

Budget Representation from Age UK

Autumn Budget 2017

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Key points and recommendations

- **Putting social care on a sustainable footing:** the Government should publish proposals by early 2018 at the latest for placing social care on a sustainable financial footing. These must go beyond 'a cap' set at a generous level to benefit future recipients, to include properly funded, practical measures for improving the quality of and access to care for older people in need of it today. Indeed, for Age UK a 'cap', while welcome, is the lower of these two priorities. We would be pleased to discuss these matters further with your officials.
- **Providing adequate funding for the NHS:** the Government should provide adequate funding for the NHS to both meet the needs of existing users and to support ongoing efforts to transform the way it works. This must include accommodating any future pay rises for NHS staff so there is no impact on the availability, and quality, of services.
- **Pensioner poverty:** in the light of rising pensioner poverty, we welcome the Government's stated position to maintain 'triple lock' uprating for State Pensions and universal pensioner benefits for the remainder of this Parliament.
- **Closing the savings gap:** the Government should set out a long-term route-map to increase auto-enrolment contributions beyond the planned 8 per cent, and extend coverage to people on lower incomes, those with multiple low-paying jobs, and the self-employed. In the meantime, it should take immediate action to ensure that non-taxpayers who are paid using a net pay system receive tax relief or a PAYE credit, and investigate making back payments for people who have missed out. The Government should also reform the taxation of taxable pension lump sums to ensure that, if PAYE is not operated, only basic rate tax is deducted at source.
- **Improving outcomes at retirement:** to maximise the benefits of the 'freedom and choice' reforms, HM Treasury should work with the FCA and other stakeholders to develop suitable product default pathways to help guide disengaged consumers in drawing down their pension savings. In the meantime people seeking to withdraw pension funds should be 'defaulted' into a Pension Wise appointment, with the right to opt out, before they access their savings.
- **Fuller working lives:** the Government should use the Budget to improve access to training for older workers, and improve financial support for certain recipients of ESA and Carers' Allowance who are close to State Pension age. The Government should also introduce a private pension credit for carers who are eligible for Carers' Allowance.
- **Housing:** the Government should rethink the local housing allowance cap on supported housing and replace this with a 'Supported Housing Allowance' that reflects the actual costs of managing sheltered housing. It should reverse reductions in funding for housing support services which are undermining the role of sheltered schemes.
- **Pension rights post-Brexit:** Age UK would like to see the protection of rights to State Pensions and healthcare benefits across borders prioritised in Brexit negotiations.

Introduction

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. We help over seven million people every year, providing support, companionship and advice. Our priorities for the Autumn Budget, given below, are therefore drawn from an extensive knowledge of older people's lives and views.

From our work with older people, we perceive the context for this Budget as one of funding squeezes affecting the key public services on which older people rely – in particular, health and social care, local transport networks and local third sector agencies. Although pensioner poverty fell over recent decades, the fall effectively stopped in 2010/11 and we note, with concern, that from 2015/16 it has started to rise again, with 1.9 million or 16 per cent of pensioners in the UK now living in relative poverty (after housing costs). A further 1.1 million (9 per cent) had incomes just above the poverty line (between 60 and 70 per cent of median income) and would therefore be at risk of falling into poverty in the event of a cut in state benefits. In the light of this, we welcome the Government's stated position to maintain 'triple lock' uprating for State Pensions and universal pensioner benefits for the remainder of this Parliament.

1. Putting social care on a sustainable footing

There is now a consensus from authoritative commentators that the current funding for social care, with falling public funding but rising levels of need, is not sustainable. The Health Foundation has estimated that even with recent Government investment, there will still be a funding gap of around £2.1 billion by 2019/20, just to maintain care at the same level provided in 2015/16ⁱ. The human impact is considerable, and our own research has found that the numbers of older people living with some level of unmet need for care has risen by 48 per cent since 2010, and has now reached 1.2 million people. Even those who are entitled to full public funding for residential care are affected through the 'stealth tax' now payable by almost 50,000 families, in the form of top-up fees charged by care homes to cross-subsidise inadequate local authority fundingⁱⁱⁱ

We do not believe that the care funding gap can be met solely from local resources. The Institute for Fiscal Studies has pointed out that local authority spending on adult social care in England fell 8 per cent in real terms between 2009/10 and 2016/17, although councils protected their spending in this area, and even if they use their new powers to raise council tax to pay for care, changing demographics mean that spending on adult social care could be 4.8 per cent lower per adult by 2019/20ⁱⁱ.

Nor will local sources of funding, together with occasional short-term injections of cash from central Government, provide the longer term sustainability and certainty that we think is necessary for older people needing care. We have been deeply concerned that key parts of the Care Act on care funding appear to have been shelved without any proper consideration of what might take their place, and we therefore welcomed the commitment in the Spring Budget to publish a Green Paper on social care, a commitment which has now been made repeatedly by Government ministers. We look forward to this being published.

Age UK therefore calls on the Government to publish proposals by early 2018 at the latest for placing social care on a sustainable financial footing. These must go beyond 'a cap' set at a generous level to benefit future recipients, to include properly funded, practical measures for improving the quality of and access to care for older people in need of it today. Indeed, for Age UK a 'cap', while welcome, is the lower of these two priorities. We would be pleased to discuss these matters further with your officials.

2. Providing adequate funding for the NHS to develop new ways of working

Whatever our age, all of us must be able to expect a safe, high quality health service delivering compassionate care underpinned by the principles of dignity and respect. For most of us, we will rely on it most in later life, so the impact of any challenges effecting NHS care falls disproportionately on older people. It is clear that current spending on the NHS is not keeping up with demand. The Nuffield Trust has projected that by 2022/23, based on current spending, the NHS will have a funding gap of £27 billion compared to OBR projections of demand growth^v.

Even if NHS spending kept pace with average historic growth of 4 per cent, the gap would still be £22 billion. We are already seeing the effects of this gap with hospitals likely to face an underlying deficit of £3.5 billion by the end of 2017/18, and only if they are able to make the same level of efficiency savings as last year^{vi}. At the same time, NHS England's figures published this month show that for the second month in a row, over four million people are waiting for treatment^{vii}. Some of the longest waits are older people waiting for hip and knee replacements, experiencing prolonged pain and immobility, but the wider implication is that the whole system is under severe, and rising, pressure.

Many parts of the NHS are attempting to change how they work, seeking to better integrate health and care services and focus on preventative care. However, it is increasingly difficult to do this under the current strain of rising demand and flat funding. This alone is a strong argument for urgently addressing the crisis in social care. To use

just one example, huge numbers of older people are stranded in hospital waiting for care packages to be set up or care home places to become available. In fact, waiting for a care package at home is now the leading cause of delays in being discharged from hospital (in 2010, it was the fifth out of six causes of delays)^{viii}. This can cause harm and distress to the older person in hospital but is also a use of NHS resources that could otherwise be avoided.

Age UK believes the Government must provide adequate funding for the NHS to both meet the needs of existing users and to support ongoing efforts to transform the way it works. This must include accommodating any future pay rises for NHS staff so there is no impact on the availability, and quality, of services.

3. Closing the savings gap

Age UK remains very supportive of pensions auto-enrolment and welcomes the current review. However, we strongly believe that an 8 per cent contribution will not be enough. The Government should set out a route map to increased contributions at the earliest opportunity, by raising the contribution level as well as widening the earnings band for those who are over the earnings threshold, to start at the first £1 of earnings. We would also like to see coverage extended through three means: firstly, by reducing the earnings threshold for auto-enrolment to the National Primary Earnings threshold; secondly, by using the PAYE system to incorporate people with several low-paying jobs; and finally by bringing self-employed people within the system of auto-enrolment, for example through the tax return.

Age UK believes that the Government should set out a long-term route-map to increase auto-enrolment contributions beyond the planned 8 per cent, and extend coverage to people on lower incomes, those with multiple low-paying jobs, and the self-employed.

If pensions tax relief is reformed, this should be done on a cost-neutral basis that is fairer to low-earners. Age UK would not support an ISA-style system where no tax relief is available on contributions but pension income is paid tax-free, as this is likely to deliver worse outcomes for future pensioners.

In the meantime, a long-standing injustice that we believe could be easily remedied in this Budget is the system of 'net pay' contributions operated by some employers. Under a 'relief at source' payroll system, the pension scheme adds the tax relief to the worker's pension pot regardless of their income, so that they receive basic rate tax relief even if they are non-taxpayers. By contrast, where employers operate a 'net pay' payroll system,

pension contributions have to be set against taxable income, leading to non-taxpayers failing to receive any tax relief. This is grossly unfair and a huge disincentive for lower earners to save for their future. We believe that, if it is truly 'too difficult' to reform this anomaly at source, the individuals affected should receive their tax relief by an adjustment to their PAYE.

A further anomaly relates to the taxation of taxable pension lump sums. In these cases, PAYE is often deducted on an 'emergency month one' basis, resulting in an overpayment of tax, sometimes at the highest rate of tax. Although tax overpaid should be repaid via self-assessment or the annual PAYE reconciliation, we are concerned that in too many cases this is not happening, or there is a delay. We believe that the PAYE regulations should be amended so that where the provider does not have the information to deduct the correct amount, the maximum tax that can be deducted should be 20 per cent. We believe this would achieve a fair balance of risk between the individual and the Government.

The Government must take immediate action to ensure that non-taxpayers who are paid using a net pay system receive tax relief or a PAYE credit, and should investigate making back payments for people who have missed out. The Government should also reform the taxation of taxable pension lump sums to ensure that, if PAYE is not operated, only basic rate tax is deducted at source.

4. Improving outcomes for pension savers

Although Age UK has also welcomed greater flexibility in relation to drawing pension income, through the 'Freedom and choice' reforms, we believe that more work is needed to ensure that savers derive good outcomes. We are extremely concerned by the findings of the FCA Retirement Outcomes Review and other research, which suggest that many people are not making informed decisions about how to draw out their savings: for example, research by the Pension and Lifetime Savings Association found that 53 per cent of people thought that drawdown would secure them an income for life.ⁱⁱⁱ We are disappointed that there has been so little innovation in this marketplace, and would like to see Government encouraging the development of suitable product default pathways, along the lines of the blueprint developed by NEST, to help guide disengaged consumers through their later-life financial decisions. We also support proposals to 'default' people into Pension Wise, on an opt-out basis, before they access their pension savings, as currently it appears that only about one in six people who access their DC pension savings are asking for appointments with this valuable service.

HM Treasury should work with the FCA and other stakeholders to develop suitable product default pathways to help guide disengaged consumers in drawing down their savings, and in the meantime people seeking to withdraw pension funds should be 'defaulted' into a Pension Wise appointment, with the right to opt out, before they access their savings.

5. Fuller working lives

Age UK has welcomed the Government's fuller working lives strategy. We hope that the Government will take the opportunity of this Budget to make a strong commitment to improving access to training for older workers. In particular, the Government should examine the possibility of incentivising employers to invest in work-based training for their employees, regardless of age, and ensure that workers who are not apprentices can access good-quality training.

However, even with improved access to training there are some groups that are likely to find it particularly difficult to carry on working in line with increasing State Pension ages. We would like to see more action to protect them, for example through higher levels of means-tested benefits for those approaching State Pension age who are unable to work. We also believe there is a good case for limited early access to the State Pension for two groups of people who are close to State Pension age: those who are entitled to ESA and who cannot reasonably be expected to work again and long-term recipients of Carers' Allowance. The Government should also introduce a private pension credit for carers who are eligible for Carers' Allowance.

The Government should use the Budget to improve access to training for older workers, and improve financial support for certain recipients of ESA and Carers' Allowance who are close to State Pension age. The Government should also introduce a private pension credit for carers who are eligible for Carers' Allowance.

6. Housing

The Government should rethink the local housing allowance cap on supported housing and replace this with a 'Supported Housing Allowance' that reflects the actual costs of managing sheltered housing. At the same time it should reverse reductions in funding for housing support services which are undermining the role of sheltered schemes. Investment in sheltered housing is cost effective because it reduces demand on residential care and the NHS. We are generally concerned that significant restrictions in subsidies to

the social housing sector are detrimental to the supply of low cost accessible homes suitable for older people.

7. The implications of 'Brexit'

Age UK welcomes the Government's commitment to protecting rights to State Pensions and associated healthcare benefits across borders. We hope this will be settled as a priority within the Brexit negotiations.

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<http://www.health.org.uk/sites/health/files/Election%20briefing%20NHS%20and%20social%20care%20funding.pdf>

ii *Public Spending on Adult Social Care in England*, Institute for Fiscal Studies, May 2017.

iii Pension and Lifetime Savings Association (2016), Pension freedoms: no more normal, Understanding Retirement Wave II