

Is the Pension Credit also important for couples?

PPI Briefing Note Number 11

Introduction

Previous studies have shown that people on low incomes are entitled to claim the Pension Credit (PC) as soon as they reach retirement age and also that the proportion of individuals entitled to claim the PC will increase over time¹.

But is this also true for couples? This Briefing Note² shows that means-testing impacts on pensioner couples in a similar way.

How much income do pensioner couples have?

Prior to 1978, married women could opt between having a pension in their own right or being subject to their husband's National Insurance Contribution (NIC) records. From 1978 the 'married women's reduced rate election' was abolished, so married women joining the labour force had to accrue pension entitlements of their own.

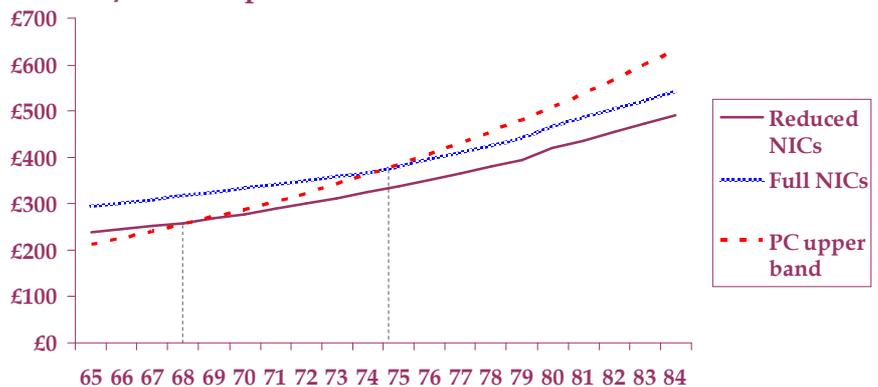
However, not all married women switched to full NICs. Many of them already on reduced NICs continued to pay at this rate.

In 1979/80, 3 million married women continued to pay reduced NICs. It is estimated that in 2003 only approximately 60,000 married women were still paying at reduced rate³.

To obtain a basic pension entirely of their own, married women need to have accrued a

Chart 1: Typical recently retired pensioner couples will fall back on Pension Credit during retirement

Weekly pension income in nominal terms from age 65 in 2004/5 for couples with reduced and full NICs



minimum of 60% of Basic State Pension (BSP) entitlements during their working lives⁴. Even though some state earnings-linked pension might be payable from retirement age, switching to full NICs would not necessarily guarantee women a BSP of their own.

For this reason, many pensioner couples and couples retiring in the next few years are and will still be heavily dependent on the husband's basic pension.

So to look at how couples' pension incomes differ in retirement, two typical pensioner couples have been constructed using an 'illustrative man'⁵ and two different 'illustrative women' with full and reduced NICs respectively.

These 'illustrative individuals'

are mainly on middle earnings, starting to work at the age of 21. The 'illustrative man' and the 'illustrative women' retire at 63 and 60 respectively. Both women have more interrupted working lives and make less regular private pension contributions than the man⁶.

Assuming similar saving levels, the 'illustrative pensioner couple' with reduced NICs will retire with lower levels of income than the full NICs counterpart.

Are couples eligible for PC?

The PC is a means-tested benefit, which provides a safety-net for people on low pension incomes. The PC is made up of two components: the Guarantee Credit (GC) and the Savings Credit (SC)⁷.

The GC tops up incomes of those couples that receive less

Is the Pension Credit also important for couples?

PPI Briefing Note Number 11

than £160.95 in total income per week.

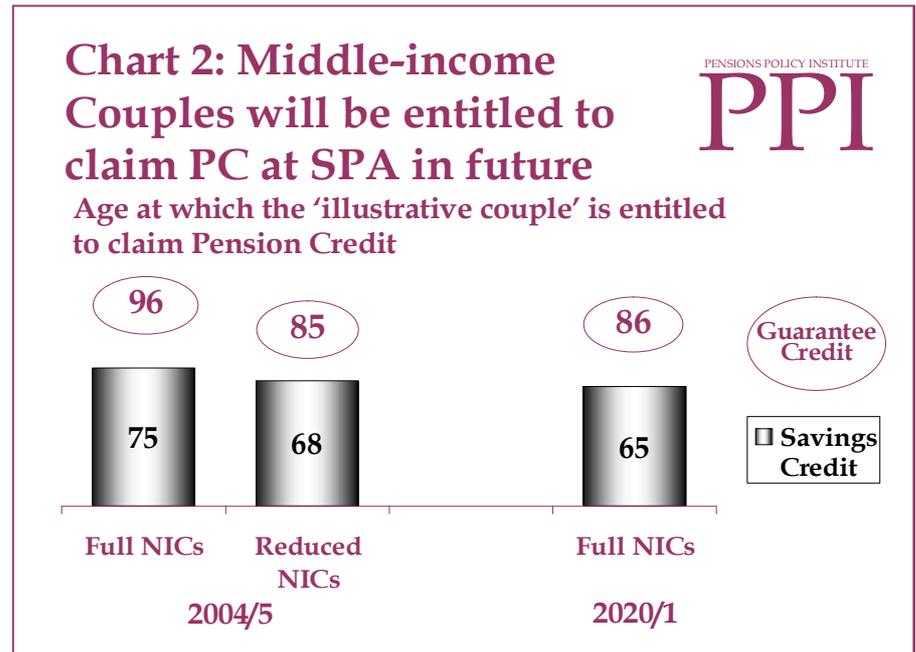
To be eligible for SC, total pension income must fall within the SC income band. The lower band is currently equal to the BSP level, £127.25 per week, and the upper band, currently £211.50 per week, is calculated using a complicated formula that depends mainly on the levels of BSP and GC⁸.

The gap between BSP and GC is widening over time as the former is uprated in line with prices and the latter is earnings-linked. Because the difference between the BSP and GC increases faster than earnings, more pensioner couples will become eligible for PC (Chart 1).

Neither pensioner couple is entitled to claim PC on reaching age 65 in 2004/5. However, both pensioner couples will be entitled to claim PC during retirement. Because of the income disparities, the couple on reduced NICs will become entitled to the SC and the GC relatively sooner, at the ages of 68 and 85 respectively. Those on full NICs will be eligible for SC at 75 (Chart 2).

PC will be more important for couples in the future

As the number of married women paying reduced NICs is



declining, in future more women will have a state pension based on their own contributions⁹.

However, PC spreads further up the income distribution in future. Other things being equal, the middle-income pensioner couple (with full NICs) will be eligible for SC as soon as they reach state pension age (65) in 2020/1. This same couple will become entitled to claim GC at 86 (Chart 2).

As is the case for single pensioners, even middle-income pensioner couples will be more dependent on means-testing as a source of income in future years. The SC—if claimed—will mainly offset the declining value of state contributory pensions¹⁰.

Summary

The Pension Credit (PC) is an important source of income for current and future pensioner couples. For the recently retired pensioner couples analysed here, the PC could be claimed at some point in retirement. In future the age at which the middle income pensioner couples become entitled to PC will gradually drop to 65 as means-testing becomes payable at relatively higher income levels.

¹ See *The Pensions Landscape*, PPI, 2003, p.30

² This Briefing Note is the result of a paper presented by F. Di Pace at the Centre for Risk and Insurance Studies (CRIS), University of Nottingham in March 2004 www.pensionspolicyinstitute.org.uk

³ PPI's own calculations based on data provided by the Department for Work and Pensions. It was estimated that in 2000, 100,000 married couples were still making reduced rate contributions

⁴ See *A guide to Retirement Pension*, DWP, 2004.

⁵ For a description of the characteristics of the 'illustrative man', see C. Curry, *The Under-pensioned*, PPI, 2004

⁶ The 'illustrative partners' are assumed to be born in 1939/40, reaching 65 in 2004/5. 60 and 63 are the current median ages of retirement. The woman has parenting responsibilities from 29 to 35 years and works part-time from 36 to 40. She works full-time from 41 to 55. She has caring responsibilities and works part-time from 56.

⁷ See Briefing Note 1, PPI, 2003 and Briefing Note 9, PPI, 2004

⁸ See *The Pension Primer*, PPI, 2004

⁹ See *Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2000*, GAD, 2004

¹⁰ Defined as BSP and SERPS/S2P

For more information on this topic, please contact

Federico Di Pace

020 7848 4245 federico@pensionspolicyinstitute.org.uk

www.pensionspolicyinstitute.org.uk