

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

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

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### **Introduction**

Means-tested benefits are a significant component of the UK state pension system. In 2002/3 around a third (32%) of all pensioners and 40% of single pensioners received one of the three main means-tested pensioner benefits (DWP, 2004a). The UK is not unusual in employing means-testing in its pension system. Eighteen out of 30 OECD countries have a targeted (means-tested) component in their state pension systems (OECD 2005). In other OECD countries, pensioners can apply for social assistance benefits designed for the general population. But recent increases in the scope of means-tested benefits have fuelled concern that the UK pension system relies too much on means-testing. The Pension Commission has identified means-testing as one of the barriers to voluntary saving for retirement (Pension Commission, 2004).

This paper considers the role of means-testing within the UK pension system. It examines the advantages and disadvantages of the current system and sets out some challenges for future policy.

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## Summary of conclusions

UK pensioners rely increasingly on means-tested benefits:

- In 2002/3 around a third of all pensioners received means-tested general income maintenance and/or help with meeting rents or council tax.
- The Pension Credit has increased the scope of means-testing, with up to 50% of pensioners thought to be entitled.
- If current uprating policy continues, the proportion of pensioners entitled to means-tested benefits will increase rapidly.

The received wisdom on the pros and cons of means-testing says:

- Means-tested benefits are **good** because they target resources on the needy.
- Means-tested benefits are **bad** because:
  - they suffer from non take-up due to social stigma and other costs associated with claiming and receiving them;
  - they discourage voluntary saving because they are withdrawn as income and capital increase;
  - they are complicated to understand so impede savings decisions, are prone to administration error and costly to administer.

But some of these arguments are open to challenge:

- Non take-up is another way in which resources are targeted where they are most needed because take-up is higher amongst those with larger entitlements.
- Any stigma associated with means-tested benefits may encourage saving to avoid dependence on them.
- Non means-tested retirement benefits also discourage voluntary saving by reducing the amount of saving needed to achieve a given income level.

On the other hand:

- Non take-up implies that there are costs, including psychological costs, of claiming means-tested benefits. This suggests that pensioners value £1 of income of means-tested benefits less than £1 of other income. So pensioners who claim their entitlements enjoy lower well-being than those on the same level of non means-tested income.

Even if the scope of means-testing is reduced by pension reform (as many proposals urge) means-testing is likely to remain.

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

- There is a strong case for a system in which a claim for one means-tested benefit automatically triggers an assessment for all other means-tested benefits.
- There is a general tendency for take-up to be higher for larger entitlements. Under a system in which many pensioners are entitled to small amounts of means-tested benefits (such as the Savings Credit), it is unlikely to be feasible to achieve a high take-up rate.
- The size of entitlement is not the whole story. For example, take-up of Council Tax Benefit is quite high given relatively low average levels of entitlement. Means-tested subsidies may be more acceptable than means-tested 'hand-outs'.

## 1. The role of means-testing in the current UK pensions system

In the UK, the state pays three main types of benefits to pensioners: the flat-rate basic state pension, an earnings-related state pension and means-tested benefits. There are also benefits paid on grounds of disability which are not means-tested. Entitlement to the state pension depends on contributions and whether or not the person has contracted out of the earnings related component into a private pension. Full details of the state pension system are available elsewhere (see for example PPI, 2005a).

Pensioners can apply for three principal means-tested cash benefits:

- Pension Credit (PC) provides general income maintenance.
- Housing Benefit (HB) gives assistance with meeting rents and so is available only to those who rent their homes.
- Council Tax Benefit (CTB) reduces recipients' liabilities for the local property-based council tax. It is available to renters and owner-occupiers since both groups are liable for council tax.

PC is specifically for pensioners. HB and CTB are also available to younger people but are higher for pensioners than non pensioners.

Unlike the state pension, which is payable to individuals, means-tested benefits are assessed and paid to 'benefit units' – in the case of pensioners these are mostly single pensioners or pensioner couples. PC, HB and CTB are paid on top of state pensions for to those who qualify for them. To receive their entitlement to means-tested benefits pensioners have to make a claim and provide evidence of their income and capital.

PC was introduced in October 2003. It consists of the Guarantee Credit (GC) and the Savings Credit (SC). The former replaced the Minimum Income Guarantee which worked along similar lines. Box 1 outlines the rules for calculating the Pension Credit. The calculation of SC is intricate but amounts broadly to disregarding 60% of income other than basic state pension income in deriving entitlement to the GC. The rules for calculating entitlement to HB and CTB are also described in Box 1.

One of the main aims of the SC was to eliminate the 100% effective tax rate caused by the Minimum Income Guarantee – the situation where an extra £1 of retirement income reduces entitlement to means-tested benefits by the same amount. In contrast PC embodies an effective marginal tax rate which in most cases is 40% rather than 100%. However, since PC is taken into account for HB and CTB, recipients of all three benefits still face a marginal tax rate of 91%<sup>1</sup>. This point is not always fully appreciated. Some pensioners appear reluctant to claim PC because they fear, often rightly, that most of it will be taken back in lost HB and CTB (Work and Pensions Committee, 2005a).

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<sup>1</sup> Calculated as  $0.4 + (1-0.4) \times (0.65+0.20)$ . Note that this means that people who fail to claim PC but claim HB and/or CTB will get higher payments of HB and CTB. If they are entitled to both they will only miss out only 9p for every £1 of PC to which they are entitled but do not claim.

Only a minority of current pensioners receive state pension payments which are above the GC threshold for a single person. In September 2004, when the GC threshold for a single pensioner was £105.45:

- Just under a quarter (24%) of recipients of the state pension received £100 or more a week, and only 15% received £110 or more.
- The average payment was £98 a week (DWP, 2004b Table SP6).

A lifetime of contributing to the basic and earnings-related state pensions at national average earnings would have meant that someone retiring in 2005 would have a state pension entitlement of £175.95 (£82.05 basic state pension + £93.90 SERPS/S2P, (PPI, 2005a)) which is well in excess of the GC level. However few have achieved this level. The average pension earned through SERPS/S2P was just £22.69 in September 2004 (DWP, 2004b Table SP9).

In practice, therefore, it is non state pension income that keeps people free of means-testing. This has always been the case but a number of factors have contributed to an increase in the scope of means-tested benefits in recent years:

- The means-tested benefit thresholds were increased substantially in real terms in the period 1999-2001. The largest increases were for younger pensioners.
- Since then they have been uprated annually by earnings inflation while state pensions have risen by less<sup>2</sup>.
- The introduction of the more generous Pension Credit brought those with incomes just above the poverty level within the scope of means-testing for general income maintenance (they could already be entitled to Housing and/or Council Tax Benefit).

In introducing Pension Credit, the Government estimated that about one half of all pensioners would be entitled to it (DWP, 2001). More recently it has said that there is evidence that eligibility for Pension Credit may be less than this (Work and Pensions Committee, 2005b). However, if current uprating policies are maintained, it is clear that the proportion of pensioners entitled to Pension Credit will rise rapidly (Emmerson, 2005).

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<sup>2</sup> Until 2000 the state pension was linked to price inflation. In April 2000, the low level of price inflation produced an increase of only 75 pence in the basic state pension. The political fall-out led in the next two years to increases in the basic state pension which were greater than the increase in average earnings (Pension Provision Group, 2001). The Government then committed itself to increasing the state pension by price inflation or, if greater, 2.5 per cent (HM Treasury, 2002).

## BOX 1: KEY FEATURES OF MEANS-TESTED BENEFITS FOR PENSIONERS

### 1. Pension Credit

- two parts:
  - Guarantee Credit (GC), replaced the Minimum Income Guarantee (MIG);
  - Savings Credit (SC).
- Guarantee Credit tops up the incomes of pensioners with assessable incomes below the GC threshold to that level. Payable to those aged 60+\*.
- Savings Credit pays 60p for every £1 of non basic state pension income that takes a pensioner's income above the SC threshold (currently the full basic state pension level, or the 'married couple's rate' in the case of couples). But if income exceeds the GC threshold, the SC is reduced by 40p for every £1 of income the pensioner has above the GC threshold. Payable only to pensioners aged 65+.
- Assessable income includes state pensions, some other non means-tested state benefits, earnings, other private income.
- Income from capital is ignored but capital over a disregard is deemed to generate income at an assumed rate.
- Assessed and payable to pensioner units – single pensioners or pensioner couples.

\* Due to rise in line with women's state pension age.

### 2. Housing and Council Tax Benefit

- Also payable to pensioner units dependent on thresholds and assessable income, but with some differences from PC:
  - Pension Credit forms part of assessable income.
  - Thresholds are higher than for PC for those aged 65+†
  - Those with assessable income at or below the HB/CTB thresholds get maximum HB/CTB (100% of rent/council tax, subject to what counts as eligible rent).
  - If assessable income exceeds the thresholds, HB & CTB are reduced from the maximum by 65p (HB) and 20p (CTB) for every £1 of income in excess of the thresholds.
  - There is an upper capital limit if income exceeds the GC threshold – those with capital above this limit are automatically disqualified from HB and CTB whatever their income.

† This ensured that HB and CTB recipients gained in full from the PC when it was introduced.

### 3. April 2005 rates

	Single Pensioners	Couple Pensioners
GC threshold, HB/CTB threshold if aged 60-64	£109.45	£167.05
	plus additions for disability, caring etc	
HB/CTB threshold aged 65+	£125.90	£188.60
	plus additions for disability, caring etc	
SC threshold	£82.05	£131.20
Maximum SC	£16.44	£21.51
capital disregarded	£6,000	
assumed income from capital	£1 for every £500 above disregarded amount	
capital limit (HB, CTB where income exceeds GC threshold)	£16,000	

## 2. Arguments for and against means-testing

The standard argument in favour of means-testing is that it targets public resources where need is greatest. Only those with low incomes and (in the UK system) low capital are entitled to them. In contrast all those who meet contribution and/or other conditions (e.g. age) are entitled to receive non means-tested benefits be they millionaires or paupers.

Three main criticisms are usually levelled at means-tested benefits:

- They suffer from **non take-up**. Official estimates (DWP, 2005a) are that in 2002/3:
  - between 26 and 37 per cent of pensioners who were entitled to the Minimum Income Guarantee did not receive it;
  - non take-up of Council Tax Benefit was between 38 and 44%;
  - non take-up of Housing Benefit was lower at between 10 and 16 per cent.

Directly comparable figures for Pension Credit are not yet available but:

- In September 2004, the numbers receiving Pension Credit fell short of the numbers thought to be entitled by around a quarter (Pensions Policy Institute, 2005b).
- The government has estimated that non take-up by those entitled to the Guarantee Credit alone is less than 20% but may exceed 50% for those entitled only to the Savings Credit (Work and Pensions Committee 2005a, para. 104)
- Means-testing **reduces the return to saving** and may therefore discourage voluntary pension and other retirement saving<sup>3</sup>.
- Means-tested benefits are **complex to understand and costly to administer**.

Other issues which arise include:

- whether the existence of means-testing makes it unfair to compel people to save for themselves if that reduces their entitlements to means-tested benefits.
- whether means-testing is the best way to provide for special (but not necessarily uncommon) and individual-specific needs. For example, the means-tested thresholds are increased for people with disabilities<sup>4</sup>, housing and council tax

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<sup>3</sup> They also reduce the return to paid work. Note there is no work test for entitlement to means-tested benefits for pensioners. The issue of incentives to work is addressed by Emmerson (2005).

<sup>4</sup> This is despite the fact that non means-tested benefits are available for people with disabilities and are excluded from assessable income in the means tests for cash benefits.

benefit are available for low income pensioners and currently provide help with the rents and council tax actually paid by claimants<sup>5</sup>.

Let us take a closer look at these arguments.

*Means-testing targets resources at those in most need*

This is a powerful argument and suggests that means-testing is an efficient way to alleviate poverty. But it is instantly weakened by one of the standard arguments against means-testing: that it suffers from non take-up. By definition people who fail to claim their entitlements to means-tested benefits are living on incomes below or, if it is only the SC they fail to claim, only slightly above the minimum level set by the state.

It can also be argued that non means-tested benefits can be clawed back from the better off through income tax, as is the case with state pension.

*Means-testing suffers from non take-up*

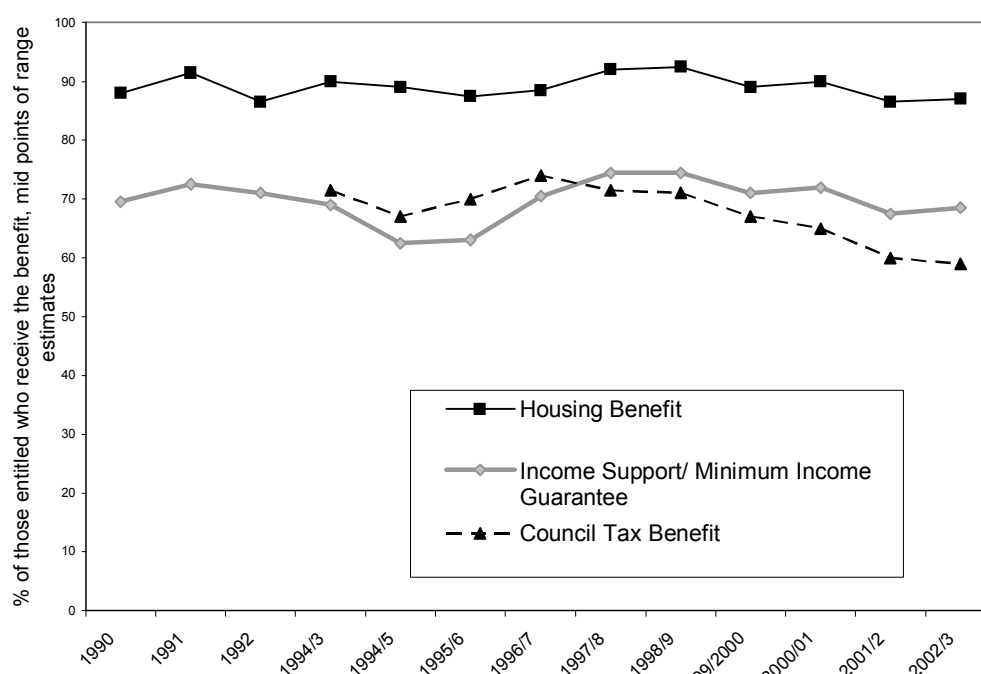
In the UK there is clear evidence of a stubborn take-up problem. Benefits have been renamed in attempts to improve take-up. The Guarantee Credit was the Minimum Income Guarantee, which was Income Support, which was Supplementary Benefit which was, National Assistance, which can be traced back to the Poor Law. Claim forms and procedures have been redesigned in the hope of making claiming easier. But there has been little sustained impact on official estimates of take-up (Figure 1). The take-up rate for Council Tax Benefit seems to be in steady decline. Benefits manifestly do not go to all those which the systems judges to be in most need.

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<sup>5</sup> In recognition that HB provides little incentive for claimants to seek cheaper accommodation, an alternative system with fixed rent allowances is being piloted.



**Figure 1: Trends in take-up of means-tested benefits by pensioners**



Source: DWP (2005a) and earlier issues

On the other hand, non take-up can be seen as further evidence of benefits going to those who stand to gain most from them. That the probability of take-up increases with the amount of entitlement seems to support this argument. Generally those who do not claim their entitlements are on average missing out on entitlements which are smaller than those received by claimants (DWP, 2005a).

A pensioner who fails to claim his or her entitlement to a benefit can reasonably be assumed to have judged, explicitly or implicitly, that the costs of so doing outweigh the (expected) benefits. Costs, in this context include all the tangible costs of time, effort and ‘hassle’ in finding out about benefits and going through the claim process. They also include the psychological costs brought about by fear of the penalties of inadvertent error in completion of claim forms or of social stigma involved in living on means-tested benefits. For a formal treatment of these costs see Pudney et al. (forthcoming).

So we might argue that requiring people to claim means-tested benefits – rather than automating the process – is a sensible route to ensuring that those who stand to benefit most will be the ones who receive it. Hence the existence of non take-up can be used as an argument *in favour* of means-tested benefits.

Or can it? The existence of costs associated with claiming means-tested benefits implies that £1 of income from means-tested benefits is worth less than £1 of income from sources which do not have these associated costs. If we take this argument to its logical conclusion we must conclude that even those who do claim their entitlements are enjoying lower well-being than those on similar income levels who do not have to depend on means-tested benefits. Pudney et al. (forthcoming) provide a more formal

treatment of this argument. They estimate that the average monetary equivalent of Income Support claim costs was around 8% of the average entitlement.

### *Means-tested benefits reduce the incentive to save*

Means-tested pensioner benefits result in high effective tax rates on pension and other income in retirement. They therefore reduce the return to putting aside money for the future relative to spending it today. This is commonly interpreted as a disincentive to save. The Pension Credit was heralded by the Government as a boost to savings incentives because it reduced effective tax rates from 100% to 40%.

But as Emmerson (2005) discusses in another paper in this seminar series, the picture is more complicated. He demonstrates that the replacement of the MIG with Pension Credit reduced effective tax rates only for those with incomes between the basic state pension level and the MIG threshold. At incomes below the basic state pension level effective tax rates were unchanged. Above that level people were previously beyond the scope of the MIG and (leaving aside HB and CTB) were subject to zero marginal tax rates. Some of them are entitled to PC and so now face 40% marginal tax rates.

Moreover the increased generosity of Pension Credit compared with the MIG has ‘income effects’ too. That is, to achieve any given level of retirement income, less saving is needed as a result of Pension Credit. State retirement benefits that are not means-tested embody disincentives to save through such effects. The more generous they are, the less is the incentive to save. Emmerson (2005) cites empirical evidence which suggests income effects are important. Any suggestion that means-testing discourages saving while non means-tested benefits do not, needs to be challenged.

Of course if the overriding objective is to maximize the incentives for voluntary retirement saving, the state should provide neither universal nor means-tested benefits. In a civilized society, leaving citizens to sink or swim in this manner is generally considered unacceptable.

The argument that means-tested benefits discourage saving is also weakened by the existence of non take-up. We have suggested above that non take-up of means-tested benefits implies that people value income from these sources less than income from other sources. If this is the case, the more the state provides through means-tested benefits rather than universal benefits, the more people will feel the need to take steps to ensure they are *not* dependent on means-tested benefits in retirement.

### *Means-tested benefits are complex to understand and costly to administer*

It is hard to argue against the charge that the UK system of means-tested pensioner benefits is complex to understand. It is almost impossible to describe the system accurately and succinctly.

Why does it matter that the system is complicated?

- Complexity increases the time and ‘hassle’ involved in making a claim and probably has a direct effect on take-up. People may also be deterred from claiming if they cannot work out whether they would be entitled and dislike the prospect of having a claim rejected.
- The delivery of benefits is prone to administration errors and poor advice from benefits staff to potential claimants. The House of Commons Work and Pensions Select Committee inquiry into the implementation of Pension Credit provides evidence of this (Work and Pensions Committee, 2005a).
- Financial advisers may feel ill-qualified to advise those who may be within the scope of means-tested benefits when they retire. This was a view taken by the Pensions Commission.
- While it may reduce the potential effects on savings incentives (because people do not understand them), a complicated system may paralyse savings decision. Again this is a concern voiced by the Pensions Commission. There is some evidence from attitudinal data that the general complexity of the pension systems encourages ostrich-like behaviour (for example Philips and Hancock, 2005).
- A complicated system requiring claimants to provide evidence of income and savings is costly to administer. The Pensions Policy Institute (2005b) quote DWP evidence that the administrative cost of making a MIG payment for a year was 10 times that of paying a basic state pension.

### *Means-testing and compulsory saving*

It is sometimes suggested that it is unjust to compel people to contribute to pensions or save in other ways if the result is only to reduce their entitlement to means-tested benefits in retirement. Of course this is precisely what happens in the UK state pension system. All employees and self-employed people are required to contribute to the basic state pension even though if they do no other saving in retirement they will be no better off than if they had not contributed to it<sup>6</sup>. Employees are also compelled to contribute to the earnings-related component of the state pension or an equivalent non state pension. Under the pension credit they will have higher incomes than if they had not made these contributions but each extra £1 of retirement income generated will add only 60p to net income.

There is logic in the argument that it is unjust to force people to save when there is means-testing. But one could equally argue that it is necessary to compel those who can save to do so, to avoid them being a burden on the tax payer by relying on means-tested benefits. While the system of means-tested benefits remains assessed on the joint income and assets of couples, it would be difficult to set an appropriate level of compulsion for couples, who may separate and perhaps re-partner before or during retirement.

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<sup>6</sup> Strictly this is only true for single people. Couples in which both partners have acquired full basic state pensions will be better off than if they had not contributed to the basic state pension.

### 3. Options and Challenges for the Future

Previous seminars in this series have revealed support for a goal of changing the state pension system so that means-testing was needed only in exceptional circumstances, or at least for fewer pensioners than now. How could this be achieved?

The fact that means-testing has been used to provide low income pensioners with financial help with special costs such as disability and housing is one reason why it is hard to restrict means-testing to exceptional circumstances. In the case of disabilities, one might propose that state pensions should increase with age in recognition of the increasing risk of disability as people age. However, this could be poorly targeted since the correlation between age and disability is not perfect. It is even more unlikely that a policy of meeting pensioners' housing costs irrespective of their means would be judged to be a good use of public resources.

Many current suggestions for state pension reform have been aimed at increasing the number of pensioners who have state pension rights which take them (and keep them) above the GC level. Combined with abolishing the SC element of the Pension Credit, such a policy would reduce the numbers of pensioners subject to means-testing for general income maintenance. But it would still leave many within the scope of Housing or Council Tax benefit unless these two benefits were made significantly less generous.

There is growing support for a policy which ensures that more people retire with state pension rights which free them from means-testing for general income maintenance. Few see this as a route for abolishing means-testing altogether. There would still be a need for a safety net for those who had not accumulated sufficient pension rights to take them, and keep them, beyond the scope of means-tested benefits throughout retirement. In this context the problem of non take-up seems likely to remain the biggest challenge.

#### *A closer look at the problem of take-up*

Official analyses of the take-up of means-tested benefits have tended to examine each means-tested benefit separately. In recent research we found an analysis of the relationship between take-up of one pensioner benefit and take-up of the others to be illuminating (see Annex). That research pre-dated the introduction of Pension Credit and indeed the renaming of Income Support (IS) for pensioners as the Minimum Income Guarantee<sup>7</sup>. However, the findings remain relevant:

- Many pensioners claim some but not all of the means-tested benefits to which they are entitled.
- Take-up of HB and CTB approached 100% where IS was also being claimed but the reverse was not true. Despite contact with the benefits system take-up rates

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<sup>7</sup> IS operated in a similar fashion to the Guarantee Credit component of Pension Credit except that it was subject to an upper capital limit. Anyone with capital above that limit was disqualified from IS. Anyone entitled to IS was automatically entitled to maximum HB and CTB.

for IS were relatively low among those who were receiving HB and CTB (and were entitled to IS). This could be because of the claims process or because HB and CTB are seen as acceptable rebates whereas IS was seen as a ‘hand-out’.

- Although there is a general tendency for take-up to be high when entitlement is high, this is not the whole story. For example, the take-up of CTB is actually quite high given relatively low average entitlements.

There are a number of messages to be taken from this analysis:

- The process by which benefits are delivered appears to be an important influence on take-up. There is a strong case for a claim for one benefit to trigger an automatic assessment of entitlement for all others, especially where the same or similar information is needed to assess entitlement to each benefit.
- Under a system in which many pensioners are entitled to small amounts of means-tested benefits (such as the Savings Credit), it is unlikely to be feasible to achieve a high take-up rate.
- What matters most is that, considering entitlements to all the benefits together, people are not missing out on large amounts. Take-up campaigns should identify and target those who stand to gain the largest amounts.
- Non take-up needs to be monitored in terms of the total amounts of benefit that are not being claimed and take-up targets set appropriately.

The PC has brought new challenges for the delivery of means-tested benefits. Those entitled to PC are not automatically entitled to HB and CTB so the process of establishing entitlement to HB and CTB for recipients of PC is more complicated. DWP is addressing this through a project aimed at existing and new PC claimants which is intended to streamline the process of claiming HB and CTB after a PC claim (DWP, 2005b). The introduction of joint teams of Local Authority and DWP staff may improve the flow of claims from HB/CT to PC. But if the UK pensions system continues with multiple means-tested benefits for pensioners, the process of delivery of these benefits is likely to be key to their take-up. The Work and Pension committee’s inquiry into the implementation of Pension Credit suggests that different pensioners want to be able claim their entitlements in different ways (e.g. not only by telephone) and through different outlets. However once in the system, they should be assessed for entitlement to all benefits.

### *In search of simplification*

It is tempting to suggest that the solution to the problems of means-testing is simplification. Simplifying the entitlement criteria might facilitate assessment without the need for pensioners to make a claim and provide detailed information on their incomes and savings. One option is a Minimum Pension Guarantee that assesses entitlement only against pension income (see for example Atkinson et al. 2002). As long as it were assessed on the basis of individuals rather than couples it could probably be assessed automatically. But it would provide incentives to save in forms

other than pensions. It is sometimes suggested that capital should not be taken into account in the means tests but again this could distort savings patterns. It may be that the solution lies in streamlining the process of claiming and delivering means-tested benefits rather than in simplifying the rules.

#### **4. Questions for debate**

The role of means-testing in the UK state pension system is central to debates about the reform of the pension system as a whole. Rather than repeat those debates in this seminar, the following more focused questions are suggested:

1. Under the current system of uprating Pension Credit, increasing proportions of pensioners will be entitled to this means-tested benefit. Is this growth desirable? Will it (should it?) lead to an entirely means-tested system? Would this require compulsory contributions to private pensions for those who earn above a certain level, similar to the Australian system (where there appears to be less concern over non take-up)?
2. What are the practical barriers to automatic assessment of entitlement to all benefits once a claim has been made for one benefit? Are they insurmountable?
3. 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? What information would the state need to hold routinely on all pensioners?
4. Would it be desirable and feasible to have a single means-tested benefit integrating HB and CTB with general income maintenance as a way to reduce non take-up and achieve some administrative simplification?
5. 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?
6. 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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## Annex: An analysis of multiple benefit take-up

Figure 2 is reproduced from Hancock et al. (2004) where full details of the underlying analysis can be found. The figure draws on analysis of Family Resources Survey (FRS) data and relates to a subset of pensioners who were at least five years beyond state pension age<sup>8</sup>. It plots take-up rates for each of Income Support (IS), Housing Benefit (HB) and Council Tax Benefit (CTB) among groups of pensioners classified by the other benefits they are receiving. The horizontal axis, measuring mean entitlement to the benefit in question, represents the average additional income that would be generated by extending a claim from the benefits already received to include also the benefit in question<sup>9</sup>. For example, the point in Figure 4 labelled  $\{IS|HB,CTB,n=1,261\}$  indicates that there are 1,261 FRS respondents who were entitled to IS, and were also receiving payments of HB and CTB. Among this group, the average marginal benefit of extending the claim from HB and CTB to include IS would be £20.45 per week. 77.2% of these respondents did indeed claim IS.<sup>10</sup>

The scatter of points in Figure 2 is broadly consistent with the general finding of a positive relationship between take-up and entitlement. However, CTB is something of an outlier, since compared with HB and IS, take-up is high given the typically small CTB entitlement. The points in Figure 2 fall into four groupings. Those marked with the symbol  $\square$  refer to take-up of individual benefits by people receiving no other benefit income. These take-up rates are low (ranging from 10-40%). There are two probable explanations. First, people with a general reluctance or inability to claim benefits of any kind will tend to be in these groups, thus lowering average take-up rates. Secondly, the process of claiming one benefit will often generate information on and opportunities to claim further benefits, so one would expect receipt of one benefit to raise the claim rates for others.

Points marked with the symbols  $\circ$  and  $\Delta$  refer respectively to take-up of CTB and HB among those who were entitled to these benefits and also receiving another benefit. Take-up is close to 100% among these groups<sup>11</sup>. In contrast, the group marked with the symbol  $\diamond$ , representing those who were entitled to IS and also receiving another benefit, have a significantly lower claim rate. Despite existing contact with the benefit system and reasonably high average IS entitlement, the take-up rate lies between 60% and 80%. One explanation involves the nature of the claims process. Making an IS claim could be expected to lead to a claim for HB and CTB, since the application forms were issued together and those entitled to IS were by definition entitled to HB/CTB if they paid rent/council tax. The reverse was not always true. A second possible explanation of the difference between IS and HB/CTB take-up is that IS carries negative associations which do not exist for the two housing-related benefits. Income supplements like IS/MIG/PC are sometimes perceived as state

<sup>8</sup> For analytical simplicity the sample was restricted in other minor ways. However, the general picture and conclusions are very similar for a sample of all pensioner units (see Hancock et al, 2004).

<sup>9</sup> There is no allowance for the benefits, such as spectacle vouchers, which were 'passported' via IS (see Sutherland (2003) for a discussion of what can and cannot be deduced from the FRS on the value of these benefits).

<sup>10</sup> Note that these groups are not disjoint. For example, some of the individuals in the group  $\{IS|CTB;n=522\}$  will also appear as non-take-up cases in the groups  $\{HB|IS,CTB\}$  and  $\{HB|CTB\}$ .

<sup>11</sup> The HB|IS group has a lower take-up rate, but is numerically negligible.

‘handouts’, while HB and CTB are seen more positively as a reduction in a charge for rent or in tax liability.

**Figure 2: Mean benefit-specific take-up rates conditional on receipt of other benefits**

