FABIAN SOCIETY

MATURE DECISIONS

THE ROLE OF SOCIAL SECURITY IN ALLEVIATING PENSIONER POVERTY

Sasjkia Otto

January 2025

Acknowledgments

Thank you to everybody who made this project possible – particularly the Pensions and Lifetime Savings Association (PLSA), Lane Clark & Peacock, and AVIVA for generous financial support to explore how changes to the state pension or welfare benefits could help reduce pensioner poverty. Special thanks to Nigel Peaple, Simon Sarkar, Zoe Alexander and team at the PLSA for invaluable challenge, and to the Fabian Society's former general secretary, Andrew Harrop, who conceptualised the project and whose expertise and large body of work on social security and pensions policies helped inform the analysis and recommendations. Thank you also to other collaborators for your diligence, particularly Howard Reed who conducted the microsimulation modelling.

We are grateful to the professionals who dedicate their working lives to addressing the challenges discussed in this report, who were generous with their time participating in interviews, attending our policy seminar alongside pensions minister Emma Reynolds, and / or feeding back on earlier drafts of this report. These include Chris Curry (Pensions Policy Institute), Caroline Abrahams, Christopher Brooks and Phil Mawhinney (Age UK), Daniela Silcock and Time Pike (Pensions Policy Institute), Emma Douglas (AVIVA), Eleanor Levy (NOW Pensions), Ewan McCulloch (Border to Coast Pensions Partnership), James Kirkup (Social Market Foundation), John Chilman (Railpen), Jonathan Cribb (Institute for Fiscal Studies), Kate Bell (Trades Union Congress), Katy Little (PLSA), Liz Emerson (Intergenerational Foundation), Luke Raikes (Fabian Society), Morgan Vine (Independent Age), Morton Nilsson (Brightwell Pensions), and Peter Urwin (UNISON). Thank you also to frontline workers from the Southwark Pensioners Centre, Cathy Deplessis and Lorna Sampson, for helping ground this report in real-world experience. The report is stronger because of each of these participants. Errors and oversights are of course the author's own. Fabian Society research is fully editorially independent.

Finally, producing the report, events and communications materials, and brainstorming ideas, was a team effort. Thank you to excellent Fabian Society colleagues past and present for helping to make this happen – including Andrew Harrop, Ben Cooper, Bradley Young, Eloise Sacares, Emma Burnell, Hannah Kunzlik, Iggy Wood, Kate Murray, Luke Raikes, Miles Ward and Rory O'Brien.

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SUMMARY

2025 will be a pivotal year for pensions policy in the UK. The government's pensions review presents an opportunity for policymakers to consider the role of the state pension, and pension-age benefits, in reducing pensioner poverty and delivering adequate retirement incomes.

Over the past decade, pensioner poverty has been rising. By the government's standard income-based poverty measure, the poverty rate increased from 14 per cent in 2010-11 to 16 per cent in 2022-23, which means there were 1.9 million pensioners in poverty.[1]

The share of pensioners with low living standards has also risen by other measures accounting for assets and/or essential costs on top of incomes. The share of pensioners below the 'minimum income standard', which is informed by pensioners' own assessment of what is needed for an adequate standard of living in retirement, increased from 13 per cent in 2010-11 to 21 per cent in 2021-22.[2]

Low social security provision fails to tackle pensioner poverty in several ways:

1. **Both the legacy and the new state pension are too low to prevent poverty.** And inequalities are more pronounced for those who retired before April 2016. This is partly due to national insurance contribution gaps, which will gradually improve over time. But the state pension typically does not exceed the standard poverty line for those paying housing-related costs, which include rent and mortgage payments but are defined more broadly. Water rates, council tax and home insurance could push even outright homeowners into poverty.
2. **Benefits cannot guarantee incomes above the poverty line.** Means-tested benefits for single pensioners – including pension credit and housing benefit – provide slightly higher support than the basic state pension, when including benefits-linked support like the winter fuel payment. This is particularly

significant because many pensioners will be automatically assessed as eligible for housing credit if they sign up for pension credit. But insufficient support for couples and housing-related costs – particularly for private renters – puts some benefits recipients at greater risk.

3. **Most pensioners in poverty do not receive benefits.** 77 per cent of poor pensioners were receiving neither pension credit nor housing benefit in 2022/23.[3] This is partly because of low take-up: at least three in 10 eligible pensioners do not claim pension credit and two in 10 do not claim housing benefit.[4] But many in need are not eligible: we estimate that around 700,000 pensioners in poverty are not eligible for these benefits because their income is higher than the threshold that qualifies them for means-tested benefits but lower than the poverty line.

Long-term drivers mean the future is uncertain. Some changes could ameliorate pensioner poverty, like a more comprehensive and rising state pension and higher enrolment in private pensions. But these are not a silver bullet: scrutiny on the triple-lock is likely to increase if the fiscal situation doesn't improve, and private pensions can only modestly improve pensioner poverty in the near term.[5] Other changes could increase pensioner poverty, including a greater share of pensioners renting, and a rising number of pensioners who are disabled, living alone, or both.[6]

We have considered what it would take to:

1. Reduce towards zero the number of pensioners living in poverty by the government's standard measure (below £9,880 for single-person households and £17,004 for couples in 2022-23, assuming all housing-related costs are covered).
2. Guarantee pensioners can achieve at least the minimum income standard (£11,503 for singles and £18,204 for couples after housing-related costs).

A combination of social security and private incomes could contribute to achieving these goals. To inform our analysis, we modelled scenarios and trade-offs that consider the impact of higher means-tested and universal social security provision.

Our modelling is summarised in table 1 below. We find:

- **Potential for real impact.** Social security can reduce pensioner poverty by more than 10 percentage points, to around 5 per cent.
- **Costs and challenges.** The most effective measures are also the most costly and involve large transfers to those less in need: universal measures targeting the minimum income standard would cost £41.5bn. Lower-cost means-tested measures can only achieve similar impact if everybody entitled to these benefits claims them.
- **Limitations.** Even the most generous universal support we modelled would leave 22 per cent of private renters and 12 per cent of social renters in poverty.

These findings provide support for a gradual, blended approach. The government should consider raising both benefits and cost-of-living support for those most at risk in the near term. Then, over time, it could gradually raise the state pension to a level that would guarantee freedom from poverty for most and, in combination with private pensions, achieve an income floor commensurate with a minimum standard of living for pensioners. Potential interventions are summarised below, with anticipated impact in table 1.

Within this parliament, the government could:

- Extend the new state pension to older cohorts and relax national insurance contribution requirements to receive the full amount.
- Raise pension credit levels for couples, including where one is below the state pension age.
- Set a target and launch pilots testing options to achieve full pensioner benefits take-up.

The government could also use the state pension review process to establish clarity on the purpose of pension-age social security. It could:

- Create consensus and targets for a minimum living standard for pensioners, and how different income sources should contribute.

- Establish a timeline and consider funding options for raising the state pension to a target level.
- Review private pension automatic enrolment contribution rules to ensure they can play an appropriate role in reducing pensioner poverty and raising minimum pensioner living standards to a target level, within a specific timeframe.

TABLE 1: LIFTING MOST PENSIONERS OUT OF POVERTY REQUIRES SIGNIFICANT POLICY INTERVENTION

	Pensioners lifted out of poverty	Cost (bn £)
Full new state pension to where all in household aged 80+	220,000	3.6
Contribution-based new state pension to <80 households	280,000	4.5
Equalise benefits for couples with full take-up	390,000	6.2
Everybody reaches the minimum income standard (excluding housing costs)	1,450,044	Depends on income mix 41.5 universal 14.2 means-tested Less if higher private pensions

Source: Fabian Society analysis of Family Resources Survey, 2022-23.

Below, we detail the prevalence and drivers of low living standards among pensioners, policy options we modelled and implications for government intervention.

INTRODUCTION

Social security reforms under the last Labour government helped halve pensioner poverty, but this progress has not been sustained. Neither the state pension nor benefits guarantee protection from poverty where someone has no other income. This deficit is felt most acutely by those who retired before 2016. But many are not protected by the more comprehensive new state pension either and the situation could deteriorate with higher rates of renting in retirement.

The government's 'landmark' pensions review, announced in July, presents an opportunity to consider these issues. Phase one of the review will seek to boost workplace pension saver returns.[7] Phase two, which does not yet have a start date, is expected to consider the adequacy of pension savings.[8] Like the Turner Commission that assessed the pensions landscape between 2002 and 2006, future phases of the pensions review could consider how both private and state provision contribute to pensioner living standards.[9]

Addressing pensioner poverty is crucial. First, our social contract requires dignity in retirement, and for future generations to have a living standard at least as good as their predecessors. But there is also a strong fiscal case: the health and social care cost of pensioner poverty is estimated to be between £3bn and £5bn annually.[10]

It is time to build on the successes of the living wage by asking what a living pension might look like, and reaching consensus on the role of the state pension and other social security provision, alongside private savings, in achieving specific income thresholds. Clarity on the purpose of the state pension, in particular, is well overdue. The 1942 Beveridge report established the principle that it should be set in a way that protects people from poverty.[11]

This report first analyses the nature of the challenge. It then explores options for pensioner social security reform, in the near and longer term, for consideration as part of the government's pensions review.

ANALYSIS

Pensioner poverty has increased over the past decade

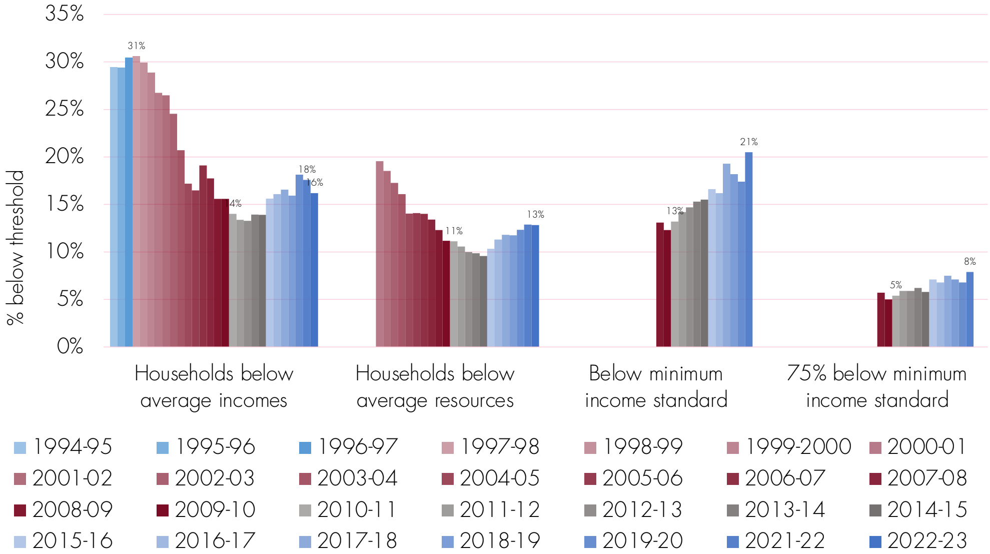
Pensioner poverty halved when Labour was last in office. This was the result of sustained efforts to eradicate pensioner poverty, which included the introduction of pension credit in 2003.[12] This achievement can be seen in figure 1 below.

But some of this progress has been lost in recent years. The pensioner poverty rate was 29 per cent in 1997/98, 14 per cent in 2010/11, and 16 per cent in 2022/23, when using the government's standard income-based poverty measure. This meant that, of the 12 million pensioners in the UK, 1.9 million were in poverty in 2022/23.[13] This report refers to this official statistic when using the term 'poverty', unless otherwise stated. Box 1 below describes this, and other poverty measures, in more detail.

Pensioner poverty has increased because those on lower incomes have fallen behind. Between 2011/12 and 2022/23, pensioner incomes grew by 12 per cent – a similar rate to working-age incomes, which rose by 13 per cent. But the poorest 10 per cent saw just 5 per cent growth, because they did not benefit from the private pension growth (and rising employment) that accumulated to those on middle and high incomes.[14]

Figure 1 below shows that this recent rise is consistent across different measures of poverty and low living standards. This includes measures that account for assets and/or essential costs, in addition to incomes. Box 1 below elaborates.

FIGURE 1: THE SHARE OF PENSIONERS BELOW KEY LIVING STANDARDS THRESHOLDS HAS RISEN SINCE 2010



Source: Fabian Society analysis of DWP, Social Metrics Commission, Joseph Rowntree Foundation and Loughborough University. Red shows Labour, blue Conservative, and grey the Conservative-Liberal Democrat coalition in government.

Box 1: Measures of low living standards

There are several statistical measures for understanding pensioner poverty and informing policy decisions, with different strengths and weaknesses. These are described below, using the latest available data for each. The government can use these measures to inform targets for minimum retirement incomes, determine how to support pensioners to meet essential living expenses, and determine how support might vary depending on incomes, assets and savings.

Households below average income

- The government's standard poverty measure tracks people living in households with incomes below 60 per cent of the contemporary median, after housing costs and adjusting for family size. This measure does not take into account assets and the cost of living but, for the time being, is used as a standard measure of poverty because it offers reliable long-term benchmarking against societal living standards.
- In 2022/23, there were 1.9 million pensioners in poverty by this measure (16 per cent of pensioners). This is down

slightly from 2021/22, when it was 2 million (18 per cent). But poverty would have remained 18 per cent in 2022-23, were it not for periodic cost-of-living payments responding to inflation. This nonetheless represented an increase from 14 per cent in 2010/11.[15]

Minimum income standard

- This measure is based on pensioners' own deliberations of what is needed for an adequate retirement living standard. It was developed by the Joseph Rowntree Foundation and Loughborough University. For single-person households this is currently higher than the standard poverty line – though not so for couple households. This measure is also used by the Pensions and Lifetime Savings Association (PLSA) as the basis for the minimum level of the Retirement Living Standard. People below 75 per cent of the minimum income standard experience substantially greater risk of deprivation.
- In 2021-2022, there were 2.4 million pensioners below the minimum income standard. This represents 21 per cent of all pensioners, which increased from 13 per cent in 2010-11. In the same period, 900,000 pensioners had incomes below 75 per cent the minimum income standard. This represents 8 per cent of pensioners – an increase from 5 per cent.[16]

Households below average resources

- This accounts for net assets as well as essential costs, such as those related to care and disability. Poverty is defined as 54 per cent below average resources. The government is currently developing this measure, originally from the Social Metrics Commission, into an official statistic.[17]
- It records a lower incidence of pensioner poverty, as some on low incomes have high savings, but nonetheless shows a worsening picture over time. In 2022/23, 1.5 million pensioners fell below this threshold. This represents 13 per cent, about the same as the previous year, but up from 11 per cent in 2010-11.[18]

Table 2 below compares social security provision against key living standards thresholds for 2022/23 (the latest available data for living standards measures), which was when the winter fuel payment was still universal.[19] It also summarises social security levels for the current fiscal year. It shows that pensioner poverty persists, even though the headline values of both the state pension and pension credit exceed the poverty line after housing-related costs (when added to periodic cost-of-living payments). The sections below explain this apparent inconsistency.

TABLE 2: FOR SINGLE PENSIONERS, PENSION CREDIT AND THE NEW STATE PENSION EXCEED THE POVERTY LINE

Yearly amounts	Single 2022/23	Couple 2022/23	Single 2024/25	Couple 2024/25
Social security				
Full new state pension[i]	£9,628	£19,256	£11,502	£23,005
Pension credit / housing benefit personal allowance	£9,495	£14,492	£11,344	£17,313
Low living standard thresholds				
Standard poverty line (Households Below Average Income after housing-related costs)	£9,880	£17,004	-	-
Minimum income standard, excluding all housing-related costs (references standard poverty line)[ii]	£11,503	£18,204	£11,790	£19,520
Minimum income standard, excluding rent, council tax (references means-tested benefits)[ii]	£11,890	£18,660	£22,271	£20,087
Minimum income standard, excluding rent (references state pension)[ii]	£12,751	£19,859	£13,383	£21,570
Below 75% of minimum income standard, excluding all housing-related costs (substantially greater risk of deprivation)	£8,627	£13,653	£8,843	£14,640

Source: DWP, Social Metrics Commission, Joseph Rowntree Foundation and Loughborough University. [i] In winter 2022–2023, all pensioner households received the winter fuel payment and a one-off cost-of -living payment, which totalled between £500 and £600 (depending on age). Some pensioners also received a £900 cost-of-living payment if receiving a qualifying income replacement benefit such as pension credit, and a £150 disability cost-of-living payment if receiving a qualifying disability benefit such as attendance allowance.[20] While the new state pension and pension credit were below the poverty line in 2022-23, these periodic payments took support over the poverty line.[ii] Excluding different housing-related costs from the minimum income standard allows for comparison with the poverty line, means-tested benefits and the state pension, respectively, because each type of social security is designed to cover different costs.

Pensioner poverty affects some groups disproportionately

Higher pensioner poverty is associated with different demographics, living circumstances and health, as table 3 below shows:

- **Demographics.** Both men and women are more likely to be in poverty in later life, due to differences in state pension entitlement and smaller incomes from other sources. However, this is more acute for women and ethnic minorities, who are more likely to have lower lifetime earnings and national insurance contribution gaps. The resulting retirement savings gaps affect both private and state pension incomes. For ethnic minorities, housing tenure and composition also play a role.[21]
- **Living circumstances.** Those still paying housing costs are more likely to live in poverty, as more income is offset by essential costs. Those living alone are also more likely to live in poverty, although couples where one person is below the state pension age and out of work are at particularly high risk of poverty because they will receive less generous means-tested benefits than households where everybody is a pensioner. Economic disparities, social factors and historic migration patterns mean Black and Asian pensioners are more likely to live in cities (where housing costs are higher), rent and live alone.[22]
- **Health.** Disabled pensioners and their carers are at greater risk of poverty, but this is obscured by official statistics. Disability is not associated with poverty when using the standard poverty measure, because disability benefits are counted as income and the extra costs of disability and care are not accounted for. This is partially corrected by the new households below average resources measure, which currently assumes these extra costs equal the value of disability benefits (though, as described below, these benefits do not cover all costs). This measure shows disability is in fact associated with higher poverty risk.[23] Health inequalities are more pronounced among ethnic minorities and pensioners with low lifetime incomes.[24]

TABLE 3: RISK OF POVERTY IS AFFECTED BY PERSONAL CIRCUMSTANCES

Characteristics		Pensioners below the standard poverty line: female	Pensioners below the standard poverty line: male
Sex and age	85+	**23%**	**19%**
	80-84	**19%**	**15%**
	75-79	**19%**	**15%**
	70-74	**15%**	**15%**
	66-69	**13%**	**14%**
Ethnicity	Asian		**28%**
	Black		**27%**
	white		**17%**
Housing tenure	private renters		**35%**
	social renters		**34%**
	with mortgage		**16%**
	own outright		**12%**
Household composition and economic status	single pensioner		**22%**
	couple, one above and one below state pension age		**17%**
	couple, both past state pension age		**12%**
	couple, at least one working		**4%**

Source: Fabian Society analysis of Family Resources Survey, 2022-23. [i]Calculated average of 2019-20, 2021-22, 2022-23, to create a sufficient sample size.

Both the legacy and new state pension are too low to prevent poverty

There are currently two state pensions. The first is available to those who retired before 6 April 2016. The second is the new state pension available to those who retired on 6 April 2016 or later.

The new state pension provides better protection, but neither of the two regimes can guarantee an income above the poverty line. 17 per cent – or 1.4 million – of the 8.5 million receiving the legacy state pension are in poverty. Eleven per cent – or 500,000 – of the 4.5 million receiving the new state pension are in poverty.[25]

Legacy pre-2016 state pension

Under this regime, pensioners receive a contributory ‘basic state pension’ of up to £8,814 and an income- and contributions-based ‘additional state pension’ of up to £11,356 (in 2024/25). Those receiving the maximum combined amount receive £8,668 more annually than pensioners on the full new state pension, and some not receiving the full additional state pension are in this position because they 'contracted out' of contributions, to pay into a (sometimes generous) occupational pension. However, recipients had to meet a much tighter set of criteria to qualify for national insurance contributions towards the maximum amount (as described below) than is the case for the new state pension. And the full basic state pension is £2,688 less than the new state pension.

New state pension

The new state pension is paid to those reaching the state pension age from 6 April 2016, meaning women aged up to 72 and men aged up to 74 on 6 April 2025. The headline rate is £11,502 per annum in 2024-25.

The new state pension is usually slightly higher than the standard poverty line. A recent exception was 2022/23, when the value of the new state pension was £9,628 per annum and the poverty line was £9,880. However, the winter fuel and one-pensioner cost-of-living payments made up the difference.

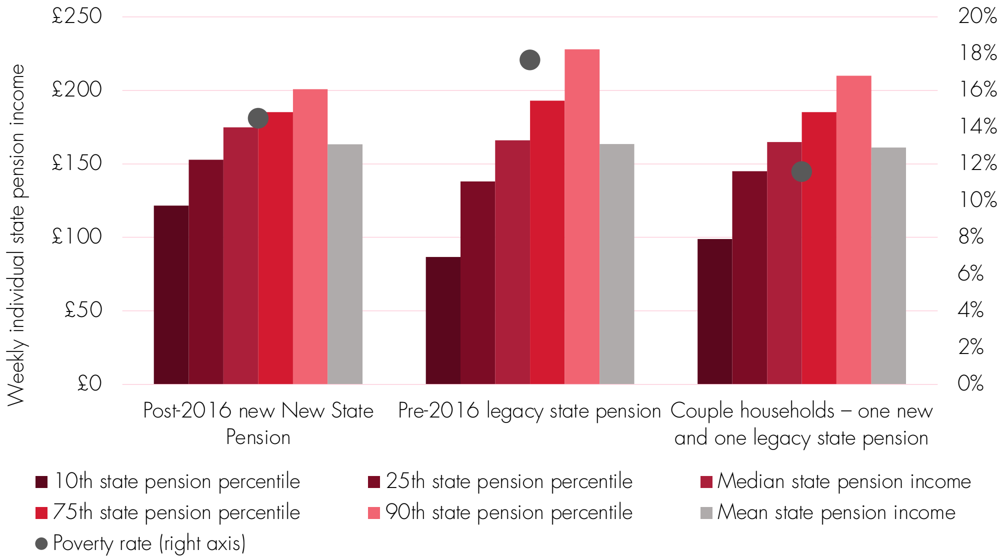
Nonetheless, many pensioners receiving the new state pension are still in poverty. There are two main reasons for this, which also apply to the legacy regime.

- **Housing-related costs.** Most pensioners still incur housing-related costs, which are excluded from the standard poverty measure. In addition to rent or mortgage repayments, which currently apply to a minority of pensioners, housing-related costs include water rates, council tax and home insurance. This means those relying on the full new state pension alone could be in poverty, even if they own their home outright.
- **Low contribution rates.** Many pensioners receive much less than the headline new state pension rate because they do not have enough contributing years in their national insurance records. In 2022/23, around half of those reaching the state pension age from 2016 did not receive the full new state pension.[26] The DWP estimates that around 20 per cent of those reaching the state pension age from the mid-2030s will still not receive the full amount.[27]

State pension inequalities

Both these regimes create inequalities. Figure 2 below shows that, compared with the new state pension, the legacy regime pays much less to the bottom half of recipients and much more to people with higher lifetime earnings – even though the average payments from each regime are broadly the same.

FIGURE 2: PRE-2016 PENSIONERS LOWER DOWN THE STATE PENSION INCOME DISTRIBUTION RECEIVE MUCH LESS



Source: Fabian Society analysis of Family Resources Survey, 2022-23.

Some demographic groups have felt these inequalities more acutely. Women, Black and other ethnic minorities, and people from lower socio-economic backgrounds were especially likely to be penalised under the pre-2016 regime. This is particularly the case for those reaching the state pension age before 2010, when some improvements were introduced. Among those who reached the state pension age before April 2010, men's state pension incomes are on average 33 per cent higher than women's; and white people's 14 per cent higher than people from Black, Asian and other ethnic minority backgrounds.[28] People in this cohort may not have enough qualifying contributions because they spent time as homemakers, carers, disabled, self-employed, incarcerated or living abroad. Some also voluntarily 'contracted out', to divert contributions to private pension schemes, which have delivered for some while leaving others on a limited income.[29]

Some legacy state pension recipients also experienced the Department for Work and Pensions' (DWP) 28-week delay in writing to 1950s-born women to let them know their state pension age was going up. Women aged 72 to (just short of) 74 by 6 April 2026 saw their state pension age rise beyond age 60, within 28 weeks of increases commencing on 6 May 2010. The latest retirement age for this group was 61 years and two months (the earliest, 60 years and one month).[30] Investigating complaints about the process, the Parliamentary and Health Service Ombudsman found that delays caused injustice but not direct financial loss. Separately, the Fabian Society has found that ongoing state pension age increases have not been accompanied by sufficient support for those affected.[31]

The new state pension has brought significant improvements but not eliminated inequality. The difference between state pension incomes for white people compared with Black and ethnic minority people is no longer statistically significant after controlling for immigration status. But men's state pension incomes are still 5 per cent higher than women's. This is because there are still gaps in support for those who cared for someone full-time and did not claim benefits, or did not return to work after their caring responsibilities ended.[32] Some are in this situation because they are financially comfortable, but a change in circumstance could leave them vulnerable. As with the previous regime, pensioners who have previously contracted out, spent time abroad or been incarcerated may also not have full contributions.

The state pension is also much better at protecting couples than single people from poverty. This is mainly because it is cheaper for two people to live together as a couple than separately. In 2022/23, the median combined state pension payment for a pensioner couple was £357 per year below the standard poverty line for a two-person household. By contrast, for single men it was £650 per year below the lone-adult poverty line and for single women £905 per year below.

Benefits cannot guarantee incomes above the poverty line

Means-tested benefits now provide a slightly higher total level of support than the new state pension for single-person households. Pension credit for a single person was £9,495 per year in 2022/23 and £11,344 in 2024/25. Combined with the winter fuel payment and one-off cost-of-living support, which is worth between £200 and £300 and is now restricted to means-tested benefits recipients, this would exceed the new state pension, which was £11,502 in 2024/25. Pension credit excludes housing costs, but pensioners are also entitled to means-tested financial support for rent and council tax. Support with housing costs, in theory, also guarantees an income at least as much as pension credit – known as the housing benefit 'personal allowance'.[33]

TABLE 4: MEANS-TESTED BENEFITS DO NOT ALWAYS OFFER A ROUTE OUT OF POVERTY

2022-23	Pensioners in poverty (thousands)	Pensioner poverty rate (%)
Means-tested benefits		
Pension credit – couples[i]	100	31
Pension credit – singles	200	25
Housing benefit – private renters	100	40
Housing benefit – social renters	200	26
Pension credit and / or housing benefit	500	28
Neither pension credit nor housing benefit	1,500	14
State pensions		
New state pension recipients	500	11
Legacy pre-2016 state pension recipients	1,400	17
Not receiving state pension	60	34
Private pensions		
No private pension in household	1,100	37
Household gets <£5,200 per year	1,800	28
Household gets >£5,200 per year	100	2

Source: Fabian Society analysis of Family Resources Survey, 2022-23. [i]Universal credit – available to pensioners with a partner below the state pension age – is about a third of pension credit. Survey sample size is too low to report reliable poverty rates for the pensioners in this group.

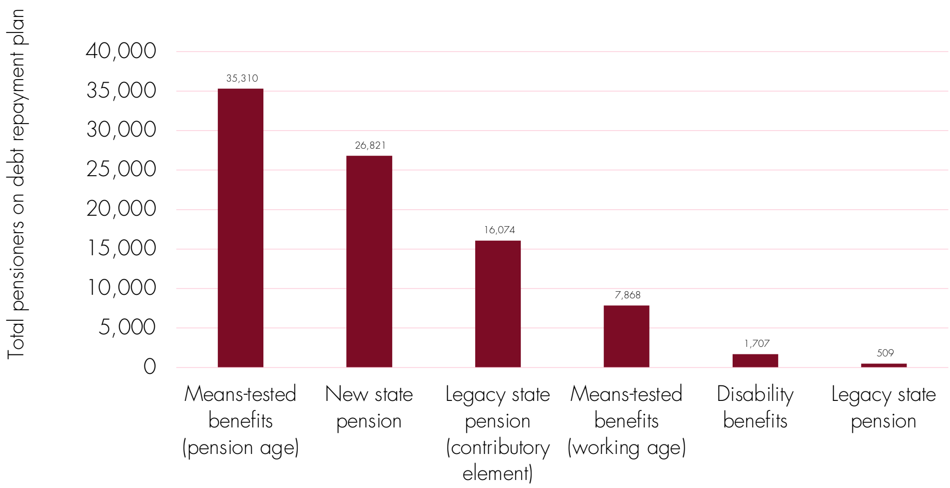
This support offers respite for some pensioners who are not receiving the full state pension or another income. But many receive less than they need. Table 4 above compares poverty rates for benefits recipients against those receiving incomes from different sources, including the pre- and post-2016 state pension regimes and occupational pensions. It shows that 28 per cent of means-tested benefits recipients – totalling 400,000 pensioners – are in poverty. This is double the poverty rate of those receiving neither pension credit nor housing benefit (14 per cent).

The benefits system has a number of design features contributing to pensioner poverty.

- **Housing costs.** Renters' housing costs may not be fully covered by housing benefit or council tax support. This is particularly true for those in the private rented sector relying on local housing allowance, as described in box 2 below. But social housing tenants may also receive insufficient support because certain housing-related costs are not included. Among housing benefit recipients, the poverty rate for private renters is 40 per cent (100,000 people). For social renters, the poverty rate is 26 per cent (200,000 people). Our modelling shows that the average monthly housing benefit shortfall is £130, and 100,000 existing housing benefit recipients are in poverty as a result.[34]
- **Couples.** In 2022/23, pension credit and the housing benefit personal allowance for couples was worth £2,512 less than the standard poverty line. Couples where one member is still below the state pension age are even more severely penalised if that person does not earn enough, as they are entitled to working-age benefits only: couples' universal credit in 2022/23 was worth £10,695 less than the poverty line. Among pensioners in a couple receiving pension credit, 31 per cent (100,000) – are in poverty. This compares with 25 per cent – (200,000) – single recipients.[35]
- **Take-up.** Some benefits recipients do not claim all of their means-tested entitlements. This is particularly the case for housing benefits recipients, who are not automatically considered for pension credit. But pension credit recipients may also forego housing benefit entitlement where their housing costs have changed since they first claimed. In 2022/23, there were 300,000 pensioners eligible for both benefits but receiving only one; about four-fifths of these receive housing benefit but not pension credit. Among those missing out in this way, 100,000 are in poverty.[36]
- **Debt.** A Fabian Society Freedom of Information request reveals that nearly 90,000 pensioners between 25 October and 26 November 2024 had their social security payments reduced

under an ongoing debt repayment plan. This is broken down in figure 3 below, by source of income deducted. The maximum means-tested benefit deductions for pensioners not living in care homes was between £710 and £1,893 in the year 2024/25, depending on their circumstances. Non means-tested benefits could be deducted by up to a third – ie up to £3,195 could be deducted from personal independence payments.[37] In September 2024, the government committed to bringing forward a new fraud, error and debt bill, which could require banks to report customers whose account activity suggests they may be receiving support they are not entitled to.[38] The government's October 2024 budget creates a new fair repayment rate, capping universal credit debt deductions. The announcement did not indicate a change in approach for pension credit.[39]

FIGURE 3: NEARLY 100,000 PENSIONERS ARE SUBJECT TO A DWP DEBT REPAYMENT PLAN



Source: DWP response to Fabian Society freedom of information request, 2024.

Box 2: Pensioner social security and the cost of living

Pensioners have mixed cost-of-living pressures. Many spend less than their working-age counterparts because they already own their own home and durable goods, no longer commute to work, and have lower-cost lifestyles with more time to shop around. But more complex health, care and social needs can bring financial vulnerabilities. And cost-of-living increases, particularly from housing and energy, have hit older and single pensioners hardest because they spend more of their incomes on these goods.[40]

Government cost-of-living support comprises a mix of universal, circumstance-specific and means-tested benefits. These have had mixed results. Their impact on pensioner living standards, and some proposed solutions, are discussed below.

Housing

- Housing benefits cover pensioner social housing rents in full, protecting incomes up to an 'personal allowance' set at the same level as pension credit, regardless of home size. But they do not cover all housing-related costs, such as water rates, which are included in the official 'after housing costs' poverty measure. The local housing allowance provides even less protection. It is currently capped at the 30th percentile of rent for one-bedroom properties, assuming only single or couple pensioners live there. This presents challenges where homes are in low supply or extra rooms are needed, for example to host family.
- The Institute for Fiscal Studies has modelled the impact of basing local housing allowance on the rent for two-bedroom homes and found it would benefit 130,000 pensioner households at a cost of £150m per year.[41]

Disability

- Economic research commissioned by disability charity Scope finds that, on average, the extra costs disabled people face exceed the value of disability benefits.[42] This can be more pronounced for pensioners. People who apply for disability benefits after the state pension age are only entitled to attendance allowance, which provides support for day-to-day living but not mobility – in contrast to the personal independence payment available to working-age claimants.[43]

- A 2024 petition called on the government to reform attendance allowance to include mobility support.[44]

Care

- The 'minimum income guarantee' ensures incomes do not drop below a specific level (subject to assets) when someone receives local authority support for care costs. In 2022/23, this was £244 per year above the poverty line for single pensioners. But individuals living with a partner could not exceed the poverty line for their share of household income. Moreover, only a fraction of disability benefits are protected from the cost of care.[45]
- Disability groups are campaigning for a review of the minimum income guarantee, to ensure disabled people have enough to live on after paying for care.[46]

Utilities

- The previously universal winter fuel payment is now only available to pensioners receiving means-tested benefits. Our modelling shows these changes would have pushed 100,000 pensioners into poverty in 2022/23, under pension credit take-up rates at the time. This is unless everybody claimed the benefits they were entitled to; in this case, 160,000 fewer would be poor. These factors are complicated by the mismatch between cost and support: some with energy-inefficient homes and/or higher energy use due to health needs may be in poverty using the below average resources metric. (Under government plans, this measure may in future account for energy costs.) Many pensioners feel similar pressures when covering the costs of water and broadband.[47]
- The Fabian Society has recommended the government introduce utilities social tariffs reforms, co-funded by government and industry, which could support both means-tested and disability benefits recipients.[48] The Scottish government is introducing a minimum income guarantee, which could be designed to guarantee an income above the poverty line after essential utilities have been paid, also through a co-funding model.[49] To reduce energy

consumption, the Fabian Society has proposed prioritising low-income households such as social renters for home upgrades.[50] The Data Communications Company has suggested using data, like that generated by smart meters, to find and prioritise for upgrade homes in fuel poverty.[51]

Most pensioners in poverty do not receive benefits

According to the Family Resources Survey, 77 per cent of poor pensioners – totalling 1.5 million – were not receiving pension credit or housing benefit in 2022/23. This is a significant majority, even after accounting for known underreporting of benefits take-up in survey research.

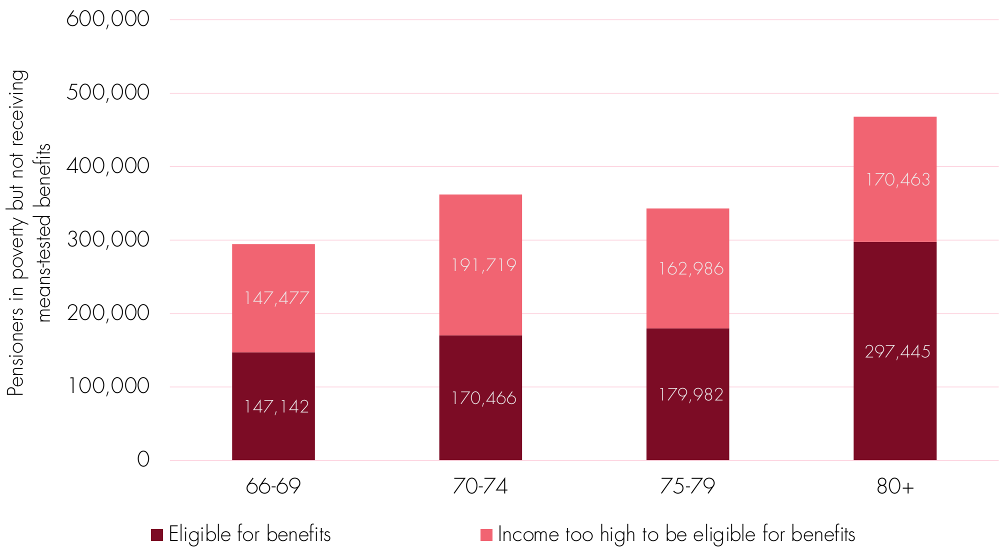
There are two reasons why so many poor pensioners are not receiving means-tested benefits:

- **Tight eligibility.** As detailed below, very few people are lifted out of poverty when we simulate full take-up of pension credit and/or housing benefit. We estimate that around 800,000 pensioners in poverty are not eligible for these benefits because their incomes or savings are too high. Around 700,000 not receiving pension credit have incomes below the poverty line but above the pension credit threshold. Around 600,000 have savings and investments above £10,000, which is the threshold for reducing pension credit payments by £1 for every £500 extra in savings. Those retaining emergency funds for funerals, home repairs and care needs may be affected.
- **Low take-up.** Among eligible pensioners, at least three in 10 do not claim pension credit, and two in 10 do not claim housing benefit.[52] Our modelling shows that, among those not receiving the benefits they were entitled to in 2022-23, the average annual outstanding amount was £4,100 for pension credit and £4,400 for housing benefits.[53] Low awareness and social stigma contribute to limited take-up: a 2020 survey by Independent Age found that 65 per cent of eligible non-recipients felt they had too much money to qualify while 62 per cent said they did not like asking for benefits.[54] Interventions to address take-up should consider the

needs of different age groups. The point of retirement is an important moment, as this is when most new claims happen. But figure 4 below shows that most who are potentially eligible to claim are in older age groups, so receiving the legacy pre-2016 state pension. Box 3 below discusses options for raising take-up.

There are also take-up challenges with non means-tested disability benefits, which could impact the number of people living on in poverty by a 'below average resources' measure. Policy in Practice estimates that, in 2023, attendance allowance worth £5.2bn was unclaimed by 1.1 million potentially eligible pensioners.[55]

FIGURE 4: MOST IN POVERTY BUT NOT RECEIVING BENEFITS ARE IN AGE GROUPS RECEIVING THE LEGACY STATE PENSION



Source: Fabian Society analysis of Family Resources Survey and DWP, 2022/23.

Box 3: Raising benefits take-up

At a November 2024 DWP select committee hearing, DWP Secretary of State Liz Kendall indicated the government aims to achieve full pension credit take-up.[56]

Several recent government communications campaigns have sought to raise benefits take-up.

- In 2022, the government launched an advertising campaign and online toolkit to boost pension credit take-up. Claims increased by 75 per cent the following year.[57]
- In the eight weeks after the Labour government announced that the winter fuel payment would be means-tested, pension credit claims surged by 152 per cent. This happened alongside a government campaign to promote take-up.[58]
- In the autumn 2024 budget, the government announced it was contacting pensioner housing benefit recipients and inviting them to claim pension credit, and that it would bring together the administration of pension credit and housing benefit for new claimants from 2026.[59]

Some challenges remain to be addressed. DWP capacity constraints have caused significant delays in processing claims.[60] And there are 440,000 more pensioners eligible for pension credit than housing benefit, so targeting campaigns at housing benefit recipients will not reach everybody.

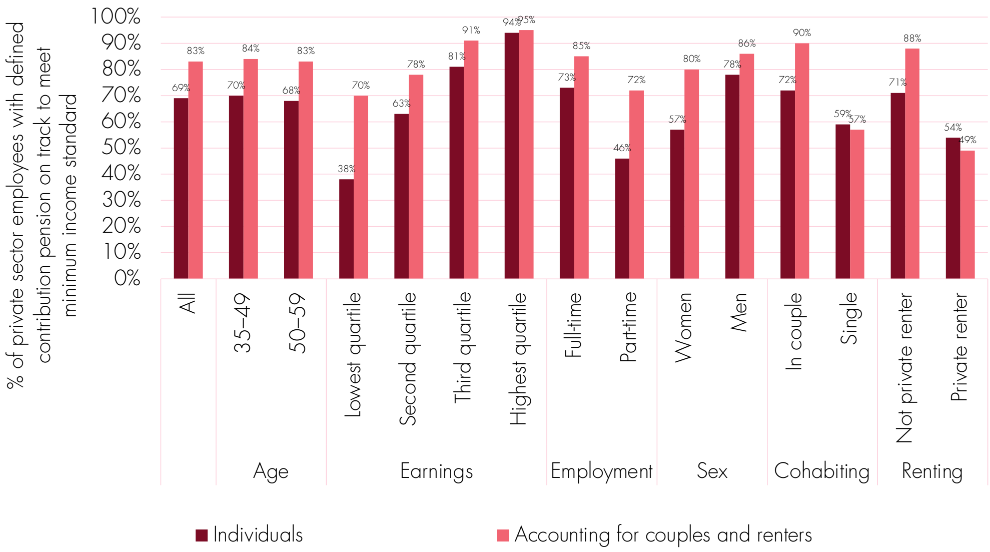
Think tanks including the Fabian Society have proposed benefits onboarding, based on data matching.[61] Liz Kendall and DWP permanent secretary Sir Peter Schofield have indicated the DWP is seeking to move towards more automated benefits onboarding.[62] Execution will be key and digital transformation is often challenging. Efforts to raise benefits take-up could also suffer long-term setbacks if trust was lost through, for example, automated errors that put pensioners in debt to DWP, harmful use of personal data, or miscommunication. This could be mitigated through a staged approach. For example, text messages using the government's Notify system could in the near term inform pensioners whose HMRC records indicate they may be eligible.

Private sector solutions also show promise. For example, Inbest offers a benefits calculator product that can be integrated into banking apps and third sector support services to allow customers to check on unclaimed benefits.[63]

Long-term drivers paint a mixed picture for the future

The Institute for Fiscal Studies calculates that, under current conditions, only 69 per cent of private sector employees saving into a defined contribution pension, and 29 per cent of the self-employed aged 35 to 59 are on track to meet the minimum income standard.[64]

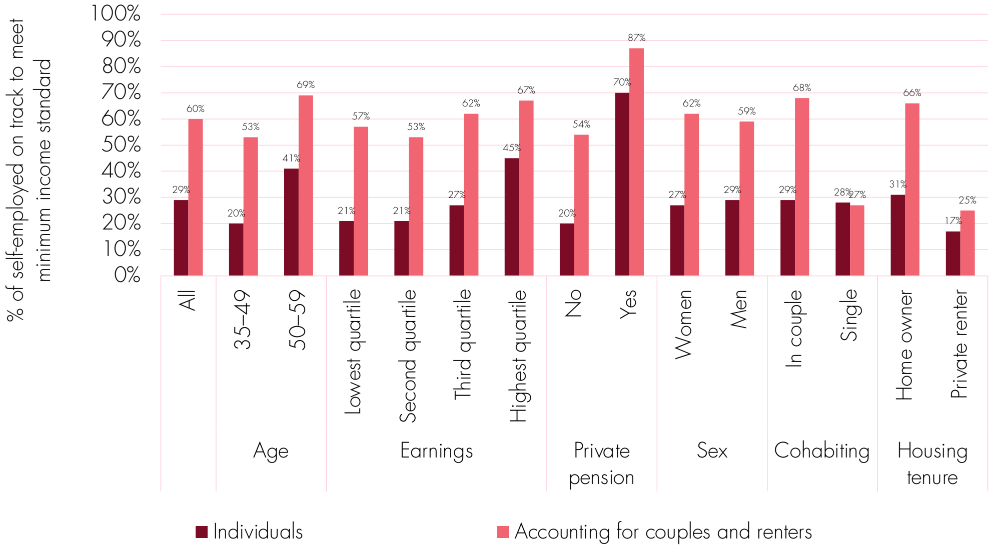
FIGURE 5: FEW LOW-EARNING EMPLOYEES ARE FORECAST TO REACH THE MINIMUM INCOME STANDARD



Source: Institute for Fiscal Studies analysis of Wealth and Assets Survey Round 7 (2018-20), 2024. 'Individuals' accounts for individual financial circumstances only. 'Accounting for couples and renters' assumes those cohabiting with a partner continue to do so, and factors in the likelihood of renting into retirement.

This reflects ongoing private pension saving shortfalls and the rising prevalence of renting, which could be compounded if state pension increases slow prematurely. Figures 5 (above) and 6 (below) show the likelihood of different groups reaching this threshold. In addition to the self-employed, low earners, part-time workers, private renters and those living alone are the least likely to reach it. Women and ethnic minorities are among those at risk. The impact of these long-term trends on retirement living standards are detailed below.

FIGURE 6: THE SELF-EMPLOYED ARE LESS LIKELY THAN EMPLOYEES TO HAVE AN ACCEPTABLE RETIREMENT INCOME



Source: Institute for Fiscal Studies analysis of Wealth and Assets Survey Round 7 (2018-20), 2024. 'Individuals' accounts for individual financial circumstances only. 'Accounting for couples and renters' assumes those cohabiting with a partner continue to do so, and factors in the likelihood of renting into retirement.

The state pension

Several planned changes to the state pension could raise pensioner living standards moderately over the coming decades:

- **Higher new state pension coverage.** By the end of the next parliament, those who reached the state pension age since the new state pension was introduced will be in their early 80s.
- **More complete national insurance contribution records.** By the end of the next parliament, four in five will receive the maximum entitlement.[65]
- **Uprating at least in line with earnings.** The Labour party manifesto commits to maintaining the triple lock – which guarantees state pension increases by the higher of inflation, earnings and 2.5 per cent – throughout this parliament.[66]

Notwithstanding this, uncertainties remain. Older pensioners and a fifth of new state pension recipients will have lower coverage, as described above. Meanwhile, rising pensioner social security spend could bring increasing scrutiny on the state pension age in the next parliament. State pension spend is forecast to increase by £37.1bn between 2023/24 and 2028/29 (the maximum duration of this parliament) and the triple lock means pensioner living standards will continue to increase even if the rest of the population sees a decline.[67] Rising spend could add upward pressure on the state pension age, which would disproportionately affect poorer people, who have lower average life expectancy.[68]

A number of organisations recognise the need for more predictable uprating once the state pension reaches a satisfactory base level. On the current trajectory, this would happen first for the new state pension, with variations for legacy pensioners. The Institute for Fiscal Studies recommends replacing the triple lock with a mechanism that increases the new state pension in line with earnings unless inflation is higher, in which case the state pension would rise in line with inflation until the earnings link is restored.[69]

Private pensions

The 2012 introduction of automatic enrolment into workplace pensions increased the number of savers and how much they save. Over time, this will translate into higher living standards among pensioners. By the end of 2024, more than 11 million workers had been newly enrolled.[70] At a minimum, employees aged 22 to the state pension age contribute 5 per cent and employers 3 per cent of qualifying earnings. Employees can opt out but not down. Qualifying earnings in 2024 were gross earnings between £6,240 (the 'lower earnings limit) and £50,270, where the income in a single job is at least £10,000 per year. The Pensions (Extension of Automatic Enrolment) Act 2023 gave the government powers to remove the lower earnings limit, meaning those earning at least £10,000 per year would contribute from the first pound of earnings, and to reduce the lower age limit. There is as yet no date for this to come into force.[71]

Nonetheless, for some savers, the state pension in combination with the current automatic enrolment level and participation cannot always deliver an income above the minimum income standard. There are two reasons for this:

- **Levels.** The Resolution Foundation calculates that someone earning the living wage full-time with no breaks in employment, from age 25 to the state pension age, would need to save at least 9 per cent of their income (in addition to paying enough national insurance to receive a full state pension) to reach the minimum income standard. The current 8 per cent default above the £6,240 lower earnings limit is therefore insufficient.[72] This outlook could worsen further if earnings growth and pension savings returns deteriorate further.[73]
- **Participation.** A quarter of pensioners still receive no occupational pension. Among this group, 37 per cent – totalling 1.1 million – live in poverty.[74] This will improve over time but many are still not saving: around one in 10 employees opt out, and a similar share are not automatically enrolled because they are ineligible due to being too young or old, or earning less than £10,000 in a single job (even if they earn more in multiple jobs combined).[75] Among the self-employed, who make up around one in eight of the labour force and are excluded from automatic enrolment, the private pension participation rate for those earning at least £10,000 per year is just 20 per cent.[76]

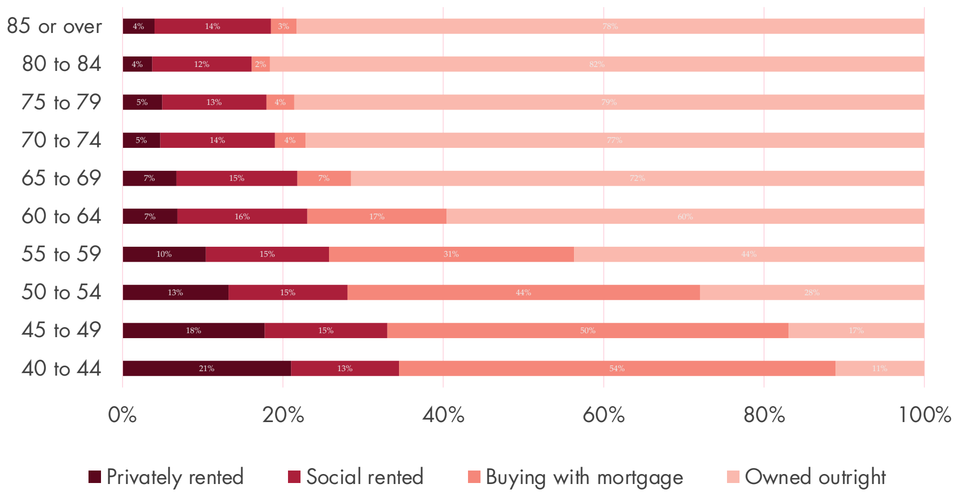
Addressing these shortfalls will take time. It will take several decades before the oldest pensioners see the full benefits of any new improvements to automatic enrolment. These improvements can only reach their potential if early labour market exit among financially vulnerable older workers is appropriately addressed.[77] And many in work could struggle to raise their contributions. The Institute for Fiscal Studies finds that 32 per cent of working couples and 44 per cent of single workers currently have an income below the current pensioner minimum income standard.[78] Many in this group are experiencing a temporary income dip but low earners tend to have low lifetime incomes.[79] Any increase in contributions would need to happen gradually, in a way that is sensitive to existing inequalities among workers, as well as affordability concerns for businesses.

This suggests private pensions cannot be the main level for alleviating pensioner poverty in the near term. To better understand how raising automatic enrolment contributions might reduce pensioner poverty in future, and how such contributions might impact low earners and employers, further analysis is needed.

Housing tenure

An increase in the number of pensioners who are renters, especially private renters, will drive up pensioner poverty, because their housing-related costs are so much higher than those of homeowners. Few people buy their first home after age 45, so we can expect those currently renting from this age to continue to do so. As shown in Figure 7 below, around a quarter of pensioners could be renting in 20 years' time, up from around a fifth today. Our modelling shows that, if pensioner housing tenure patterns in 2022/23 matched those for 45 to 65-year-olds today, an extra 240,000 pensioners would be in poverty. This would have cost the Exchequer an extra £2bn in housing benefit and £0.7bn in pension credit each year.[80]

FIGURE 7: THE HIGHER PREVALENCE OF RENTERS AGED 45 TO 64 SUGGESTS MORE PENSIONERS WILL RENT IN FUTURE



Source: Fabian Society analysis of Family Resources Survey, 2022-23.

Social and demographic factors

Social factors can interact with economic and social security trends to make some pensioners more vulnerable to hardship. The rising pensioner population is forecast to result in 1.5 million more single pensioners in England from 2018 to the early 2040s. The disabled population could rise by a similar number if the prevalence of disability in retirement remains stable – and by more, if the disability-free life expectancy continues to deteriorate.[81] Many will navigate significant life changes affecting their assets and cost of living. Although outside the scope of this report, a strategy to address pensioner poverty should consider whether existing care and social support infrastructure is sufficient.

POLICY OPTIONS

This report has shown a rise in pensioner poverty over the past decade. This is primarily due to the challenges with the levels and coverage of social security entitlements.

There is a bigger picture to consider. Many pensions policy specialists argue that the UK needs to take stock of its pensions and social security systems. For example, the PLSA's Five Steps to Better Pensions argues that greater clarity is needed over the objectives of the UK pensions regime.[82] This could entail, for example: clarity on the retirement income the state seeks to enable; the purpose and value of the state pension and means-tested benefits; and the role of automatic enrolment private pension saving.

But social security is a more urgent priority. This is firstly because it will take some time for higher pension savings to translate into significantly better living standards, and changes to housing tenure could worsen the outlook before the benefits of future reforms are felt.

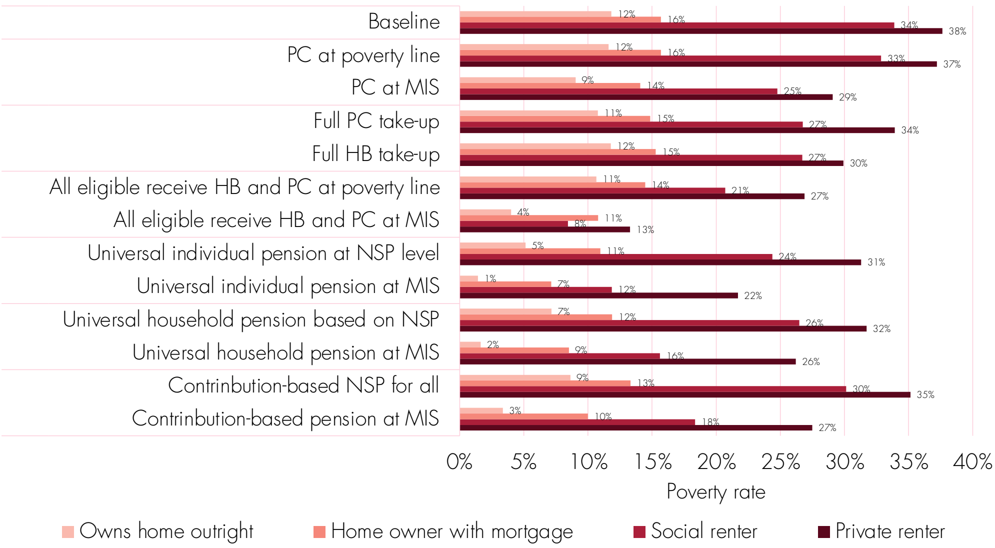
We have modelled changes in pensioner social security support, imagining they were put in place during a single financial year in 2022/23. We explored the trade-offs between more generous means-tested benefits compared with universal support (eg, through a higher state pension), and the impact of measures raising incomes to different levels. We considered raising benefits to a level commensurate with the poverty line, as well as extending the current maximum new state pension to more people (as an approximation for support targeting the poverty line). We also considered a higher level of support for both benefits and the state pension, commensurate with the minimum income standard. Table 5 below describes the results.

The reforms we model illustrate that it is possible to have a real impact, reducing pensioner poverty to around 5 per cent.

But implementing this support would be challenging. The most effective interventions carry significant cost implications – particularly if universal support increased significantly. And, as shown in figure 8 below, even the most generous measures would not reach everybody in the growing population of renters. Consequently, a staged approach may be appropriate and, in the long term, housing reform and better private pensions for those with low lifetime earnings could supplement enhanced social security provision.

Below, we detail the policy options we modelled, before discussing implications for government intervention.

FIGURE 8: EVEN THE MORE GENEROUS MEASURES DO NOT ADEQUATELY SUPPORT ALL RENTERS



Source: Fabian Society analysis of Family Resources Survey, 2022-23. PC=pension credit. HB=housing benefit. MIS=minimum income standard. NSP=new state pension.

TABLE 5: THE MOST EFFECTIVE MEASURES TARGET THE MINIMUM INCOME STANDARD AND HAVE BROAD REACH

	Pensioners out of poverty (thousands)	Cost per pensioner out of poverty (£)	Poverty rate (%)	Total cost (billion £)	Pensioners gaining (thousands)	Pensioners losing (thousands)	Pensioners on benefit change (thousands)
Higher benefits levels							
At poverty line	40	9,000	16	0.4	420	0	140
At minimum income standard	460	10,000	12	4.6	2,040	0	750
Full benefits take-up							
Pension credit	240	18,000	14	4.4	1,390	0	1,150
Housing benefit	160	14,000	15	2.3	720	0	600
Higher benefits levels AND full take-up of Housing Benefit and Pension Credit							
At poverty line	390	16,000	13	6.2	2,130	0	1,570
At minimum income standard	1,280	11,000	5	14.2	3,970	0	2,490
Universal state pension (regardless of National Insurance contribution records)							
Current new state pension level	830	19,000	9	15.6	9,930	90	(160)
At minimum income standard	1,450	29,000	4	41.5	12,360	50	(320)
Universal state pension based on household size							
Current new state pension level	610	17,000	11	10.5	8,680	100	(140)
At minimum income standard	1,340	21,000	5	28.0	12,110	50	(260)
State pension based on contribution records							
Current new state pension level	380	16,000	13	6.0	6,920	90	(100)
At minimum income standard	1,120	26,000	7	28.8	11,980	60	(240)

Source: Fabian Society analysis of Family Resources Survey, 2022-23. Figures are rounded. The FRS may undercount benefit recipients, even though the DWP has recently used linking with administration data to correct this problem. Our modelling accounts for 2022-23 cost-of-living payments in the poverty line for social security. Extending the current maximum new state pension to more people is an approximation for support targeting the poverty line. For the minimum income standard, we modelled different figures for benefits levels and the state pension, reflecting that the state pension intends to exclude rent while pension credit excludes both rent and council tax. Benefits modelled targeting the poverty line are unchanged for singles and £16,744 for couples, and those targeting the minimum income standard are £11,890 for singles and £18,660 for couples. The state pension modelled at the current level of £9,628 per person; household-level, this is £16,744 for couples. The state pension modelled to target the minimum income standard is £12,751 per person; household-level, this is £19,859 for couples.

Reforms to means-tested benefits

We modelled three types of scenario:

- higher levels of means-tested benefits, but at current take-up levels;
- full take-up, but at current benefit levels; and
- higher benefits and full take-up.

Higher benefits levels

These measures lifted relatively few pensioners out of poverty, as they do not adequately address the challenges discussed in section 5 above – particularly, housing-related costs and take-up.

- **Raising benefits to the poverty line.** This measures increases benefits for couples where both are pensioners but leaves it unchanged for singles. It lifts the fewest out of poverty of any we modelled, but its focus on pensioners most in need makes it the most cost-effective. While 420,000 gain and 140,000 more receive means-tested benefits, it lifts just 40,000 out of poverty, leaving the poverty rate virtually unchanged at 16 per cent. On the other hand, it would cost just £0.4bn, or £9,000 per pensioner lifted out of poverty. The Fabian Society previously modelled raising benefits for couples where only one is above the state pension age to halfway between current universal credit and pension credit levels. This measure would lift about 10,000 pensioners (and another 10,000 working-age people) out of poverty, costing £0.2bn.[83]
- **Raising benefits to the minimum income standard.** This intervention is reasonably cost-effective, but poverty would persist. Despite benefiting 2 million pensioners and bringing 750,000 into the benefits system, just 460,000 are lifted out of poverty, leaving the poverty rate at 12 per cent. This costs £4.6bn, or £10,000 per pensioner lifted out of poverty.

Full take-up

These measures were more effective at lowering poverty than raising benefits levels. But they don't provide an adequate level of support to reach all those in poverty because of housing-related costs – particularly for private renters.

- **Pension credit.** Most cannot be lifted out of poverty through full take-up at current pension credit levels, and this is the least cost-effective means-tested intervention. It brings an additional 1.2 million pensioners into the benefits system but lifts only 240,000 out of poverty, decreasing the poverty rate by just 2 percentage points, to 14 per cent. At £4.4bn, the total cost is among the lower we modelled. But it would cost £18,000 per pensioner lifted out of poverty.
- **Housing benefit.** Despite relatively low impact, due to high housing costs, targeted support for those most at risk of poverty after housing costs makes this intervention more cost-effective than raising pension credit take-up. It brings an extra 600,000 pensioners into the benefits system but lifts just 160,000 out of poverty, decreasing the poverty rate by just 1 percentage point to 15 per cent. It costs £14,000 per pensioner lifted out of poverty, totalling £2.3bn.

Higher benefits levels AND full take-up

These measures overcome many of the shortcomings of raising levels or take-up alone and bring pensioner poverty close to zero. But the challenges of reducing poverty for private renters remain.

- **All those eligible receiving housing benefit and pension credit at poverty line (after housing-related costs).** The impact of this intervention is disappointing, reflecting a failure to fully mitigate housing-related costs even for homeowners, who still pay council tax and water rates. It benefits 2.1 million, including 1.6 million newly getting benefits. However, only 400,000 come out of poverty, lowering the poverty rate by just 3 percentage points to 13 per cent. The poverty rate remains 11 per cent for those who own their home outright, 14 per cent those paying it off, 21 per cent for social tenants and 27 per cent for private renters. It costs £6.2bn or £16,000 per person lifted out of poverty.
- **All those eligible getting housing benefit and pension credit at the minimum income standard.** This is the most impactful means-tested intervention we modelled, but some renters still

fall short. It benefits 4 million pensioners, lifting 1.3 million out of poverty and reducing the poverty rate to 5 per cent. In addition to raising benefits for those already receiving them, it brings an extra 2.5 million pensioners into the benefits system. It costs just £11,000 per person lifted out of poverty, totalling £14.2bn. Nonetheless, while the poverty rate for those who own their home outright falls to 4 per cent, it is 11 per cent for those still paying off a mortgage, 8 per cent for social tenants and 13 per cent for private renters.

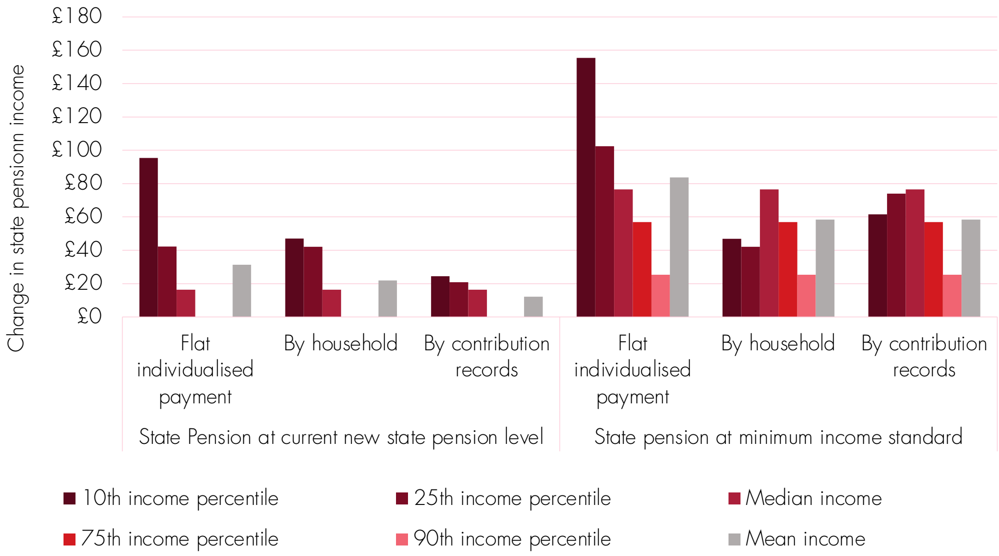
Reforms to universal support

We modelled scenarios where the level of universal support increases using three different approaches:

- A flat rate for every individual, regardless of contribution records;
- A rate available to everybody but based on household size, with the total for couples reduced to reflect lower joint cost of living;
- A higher state pension for everybody, based on national insurance contribution records.

These changes could be achieved through the state pension or other mechanisms (as done previously through the winter fuel payment). Figure 9 below summarises the impact on incomes.

FIGURE 9: A FLAT-RATE CITIZEN'S PENSION IS THE MOST PROGRESSIVE UNIVERSAL INTERVENTION



Source: Fabian Society analysis of Family Resources Survey, 2022-23.

A flat rate for every individual

As Figure 8 above shows, a flat rate for every individual is the most progressive universal intervention, because those on the lowest incomes would gain the most. However, there are also significant discrepancies between the number of beneficiaries and those lifted out of poverty; many people who would benefit from it are not in need of extra support. The absence of support for those with disproportionate housing costs means these interventions were also less effective at tackling poverty among renters, compared with raising levels and take-up of means-tested benefits that provide support for both income and housing costs.

- **A universal pension at the current new state pension level for single-person households.** Although less cost-effective than any means-tested intervention, this works relatively well for those not renting. It costs £15.6bn, or £19,000 per person lifted out of poverty. It improves living standards for 9.9 million pensioners, lifts 800,000 out of poverty, reducing the poverty rate to 9 per cent. The poverty rate for outright homeowners drops to 5 per cent, and for those with a mortgage it drops to 11 per cent. But poverty remains higher for social renters, at 24 per cent, and for private renters, at 31 per cent.

- **A universal pension at the minimum income standard for single-person households.** This is both the most effective and most expensive measure we modelled, but even at this high level, housing costs are not always covered. It benefits 12.4 million pensioners and effectively eliminates poverty, to 4 per cent, by lifting 1.5 million out of poverty. However, this intervention comes at a cost of £41.5bn or £29,000 per pensioner lifted out of poverty. The poverty rate for those owning their home outright falls to just 1 per cent, and for those with a mortgage, 7 per cent. Poverty rates are again higher for social renters, at 12 per cent, and private renters at 22 per cent.

Payments based on household size

At the right level of support, payments based on household size could be nearly as effective as universal individual support at tackling poverty, at a fraction of the cost (though with significant challenges, as described below). But renters – particularly couples – are poorly served.

- **A universal household pension at the current new state pension level.** This does not reach as many people as the above policy of setting an individual pension at the poverty line for single-person households – which provides particularly generous support for couples. But this is one of the more cost-effective forms of universal support. It benefits 8.7 million pensioners, but it lifts just 600,000 out of poverty, bringing the poverty rate to 11 per cent. It costs £10.5bn, or £17,000 per person out of poverty.
- **A universal household pension at the minimum income standard.** This has nearly the same impact as the individual universal pension, at a fraction of the cost, but housing costs remain poorly supported. This costs £28bn – or £21,000 per person lifted out of poverty. It benefits 12.1 million pensioners and 1.3 million are lifted out of poverty, which results in a poverty rate of 5 per cent. The poverty rate for those owning their home outright drops to 2 per cent, and it is 9 per cent for

those paying off a mortgage. But it is again higher for social renters, at 16 per cent, and private renters, at 26 per cent.

Everybody receives the same state pension, subject to national insurance contributions

These measures would particularly benefit those receiving the legacy state pension, who are entitled to a lower level of support than those receiving the new state pension. They have a smaller impact than other universal support but the scale of potential impact demonstrates the concentration of need among older ages.

- **With the maximum payment set at the current new state pension level.** This essentially entails extending the more generous new state pension to older age groups. It is the most cost-effective of the universal measures and particularly benefits women, but its impact is limited. It costs £6bn, or £16,000 per person lifted out of poverty. And it benefits 6.9 million pensioners, but lifts just 380,000 out of poverty, resulting in a poverty rate of 13 per cent. Those lifted out of poverty include 220,000 women.
- **With the maximum payment set at the minimum income standard.** This performs nearly as well at reducing poverty as other universal measures at this level, costing less than raising pensions for everybody, but more than a household-based approach. It benefits 12 million pensioners and lifts 1.1 million out of poverty, reducing poverty to 7 per cent. Single women aged 80+ are more likely than any cohort to benefit. It costs £28.8bn or £26,000 per person out of poverty.

Trade-offs and policy considerations

There are a number of trade-offs to consider when choosing between options to address pensioner poverty. Clearly, financial cost is a major consideration. But beyond this there are other trade-offs, which we set out below.

Support levels

It is possible to achieve significant impact – provided support is high enough. Interventions which benchmark to the minimum income standard can lower poverty to around 5 per cent. In contrast, there are significant gaps in support for approaches which benchmark to the standard poverty line.
Even the most generous interventions struggle to help all renters. No scenario we modelled could lower the poverty rate for private renters below one in five, and for social tenants below one in ten. This is because the gap between the highest level of support we modelled and the poverty line is monthly around £250 for singles and £700 for couples, which is will not always be enough to cover rent and utilities.

Means-testing

Concurrently raising benefits levels and take-up offers a cost-effective route to tackle poverty in the near-medium term. Full take-up of the highest level of support we modelled lowers the poverty rate to 5 per cent. Targeting support to those most in need means it costs £27.3bn less than a similar result via universal support.

Savings through means-testing are significant, even after accounting for higher administrative costs. In 2010/11, each pension credit claim cost £351 to administer in the first year, and £47 per year thereafter. Accounting for inflation, all else being equal, this would today be much less than the additional cost of universal support (though more recent data would be needed for a reliable comparison).
[84]

This is a practical consideration – not just a financial one. Raising benefit levels can have only limited impact without reaching near-universal take-up. This take-up would be difficult to achieve without reduced stigma associated with means-testing and a delivering a step change in benefits onboarding processes.

Means-testing presents political challenges. People are split on means-testing the winter fuel payment but most pensioners are opposed. A September 2024 YouGov poll found, across all ages, 44 per cent opposition and 46 per cent support. But among over-65s, 72 per cent opposed and 26 per cent supported means-testing.[85] Means-testing the state pension is less popular: an April 2022 YouGov poll found 51 per cent opposition and 34 per cent support.[86]

Universalism

A higher state pension would be costly and carry distributional challenges. Achieving a poverty rate of 4 per cent through a universal approach would have cost around 2 per cent of the UK's GDP in 2022/23. Meanwhile, it would raise incomes for 10 million pensioners who are not in poverty.

Better pensions could bring UK spend in line with comparable economies. The UK spent 6 per cent of GDP on state pensions in 2020. The USA spent 8 per cent, even though their pension-age population is relatively smaller.[87] UK spend has since dipped to 5 per cent of GDP, due to Covid-19 related mortality. It is forecast to remain around this rate for the duration of this parliament, and take 50 years to reach 8 per cent.[88]

Household-level pensions could mitigate cost but are controversial. Adjusting pension entitlement by household size could achieve a similar reduction in poverty as a higher universal pension, for less cost. But this would be a departure from UK social security norms of pensions as an individual entitlement, while introducing administrative complexity. Realistically, such a change could only be introduced for new pensioners, so current pensioners would miss out. This would involve new pensioners with full contribution records receiving lower pensions than they would otherwise have done, which would likely be seen as a cut in the value of the state pension.

Gradually raising support could improve living standards in line with a more fiscally realistic timeline. The government could mitigate costs by prioritising older pensioners – who have significantly lower average incomes. Women, in particular, would benefit from such measures. We modelled the impact of extending the new state pension to pensioners in households were everybody is aged 80+. If based on national insurance records, it would lift 100,000 pensioners out of poverty, costing £1.6bn. Removing contribution requirements would lift 220,000 out of poverty, costing £3.6bn.

Some cost-of-living challenges could also be addressed through targeted support. Renters make up the majority of pensioners remaining in poverty at the lower level of universal support – ie, benchmarking to the poverty line rather than the minimum income standard. It would be cheaper to support them with more comprehensive housing benefits and other cost-of-living support – although there would be significant challenges, as described above.

Box 4: The role of private savings in achieving the minimum income standard

Raising the state pension to the minimum income standard would likely receive a mixed reception It could bring poverty near zero, but mark a significant departure from the assumptions underpinning the UK's current mixed state/private pension system. In particular, it would raise the value of the state pension well beyond the 30 per cent target recommended by the Turner Commission, which was achieved in 2023/24.[89] And, as described above, costs would be significant while some still fall though the cracks.

If major reforms to the state pension are considered unaffordable over the long term, it would be worth exploring whether a higher level of private pension savings is needed to achieve acceptable living standards in retirement. This implies raising automatic enrolment contributions to complement a target state pension level, to enable pensioners to achieve the minimum income standard in time. A number of pension sector bodies, including the Association for British Insurers and PLSA, propose raising total automatic enrolment defaults to 12 per cent, on a gradual basis over a period of a decade. They suggest that the cost of pension provision should be split on a 50/50 basis between the employer and employee. The same organisations also argue that the scope of automatic enrolment should be broadened to include younger workers, people who only meet the £10,000 contribution trigger when combining incomes from multiple jobs, and the self-employed.[90]

Higher pension savings for those with low lifetime earnings present special problems related to affordability, but might be achieved in a number of ways. This could include combining contributions from workers, employers, and the government via the tax and benefits systems. The Institute for Fiscal Studies argues that, to do so without further eroding living standards, the government should seek to raise lifetime earnings while minimising additional contributions from those on low incomes.[91]

A number of Fabian Society proposals seek to address gaps in automatic enrolment defaults – including for low earners, the self-employed, and employees whose circumstances mean they fall outside the scope of automatic enrolment.

Low earners[92]

- Raise employer contributions to for low and middle earners.
- Introduce a minimum employer contribution where staff fall below the contribution threshold or are unable to pay.
- Raise automatic enrolment defaults when workers reach a specific earnings threshold, with a mechanism that allows them to "opt down" rather than opt out.

Self-employed[93]

- Bring the self-employed in scope of automatic enrolment, with a hybrid element that can be accessed in case of emergencies.
- Provide tax incentives to save, commensurate with that available on the employer contributions for employees.

Conclusions: a way forward

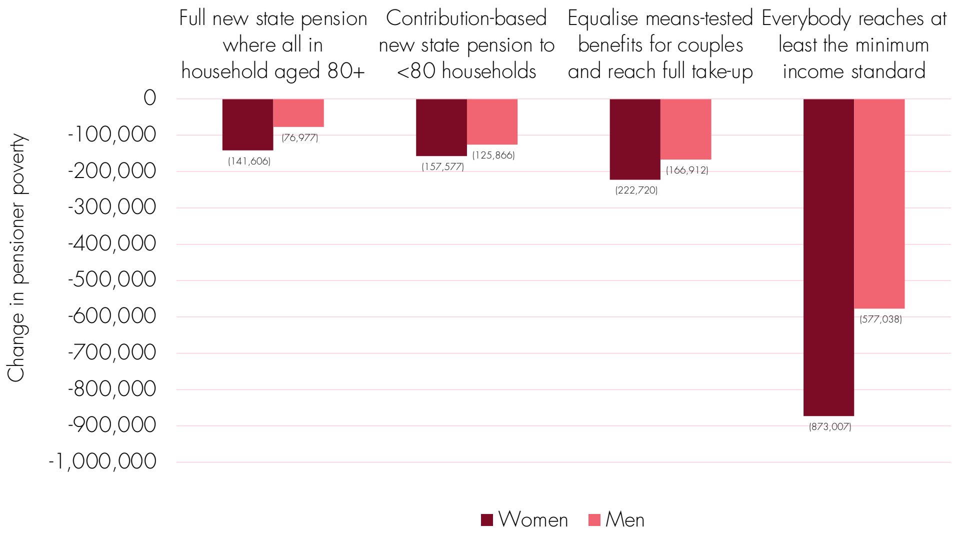
A sustainable solution to pensioner poverty will require both a near-term and longer-term approach. The government should consider options for immediate, targeted support for those most in need today, and should use the pensions review process to develop a plan to bring dignity in retirement for future generations. Below are proposals for to consider delivering over the next two parliaments.

Within this parliament, support those most let down by the means-tested benefits system and legacy state pensions. Options to consider include:

- **Improve the state pension for older pensioners** – particularly those who retired before the first improvements were introduced in 2010. This could include waiving contribution rules for pensioners over a specific age (for example, 80) and gradually extending the new state pension (for example, starting with over-80s and decreasing the age of eligibility each year). If implemented immediately, such a measure could, within this parliament, reach 1950s-born women who experienced a delay in state pension age increase notifications.
- **Raise pension credit levels** to bring support for couples up to the poverty line, as is already the case for single people. This should include raising support for couples where one is below the state pension age.
- **Set a target for achieving full pensioner benefits take-up**. Start with pilots of quick-win options to use data matching to streamline onboarding processes – for example, through text-message notifications using HMRC data – and consider options for greater automation in future.

Figure 10 below shows these measures would have a significant impact on poverty for both women and men and help lower the gender pensions gap. However, the scale of impact would be much smaller than if all pensioner incomes increased to at least the minimum income standard (after housing costs). To achieve impact of this scale, further interventions would need to be considered over the next parliament.

FIGURE 10: PROPOSED INTERVENTIONS ARE A FIRST STEP IN LOWERING PENSIONER POVERTY



Source: Fabian Society analysis of Family Resources Survey, 2022-23.

Use the state pension review process to establish clarity on pension-age social security. Options to consider include:

- **Create consensus and long-term targets for a minimum living standard for pensioners**, the relative role of the state pension and private sources in achieving this, and the link between the state pension and pension credit. The government could explore at what level the state pension, combined with cost-of-living support, could guarantee protection from poverty, as defined by the below average resources measure that accounts for essential expenses.
- **Establish a timeline and consider reforms to contribution rules for raising the state pension to a target level.** Once this target level has been reached via the triple lock, the state pension should start using a more predictable uprating mechanism, increasing by earnings unless inflation is higher, in which case is it should be uprated by inflation until the earnings links is restored.
- **Review private pension contribution rules** to ensure they can play an appropriate role in reducing pensioner poverty and raising pension living standards to a target minimum level within a specific timeframe.

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