronts a critical problem: cold-related illness and preventable winter deaths among older people are not associated with level of income,[41] reflecting complex causal drivers, such as people's behaviour and 'fear of the heating switch'. As a result, targeting Winter Fuel Payments by income could make these problems worse, potentially increasing costs to the NHS and directly increasing the number of preventable excess winter deaths.

[40] Radford L et al. (2012) Pension Credit eligible non-recipients: Barriers to claiming, DWP, London

[41] Lawlor D et al. (2000) "Investigation of the Association between Excess Winter Mortality and Socio-economic Deprivation" in *Journal of Public Health Medicine*, Vol. 22, No. 2, p176-181

Means-testing free bus passes

Politicians could in future decide to target free bus passes by income. Given research has found use of a free bus pass is not related to income, we can estimate that withdrawing free bus passes from higher-rate older income tax payers might save £56m, and withdrawing passes from all older income tax payers might save £630m, and limiting bus passes to Pension Credit recipients might save £950m.

However, since local authorities administer free bus passes for older people, these savings from means-testing would need to be offset against additional administration costs required to undertake means-testing.

In addition, a key risk from means-testing free bus passes is that the number of bus journeys made by older people will decline, with potential consequences for their wellbeing, social inclusion and economic activity. Ultimately, this could result in higher-levels of ill-health, by be reflected in greater demand and expenditure of NHS resources.

Means-testing free TV licences

Politicians - or the BBC - could decide to withdraw free TV licences for over-75s from those who pay income tax, estimated as saving £250m. Alternatively, limiting free TV licences to Pension Credit recipients might save £450m.

The principal problem from means-testing free TV licences is that the administrative cost of doing so would potentially absorb much of the £145.50 annual cost of a licence.

4.4. Targeting by other factors

In addition to targeting pensioner benefits by income, other forms of targeting are possible.

Targeting by age

Politicians could decide to increase the age threshold for different universal benefits in order to reduce the number of entitled individuals. For example, the age threshold for free prescriptions could be lifted from 60 to the state pension age for both men and women, reflecting the fact that many people in this age group are in employment.

In addition, the age threshold for receiving Winter Fuel Payments could be raised - for example, to 70 - given the risk of cold-related illness or preventable winter death is lower among the youngest retirees. This is estimated as saving £1bn.

However, increases to age thresholds for entitlement to pensioner benefits confronts an important problem of equity: varying life expectancy in different parts of the country mean that targeting by age focuses expenditure on healthier groups - who are often wealthier in addition.

For example, average life expectancy for a male aged 65 in Manchester in 2011-13 was 16 years, compared to 21 years in Harrow.[42]

Raising the age threshold for pensioner benefits significantly above the state pension age will create difficult problems of fairness and equity between different social groups.

[42] ONS (2014) Life Expectancy at Birth and at Age 65 by Local Areas in England and Wales, 2011-13, London

Targeting by risk factors

In addition to income and age, pensioner benefits could be targeted at individuals with certain 'risk factors'.

For example, the Strategic Society Centre has suggested that public spending on Winter Fuel Payments could be targeted on older people most at risk of harm from cold weather, for example, people with chronic medical conditions or living in deprived circumsatnces.[43]

Free bus passes could be targeted at those individuals who would otherwise struggle to drive, for example, owing to problems with their vision. Free TV licences could be restricted to only those individuals aged 75 and over who live alone, who may be considered most at risk of loneliness.

However, targeting by risk-factors would introduce additional administrative costs, and would likely exclude many individuals, for example, those older people with chronic health conditions who are not in regular contact with GPs or social services.

"I generally like the idea of non means-tested benefits coupled with higher tax rates to compensate for paying the benefits to people who don't really need them. It ensures high take-up, eliminates any stigma, and saves on the administration costs of means-testing".

Targeting by opt-in choices

Just as free bus passes are effectively targeted by requiring individuals to opt-in by applying for a pass, other pensioner benefits could be targeted on those who opt-in by actively claiming them. For example, Policy Exchange has proposed that Winter Fuel Payments should also be an opt-in benefit.[44]

However, this would risk low take-up among those who may struggle to claim, whether through walking to the Post Office or struggling to fill in a form owing to poor eyesight - factors which have also inhibited take-up of means-tested Pension Credit among the poorest households.[45] This could result in many of the poorest older people failing to receive key pensioner benefits such as the Winter Fuel Payment.

Similar problems of practicality pertain to the proposal that Winter Fuel Payments could be paid as vouchers that can only be redeemed against household energy bills, so their full value would be spent on fuel.[46] This would prove problematic given some older people use cash-meters to pay their heating bills.

This section has shown that while policymakers could in future look to target universal pensioner benefits there are a range of ways in which this would adversely affect older people, both in terms of their health and wellbeing, but for the poorest pensioners, in terms of their likely take-up of benefits and their future incomes. It has also highlighted why maintaining pensioner benefits in their current form would be a reasonable and legitimate step for any future government to take.

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[43] Lloyd J (2013) *Cold Enough: Excess Winter Deaths Winter Fuel Payments and the UKs problem with the cold*, Strategic Society Centre, London. At risk groups from DH (2014) Cold Weather Plan

[44] Miscampbell G (2014) Welfare Manifesto, Policy Exchange, London

[45] Radford L et al. (2012) Pension Credit eligible non-recipients: Barriers to claiming, DWP, London

[46] Lloyd J (2013) *Cold Enough: Excess Winter Deaths Winter Fuel Payments and the UKs problem with the cold*, Strategic Society Centre, London

5. The future

5.1. Introduction

Amid austerity and cuts to public spending, universal pensioner benefits have received growing attention and criticism from some quarters.

Deficit reduction is likely to put pressure on public spending in the UK right through to the 2020 general election. In this climate, it is only right that the role, purpose and value-for-money of all public spending - including pensioner benefits - is reviewed. Tough public debates are inevitable, not just about deficit reduction but, in the longer-term, how the UK pays for an ageing population.

However, debate on pensioner benefits has often failed to make any recourse to evidence, or the full range of options for politicians in relation to taxation and spending for the older population. In particular, repeated calls to means-test pensioner benefits via the Pension Credit system ignore the stark fact that 1.3 million pensioners living in poverty do not receive this income top-up.

More widely, debate has ignored the positive impact of pensioner benefits - reviewed in the evidence set out in this paper - in influencing people's behaviour, improving wellbeing and reducing financial worry. There has also been limited focus on the administrative costs and value-for-money of different reform options, such as the cost of means-testing free TV licences relative to the savings that would be achieved from this.

Finally - and crucially - the debate on pensioner benefits has become obscured by a short-term need to find savings in a period of austerity. In fact it needs to be situated in a much wider debate about how we pay for, and seize on the opportunities presented by, an ageing population well into the future.

5.2. The future of universal pensioner benefits

Going into the 2015 general election, the three main UK political parties all expressed support for pensioner benefits.

- The **Conservative Party** said it would protect universal pensioner benefits including Winter Fuel Payments, bus passes and prescriptions.[47]
- Besides removing Winter Fuel Payments from higher-rate taxpayers, the **Labour Party** suggested it would leave these payments, bus passes and free TV licences intact.[48]
- The **Liberal Democrats** suggested they would opt to remove both free TV licences and Winter Fuel Payments from higher-rate taxpayers.[49]

[47] Dominiczak P (2015) "David Cameron: Conservatives will protect pensioner benefits", Daily Telegraph, London, www.telegraph.co.uk/news/general-election-2015/11428184/David-Cameron-Conservatives-will-protect-pensioner-benefits.html

[48] Grice A (2015) "Ed Miliband pledges pensioners' perks will be safe under Labour", The Independent, www.independent.co.uk/news/uk/politics/generalelection/ed-miliband-pledges-pensioners-perks-will-be-safe-under-labour-10089388.html

[49] Liberal Democrats (2015) "Conservative plans to ring fence pensioner benefits will hit the working age poor", www.libdems.org.uk/conservative-plans-to-ring-fence-pensioners-benefits-unfair

Despite these general commitments, during the 2015-20 parliament, the government is likely to come under new pressure to reduce spending on pensioner benefits, for example, through raising eligibility thresholds or trimming/freezing the value of entitlements.

While the analysis set out in this report shows why it would be reasonable and legitimate to preserve pensioner benefits in their current form, if a future government were determined to reform them in some way, the most progressive policy would be to focus restrictions on older people who pay higher-rate income tax. Among the highest income groups pensioner benefits do not carry the same financial importance and their removal for this group would not result in the same level of financial difficulties, compared with the difficulty older people on lower incomes would face.

However, it is important to underscore that political debate on pensioner benefits has far exceeded their significance to the public purse - comprising around 1.2% of total public spending.

It has also crowded out more important debates on the contract between older people and the state as the population ages. This has seen - for example - social care budget cuts leading to growing volumes of unmet need for care in the older population, yet receiving limited public attention. Health budgets have also come under significant pressure in recent years, and will continue to do so. Pressures on the NHS are projected to grow at around 4% each year up to 2021-22, owing to population ageing, population growth, and more people experiencing chronic disease.[50]

To examine all these issues, draw upon evidence and build consensus, the new government should urgently set up an independent review on the fairest tax and spending settlement to meet the needs of our ageing population.

The Barker Commission stimulated an important debate about the fairest and most viable contract in the future, suggesting there could be a grand bargain to be struck in terms of targeting pensioner benefits to help the country afford expanding health and care services. The debate about universal pensioner benefits is an uncomfortable one at times but it must always remain rooted in the evidence about the real costs of these benefits and their impacts in terms of alleviating poverty and tackling social exclusion.

One of the core objectives of a new review must be to therefore make evidence-based recommendations on the future of pensioner benefits, ensuring the rules on entitlement remain as fair and as simple to administer as possible.

The review should also consider how the government responds to the challenge set by the Office for Budget Responsibility (OBR) in its June 2015 Fiscal Sustainability Report. The OBR warned that the public finances are likely to come under pressure as a result of our ageing population. The review must therefore consider tax and spending in the round and examine spending on pensioner benefits in the widest possible context. This will help advance public opinion and debate on how the UK can prepare for population ageing and deal with the OBR's challenge that if policy on tax and spending remains unchanged, age-related items will account for a greater share of national income.

[50] Roberts A et al. (2012) *A decade of austerity?*, Nuffield Trust, London

Written by James Lloyd. Published by the Strategic Society Centre and Independent Age.

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Independent Age is a growing charity helping older people across the UK to live more independent, fulfilling lives.

Founded over 150 years ago, we are an established voice for older people and their families and carers, offering free advice and information and providing services, such as befriending, to promote wellbeing and reduce loneliness.

In addition to this, we use the knowledge and understanding gained from our frontline services to campaign on issues that affect older people, like poverty, loneliness and carers' rights.

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