Independent Age

Summary report

The cost of pensioner poverty and non-take-up of Pension Credit

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Key points

Pension Credit guarantees that pensioners' incomes can be topped up at least to £173.75 a week for singles and £265.20 for couples, if their incomes fall below this level. In principle, this should eliminate serious poverty for pensioners. However, around a million eligible pensioners do not claim Pension Credit. This causes them to lose out on an average of £49 a week, and to be at risk of deep poverty. This not only damages the well-being of those concerned, but also costs the state money as a result of the greater spending on health and social care needed for pensioners whose lives have been damaged by poverty.

This report estimates those additional costs. It uses two methods to identify associations between lower income and higher public costs:

(i) **Surveys** of pensioners that record both their incomes and their self-reported use of public services;

(ii) **Local area data** that show the extent to which having more people in an area on a means-tested benefit is associated with more recorded spending on public services in that area.

It finds that:

- The highest identifiable costs are linked to the greater amounts of time that pensioners on lower incomes spend in hospital. Excluding primary care, additional health spending associated with non-claiming of pension credit is estimated at £2.9 billion based on the survey data and £4.5 billion based on area data.
- For primary care, a smaller estimate based on differences in the use of prescribed medications as an indicator of overall use of GP-based services comes to £154m based on survey data and £313m based on area data.
- For social care, the estimates are £189m using survey data or £66m using area data, but there are reasons to believe that neither of these capture adequately the full additional public cost of social care.
- This adds up to a total estimate of £3.2 billion for the survey method and £4.9 billion for the local area method, with a central estimate of around £4 billion.
- We consider this to be a cautious estimate. While we note some ways in which our method may somewhat overstate associations between poverty and spending, and it does not demonstrate a direct causal link, there are also a number of ways in which it is able to capture only a part of the cost, especially for social care.

The link between low pensioner income and higher public spending

The public spending cost of poverty and low income arises from the fact that people with lower income end up requiring more interventions from the state, in order to address the consequences of poverty. People on lower incomes have greater risk of disadvantage that triggers public spending, across a number of areas including health, education and social services. This means that poverty not only harms those who experience it, but it also creates additional costs for taxpayers.

The most significant overall study of the public cost of poverty was carried out in 2016 by a team from Herriott Watt and Loughborough Universities (Bramley et al., 2016). It estimated an overall cost of £69 billion, across age groups and sectors.

The present analysis seeks to identify a subset of these costs, taking account of:

- only one age group (those aged over 65);
- the narrower range of services relevant for this age group than for the population as a whole (principally health and social care); and
- a more specific income (the difference between the current incomes of eligible non-claimants of Pension Credit and their incomes were they to receive Pension Credit).

While there are some areas of public spending, such as education, where low pensioner incomes are unlikely to contribute substantially to the public service cost of poverty, health and social care costs are potentially high. Between them, the total cost of poverty to society attributable to health and social care was estimated by Bramley et al. (2016) to be around £32 billion.

There is an extensive literature discussing social determinants of health in later life. For example, Marmot (2020) shows that people living in areas with more disadvantage on average live shorter lives, and spend more of that short life in poor health. Reviewing the evidence on inequality in later life, Scharf et al. (2017) note that income and wealth play a substantial role in determining morbidity and mortality. On the other hand, inequalities among the very old are to some degree narrowed by 'selective survival' – the fact that those people on low incomes who live a long time have relatively favourable health (Banks et al., 2010).

Importantly, the evidence on income and health notes a continuous 'gradient' in the relationship between the two. This means that higher health costs arise do not just as a result of being in poverty, but occur continuously across the income distribution, so each successively lower income group incurs higher costs than the one above it.

While there is less extensive evidence on relationships between income and social care needs than for health, there are two strong reasons for supposing that higher poverty rates among pensioners will increase social care costs. The first is the self-evident links with health: those in better general health are less likely to have life-limiting conditions that cause them to require care. The second is that social care in the UK is heavily means-tested against both savings and income. People with above a given threshold of savings are excluded from most public help with social care, and those below this threshold may be required to make a contribution to social care costs, based on their income.

Pension Credit take-up and the distribution of income

In order to consider the difference made by the lower incomes of eligible non-claimants of pension credit, we need to observe the present distribution of their incomes, in comparison to what their incomes would be if they claimed.

A comparison between current recipients and eligible non-claimants of Pension Credit is shown in Figure 1. This was constructed using the Family Resources Survey, and assuming that anyone with below 60% of median income and not claiming Pension Credit is an eligible non-claimant. This group can be seen to be much more at risk of very low disposable income than recipients of Pension Credit.

Figure 1: Cumulative distribution of households (benefit units), who are recipients or assumed to be eligible non-recipients of Pension Credit, by household % of median income

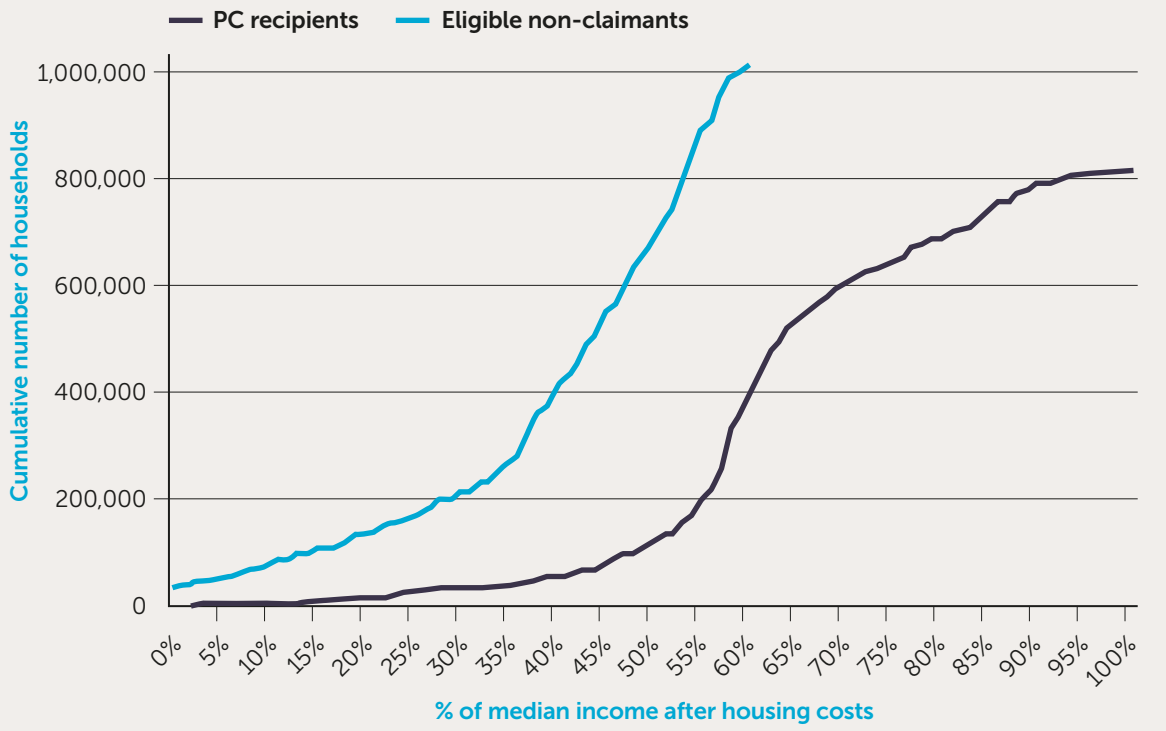
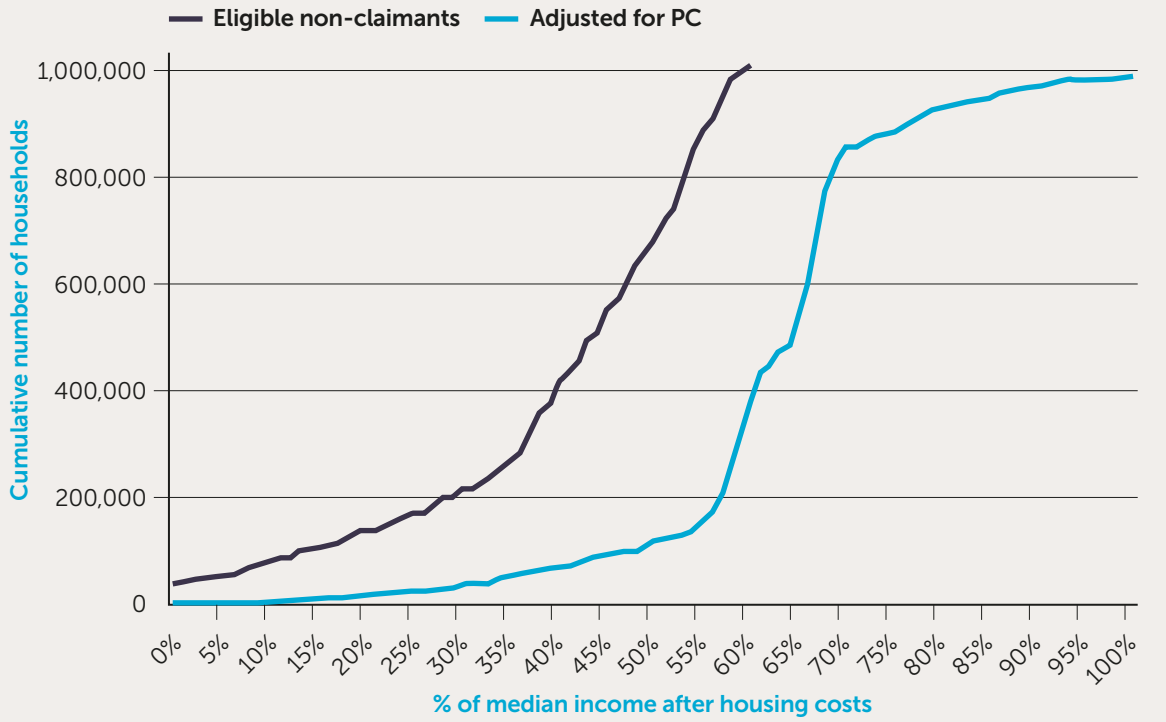


Figure 2 simulates how the incomes of eligible non-claimants would improve if they claimed. This shows a substantial reduction in the risk of poverty. We estimate that pensioner poverty would fall by about a third (from 16.4% to 11.8%) if all eligible non-claimants were to claim. More severe pensioner poverty would fall to very low levels – from 9.0% to 4.3% of all pensioners below 50% median.

Figure 2: Cumulative distribution of households (benefit units) currently not claiming Pension Credit, adjusted to simulate the effect of receiving their full entitlement.



Basis of the estimates

The estimates of the public service cost of people not taking up pension credit are based on observing how much spending is associated with people being at different income levels.

Two separate methods are used to make these estimates. One is to look at national household surveys, considering the income of pensioner households in comparison to statements they make about their health and service usage, as indicators of how much the public health and care systems are likely to spend on them. The other is to look at data on local areas, observing in each small area how much is spent on health and care services compared to how many pensioners are estimated to be on low income (based on data showing the proportion receiving Pension Credit).

Each of these estimates has advantages and disadvantages. The survey method observes individual incomes directly, but must use self-reports of service use or health condition as proxy indicators of costs. Conversely, the area level data looks at costs and service activity directly, but must make deductions about how this is related to income by counting how many pensioners are on Pension Credit in each area, and on this basis modelling the correlation between income and spending.

Ideally, we would like to observe how much higher public spending is on eligible non-claimants of Pension Credit than on those who receive it. However, local area data do not show the number of eligible non-claimants, while surveys include too few of them in the sample to produce reliable results. Therefore, an indirect method is used, comprising the following three steps:

- A comparison is made between recipients of Pension Credit and the rest of the population, whose income is on average higher. This average income difference is compared to how much extra is spent on those receiving Pension Credit.
- The results are used to estimate the difference in public spending associated with a given difference in household income. This is the 'gradient': the rate at which spending changes with income.
- This gradient is then used to estimate how much difference in public spending on health and social care would be associated with an income difference equal to the extra amount that eligible non-claimants of Pension Credit would receive if they claimed it.

These calculations assume that spending varies according to household income by about the same amount in different parts of the income distribution. Research on health gradients shows that health continues to improve as you move up the distribution: it is not just a matter of avoiding poor health by escaping poverty. Evidence varies on the relative size of the effect, although in some cases it is greater near the bottom of the income distribution. To the extent that this is a case, it would cause an under-estimate in our results.

The estimates

We produced estimates using the two methods described above (survey and local area based) for three different areas of spending, shown in Table 1 on the following page.

We estimated the effect on acute and community health care spending by observing differences in hospital bed use by different income groups, and applying this to all NHS spending on pensioners, other than primary care. This identified by far the biggest estimate of spending difference by income in this study.

We estimated the effect on primary care, using as an indicator differences in the use of prescriptions between different income groups. This was used as an alternative to direct contact with GPs, which is harder to measure. This produced a more modest estimate of spending differences, although since prescription use is an imperfect indicator of use of primary care, the real difference could be greater.

We estimated the effect on social care spending, observing differences by income in the numbers restricted in activities of daily living through the surveys, and differences in actual care spending through the local area estimates. Both of these produced relatively modest numbers. Household surveys do not look at care homes, and area based spending in care homes may show a weakened relationship because the socio-economic profile of care home residents does not necessarily match that of the local area where it is located. Therefore, the social care spending figures could

well be an underestimate.

Table 1: Estimates of additional health and care spending associated with non-take-up of Pension Credit

Spending area	Acute and community health care	Primary health care	Social care	Total
Survey based estimates	£2,867m	£154m	£189m	£3,210m
Area based estimates	£4,497m	£313m	£66m	£4,876m
Average	£3,682m	£248.5m	£127.5m	£4,043m

A total figure of £4 billion, the average amount estimated by the two methods, can be regarded as a cautious estimate of how much spending is associated with the lower incomes of those not taking up Pension Credit. As discussed above, not all areas of spending can be fully estimated, and the gradient may be higher at the lower end of the distribution than we are able to measure. On the other hand, there are some ways in which the calculations could overstate the effect. In particular, some of the poorer health among lower income groups is associated with their over-representation among the oldest pensioners. We estimate that at most, this could lower the figure by up to 20%, which is approximately the difference between our higher estimate and the central figure of £4 billion.

The benefits of higher take-up

The above figure does not show directly that £4 billion a year would be saved in public spending if everyone eligible were to take up Pension Credit. The evidence does not demonstrate causality, although the effects identified tie in with other research showing clear causal links between income and health. What the present study does show is that the higher health and social care spending associated with pensioner poverty is substantially larger than the estimated £2.16 billion saved by the Treasury as a result of non-take-up of Pension Credit.

The benefits of higher take-up would therefore be twofold. First, it could save public money over the long term, as better incomes feed through to better health outcomes and a lower social care bill. Second, the evidence shows clearly that it can improve the lives of pensioners currently not claiming their entitlement (Independent Age, 2019). In particular, Pension Credit has been shown to bring:

- A reliable income allowing people to live with dignity and independence. People receiving the Pension Credit are guaranteed income close to the Minimum Income Standard (Davis et al., 2020);
- Specific help with meeting specific material needs, that can make a difference to being able to eat properly and heat one's home adequately in the winter;

- Enough to take part in some social activities, avoiding the risk of isolation and loneliness. Even being able to keep your home in a state that allows you to invite someone round for a cup of tea can make a big difference.
- Better access to a wide range of other benefits, including Housing Benefit, Council Tax Support, the Warm Home Discount Scheme, NHS dental treatment, vouchers towards glasses, a free television license for over-75s and the Cold Weather Payment.

This evidence therefore shows that full take-up of Pension Credit can improve the poorest pensioners' lives while still saving public money. This puts it at the top of the agenda for reducing pensioner poverty.

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