Title:

Abolition of Assessed Income Periods for Pension Credit

IA No:

Lead department or agency:
Department for Work and Pensions

Other departments or agencies:

Impact Assessment (IA)

Date: October 2013	
Stage: Final	
Source of intervention: Domestic	
Type of measure: Primary legislation	
Contact for enquiries:	

Summary: Intervention and Options

RPC Opinion: Out of Scope

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year**	**In scope of One-In, One-Out?**	**Measure qualifies as**
	N/A	N/A	No	NA

What is the problem under consideration? Why is government intervention necessary?

The Assessed Income Period (AIP) was designed to minimise intrusion and the administrative burden but has not worked as effectively as it should, as they were set such that a huge volume of cases came up for review at the same time, causing delays. Any delay in reviewing a case when an AIP matures allows error to continue and makes it harder to establish the circumstances at the point the new AIP should have been set.

What are the policy objectives and the intended effects?

The proposal to abolish AIPs will simplify expectations about which changes need to be reported, ending the different practices currently applied depending on the type of customer and change of circumstance experienced. It will also ensure that benefit entitlement accurately reflects the circumstances of a customer at any particular point in time, helping to target welfare expenditure where it is needed most.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Steps have been taken to minimise the disruption caused by large volumes of cases requiring AIP reviews to be carried out at the same time. There is, however, limited scope for resolving this fully through changes to operational processes alone as the use of AIPs is specified in primary legislation. Abolishing AIPs will give operational staff more flexibility in their approach to reviewing cases, allowing them to manage their workload accordingly in order to ensure that customers are being awarded the appropriate level of support for their current circumstances.

Will the policy be reviewed? It will not be reviewed. **If applicable, set review date:** Month/Year

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** No	**< 20** No	**Small** No	**Medium** No	**Large** No
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: Date: 17/10/13

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate:**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate			£17m	

Description and scale of key monetised costs by 'main affected groups'

Processing additional changes of circumstances and carrying out more frequent case reviews will cost the Exchequer around £17m a year. Implementation of the policy (IT and staff) will cost a further £2m.

Other key non-monetised costs by 'main affected groups'

There are likely to be some additional costs in the administration of rent support as a result of capturing more frequent changes to Pension Credit entitlement. These have not been fully analysed yet and will partly depend on the way that the policy is implemented. They are likely to be smaller in comparison with the additional costs in administering Pension Credit.

Some Pension Credit customers will be required to report changes to their circumstances on a more regular basis.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate			£82m	

Description and scale of key monetised benefits by 'main affected groups'

Applying changes in retirement provision as they occur is estimated to reduce the Exchequer spend on Pension Credit by around £80m a year.

Other key non-monetised benefits by 'main affected groups'

There may be a further reduction in expenditure on rent support, although this has not been fully analysed yet.

Key assumptions/sensitivities/risks | **Discount rate (%)** | 3.5%

1. We have limited evidence for the additional number of changes of circumstance that are likely to be reported each year as a result of the change in policy. Our estimate of operational expenditure may have been over-estimated as a result.
2. The change in policy may lead to an increase in error in the system if customers fail to report changes to their retirement provision as they occur. To mitigate for this the frequency of case reviews is planned to increase.
3. The impacts over the first couple of years of the policy will depend partly on the rate at which existing AIPs are terminated, either as a result of changes being reported or through a rolling programme of reviews. These impacts will become clearer closer to implementation.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OIOO?**	**Measure qualifies as**
Costs: N/A	**Benefits:** N/A	**Net:** N/A	No	NA

Evidence Base

Annual profile of monetised costs and benefits – constant prices (£m)

	2015/16	*2016/17*	*2017/18*	*2018/19*	*2019/20*	*Steady State*
Total Annual costs	2	17	17	17	17	17
Total Annual benefits	0	16	43	62	76	82

* Figures rounded to the nearest £m.

Evidence Base

Current policy

In 2003, when Pension Credit was introduced, it included a new approach to case maintenance called the Assessed Income Period (AIP) for customers aged 65 and over. The policy rationale was that pensioners should have more stable incomes and fewer changes in their circumstances, so a lighter touch to claim maintenance and review was deemed appropriate.

The AIP effectively assumes that a person's retirement provision (capital and retirement income such as non-state pensions) will remain stable and removes the burden upon pensioners to report any changes to this, thereby reducing the maintenance process and minimising intrusion. The AIP does not fix the award, so annual adjustments will be made following up-rating, but does mean that any increase in capital or income can legitimately be ignored until the end of the AIP term. Customers are still obliged to report all other changes in their circumstances.

The AIP normally lasts for five years but if the customer is aged over 75 at the point the AIP is set then they will generally be given an indefinite AIP, meaning that the period will continue to run-on and that the Pension Service will not review the case every five years. When the AIP comes to an end, a full case review into the customer's capital, income and other circumstances is undertaken, and this may result in a change to the award. If appropriate, a new AIP will then be set.

Where an AIP is not set (for example, where the customer is aged under 65) then periodic case reviews are carried out (typically every 3 years) to ensure that the information reported by the claimant is still correct.

Proposed option

The proposal is to abolish AIPs from April 2016 and replace them with an approach based on dealing with changes of circumstance as they happen, while carrying out periodic case reviews to ensure that entitlement is based on the correct information for each customer. Periodic case reviews do not require new legislation and would form part of the existing business process function. By taking changes into account as they happen this will no longer allow significant inaccuracies in the benefit to continue legitimately.

This option would be introduced for both the flow of new cases and the stock of current fixed-length cases. Given the volume of existing AIPs, it is anticipated that:

- Existing indefinite AIPs (those with no end-date) would be left in place but no new indefinite AIPs would be set.
- Existing AIPs with a specified end-date would be ended via reviews carried out on a rolling programme. If someone reports a change of circumstance before their scheduled review date then a full review will be carried out and the AIP would be terminated at that point.
- The value of the retirement provision will be regarded as correct up to the point the AIP is terminated and changes will be taken into account either at review or when any change is reported after that date.

Rationale for change

Operational challenges

The AIP process was designed to minimise intrusion and the administrative burden but has not worked as effectively as it should, as they were set such that a huge volume of cases came up for review at the same time, causing delays. Any delay in reviewing a case when an AIP matures allows error to continue and makes it harder to establish the circumstances at the point the new AIP should have been set.

The current policy also means that the entirety of a customer's retirement provision is reassessed if they report a change to one element of it. If it transpires that the customer would receive less benefit as a result and is currently within an AIP then no change is made to the award and the work carried out is effectively nugatory.

Under the proposed policy the Pension Service will respond to changes as they are identified and carry out periodic case reviews on all cases without an AIP. This should also ensure that changes are taken into account as they happen and increase the accuracy of the benefit award.

This is a spend-to-save initiative so will increase running costs, but these are more than offset by the savings in benefit expenditure. The administrative costs set out in this note would give the Pension Service the capacity to carry out a full review on each case roughly every 3 years as appropriate to the case.

Benefit simplification

The current policy means that there are different expectations for different customers:

Under 65 – AIPs are not set for this group of customers, so they are already required to report all changes of circumstance which will affect their entitlement as they happen.

Aged 65-75 – AIPs are typically set for 5 years. This means that any changes to capital or retirement income within this period which reduce a customer's entitlement will not be applied, and customers are not expected to report such changes. However, if they report a change which would increase their entitlement then this will take immediate effect. Customers are expected to report all other changes of circumstances as they happen, regardless of whether these would increase or reduce their entitlement.

Aged 75 or over - AIPs set after someone reaches the age of 75 typically have no end-date (so that those aged 80 and over are not subject to a review); customers are completely protected from any changes to capital or retirement income which would otherwise reduce their entitlement. As with the above group they can still benefit from changes to their retirement provision which would increase their entitlement, and they are still obliged to report any other changes to their circumstances.

There is a strong argument for simplifying the policy to avoid confusion about which changes needed to be reported. The proposed change would simply require all customers to report all changes in their circumstances as they occur.

Impact analysis

We have no information about the number or type of changes of circumstances that take place which are not reported. Nor does the Department collect detailed management information about changes which are reported, or those which are identified in a review following the end of an AIP.

Instead, we have been able to use Generalised Matching Service (GMS)[1] data to identify around 99,400 cases between April 2012 and March 2013 where the AIP start and end dates had changed – indicating that a review had taken place.

This information has allowed us to make assumptions about the likely impact on entitlement had the observed changes been processed as they occurred, rather than at the end of the AIP.

Exchequer impact

Annually Managed Expenditure (AME)

We compared the Pension Credit entitlement of these 99,400 cases before and after the AIP dates were changed. The average weekly award prior to the review was around £41, and on average this reduced by **£3.50** a week following the review.

In November 2012 there were 2.5 million claimants of Pension Credit. Of these:

- 0.57m had no AIP set,
- 0.95m had been set an AIP with a specified end-date,
- 0.97m had been given an indefinite-length AIP.

The numbers affected by the change in policy will vary over time depending on the rate at which existing AIPs are terminated, and the way in which the overall caseload changes (we are currently forecasting a significant fall in the caseload over the next 5-10 years, mainly due to the rise in the qualifying age). We haven't attempted to model this precisely but instead have worked on the basis that there will be around **1 million** cases affected by the policy each year.

Following discussions with the Office for Budget Responsibility we have reduced the savings realised by 10% to account for any errors resulting from customers not reporting changes of circumstance in a timely fashion.

The speed at which we reach steady-state following the start of the policy is dependent on exactly how the policy is implemented. Our modelling is based on AIPs being closed once customers report a change of circumstance, with a process for terminating AIPs on a rolling basis also being introduced. The savings therefore build up over a period of 5 years (the typical length of an AIP) until a steady-state is reached.

Table 1: Savings in AME as a result of abolishing AIPs in Pension Credit*

	2015/16	*2016/17*	*2017/18*	*2018/19*	*2019/20*	*Steady State*
AME savings (£m)	0	16	43	62	76	82

* These figures will be reviewed as part of the feasibility process

There is likely to be an additional impact from changes to entitlement for rent support – currently delivered through Housing Benefit. We haven't been able to model this formally, but initial analysis suggests that this could add another 20-25% to the estimated savings.

[1] GMS data contains information relating to the Pension Credit claim for all recipients of the benefit. It is primarily designed to support Fraud & Error initiatives across the department but is also used to support analysis of Pension Credit. It should be noted that these datasets are not validated to the same extent as those used for National Statistics, so we cannot be sure that all cases have been accurately identified.

Departmental Expenditure Limits (DEL)

There are currently around 1 million Pension Credit claims with an AIP that is fixed for five years. Instead of carrying out reviews every five years at the end of the AIP, we have assumed that periodic case reviews will be carried out on each claim roughly every 3 years. The cost of increasing the frequency of these reviews is estimated to be around **£3m**.

The Pension Service will also have to process more changes of circumstance each year as a result of the change in policy. We don't have sufficient evidence to be able to predict this with any certainty so have tended to err on the side of over-estimating the number of changes arising, yielding an estimated annual cost of **£14m**.

In addition to these ongoing costs, there will also be further DEL costs incurred in implementing the changes, comprising of IT and staff costs, which we have currently allocated to the year prior to the policy being implemented (i.e. 2015/16).

Table 2: Estimated increase in DEL as a result of abolishing AIPs in Pension Credit*

	2015/16	***2016/17***	***2017/18***	***2018/19***	***2019/20***	***Steady State***
DEL increase (£m)	2	17	17	17	17	17

* These figures are indicative and will be reviewed as part of the feasibility process

Impact on individuals

Changes in reporting

The change in policy will ultimately mean that all Pension Credit recipients will be required to report all changes of circumstance which have a material effect on their claim, as they occur. This will also resolve variations in the policy between different customers and different types of changes of circumstance. Although this is likely to increase the burden on pensioners to report all of their changes, it should also reduce the number of complex reviews that customers often found time-consuming & confusing following the end of an AIP where multiple changes had to be processed at once.

Customers aged over 75 with a pre-existing indefinite AIP will initially be protected from this change, although they will still have to report certain changes (such as moving permanently into a care home), at which point their case would be reviewed and their AIP would be terminated.

Changes in Pension Credit entitlement

Customers will be affected if there are changes to the capital they hold or the amount of retirement income that they receive (generally because they have a new income stream or because annual increases in any non State pension which are taken into account automatically do not reflect actual increases). However, many are unlikely to be affected at all.

Analysis of the 99,400 cases revealed that there was no change in entitlement for almost half of these customers. In just over a third of cases there was a reduction in entitlement, while entitlement to Pension Credit actually increased following 18% of the reviews[2].

Table 3: Observed changes in weekly entitlement following the end of an AIP review

	Change in Entitlement			
	Increase	**None**	**Reduction[1]**	**All**
# cases	18,100	45,300	36,000	99,400
% cases	18%	46%	36%	
Average change	£6.70	0	- £13.10	- £3.50

[1] No minimum amount has been used; all changes have been recorded as a 'Reduction' or 'Increase'

[2] This could be for a variety of reasons: perhaps the customer was unaware that the change would lead to an increase in their entitlement, or was unaware of the need to report it, or didn't think that the change was significant enough to report.

Looking at the outcomes of the 36,000 cases where entitlement fell, over a third of these cases had a change of circumstance which meant that they were no longer eligible for Pension Credit. As shown in Table 4 below, this proportion was much higher for people who were previously only entitled to the savings credit, and much lower for people who were entitled to the guarantee credit (with or without the savings credit). Around 2,500 of this latter group were no longer eligible for the guarantee credit following the review but retained (or gained) entitlement to the savings credit.

Table 4: Result of a reduction in entitlement on type of Pension Credit received

	Credit Type (After)			
Credit Type (Before)	**Guarantee Credit**	**Savings Credit only**	**No entitlement**	**All**
Guarantee Credit	11,700	2,500	3,100	17,300
% cases	68%	14%	18%	
Savings Credit only	0	8,600	10,100	18,700
% cases	0%	46%	54%	

- Figures rounded to nearest 100

In addition, around 1,200 customers who were previously just in receipt of the savings credit gained entitlement to the guarantee credit following the review.

Expected Impact

There is a significant amount of uncertainty in trying to scale up these results to give an indication of what the impact will be from abolishing AIPs. By extrapolating the results of these 100,000 cases to the full one million cases affected by the change in policy this implies that over a 5 year period around 540,000 Pension Credit customers would be affected by the change in policy. A third of these would actually benefit from the changes in the rules, with the other two thirds seeing their entitlement reduce as a result of their circumstances changing.

We don't know how many changes of circumstance each customer had within this period. The assumption we have made is that there will be 1 million additional changes per year, which equates to 10 over a 5-year period for each of the customers experiencing a change. This is likely to be an overestimate as many changes in entitlement would be triggered by single (rather than multiple) increases in capital or income.

Type of individuals affected

The policy change does not directly affect entitlement rules; it is just designed to ensure that a customer's Pension Credit entitlement is appropriate to their current circumstances, and is updated to reflect any changes as they occur. We cannot therefore quantify the precise impact that the change will have on specific groups of customer.

Instead we have looked at the purpose of the change in policy and identified particular groups of customer who are more likely to have changes in their retirement provision. We have then broken down the analysis presented in the section above to explore the changes in entitlement that were experienced by these groups of customer following their AIP review.

We have also looked at the wider Pension Credit population to infer the characteristics of customers who are most likely to be affected by the change in policy.

Broadly speaking there are three groups of customer who would be affected in different ways.

A) Customers with more than £10,000 (£10k) of capital will be affected if the amount of capital they hold changes

B) Customers with income other than the State Pension will be affected if the level of income they receive changes

C) All other customers will be affected if they have an increase in their capital which takes them above the £10k threshold, or if they start receiving a new source of income.

A) Changes in capital

The first £10k of capital is disregarded when calculating Pension Credit entitlement. Any capital that the customer holds above this amount is taken into account by assuming income at a rate of £1 per week for every £500 (or part thereof) of capital, and directly affects the amount of Pension Credit that they will be entitled to.

Of the 99,400 cases identified, 9% had declared capital over £10k. 88% of these cases had a change in their Pension Credit entitlement at the end of the AIP. The average change in weekly entitlement across the group was a reduction of £5.10.

Table 5: Observed changes in weekly entitlement following the end of an AIP review for recipients with more than £10k of capital

	Change in Entitlement			
	Increase	**None**	**Reduction**	**All**
# cases	3,690	1,060	4,300	9,050
% cases	41%	12%	47%	
average change	£8.30	0	- £18.00	- £5.10

If the claim was closed at the end of the AIP then we have no record of whether this was related to an increase in capital held – this applies to 20% of cases who started with more than £10k. However, Table 6 shows that the amount of capital recorded changed in 84% of the remaining cases where detailed information was available.

Table 6: Changes at end of AIP for cases with more than £10k of capital [1]

	Impact on Entitlement		
Did capital change?	**Increase**	**None**	**Reduction**
Yes	3,530	390	2,180
No	160	670	320
Not recorded	0	0	1,790
All	**3,690**	**1,060**	**4,300**

[1] All figures rounded to nearest 10. Columns may not sum due to rounding.

Looking at the whole of the Pension Credit caseload there are currently 290,000 cases with more than £10k of declared capital

- Customers with capital above £10k tend to be older than those without.
- Customers with capital above £10k are also more likely to be in receipt of the savings credit – largely because capital contributes to the amount of income that is taken into account when determining entitlement.
- Just under half of Pension Credit customers are either in receipt themselves, or have a partner who is in receipt of, Attendance Allowance or Disability Living Allowance. A slightly higher proportion of these customers have more than £10k of capital compared with those customers who are not in receipt of a disability benefit.

Table 7: Pension Credit customers with more than £10k of capital

Type of customer	**Capital over £10k**
Aged 80 or over	19%
Aged 79 or under	8%
In receipt of savings credit	17%
Guarantee credit only	4%
In receipt of disability benefits	13%
Not receiving disability benefits	11%
Total Pension Credit population	**12%**

B) Changes in retirement provision

Many pensioners have income in addition to the State Pension (including 55% of the cases analysed). This 'non State Pension' (NSP) income is automatically uprated each year in order to reflect the likely impact on Pension Credit entitlement. Although this should be accurate, there may be some errors where the mechanism for uprating a particular source of income is unknown. The amount of income received may also change for other reasons.

Table 8: Observed changes in weekly entitlement following the end of an AIP review for recipients with income sources in addition to the State Pension

	Change in Entitlement			
	Increase	**None**	**Reduction**	**All**
# cases	11,770	22,680	20,690	55,140
% cases	21%	38%	41%	
average change	£4.40	0	- £9.50	- £3.00

Customers with additional income sources were more likely to have a change in their entitlement at the end of the AIP (62% compared with 44% for those without). For cases where detailed information was available, 86% of cases with a change in entitlement also had a change in their NSP income. The average change in weekly entitlement across the group was a reduction of £3.00.

Table 9: Changes at end of AIP for cases with NSP income [1]

	Impact on Entitlement		
Did NSP income change?	**Increase**	**None**	**Reduction**
Yes	10,590	440	11,320
No	1,170	20,230	2,250
Not recorded	0	0	9,110
All	**11,770**	**20,690**	**22,680**

[1] All figures rounded to nearest 10. Columns may not sum due to rounding.

Looking at the whole of the Pension Credit caseload there are 910,000 cases with an additional source of income.

- Customers with additional income tend to be older than those without, and are more likely to have a partner.
- Having additional income also means that these customers are also more likely to be in receipt of the savings credit.
- Where the customer (or their partner) is in receipt of Attendance Allowance or Disability Living Allowance then 40% have additional income from other sources, compared with just 34% of customers who aren't receiving either of the disability benefits.

Table 10: Proportion of customers with income from NSPs

Type of customer	**NSP**
Aged 80 or over	46%
Aged 79 or under	32%
Couples	49%
Singles	33%
In receipt of savings credit	53%
Guarantee credit only	12%
In receipt of disability benefits	40%
Not receiving disability benefits	34%
Total Pension Credit population	**36%**

C) Others

40% of the 99,400 cases analysed neither had capital above £10k or any additional income streams at the start of their AIP. A relatively large proportion (61%) saw no change to their entitlement following the end of their AIP, although the average change in weekly entitlement was relatively high – a reduction of £4.10.

Table 11: Observed changes in weekly entitlement following the end of an AIP review for those with less than £10k capital and no additional income streams

	Change in Entitlement			
	Increase	**None**	**Reduction**	**All**
# cases	4,240	23,881	11,190	39.320
% cases	11%	61%	28%	
average change	£11.50	0	- £18.90	- £4.10

Not all of these changes can be explained by a change in capital or a new income stream; an AIP will be re-set if there has been a significant change to a claim, and reviews at the end of an AIP do frequently identify other changes to a claim.

Of the 15,400 cases with a change in entitlement, 3,300 of the claims closed (meaning that we have no information about which circumstances had changed). Of the remaining cases 2,100 had an additional source of income taken into account which was not recorded prior to the review, while 800 customers had now declared capital of over £10k.

Impact on rent support for pensioners

Housing Benefit is currently available to pensioners who need financial support in order to pay for their rent. Pensioners in receipt of the guarantee credit are entitled to full support for their rent, while pensioners who are just in receipt of the savings credit will also be eligible for some support.

As part of the changes relating to the introduction of Universal Credit the Welfare Reform Act 2012 allows for the creation of a new element of Pension Credit called the housing credit, which will essentially provide pensioners with the same level of support as Housing Benefit.

The impact of extending AIPs to the housing credit has been captured as part of the Universal Credit business case so the implications of abolishing AIPs will be captured within this.

In addition to this there will be indirect impacts on the amount of rent support that pensioners are entitled to. In particular, if someone loses entitlement to the guarantee credit then it could affect their entitlement to receive support for their rent. Similarly, income from the savings credit is taken into account when calculating Housing Benefit entitlement, so any changes to this will have a knock-on effect on any support for rent that these customers will be entitled to.

Impact on Individuals

Data on Housing Benefit receipt are collected and stored separately from data on Pension Credit receipt. We are able to combine these two data sources in order to estimate the likely impact but we are unable to directly attribute changes in Housing Benefit to changes in Pension Credit following an AIP review.

43,200 out of the 99,400 cases analysis were in receipt of Housing Benefit prior to their AIP review. We would expect four groups of these recipients to have had a change in their entitlement to rent support following the review.

- Housing Benefit recipients who had a change of circumstance which meant that they were no longer eligible for the guarantee credit following the review (1,900 cases)
- Housing Benefit recipients who gained entitlement to the guarantee credit (300 cases)
- Housing Benefit recipients who saw an increase in their entitlement to the savings credit (2,400 cases)
- Housing Benefit recipients who saw a reduction in their entitlement to the savings credit (6,400 cases, of whom half lost all entitlement)

Scaling these up, over a 5 year period we would anticipate around 100,000 customers having a change in their entitlement for rent support as a result of the impact of the change in policy on their entitlement to Pension Credit. We can't accurately predict the number of changes that these customers will have, but to be consistent with our assumptions for Pension Credit, we might expect up to an additional 200,000 changes in entitlement a year.

On average, customers appeared to have lost (or gained) a similar amount in Housing Benefit as they did in Pension Credit following the review. It is the first of these groups (those no longer eligible for the guarantee credit) who saw the biggest fall in their entitlement, particularly where the entire Pension Credit claim was closed as a result.

Types of individual affected

Looking more broadly at the type of customers who are likely to be affected by the change in policy, around half of those in receipt of Pension Credit are also in receipt of Housing Benefit. This proportion is higher when looking at recipients of the guarantee credit (54%), compared with those just in receipt of the savings credit (37%). The difference is even more pronounced when looking at the different groups of customer that were considered earlier:

- 22% of Pension Credit recipients with more than £10k of capital are in receipt of Housing Benefit (63,000).
- 45% of Pension Credit recipients with an additional source of income are in receipt of Housing Benefit (344,500).
- 58% of all other Pension Credit recipients are in receipt of Housing Benefit (838,000).

Impact on fraud & error

Taking changes into account as they happen rather than at the end of an AIP should generate greater opportunities to detect errors and possible fraudulent activity and to improve overall accuracy. The simplification of the rules regarding the reporting of changes in circumstances should also make it easier for customers to understand what they need to be reporting, and when.

However, the proposed policy would rely on customers promptly reporting changes to income or capital as they occur. This inevitably leads to a greater risk of error creeping into the system, which is why it is essential that the Pension Service are provided with the capability to carrying out regular case reviews on the entire caseload in order to ensure that there is not an adverse effect on fraud and error as a result of the change in policy.

On balance it is assumed that overall impact of the policy on fraud and error would be negligible, with the simplification in the rules and the increase in the regularity of case reviews mitigating for a possible increase in errors caused by customers failing to report changes to capital and retirement provision as they happen.

Conclusion

AIPs have legitimately allowed some people to build up significant levels of capital or obtain new income streams without it affecting their benefit until the AIP term ends and the claim is reviewed. This has been seen by many as unfair, particularly in the current economic climate.

The current policy has also proved cumbersome to manage, creates nugatory activity, and increases the scope for long term error and inaccuracy. There is a strong argument for abolishing AIPs and giving operational staff more flexibility in their approach to reviewing cases, managing their workload accordingly.

The proposal to abolish AIPs will simplify expectations about which changes need to be reported, ending the different practices currently applied depending on the type of customer and change of circumstance experienced. It will also ensure that benefit entitlement accurately reflects the circumstances of a customer at any particular point in time, helping to target welfare expenditure where it is needed most.

This change in policy will ultimately be applied to all Pension Credit recipients, although it is more likely to affect people with larger amounts of capital and / or income. It will not directly impact benefit calculations but will ensure that a customer's entitlement is appropriate for their current circumstances, and updated to reflect further changes in their capital and income.

Analysis suggests that many customers will actually benefit from the simplification of the rules regarding the reporting of changes, although on the whole we expect Pension Credit AME to fall by up to £82m a year.

This is partly offset by an anticipated increase in the DEL costs of identifying and processing changes of circumstance, of around £17m a year.

There are likely to be smaller impacts on the entitlement to and delivery of rent support for pensioners.