

Pensions Week

July 2005

What a contrast. There is almost no media reporting of Pension Credit. The benefit has been an outstanding success. Contrast that record with what has been happening on working and child tax credits. Here, in contrast, chaos reigns.

Pension Credit has a lot going for it. It is being run by the DWP whose whole existence is about paying out money. In contrast the working and child tax credits are run from the Treasury which, as we all know, specialises in trying to take money from us, not in paying it back.

But locating the benefit in the right department cannot account entirely for Pension Credit's success, for success it is. Almost 3.3 million pensioners are claiming and the average weekly award is in excess of £40.

Previous governments have tried to tackle pensioner poverty by re-badging the benefit. What was once called national assistance, was then rechristened supplementary benefit, which in turn became income support, in a succession of attempts to make the means-tested benefit more attractive. A previous Labour government introduced supplementary pensions in an attempt to distinguish what was being offered to pensioners (as deserving) as opposed to those below retirement age (less deserving).

The campaign was not that successful and it led many people to conclude – myself included - that the very large numbers unwilling to claim fatally flawed a mass means-test approach to welfare.

But that doesn't look to be the case this time. The Government claims that the percentage of eligible pensioners now claiming Pension Credit is in the region of 80 percent. A staggering 176,600 women pensioners aged 90 years or over claim and the success record is not properly reflected in this figure.

I believe the official take-up figures overestimate the numbers eligible. Many pensioners simply won't fill in the FES form (from which the estimates are based) when it comes to capital. What they have saved is, in their opinion, nobody else's business.

The Chancellor can be proud of his record of delivering very sizeable additional income to the poorest pensioners. No other Chancellor now has a record to compare with this aspect of Gordon Brown's stewardship. But as usual there is more than one sting in the tail.

Because Pension Credit is so generous it has made it impossible for large numbers of workers on modest to low incomes to be able to save enough to lift themselves above means-tested assistance in retirement. Most of this group, if the savings figures are to be believed, have ceased saving since the message went out that they would be better off not bothering and relying on Pension Credit when they retire.

A recent parliamentary answer delivered the second sting. When asked to project the cost of Pension Credit into the future with no change in

eligibility rules the DWP admitted that by 2050-51 expenditure would be £39 billion. The figures are in today's money so that is equivalent to a 13 pence increase on the standard rate of tax.

No government will allow for a bill to rise like this. So Pension Credit will be reformed at some point in the future – the question is how.

One option is to delink raising the Pension Credit in line with earnings. This, however, would result in a whole host of people who are currently being advised not to save finding themselves ineligible for the help which they are expecting to gain when they retire. Most of this group will never be able to make up the personal savings gap to which changes in Pension Credit rules will give rise.

There is another way of clawing back what will be an insupportable Pension Credit cost. That is to put a shelf life on Pension Credit by introducing a major pension reform.

To decide on that reform is urgent but, because of Pension Credit's success, the reform can now be introduced over a longish period of time. Every previous pension reform has been stymied because governments have tried to meet two objectives at once. The first has been to help poorer pensioners now while at the same time introducing major structural pension reforms. In every reform the help to current poor pensioners stymied the chance of a stable long-term reform.

Because of Pension Credit's success these two issues have been decoupled. The long-term pension reform can now be decided on without the cry of what does this do for today's poor pensioners. That is not to say

that long-term reform is not urgent. It is rather that once the reform is decided upon, and the period of phasing-in is agreed, it will become apparent what the shelf-life is of Pension Credit.

As the long-term reform builds up over time it will deliver a steadily more generous pension. As that pension comes on stream fewer people will be eligible for Pension Credit. The Pension Credit bill will fall as will the number of poor pensioners.

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