

# Briefing

## Universal Credit and couples if one is over Pension Credit age

October 2012

The Welfare Reform Act 2012 changes the way that couples are treated within the benefits system when one is over the qualifying age for Pension Credit and the other younger. In the future, couples in this situation could receive much lower benefit support. This paper looks at the impact of the proposed reforms.

### Key points

- Couples where one partner has reached Pension Credit age and the other is younger could receive £100 less a week under Universal Credit compared to the current system of Pension Credit if neither is in work. The older partner could be financially better off living alone and claiming Pension Credit.
- Under Universal Credit older partners may have to draw more on their retirement savings to support a younger partner who is unable to work.
- Carers and people with limited capacity to work who have an older partner will receive additional elements in Universal Credit but could still face lower incomes than under the current system. And it is unclear whether, and if so how, rates will be increased if the older partner is disabled.
- Older people with a younger partner receiving Universal Credit could also lose other support linked to Pension Credit such as Cold Weather Payments and the Warm Home Discount.
- The Government should carry out a detailed analysis of the impact of treating mixed age couples as working age for benefit purposes including providing information about the numbers and circumstances of those affected over time.
- The Government wants to ensure that the younger person has incentives to work. However this will be achieved through the work-related requirements that are being introduced and it is unnecessary and unfair to also impose a large financial penalty.
- While it is right to consider State Pension reforms alongside Universal Credit, it will be some time before any changes to pensions are agreed. It would

therefore be reasonable to delay any changes to Pension Credit entitlement until this happens.

- The Government said that pensioners should not be adversely affected by either localisation of council tax support nor size restrictions for social tenants claiming Housing Benefit. However it appears that this will not apply to pensioners who have a younger partner.
- Age UK is concerned that the changes could affect the health and wellbeing of some older people, will increase pensioner poverty, force people to use their retirement savings to support a younger partner, and put pressure on family relationships.
- The Government should provide extra support within Universal Credit where one partner has reached Pension Credit age. It should also protect pensioners with younger partners from reductions in Housing Benefit and Council Tax Benefit which were not intended to affect pensioners.

## Background

Currently couples can claim Pension Credit as long as one partner has reached the qualifying age - which is gradually increasing in line with rises in women's State Pension age. However the Welfare Reform Act changes the age criteria so that in the future, couples will only be able to claim Pension Credit when both have reached the qualifying age. The Government has said that 'this is to ensure that all claimants who have not attained the qualifying age for State Pension Credit are required to claim Universal Credit and, if appropriate, be subject to work-related conditions of entitlement.'<sup>1</sup>

The expected timetable for the introduction of Universal Credit is for a trial in the North West from April to October 2013, then new claims being taken in one district in each region from October 2013, followed by the new system being rolled out so that by mid 2014 all new claims will be for Universal Credit. We do not yet know when mixed age couples will need to claim Universal Credit instead of Pension Credit but a DWP note states that this 'will be no earlier than October 2013'<sup>2</sup>.

This note looks at the arguments and debates around this change, considers the impact and sets out Age UK's views. In this paper we describe couples where one is under, and the other over, Pension Credit age as 'mixed age couples'.

## What we know about the impact

We do not have any detailed analysis of the numbers and circumstances of people who are affected by this change. However in 2011 there were over 93,000 couples receiving Pension Credit where one partner was aged below 60 - about 15 per cent of couples receiving Pension Credit<sup>3</sup>. In addition there were some 7,300 couples

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<sup>1</sup> *Welfare Reform Act 2012 – Explanatory notes* 2012.

<sup>2</sup> *Universal Credit frequently asked questions* July 2012, DWP.

<sup>3</sup> *Hansard* 8 Nov 2011, col 214W. (Although figures are given for age 60, Pension Credit age is linked to women's State Pension age which is rising and reached 61 in April 2012).

receiving Income Support or Jobseeker's Allowance where one was over the age of 60<sup>4</sup>. Those already receiving Pension Credit at the time when Universal Credit is introduced will continue to receive it but in the future, couples where one partner is younger will have to claim Universal Credit.

Currently when a mixed age couple claims Pension Credit the younger partner does not have to fulfil any work-related requirements. This will change with Universal Credit. Unless the working age partner is not expected to be in paid work because they are a carer or incapable of working due to ill health or disability, they will need to be seeking work and fulfil agreed activities around finding a job.

Mixed age couples where one or both have some earnings from work could benefit from the system of Universal Credit due to the more generous earnings disregard and taper. Under the Pension Credit system only £10 of a couple's earnings are disregarded and after that every extra £1 of income is counted in full.

However where neither partner is working, the weekly support could be considerably less. The October 2011 Universal Credit Impact Assessment looked at the overall changes for all households from the reforms. This showed that 200,000 households would receive over £75 a week less under Universal Credit once fully introduced, and another 200,000 would be £50 to £75 a week worse off<sup>5</sup>. Although there is no breakdown of who these households are, the paper states 'some of the heaviest notional losers for couples without children are in cases where one member is of working age and one is currently eligible for Pension Credit'.

An Equality Impact Assessment published in early November shows that the introduction of Universal Credit, once fully implemented will affect 7.6 million households of which 1.8 million have a head of household aged 50 or over<sup>6</sup>. Of these:

- 26 per cent (0.5 million) will receive a higher entitlement – an average gain of £34 a week
- 37 per cent (0.7 million) will be unchanged
- 37 per cent (0.7 million) will have a lower entitlement - an average loss of £41 less a week.

There is no breakdown to show the specific impact of the change for mixed age couples. However mixed age couples claiming Universal Credit in the future could receive incomes that are £100 or more lower than under the current system. In addition they could lose other benefits linked to the receipt of Pension Credit.

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<sup>4</sup> Reference as above. (Note: although someone whose partner has reached Pension Credit qualifying age can claim Pension Credit they may be able to receive Jobseeker's Allowance or Income Support instead. In this case it include a pensioner premium which gives a higher level of benefit.

<sup>5</sup> *Impact Assessment – Universal Credit* October 2011, DWP

<sup>6</sup> *Welfare Reform Bill – Universal Credit* Equality Impact Assessment, Nov 2011, DWP.

Benefit rates will be published later this year but standard rates are expected to be linked to current Jobseeker's Allowance (JSA) or basic Employment and Support Allowance (ESA). Benefit rates for 2012-13:

Personal allowance couples aged 18 or over ESA/JSA	£111.45
Pension Credit standard minimum guarantee couple	£217.90
Pension Credit standard minimum guarantee single	£142.70

It can be seen that if mixed age couples are treated in the same way as younger couples a pensioner could have a higher income living alone and claiming Pension Credit than receiving Universal Credit as a couple.

The information given here provides an indication of the impact on mixed age couples. However we would like the Government to provide a more detailed analysis of the impact including numbers over time, the circumstances of couples affected, and changes in the overall level of financial support.

## Capital

Pension Credit does not currently have a capital limit although savings over £10,000 are treated as providing £1 a week additional income for every £500 over this threshold. During debates on the Welfare Reform Bill the Government said a capital limit will be introduced 'but it will be a higher capital limit than for working age claimants'<sup>7</sup>. Under Universal Credit there will be a £16,000 capital limit with savings over £6,000 treated as providing £1 a week income for every £250 over this threshold. Nearly 150,000 people claiming Pension Credit have more than £16,000 savings<sup>8</sup>. In the future those with a low income but over £16,000 savings who have a younger partner will be excluded from Pension Credit but will not be entitled to Universal Credit due to their savings. And those with £6,000 to £16,000 will face a much steeper withdrawal of benefit. As a consequence some older people will find they have to use up more of their retirement savings to support a younger partner.

## Welfare Reform Bill debates and the Government's position

In the Committee Stage in the House of Commons, Labour Spokesperson Stephen Timms put forward an amendment which would have allowed couples where one partner is younger to continue to claim Pension Credit<sup>9</sup>. The Minister, Chris Grayling, argued that it is an important principle that in return for receiving support from the state, people of working age people should look for work. He said if there is someone of working age 'Why should we not say to the person of working age "Your household is on a low income, you need more money, get a job"?''. When asked about the position if the younger person was a carer he responded that they would receive support through other benefits via existing provisions.

The Minister also said 'This is not a saving measure as such. We have not calculated a saving out of it'. However the Government later admitted that in the current spending period they could save up to £100 million<sup>10</sup>. He said the Government had

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<sup>7</sup> *Hansard* 3 November 2011, col GC486. (A capital limit is being proposed because help with rent through Housing Benefit which currently has a £16,000 limit, except where someone receives Pension Credit guarantee, will be incorporated into Pension Credit).

<sup>8</sup> *Hansard* 14 November 2011, col 556W.

<sup>9</sup> *Hansard* 28 April, 2011, cols 551-554.

<sup>10</sup> *Hansard* 18 October 2011 col 936W.

not been able to provide an estimate of longer term savings because of the interaction with changes to support for pensioners. However as the numbers covered by transitional protection reduces over time, savings resulting from lower benefit levels, are likely to increase.

Peers returned to this issue in Committee in the House of Lords when Crossbencher Baroness Greengross argued for additional support for couples if one was over Pension Credit age<sup>11</sup>. She agreed that younger partners should seek work but felt if they were not able to work the basic level of benefit should reflect the fact that one partner was older. She also highlighted the difficulties that older workers face in finding employment.

The amendment was supported by the Labour opposition. Baroness Drake described this as a 'couples penalty' and expressed concern for low income couples due to lower benefit income under Universal Credit and the loss of passported benefits. She also highlighted the role of older women as carers.

The Minister Lord Freud confirmed that the policy would only apply to future claimants although he said that they would need to decide how to deal with cases where people move off Pension Credit but then need to claim again in the future.

However he rejected the amendment on two grounds. Firstly a higher level of benefit could reduce work incentives. Secondly as the Government is planning to reform State Pensions for future claimants it is important to make sure 'any arrangements for pensioners dovetail closely with Universal Credit to ensure a smooth interface'. Until thinking is developed 'we only have one side of the equation'.

## **Age UK's comments**

In this section we set out our views around the treatment of mixed age couples under Universal Credit and consider the Government's arguments for reforms.

### **Work conditionality**

Age UK accepts that it is reasonable to expect younger people who are able to work to be subject to work related conditions. However it will be important to ensure that there is appropriate support for the younger partner especially in situations where people have been out of work for some time. This might apply, for example, to a couple where the woman has spent many years raising a family or being a carer and the older partner is forced to retire earlier than expected due to redundancy or ill health.

### **Levels of benefits**

For many years older people have been entitled to higher levels of means-tested benefits and couples have always been assessed based on the age of the older member. It is certainly the case that means-tested benefit levels are higher for older people and have been made more generous over recent years with the introduction of Pension Credit. However we do not believe that the benefits are overgenerous. There are still 1.7 million of pensioners living in poverty and any reduction in support is likely to lead to these numbers increasing.

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<sup>11</sup> *Hansard* 24 October 2011, 173GC.

Under the current system it can be argued that a younger person has a financial advantage in the benefit system if they have an older partner. However even if the Government believes that this issue should be addressed we do not agree that the outcome should be that a pensioner is penalised because he or she has a younger partner. And people should not be put in a situation where they would be better off living alone. This could put pressure on existing relationships and may affect decisions of couples considering their financial position if they move in together.

We do not accept the Government's argument that providing more support would reduce work incentives. Work-related requirements, and the possibility of sanctions if these are not carried out, will be sufficient to ensure people actively seek employment. It is still Government policy that people who have reached Pension Credit age do not have to fulfil work requirements in order to receive benefits. In any other situation if one partner in a couple is not expected to seek work for reasons such as caring responsibilities or incapacity for work, additional elements will increase the level of Universal Credit. Age UK believes this should also apply where one partner is older.

### **Link with the single tier State Pension**

In debates on the changes the Minister pointed to the need to take into account planned changes to the State Pension system. We agree that policy changes in linked areas need to be considered together. However:

**The timetables are different:** A White Paper on State Pension reform is not expected until Autumn 2012 and any changes are unlikely to be introduced before 2016 or later. Universal Credit is due to start to be rolled out from October 2013. If Ministers want to align reforms then they will need to delay Pension Credit changes.

**As proposed the pension changes will only affect future pensioners** Even if changes are introduced in 2016 many mixed age couples will not benefit from State Pension reforms. For example if a couple aged 60 and 76 in 2016 need to claim Universal Credit, the older person will be too old to receive the single tier State Pension and the younger person would not reach State Pension age until 2022.

**A higher State Pension may reduce benefits for mixed aged couples where the younger partner is not working** Someone who has been a low earner for most of their life may benefit from a higher State Pension if the Government introduces a single tier pension of around £140 a week. However if they have a partner who is unable to work then they may still be worse off than under the current Pension Credit system. This is because unless they have other sources of income, the higher State Pension will still be insufficient for the couple to live on without claiming other means-tested support including help with housing costs.

### **Transitional issues**

Age UK believes it is essential to allow those in receipt of Pension Credit when the new system is brought in to continue to receive the benefit. However this could result in couples with very similar circumstances receiving greatly differing support simply because they claim before or after a certain date. And rather than providing incentives to work, as the time when mixed age couples will have to claim Universal Credit approaches, those in work with an older partner may want to consider if they would be better off giving up their job and claiming Pension Credit before the

changes are introduced. Similarly there could be disincentives for those in receipt of Pension Credit to take up work because if they need to claim benefit again in the future they may have lost their right to claim Pension Credit.

## **Carers and disabled people**

Where the younger person is not subject to work requirements because they are a carer or unable to work due to ill health or disability the issue of incentives to work is irrelevant. Universal Credit will include additional elements where someone is a carer or has limited capability for work. For carers the addition is expected to be equivalent to the amount currently provided to carers claiming Pension Credit or other income-related benefits (£32.60). For those who are ill or disabled a DWP note referred to two additions – a lower one equivalent to ESA work-related activity component (currently £28.15 a week) and a higher one for those in the support group. The current ESA support component is £34.05 but the Government has said that the aim is to increase this in stages to £77 (2011-12 prices) 'as resources become available'.<sup>12</sup> However mixed age couples are still likely to be worse off if neither partner is able to work.

### **Carers**

The hypothetical example below shows the potential impact for a carer. Although the couple receive the carer element with Universal Credit, under Pension Credit they would have received an addition in recognition of caring responsibilities on top of the higher basic rate. The level of Universal Credit could be higher if a carer was looking after a disabled partner as explained below although they are still likely to receive less than under Pension Credit. We also acknowledge that where the carer is able to combine caring with part-time work there will be situations where Universal Credit will be beneficial.

Alan is 70 and has state and private pensions of £120 a week. His wife Jenny is 58 and is receiving Carer's Allowance of £58.45 because she is looking after her mother.

**Pension credit guarantee** - £217.90 plus carer addition £32.60 = £250.50

Their total income of £178.45 will be topped up to £250.50 by Pension Credit and all their council tax will be covered by benefit.

**Universal Credit** – standard amount £111.45 plus carer element £32.60 = £144.05.

They would not be entitled to Universal Credit and would have to pay at least some of their council tax depending on their local authority's scheme.

### **Disabled people**

If one partner is disabled, under Pension Credit the couple will still normally receive the standard rate of benefit. In Universal Credit if the younger partner is incapable of work they could receive an additional element, as set out above which in time could

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<sup>12</sup> <http://www.dwp.gov.uk/docs/ucpbn-1-additions.pdf>

be up to £77 (2011-12 rates). This element will reduce, but not remove, the difference between Universal Credit and Pension Credit rates for couples in this situation.

It is not clear how the system will work if the older partner is disabled. They will not be assessed for work capability but will they still get additional support and, if so, how will this be assessed? Receipt of a benefit such as Attendance Allowance or Disability Living Allowance/Personal Independence Payment could be used as a proxy for limited capability for work, however this could result in a higher threshold of disability for older people than for younger people. Alternatively people would need to undergo some form of additional medical or disability assessment.

### **Loss of other support**

A pensioner would still be able to receive age-based support such as the Winter Fuel Payment and bus concessions. However it seems likely that for any other income-based support they will be treated as 'working age' if they have a younger partner so would lose the support that this and previous Governments have deemed as needed by pensioners.

**Benefits linked to Pension Credit:** In addition to lower rates of benefits under Universal Credit, a pensioner with a younger partner who is not eligible for Pension Credit in the future would lose out on linked support such as Cold Weather Payments and the Warm Home Discount.

**Other passported benefits:** Although people of all ages can receive additional support linked to income such as help health costs, these are provided at higher income levels for pensioners. In the future many couples where one is retired and the other younger may find that they are excluded from means-tested support due to modest levels of state and private pension, whereas under the current system they would qualify for help.

**Council tax Support:** The Welfare Reform Act abolishes Council Tax Benefit and instead, from April 2013 local authorities will be responsible for support. Funding will be provided from Government but with a 10 per cent cut in expenditure. The Scottish Government has said it will protect all claimants and the Welsh Government has consulted on the change. In England the Government has said that current pensioners and those claiming in the future should get the same level of support as under the present system. Age UK has welcomed the protection for older people in England although we are concerned that giving one group an entitlement from a fixed and restricted budget puts greater pressure on the support available for younger groups. We are also worried that there will be no incentive for local authorities to encourage take-up.

Full details of how the new scheme will work are not yet available. However draft regulations state that people will not be considered to be a 'pensioner' if their partner is receiving Universal Credit or other benefits such as Jobseeker's Allowance. So it appears that again older people may be financially disadvantaged simply because they have a younger partner.

**Housing Benefit size criteria for social tenants:** The Welfare Reform Act restricts the level of Housing Benefit for tenants in social housing who are considered to have more rooms than they need. The Government said this measure would not apply to pensioners however once Universal Credit is introduced pensioners with younger



partners will be counted as 'working age' and the rent restrictions will apply to the housing element in Universal Credit. The Equality Impact Assessment<sup>13</sup> looks at the impact for Housing Benefit claimants so excludes those over State Pension age, including couples where one is younger. Of the 670,000 claimants affected, an estimated 200,000 will be aged 45 to 54 and 170,000 people will be aged 55 to State Pension age. It notes that 'Older claimants (but below state pension age) are more likely to be impacted by the measure and are more likely to be under-occupying accommodation once their children have left home'.

We do not have any information on numbers of mixed age couples in social housing who will be affected in the future but it is likely that many will have an additional room. Although they may no longer have children living at home it is often very important to have a spare room, for example to be able to accommodate social visits from family, have grandchildren to stay, and to be able to provide space for a friend, or relative to stay to provide temporary support at times of illness. There is provision for an extra room if someone has a non-resident carer who needs to stay overnight however this is unlikely to help people who need occasional support or whose needs may change in the future. And there is no concession for an extra bedroom for couples who need to sleep apart due to the health needs of one partner.

Unless mixed age couples receiving Universal Credit are protected from the size restrictions a pensioner with a younger partner could find their benefit cut if they have one or more spare rooms whereas if they lived alone restrictions would not apply. Couples who face restrictions would have the option of living on an inadequate income, or if suitable smaller accommodation was available moving, but risking having insufficient space if, at a later date then need spare room for a carer.

Below is an example of how a couple is currently struggling with benefit restrictions. In the future couples of this age who need support will have to apply for Universal Credit and face a lower weekly income and size restrictions will apply to social tenants of this age with an additional bedroom as well as private tenants.

A local Age UK was contacted by a 74 year old man with a 59 year old partner. He receives Attendance Allowance and she receives Carer's Allowance because she looks after him. They receive Pension Credit and Housing Benefit but they are private tenants and there is a shortfall of well over £100 a week from Housing Benefit because their rent exceeds the rate allowed for a one bedroomed property. They are unlikely to find anything cheaper in the area where they are close to support networks and they want to continue to have two bedrooms because they need separate rooms due to the husband's health condition. The Local authority has been providing additional support through discretionary Housing Benefit but this has now stopped.

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<sup>13</sup> *Housing Benefit: size criteria for people renting in the social rented sector* Equality Impact Assessment, DWP. October 2011.

## **Conclusion**

Age UK believes that it is very unfair to put older people with younger partners in position where they would be better off financially living alone and to deny those who live with a younger partner the support that other older people receive.

We are concerned that the changes could affect the health and wellbeing of some older people, will increase pensioner poverty, force people to use their retirement savings to support a younger partner, and put pressure on family relationships.

We understand that the Government wishes to encourage anyone under Pension Credit age to work but we believe that can be done through work-related requirements. We are urging the Government to introduced changes to provide extra support within Universal Credit where one partner has reached Pension Credit age. We also believe that the Government should protect pensioners with younger partners from reductions in Housing Benefit and Council Tax Benefit which were not intended to affect pensioners

Age UK  
1-6 Tavistock Square  
London WC1H 9NA  
T 0800 169 80 80 F 020 30033 1000  
E [contact@ageuk.org.uk](mailto:contact@ageuk.org.uk)  
[www.ageuk.org.uk](http://www.ageuk.org.uk)

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267. Registered address is Tavis House, 1-6 Tavistock Square, London WC1H 9NA. VAT number 710 3843 66.