

# Evidence submission

## Age UK's evidence to the Work and Pensions Committee's Inquiry on Intergenerational Fairness

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## About Age UK

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. The Age UK network includes around 165 local Age UKs reaching most of England. In 2014-15 nearly 5.7million people came to Age UK and our local partners for information and advice on a range of issues to do with later life. We work closely with Age Cymru, Age NI and Age Scotland.

## Summary and key points

Although pensioner poverty has fallen since the mid-1990s, there are still 1.6 million pensioners in poverty and progress appears to have stalled. Changes to State Pensions or benefits for older people could result in poverty rising.

Around a half of people aged 65+ have incomes too low to pay income tax, and fewer than one in 20 are higher rate taxpayers.

As would be expected those aged 55-64 are the age group with the highest average wealth, but there are greater wealth inequalities within generations than there are between them.

The triple lock on the basic State Pension ensures that at least one element of retirement income maintains its value, and unless it is continued there is an increased risk that future pensioners will not achieve adequate retirement incomes.

People currently in their late 50s and early 60s are adversely affected by rises in State Pension age and reforms to working age benefits. Increases in State Pension age reduce public spending, but have left many women waiting longer for their State Pension with little time to plan.

The Winter Fuel Payment and the bus pass make an important difference to the lives of many older people on low and modest incomes. Any move to means-test these forms of support could result in those who need it most missing out, and cause hardship to those just above the means-test threshold.

The combined impact of recent tax, benefit and other welfare changes is complex and depends on people's circumstances. Young people have been adversely affected but so have some older age groups, particularly due to the underfunding of the social care system.

## Introduction

1. Age UK welcomes the opportunity to respond to this inquiry. The concept of intergenerational fairness can be interpreted in different ways but is frequently used by commentators who want to argue that older people in general, or

sometimes specifically the 'baby boomer' generation, are doing well as compared to younger groups.

2. Cohorts do of course have some shared experiences, and it is important to look at the position of different age groups and the support they receive, but it is equally important to consider:
  - Inequality within different cohorts which is often greater than that between cohorts.
  - The need to avoid generalisations – see for example the Ready for Ageing Alliance paper 'The Myth of the baby boomer'.<sup>i</sup>
  - Factors linked to age and life stage rather than cohort, bearing in mind the impact of demographic and social changes. For example, increasing longevity, and more years spent in education, will affect the ages at which people start and end their working lives.
  - The level and distribution of support within families, as well as that provided by welfare and public services.
3. We are all part of intergenerational communities and families, and people do not just care about their own wellbeing or that of others of a similar age. For example, many older people are very concerned about the pressures on jobs and housing faced by younger people, while many younger people are concerned about the care and support systems their older relatives need. And we all contribute to society. People aged 65+ contribute approximately £61 billion a year, through employment, informal caring activities, childcare and volunteering.<sup>ii</sup>

## **Income and poverty**

4. There have been welcome falls in pensioner poverty, and the proportion of pensioners in relative poverty after housing costs has fallen from 28 per cent in 1994-95 to 14 per cent in 2013-14.<sup>iii</sup> However :
  - 1.6 million pensioners remain living in poverty and a further 1 million have incomes just above the poverty line.
  - Progress appears to have stalled as the relative poverty rate is the same as in 2010-11.
  - Using the 'absolute' poverty measure (based on 2010-11 income levels) pensioner poverty has increased from 14 to 16 per cent since 2010-11.
5. Many older people are very reliant on State Pension and benefit income. Pension Credit, and more recently the triple lock, have contributed to the falls in poverty. Any move to reduce support, for example abandoning the triple lock or removing benefits such as Winter Fuel Payments, could see poverty rates rise again.
6. In terms of overall income levels, since the mid-1990s - average pensioner incomes have increased by more than those of the general population. However, many still have relatively modest incomes and few have very high incomes.

- Around half (48 per cent) of people aged 65+ have incomes too low to pay income tax (i.e. below £10,600 in 2015-16).
- Fewer than one in twenty (4.5 per cent) of people aged 65+ have incomes high enough to pay tax at the higher or additional rate.<sup>iv</sup>

## Wealth inequalities

7. As would be expected, household wealth rises with age until 55-64, after which it falls as people start to draw on private pensions and other resources built up over a lifetime. Professor Hills found that in 2008-10 the median wealth of households aged 55-64 in Great Britain was £400,000 compared to £60,000 for those aged 25-34.<sup>v</sup> However, there was great inequality within these cohorts. While nearly a tenth of households aged 55-64 had wealth of more than £1.3 million, a tenth were facing retirement with total assets (including personal possessions and private pension savings) of less than £27,000. Within the younger age groups, a tenth of 25-34 year olds had more than £244,000 in wealth and a tenth £4,300 or less. Hills concludes 'Not all baby boomers are wealthy and not all those born in the 1970s and 1980s are poor – far from it'.
8. One of the reasons for higher levels of average wealth in older age groups is the growth in house prices. However, there is significant geographical variation, and around a quarter of older households are tenants. In some respects the housing market is not working well for any generation. For example, a lack of suitable housing options for people in later life, such as accessible homes or (where appropriate) retirement or supported housing, can prevent people moving to more suitable accommodation as they enter their retirement.
9. There is also inequality within private pension wealth. While some in the baby boomer generation have benefited from generous defined benefit pensions many have not, and women in particular are more likely to have lower pension wealth. For example, among women aged 55-64 over a third (37 per cent) have no private pension wealth. Of the 63 per cent who do, half have a total pension pot of £99,000 or more, while a quarter have less than £33,000.<sup>vi</sup> Men in this age group have better provision, but even so around a fifth have no private pension wealth.

## Growing inequality among future pensioners

10. The Institute of Fiscal Studies (IFS) has compared the financial position of different cohorts born between the 1940s and 1970s.<sup>vii</sup> The younger cohorts earned more at an earlier age than previous cohorts, but spent more, rather than saved more, and then did not experience the income rises between ages 30 and 50 that older groups did. They were less likely to own their home and had lower private pension wealth. However more of the younger groups expected to receive an inheritance, so the authors conclude 'inheritances look like the major potential reason why the later economic position of cohorts born in the 1960s and 1970s could yet turn out better than that of their predecessors'. However, those who

already had relatively high levels of wealth were most likely to benefit from inheritance. This, along with the ability of better off families to provide support to children and grandchildren over their lifetime, suggests inequality may widen between those who come from wealthy families and those who do not.

## **The State Pension and the triple lock**

11. Many older people do not consider the State Pension as a benefit, but see it more as a return for many years of contributions. Analysis by the IFS finds that while there is redistribution from those with high lifetime earnings to low lifetime earnings, the majority of State Pension spending reflects a transfer across individuals' lifetimes. The researchers state 'In a large part, spending simply reflects a redistribution of money across individuals' own lifetimes – similar to saving in a private pension but achieved instead through paying taxes during working life and 'in return' receiving a State Pension later'.<sup>viii</sup>
12. Some commentators have questioned whether the triple lock is sustainable. Many older people would be understandably surprised to hear any suggestion that it provides a generous uprating. For example, one woman who recently wrote to Age UK is very concerned about how she will manage. Her total weekly income will rise in April by 'a meagre £3.35' – the increase in the basic State Pension in line with the triple lock. Her additional State Pension will be frozen.
13. However, while weekly annual rises are quite small in money terms, over time a triple lock will have a positive impact on State Pension levels. During retirement, most other parts of income such as private pensions and annuity income, are likely to fall in real terms. The triple lock will ensure that at least one element of retirement income maintains its value over time.
14. Although the triple lock is sometimes described as a favourable policy for pensioners, it is very important for younger people. The Pensions Policy Institute (PPI) have calculated that a younger person with lower earnings has a 63 per cent chance of achieving an adequate retirement income if the new State Pension is increased by the triple lock, but this could fall to 36 per cent if it is linked with earnings.<sup>ix</sup>

## **The role of the welfare state across the generations**

15. Hills has looked extensively at the welfare state and inequality. He challenges the concept that there are some who contribute to the welfare system, and others who take from it, setting out the evidence to show that we all contribute and benefit over our lifetimes.<sup>x</sup> He concludes 'There is redistribution between the lifetime rich and the lifetime poor, as the lifetime rich pay more tax, but most of what the welfare state and the taxes we pay for it do is to redistribute across our own life cycles, and so smooth out our available resources from year to year'.

## Recent public spending reforms

16. The current Government, and the previous Coalition Government, have introduced a series of reforms that will reduce public spending. So far reforms to social security have had the biggest impact on people under State Pension age and some people have contrasted these cuts with the triple lock for the State Pension, and protection for pensioner benefits. However pensioners are not unaffected by tax and benefit changes. For example:
- The savings credit element of Pension Credit has been frozen or cut each year since 2010.
  - Housing Benefit changes for private tenants affect all age groups.
  - The move from using the Retail Price Index (RPI) to the (generally lower) Consumer Price Index (CPI) affects older people, for example through the uprating of Attendance Allowance and elements of the State Pension (the triple lock applies only to the basic State Pension).
  - While the Winter Fuel Payment (WFP) continues to be paid, the amount has been frozen so its real value is falling.
  - The extra personal tax allowance that people aged 65+ used to get has been abolished.
17. In addition, public services upon which older people rely, most notably social care, have been affected. Funding for social care has fallen by £0.66 billion in real terms over the past 10 years, even though the 65+ population grew by nearly a fifth and the 85+ population (where most demand applies) by nearly a third. Fewer than one in 10 people aged 65+ now get any state support with social care – down from 15 per cent in 2005-06.<sup>xi</sup>

## People approaching State Pension age

18. Looking at future social security spending, the biggest savings come from rises in State Pension age. For example in 2014 the Chancellor George Osborne said 'And I have made huge savings in the Pensions Bill, bigger than any other saving I've made anywhere else in government, by increasing the pension age'.<sup>xii</sup>
19. As the Committee knows from its recent inquiry into understanding the new State Pension, this is having a particularly serious impact on many women who could be described as baby boomers who are facing steep rises in their State Pension age with insufficient time to prepare.
20. The rise in women's State Pension age also increases the age at which people can receive benefits such as Pension Credit. So people in their early 60s who are reliant on social security benefits because of caring responsibilities, health problems or unemployment, have been affected by welfare reforms to people under pension age.

## Pensioner benefits

21. There has been on-going debate about the provision of additional non-means-tested pensioner benefits, in particular the Winter Fuel Payment (WFP) and free local bus travel. We understand the reasons that some people question why very wealthy older people should receive these benefits when there are younger people facing very difficult circumstances. However the cost of these benefits is small compared to the overall welfare budget and they can make an important difference to the lives of many older people on low and modest incomes. For example:

- The WFP provides an important cash boost to help older people heat their homes. It also appears to have reduced excess winter deaths. While the numbers are still too high, analysis suggest an estimated 12,000 deaths have been prevented each year.<sup>xiii</sup>
- The bus pass, which tends to be used most by older people on lower incomes, helps improve health and wellbeing, by encouraging older people to get out and about and is often used for GP and hospital appointments.

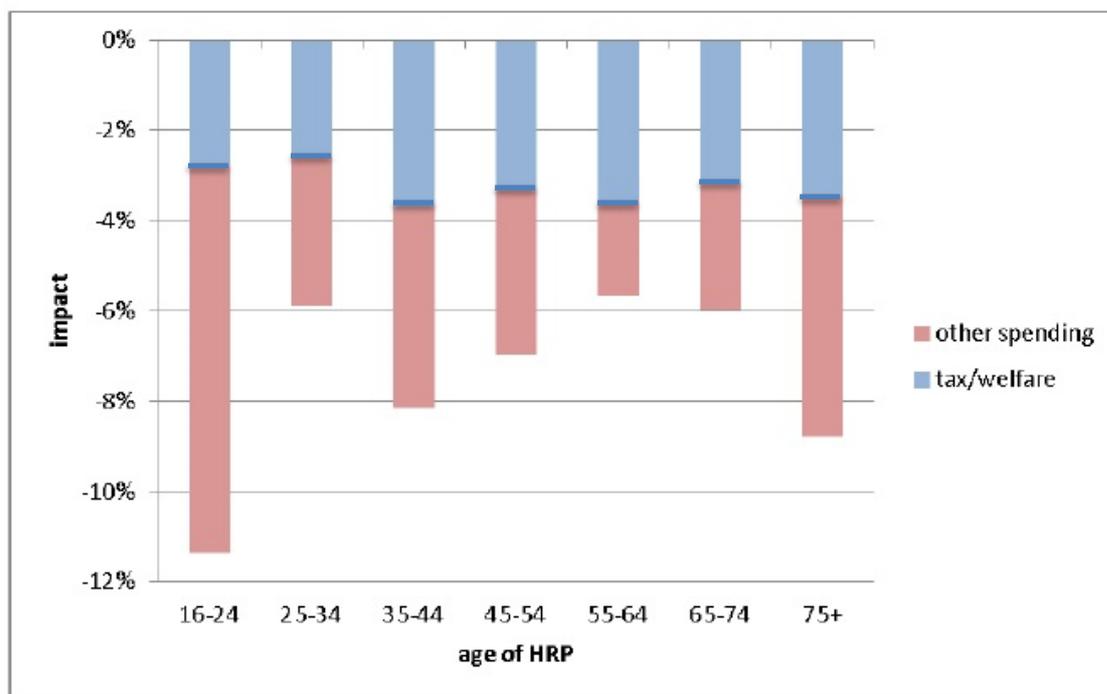
22. In terms of potential reforms, Age UK would be very concerned at any move to means-test this support as this would mean it would not reach some of the very poorest – namely the people who do not claim the benefits they are entitled to. Around a third of people entitled to Pension Credit are missing out on this vital benefit. An alternative approach would be to withdraw support from well off older people – for example those paying higher rate tax. However any Government considering this would need to carefully weigh up any potential savings against the increased complexity and expense of administering the systems. For more information see Age UK's briefings on WFPs and bus passes.<sup>xiv</sup>

## Overall impact of public spending reforms

23. It is important to consider the overall impact of public spending reforms on different households. The Equality and Human Rights Commission (EHRC) commissioned Portes and Reed to carry out preliminary modelling of the cumulative impact of tax, welfare and other public spending changes over the 2010-15 period, broken down by equality characteristics and income.<sup>xv</sup> Drawing on this work Portes concludes 'So the overall picture is that [tax and welfare] policy measures have borne heaviest on families with children and the less well-off of working age, and least on the relatively better off without children (except the top 10 per cent); but that there is not necessarily any obvious divergence between pensioners and non-pensioners overall'.<sup>xvi</sup>

24. When other public spending measures are included, Portes and Reed found that the 16-24 age group have lost most, followed by those aged 75+ who have suffered most from reductions in adult social care.

**Combined impact of modelled tax, welfare and other public spending changes 2010-15 as a proportion of total household living standards (net income plus the value of public services in the base year) by age**



Source: *Cumulative Impact Assessment: A Research Report by Landman Economics and the National Institute of Economic and Social Research (NIESR) for the Equality and Human Rights Commission* Jonathan Portes and Howard Reed, 2014.

## Options for reforms

25. Age UK works to improve later life and, as a charity, it is our role to focus on more disadvantaged older people. We defend the system of universal benefits and the State Pension, not because we want to maximise the incomes of all older people regardless of their resources, but because the State Pension and pensioner benefits play an important role in reducing poverty and maximising the opportunities for all older people to have an adequate income.
26. As a contribution to this on-going debate, Age UK provided support for a paper by Portes looking at intergenerational equity. This sets out key questions for framing policy analysis which include: fiscal policy, labour markets, pensions, social security, health, housing, education, tax (especially property and inheritance tax) and interest rates.<sup>xvii</sup> Addressing issues of inequality within and between generations may need reform in a range of areas. Without this broader debate, any move to reduce support for older people could have a negative impact on

current and future pensioners on low and modest incomes, without necessarily addressing some of the fundamental challenges that disadvantaged younger people face, for example, in terms of job prospects and finding affordable housing.

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<sup>i</sup> [http://www.ilcuk.org.uk/index.php/publications/publication\\_details/the\\_myth\\_of\\_the\\_baby\\_boomer](http://www.ilcuk.org.uk/index.php/publications/publication_details/the_myth_of_the_baby_boomer)

<sup>ii</sup> [http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Age\\_UK\\_chief\\_economist\\_report\\_spring\\_2014.pdf?dtrk=true](http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Age_UK_chief_economist_report_spring_2014.pdf?dtrk=true)

<sup>iii</sup> *Households below average income 1994-95 to 2013-14* DWP, 2015. Poverty defined here as income below 60 per cent median income after housing costs.

<sup>iv</sup> Age UK calculation based on ONS population projection figures and Hansard 22 Oct 2014 WA (numbers of taxpayers) <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2014-10-14/210604/>

<sup>v</sup> *Good Times, Bad Time – the Welfare Myth of Them and Us* John Hills, 2016. Analysis of ONS Wealth and Assets Survey 2008-10.

<sup>vi</sup> *Wealth and Assets Survey 2010-12* ONS with additional analysis by Age UK.

<sup>vii</sup> <http://www.ifs.org.uk/publications/7007>

<sup>viii</sup> <http://www.ifs.org.uk/uploads/publications/wps/WP201420.pdf>

<sup>ix</sup> *What level of pension contribution is required to obtain an adequate retirement income?* PPI, 2013.

<https://www.pensionspolicyinstitute.org.uk/default.asp?p=12&publication=0349&>

<sup>x</sup> *Good Times, Bad Time – the Welfare Myth of Them and Us* John Hills, 2016. Analysis of ONS Wealth and Assets Survey 2008-10.

<sup>xi</sup> <http://www.ageuk.org.uk/professional-resources-home/research/reports/care-and-support/the-health-and-care-of-older-people-in-england-2015/>

<sup>xii</sup> George Osborne speaking on The Andrew Marr Show, Nov 2014.

<sup>xiii</sup> <http://www.ageuk.org.uk/latest-press/archive/winter-fuel-payment-prevents-12000-deaths-yearly/>

<sup>xiv</sup> [http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/money-matters/Winter\\_fuel\\_payment\\_briefing\\_April\\_2015%20.pdf?dtrk=true](http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/money-matters/Winter_fuel_payment_briefing_April_2015%20.pdf?dtrk=true)

<http://www.ageuk.org.uk/Documents/EN-GB/Bus%20pass%20briefing,%20February%202016.pdf?dtrk=true>

<sup>xv</sup>

[http://www.equalityhumanrights.com/sites/default/files/publication\\_pdf/Cumulative%20Impact%20Assessment%20full%20report%2030-07-14.pdf](http://www.equalityhumanrights.com/sites/default/files/publication_pdf/Cumulative%20Impact%20Assessment%20full%20report%2030-07-14.pdf)

<sup>xvi</sup> *Intergenerational Equity: issues paper*, Portes, 2016 to be published. (Paper supported by Age UK).

<sup>xvii</sup> *Intergenerational Equity: issues paper*, Portes, 2016 to be published. (Paper supported by Age UK).