

# Sir Alan Sugar and the Missing Bus Pass

The case for universal  
pensioner benefits

A report by the National Pensioners Convention  
September 2012



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## **The case for universal pensioner benefits**

### **Summary**

- The current debate surrounding the provision of universal age-related benefits needs a bit more honesty. Taking the bus pass away from the likes of Sir Alan Sugar; given that he probably doesn't use one anyway, will do nothing to save money. Instead this smokescreen is being used to introduce widespread means-testing which would withdraw support from anyone with an annual income of little more than £7500. It represents part of a wider attack on the welfare state and would ultimately hurt some of our most vulnerable older people.
- The revenue collected by the state from older people, either directly through a range of taxes or through costs that older people bear that would otherwise be paid by the state, adds up to a staggering £175.8bn every year, compared to total expenditure on older people through pensions, welfare payments and health care of £136.2bn. The overall, annual net contribution by older people to the economy is therefore almost £40bn – and is estimated to rise to almost £75bn by 2030. Most importantly, this is more than enough to pay for the £8bn worth of age-related benefits that are now being questioned.
- It should be acknowledged that many of these universal benefits have been introduced over time because successive governments were reluctant to improve the state pension system. Having one of the least adequate pensions in Europe has almost forced governments to provide additional support to its older population, or witness the inevitable rise in pensioner hardship.
- There is also very little substance to the claim that older people have escaped the austerity measures at the expense of younger generations; when the real division in society is between rich and poor.

### **1. Introduction**

As history shows, an economic crisis will often provide the conditions within which different sections of our society are scapegoated and blamed for the problems people face. This time it appears to be pensioners that are being targeted as the source of our economic woes – rather than the activities of a largely unregulated financial industry and weak government policy.

The think-tanks; the Intergenerational Foundation (IF), the Institute of Economic Affairs (IEA) and the Nuffield Foundation have all issued reports recently stating that not only have older people largely escaped the current round of austerity measures, but that the continuation of many universal pensioner benefits such as the winter fuel allowance and free bus travel are damaging the economic and social life chances of younger generations, as well as the economy itself. The IEA report entitled “Sharing the burden - How the older generation should suffer its share of the cuts” speaks volumes, as does the claim from the IF that: “Each generation should pay its own way, which is not happening at present. British policy-makers have given undue advantages to the older generation at the expense of younger and future generations.”

MPs have also picked up on this line of attack – from the Deputy Prime Minister Nick Clegg and Work and Pensions Secretary Iain Duncan Smith to backbenchers like Nick Boles, MP for Grantham and Stamford. All of them have used well known, older personalities such as Sir Alan Sugar as a way of suggesting that the universal approach to benefits wastes money on millionaire pensioners who don't need them.

So far these claims have grabbed the media's attention, but much of their argument is either factually incorrect or economically suspect.

This timely analysis offers a different view – one which recognises the real value that older people add to our society, highlights the importance of universal benefits as a vital mechanism for ensuring social inclusion and calls for real solidarity between the generations in the face of a sustained attack on young and old in favour of those at the top of our society.

## **2. The Numbers**

The debate about universal pensioner benefits often suggests that the number of well off pensioners is far bigger than the actual figure, but without placing the debate in context, it's quite easy to exaggerate the argument. Let's therefore consider the pensioner landscape in Britain today:

- There are approximately 11m older people over state pension age living in the UK
- Of those around 4.5m pay tax at the standard rate and less than 250,000 pay at the higher rate. The remaining 6.4m have an income below £10,500 and do not pay any income tax at all (i)
- The official poverty line for the UK in 2011 for a single pensioner was £168 a week (before housing costs). At least 1.8m older people are currently classed as living in poverty (ii)
- The UK state pension remains amongst the least adequate in Europe, with the risk of poverty amongst older people ranked as fourth out of 27 EU countries (iii)
- 5.6m older people have savings of £10,000 or less (iv)
- The UK has nearly 2.5m pensioner households living in fuel poverty; spending more than 10% of their income on fuel (v)
- Almost a quarter of all pensioners (24%) do not go out at least once a month, 41% don't take a holiday away from home, 10% are unable to have their hair cut regularly and 12% would be unable to pay unexpected expenses of £200 (vi)
- 5m older people consider the television to be their only source of company and one in ten pensioners say they feel completely cut off from society, family and friends (vii)

## **3. The cost of universal pensioner benefits**

Not only has the number of wealthy pensioners been exaggerated, but there also needs to be a clearer understanding of the actual cost of the various universal benefits that are available to older people. The latest estimated annual figures break down as follows:

- Free bus travel to those of pensionable age - £1bn
- Winter fuel payments of £200 per pensioner household under 80 and £300 for the over 80s -£2.2bn

- TV licences for over 75s - £600m
- Free prescriptions for the over 60s - £4bn
- Eye tests - £100m

The full package has been estimated at being worth £670 a year, per pensioner (viii).

#### **4. Drawing the line – the means-test argument**

Politicians in particular have suggested that they wish to reform universal pensioner benefits in order to remove them from wealthy pensioners who are undeserving at such times of economic pressure. Much of their argument has promoted the idea that a large amount of money could be saved if for example, the bus pass was taken away from millionaires. However, out of 11m pensioners, less than 200,000 are millionaires, and only 8m older people have actually applied for a bus pass. It is therefore highly unlikely that the likes of Sir Alan Sugar either have a bus pass or in fact ever use it.

This red-herring of an argument however is actually being used to mask the real intention. In order to raise larger sums of money, the government would need to introduce a means-tested system set at the existing level of the Pension Credit. The effect of this would be to withdraw universal benefits from any pensioner with an income above £7500 a year. However, it would take a huge leap of imagination for any MP to suggest that someone on this level of income was well off.

The effectiveness of means-testing is also extremely controversial. Considerable evidence exists to show that even after a decade, the means-tested Pension Credit still fails to reach up to 2m older people who are eligible but fail to make a claim. A combination of complexity, intrusion, pride and a distrust of officialdom prevent the very people who need it most coming forward to claim financial help. Given this experience, there is very little to suggest that the same pattern would not be repeated with universal benefits. In fact, if the bus pass were means-tested, there would be a considerable number of those eligible who simply would lose it, despite the claims that the means-test was being introduced to safeguard their interests and deter the rich from claiming.

Not only that, but wherever the means-testing line is drawn, those who are just above will end up being the biggest losers. The small number of wealthy pensioners would of course be largely unaffected, but those with very modest incomes would find that after they had paid for bus passes and additional fuel costs, their incomes would be below the poverty threshold but they would be unable to claim any additional assistance.

It is also well documented that a means-tested system of paying benefits costs around 10 times as much as a universal payment. That will require the introduction of a large bureaucracy to administer the system which would offset some of the savings that would flow from scrapping universal benefits. In truth, those who advocate the means-tested approach have not quantified exactly how much they think their system would raise, and have said nothing about the inevitable additional costs which would result.

## **5. The value of pensioners**

In March 2011, the WRVS commissioned a detailed analysis of the socio-economic contribution made by older people to the UK economy, entitled Gold Age Pensioners (ix). The research showed that older people make a very significant contribution to the national economy, both through national and local taxes, as well as their wider contributions as a result of their spending power, their formal and informal volunteering and through unpaid caring.

Most importantly, the report found that the overall value of the contribution made by older people significantly exceeds the costs to the state of providing pensions, age-related welfare payments and health services.

In 2010, whilst the overall cost to the Exchequer was found to be £136.2bn, the revenues from older people, either financial or otherwise, added up to a staggering £175.8bn. The overall net contribution by older people to the economy was therefore almost £40bn a year – and is estimated to rise to almost £75bn by 2030. Most importantly, this is more than enough to pay for the £8bn worth of age-related benefits that are now being questioned.

The argument that older people are therefore a drain on our economy and a burden we cannot afford is simply wrong. Not only that, but the current attacks on universal pensioner benefits have overlooked the fact that schemes like free bus travel often enable older people to make the extra contribution that is not only keeping our communities going, but also more than paying their way in the economy. Moreover, the critics have yet to mention what the additional financial pressures would be if the universal benefits were withdrawn and demand on health and social care services were to rise, alongside a decline in the provision of unpaid childcare that would prevent younger parents from taking part in the workplace and paying tax.

## **6. The benefit of universal benefits**

Whilst the critics of universal benefits are quick to point out their cost, they are less keen to identify the benefit and value that they bring; not only to the individual but society as a whole. It is important therefore for this to be more widely understood.

- **Concessionary bus travel**

In 2011, the Greater London Forum for Older People commissioned a survey of over 3000 older people to quantify the purposes for which they used their free bus pass (x). This was done to explore whether the provision of the bus pass was being used purely for the benefit of the individual, or to see if there was a wider benefit to the local community and the economy as a whole.

The findings show that 45% of bus pass use enabled older people to contribute directly into the local economy through shopping, banking, eating out and visiting museums and other facilities. A further 25% of bus travel was used to carry out voluntary work and unpaid caring, whilst the remaining 30% of travel was used to stay healthy (visiting swimming baths/keep fit classes), avoid isolation and improve well-being (visiting friends and family). By doing so this was indirectly reducing the demand and cost on social care and support.

- **Winter fuel payments**

During the winter of 2010/11, 25,700 in England and Wales died from cold related illnesses, and the vast majority of them were pensioners. Fuel poverty is a national scandal which touches around one in three pensioner households and results in some of the poorest older people having to choose between whether they buy food or put the heating on. The main causes of the problem are low pensioner income, high energy costs and a lack of energy efficient housing. When the winter fuel allowance was first introduced around ten years ago, it covered a third of the average bill. Today, it will barely cover an eighth.

Research from the Institute for Fiscal Studies (IFS) in June 2011 showed that labeling a benefit as “Winter Fuel” meant that households were 14 times more likely to spend it on energy bills than if their income was raised in other ways (xi). The IFS found that if you increased pensioner income by £100 the increased spending on fuel would rise by just £3, but label that increase a “Winter Fuel Payment” and £41 will go on fuel.

Last winter there was considerable media interest in a number of high-profile, older personalities such as Esther Rantzen, Ann Widdicombe and Sir Richard Branson who were reported as giving their winter fuel payment to charity. But the scale of the issue was never properly quantified. One charity specifically set up to receive such payments was supported by less than 50 people. Not only that, but if society is truly outraged by the super-rich getting such benefits, it is perfectly possible to use the tax system on those earning more than £150,000 to recoup extra funds without the need to resort to a means-test.

- **TV licences for the over 75s**

In a democracy, it is vital that citizens have access to information so as to make an informed choice in their lives. With increasing amounts of information shifting onto the internet, older people – particularly those who retired before computer use in the workplace became widespread – can feel marginalized and excluded from society. This creates a type of information apartheid, in which older people are left out of the discussion. Having the right to watch television and listen to the radio is therefore essential for a healthy society and its electorate.

- **Free prescriptions and eye tests**

The provision of free prescriptions and eye tests for the over 60s is part of the wider commitment from the NHS to provide health care which is free at the point of delivery. By their very nature, older people make up the majority of health care users – but it has to be acknowledged that a large number of older people continue to pay tax – a proportion of which goes towards the NHS.

## **7. Generations United**

The attack on universal pensioner benefits has tried to argue that older people are gaining at the expense of the young. Pensioners are wrongly portrayed as having escaped the austerity measures whilst young people have been made to suffer, but the reality is that since 2010, pensioners have witnessed changes to the way in which pensions are uprated (from the Retail Price Index to the lower Consumer Price Index), a cut in the winter fuel allowance, a freeze on the age-related personal tax allowances, changes to housing benefit and cuts to social care spending. What has really happened is that both young and old have

experienced attacks on their welfare, whilst those at the top of society have been awarded tax cuts and bonuses.

The generations also have a number of shared concerns including issues surrounding housing, transport and pensions, but nowhere is this shared agenda more startling than on the issue of retirement and employment. Youth unemployment is higher than ever, yet the government seems intent on forcing older people to work to 68 and beyond. Pensioners want to support their grandchildren and recognise the need to move out of the workplace in order that young people can start their careers.

Interestingly, a survey by the British Future website recently found that 47% of 18-24-year-olds thought it would be wrong to withdraw benefits such as the winter fuel allowance from pensioners, with only 32% saying that the benefits should be means-tested (xii).

It is vital that we therefore identify and focus on the real division in our society between rich and poor – rather than the false one suggested between young and old.

## **8. Conclusion**

It should be acknowledged that many of these universal benefits have been introduced over time because successive governments were reluctant to improve the state pension system. Having one of the least adequate pensions in Europe has almost forced governments to provide additional support to its older population, or witness the inevitable rise in pensioner hardship.

It is also quite clear that the actual cost of paying universal pensioner benefits is massively outweighed by both the amount that older people contribute back to the economy (either directly or indirectly) and the money such benefits save by reducing need on other state support.

What is needed in this debate is a little bit more honesty. Taking the bus pass away from the likes of Sir Alan Sugar; given that he doesn't use one anyway, will do nothing to save money. Instead this smokescreen is being used to introduce widespread means-testing which would withdraw support from anyone with an annual income of little more than £7500. It represents part of a wider attack on the welfare state and would ultimately hurt some of our most vulnerable older people.

There is also very little substance to the claim that older people have escaped the austerity measures at the expense of younger generations; when the real division is between rich and poor.

The merit of universal benefits alongside a redistributive tax system is therefore something worth supporting, both now and when the issue takes centre stage at the next general election.

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