

Independent Age response to Pensions and Lifetime Savings Association proposals outlined in *Five Steps to Better Pensions: Time for a New Consensus*

March 2023

About Independent Age

Independent Age is a national older people's charity that supports people facing financial hardship in later life. We offer free and impartial advice and information, grants for community organisations, and connection services to improve well-being and reduce loneliness. In addition, we use the knowledge and understanding gained from our frontline services to highlight the issues experienced by older people facing financial hardship and the policy changes they need.

For more information about Independent Age please visit www.independentage.org.

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Introduction to this consultation response

Pensioner poverty is a growing issue. There are currently more than 2 million people over the age of 65 living in poverty. Though poverty in later life fell from as high as 29% in 1997 to a low of 13% in 2012, since then progress has reversed and we have seen a slow but steady rise, with an 18% pensioner poverty rate by 2022.¹

These figures worsen for women and people living alone – 21% of single men and 26% of single women are currently living in poverty. Alongside those living below the poverty line, many others experience financial precarity in later life – over 1 million older people in 2022 had an income just above the poverty line.²

Since 2020, there has been the COVID-19 pandemic and a significant increase in the cost of living. The number of economically inactive people has also risen in recent years – there are now 1.5 million people between 50 and State Pension age (SPa) out of work because of long-term sickness.³ These factors have damaged many people's ability to earn and build up savings, or caused others to deplete their savings to pay their bills. This is creating future financial hardship challenges as those people reach their SPa.

This consultation submission focuses on current older people, and the financial impact of the proposals outlined in the *Five Steps to Better Pensions*⁴ on them. The submission focuses on areas where Independent Age has particular expertise or knowledge, and as such, addresses questions three, four and five:

3. Do you agree with our proposed objectives of a new UK pensions framework?
4. Do you agree that the primary role of the State Pension should be to protect the population from pensioner poverty, and would you consider the Minimum Retirement Living Standard a suitable measure of this level?

5. Would you recommend any further proposals that should be included in our policy framework that would improve adequacy for under pensioned groups?

Question 3: Do you agree with our proposed objectives of a new UK pensions framework?

Independent Age welcomes the work that has been done by the PLSA to propose a new UK pensions framework. With over 2 million older people currently living in poverty, we believe that more should be done to ensure that people are not experiencing financial hardship in later life.

We are particularly interested in recommendations two and four:

- Reform of the State Pension so that everyone achieves the Minimum Retirement Living Standard, to prevent pensioner poverty.
- Additional policy interventions to help under pensioned groups (including women, gig economy workers, self-employed people and others).

We welcome the focus on the adequacy of the State Pension, including highlighting the point that the UK's pension framework currently has no clear adequacy objective. We support proposals to link the State Pension level to specific standards of living, to reduce the number of people – especially those who rely on the State Pension as their main source of income – experiencing financial hardship in later life. We welcome the work of the PLSA on the Retirement Living Standards, and believe that these standards should be considered as part of a cross-party process to establish an adequate State Pension level. We also believe that until such a review takes place, the triple lock must be retained to maintain the value of the pension and keep as many older people as possible out of financial hardship.

Independent Age also supports policy interventions to help under pensioned groups of older people. We know that certain groups of older people – including women, unpaid carers, disabled people, renters and people from minority ethnic backgrounds – are at greater risk of being in poverty in later life.⁵ We support policy interventions designed to prevent people in these groups from falling into poverty in later life, but also welcome interventions designed to assist people in these group who are currently living in poverty.

At Independent Age, we are calling for the Government to ensure that older people experiencing financial hardship receive the welfare benefits that they are entitled to. In particular, we are calling on the Government to produce a Pension Credit uptake strategy, outlining short- and long-term actions to boost uptake of this financial support for older people on a low income.

Question 4: Do you agree that the primary role of the State Pension should be to protect the population from pensioner poverty, and would you consider the Minimum Retirement Living Standard a suitable measure of this level?

At Independent Age, we believe that it is essential that everyone has at least an adequate income in later life, and is able to avoid poverty in older age. As such,

we agree that the State Pension should protect the population from pensioner poverty.

The State Pension is central to many people's income. One in five (20%) single pensioners and one in fourteen (7%) pensioner couples have no source of income other than the State Pension and benefits.⁶ Analysis commissioned by Independent Age has shown that reliance on the State Pension (and other benefits) increases as people get older within their later life. For example, as people move into their 80s and beyond, the State Pension makes up a higher proportion of their income, as savings and private pensions become depleted. Among people in the lowest income decile, state support made up 81% of income for people aged 65 to 74, rising to 86% of income for people aged 75 and over.⁷

Income received from the State Pension also varies widely between different individuals in later life. Some older people receive a full new State Pension, which will be worth £203.85 a week in 2023/24. However, the majority of older people receive the basic State Pension, which will be worth a headline rate of £156.20 a week in 2023/24.⁸ Importantly, many people are not eligible for a full State Pension, so receive less than these headline amounts.

What older people tell us

The older people we speak to tell us that many people in later life are struggling to get by when they only have their State Pension to live on. Analysis conducted by Independent Age into the adequacy of the State Pension – drawing on interviews with nearly 100 older people experiencing financial hardship – found that many older people did not believe the State Pension was high enough.

Many of these people reflected on how the situation had become increasingly challenging over recent years, due to the rise in inflation and the Government decision to suspend the triple lock for a year. Several of the older people we spoke to also reflected on their view that the State Pension was no longer something that could be solely relied upon, and that a private pension was needed to top up your income in later life.

"For people who are just on basic pension, they must be absolutely desperate."

"The State Pension is really not enough to live on."

"Inflation's shot up since. 12% or something ridiculous... And we've got 3% on our pensions... I think, if I was just on basic State Pension, I don't know how I'd manage: I just don't know."

"They need a good pension, you know, on top of their government pension because the government pension is no good to you. I didn't realise all this until I got older you know."⁹

Daniel's story

Daniel is in his 70s and lives alone in a small flat in North East England. He relies on the State Pension as his main source of income. When we spoke to Daniel in the last few months of 2021, rising energy and transport bills had been an increasing source of concern for him. He was worried that the State Pension wasn't increasing quickly enough to keep pace with inflation, and was frustrated that older people were being forced into increasingly difficult financial positions. As prices increased, he was starting to limit how frequently he used his car, and how often he turned on the heating in his flat.

"With the national pension... it goes up, but it doesn't cover the increase in the rates or the rent. If the pension covered that, you'd be happy but they don't correspond... It's a constant watch, if you know what I mean."

Daniel, 70-80¹⁰

Protecting against pensioner poverty will have a dramatic impact on both current and future pensioners. Lifting people out of poverty supports them to live with dignity and independence, reduces loneliness and social isolation, and improves health and wellbeing.¹¹ Reducing pensioner poverty has benefits for individuals, but also has the potential to reduce government spending in key areas including social housing, health care and social care. Analysis we commissioned from Loughborough University in 2020 estimated that reducing pensioner poverty had the potential to reduce government spending on health and social care by £3-5 billion.¹²

We believe that the Government should conduct a cross-party process to establish an adequate level of income needed in later life to avoid poverty. This would give the Government a clear, objective basis on which to make annual uprating decisions on the State Pension and other benefits. We welcome the work of the PLSA on the Retirement Living Standards, and believe that these standards should be considered as part of this review process.

Until this has been done, the triple lock must be retained to maintain the value of the pension and keep as many people as possible – especially those who are reliant on it as their main source of income – out of financial hardship.

Question 5: Would you recommend any further proposals that should be included in our policy framework that would improve adequacy for under pensioned groups?

Independent Age supports policy interventions designed to help under pensioned groups of older people, including those designed to prevent members of these groups from falling into poverty in later life. However, we also believe that more should be done to help older people from these groups who are currently living in poverty. In particular, we believe consideration of the uptake and value of benefits such as Pension Credit should be incorporated into the *Five Steps to Better Pensions* policy framework.

The amount of State Pension and benefits received is vitally important to people in later life facing financial hardship. Benefits such as Pension Credit, Housing Benefit and Attendance Allowance can lift people in later life out of poverty. Research commissioned by Independent Age into income dynamics in later life identified changes in social benefit income as the biggest single cause of entering or exiting poverty.¹³ However, too many people in later life are missing out on their entitlements, and this has been allowed to go on for too long.

Pension Credit is a means-tested pensioner benefit that helps older people on low incomes meet their essential living costs, taking them out of severe financial hardship. It can make a life-changing difference. However, according to the most recent Government statistics, which are for 2019/20,ⁱ up to 850,000 people are missing out – roughly the populations of Manchester and Cardiff combined.

Those who miss out live in real financial hardship. The older people Independent Age speak to tell us that they are struggling to afford essentials like heat and decent food. They tell us that their social life is limited, as getting a coffee with friends or family has become a luxury they can't afford, and often their home is too cold and damp to invite people around.

Analysis we commissioned in 2020 estimated that if everyone who was entitled to it received Pension Credit, pensioner poverty would be reduced by 5% down to 11.8%. This would be the lowest pensioner poverty figure since the current measure of poverty came into use. In addition, it showed that even those who remained in poverty after receiving Pension Credit – usually due to very high housing costs – were better off, with the number of pensioners living on very low levels of income falling from 9% to 4.3%.¹⁴ Ensuring everyone entitled to Pension Credit receives it has the potential to significantly improve people's lives.

What older people tell us

Brenda's story

Brenda is 71 and lives alone in the Midlands. When she reached State Pension age, she started receiving a small State Pension. The money she received wasn't enough for her to live on, so she carried on working to make ends meet. As she grew older and found it harder and harder to keep working, she became increasingly anxious about money and worried about her future. When she found out she was entitled to Pension Credit, she was able to retire fully, feel less anxious about money and enjoy a better-quality later life.

"When they said I could apply for Pension Credit... I thought this is wonderful!"

Brenda, 71¹⁵

The Government has in recent months promoted Pension Credit to help people cope with the cost-of-living crisis, and uptake is likely to have increased as a

ⁱ These are the latest statistics available for Pension Credit uptake. [Income-related benefits: estimates of take-up: financial year 2019 to 2020 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/income-related-benefits-estimates-of-take-up-financial-year-2019-to-2020)

result. But older people facing financial hardship need this progress on uptake to be sustained beyond the current exceptional circumstances. We believe improvements could be made to how the Government promotes Pension Credit. Marketing activity has been ad hoc, untargeted, and appears not to be part of a longer-term strategy. The increased demand driven by the Government's campaigns has led to severe delays with applications, and we fear many of these could be from people ineligible, due to the untargeted nature of the marketing campaigns.

Independent Age is calling on the Government to develop and publish a Pension Credit uptake strategy and make doing so a statutory requirement. The Government should be required to provide updates to Parliament on progress under the strategy, including the latest uptake rate, achievements to date and any amendments to the strategy. The strategy should include both short- and long-term actions under different themes, including effective awareness campaigns, working with the private sector, and exploring and implementing automation of the benefit. It should also include a focus on how central government can provide funding and resources to support local authorities – who have detailed knowledge about their local communities and how to communicate with them – to increase uptake in their area.

A Pension Credit uptake strategy should set out steps to target and meet the particular needs of different communities more likely to face financial hardship. This includes under pensioned groups such as women, unpaid carers, disabled people, renters and people from minority ethnic backgrounds. The strategy should forecast future cohorts of eligible people, taking into account demographic change, falling home ownership and the harmful financial impacts of the cost-of-living crisis.

Closing thoughts

Independent Age welcomes the work that has been done by the PLSA to propose a new UK pensions framework. With over 2 million older people currently living in poverty, another million or so living on a precarious income, and the potential for even higher pensioner poverty in future, we believe that more should be done to ensure that people do not experience financial hardship in later life.

In particular, we support the proposals to link the State Pension level to specific standards of living, and to introduce policy interventions designed to prevent members of under-pensioned groups falling into poverty. We also believe that more should be done to support older people from these groups who are currently experiencing poverty in later life. To ensure that current pensioners are not excluded from this policy agenda, we believe that a focus on levels and uptake of benefits such as Pension Credit should be included in the policy framework. Increasing uptake of Pension Credit is vitally important because it allows people in later life, including those in under pensioned groups, to escape severe financial hardship. Ensuring that this benefit reaches the people who are entitled to it can lift older people out of severe poverty and support them to live well.

Finally, we welcome the realism in the report's acknowledgement that higher public spending on the State Pension may be needed due to an ageing society.

Evidence suggests there are taxpayer savings to be made by ensuring people have the money they need to heat their homes and eat well, and therefore be healthier and less likely to need NHS or social care services. However, should resistance to such spending increases be insurmountable, we encourage the PLSA to look at options for redistributing spending on the State Pension and pensioner benefits among recipients, with those on lower incomes receiving the amount needed to avoid poverty.

For more information about this submission, or to discuss the work of Independent Age further, please contact policy@independentage.org.

¹ *Households below average income: for financial years ending 1995 to 2022*, Department for Work and Pensions, 23 March 2023, see: <https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2022>

² *Households below average income: for financial years ending 1995 to 2022*, Department for Work and Pensions, 23 March 2023, see: <https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2022>

³ *Creating a healthy labour market*, Trades Union Congress, March 2023, see: <https://www.tuc.org.uk/research-analysis/reports/creating-healthy-labour-market>

⁴ *Five Steps to Better Pensions: Time for a new consensus*, Pensions and Lifetime Savings Association, 2022, see: <https://www.plsa.co.uk/Policy-and-Research/Document-library/Five-steps-to-better-pensions-time-for-a-new-consensus>

⁵ *UK poverty 2023: The essential guide to understanding poverty in the UK*, Joseph Rowntree Foundation, January 2023, see: https://www.jrf.org.uk/sites/default/files/jrf/uk_poverty_2023_-_the_essential_guide_to_understanding_poverty_in_the_uk_0_0.pdf

⁶ *Pensioners' Incomes Series: financial year 2021 to 2022*, Department for Work and Pensions, 23 March 2023, see:

[Pensioners' Incomes Series: financial year 2021 to 2022 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/pensioners-incomes-series-financial-year-2021-to-2022)

⁷ *Financial resources and pensioner poverty: a quantitative analysis of the Understanding Society survey (USoc): Working Paper*, Dr Matt Barnes, City University (commissioned by Independent Age), 2022. 'State support' includes the State Pension and other pensioner benefits.

⁸ *Benefit & pension rates 2023 to 2024*, Department for Work and Pensions, November 2022, see: <https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024#state-pension>

⁹ *State pension adequacy: Qualitative meta analysis*, Independent Age, March 2023, unpublished.

¹⁰ *Experiences of poverty in later life: The cost of living*, Independent Age, May 2022, see: <https://www.independentage.org/sites/default/files/2022-06/IA-PI-412-Experiences-of-poverty-The-cost-of-living-v2.pdf>

¹¹ *The cost of pensioner poverty and non-take-up of Pension Credit*, Independent Age & Loughborough University, September 2020, see: https://www.independentage.org/sites/default/files/2020-09/Pension%20Credit%20Independent%20And%20and%20Loughborough%20University%20report_0.pdf

¹² *The cost of pensioner poverty and non-take-up of Pension Credit*, Independent Age & Loughborough University, September 2020, see: https://www.independentage.org/sites/default/files/2020-09/Pension%20Credit%20Independent%20And%20and%20Loughborough%20University%20report_0.pdf

¹³ *Poverty in later life: How people in older age move in and out of poverty, and what should be done to reduce it*, Independent Age, January 2022, see: <https://www.independentage.org/sites/default/files/2022-12/IA%20Poverty%20in%20later%20life%20report%20Jan2022.pdf>

¹⁴ *The cost of pensioner poverty and non-take-up of Pension Credit*, Independent Age & Loughborough University, September 2020, see: https://www.independentage.org/sites/default/files/2020-09/Pension%20Credit%20Independent%20And%20and%20Loughborough%20University%20report_0.pdf

¹⁵ *Experiences of poverty in later life: Financial support*, Independent Age, May 2022, see: https://www.independentage.org/sites/default/files/2022-04/IA-PI-412-Experiences-of-poverty-Financial-Support-aw.pdf?utm_source=EP%20page&utm_medium=web&utm_campaign=EP&utm_id=EP%20Financial%20Support%20fc