

What should be the role of means-testing in state pensions?

Part of the *Shaping a stable pensions solution* series of seminars

Ruth Hancock
Department of Health and Human Sciences
University of Essex

Outline

- Where we are and where we're heading in the UK
- The received wisdom on means-testing
- Some alternative angles
- The problem of non take-up



Where are and where we're heading

- 1 in 3 pensioners received a means-tested benefit in 2002/3
- up to a half of pensioners are thought to be entitled to Pension Credit
- take-up of PC is around 75% but under 50% of those entitled to only the savings credit are thought to be claiming it
- On current uprating policies the proportion entitled will rise rapidly

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The conventional wisdom

- means-tested benefits target resources where they are most needed
- but
- suffer from non take-up
 - discourage voluntary saving
 - are complicated so
 - impede savings decisions
 - are prone to administrative error
 - are costly to administer

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Some alternative angles

- Take-up tends to be high where entitlement is high. Requiring pensioners to make a claim is another way of targeting.
- Dislike of claiming means-tested benefits may encourage voluntary saving.
- Non means-tested benefits discourage saving by reducing the amount of saving needed to achieve a given income.

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Some alternative angles (cont.)

But

- Non take-up implies there are costs, including psychological costs, of claiming and receiving means-tested benefits.

So

- £1 of means-tested benefits is worth less than £1 of other income.

So

- Even pensioners who claim their entitlements enjoy lower well-being than those on the same level of non means-tested income.

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Patterns of overlap between the take-up of different means-tested benefits suggest:

- A claim for 1 benefit needs to trigger assessment for all other benefits.
- Take-up generally increases with size of entitlement. A system with many small entitlements (like Savings Credit) is unlikely to achieve high take-up.
- Size of entitlement is not the whole story. Take-up of Council Tax Benefit is high *given relatively low levels of entitlement*.
- Means-tested 'subsidies' may be more acceptable than 'hand-outs'.
- The delivery system matters.

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Questions for discussion

1. Is the projected growth in the coverage of Pension Credit desirable? Will it (should it?) lead to an entirely means-tested system?
2. How far is it practical to move towards a system of automatic payment of entitlement to means-tested benefits, without the need for pensioners to claim their entitlement?
3. Should we worry about non take-up of means-tested benefits or can we assume that people who do not claim them do not need them?
4. Should we be less worried about widespread means-testing for help with housing costs than we are about means-testing for general income maintenance?

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