NATIONAL PENSIONERS CONVENTION

Intergenerational Fairness

Work and Pensions Select Committee Inquiry

Submission from the National Pensioners Convention

February 2016

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Summary

- Pensioners have not escaped austerity, and neither have they deliberately accumulated housing wealth. Like other age groups within the pensioner population, health, property wealth and income are not evenly or equally distributed among the baby boomer generation.
- Older people make a huge financial and social contribution to the life of the nation. Even after the state has paid pensions, health care and other benefits, pensioners provide the Exchequer with an additional £40bn through taxes, volunteering and unpaid caring.
- Over the last five years, the triple lock has provided smaller increases in the basic state pension than the previous uprating system of linking pensions to the greater of the Retail Price Index or 2.5%. Talk of the triple lock being unsustainable is therefore grossly premature, based as it is on just one year of higher indexation. Critics of the triple lock have yet to put forward a credible alternative that would enable pensioners' incomes to keep pace with the rest of the population.
- Successive governments have used universal benefits to improve the wellbeing and welfare of Britain's older population, as an alternative to raising the basic state pension. These benefits play an important role in maintaining independence, mobility and tackling social exclusion. Means-testing by comparison is an inefficient, bureaucratic and more expensive way of providing this support.
- Fuel poverty and winter deaths among Britain's elderly are a national scandal. The winter fuel allowance is a vital part of tackling this problem. The taxation system could be used to recoup the allowance from those who do not need it.
- The media, think-tanks and some politicians have created a phoney war between the generations, when the real unfairness and inequality in society is between the wealthy and the rest of the population.

Introduction

1.1 This submission is made on behalf of the National Pensioners Convention (NPC); Britain's largest pensioner organisation representing around 1.5m older people, active in over 1000 affiliated groups across the UK. The NPC is run by and for pensioners and campaigns for improvements to the income, health and welfare of both today's and tomorrow's pensioners.

1.2 We are concerned that the statement announcing this inquiry states that *"the current generation of people in or approaching retirement will over the course of their lifetimes have enjoyed and accumulated much more housing and financial wealth, public service usage, and welfare and pension entitlements than more recent generations can hope to receive".* This is then used as the basis for the assessments and questions the inquiry will consider, which imply that the outcome will be a plan to undermine the basic (and limited) rights of current and soon-to-be pensioners, and therefore of younger generations when they reach pension age.

1.3 Since the publication in 2010 of David Willetts's book "*The Pinch – how the baby boomers took their children's future*", intergenerational fairness has rarely been out of the public eye, but in almost all cases the terms of the debate have been extremely narrow. It usually starts with the assertion that pensioners have escaped the last five years of austerity and deliberately accumulated considerable wealth at the expense of their children and grandchildren.

1.4. We submit that instead of creating a division between young and old and encouraging a phoney war between the generations, the Work and Pensions Select Committee should aim to improve the income, health and welfare of all generations and acknowledge that the real unfairness and inequality in Britain is between the very rich and the rest of the society.

1.5 It is therefore essential that this inquiry refrains from prejudging the question of intergenerational fairness before it has considered a wider range of views. Framing the debate in the negative way it is currently seen will only lead to more ill-informed and disconnected arguments. This submission therefore aims to redress the balance to the debate.

2. Have pensioners escaped austerity?

2.1 Central to the issue of fairness, is the claim that older people have been protected from the effects and impact of austerity. Such claims are largely ignorant of the reality of day-to-day life for millions of older people, and a quick snapshot of modern living for the older generation in the UK shows:

- Almost 40% of those aged 65 and over in the UK experienced poverty at least once between 2010 and 2013, compared with around 30% of those under 65 (1)
- The proportion of pensioners in relative and absolute low income (after housing costs) both increased in 2013/14 by 1% point to 14% and 16% respectively. These figures show 1.6 million pensioners in relative low in-come, whilst there were 1.9 million under the absolute low income measure of 60% median population income (2)
- 42% of older people (5.8m) in the UK said they have struggled to afford essential items such as food, gas, electricity (3)
- There has been a cut of £4.6bn to adult social care budgets since 2011 and as a result 1.5m older people in England have care and support needs that the state does not meet and either have to fund themselves of go without (4)
- Meals on wheels services have been reduced over the last five years from 300,000 to just 109,000. At the same time, the average price of a meal has increased by 22% and malnutrition among older people costs the NHS an estimated £13bn a year (5)
- There is a strong relationship between poor insulation and heating of houses, low indoor temperature and excess winter deaths of older people. Last winter, this reached a fifteen year high of 43,900 cold related deaths (6). There are approximately 3.5m older households in fuel poverty in the UK. This equates to about 6 million older people over 60 (7)
- 31% of older people are said to be living in a non-decent home, compared to 28% for all households. This includes having problems with damp, energy inefficiency and homes in need of serious repair (8)

2.2 There is little to be gained from having a race to the bottom. This is a divisive tactic that is often used to pitch young and old against each other, rather than concerning themselves with those responsible for the austerity measures and their consequences.

3. The “Baby Boomer” Generation

3.1 Of course, there are well off older people, but the inaccurate perception of those born after WWII, as wealthy, high users of public services for which they haven’t contributed has coloured the debate on policies such as universal pensioner benefits. There is no doubt that those aged 65 to 95 are not a single group; for example, 6% of over 75s are in the top income bracket - the same number as the very poorest. Equally, the picture is similar among the baby boomer generation.

3.2 When it comes to health, baby boomer males in the most deprived areas of the country could expect to live 52.2 years in ‘good’ health, compared with males in the least deprived areas with 70.5 years in ‘good’ health. Likewise, females in the most deprived areas could expect to live 52.4 years in ‘good’ health, compared with the 71.3 years of females in the least deprived areas (9).

3.3 When it comes to pension income, nearly 2 million people aged 55-64 do not have any private pension savings at all (19% of men and 37% of women). Amongst the 55-64 age group, total median pension wealth is £135,900 after excluding all individuals who have saved nothing. This could deliver an annual income of £7,638 – less than the amount currently available in Pension Credit to Britain’s poorest pensioners (10).

3.4 At the same time older people are vilified for having bought a house which over the decades has – through no fault of their own – dramatically risen in value. (Along the same lines younger people could be accused of having deliberately organised low interest rates that have left older savers with little return!).

3.5 Among households headed by someone aged 55-64, just under a half (48%) own their property outright. Nearly a quarter (24%) are renting, and this figure is rising (11). Figures also show there are an estimated 2.6 million people with assets of greater than £100,000, but incomes of less than £15,000. Research on mortgage debt published in 2013 revealed that two in ten households aged 60-64 year olds had outstanding mortgage borrowing on their main residence, whilst one in ten of those aged 65 and over still have outstanding mortgage borrowing, with a debt on average over £50,000 (12).

3.6 Successive government policy has also relied for decades on the vast majority of older people benefitting from housing wealth so that the state would not be liable to fund any long-term care costs. Under existing care policy, the more pensioners without assets and property the greater the likelihood that the state would have to pay for those in nursing homes. So on the one hand older people are criticised for owning their own homes, whilst on the other the state is relying on them to use that wealth to fund their long-term care.

3.7 Even the picture among those older people who are lucky enough to own their own homes is not always rosy. The cost of maintenance, repair and improvements can be a burden to those on low incomes, rather than a source of asset-based wealth. Retirement housing makes up just 5-6% of all older people’s housing, but only around 105,000 (less than 20%) of retirement units are available for sale, the rest are rental. Over half the stock are one bedroom homes, while two thirds are apartments and 60% are owned by housing associations (13). The limited supply of specialist housing for older homeowners restricts the options available and to some extent, older homeowners may be inhibited from moving by the lack of attractive alternative accommodation, as well as the costs and the stress associated with moving house.

4. Are older people paying their way?

4.1 In March 2011, the WRVS commissioned a detailed analysis of the socio-economic contribution made by older people to the UK economy, entitled Gold Age Pensioners (14). The research showed that older people make a very significant contribution to the national economy, both through national and local taxes, as well as their wider contributions as a result of their spending power, their formal and informal volunteering and through unpaid caring.

4.2 In 2010, whilst the overall cost to the Exchequer of providing pensions, age-related welfare payments, benefits and health services was found to be £136.2bn, the revenues from older people, either financial or otherwise, added up to a staggering £175.8bn. The overall net contribution by older people to the economy was therefore almost £40bn a year – and estimated to rise to almost £75bn by 2030.

4.3 Not only that, but the current attacks on universal pensioner benefits have overlooked the fact that schemes like free bus travel often enable older people to make the extra contribution that is not only keeping our communities going, but also more than paying their way in the economy. Moreover, there has been little mention of the additional financial pressures that would arise if universal pensioner benefits were withdrawn and demand on health and social care services were to rise, or the impact that would occur on young parents and their ability to be part of the workforce if grandparents were unable to provide unpaid childcare.

5. Pensions and the reality behind the triple lock

5.1 Since 1980 and the removal of the link between the state pension and average earnings, the proportion of state pension to wages has been in decline. By 2015 it had fallen from 26 to 18% of average wages (15).

5.2 After years of campaigning and pressure, the Coalition government agreed in 2010 to introduce the so-called 'triple lock' guarantee that would raise the state pension annually in line with the best of earnings, inflation or 2.5%. As a result of this policy, the basic state pension will rise by 2.9% in April which has led to calls for the policy to be abandoned because it is "unsustainable".

5.3 However, to make such a claim on the basis of a five year policy seems rather inaccurate. In fact, the Department for Work and Pensions released figures showing the basic state pension would actually be £1.15 a week higher in 2015 if the government had not changed the rules on annual increases (16).

5.4 Up to 2010, the basic state pension had risen in line with the higher of the Retail Price Index (RPI) or 2.5%. In June of that year, the Chancellor announced that the RPI would be replaced by the lower Consumer Price Index (CPI). The result meant that the basic state pension would have been higher for four years of the Parliament under the old rules, rather than using the triple lock. By April 2015 it would have been £117.10 a week rather than £115.95 – £58.90 a year more. The total loss to someone receiving the full basic state pension over the five years of the triple lock has therefore been £163.80.

5.5 Whilst the claim may be that the triple lock is financially unsustainable because it has been too generous, the reality is that the change from the RPI to the CPI has had a much greater and more negative impact on the income of older people. Moreover, if the triple lock were to be removed, there is little information as to what

would be put in its place and those advocating change have yet to provide a credible answer.
5.6 Similarly, the fact that SERPS and final salary occupational pensions have given some older people a better income in retirement than would otherwise have been the case is testament to the work that was done in securing those rights and benefits in the 1970s and beyond. The argument that such approaches are "too generous" ignores what life would be like for millions of older people if these payments did not exist.

6. Universal pensioner benefits
6.1 The austerity agenda started by the Coalition government has been used to justify an attempt to undermine the principles of universalism, and numerous calls have emerged claiming that the likes of Sir Alan Sugar should no longer receive a concessionary bus pass. The fact that he didn't have a bus pass was immaterial to the call for means-testing of such benefits – but not just at the level of income of those like the entrepreneur, but much lower down the income scale.
6.2 It should be acknowledged that many of these universal benefits have been introduced over time because successive governments were reluctant to improve the state pension system. Having one of the least adequate pensions in the developed world, recently ranked 32nd out of 34 countries by the OECD (17) effectively forced governments to provide additional support to its older population, or witness the inevitable rise in pensioner hardship.
6.3 It is also quite clear that the actual cost of paying universal pensioner benefits is massively outweighed by both the amount that older people contribute back to the economy (either directly or indirectly) and the money such benefits save by reducing need on other state support (See Section 4).
6.4 Despite this evidence, the select committee has singled out the Winter Fuel Allowance as part of its inquiry. Fuel poverty is a national scandal which touches around one in three pensioner households and results in some of the poorest older people having to choose between buying food or putting the heating on. The main causes of the problem are low pensioner income, high energy costs and a lack of energy efficient housing. When the winter fuel allowance was first introduced around ten years ago, it covered a third of the average bill. Today, it will barely cover an eighth.
6.5 There is also the annual tragedy of the winter death rate among Britain's elderly. During the winter of 2014/15, 43,900 older people in England and Wales died from cold-related illnesses. This represented a 140% increase on the previous year's figure. There has been a consistent failure to tackle this issue over decades, but there can be little doubt that reducing the value of or access to the winter fuel allowance would do nothing to help solve the problem.
6.6 One of the main arguments being advanced is that it is wasteful, inefficient and unfair to pay richer pensioners the winter fuel allowance. At the last election, Labour put forward the suggestion of withdrawing the payment altogether from those with incomes of more than approximately £42,000 a year. However, given the relatively small number of pensioners falling into this bracket, the policy was more of a gesture than a sound economic argument.
6.7 The effectiveness of means-testing is also controversial. Considerable evidence exists to show that even after more than a decade, the means-tested Pension Credit still fails to reach up to 2m older people who are eligible, but do not claim through a combination of complexity, intrusion, pride and a distrust of officialdom. There is very

little to suggest that the same pattern would not be repeated with the winter fuel allowance. In fact, if it were means-tested, there would be a considerable number of those eligible who would simply lose it, despite the claims that the means-test was being introduced to safeguard their interests and deter the rich.
6.8 Wherever the means-testing line is drawn, those who are just above will end up being the biggest losers. The small number of wealthy pensioners would of course be largely unaffected, but those with very modest incomes would find that after they had paid their additional fuel costs, their incomes would be below the poverty threshold, but they would be unable to claim any additional assistance.
6.9 It is also well documented that a means-tested system of paying benefits costs around 10 times as much as a universal payment. It would require the introduction of a large bureaucracy to administer the system which would offset some of the savings that would flow from scrapping universal benefits.
6.10 Fundamentally, if society is truly outraged by "better-off" pensioners receiving universal benefits such as the winter fuel allowance, it is perfectly possible to use the tax system to recoup extra funds without the need to resort to a means-test.

7. Is there unfairness between the generations?

7.1 Not all pensioners are poor – in the same way that not all 25 year olds are poor. But inequality is a growing problem in the UK. While austerity measures in Britain continue to hit the poorest families hardest, a wealthy elite has seen their incomes spiral upwards. This is not a question of age, but of social class and wealth.
7.2 For example, the five richest families in the UK are wealthier than the bottom 20% of the entire population (18). That's just five households with more money than 12.6 million people – almost the same as the number of people living below the poverty line in the UK.
7.3 Government should do much more to raise revenues from those who can afford it – by clamping down on companies and individuals who avoid paying their fair share of tax and by starting to explore greater taxation of extreme wealth – rather than relying on cuts to services, pensions or benefits that have a disproportionate impact on the poorest in society.
7.4 The generations also have a number of shared concerns including issues surrounding housing, transport and pensions, but nowhere is this shared agenda more startling than on the issue of retirement and employment. Youth unemployment is higher than ever, yet the government is intent on forcing older people to work to 68 and beyond. Pensioners want to support their grandchildren and recognise the need to move out of the workplace in order that young people can start their careers.
7.5 Young people's falling long-term economic prospects are not down to older people in society hoarding all the wealth. Increased university tuition fees, unemployment, poorer job opportunities, lower pay and rapid house price inflation are the real causes of hardship amongst the young (19). Restricting pensioner expenditure by the state would therefore do little to address the difficulties young people face. In reality, means-testing the winter fuel allowance would have little impact on intergenerational inequality; and there has never been any data to show that 18 year olds are demanding that their grandparents' bus passes or winter fuel allowances should be taken away.

Recommendations

8.1 Improving the state pension is key to both existing and future generations having financial security in retirement. More needs to be done to raise its level to 70% of the Living Wage (outside London) set by the Living Wage Foundation.

8.2 The triple lock should be applied to all state pensions, including the existing state second pension. In addition, the Retail Price Index should be added to the lock until such time as a new Household Inflation Index has been agreed.

8.3 Enabling older people to keep warm during winter is a basic requirement of a civilised society. The winter fuel allowance, alongside other pensioner benefits should therefore remain universal, and restored to its pre-2010 levels.

8.4 The taxation system should be used to recoup the cost of the winter fuel allowance from those pensioners with incomes above the higher rate of income tax, currently £42,385 a year.

8.5 New models of housing with care and support, and improved choices for older people to live independently in the community need to be developed, alongside practical help for those who wish to move. There also needs to be a nationwide programme to assist older people in maintaining their homes with access to care and repair services and promoting trusted traders.

8.6 Tackling rising inequality within Britain should be an urgent task of government. This should look at all factors which enable a small group to pass on human, social and cultural capital and which contributes to wide inequalities of life chances amongst younger generations.

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