Social Security (Uprating of Benefits) Bill

Impact Analysis

Background

1. Up-rating is the process by which benefits and pensions are increased annually, in most cases to adjust for increases in prices or earnings. The Secretary of State (SoS) is required by law to review benefit and pension levels each year to assess whether they have retained their value in relation to prices or, in the case of the State Pension and the Standard Minimum Guarantee in Pension Credit, earnings. If prices or earnings have increased in the preceding year, SoS must increase some benefits and pensions, and may increase others.

2. The Triple Lock was introduced by HM Government in 2011 and was reaffirmed in the 2019 Manifesto – with the Government pledging to continue to up-rate the State Pension (the basic State Pension and up to the full rate of new State Pension) by the highest of growth in average earnings, prices or 2.5%.

3. The Triple Lock is not in statute but is a policy commitment. Current up-rating legislation – the Social Security Administration Act 1992 ("SSAA") – requires the SoS to consider each year whether there has been an increase in average earnings, or in prices. If there has been no increase, the SoS cannot up-rate the relevant benefits or pensions in the following financial year. This was the case for earnings-linked benefits in May to July 2020 when earnings growth for the reference period fell to -1.0%. This led to the Social Security (Up-rating of Benefits) Act 2020 which allowed the Secretary of State to increase State Pensions by 2.5%.

4. The latest Average Weekly Earnings (AWE) figure (May - July), published on the 14th September, has earnings growth at 8.3%. For the purpose of this assessment, we have applied this growth rate of 8.3% for the May-July reference period.

Analysis

5. For the purpose of this document we have carried out analysis to show what would happen to benefit rates and expenditure in 2022/23 if the basic State Pension and new State Pension were up-rated by (i) the Triple Lock or (ii) the higher of CPI or 2.5%, applying various economic assumptions. Additionally, we have provided forecasts for the Standard Minimum Guarantee in Pension Credit, (i) up-rated as standard by AWE or (ii) the higher of CPI or 2.5%, applying various economic assumptions. Survivor's benefits in Industrial Death Benefit would also be impacted; however, the number of individuals in receipt of this is small and so no separate analysis of this group has been conducted.

6. We have assumed an 8.3% increase in earnings growth for the May–July reference period and a CPI figure of 3.1%. We have modelled the impact of up-rating by the higher of CPI and 2.5%.
   For future years we have applied economic assumptions in line with the OBRs October 2021 forecasts[1].

Indicative benefit rates

7. Table 1 sets out the indicative benefit rates in 2022/23 for the basic State Pension (bSP), new State Pension (nSP) and the Pension Credit (PC) Standard Minimum Guarantee (SMG), under the 'Default scenario' in which the Triple Lock (or AWE for Pension Credit) is maintained in 2022/23 and an alternative scenario of up-rating by the higher of CPI and 2.5%.

Table 1 – Indicative Basic State Pension, New State Pension and Pension Credit rates in 2022/23

Weekly rate (£, nominal terms)	2021/22	2022/23	*Change in rates from previous year*
Default Scenario Triple Lock - AWE 8.3%, CPI 3.1%			
basic State Pension	137.60	149.00	*+11.40*
new State Pension (full rate)	179.60	194.50	*+14.90*
Pension Credit – Single SMG	177.10	191.80	*+14.70*
Pension Credit – Couple SMG	270.30	292.75	*+22.45*
CPI/2.5% scenario – CPI 3.1%			
basic State Pension	137.60	141.85	*+4.25*
new State Pension (full rate)	179.60	185.15	*+5.55*
Pension Credit – Single SMG	177.10	182.60	*+5.50*
Pension Credit – Couple SMG	270.30	278.70	*+8.40*

These are based on internal DWP modelling. Further detail is provided in the 'Exchequer Impact' section below. Rates rounded to the nearest 5p.
SMG – Standard Minimum Guarantee

8. The table shows that under the modelled Triple Lock scenario assuming earnings growth of 8.3% someone receiving the full weekly rate of bSP could see a cash increase of £11.40 a week, equivalent to £592.80 a year, in 2022/23, whilst an individual receiving the full weekly rate of nSP, could see a cash increase of £14.90 a week, equivalent to £774.80 a year, in 2022/23.

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[1] Economic and fiscal outlook - October 2021 - Office for Budget Responsibility (obr.uk)

9. The impact on an individual's State Pension income will also depend on their specific individual entitlement (including whether they receive the pre-2016 State Pension (basic and additional State Pension) or new State Pension, and their National Insurance record). As at February 2021[2] the average weekly State Pension amount was £155.08.

10. The table shows that under the current Pension Credit up-rating mechanism (by AWE), if earnings grow by 8.3% by 2022/23 single claimants of Pension Credit could see a cash increase of £14.70 a week, equivalent to £764.40 a year. Couple claimants could see a cash increase of £22.45 a week, equivalent to £1,167.40 a year, in 2022/23.

OBR-certified Exchequer Impact

11. The table below sets out the OBR-certified scorecard costing of the possible up-rating changes in 2022/23 in cash terms.

Table 2 – Exchequer State Pension and Pension Credit impact of the CPI/2.5% scenario from the default scenario of maintaining Triple Lock (nominal price terms) for scorecard period
(- is a cost incurred + is a cost foregone)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
SP and PC: uprate with Double Lock in 2022-23 costing (£m)	0	+5,415	+5,780	+6,115	+6,455	+6,730

Impact on individuals

Impact on individuals' incomes

12. This section looks at the impact of the up-rating changes on an individuals' State Pension and Pension Credit income. We do not look at the impact of up-rating on household incomes as these will be made up of a combination of sources, including State Pension income, income from other benefits, private pension income and income from other sources such as earnings or investments.

13. Table 1 above sets out the indicative increases in the bSP, nSP and PC amounts. However, the impact on an individual's State Pension income will differ depending on their specific individual entitlement (including whether they receive the pre-2016 State Pension or new State Pension, and their National Insurance Record).

14. The table below shows the variation in average weekly amounts, as at February 2021[3].

Table 3 – Average weekly State Pension amount as at February 2021.

	Male mean weekly amount benefit	Female mean weekly amount benefit	Total average weekly amount benefit
Pre-2016 State Pension	£169.21	£141.98	£153.44
New State Pension	£166.34	£160.11	£164.23
Total	£168.58	£143.70	£155.08

Key characteristics of State Pension and Pension Credit recipients and impact on protected groups

15. The following tables set out demographic information for the current State Pension, Pension Credit and pensioner Housing Benefit caseload, as at February 2021[4].

16. As at February 2021, over 12 million people are in receipt of some State Pension income and over 1.4 million pensioner households are in receipt of Pension Credit, and over 1.1 million pensioner households are in receipt of Housing Benefit,

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[3] The latest State Pension data is published and available at
https://www.gov.uk/government/statistics/dwp-benefits-statistics-august-2021
[4] The latest data State Pension data is published and available at
https://www.gov.uk/government/statistics/dwp-benefits-statistics-august-2021, Pension Credit data is published and available at https://stat-xplore.dwp.gov.uk

including individuals with a protected characteristic (as defined by the Equality Act 2010). Everyone in receipt of State Pension, Pension Credit and pensioner Housing Benefit will be affected by this policy.

17. Table 4 shows that at present the majority of people are on the pre-2016 State Pension (over 10 million people) rather than on the new State Pension (over 1.8 million people). Under both new and old State Pension systems, the amount an individual receives varies depending on their National Insurance record.

Table 4 – State Pension caseload by Category of Pension, Feb 2021[5]

Category of Pension	Cases (in thousands)	Proportion
Pre-2016	10,476	85%
New State Pension	1,879	15%
Total*	12,355	100%

*Totals may not sum due to rounding

18. Table 5 illustrates that for State Pension there are slightly more female claimants than male and so changes to the rate are likely to affect women more than men. This difference is because in general there are estimated to be more women over State Pension Age than men (19% of women are over State Pension age, compared to 16% of men).[6] Women live longer than men on average and therefore receive State Pension payments for longer[7]. Women reaching State Pension Age today can still expect to receive State Pension for over 21 years on average – over two years longer than men. In general, women tend to rely on State Pension as the main source of income more than men.

19. Table 5 illustrates that for Pension Credit just under two thirds of Pension Credit claimants are female and just over a third are male, so changes to the rate are likely to affect women more than men. This difference is driven by similar factors to State Pension with more women over State Pension age than men as well as differences in income between the two groups. Single male pensioners had a higher average weekly income of £243 compared to single female pensioners who

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[5] The latest State Pension data is published and available at
https://www.gov.uk/government/statistics/dwp-benefits-statistics-august-2021
[6] ONS mid-year population estimates for the UK, England and Wales, Scotland and Northern Ireland 2020,
https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland?_sm_au_=iVV7MJRD2tBnS17FW2MN0K7K1WVjq
[7] Expectation of life, principal projection, UK - Office for National Statistics (ons.gov.uk), tab: 'Males cohort ex and Females cohort ex'

had an average weekly income of £221 in FYE 2020[8]. As women of pension age have lower incomes, they are more likely to be eligible for Pension Credit.

20. Table 5 illustrates a similar picture for pensioner Housing Benefit this difference is again driven by similar factors to State Pension with more women over State Pension age than men as well as differences in income between the two groups.

Table 5 – State Pension, Pension Credit and pensioner Housing Benefit caseload by gender split, Feb 2021

Gender	State Pension		Pension Credit*		Pensioner Housing Benefit**	
	Cases (thousands)	Proportion	Cases (thousands)	Proportion	Cases (thousands)	Proportion
Female	6,701	54%	941	65%	600	53%
Male	5,654	46%	507	35%	341	30%
Total*	12,355	100%	1,447	100%	1,133	100%

* Pension Credit cases relate to households in receipt.
** Pensioner Housing Benefit caseload gender split is for single claimants only. There are190 thousand couple pensioner Housing Benefit claims, representing 17% of the caseload.
***Totals may not sum due to rounding

21. State Pension is claimed by people over State Pension age (as of October 2020 State Pension age for both Males and Females reached 66[9]) so consequently changes to the rate will have an impact on this age group. As per Table 6, further analysis into the age groups shows that the highest proportion of claimants fall into the age range of 70-74. Furthermore, we see a decline at later ages with only 5% of total State Pension caseload being 90 or over and 10% of total Pension Credit caseload being 90 or over. For pensioner Housing Benefit data is only available split by the age groups 65-69 and 70 and over. However, the proportions for these groups match the age group breakdowns for State Pension so we expect that the impacts of uprating pensioner Housing Benefit with the relation to age will be similar as State Pension.

22. However, data on average pensioner incomes of those who have reached State Pension age suggests that those aged 75 and over rely more on benefit income

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[8] Pensioner Income series, 2019/20, Data table 2.8
https://www.gov.uk/government/statistics/pensioners-incomes-series-financial-year-2019-to-2020/pensioners-incomes-series-financial-year-2019-to-2020
[9] https://www.gov.uk/government/publications/state-pension-age-timetable/state-pension-a21%ge-timetable

(which includes their State Pension entitlement) than those aged under 75, as this makes up a greater proportion of their overall gross incomes.[10]

Table 6 – State Pension and Pension Credit caseload by age split, Feb 2021

Age	State Pension		Pension Credit*	
	Cases (thousands)	Proportion	Cases (thousands)	Proportion
65-69	2,640	21%	184	13%
70-74	3,535	29%	380	26%
75-79	2,593	21%	309	21%
80-84	1,839	15%	255	18%
85-89	1,113	9%	178	12%
90 and over	633	5%	140	10%
Unknown	2	0%	0	0%
Total**	12,355	100%	1,447	100%

* Pension Credit cases relate to households in receipt.
** Totals may not sum due to rounding

Table 7 – Pensioner Housing Benefit caseload by age split, Feb 2021

Age	Pensioner Housing Benefit	
	Cases (thousands)	Proportion
65-69	233	21%
70 and over	900	79%
Total*	1,133	100%

*Totals may not sum due to rounding.

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[10] Pensioner Income series, 2019/20, Data table 2.7,
https://www.gov.uk/government/statistics/pensioners-incomes-series-financial-year-2019-to-2020

23. We do not hold State Pension and Pension Credit caseload data split by ethnicity. However, Family Resource Survey[11] based analysis published by Cabinet Office suggests that non-White families are marginally less likely to be in receipt of Pension Credit and significantly less likely to be in receipt of the State Pension. Unfortunately, this analysis is not available for pensioner Housing Benefit.

Table 8 - Proportion of families in each population group in receipt of State Pension and Pension Credit, compared to overall population

Ethnicity	State Pension	Pension Credit
All	24%	3%
Asian	9%	3%
Black	10%	2%
Mixed	8%	2%
White	26%	3%
Other	8%	2%

24. However, Table 9 shows that State Pension and benefit income makes up a larger proportion of total income for pensioners in Asian/Asian British and Black/African/Caribbean ethnic groups compared to white ethnic groups[12], and the material impact on these individuals may be higher.

Table 9 - Pensioners in receipt of benefit income or State Pension income as a proportion of gross income

	All	White	Asian/ Asian British	Black/ African/ Caribbean/ Black British	Other
Benefit income as a proportion of gross income	44%	43%	55%	54%	42%

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[11] https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/benefits/state-support/latest#data-sources

[12] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972330/pensioners-incomes-series-2019-20.ods

State Pension income as a proportion of gross income	35%	35%	37%	36%	30%

25. These figures should be considered within the context of the overall age profile of each ethnic group. 18% of the white ethnic groups are aged 65+ compared to over 5% of the non-white ethnic groups according to the 2011 census[13], (figures are for individuals and hence lower than those in Table 8 which uses households.)

26. We do not hold State Pension and Pension Credit caseload data split by disability status. However, we do hold data on the proportion of those receiving State Pension who are also in receipt of disability-related benefits. Table 10 indicates that as of February 2021 of those claiming State Pension, 19% are also claiming disability related benefits. For those claiming Pension Credit this is higher, 50% are also claiming disability related benefits. For those claiming pensioner Housing Benefit 45% are also claiming disability related benefits.

Table 10 – State Pension caseload in receipt of disability related benefits, Feb 2021

Benefit Combinations*	State Pension	Pension Credit	Pensioner Housing Benefit
	Proportion	Proportion	Proportion
PIP/DLA/AA	19%	50%	45%
Not PIP/DLA/AA	81%	50%	55%

*Benefit Combinations data represent the proportion of individuals in receipt of PC or SP and AA/DLA/PIP

The impact of the new scenario on specific groups

27. Reduced State Pension, Pension Credit and pensioner Housing Benefit amounts compared to the default would affect more women than men due to the greater numbers on both benefits.

28. At the individual level, men would see a larger decrease in State Pension income as they receive larger amounts on average; however, the material impact on women would be higher as a larger proportion of their income comes from State Pension/ Pension Credit.

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[13] https://www.ethnicity-facts-figures.service.gov.uk/uk-population-by-ethnicity/demographics/age-groups/latest#age-profile-by-ethnicity

29. Any drop in State Pension/ Pension Credit amounts will affect a larger proportion of the white ethnic groups as a larger proportion are above State Pension age and hence in receipt of Pension Credit and State Pension; however, State Pension and benefit income makes up a larger proportion of total income for pensioners in Asian/Asian British and Black/African/Caribbean ethnic groups, and the material impact on these individuals may be higher.