

The abolition of Adult Dependency Increases for pensioners

PPI Briefing Note Number 119

Introduction

Adult Dependency Increases (ADIs) were extra payments worth up to £70 per week that an individual receiving a State Pension could claim if they had a spouse or partner who;

- Does not have an income of their own, or
- Has a very low independent income, or
- Does not get State Pension or any other State benefit themselves

ADIs were paid directly to the claimant, not to the spouse or partner. In 2006, the Government felt that changes to the way people worked and wholesale reform of the State Pension would make ADIs unnecessary. The subsequent 2007 Pensions Act made provision for ADIs to be abolished, with no new claims to be made after April 2010, and all payments to cease as of April 6th, 2020.¹

This Briefing Note shows that nearly 9,000 pensioner couples could lose up to £70 per week, marking a significant loss for people who are already on a low retirement income. It examines the reasons for the abolition of ADIs, the potential financial impact upon those people whose claims ceased on April 6 2020 and the options available to them to maintain their standard of living if they lose out financially.

Department for Work and Pensions (DWP) estimates of most recent claims suggest that some people could lose up to £3,640 (with an average of £2,980) per year, and that while many might be able to make up some or all of this loss by claiming other benefits, many will not be eligible for them, increasing their chances of facing financial hardship in later life.

Background

Adult Dependency Increases (ADIs) were designed to help couples where one person had little or no income of their own.

ADIs had their origins in the years following the Second World War, and were originally intended to supplement the Old Age Pension for single breadwinner households where the breadwinner had reached State Pension age and the other, with no independent income, had not. This usually took the form of a husband making the claim for a dependent wife who would not have been in paid employment for extensive periods.

ADIs were designed to bridge the gap between the sole breadwinner reaching State Pension age (when their income would probably be lower than when they were working), and the dependent adult reaching their State Pension age.

As working patterns changed over the latter half of the 20th century, more women went out to work, meaning that they were no longer financially dependent upon their husbands' incomes. This meant that they were more able to build up National Insurance contributions to qualify for a State Pension in their own right.



Changes in employment and pensions meant that ADIs became less relevant

In 2006, the Government announced that the basis for ADIs was no longer relevant in a society where partnerships of equals was the norm, and that expenditure would be better targeted at providing better state pensions, particularly for women, improving women's retirement outcomes and their independence. The subsequent 2007 Pensions Act set out a timetable for the abolition of ADIs, with no new claims accepted after April 2010, and all payments to cease on April 6, 2020.

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Some couples could lose more than £3,600 per year

People who are currently receiving ADIs will cease to do so after April 6, 2020. This means that some couples could lose a significant portion of their income, and face difficulties in maintaining their standard of living.

The rate for ADIs in 2019/20 was £70 per week, providing an annual income of £3,640.² If the claimant's National Insurance contributions were not sufficient to ensure eligibility for a full State Pension, the amount would be lower. The average payment for ADIs as of May 2019 was £57.36, equating to an annual income of £2,983.³

Where one partner has little or no income of their own, losing ADIs could represent the loss of a significant proportion of a couple's income and may have a negative impact on both their standard of living and their quality of life.

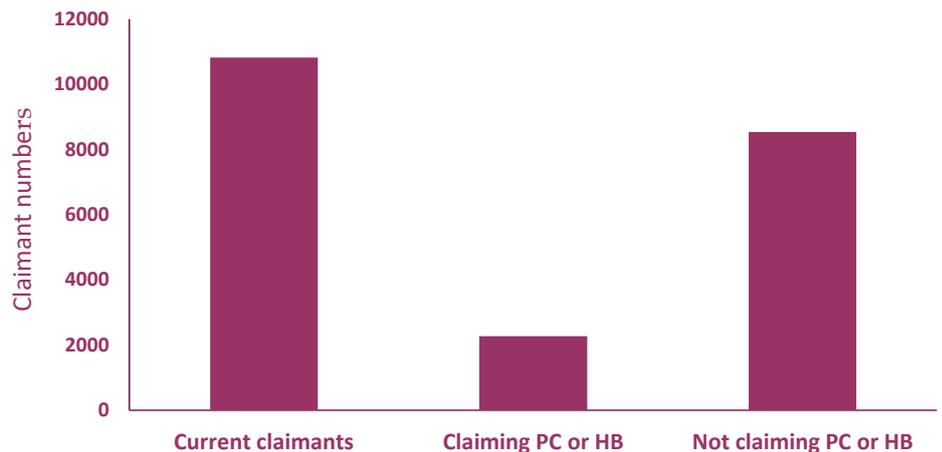
In a case where the older claimant is a 75-year old man who lives to his projected life expectancy of 86, the couple could lose over £46,000 of income as a result of the abolition of ADIs.

Almost 11,000 people were still claiming ADIs at the last count

As of May 2019, there were 10,817 ADI cases still in payment. Of these, 2,274 claimants were also receiving Pension Credit or Housing Benefit in retirement.⁴ Both of these benefits are means-tested benefits, which means that they will automatically top-up the claimant's income to the amount that the Government sets

Chart 1: More than 8,000 couples could lose out as ADIs are abolished

Claimant numbers by current means-tested benefit status, May 2019



Source: Derived from May 2019, UK, DWP

as the minimum they need to live on in retirement. Most of these 2,274 people are likely to see some or all of the losses incurred by the abolition of ADIs made up by increases in these other benefits (Chart 1).

However, this leaves 8,543 cases that are at risk of losing their income from ADIs altogether.⁵

All of those current claimants will now be aged 75 or over, as they would have had to have been aged 65 or over in order to be claiming in 2010 when new claims ceased. DWP does not collect data on the age of the dependent spouse or partner, so it is not currently possible to determine how long these claims might last into the future. As an estimate, the average life expectancy of a 75 year-old man is 86, so it could be reasonably expected that a number of claims will continue well past 2030.

A large number of people could lose a significant proportion of their income

The current advice for claimants who might lose out is to check whether they might be eligible for either Pension Credit or Universal Credit to make up the shortfall.⁶ However, this may not be a viable alternative for many people, as couples of mixed ages are no longer allowed to claim the benefit.

Pension Credit can make up the losses incurred by the abolition of ADIs. A couple currently living on an existing basic State Pension of £134.25, plus an ADI of £70 would have a total weekly income of £214.25. If they were to then claim Pension Credit, they would be eligible for the guaranteed amount of £265.20. In this case, the weekly gain would be £40.95. However, new claims for Pension Credit where

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the younger partner is under State Pension age are restricted only to those who are already in receipt of Housing Benefit.

Other changes to the State Pension will compound the effects of ADI reform

While it is widely acknowledged that the new State Pension is more redistributive and fairer towards people who have taken time out of work, particularly for those with caring responsibilities, other recent reforms could mean that the loss of ADIs may exacerbate the low income effect.

The equalisation of State Pension age means women will wait longer to receive their State Pension

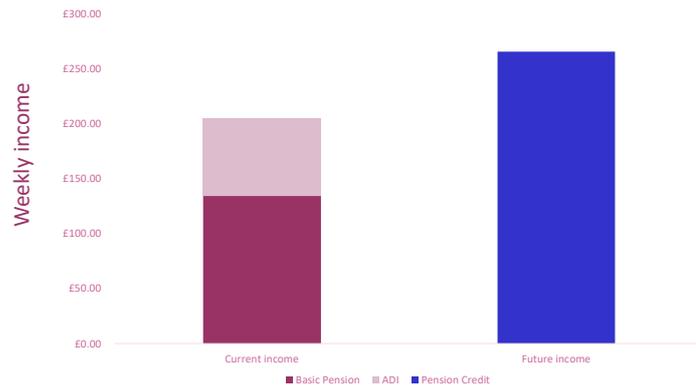
As the age at which women can claim the State Pension has equalised with men's at age 65, and is rising to age 66, some ADI claimants will have to wait longer for the younger partner to reach State Pension age. This means that couples where one person has no independent income will be reliant solely upon the retirement income of the older person. This will undoubtedly have a negative impact upon the standard of living of couples affected.

Fewer people will be eligible for Pension Credit

Changes to Pension Credit in 2019 meant that mixed-age couples, where one person was above State Pension age and the other below, could no longer claim the benefit unless they were already entitled to Housing Benefit.⁷ Given the nature of ADI, where the benefit was designed to assist people

Chart 2: Pension Credit can be worth more than a Basic State Pension plus ADIs

Weekly income for a basic State Pension topped up by ADIs and Pension Credit for couples



before they reached State Pension age all current claimants would fall into this category.

The expectation from DWP is that mixed-age couples should make a claim for Universal Credit,⁸ but this is unlikely to provide the same level of income or security for couples that they would have received from State Pension topped up with an ADI.

For 2020-21, Universal Credit pays at a maximum £137.09 per week for a couple aged over 25, whereas Pension Credit pays a minimum guarantee of £265.20 for a couple.⁹

Pension Credit also passports claimants to other benefits, such as full Housing Benefit, Council Tax Reduction and Cold Weather Payments, whereas Universal Credit does not. Universal Credit does have a housing component, but this is usually less generous than that for Pension Credit claimants.

Some couples where one is caring for the other may be eligible to claim Carer's Allowance, which is worth £67.25 per week from April 2020,¹⁰ which could make up for some of the loss from ADIs if they had not been claiming it already. Carer's Allowance could not be claimed if an ADI was already being paid.

Women may also lose out if they become widowed or divorced

Before the new State Pension, it was possible for a widow or divorced woman to claim some State Pension based upon her husband's National Insurance contributions.

Under the new State Pension, this is generally no longer the case,¹¹ and women who become widowed or divorced are likely to lose out and have to claim Pension Credit as their main or sole source of income in retirement if they are not eligible for a State Pension.

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Conclusions

When ADIs were introduced, many women relied on their husbands' incomes both throughout working life and retirement. ADIs were designed to supplement a husband's income by recognising the additional costs faced by a couple.

Changes in the UK labour market and pension reforms have meant that ADIs no longer reflect the majority of people's working lives. It was against this background that in 2007 the then Parliament agreed that no new ADI claims could be made from April 2010, and

existing payments would end no later than 6 April 2020.

While it is widely acknowledged that the new State Pension is more redistributive and fairer towards people who have taken time out of work, particularly for those with caring responsibilities, other recent reforms could mean that the loss of ADIs may exacerbate the low income effect.

However, it remains that there are still couples where one person has not managed to acquire full eligibility for a State Pension and has no inde-

pendent income, and the loss of ADIs could well be irreplaceable and lead to them experiencing hardship and a lower quality of life in retirement.

Some couples might be able to make up some of their income by claiming other benefits, but others could lose up to £3,640 (with an average of £2,980) if they are not eligible, making for a significant loss of retirement income.

References

¹<http://www.legislation.gov.uk/ukpga/2007/22/contents>

²Weekly amounts calculated by PPI.

³DWP calculations based on May 2019 UK data

⁴DWP calculations based on May 2019 UK data

⁵A number of claimants will be living abroad, and will not be able to claim either Pension Credit or Universal Credit for this reason.

⁶<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2020-02-13/1999>

⁷See Baker, M. for PPI, (2019), Briefing Note 113 The Impact of Pension Credit Reform for Mixed Age Couples for more detailed information.

⁸Correspondence with DWP

⁹Correspondence with DWP

¹⁰<https://www.gov.uk/carers-allowance>

¹¹There remain some circumstances in which a divorced or widowed person can derive retirement income from their partner's state pension. See <https://www.gov.uk/state-pension-through-partner>



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