



The implications of Government policy for future levels of pensioner poverty

One Great George Street

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www.pensionspolicyinstitute.org.uk



Chair's Welcome

Michelle Mitchell,
Charity Director, Age UK



Research Findings

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Chris Curry, PPI Research Director,

Pensions Policy Institute

www.pensionspolicyinstitute.org.uk

The implications of Government policy for future levels of pensioner poverty



- How can pensioner poverty be measured?
- How might relative pensioner poverty evolve under current policy
- How might pensioner poverty evolve under alternative policy scenarios?
- What are the cost implications?
- Conclusions

How can pensioner poverty be measured?

Defining and measuring poverty

- Poverty: material and social deprivation as a consequence of a lack of resources

Income-based	Consumption-Based
Absolute measures	Relative spending lines
Relative measures	Fuel Poverty
Minimum budget standards	Deprivation measures
Measures of income and financial resources	

Income and consumption based poverty measures

- Absolute and relative poverty measures are relatively easy to establish
- Yet they may not account for the whole range of resources people could have
- Consumption-based measures may have significant methodological challenges
- Relative poverty measures are still useful tools to explore what proportion of the population may be living under a specific income threshold

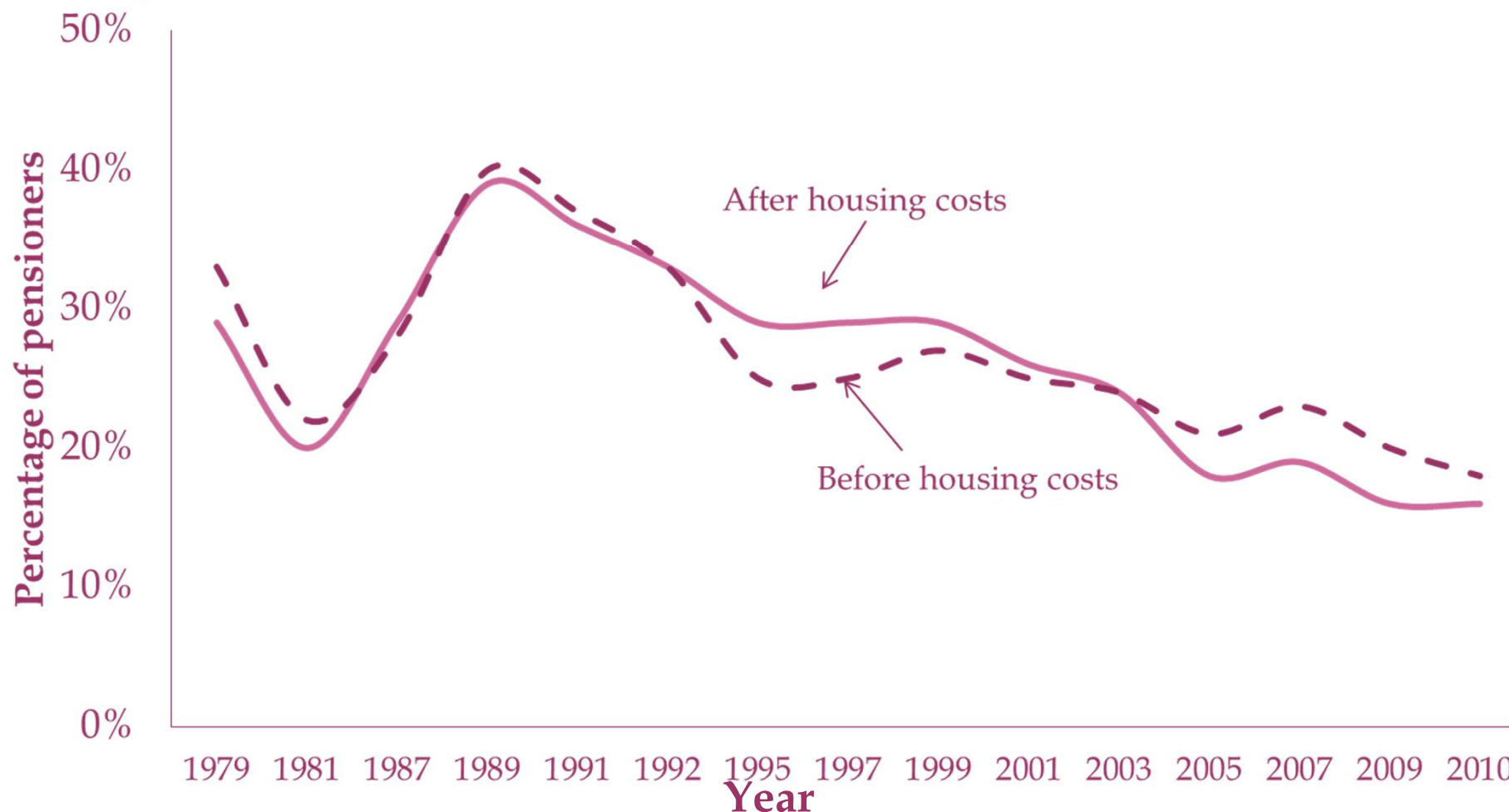
- How might relative pensioner poverty evolve under current policy?

Relative pensioner poverty has fallen over the last three decades

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Percentage of pensioners living in households with incomes falling below 60% median income

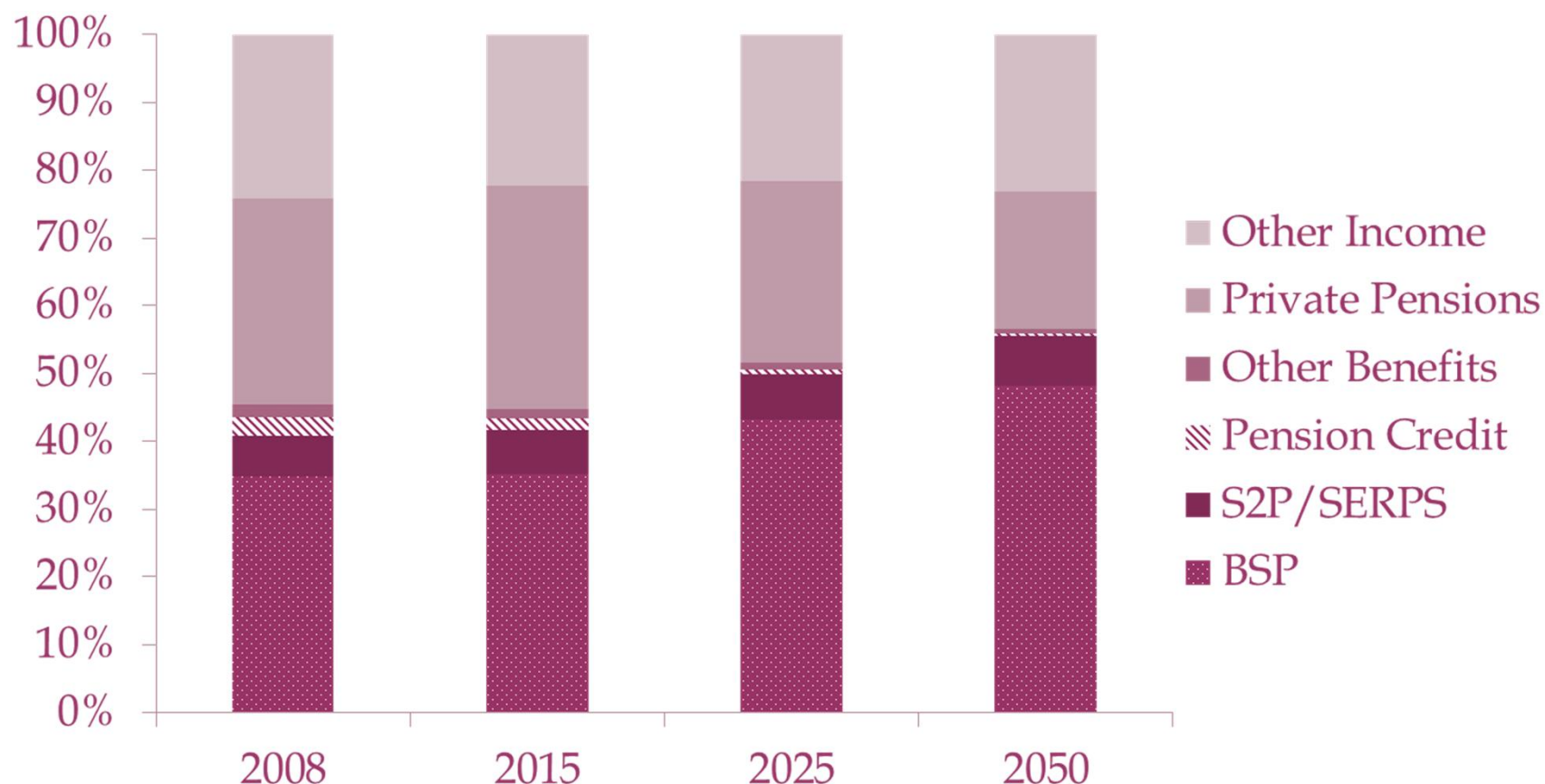


Methodological approach

- The PPI Distributional Model and data from the Household Below Average Income (HBAI) series for 2007/08 are used to estimate future pensioner household incomes and project relative poverty levels
- The PPI Aggregate Model is used to estimate future Government expenditure on state pensions and means-tested benefits
- Eligibility for means-tested benefits and the distribution of pensioner household incomes are also analysed to contextualise relative income poverty results

The components of pensioners' income are projected to change over time under current policy

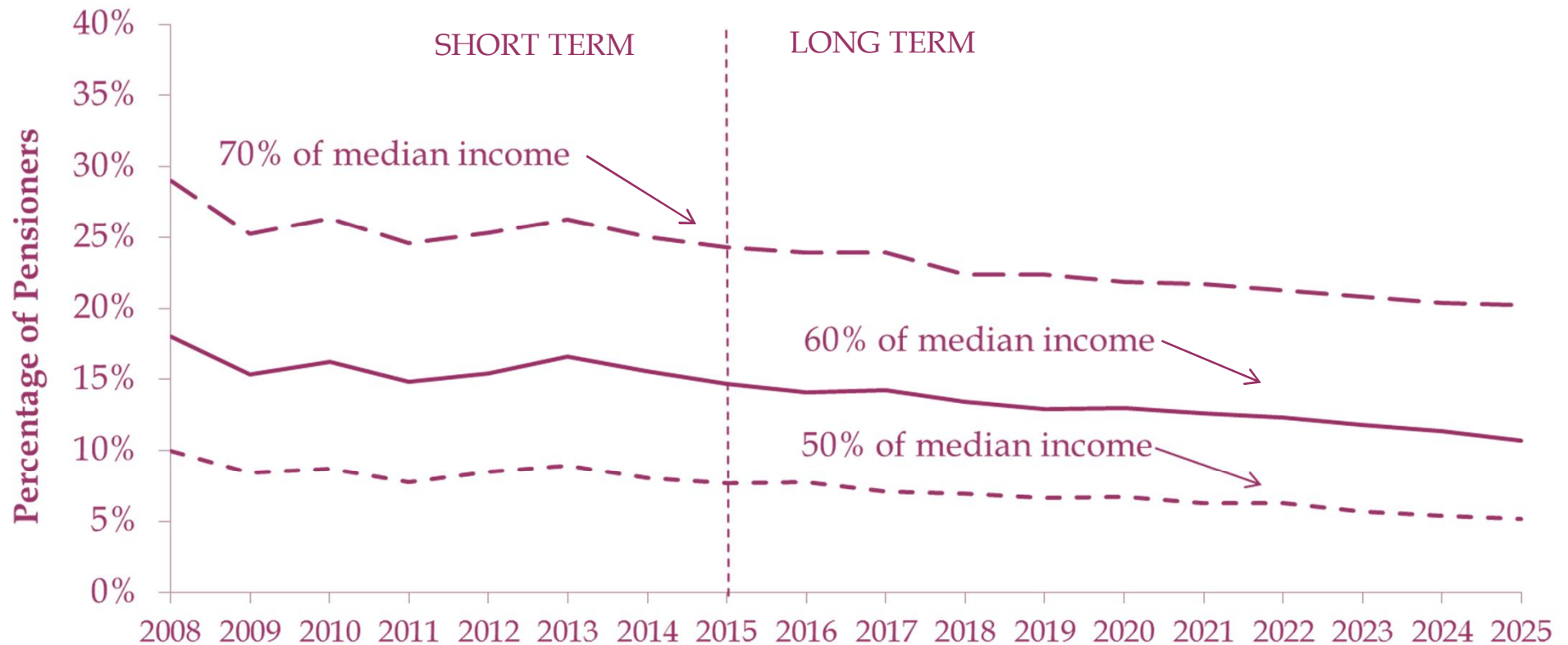
Average composition of income for pensioner couples of 68 years of age, as a percentage of total income



The percentage of pensioners living in households in relative income poverty is projected to decline under a continuation of current policy

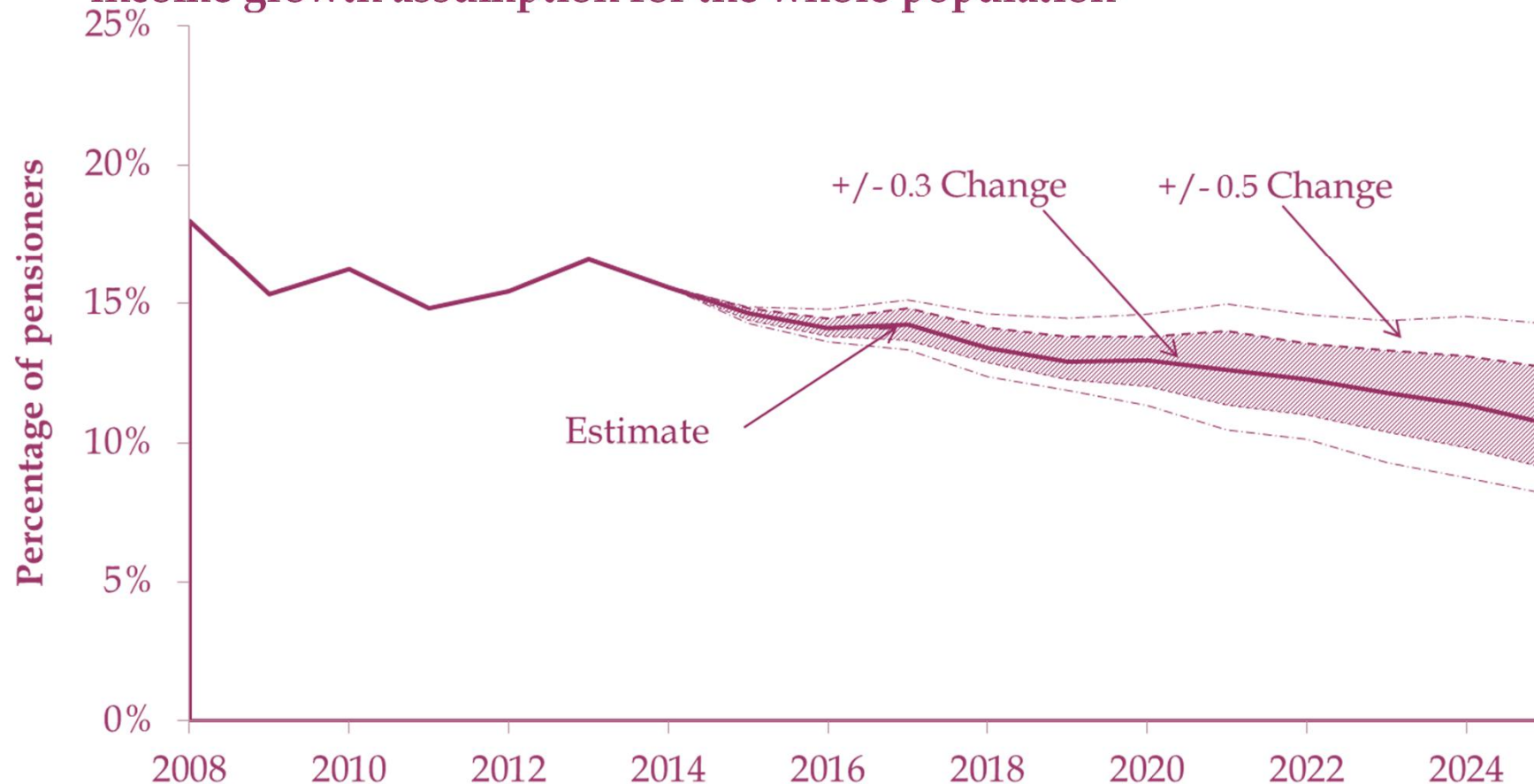


Projected percentage of pensioners living in households with household income below different income poverty thresholds, AHC



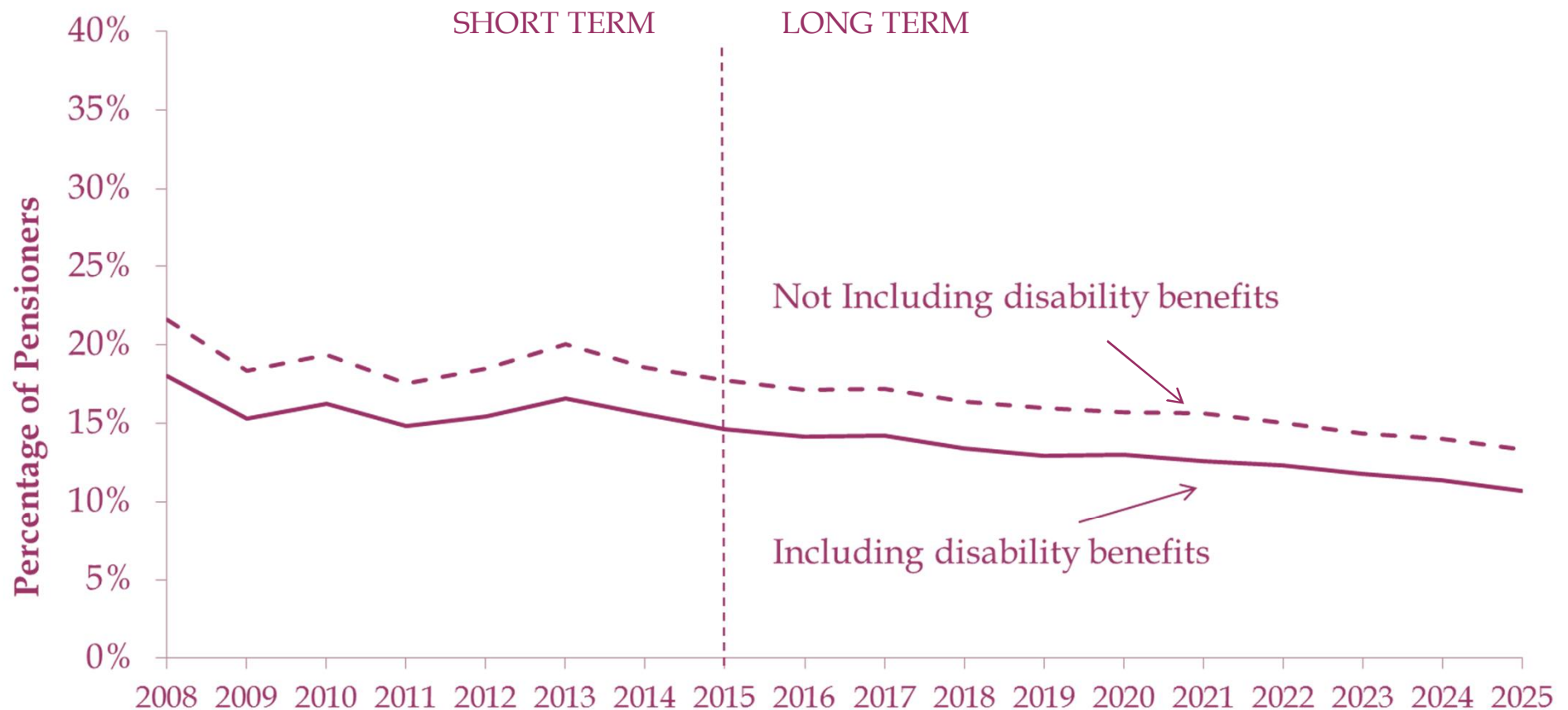
Pensioner poverty projections are sensitive to changes in the assumption on median income growth

Sensitivity of the projected number of pensioners living in households with household incomes below 60% of median income (AHC), assuming a $\pm 0.3\%$ and a $\pm 0.5\%$ change in the long term median income growth assumption for the whole population



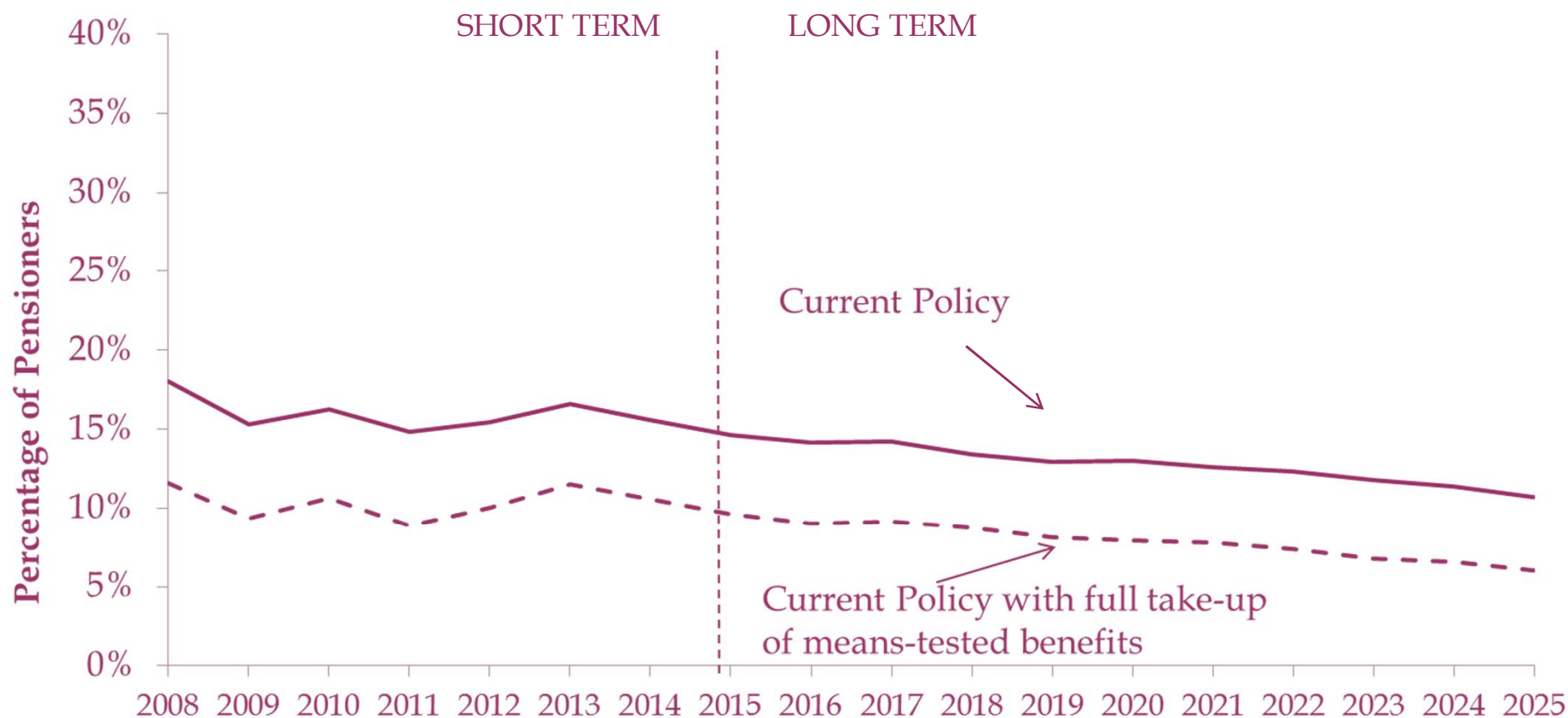
Pensioner poverty may be higher if the costs of disability are allowed for

Projected percentage of pensioners living in households with household income below 60% of median income, AHC, with and without disability benefits



Full take-up of means-test could have a significant impact on pensioner relative poverty levels

Projected percentage of pensioners living in households with household income below 60% of median income, AHC, assuming full take-up of means-tested benefits



How might relative pension poverty evolve under alternative policy options?

- The impact of changes to Guarantee Credit
- Winter Fuel Payments

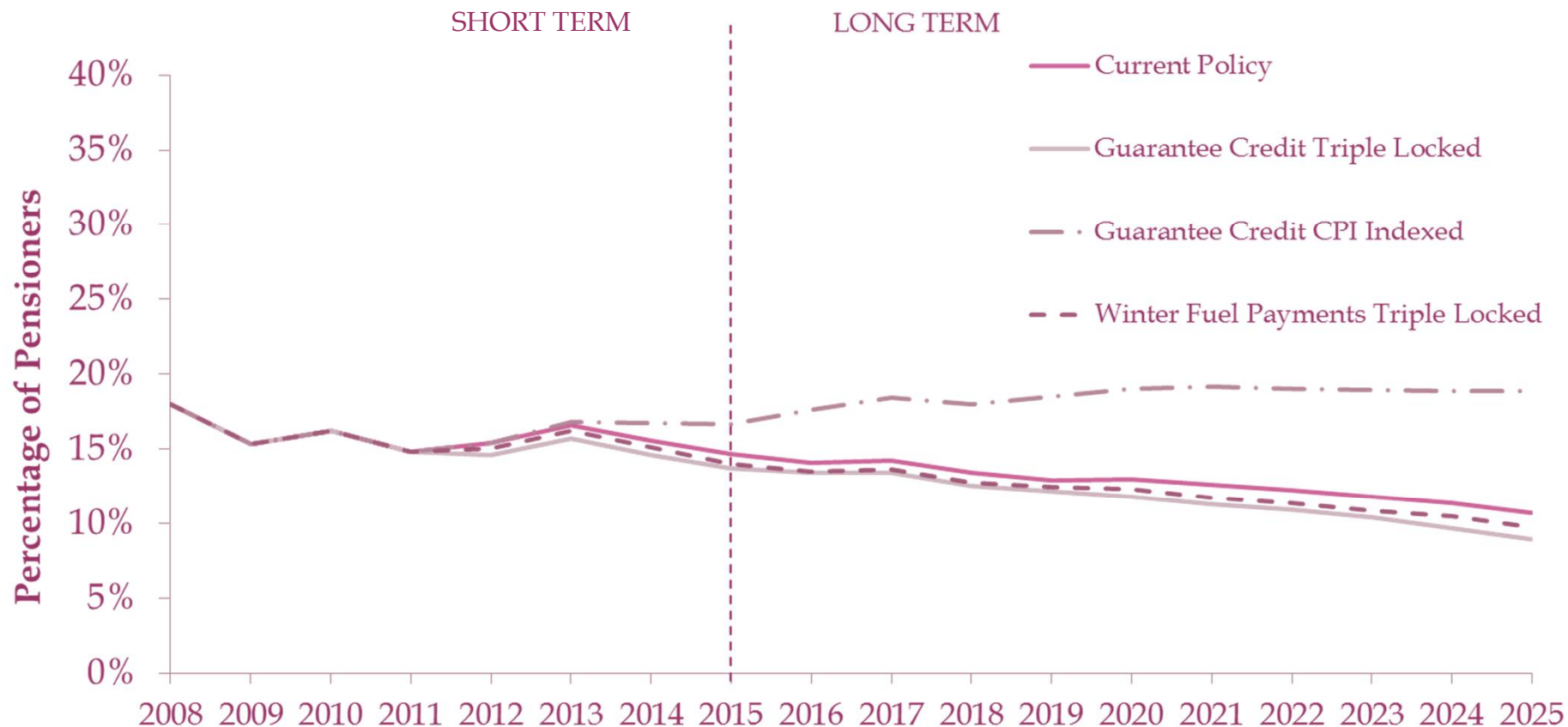
The alternative policy scenarios that change some benefits within the current system

Three policy scenarios consider changes to the benefits in the current system:

- Increasing the Guarantee Credit to £140 a week (in 2010/11 earnings terms) and indexing it in line with the 'triple lock' from 2012
- Uprating the current level of Guarantee Credit in line with CPI from 2012
- Setting Winter Fuel Payments back to their 2010 levels and indexing them by the 'triple lock' from 2011

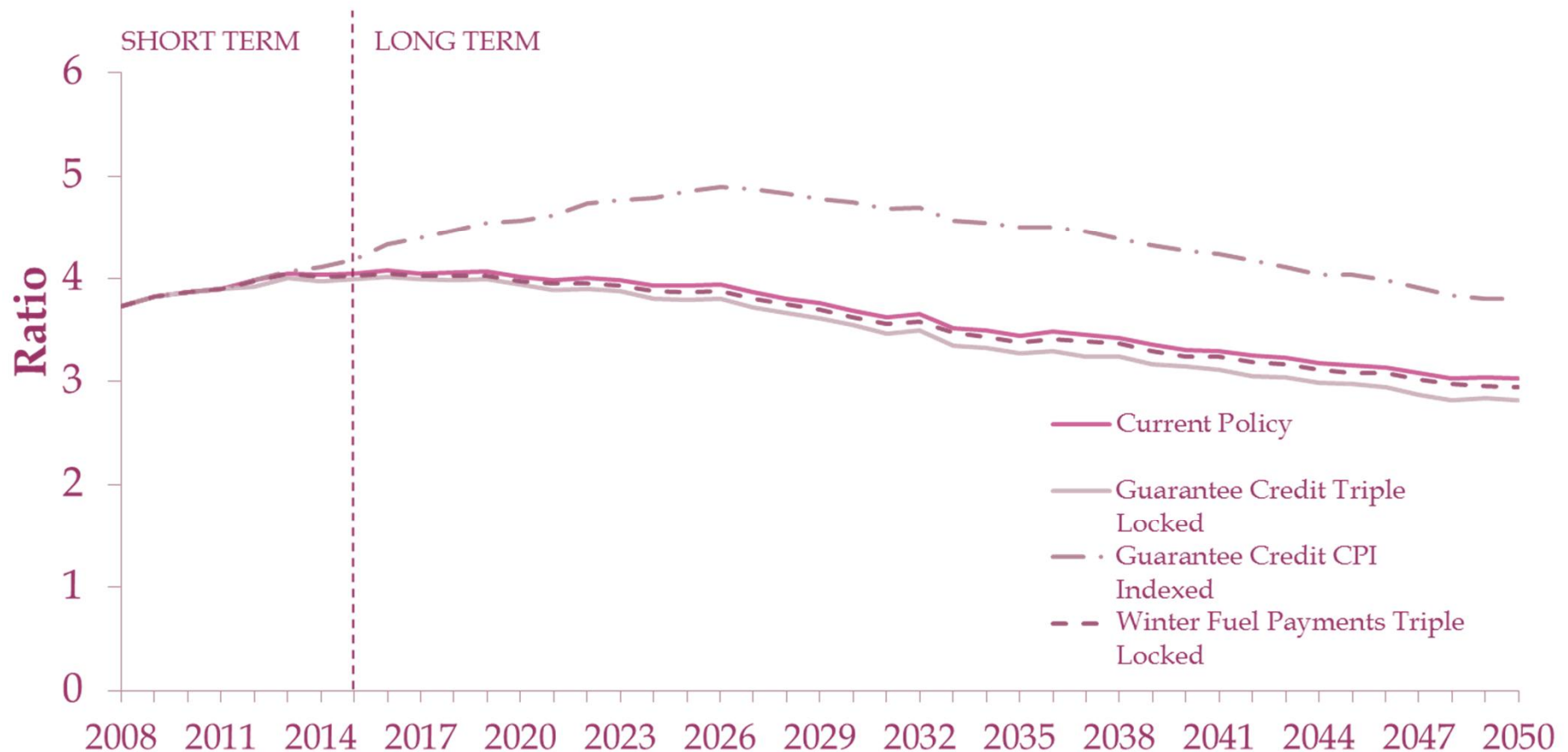
There is significant variation in the projected poverty levels under the policy options that change some benefits within the current system

Projected percentage of pensioners living in households with household income below 60% of median income, AHC



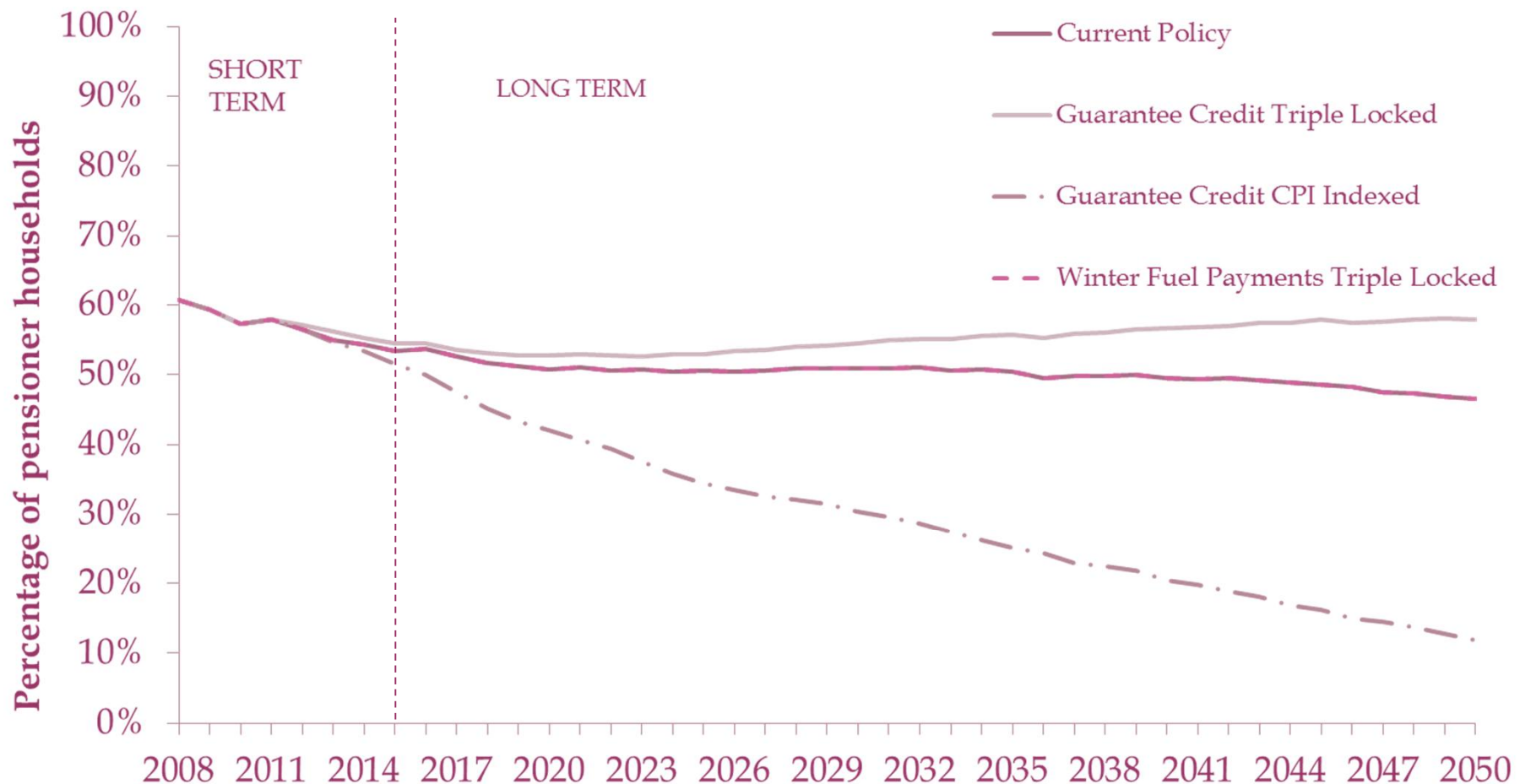
Pensioner income ratios vary under the policy options that change some benefits within the current system

Projected ratios of pensioner household income in the 90th and 10th centiles of the income distribution, AHC



Eligibility for means-tested benefits is projected to vary significantly under the policy options that change some benefits within the current system

Projected percentage of all pensioner households eligible for any means-tested benefit



The impact of the single-tier options

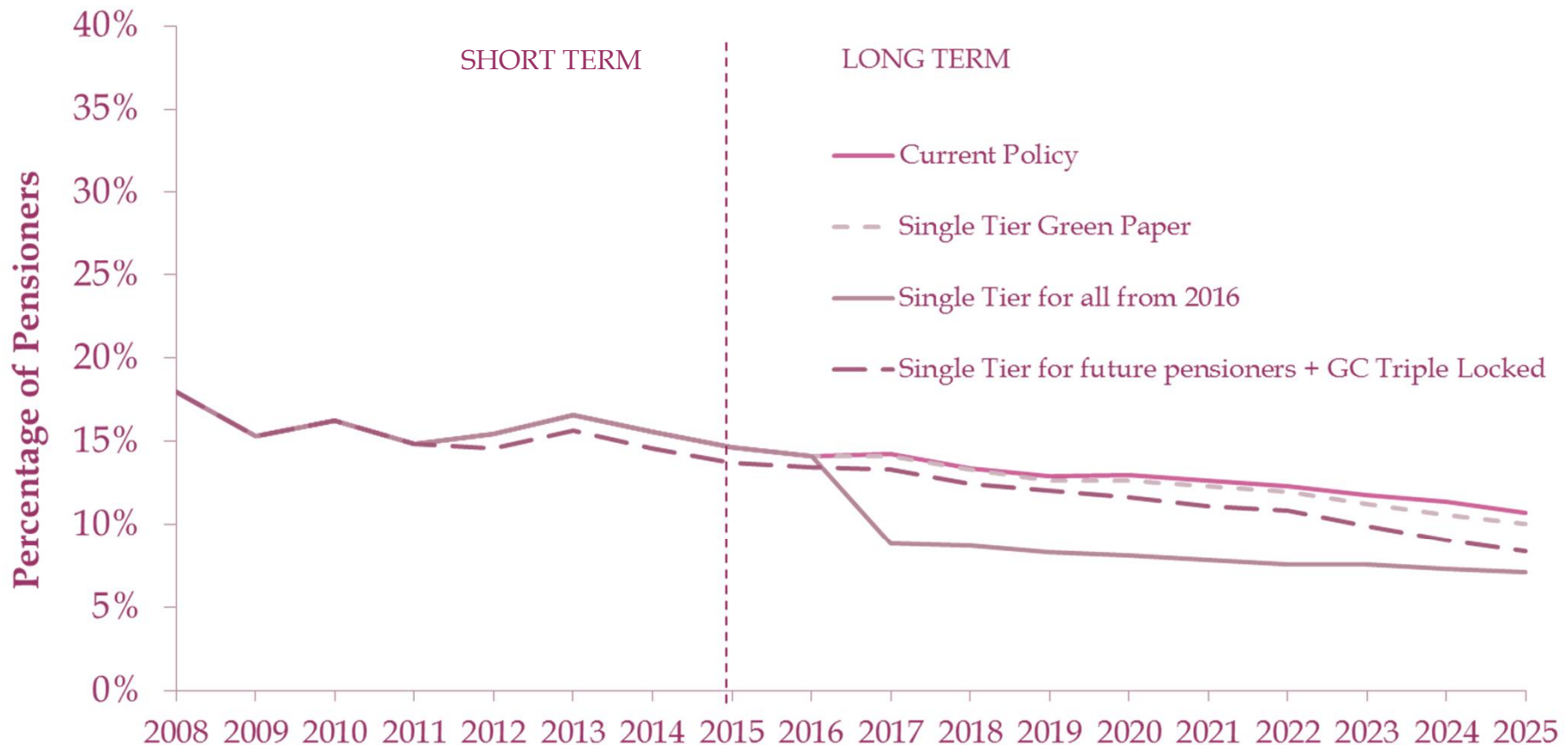
The single-tier policy scenarios

Three policy scenarios consider the introduction of a single-tier pension under different variants:

- Introducing a single- tier pension of £140 per week for new pensioners from 2016.
- Introducing a single-tier pension for all pensioners from 2016.
- Introducing a single-tier pension for new pensioners from 2016 combined with an increase in the Guarantee Credit to £140 per week (in 2010/11 earnings terms) for existing pensioners from 2012 and uprated by the 'triple lock

The single-tier policy options all reduce projected relative poverty levels compared to current policy

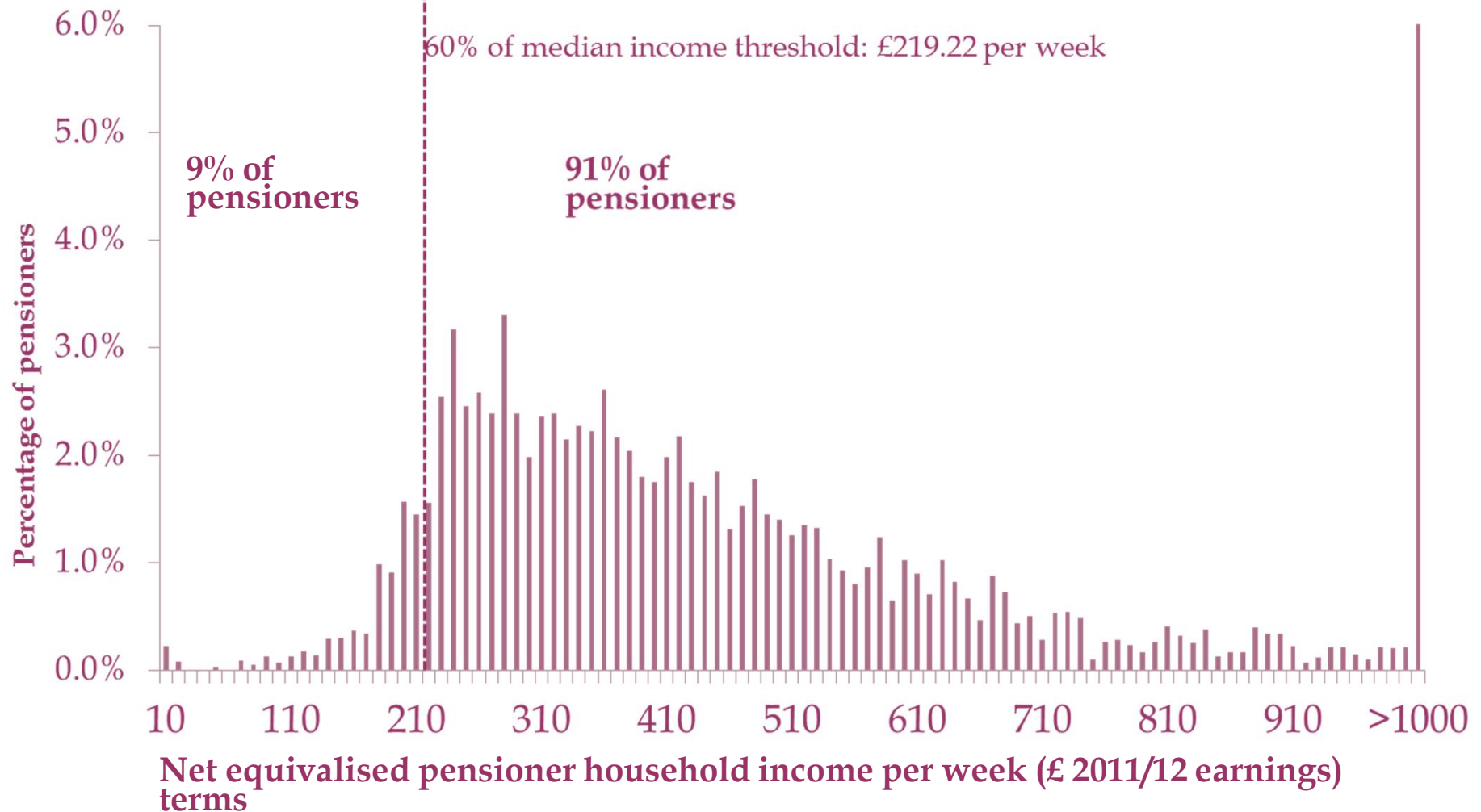
Projected percentage of pensioners living in households with household incomes below 60% of median income, AHC



Under current policy 9% of pensioners where the head of the household retires after 2016 are projected to live in households in relative poverty by 2025



Projected distribution of pensioner household incomes by 2025, for households where the head of the household reaches State Pension Age from 2016



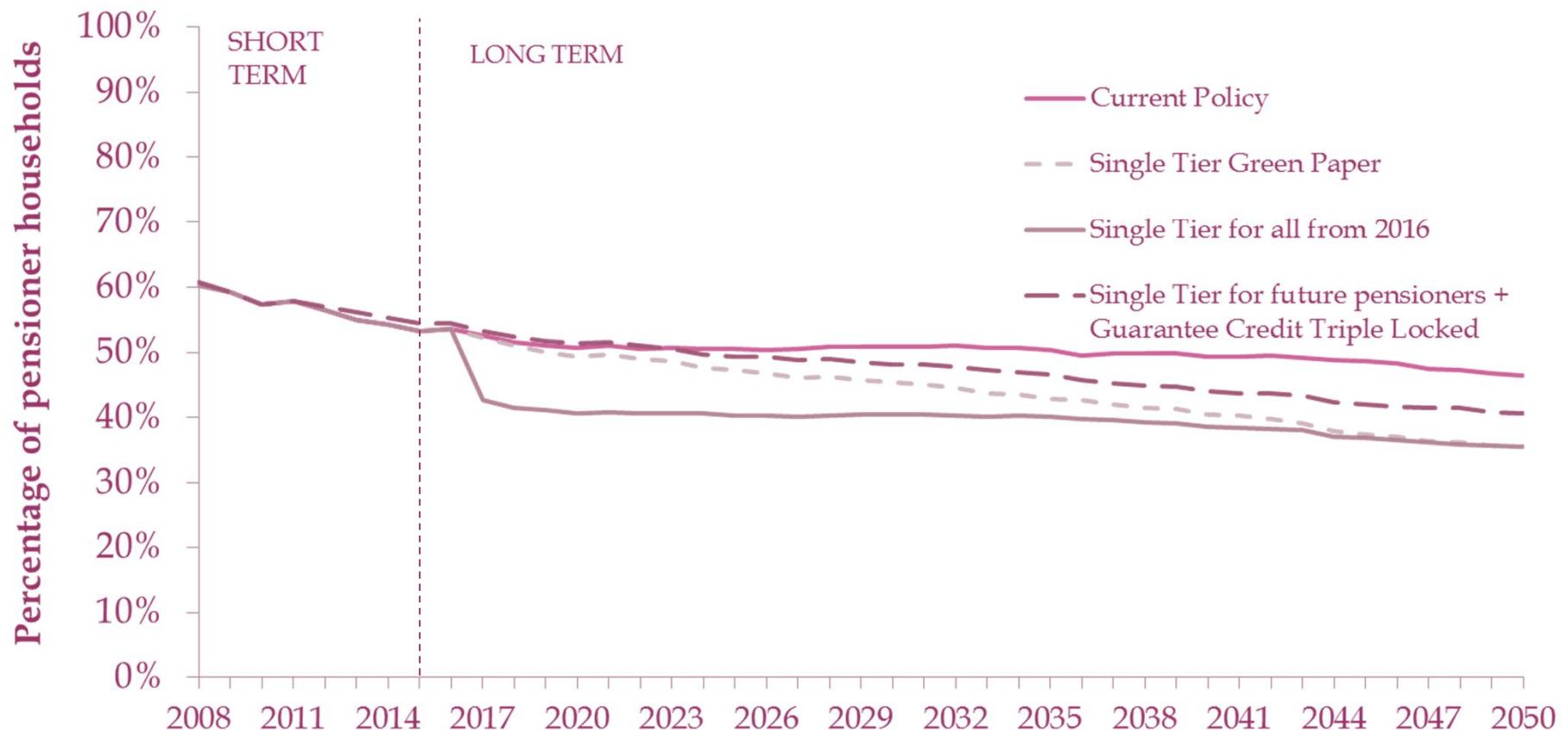
Under a single tier state pension 7% of pensioners where the head of the household retires from 2016 are projected to live in relative poverty by 2025

Projected distribution of pensioner household incomes by 2025, for households where the head of the household reaches State Pension Age from 2016



Eligibility for means-tested benefits is projected to decline over the long term under the single-tier policy options

Projected percentage of all pensioner households eligible for any means-tested benefit



What are the cost implications?

There is a trade-off between costs to Government and pensioner poverty reduction among the policy options that change some benefits within the current system

	Percentage of pensioners living in households with household income below 60% of median income, after housing costs (UK)			Government Spending on state pensions and other benefits (% of GDP)
	2011	2017	2025	2025
Current policy – BSP triple-locked, S2P flat-rate mid-2030s, Guarantee Credit indexed to earnings.	15%	14%	11%	5.7%
As current policy but Guarantee Credit increased to £140 a week in 2010/11 earnings terms, indexed to “triple-lock” from 2012	15%	14%	9%	5.8%
As current policy but current level of Guarantee Credit indexed to CPI from 2012	15%	18%	19%	5.4%
As current policy but Winter Fuel Payments re-instated to 2010 level and indexed to “triple-lock” from 2011	15%	14%	10%	5.8%

There is also a trade-off between costs to Government and pensioner poverty reduction among the single-tier policy options

	Percentage of pensioners living in households with household income below 60% of median income, after housing costs (UK)			Government Spending on state pensions and other benefits (% of GDP)
	2011	2017	2025	2025
Current policy - BSP triple-locked, S2P flat-rate mid-2030s, Guarantee Credit indexed to earnings.	15%	14%	11%	5.7%
Single-tier pension as in Green Paper introduced for future pensioners from 2016	15%	14%	10%	5.7%
Single-tier pension introduced for all pensioners (current and future) from 2016	15%	9%	7%	5.9%
Single-tier pension for future pensioners only and Guarantee Credit indexed to the “triple-lock” from 2012	15%	13%	8%	5.8%

Conclusions

- There is a clear trade-off between costs to Government and pensioner poverty reduction
- Government decisions on state pension reform and means-tested benefits may determine future levels of pensioner poverty
- For current pensioners, the indexation of Guarantee Credit may have a significant impact on poverty levels
- Over the long term, further state pension reform may have an impact on future levels of pensioner poverty



Panel Response

Sally West, Strategy
Adviser, Income and
Poverty Age UK

Baroness Drake,
House of Lords



Government Response

Steve Webb MP
Minister for Pensions
Department for Work and
Pension



Questions and Discussion