Unkindest Cuts: the impact on older people

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Introduction

The Coalition government claims that its measures to reduce the stock-market-created deficit are fair, distributing the pain across the whole of society. However, the Institute for Fiscal Studies confirms that, contrary to Treasury claims, the tax and benefit cuts are regressive, with the brunt of the cuts borne by households on the lowest income.

In contrast to the much-publicised devastating attacks on working age people's standard of living, older people may seem to have escaped lightly. But if we look at the small print behind the screaming headlines, this is seen to be an illusion. Along with lone parents and their children, pensioners, especially women, are already among the poorest in society. Over half of pensioner households are poor enough to be eligible for a means tested top-up. A fifth of pensioners live below the official OECD poverty line (about £170/week for a lone pensioner) and 90% of these are in persistent poverty (poor in 3 of the 4 years measured). Pensioners differ from the working age population in having no opportunity to increase their income in future: those who are poor remain so, while those on slightly higher incomes face a decline into poverty and means testing as they age, due to inadequate indexing of pensions.

In this article, I outline how cuts and tax rises in the 2010 Budget and Comprehensive Spending Review are likely to worsen the situation of low income pensioners (those below the median income of around £230/week per person) and of older workers (those aged between 50 and state pension age).

State pensions and benefits

Since indexation of state pensions to national average earnings link was removed in 1980 by the Thatcher government, the *Basic State Pension* (BSP) has declined from about 20% to about 15% of average earnings, one of the lowest state pensions in the OECD. Following years of campaigning, pensioners won a promise from New Labour to re-index the BSP by 2015 to the highest of national average earnings, Retail Price Index (RPI) or 2.5% but without restoring the value lost over three decades. In the Coalition's 2010 Budget, it was announced that indexation of BSP will switch in 2012 from RPI to the Consumer Price Index (CPI) which is between 1 and 2% lower, and that the State Earnings Related Pension Scheme (SERPS) and State Second Pension (S2P) will be indexed in payment to CPI instead of RPI from April 2011. There is no evidence that CPI is a more appropriate index than RPI for pensioners. Even RPI may be too low to match price inflation experienced by pensioners. For example, escalation of council tax and utility bills caused pensioners' cost of living for the year Sept 2005-6 to rise by nearly 9%, far above RPI, due to pensioners' different mix of spending on services, utilities, food and council tax (Bootle and Loynes 2006). The shift to the CPI index will exacerbate the trend for pensioners to sink into poverty as they age.

Pension Credit (PC) the means tested top-up for the poorest pensioners, will be reduced by freezing the Savings Credit element for 4 years from 2011. This will curb the rising proportion of pensioners eligible for PC but will also increase the proportion who experience a £ for £ loss of benefits, penalising them for having small additional pension savings. About 1.7 million pensioner households will lose an average of £3.20/week.

Council services and benefits

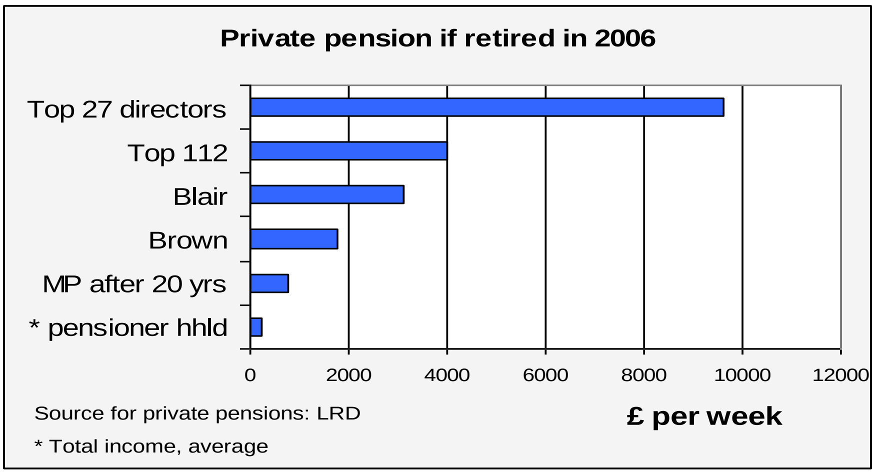
Councils are facing reduced central grant averaging 7% a year over the next four years and warn that essential services for the old and vulnerable will be at risk. The extra £2bn promised for social care over 4-5 years is not sufficient to meet needs and nor is it ring-fenced for social care. The consequent cuts in local services - meals on wheels, sheltered housing, domiciliary services and long term care in residential and nursing homes - will affect pensioners disproportionately. Services have already been drastically cut or means tested over the past decade, with rising charges to service users. Now eight out of ten councils are preparing to provide domiciliary services only to the severely disabled. Disability (limited activities of daily living) affects 40% of individuals at age 60 and 75% of those aged over 80, while severe disability affects 20% at 60 and 50% over age 80 (Banks et al, 2010: 260-1), cash-strapped councils are likely to increase charges to users, many of them unable to pay. In sheltered housing schemes, wardens are being removed, depriving frail older people of support in case of health emergencies. Councils are closing and selling off their few remaining residential care homes to private providers and with pressures to minimise costs, the quality of care is at risk. Abuse and neglect of vulnerable residents are already too common; this can only worsen as resources for staff pay and training are squeezed.

Housing Benefit (HB) payments are set to be capped for private tenants at 30% instead of 50% of average local rents in 2011, while similar capping is expected to follow in social housing. For the one third of pensioners aged over 65 are tenants, cuts in HB could drive them out of their area, breaking up the social support networks on which they depend and risking their social exclusion. Some 5% of pensioners live in private rented accommodation, a quarter in social housing. Because HB will in future be indexed to CPI, the gap between HB and the rent demanded is likely to widen. The NHS faces creeping privatisation, as planned marketised commissioning will encourage private healthcare providers to bid for contracts. They are most likely to target health services on those most profitable to treat, rather than older people with their typically chronic conditions. Longstanding limiting illness affects 30% of those aged 60, rising to 50% over age 80 (Banks et al. 2010: 260-1).

Private pensions and savings

Private pensions (occupational or personal) which New Labour hoped would compensate for the declining value of state pensions, have not filled the gap. They were received by 71% of men and only 43% of women aged over 65 (Arber and Ginn 2004: 11). This leaves a large proportion of pensioners relying entirely on state pensions and benefits. Even among those receiving a private pension, the amounts varied widely with class and gender, ranging in 2001 from £172/week for men who had worked in professional/managerial occupations to only £28/week for women in routine and manual occupations (ibid). Thus private pensions transmit labour market inequalities into later life, penalising women for their earlier domestic and caring roles that reduced their capacity to save in a private pension. As state pensions provide a declining share of pensioner income, their redistributive effect is eroded, allowing income inequality to rise. The scale of private pension inequality is shown in Figure 1.

Figure 1 Private pension inequality



Regulatory change in recent years will allow many occupational pension schemes to reduce their indexing formula to one which fails to keep pace with inflation. Unless scheme rules specify use of RPI, CPI will be used in future. Moreover, the Coalition is considering legislating to over-ride scheme rules that specify RPI, enabling them too to reduce benefits payable. Thus pensioners will see both state and private pensions falling behind rises in their cost of living.

Most pensioners have modest savings for emergencies. But with interest rates far below RPI (0.5% vs 4.2%) these savings, far from providing a little extra income, are declining in value each year.

Pensioner spending on essentials

Half of pensioners live on less than £228/week (Banks et al. 2010: 80) and a fifth on less than the poverty level (60% of median population income, about £170/week). For these pensioners on low or modest incomes, the bulk of spending is on essentials such as council tax, heating costs, electricity and food. Other unavoidable costs include rent if a tenant, home repair/maintenance if an owner occupier and, more rarely, a mortgage as well as extra services if disabled. Pensioners spent an average 30% of their income on food, domestic fuel and clothing in the period 2004-8 but those in the lowest quintile of income spent nearly half their income on these basics (Banks et al. 2010: 101). Domestic fuel costs, rising in the decade from 1997-2007 by 20% above inflation, absorbed an increasing share of pensioners' income. From 2004-8, domestic fuel prices rose nearly 60% above inflation (RPI) while food prices rose by 7% above inflation (Banks et al. 2010: 95). Private tenants and low income home-owners tend to live in less energy-efficient housing (Palmer et al. 2006: 90) so face particularly steep rises in fuel costs for the foreseeable future. Because pensioners are more likely than employees to spend their time in their homes and are generally less mobile than younger people, it is difficult to economise on heating costs: over 3.5 million older people in the UK are estimated to live in fuel poverty (spending over 10% of their income on fuel). Despite this, Winter Fuel Payment (WFP) may be cut by £600m in 2011, reducing the annual payment to a pensioner household from £300 to £200 and (for over 80s) from £400 to £250. If these cuts are made, they will more than offset any gain from indexing BSP to average earnings. Some argue that WFP should be consolidated in a much higher BSP, where the increase would be clawed back in tax from the better off. Cold Weather Payments will be maintained at £25/wk, but these are only paid when the temperature is below freezing for seven consecutive days and payments are subject to means testing. When pensioners have to cut back on fuel and food, they risk their health due to cold and malnutrition; over 36,000 pensioners died from cold-related illnesses last winter.

The VAT rise to 20% (although not applied to food and fuel) still increases unavoidable costs for older people, for example in privately-paid domiciliary care, home repair and maintenance services.

The national bus pass is to be retained, but with grants to councils not ring-fenced for the pass, there are threats of means testing in future or restricting the pass to older pensioners. The local bus subsidy is to be reduced by 20% and any cuts to the bus network, especially in rural areas, will immobilise many pensioners. Among women over age 75, 60% have no access to a car, and among those over 80, 75% have no access (Arber and Ginn 2004).

Future pensioners, aged 50+

A gradual rise in the State Pension Age (SPA) from 60 to 65 for women between 2010 and 2020 is already legislated, but this is now accelerated to 65 for women in 2018 and 66 for both men and women in 2020. The age of eligibility for the national bus pass will rise in line with SPA. By 2015, the changes are estimated to affect 5.1 million individuals of working age, saving £5bn. Bringing forward the raising of SPA denies older workers time to plan their retirement properly, so than many could be left reliant on means tested benefits. The change is particularly steep for some women; those born after 6th April 1953 will receive their state pensions at 65 but those born after April 1954 will have to wait until they are 66. Further changes are likely, with talk of raising SPAto 70 by 2048 (instead of 68, as now). Lengthening 'working life' may seem justified by increasing average longevity. But it is doubtful whether jobs will be available for all older workers. Raising SPA will hit the low paid hardest since on average they have poorer health, worse job security, shorter life expectancy and are less likely to have any private pension or redundancy pay to tide them over until SPA. The Train to Gain scheme for older workers is to be scrapped, increasing their risk of long term unemployment.

Restrictions in eligibility for *Incapacity Benefit* (IB) will affect older workers in poor physical or mental health. The Coalition wants these individuals to work. But the expected rise in unemployment, if public sector job cuts cause additional job losses in the private sector, will disproportionately affect older workers in poor health, due to age discrimination. Many will be forced from IB either onto the means-tested Employment and Support Allowance or onto Jobseeker's Allowance.

Plans to withdraw *Child Benefit* from mothers whose husbands are higher rate taxpayers will mean they lose not only the immediate income but also automatic childcare credits in the BSP and S2P, placing them at increased risk of poverty in retirement. With half of marriages ending in divorce, it is a woman's own earnings and pensions that matter, not how much her husband earns.

This loss of pension entitlements for mothers may be avoided, given the recent announcement of a *Citizens Pension* (CP) combining the BSP and SERPS/S2P at £140/week for each person reaching SPA from 2015. The plan has been widely welcomed, as it would simplify the pension system, boost older women's income and largely abolish means testing of pensioners. The Pensions Commission and the Pensions Policy Institute both favoured a CP, aware of the success of the Dutch and New Zealand residence-based CPs. But £140/week is a lower amount than these and little more than most men pensioners already receive from BSP and SERPS/S2P. The Coalition is no doubt anxious to ensure the success of the auto-enrolled National Employee Savings Trust (NEST) personal pensions, due to be introduced in 2012. At present, contributing to NEST would not be worthwhile for many low paid workers (mainly women) due to the likelihood of means testing in retirement. Without an adequate state pension as foundation, they would risk gaining little or nothing from their contributions – the pensions poverty trap. The pensions industry has lobbied for a better state pension to avoid this deterrent to saving. It is estimated that NEST will enrol 7 million members making annual contributions of £8-9bn and generating total funds of between £100-150bn. It is no surprise that the private pensions and finance industry wants the scheme to succeed, given that their fees for administration, investment management and share dealing will extract up to 30% of workers' funds.

The new CP will not apply to existing pensioners when introduced in 2015. While the change will make little difference to most men, it will create a 'pensions apartheid' between cohorts of women, those reaching SPA after April 2015 receiving a far higher state pension than women who are already pensioners, almost double the amount. However, it is not clear what the value of the pension will be at the time it is introduced; £140/week is just enough to lift a pensioner out of means testing so that she will lose council tax benefit and HB and could be worse off. Since SERPS/S2P entitlements will be included in the CP, those individuals retiring with entitlements to a private pension contracted out of SERPS/S2P are likely to have their private pension reduced by the contracted-out amount.

Occupational pensions are in terminal decline, with threats to reduce the value of public sector pensions and most private sector schemes closed or scaled back. As noted above, occupational pension schemes will move to uprating by CPI instead of RPI, according to Coalition plans. This is arguably a retrospective cut to a contractual entitlement and will be vigorously resisted by the trade unions involved. Tax relief on private pension contributions has become increasingly regressive and costly to the Exchequer. Although tax relief has been reduced somewhat for the higher paid, this does not go far enough and the bulk of the benefit continues to go to the top earners.

Conclusions

The Coalition is clearly intent on rolling back what remains of the welfare state, on the pretext that cuts are essential to balance the books. The cuts announced this year amount to a transfer of wealth from poor to rich, in a society that has already become dangerously unequal (Wilkinson and Pickett 2009).

For current pensioners, rises in unavoidable costs will collide with low and declining incomes. The crisis this will create for older people's welfare stems from past reductions in the value of state pensions and local services as well as the current plans announced in the Coalition's 2010 budget and CSR. Rising domestic fuel costs, loss of Housing Benefit and cuts in social care services will hit the most vulnerable pensioners hard, especially lone women. Pensioners need an adequate basic pension, at or above the official poverty level, and indexed at least to RPI or rises in national earnings, if they are to live in some comfort and dignity.

For future pensioners, plans for a Citizen's Pension are welcome, avoiding the disadvantages and expense of means testing for most, but any improvement will depend on how the change is implemented and, crucially, on the level and indexing of the CP. The decline in occupational pensions leaves most workers dependent on the lottery of the stock market and losing much of the value of their saving due to charges on their fund, if they want an additional pension.

There are alternatives to the Coalition's attack on the poorest. Housing Benefit – which ballooned from £11bn in 1999 to £20bn by 2009 - does need reform. In the private sector, HB represents a huge transfer of public resources to landlords, who are making a killing through owning property they don't need to live in, at a time when housing demand far outstrips supply. But instead of making low income tenants pay more, a fairer alternative would be to restrict rents to affordable levels. Investment in building more council housing, with secure tenancies, would avoid forcing low income families into buying houses on mortgages they cannot sustainably afford – the policy that set up the housing bubble whose collapse was only a matter of time.

If the price of utilities – gas, electricity and water - is to be affordable for those on low incomes, these industries must be re-nationalised. Private companies have not only resisted effective regulation of prices but have also failed to ensure sufficient gas and water storage, leading to recurrent crises in supply. The long term restriction of government grant to local councils must be reversed if they are to be able to serve their communities properly in terms of social services to vulnerable groups.

Public resources can be increased by taxation to claw back much more of the ill-gotten gains made by the undeserving rich - bankers and speculators. The structural deficit of £70bn this year is less than the amount by which the wealth of the 1000 richest UK individuals increased in one year, £77bn (Dorling 2010: 44). Scrapping Trident and other anachronistic military hardware, withdrawing troops from Afghanistan and abandoning the damaging and illegitimate pretence of 'junior world policeman' would release both financial and human resources to be used for peaceful purposes. Instead of 'war jobs' new 'climate jobs' in renewable energy, improved technologies for public transport and well-insulated housing (CaCC 2010) would begin to tackle climate change and ensure sustainable economic growth.

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