

# REVIEW OF OVER-75S FUNDING

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A report prepared for the BBC

November 2018



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## EXECUTIVE SUMMARY

### Key findings

Since November 2000, any individual aged 75 or over has been entitled to a concessionary television licence. In 2015, the government decided to transfer the costs of these concessionary licences to the BBC. The current concession is set to fall away in 2020, and Parliament has given the BBC the duty to consult on what concession, if any, should then be established for the older population.

By 2021/22, we forecast the concession, if reinstated by the BBC in its present form, will cost the BBC £745 million. This represents 18% of current (2017/18) BBC total service spend, and is more than the £656 million the BBC spends on radio services.

By 2029/30, we estimate that the annual concession cost will rise to £1.06 billion.

We reviewed options for a reformed concession against a set of criteria. We suggest six approaches the BBC could consider further, grouped into four categories:

- 1. Do not introduce any replacement for the current concession**
- 2. Replace the full concession with a 50% concession for all over-75 households**
- 3. Increase the age threshold for eligibility**
  - Variant 1: increase the threshold by two years, from 75 to 77.
  - Variant 2: increase the threshold by five years, from 75 to 80.
- 4. Means-test eligibility for the concession**
  - Variant 1: link eligibility for the concession to receipt of Pension Credit, and retain the current age threshold of 75.
  - Variant 2: link eligibility for the concession to receipt of Pension Credit, but widen eligibility to include younger Pension Credit recipients (qualifying age for Pension Credit will rise to 66 by October 2020, in line with the State Pension).

Each of these options would have different financial impacts on the BBC, compared with the cost of reinstating the current concession, and comes with its own set of trade-offs to consider.

We explored other approaches to reform, including voluntary contributions by over-75s, and whether any reform should include a 'preserved rights' element for existing concession-holders. Under a 'preserved rights' approach the financial impact on the BBC would be high in the early years of reform and inequalities between similar households would be created. The financial impact of establishing a voluntary contribution mechanism is uncertain and the scale of any contribution is likely to be small relative to the costs of implementing a contribution mechanism. We did not therefore explore these approaches in detail in this report.

## Terms of Reference

The BBC commissioned Frontier Economics to explore longer-term funding options relating to the over-75s concession, and has asked Frontier to prepare an independent report that addresses the following questions:

- What are the implications of reinstating the existing concession, and what are the key features of a case for reforming the concession?
- Are there particular options for reform which Frontier Economics recommends that the BBC should be thinking further about?

In considering these key questions, we were asked in particular to consider the following four criteria:

1. **Financial Impact** (including effect on BBC finances and the money available to provide high-quality programming and services);
2. **Distributional Impact** (effect on different groups);
3. **Feasibility** (including implementation issues, financial and compliance costs, and how easily any issues could be overcome); and
4. **Economic Rationale** (economic case for any course).

We were also asked specifically to consider the possibility of voluntary payments, as permitted under Clause 49 of the BBC Agreement, and the possibility of a concession for over-65s as allowed for by the Digital Economy Act 2017.

The full Terms of Reference are given in Annex A.

Prior to the publication of this report we published a short discussion paper setting out some important context.<sup>1</sup> This paper looked at the changing context since the concession was first introduced in 2000, the issues of intergenerational fairness and the overall financial context.

## The current over-75s concession

All households that watch or record television programmes as they are being shown, or those watching or downloading BBC content on iPlayer, are required to have a television licence. Since November 2000, any individual aged 75 or over has been entitled to a fully concessionary licence for their primary residence.

As part of a wider agreement regarding the licence fee between the BBC, the Chancellor of the Exchequer and the Secretary of State for Culture Media and Sport, from 2018/19 the BBC began to take on the cost of the concession, which had previously been met fully by the government.

The current concession is set to fall away in 2020, and Parliament has given the BBC the duty to consult on what the policy should be for the older population.

Any new concession will be funded entirely by the BBC rather than the government. The vast majority of BBC funding is from the licence fee. Therefore the introduction of any new concession would imply that non-concessionary

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<sup>1</sup> Available here <https://www.frontier-economics.com/media/2634/rpt-discussion-paper-final.pdf>

licence fee payers are in effect indirectly subsidising those eligible for a concessionary licence.

## The implications of reinstating the concession in its current form

Based on the assessment criteria set out in the Terms of Reference, our view is that there is a case for reform of the current over-75s concession.

### Financial impact

The cost of the concession has increased markedly since its introduction and will continue to rise as the population ages.

If the concession were reinstated in its current form, we estimate based on BBC data that by 2021/22 there will be 4.87 million concessionary licence holders.<sup>2</sup> This means that reinstating the concession in its current form would cost the BBC £745 million.<sup>3</sup> This represents 18% of current (2017/18) BBC total service spend, and is more than the £656 million the BBC spent on radio services in 2017/18.<sup>4</sup> For context, were the cost still being met by government in 2021/22, it would be equivalent to 0.10% of total forecast tax revenue.<sup>5</sup>

By the end of the current Charter period (2027/28), we estimate that the total cost of the current concession would rise to £980 million per year. The total cost over the remaining Charter period (2021/22 to 2027/28) would be over £6 billion. By 2029/30, we estimate that the annual concession cost will rise to £1.06 billion.

At the same time, evidence from both the BBC and independent reports suggest an increasingly competitive and rapidly-changing broadcasting landscape, which requires additional investment. This competition is likely to intensify in the future.

Over the course of the last ten years, the BBC has had to absorb the financial impact of inflation and the cost of significant new financial obligations imposed by government (such as paying for the World Service and S4C). For much of this period between April 2010 and April 2017, the licence fee was frozen in cash terms. By 2017/18, licence fee income available for UK public service broadcasting services fell by around 20% in real terms. Put another way, after taking account of inflation and government-imposed financial obligations, the BBC has 20% less to spend on services for UK licence fee payers.

The most recent BBC Annual Report highlighted that £1.6 billion of annual recurring savings were delivered during the last Charter period, and that

<sup>2</sup> This includes those living in sheltered or residential care accommodation. In the absence of any over-75s concession these individuals would be entitled to a greatly reduced licence fee due to a separate scheme. Therefore we have not included them in the cost modelling. <https://www.tvlicensing.co.uk/faqs/FAQ78>

<sup>3</sup> This figure represents the full value of licence fee revenue forgone as a result of reinstating the concession in its current form in 2021/22. If the concession is allowed to lapse without replacement, the BBC's net income will not rise by this amount as there will be implementation costs and some individuals currently receiving the concession may choose to stop watching television. See Figure 18 for details.

<sup>4</sup> [http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc\\_annualreport\\_201718.pdf](http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc_annualreport_201718.pdf), p194

<sup>5</sup> [http://cdn.obr.uk/EFO-MaRch\\_2018.pdf](http://cdn.obr.uk/EFO-MaRch_2018.pdf), p104

overheads have been reduced such that the BBC is among the most efficient 25% of benchmarked regulated non-profit organisations in the country.<sup>6</sup>

### Distributional impact

The equity rationale for the policy has weakened since its introduction. In 1999/2000, almost half of over-75 households were in the poorest three income deciles. By 2016/17, this had fallen to less than one-third. Between 1999/2000 and 2016/17, mean incomes after housing costs for all households grew (in cash terms) by 71%, from £318 to £543 per week. But among households containing someone aged 75 or over, weekly incomes more than doubled, from £220 to £452.

This is consistent with a wider body of analysis and evidence, including from the Institute for Fiscal Studies, Resolution Foundation and House of Commons Work and Pensions Committee, that has explored issues around ‘intergenerational fairness’ and the relative income catch-up of older households. This evidence was considered in more depth in our earlier discussion paper.

### Feasibility

Reinstating the concession would have no particular administrative costs.

### Economic rationale

In our view there is no particularly compelling economic rationale for reinstating the concession in its current form. The most plausible economic rationale for the over-75s concession would be if viewing amongst this group led to benefits for others – ‘positive externalities’ – that might justify subsidising the cost of a concession. However the evidence for this argument is relatively weak, and if anything might even have declined a little since the concession was introduced.

## Extending the concession to all over-65 households

We do not find a compelling case for extending the concession to all over-65s.

This change would be administratively feasible, and benefit households where the oldest person is aged 65 to 75. However, extending the current concession to all over-65s would more than double the cost to the BBC compared with reinstating the current over-75s concession.

The relative income position of older households has improved: DWP data show that median income for families headed by those aged 65 to 74 overtook that of working age households in 2009/10. The economic case for extending the concession to over-65s is even weaker than maintaining the over-75s concession, as younger pensioners are in better health than older pensioners and are therefore on average less vulnerable to social exclusion.

## Potential approaches to reforming the concession

We identified seven broad approaches to consider for reforming the concession:

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<sup>6</sup> [http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc\\_annualreport\\_201718.pdf](http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc_annualreport_201718.pdf), p70

1. **Do not introduce any replacement for the current concession:** The current concession would lapse in 2020 and not be replaced by any alternative – in effect, the concession would be abolished.
2. **Value of the concession:** Offer a part-concession rather than a fully-concessionary licence.
3. **Age threshold:** Increase the qualifying age for the concession.
4. **Household composition:** Require *all* household members to be over a certain age, not just the oldest household member, to be eligible.
5. **Means- or needs-testing:** Add other eligibility criteria to target the concession on different groups (within the available age-related parameters).
6. **Preserved rights:** Whether reform should either apply only to new applicants, with eligibility maintained for those currently claiming the concession.<sup>7</sup>
7. **Voluntary contributions:** Whether to solicit voluntary payment of the licence fee or others donations not directly tied to the licence fee value from over-75s.

Any reform package could involve combinations of changes – for example, both changing the age threshold and introducing a means-test.

These options were reviewed against the criteria set out in the terms of reference.

### Initial appraisal

We conducted an initial assessment of the seven approaches against the criteria. This assessment identified three approaches that we did *not* subject to a more detailed review in this analysis:

- **Household composition** – this option would lead to a significant administrative burden on the BBC and TV Licensing, as it would require manual auditing of the age of all household members which would be both costly and intrusive. In addition, this option would create a large number of ‘cliff-edges’ in which similar households (such as couples with one partner just below the threshold age) would maintain or lose eligibility.
- **Preserved rights** – the financial impact on the BBC would be high, particularly in the early years of any reform. A preserved rights approach also creates inequalities between otherwise very similar households who just straddle a reform date.
- **Voluntary contributions** – given the relative lack of comparable evidence on the scale of possible contributions, our assessment was that the potential financial impacts are highly uncertain, making financial planning very difficult. The scale of any contribution is also highly likely to be small set against the costs of implementing a contribution mechanism.

This initial appraisal also concluded that **needs-based testing** (for example, linking the concession to receipt of disability benefits) would not be subject to a more detailed review in this analysis, owing to implementations issues and broader policy uncertainty around disability-related benefits.

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<sup>7</sup> See Chapter 3.4 for further details

## Options analysed in detail

Our initial review led us to conduct a detailed analysis of four broad approaches for a reformed concession. For two of these, we considered two different variants meaning we considered six reform options in detail.

- **Do not introduce any replacement for the current concession** – given the weakened rationale for a concession compared with when it was introduced, and relatively minor implementation issues.
- **Changing the value** – given that a partial discount would balance financial impact against providing broad-based support to older households. The specific variant we considered was a **50% concession**, in line with the current concession offered to those with visual impairments.
- **Changing the age threshold** – due to recent increases in longevity and the potential to better align the concession with other benefits for older people. The specific variants we considered were:
  - Increasing to **age 77**, in line with recent increases in longevity.
  - Increasing to **age 80**, in line with other benefits which start at this age.
- **Means-testing** – to target resources on those least able to pay, using government-established definitions. The specific variants considered were:
  - Linking to **Pension Credit** and **maintaining the age 75 threshold**.
  - Linking to **Pension Credit** and **reducing the age threshold to the State Pension Age**.

## Conclusions of the detailed analysis

All of the specific options we considered in detail have relative strengths and weaknesses and will have different financial and distributional impacts. Each option therefore comes with its own set of trade-offs to consider. Our detailed assessment of each option is shown below (Figure 1).

REVIEW OF OVER-75S FUNDING

**Figure 1 Assessment of options progressed to detailed review**

	Do not introduce any replacement for the current concession	Alter the value of the concession: 50% discount	Age options		Means-testing options	
			Raise age threshold to 77	Raise age threshold to 80	Link to Pension Credit, age threshold 75	Link to Pension Credit, and reduce threshold to SPA
<b>Economic rationale</b>	Equity rationale has weakened; other rationales not very compelling.	Remaining equity / efficiency rationales would apply to partial discount.	Aligns with increased longevity and reforms to State Pension Age, but retains arbitrary threshold.	Better alignment with other benefits that begin at age 80. Over 80s are more likely to live alone than younger pensioners..	Low income households are less able to pay for a television licence. Pension Credit is government-defined measure of need.	Improves targeting and would better align with other benefits.
<b>Financial impact relative to reinstating the current concession</b>	We estimate that the residual cost to the BBC is 10% of the cost of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 56% of the cost of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 87% of the cost of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 65% of the cost of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 28% of the cost of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 44% of the cost of reinstating the current concession in 2021/22.
<b>Distributional impact</b>	Small regressive impact among over-75 population (smaller effect for discount). No improvement in targeting for 50% variant.		Very slightly regressive impact (more so for over-80s) but costs are small on average. Minor targeting improvements.		Improves targeting, though low take-up of Pension Credit an important factor.	
<b>Feasibility</b>	Straightforward to implement.	Existing precedent for 50% discount. Continued use of DWP data would require new secondary legislation.	No significant implementation issues		Relatively straightforward to link to additional administrative information, though some legislative process needed. Additional complexity in handling. BBC could also verify eligibility internally, although this would be associated with a higher cost.	

Source: Frontier Economics

# 1 INTRODUCTION

## 1.1 Terms of Reference

The BBC commissioned Frontier Economics to explore longer-term funding options relating to the over-75s concession, and has asked Frontier to prepare an independent report that addresses the following questions:

- What are the implications of reinstating the current concession, and what are the key features of a case for reforming the concession?
- Are there particular options for reform which Frontier Economics recommends that the BBC should be thinking further about?

In assessing all options, including reinstating the current concession, we were asked in particular to consider the following four criteria:

1. **Financial Impact** (including effect on BBC finances and the money available to provide high-quality programming and services);
2. **Distributional Impact** (effect on different groups);
3. **Feasibility** (including implementation issues, financial and compliance costs, and how easily any issues could be overcome); and
4. **Economic Rationale** (economic case for any course).

We were also asked specifically to consider the possibility of voluntary payments, as permitted under clause 49 of the BBC Agreement, and the possibility of a concession for over-65s as per the BBC's statutory obligation in the Digital Economy Act 2017.

The full Terms of Reference are given in Annex A.

This report sets out our findings.

## 1.2 Context of this report

### The introduction of the concession

As we set out in our discussion paper,<sup>8</sup> the BBC has been funded by the licence fee since it was founded. All households that watch or record television programmes as they are being shown, or those watching or downloading BBC content on iPlayer, are required to have a television licence. In 2018/19, the cost of a colour licence for one year is £150.50.<sup>9</sup>

Since November 2000, any individual aged 75 or over has been entitled to a concessionary licence for their primary residence, regardless of who they live with. Around 4.6 million concessionary licences were issued in 2017/18 (DWP, 2018 A). The best evidence suggests that take-up of the concession is almost universal (DWP, 2018 B).

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<sup>8</sup> <https://www.frontier-economics.com/media/2634/rpt-discussion-paper-final.pdf>

<sup>9</sup> <http://www.tvlicensing.co.uk/check-if-you-need-one/topics/tv-licence-types-and-costs-top2>

The concession was introduced following the publication of the Davies Committee Report, submitted to the (then) Department for Culture, Media and Sport (DCMS) in July 1999 (Davies et al., 1999). The Davies Committee did not recommend using licence fee revenue to introduce a concession for over-75s (Fiddick, 2000), largely owing to concerns that it would be funded by increases in the licence fee for other households which would impact low income households more heavily.

In the Pre-Budget Report that year, the government announced that all individuals aged 75 or over would be entitled to a free licence, which would not be funded using licence fee revenue. The concession was justified largely on equity grounds, based on evidence that older pensioner households were disproportionately concentrated at the bottom of the income distribution, and to provide help for pensioners who may have difficulty paying the licence fee.

## Changes to funding of the concession

Until recently, the cost of the concession was met entirely by the government, with a grant made from the Department for Work and Pensions (DWP) to the BBC reimbursing the cost of each concessionary licence issued.

As part of a wider agreement regarding the licence fee between the BBC, the Chancellor of the Exchequer and the Secretary of State for Culture Media and Sport,<sup>10</sup> from 2018/19 the BBC began to take on the cost of the concession.

The current concession is set to fall away in 2020, and Parliament has given the BBC the duty to consult on what the policy should be for the older population. Any new concession will be funded entirely by the BBC rather than the government.

The vast majority of BBC funding is from the licence fee. Therefore the introduction of any new concession would imply that non-concessionary licence fee payers are in effect indirectly subsidising those eligible for a concessionary licence.

## Consumption of BBC content by age group

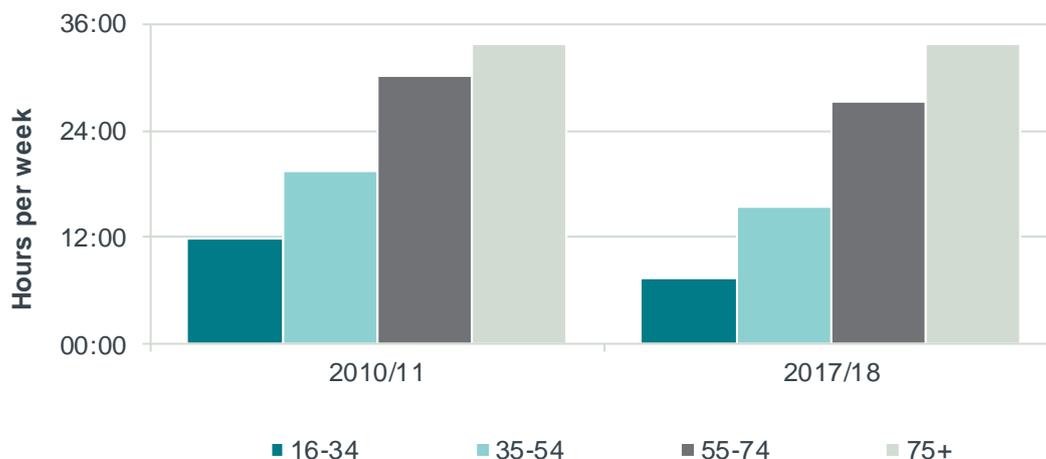
Older households are the biggest consumers of BBC television and radio content. Analysis of BARB and RAJAR data (Figure 2) shows a clear and consistent pattern associated with age. In 2017/18, over-75s consumed over 33 hours per week of BBC radio and TV content on average, compared with 27 hours for those aged 55 to 74, 15 hours for those age 35-54 and less than 8 hours for those aged 16 to 34.

We can observe a similar, although less pronounced, age gradient in 2010/11.

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<sup>10</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/443735/Letter\\_from\\_George\\_Osborne\\_and\\_John\\_Whittingdale\\_to\\_Tony\\_Hall\\_FINAL.PDF](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443735/Letter_from_George_Osborne_and_John_Whittingdale_to_Tony_Hall_FINAL.PDF)

**Figure 2** Hours per week consuming BBC radio and television content, by age, 2010/11 and 2017/18



Source: BARB, RAJAR, Frontier calculations

## 1.3 Our approach

We drew on a number of sources of evidence for our analysis of options to reform eligibility for the concession:

- A **review of existing literature and evidence**, including reports and statistics produced by academics, government, third sector organisations, think tanks and the BBC.
- A large number of **stakeholder interviews** with representatives from government departments, academia, think tanks, groups representing older people, behavioural experts, charitable organisations and the BBC. The full list of stakeholders consulted is shown in Annex B.
- A **financial model** of the likely cost of the concession between 2021/22 and 2029/30 which allowed us to estimate the potential financial impact of various reform scenarios and to estimate the distributional impact of reforms. Details of the modelling approach are in Annex C.

## 1.4 Structure of the report

The rest of the report is organised as follows.

- In Chapter 2 we consider the case for reinstating the existing concession.
- In Chapter 3 we present the broad options for reform, and conduct an initial appraisal of these against the assessment criteria to determine which options we took to more detailed consideration.
- Chapter 4 examines allowing the concession to lapse without replacement.
- Chapter 5 examines changing the value of the concession.
- Chapter 6 examines options around the age threshold.
- Chapter 7 examines options around means-testing.
- Chapter 8 concludes by summarising our assessment of the options.

## 2 THE POTENTIAL IMPACT OF REINSTATING THE CONCESSION

This Chapter explores the case for reinstating the existing concession, using the assessment criteria set out in the Terms of Reference.

Clearly there are no significant feasibility issues associated with reinstating the existing concession, so we do not explore that criterion in any detail.

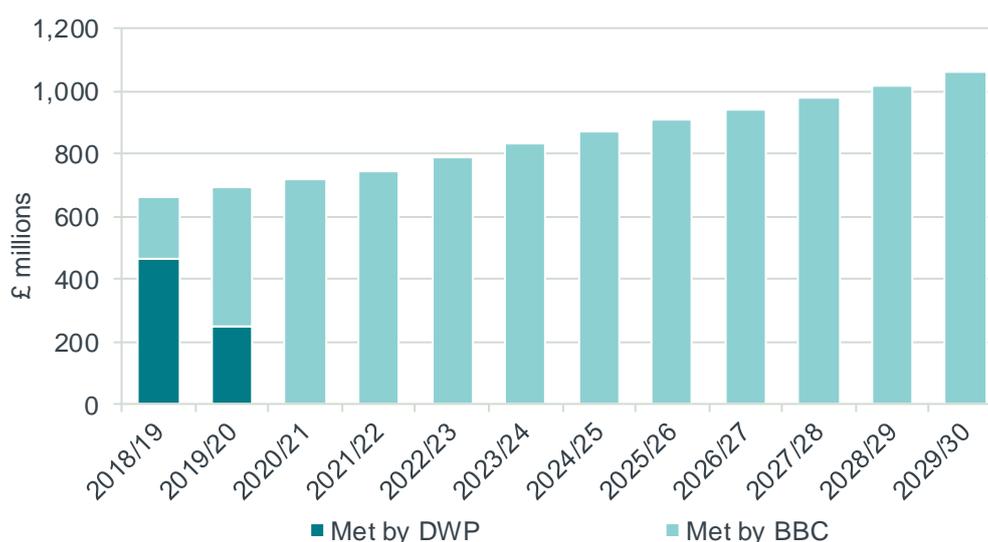
### 2.1 Financial impact

The cost of the concession has increased markedly since its introduction and will continue to rise in future. At the same time, the BBC is facing an increasingly competitive broadcasting landscape.

#### The cost of the concession will continue to increase

The nominal cost of the over-75s concession has been rising steadily over time, reflecting increases in the number of households containing someone over 75 and the cost of the licence fee. In 2001/02, the first full financial year after it was introduced, the concession cost £365 million. We estimate that by 2021/22, a reinstated concession would cost the BBC £745 million,<sup>11</sup> over double the cash cost twenty years earlier. Costs would continue to rise after that (see Figure 3): by 2029/30, the total concession cost will rise to £1.06 billion per year.

**Figure 3 Forecast cost of the over-75s concession, 2018/19 to 2029/30**



Source: BBC, DWP, ONS, Frontier calculations (see Annex C for details)

Note: Figures are in nominal terms

<sup>11</sup> This figure represents the full value of licence fee revenue forgone as a result of reinstating the concession in its current form in 2021/22. If the concession is allowed to lapse without replacement, the BBC's net income will not rise by this amount as there will be implementation costs and some individuals currently receiving the concession may choose to stop watching television. See Figure 18 for details.

To put some context on these figures, the projected cost in 2012/22 equates to 18% of current (2017/18) BBC total service spend, and is more than the £656 million the BBC spent on radio services in 2017/18 (BBC, 2018 A).<sup>12</sup>

## The broadcasting landscape has altered substantially

As a result of reduced barriers to entry and shifts in consumer preferences, the BBC now faces competition from both traditional and new players both for content and for audiences. Traditionally the BBC has competed against other Public Service Broadcasters in the UK (ITV, Channel 4 and Channel 5) and subscription model broadcasters such as Sky. More recently, online video-on-demand (VoD) providers including Netflix, Amazon, Apple and YouTube have entered the market.

This has changed the way that people view content. Ofcom (2017) found that in 2016 almost half of adults accessed video-on-demand (VoD) content in the previous week, and that the share of viewing minutes for live TV fell from 92% in 2010 to 80% in 2016. The share of VoD viewing minutes grew from 2% to 8% over the same period. It is likely this share has grown further since then.

The switch to VoD is particularly acute for younger viewers (Ofcom, 2017): among 16- to 24-year-olds, average minutes per day of broadcast TV viewing fell from 169 in 2010 to 114 in 2016. By contrast, among over-65s, the trend was flat (343 minutes and 344 minutes respectively).

Recent analysis (Mediatique, 2017) has concluded that the growth of VoD has led to increased cost pressures for broadcasters, particularly for high-end drama, comedy and factual programmes.

## The wider financial context

Over the course of the last ten years, the BBC has had to absorb the financial impact of inflation and the cost of significant new financial obligations imposed by government (such as paying for the World Service and S4C). For much of this period between April 2010 and April 2017, the licence fee was frozen in cash terms. By 2017/18, licence fee income available for UK public service broadcasting services fell by around 20% in real terms. Put another way, after taking account of inflation and government-imposed financial obligations, the BBC has 20% less to spend on services for UK licence fee payers.

During this real-terms funding reduction, the BBC undertook a substantial programme of cost management: £1.6 billion of savings (to annual recurring costs) were delivered during the last Charter period (BBC, 2018 B).<sup>13</sup> Since these savings were achieved, an additional £244 million of cumulative savings have been delivered – £160 million of which were achieved during 2017/18.<sup>14</sup>

EY recently carried out an analysis of BBC overheads (EY, 2018). The authors calculated the BBC's overhead rate to be 5.7% in 2017/18 and concluded that

<sup>12</sup> [http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc\\_annualreport\\_201718.pdf](http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc_annualreport_201718.pdf), p194

<sup>13</sup> [http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/efficiency\\_review\\_2018.pdf](http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/efficiency_review_2018.pdf)

<sup>14</sup> <http://www.bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/ara>, p7

the BBC is among the most efficient 25% regulated and non-profit organisations in the UK, as well as the most efficient 25% international telecommunications and media companies.<sup>15</sup>

## 2.2 Distributional impact: equity-based rationales for the concession have weakened

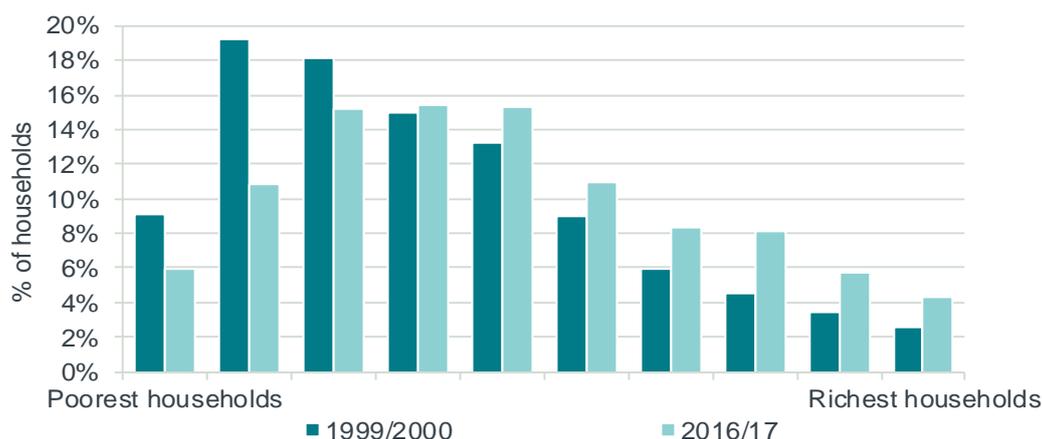
Our previous discussion paper set out the context for this report particularly in terms of the debate around intergenerational fairness.<sup>16</sup> The conclusions on the distributional rationale for reinstating the current concession draw on the detailed analysis in that paper, which we briefly summarise here.

When the concession was initially introduced in 2000, the government focused on an equity rationale: the benefits would (largely) go to poorer households. Then Treasury Minister Dawn Primarolo argued that:

*“Older pensioner households are more likely to be on low incomes, which is why additional resources will be directed at the 75-plus group. Free television licences to people aged 75 years and over, nearly 50 per cent of whom are in the lowest three income deciles, is a significant measure for poorer pensioners...”<sup>17</sup>*

However, while it was true that almost half of over-75s lived in households near the bottom of the income distribution when the concession was introduced, this is no longer the case. Our analysis (see Figure 4) finds that in 1999/2000, 46% of over-75 households were found in the bottom three income deciles.<sup>18</sup> By 2016/17, this had fallen to 32%, with particularly large falls in the poorest two income deciles.

**Figure 4** Share of over-75 households by net after housing costs income decile, 1999/2000 and 2016/17



Source: FRS, Frontier calculations

<sup>15</sup> [http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/ey\\_benchmarking.pdf](http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/ey_benchmarking.pdf)

<sup>16</sup> <https://www.frontier-economics.com/media/2634/rpt-discussion-paper-final.pdf>

<sup>17</sup> <http://www.publications.parliament.uk/pa/cm199900/cmhansrd/vo991221/text/91221w33.htm>

<sup>18</sup> We divide all households in the Family Resources Survey 1999/2000 and 2016/17 into ten equally sized groups ('deciles') based on household income. Over-75 households are those containing anyone aged 75 or more. We examine the share of over-75 households by decile in each year.

*Note: Income is a weekly equivalised measure, after housing costs.*

### Our approach to quantitative analysis of household incomes

To assess incomes of older households, we use household-level income data from the Family Resources Survey. Our measure is income from all sources, net of direct tax and housing costs but including benefits. Incomes are adjusted ('equivalised') to account for differences in household composition. We use the Modified OECD equivalence scale,<sup>19</sup> which assumes for example that a household with one adult needs 67% of the income of a childless couple to attain the same standard of living.

The After Housing Costs (AHC) income measure we use adjusts for non-discretionary costs of shelter: rent, mortgage interest, water rates, structural insurance and some smaller charges. Official analysis of poverty and inequality statistics in the UK (DWP, 2018 C) uses both this measure and an alternative, Before Housing Costs (BHC) income, which does not strip these costs out of income.

The treatment of housing costs in income analysis is the subject of some debate. Recent analysis by the Institute for Fiscal Studies (IFS) (Belfield et al., 2015) notes that, when looking at older households where outright home ownership is more common, there is a case for using an AHC measure of income recognising that differences in committed housing costs represent material differences in living standards in terms of disposable income.

The changing position of over-75s in the income distribution reflects evidence that incomes for older households have grown more rapidly than those of working-age households in recent years. Figure 5 shows that households containing older people have, on average, lower incomes than households as a whole, but that over time the size of the gap has narrowed. In 1999/2000, households containing someone aged 75 or over had equivalised incomes after housing costs worth 69% of the mean across all households. By 2016/17, this had risen to 83%. Between 1999/2000 and 2016/17 mean incomes for all households grew (in cash terms) by 71%, from £318 to £543 per week. Among households containing someone aged 75 or over, weekly incomes more than doubled, from £220 to £452.

<sup>19</sup> <https://www.ifs.org.uk/wheredoyoufitin/about.php>

**Figure 5 Mean equivalised weekly income by age of oldest household member, 1999/2000 and 2016/17**

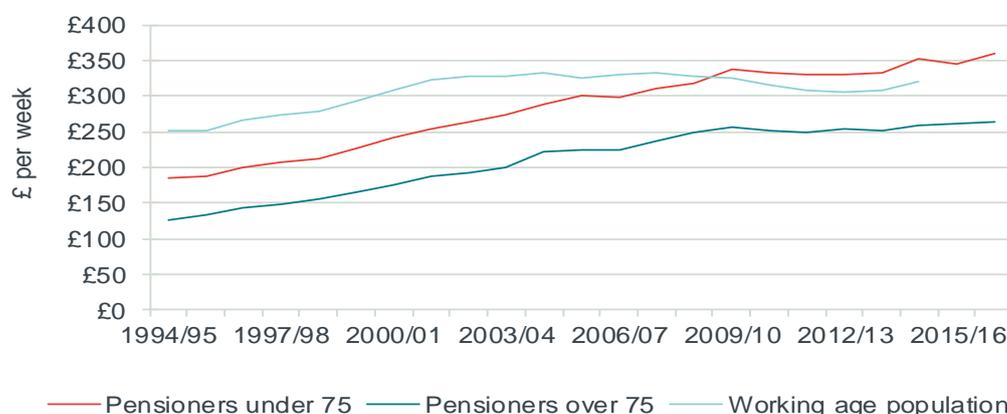


Source: FRS, Frontier calculations

Note: Income is a weekly equivalised measure. Figures are in nominal terms

Figure 6 uses DWP data (DWP, 2016, 2018 D) to illustrate a more detailed picture of this catch-up over time, looking at trends in median (rather than mean) incomes among families headed by different age groups. Between 1999/2000 and 2014/15, the median income for families headed by someone aged over 75 rose from 56% to 80% of the median for working-age families.<sup>20</sup> Even more strikingly, median income for families headed by those aged 65 to 74 overtook that of working age households in 2009/10.

**Figure 6 Working age and pensioner benefit unit real median annual AHC income over time (2016/17 prices)**



Source: Pensioner Income Series (DWP, 2016, 2018, D)

Note: Incomes are expressed in terms of 2016/17 prices at the benefit unit level as such they are not directly comparable with other income measures presented in this Chapter which are mean household incomes. Working age income data is not available for 2015/16 or 2016/17.

The more detailed discussion paper considers wider evidence from independent researchers on living standards for older households, measured in terms of income, poverty, wealth and well-being. A similar pattern of relative improvement for older households compared with working-age households is shown.

<sup>20</sup> The DWP statistics use benefit units as the unit of analysis, whereas our analysis of the FRS used households. Benefit units are defined as a single adult or a married cohabiting couple and any dependent children.

## 2.3 The economic rationale for an over-75s concession remains unpersuasive

Beyond the distributional issues, the most plausible economic rationale for the over-75s concession would be if viewing amongst this group led to benefits for others – ‘positive externalities’ – that might justify subsidising the cost. However the evidence for this argument is relatively weak, and if anything might even have declined a little since the concession was introduced.

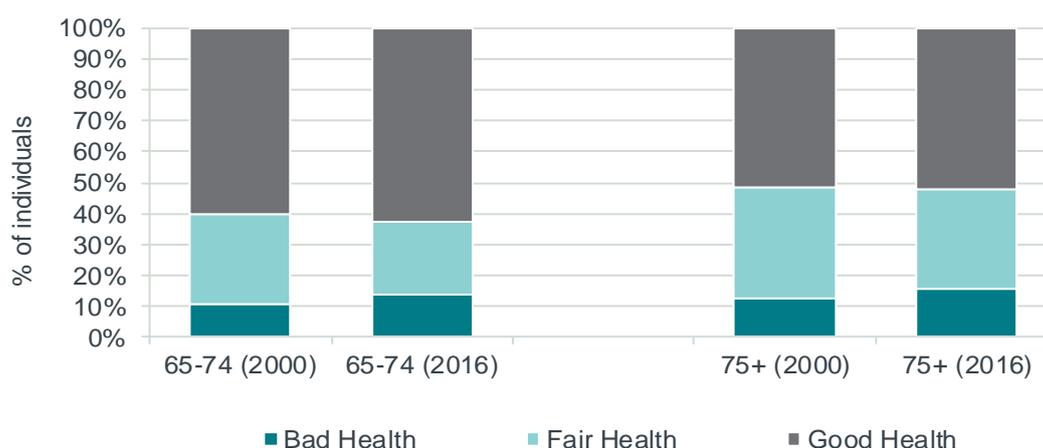
While the externality argument was not advanced at the time the concession was introduced, more recent interventions in support of keeping the concession have raised related issues. For example, speaking in 2010, then Minister of State for Culture, Communications and Creative Industries Ed Vaizey cited poor health, reduced mobility and social isolation of the over-75s as reasons why the group was reliant on television (Thurley et al., 2013).

If social isolation leads to negative physical and mental health outcomes or other social costs, and over-75s are more at risk of social isolation, and television can go some way to alleviating this, then a positive externalities case might be made for the concession.

### Social isolation is correlated with adverse health outcomes

Over-75s are, on average, in worse health than younger pensioners. There is no recent evidence that this gap is diminishing. Between 2000 and 2016, the proportion of those aged 75 and over reporting that they were in good health remained constant (Figure 7) while the share of younger pensioners reporting good health rose. Both groups reported slight increases in bad health.

**Figure 7** Change in self-reported health of younger and older English pensioners between 2000 and 2016



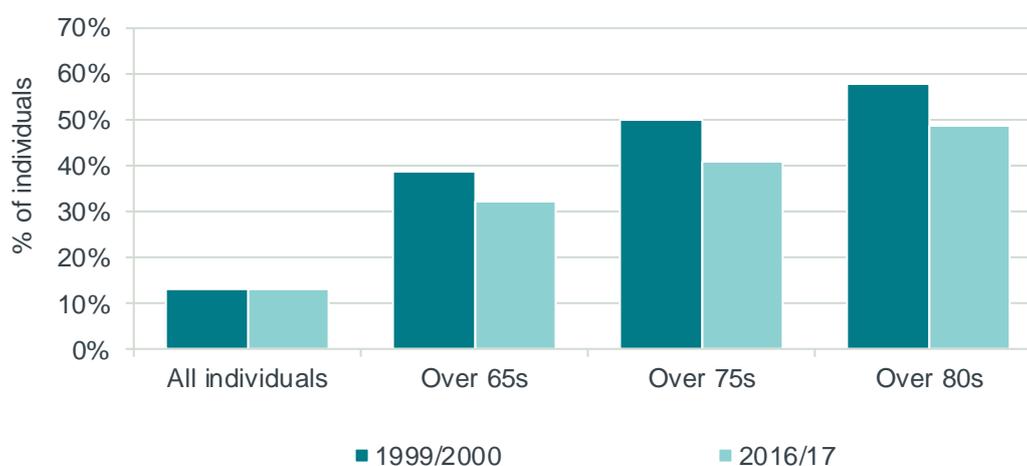
Source: NHS Digital Health Survey for England, 2000, 2016. Frontier calculations

## Over-75s are at increased risk of social isolation but the gap with others appears to have fallen a little over time

The risk of social isolation is greatest for those who live by themselves (Bolton, 2012). For example, as shown in Figure 8, 41% of over-75s lived alone in 2015/16 compared with 32% of over-65s and just 13% of all individuals. Among over-80s, the figure is even higher at 49%.

However, the proportion of elderly people living alone has fallen significantly since 1999/2000, when half of over-75s lived by themselves.

**Figure 8** Proportion of people living in single person households, 1999/2000 and 2016/17



Source: FRS, Frontier calculations

Living alone is only one proxy for social isolation. Survey data also suggests that over-75s are less engaged in civic society. The Department for Digital, Culture, Media and Sport's Community Life Survey found that in 2016/17, only 32% of over-75s reported formal civic participation in the last year, compared with 42% of 65- to 74-year-olds and 41% of all respondents.<sup>21</sup>

## Television is a form of companionship but there is not much robust evidence that it improves health outcomes

There is evidence that television and radio can be forms of companionship for older people. Davidson and Rossall (2015) report that 49% of over-65s rely on TV or pets as their main source of company, and a number of stakeholders we interviewed cited the companionship role of television and radio in the lives of older households, and the links they provide to local communities and wider society through news and information.

Academic studies have not found rigorous evidence that television viewing is associated with improved health outcomes through improved social inclusion or otherwise. For example, House et al. (1982) found that passive solitary activities

<sup>21</sup> Data are available at <https://www.gov.uk/government/statistics/community-life-survey-2016-17>. Civic participation is the most common form of civic engagement and covers taking part in democratic processes, both in person and online including signing a petition or attending a public rally (it does not include voting)

including watching TV were associated with increased mortality. Hamer et al. (2010) showed an association between time spent engaging in screen based entertainment and poorer mental health in a representative study of adults. Of course, these findings could reflect reverse causality, if those who are in ill-health watch more TV or engage in more passive activities.

So while it is credible that television can be a form of companionship and help reduce feelings of isolation, as reflected by the comments made by a number of stakeholders, in our view there is as of yet little compelling evidence that there are significant external benefits which would support a case for a universal concession for over-75s. This does not mean that television does not help promote improved quality of life or well-being for those who rely on it, and being older (over 75 or particularly over 80) appears to be an imperfect proxy for relying on television. Of course, other groups vulnerable to social isolation, such as younger people with disabilities, do not benefit from a concessionary licence.

## Conclusion

Based on the assessment criteria, our view is that there is a case for reform of the current over-75s concession.

## 2.4 Extending the concession to over-65 households

Based on the analysis of the case for reinstating the existing concession, we do not find a compelling case for extending the concession to all over-65s and so do not consider this as a detailed option in this report.

Administering such an extended concession would be relatively straightforward, but extending the current concession to all over-65s would more than double the cost of the concession.

While this change would clearly be a gain to households containing someone aged 65 to 74, as noted above the relative income position of older households has improved: DWP data show that median income for families headed by those aged 65 to 74 overtook that of working age households in 2009/10.

Further, the economic case for extending the concession to over-65s (or any age group between over-65s and over-74s) is even weaker than maintaining the over-75s concession, as younger pensioners are in better health on average and are therefore less vulnerable to social exclusion.

## 3 FEATURES OF POTENTIAL REFORMS

This Chapter outlines dimensions along which the over-75s concession could be reformed in principle, and the approach we took in determining which options to analyse in more depth.

### 3.1 Identifying possible approaches to reform

In principle, there are seven approaches we identified as potential options to explore for reforming the concession. These are:

1. **Allowing the concession to lapse without any replacement** – This would involve not replicating the current concession after 2020 or replacing it with any alternative;
2. **Value of the concession:** This would involve offering a part-concession rather than a fully-concessionary licence;
3. **Age threshold:** Increasing the qualifying age for the concession;
4. **Household composition:** Requiring *all* household members to be 75 or over, not just the oldest household member, to be eligible;
5. **Means- or needs-testing:** Adding other eligibility criteria to target the concession on different groups (within the available age-related parameters);
6. **Preserved rights:** Whether reform should either apply only to new applicants, with eligibility maintained for those currently claiming the concession; and
7. **Voluntary contributions:** Whether to solicit voluntary payment of the licence fee or other donations not directly tied to the licence fee value from over-75s.

Any reform package could involve combinations of changes – for example, changing the age threshold and simultaneously introducing a means-test.

These broad options were assessed against the evaluation criteria set out in the Terms of Reference:

1. **Financial Impact** (including effect on BBC finances and the money available to provide high-quality programming and services);
2. **Distributional Impact** (effect on different groups);
3. **Feasibility** (including implementation issues, financial and compliance costs, and how easily any issues could be overcome); and
4. **Economic Rationale** (economic case for any course).

#### Financial and distributional modelling methodology

We developed a financial model to examine the costs of the various shortlisted reform options. The model allows forecasts each year between 2021/22 (the first full year the BBC has policy responsibility) and 2029/30.

Throughout the report, the term ‘financial impacts’ estimates the costs that the BBC would incur as a result of introducing a new concession, relative to reinstating the current concession.

The model is also used to carry out a distributional assessment of the different reform options, such as the relative impact across different income groups. It was not feasible to forecast household-level income data over this horizon; instead, distributional analysis is based on the most recent year of the Family Resources Survey from 2016/17. This in effect is a ‘static’ distributional impact *as if the reform were introduced in full today*. The actual distributional impact will depend on the pattern of household incomes in 2021/22 and beyond, but the 2016/17 analysis should still provide a good indication of the likely effects.

### Input data and model construction

Our model is built on several sources of data:

- **Household income data** from the Family Resources Survey. We use data from 2009/10 to 2016/17 to examine trends in variables such as the share of households containing someone 75 or over, or receipt of various benefits. These trends, combined with other sources, allow us to project eligibility for and the cost of the concession under different reform scenarios, and carry out distributional analysis.
- **Household expenditure data** from the Living Costs and Food Survey (ONS, 2018 A). We use the most recent year of data from 2016/17 to assess the distributional impact of reforms on the basis of household spending rather than income, in line with recent approaches taken by the ONS.<sup>22</sup>
- **BBC data** on the number of over-75 licences that would be issued in future years if the concession were reinstated in its current form. These forecasts are based on **ONS projections** of the total number of individuals (ONS, 2017) and households (ONS, 2018 C).
- **DWP projections** of the caseload of various benefits, in particular Pension Credit (DWP, 2018 E).

Using these sources of input data, we model the cost of reinstating the current concession and assessed the financial impact of each shortlisted reform option. These impacts estimate the costs of introducing each reform (relative to the cost of reinstating the current concession) *including* any estimated additional implementation costs.

#### Presenting financial impact and distributional impacts in the report

For **financial impact** we present two charts for each reform option.

- The first shows the estimated net residual cost to the BBC, in the first full year of introduction (2021/22).
- The second shows *cumulative* residual BBC costs over the whole period 2021/22 to 2029/30.

Both are important as the impact of some reforms will change over time – for example, any approach involving means-testing will depend on the share of households estimated to be eligible for the relevant benefit.

<sup>22</sup> The ONS analysis is available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/anexpenditurebasedapproachtopovertyintheuk/financialyearending2017>.

For **distributional impacts**, we want to assess how the reform options affect different groups of the over-75s population. Our main focus is on living standards: how would reforms affect better- and worse-off households?

We use income and expenditure to categorise over-75 households into ten equally sized groups ('deciles') from worst- to best-off.<sup>23</sup> We estimate the fraction of households within each decile that retain, gain or lose the concession in each option and the value of any gain or loss. We examine two issues:

- How does the reform affect **targeting** of the concession? Are poorer households more likely to retain the concession than better-off households?
- Is the reform **regressive**? That is, does it have a larger cost relative to income for poorer households than for richer households?

Because losing the concession has the same cash cost to all households (currently £150.50 per year), regressivity will depend on the share of households within each decile that retain the concession and average incomes/expenditure in each decile.

On average, any distributional impacts of reforming the concession are likely to be quite small because of the relatively small size of a licence fee when compared with households' annual income and expenditure. Among the poorest tenth of over-75 households (based on income), the concession is worth around 2.3% of income.

Of course there will be some households for which the concession is worth a larger share of income – for example, among the poorest 1% of over-75 households by income, the concession is worth around 6.7% of income on average.

Both income and expenditure are commonly used to categorise households in distributional analysis, and as noted above the ONS have recently begun to use expenditure as well as income in its own distributional analysis.

There is value in considering both income and expenditure when looking at distributional impacts. An IFS study (Brewer and O'Dea, 2012) using survey data from the UK finds that reported income is consistently lower than expenditure for households with low resources. The IFS conclude that the observed discrepancy between income and spending for households in the bottom of the income distribution is highly likely to be driven by under-reporting of income from state benefits by households with low living standards.

As we describe in detail below, reported take-up of means-tested benefits is a particular issue for households with low incomes. Therefore, the expenditure-based distributional analysis for the means testing variants is included in Chapter 7 to explore this issue in depth. Expenditure-based distributional analysis for other variants is included in Annex C.

<sup>23</sup> Incomes are taken from the Family Resources Survey 2016/17, and data on expenditure from the Living Costs and Food Survey 2016/17. In both cases we use equivalised, after housing costs measures.

## Feasibility – implementation costs of reform options

Our estimates of the feasibility and implementation costs of different reform options were based on discussions with the BBC and external stakeholders. In estimating the implementation costs of reforms, which need to be included the net residual costs of each option, we considered factors such as:

- one-off costs associated with **communicating the change** in the concession;
- fixed and recurring costs associated with **changes to systems** or processes needed to implement the reform option; and
- recurring operational costs associated with **non-take up, compliance and enforcement**.

Full details of the implementation cost assumptions are given in Annex C.

## Economic rationale – assessing the case for change

Our assessment of the underlying economic rationale for different reform options was guided by:

- Evidence presented in Chapter 2, and our earlier discussion paper, on the changing equity- and efficiency-based rationales for the concession; and
- Extensive engagement with stakeholders on different options and approaches to reform.

## 3.2 Initial appraisal of reform parameters

We examined each of the seven approaches to reform identified in Chapter 3.1 against these four criteria. We aimed to identify the relative strengths and weaknesses of each approach, particularly in terms of the financial, distributional and feasibility criteria.

Based on this initial appraisal we go on to examine four of the approaches in greater detail (allowing the concession to lapse without replacement, changing the value of the concession, changing the age threshold and adding additional eligibility criteria). We do not progress the remaining three approaches (household composition, preserved rights and voluntary payments) further for the purposes of the recommendations contained within this report. This is based on our current view and does not rule out the possibility of the BBC considering any of the approaches outlined in this Chapter in the future (or indeed other approaches).

### Allowing the current concession to lapse without replacement

Currently all eligible households receive a free television licence, worth £150.50 for almost all beneficiaries. The current concession will come to an end in June 2020. One option for the BBC, given the weakened rationale for a concession compared with when it was introduced, and relatively minor implementation issues is to not introduce any replacement for the current concession.

In terms of financial impact the residual cost associated with allowing the concession to lapse without replacement would be very small and arise from implementation costs and individuals choosing to no longer watch television because of the cost. There are no major administrative issues associated with this option. However, all over-75s households would have to be contacted and asked to pay. In addition, this option has the largest distributional impact as no over-75s would continue to be eligible for a concessionary television licence.

Given the greatly reduced financial impact on the BBC associated with this option combined with the relatively minor implementation issues, we explore this approach in greater detail as part of this piece of work (see Chapter 4).

## Changing the value of the concession

One reform option would be to offer a partial discount rather than a full discount.

The financial impact on the BBC depends on the size of the discount offered. There is also a precedent for discounting the licence fee: for example, those with severely impaired vision receive a 50% concession on the cost of the licence. At least for certain levels of discount, there would be relatively small administrative costs.

A relative weakness of any discount option would be the distributional impact: it would leave the concession no better-targeted on older households with greater needs or financial difficulties, and would be regressive as the cash costs would be the same across all decile groups within the over-75 population.

Given the potential to significantly reduce the financial impact on the BBC without removing the entire concession from any single household combined with the relatively minor implementation issues with this option, we explore this approach in greater detail as part of this piece of work (see Chapter 5).

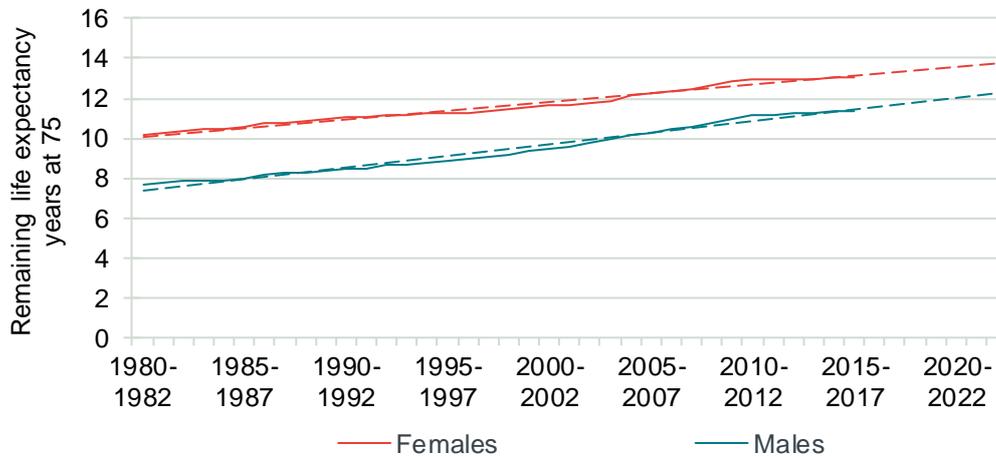
## Changing the age threshold

By the time the BBC assumes control of the policy and can implement eligibility reforms, it will be twenty years since the original age threshold was set, somewhat arbitrarily, at 75. There has been a clear improvement in life expectancy at age 75. Drawing on estimates for the UK published by the ONS, we estimate that a woman reaching age 75 in 2020 can expect to live 1.9 years longer than a woman reaching age 75 in 2000. For men the increase is higher, at 2.5 years (see Figure 9).<sup>24</sup> Figures for *healthy* life expectancy at age 75 are not available; however, figures have been published on healthy life expectancy at age 65 (see Figure 10). Again, projecting the trend forward to 2020 suggests that women reaching age 65 in 2020 will have on average 2.4 more healthy years of life than those who reached age 65 in 2000. For men the increase is slightly smaller, at 2.1 years.

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<sup>24</sup> It is important to note that in the most recent period for which data is available (2015-17) conditional life expectancy fell very slightly for both men and women relative to the previous period (2014-16). However, the trend observed over the overall period is unambiguously positive.

**Figure 9 Life expectancy at age 75 in England, 1981 to 2020**



Source: Frontier calculations based on ONS (2018 B).

Note: Figures post 2015-17 are a linear extrapolation of the long-term trend since 1980-82

**Figure 10 Healthy life expectancy at age 65 in the UK, 2000-02 to 2020-22**



Source: Frontier calculations based on ONS (2014).

Note: Figures post 2009-11 are a linear extrapolation of the trend since 2000.

Increases in longevity have already been reflected in policy reform. For example, the State Pension Age (SPA) is increasing. From the 1940s until 2010 the SPA was 60 for women and 65 for men. The female SPA will rise to align with the male SPA by the end of 2018; both will increase to 66 by 2020 and to 67 by 2028 (Thurley and McInnes, 2017). An independent review of the SPA commissioned by the government recommended that the SPA should rise further to 68 between 2037 and 2039 (Cridland, 2017).

As we illustrated in Chapter 2 older pensioners are more likely to live alone. Therefore, an increase in the age threshold could also more effectively target the concession on those who are more likely to suffer from loneliness and isolation.

The current age threshold of 75 is somewhat arbitrary and is not used in other parts of the pensioner benefits system. Changing the qualifying age therefore offers an opportunity to make the concession more consistent with other policies such as the State Pension and Winter Fuel Payments.

In addition, there were no clear administrative complexities with changing the age threshold. We therefore explore this approach in greater detail as part of this piece of work (see Chapter 6).

## Adding household composition requirements

The original motivation for introducing the concession was to support older pensioners, particularly those on low incomes. However, given that TV licences cover an entire household, providing this support involved extending the concession to younger people living with someone over the age of 75. One reform option would be to change this, restricting the concession to households where *all* household members are 75 or over.

Using data from the 2016/17 Family Resources Survey we broke down all households containing at least one person over the age of 75 into seven categories (see Figure 11):

- Single females over the age of 75;
- Single males over the age of 75;
- Couples both over the age of 75;
- Couples consisting of one person 75 or over and one person under 75;
- Multiple benefit unit households where every resident is older than 75 (no dependent children),<sup>25</sup> for example two single elderly people living together;
- Multiple benefit unit households where at least one resident is under 75 (no dependent children), for example a couple living with their adult child; and
- Households containing someone over the age of 75 and dependent children.

Over half of all over-75 households are single person households, and just under a quarter are couples both aged 75 and over. Overall, almost three-quarters of over-75 households would remain eligible for the concession if all household members had to be 75 or over, not just the eldest.

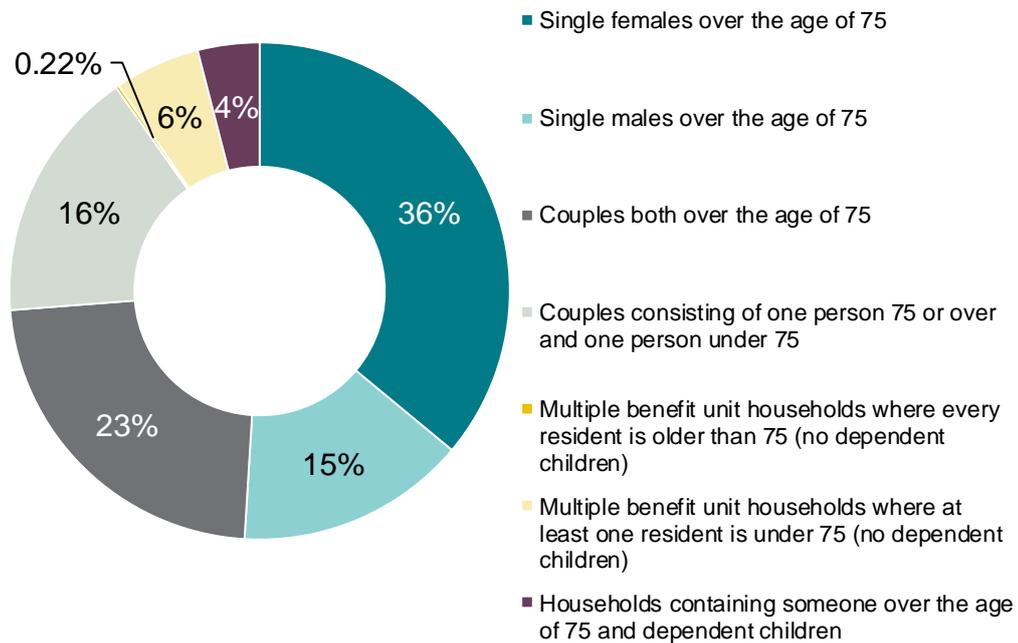
We find that 26% of households with someone over-75 contain someone younger as well. However, looking in more detail at this group, in the majority of cases the youngest person is also of pensionable age (see Figure 12).

While targeting the concession only on households where everyone is at least 75 could therefore be more in the spirit of the original introduction because it would focus the concession more closely on elderly individuals, it is important not to assume that most of those affected would be multi-generation households.

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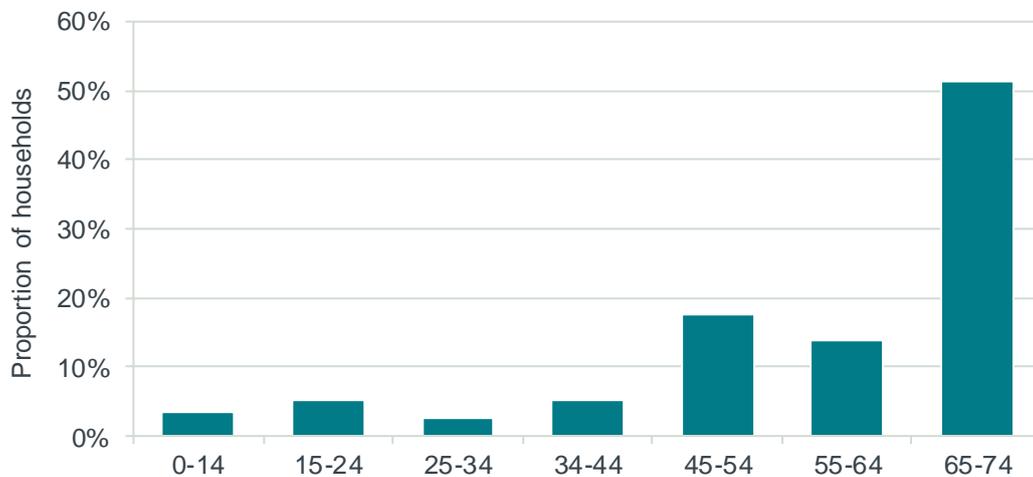
<sup>25</sup> A 'benefit unit' refers to a single adult or a couple with any dependent children. Dependent children are those aged under 16 or those in full-time education aged 16 to 17.

**Figure 11 Breakdown of over-75 households by household type, 2016/17**



Source: FRS, Frontier calculations

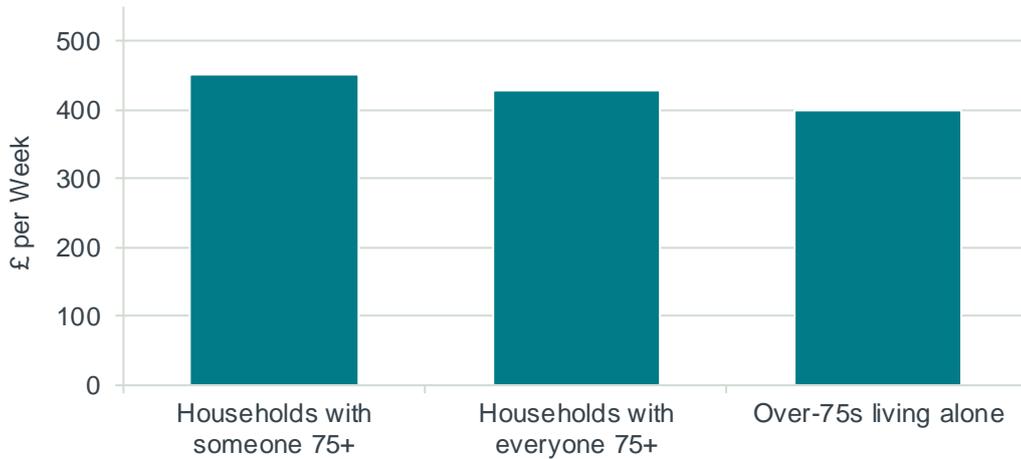
**Figure 12 Age of youngest household member in over-75 households where at least one person is under 75, 2016/17**



Source: FRS, Frontier calculations

In addition, over-75s who live alone, or only with other over-75s, have on average lower incomes than over-75s who live with younger people (Figure 13). This could suggest that restricting the concession to those households where all members are over 75 would better target those in poorer households, though as shown in Figure 14, there would still be a significant minority of such households in the upper half of the income distribution.

**Figure 13** Average equivalised weekly income by household type, 2016/17



Source: FRS, Frontier calculations

**Figure 14** Share of strictly over-75 households and over-75s living alone by income decile, 2016/17



Source: FRS, Frontier calculations

As described in Chapter 2, there is a relationship between living alone and loneliness. This could suggest an alternative reform, to restrict the concession to over-75s who live alone. There is precedent for concessions aimed at people who live alone: all households in the UK containing only one adult can claim a 25% discount on council tax.<sup>26</sup>

However, members of elderly couples could also suffer from isolation, particularly if one of the couple has significant care needs met by their partner. Research by Carers UK (2017) found that 81% of carers have felt lonely or socially isolated as a result of their caring role. The prevalence of older carers is rising rapidly within the UK: between 2001 and 2011, the number of people aged 75 to 84 providing unpaid care to a disabled, seriously ill or older relative or friend rose by 45% from 261,000 to 378,000 (Carers UK, 2015).

<sup>26</sup> <https://www.gov.uk/council-tax/who-has-to-pay>

Finally, a relative weakness of any reform restricting eligibility on the basis of household composition is that it would suffer significant administrative difficulties. It is difficult to verify using available external data sources who lives at a given address, and therefore whether any new household composition criteria are met. As a result, these reforms would ultimately need to rely on accurate self-declaration of eligibility based on household composition. While most households are likely to report their household composition status accurately, it seems reasonable to assume some (and potentially a large) increase in error associated with this option. TVL would also have to regularly re-verify occupancy in order to determine continued eligibility, which would be costly and potentially intrusive for licence holders.

Due to these administrative complexities and the other issues raised, our current view is that reforms involving new household composition criteria should not be progressed further for the purposes of the recommendations contained within this report.

### Means- or needs-based testing

Reform of the concession could seek more closely to align receipt with needs or ability to pay. In principle any eligibility criteria could be defined. However in practice it would be much more straightforward to link receipt to a qualifying ('passporting') benefit.<sup>27</sup> This is because determining eligibility on the basis of receipt of another benefit avoids the administrative cost of the BBC determining and enforcing its own qualifying criteria, which would likely be too large to make this kind of reform a realistic option.

**Needs-testing** involves targeting those who have the greatest need for a free television licence based on their personal circumstances. One example would be linking the concession to receipt of disability benefits for those within the relevant age parameters.

**Means-testing** involves focusing the concession on those who are least able to pay – for example, linking the receipt of the concessionary television licence to Pension Credit, a means-tested benefit for pensioners on low incomes.

#### Benefits that could passport eligibility for a concessionary licence

**Disability Living Allowance (DLA)** is a tax-free benefit for disabled people who need help with mobility or care costs. DLA for those above the age of 16 is gradually being phased out and replaced with the Personal Independence Payment (PIP). However, existing DLA claimants who were born before April 1948 are entitled to continue to receive DLA rather than switch to PIP.

**Attendance Allowance (AA)** is paid to those aged 65 and over to help with personal care because of a physical or mental disability.

According to DWP long term pensioner benefit forecasts, the pensioner disability benefits caseload in 2018/19 is expected to be 2.73 million. This is projected to rise very slightly to 2.74 million by 2021/22 (DWP, 2018 E).

<sup>27</sup> Examples of passporting are given at <http://www.entitledto.co.uk/help/Passported-benefits>.

**Pension Credit** is an income-related benefit which ensures that an individual pensioner's income in 2018/19 cannot fall below £163 and a couple cannot fall below £248.8 per week.

The qualification age for Pension Credit is gradually increasing from 60 to 65 in line with the female State Pension Age. By the end of 2018 the qualifying age will be 65 for both men and women.

As part of the move towards a single tier pension system the Savings Credit portion of the benefit is being abolished (Crawford et al., 2013).

The number of claimants of Pension Credit has fallen since 2010 in large part due to the increase in the female State Pension Age (Thurley, 2017). DWP forecasts that the caseload of Pension Credit will continue to fall over time. According to long term pensioner benefit forecasts, the Pension Credit caseload in 2018/19 is expected to be 1.8 million. This is projected to fall by 10% to 1.6 million by 2021/22 (DWP, 2018 E). This could reflect further increases in average pensioner income levels relative to the income guarantee thresholds.

Although there is precedent for using means-testing and passporting even for schemes not administered by government (specifically the use of Pension Credit as a passport to eligibility for the Warm Home Discount scheme), any use of other benefits as a passport removes some control of the over-75s concession from the BBC since welfare policy is set by the government of the day. This would make long-term planning and revenue forecasting more difficult from the BBC's perspective. However a needs- or means-test would allow the BBC to align any reform to government-defined thresholds and eligibilities for need.

Both means-testing and needs-testing would by nature help better-target the concession. There are examples of both Pension Credit and disability benefits being used as passports in other contexts. However, given that the concession is an age-based benefit currently, there seems to be a clearer rationale for linking the concession to another age-based benefit (Pension Credit) rather than disability benefits. If elderly disabled individuals were entitled to a concessionary television licence it is unclear why younger disabled individuals would be excluded, and the BBC does not have the power to set such a concession for under 65s.

Linking to Pension Credit rather than disability benefits would also likely lead to a less costly concession for the BBC both initially and over the entire forecast period. This is because as mentioned above the total caseload of disability benefits for pensioners is higher than the total caseload of Pension Credit.<sup>28</sup>

Following discussion with DWP about the administrative issues around both needs and means-testing, it also became clear that it would be more difficult for the BBC to draw on DWP evidence to independently verify receipt of disability benefits rather than receipt of Pension Credit. This is because disability benefit verification would need multiple DWP databases to be linked to BBC licence fee data, increasing the costs of verification and the risk of errors requiring further investigation. The alternative approach is for the BBC to carry out their own

<sup>28</sup> However, DWP do not produce long term projections looking at the over-75 group specifically.

internal verification, though this would be more costly and could potentially lead to inconsistencies.

In addition the future of disability benefits and their delivery is very uncertain. The government consulted on plans to devolve responsibility for delivering Attendance Allowance to a local level in 2016, for example, though this was not ultimately implemented.

For these reasons we continue to explore reforms involving means-testing as part of this piece of work but do not examine needs-testing in greater detail as part of this work (see Chapter 7).

### 3.3 Voluntary contributions from over-75s

We also considered the possibility of seeking voluntary contributions from over-75s. Voluntary contributions mean payments made by over-75s towards the BBC that are not a mandatory licence fee. These contributions could be standalone donations of any value to the BBC. Alternatively the current application process could be adapted such that eligible individuals could opt into paying the licence fee.<sup>29</sup>

We conducted detailed initial exploration of this option as part of our stakeholder consultation and based on desk research, including different models for collecting voluntary payments.

#### Why might over-75s contribute?

We found that over-75s consume more BBC content than any other age group,<sup>30</sup> are more likely than any other age group to view the BBC as good value for money, and have a more favourable impression of the BBC than younger people.<sup>31</sup> There is also evidence that older households are more likely than younger households to make charitable contributions, and tend to make larger donations on average (Charity Aid Foundation, 2015). The Community Life Survey finds that in England, those aged over 75 and those aged 65 to 74 had the highest donation rates of any group (Figure 15).

#### Options to receive voluntary contributions

There are two broad ways in which voluntary contributions could be received:

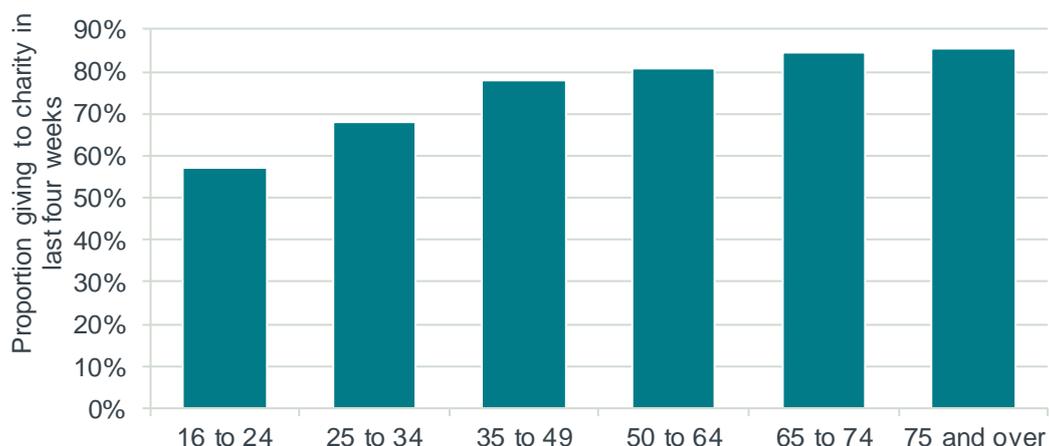
- Payments could be collected as licence fee income via TVL, with over-75s asked to waive all or part of their entitlement to a concessionary licence.
- Over-75s could make a donation of any amount to the BBC through an alternative collection mechanism, with income collected as donations income rather than licence fee income.

These options would have different implementation and ongoing operating costs.

<sup>29</sup> The funding arrangement announced in July 2015 specified that the BBC could ask for voluntary payment of the licence fee from over-75s.

<sup>30</sup> BARB and RAJAR data 2017/18

<sup>31</sup> Accountability and Reputation Tracker by Kantar Media for the BBC, July 2017 – March 2018; Ipsos MORI for the BBC, April 2018

**Figure 15 Charitable giving by age**

Source: Cabinet Office (2017)

Note: Charitable giving is defined as having given to charity in 4 weeks prior to interview.

### Potential contribution rates

Our evidence review provided a number of studies and examples where solicitations to make donations or voluntary contributions had been made. We summarise the findings in Figure 16. In general, we note that the evidence base is largely around donations to charity, which may not be a reliable indicator when thinking about donations to an organisation such as the BBC.

### Conclusions

We concluded that there was a large amount of uncertainty over the numbers of over-75s who would be willing to make a voluntary contribution, given the context specific nature of the evidence. Therefore the financial impact of any new voluntary contribution mechanism would be highly uncertain. While we were not able to make firm predictions on the number of over-75s who would voluntarily relinquish some or all of their concessionary licence, or the amount of any other voluntary payments that would be made, our best assessment was that the financial returns to the BBC would be relatively small.

In addition, the distributional impact of any voluntary approach is not clear, and there would be significant implementational cost and complexity of any reform which would reduce, and might even outweigh, the likely financial return.

We therefore did not pursue analysis of the voluntary option further for the purposes of the recommendations contained within this report.

**Figure 16 Evidence on rates and levels of contribution**

Example and context	Evidence	Relevance to BBC
The <b>National Trust</b> is a well-known heritage charity which attracts a large number of loyal older members. Around 12% <sup>32</sup> of their members are 'Senior Plus': those aged over-75 with no children at home. The Trust's research shows this group have a true love for heritage and see the Trust's work as vital for future generations, and are mostly drawn from ABC1 social groups.	Around 7% of this group made a donation to the National Trust above their membership fee, including around 3.2% who responded to a request to participate in a raffle (average ticket value £22) and 4.4% who made a cash donation. Among those who give, the average donation value from this age group was £67 per year, compared with an average of around £30-35 across all members.	Both the National Trust and the BBC can be seen as valued cultural institutions. Over-75s as a group appear to be willing to contribute to such institutions, though the National Trust's members have already shown their willingness to contribute by paying a membership fee and are drawn from more affluent parts of society. The amounts donated, in addition to member fees, are around half the licence fee level.
<b>List and Lucking-Reiley (2002)</b> researched the effects of different amounts of 'seed money' being put up when soliciting donations towards some equipment at a research facility. A total of 3,000 people were contacted by letter. Those targeted were richer than average and were known to have previously donated to a charity.	Overall, 6.1% made a donation. Rates varied from 3.4% to 8.0% in different experiments. Average donations ranged between \$12 and \$44 in different experimental groups, with increases in seed money having significant, positive effects on both participation rates and average gift size.	Participation rates can be quite high even when people are not associated with a particular institution, though this experiment did focus on richer households who had previously donated to other charities. Varying the design of the solicitation can have quite large effects on contribution rates and values.
<b>M + R Benchmarks (2014)</b> provide evidence for non-profit institutes relating to online fundraising.	For every 1,000 fundraising emails sent, around 120 are opened, 40 are clicked and 4 result in a donation.	The response to email based solicitation would be much lower than seeking contributions by letter.
<b>Winter Fuel Payments</b> are paid automatically to over 12 million pensioners each year.	In 2014-15 only 29 pensioners relinquished the benefit, despite encouragement from the Secretary of State ( <b>Rosenbaum, 2015</b> ).	Older people may be unwilling to give up an existing benefit. However, no easy mechanism to pay the benefit back was set up, and people may have given the money to charity.
Various studies have looked at the impact of <b>anchors</b> on rates of giving to charity: <b>Adena et al. (2013)</b> , <b>De Bruyn &amp; Prokopec (2010)</b> , <b>Prokopec &amp; De Bruyn &amp; (2000)</b> , <b>Desmet (1999)</b> and <b>Fraser et al. (1988)</b> .	Studies have found a wide range of contribution rates from around 2% to over 40% among those asked to give. Higher anchors are often associated with increases in the amount given, but reductions in participation rates.	Studies that found the highest rates tend to involve face-to-face solicitation or where those asked have been known to be regular previous donors. Studies show the value of targeting and that suggested donation amounts can affect the amounts raised.
<b>Kamdar et al. (2015)</b> experimented with soliciting new donors to a children's charity by letter. Some people were told they could opt out of receiving further requests to give if they made a one-time donation. A range of different experiments were carried out.	Among those not given the chance to opt out of further requests to give, initial contribution rates ranged from 0.25-0.49% and levels from \$37-69. Those given the chance to opt out were more likely to give (0.48-0.83%) with similar amounts given (\$42-72). Around 40% of those who gave opted out of receiving further communication; while this did limit the ability to receive further contributions, the impact on subsequent revenues was limited.	Contribution rates were low when letters were sent to large numbers of people without any prior prompting and with no history of giving to the cause, suggesting that wider messaging may be needed before any requests to over-75s are made. There may be value in allowing people to opt out of further communications even if they decide to make a contribution.

### 3.4 Preserved rights for existing concession holders

Any of the broad reform criteria that we have described could be applied to only new claimants of the over-75s concession (preserving the concession for existing recipients), or to both new claimants and existing recipients.

However, a preserved rights approach has two relative weaknesses:

- The cost to the BBC of this concession design, at least in the early years, would be very large. Even if no replacement concession were introduced for all new claimants (which would generate the largest possible income flow

<sup>32</sup> This information was provided to Frontier by National Trust stakeholders.

from any ‘preserved rights’ reform), we estimate that the total cost in the first year of reform (assumed to be 2021/22) would amount to over 90% of the cost associated with reinstating the current concession. The income generated from adopting a preserved rights approach with other reform options which preserve the concession for some people would, of course, be even lower.

- It creates inequalities between otherwise very similar households (such as between someone aged 75 and someone aged 74) who just straddle a reform date.<sup>33</sup> These are sometimes called “cliff-edge” issues. Any concessionary licence policy in the present context will inevitably involve some cut-off criteria such as age of eligibility which will make a distinction between similar households on either side of a threshold. However, a preserved rights approach makes that distinction based on past rather than current differences. This has implications when thinking about distributional effects: if no replacement concession were introduced with full preserved rights, for example, all current concessionary licence holders continue to benefit whether or not this was justified on equity or efficiency grounds, while those about to become eligible would never benefit even if they had a more compelling need for the concession.

We did not therefore consider the preserved rights option as part of any reform package presented as part of this piece of work.

### 3.5 Summary

Our initial assessment of the six ways in which the concession could be reformed led to the conclusions summarised in Figure 17.

In the following Chapters, we explore more detailed analysis of the four remaining approaches to reform: allowing the concession to lapse without replacement, the value of the concession, the age threshold and means-testing. In each, we assess different specific reforms that could be considered and review them against the assessment criteria set out in Chapter 3.

We then summarise the different options and their relative strengths and weaknesses against those criteria.

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<sup>33</sup> Preserved rights for existing recipients would be consistent with, for example, the changes to eligibility for the ARC concessionary licence following the Kirklees judgement in 1988 which had expanded eligibility to the concession. The government responded by changing the eligibility criteria but allowing those who had benefitted from the Kirklees judgement to continue to receive the ARC concession. However, as noted by Minister of State for National Heritage in 1996, Ian Sproat, preserved rights “... leads to positions where neighbours are treated differently due to past and not present circumstances. That is by no means ideal ... [it] is an inevitable consequence of ... the government’s determination not to take away the concession from anyone who already had it.” For a full discussion, see Fiddick (2000).

**Figure 17 Results of initial review of high-level reform options**

<b>Option</b>	<b>Conclusion</b>
Allow the concession to lapse without replacement	Retain for more consideration
Change the value	Retain for more consideration
Change the age threshold	Retain for more consideration
Add household composition criteria	Current administrative issues means we do not consider this option further as part of this work
Means- or needs-testing	Means-test: Retain for more consideration Needs-test: Current administrative issues and policy uncertainty means we do not consider this option further as part of this work
Preserved rights	Limited financial benefit and cliff-edge issues mean we do not consider this option further as part of this work
Voluntary contributions	Current uncertainty and limited financial benefit mean we do not consider this option further as part of this work

Source: *Frontier Economics*

## 4 ALLOW THE CONCESSION TO LAPSE WITHOUT REPLACEMENT

### Economic rationale

Under this option, all current recipients of the over-75s concession and new applicants would have to pay full price (currently £150.50) for a television licence.

The key economic arguments surrounding the over-75s concession were discussed in Chapter 2. Equity-based arguments were used to justify the concession when it was first introduced. This rationale appears to have weakened since the concession was introduced, a trend which looks set to continue. Television may be a means for social integration and companionship amongst those who are both vulnerable to loneliness and isolation, and would not be able to afford to pay for a licence, though the evidence on the size and scale of these positive effects is limited. Overall, the limited economic rationale for a concession at the time of its introduction may well give a rationale for not replacing the current concession. Indeed, as noted by the Institute for Fiscal Studies (Adam et al., 2012), if public service broadcasting is to be funded via a television licensing system there seems little rationale for excluding those aged 75 and over from having to pay.

It is also true that, in general, the case for giving financial support in cash is stronger than in kind (Adam et al., 2012). Had the government continued to fund the concessionary licence and then decided to remove it, the savings could have been used to compensate those affected with other support through the existing tax and benefits system. The BBC, of course, has no such way to directly compensate those affected.

### Financial impact

We estimate that the cost of reinstating the concession in 2021/22 (assuming no reform) would be £745 million. If the current concession is not replaced with any concessionary scheme, we estimate that the residual costs which must be met by the BBC will amount to £72 million in year 1. This is 10% of the cost of reinstating the current concession (Figure 18).

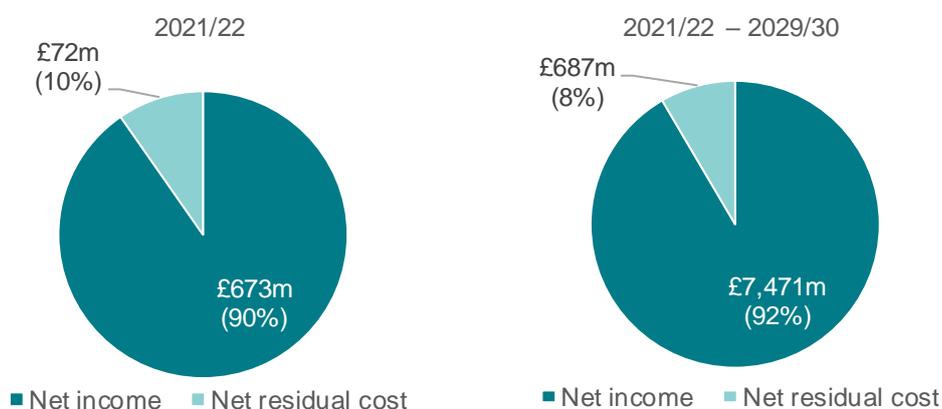
The residual costs fall into the following categories:

- initial start-up costs of communicating the change and systems changes;
- costs of contacting over-75s each year to seek payment;<sup>34</sup>
- costs of handling enquiries; and
- potential compliance issues as well as certain individuals choosing to no longer watch live television because of the cost.

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<sup>34</sup> At present, households paying the licence fee are contacted annually by the BBC when the cost of the licence fee changes to inform them of the change and (where needed) seek payment. Over-75s, in receipt of a full concession, are not contacted.

**Figure 18 Financial impact of non-replacement of current concession, in 2021/22 and over the period 2021/22 – 2029/30**



Source: FRS, BBC, ONS. Frontier calculations

Note: Income is net of implementation costs. %'s are relative to estimated cost of reinstating current concession.

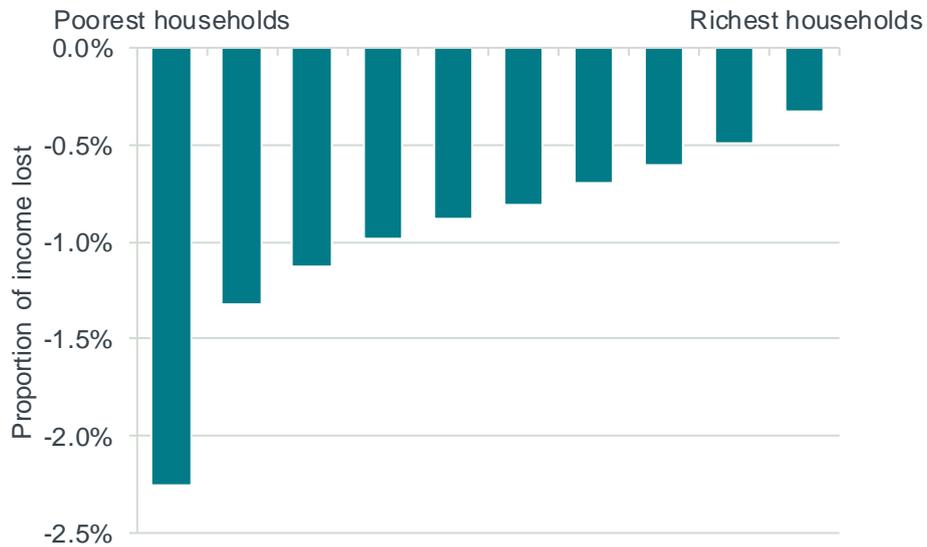
Without reform, we estimate the total cost of the concession over the period 2021/22 to 2029/30 would be approximately £8.16 billion. Allowing the current concession to lapse without introducing any new concession would result in the BBC incurring a cumulative cost of £687 million over that period. This is 8% of the cost of reinstating the current concession. Again, the residual cost reflects implementation costs. The residual cost is smaller as a share of the total cost over the whole period (relative to 2021/22) as the one-off implementation costs are not repeated in future years.

## Distributional impact

Allowing the current concession to lapse without introducing any new concession does not improve targeting of resources as every household in the over 75 population will lose a fixed cash amount (£150.50 per year at present).

In cash terms, the associated losses will be spread equally across over-75 households. However, as a *proportion of income* losses are larger for poorer households. Implemented today, this option costs on average 2.3% of income in the poorest decile of over-75s, compared with 0.3% for the richest 10% (Figure 19). The reform would be regressive; the losses would be relatively small on average but clearly larger than those associated with retaining a universal 50% concession for over-75s (see Chapter 5).

**Figure 19** Distributional effect of non-replacement of current concession, introduced today (based on household income deciles among over-75 population)



Source: FRS, Frontier calculations

Note: Income deciles are within the over-75s population

## Feasibility

It would in principle be relatively straightforward not to introduce any replacement concession.

All those currently receiving a concessionary licence would become fee-paying households again or would choose not to watch television. Relatively minor changes to systems would be needed, though all those currently in receipt of a concessionary licence would need to be contacted and asked to start paying again, and there would be a risk of some non-compliance. The costs of processing additional licence fee payments and handling enquiries from the group who have lost eligibility would be partly offset by no longer having to process claims and renewals for the over-75s concession.

## Overall evaluation

**Figure 20 Overall evaluation: non-replacement of the over-75s concession**

<b>Non-replacement of the concession</b>	
Economic	Relatively weak initial economic rationale and equity rationale has weakened over time.
Financial	We estimate that the residual cost to the BBC is 10% as much as that of reinstating the current concession in 2021/22.
Distributional	This reform would have a small regressive impact among over-75 population (but a larger regressive impact than other options), and does not improve targeting.
Implementation	Relatively straightforward, though existing recipients will need to be contacted and asked to pay.

## 5 CHANGING THE VALUE OF THE CONCESSION

### 5.1 A 50% licence fee for over-75s

#### Economic rationale

Under this reform, those over-75s currently receiving a concessionary licence and new applicants would instead receive a 50% discount. At present, this corresponds to a £75.25 fee for a colour licence.

A universal, but partial, concession allows all over-75 households to continue to benefit from discounted viewing. To the extent that equity and efficiency rationales for offering the concession in the first place continue to hold, they would also apply to a partial discount. A partial discount would seek to balance offering broad-based support to older households – who may be more vulnerable to loneliness and rely more heavily on BBC content – against the costs of reinstating a full concession to all over-75s.

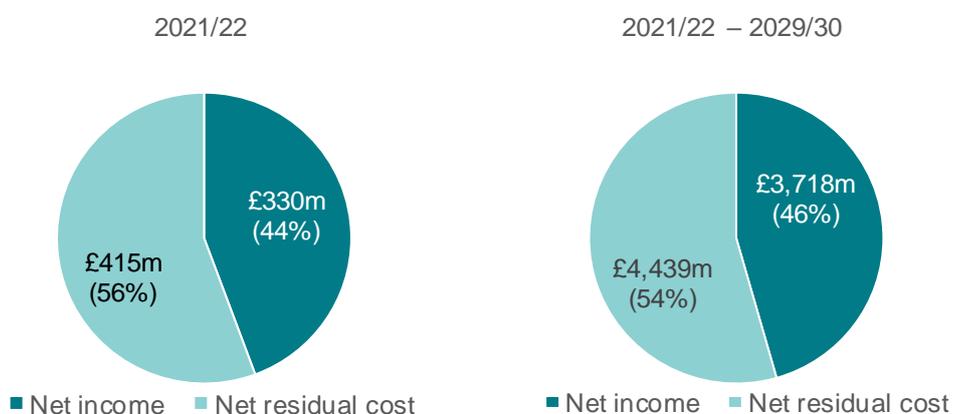
There is a precedent for discounted licence fees for certain groups. Licence holders with severely impaired vision also receive a 50% concession on the cost of the licence fee, as they cannot derive the full benefit from watching television.

#### Financial impact

If over-75s received a 50% discount rather than a full concession, we estimate that the cost to the BBC would be around £400 million in 2021/22. This is 56% of the cost of reinstating the current concession (Figure 21). Administration and implementation costs incurred by the BBC explain why this residual cost is not simply 50% of the cost of reinstating the current concession.

If the concession is halved, our modelling estimates that the cumulative costs between 2021/22 and 2029/30 amount to around £4,061 million, 54% of the cost of reinstating the current concession (Figure 21).

**Figure 21** Financial impact of a 50% discount for all over 75s in 2021/22 and over the period 2021/22 – 2029/30



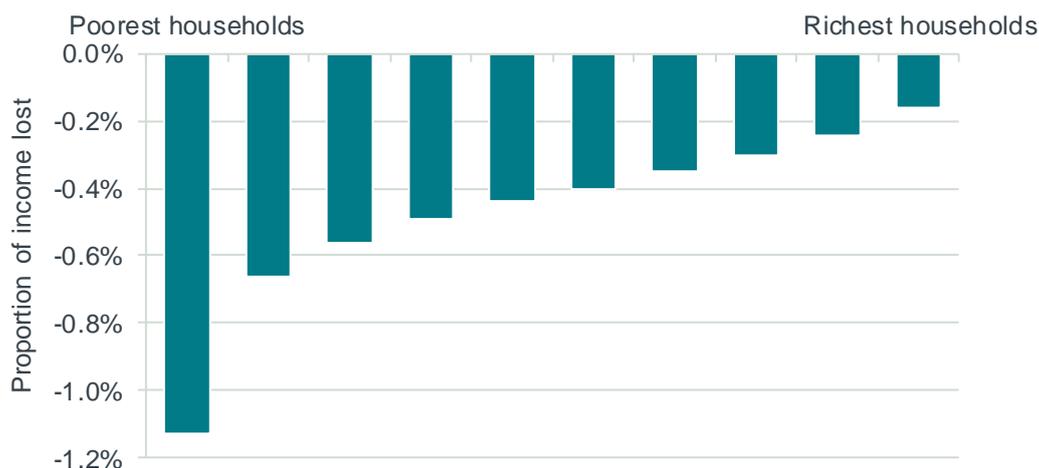
Source: FRS, BBC, ONS. Frontier calculations

Note: Income is net of implementation costs. %'s are relative to estimated cost of reinstating current concession.

### Distributional impact

Reducing the concession size by 50% does not improve the targeting of the concession. Every household in the over 75 population will lose a fixed cash amount (£75.25 per year at present).<sup>35</sup> In cash terms, then, the associated losses will be spread equally across over-75 households.

**Figure 22** Distributional effect of a 50% discount, introduced today (based on household income deciles among over-75 population)



Source: FRS, Frontier calculations

Note: Income deciles are within the over-75s population

However, as a proportion of income losses are larger for poorer households. Implemented today, this option costs on average 1.1% of income in the poorest

<sup>35</sup> Some households will lose a smaller amount – e.g. those with a black and white licence. We assume for modelling purposes that all households have a colour licence.

decile of over-75s, compared with 0.2% for the richest 10%. The reform would be regressive, but the losses would be relatively small on average (Figure 22) and smaller than those associated with not introducing any replacement for the concession at all (see Chapter 4).

## Feasibility

Reducing the concession to a 50% discount requires that all those currently receiving a concessionary licence become fee-paying households again, albeit at a reduced rate relative to all other households, or choose not to watch television. All those currently in receipt of a concessionary licence would need to be contacted and asked to start paying again, and there would be a risk of some non-compliance. The costs of processing additional licence fee payments and handling enquiries from the group who have lost part of their concessionary licence would be partly offset by no longer having to process claims and renewals for the over-75s concession.

In addition, if the BBC were to continue using DWP data to identify eligible individuals under this reform, new secondary legislation would be needed. This is because moving to a discounted licence would represent a change of purpose for data access relative to the current situation. The alternative would be for BBC to develop their own verification procedure, which may be costly.

## Overall evaluation

**Figure 23 Overall evaluation: offer 50% discount to over-75s**

<b>Offer a 50% discount to over-75s</b>	
Economic	To the extent that equity and efficiency rationales for offering the concession in the first place continue to hold, they would apply to a partial discount. There is already a precedent for certain groups receiving a 50% licence fee discount.
Financial	The residual cost to the BBC is 56% as much as that of reinstating the current concession in 2021/22.
Distributional	This reform would have a relatively small regressive impact on average among over-75 population and does not improve targeting.
Implementation	All individuals currently receiving the concession would have to be contacted and asked to pay. Continued use of DWP data would require secondary legislation as the data would now be used to award discounted licences rather than concessionary licences.

## 6 INCREASING THE AGE THRESHOLD

We explore two specific variants of this reform:

- An increase in the age threshold to 77; and
- An increase in the age threshold to 80.

Under these variants, individuals who currently receive the concession but have not yet reached the new threshold would lose eligibility. Those under 75 would also have to wait longer to receive the concession. However above the new threshold, a full concession would continue to be offered and the concession would be available when any household member reached the new qualifying age.

### 6.1 Increase age threshold to 77

#### Economic rationale

As shown in Figure 9 and Figure 10, life expectancy and healthy life expectancy at older ages have increased by around two years since the concession was introduced. On this basis there is a case to increase the age threshold by a similar amount. Increases in longevity have already been reflected in policy reform, most notably the State Pension Age.

One relative weakness is that it would introduce an entirely new qualifying age into the pensioner benefits system and therefore potentially misses an opportunity to make the concession more coherent and externally consistent. This reflects that the original threshold of 75 was somewhat arbitrary, such that a new threshold of 77 would also be somewhat arbitrary.

#### Financial impact

Raising the age threshold to 77 leads to a residual cost in 2021/22 of £645 million. This is 87% of the cost of reinstating the current concession. A similar pattern can be seen over the period 2021/22 to 2029/30 (Figure 24).

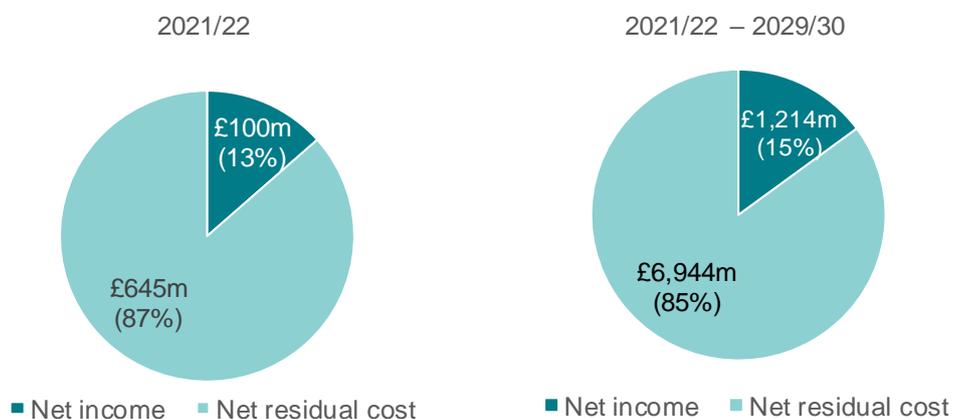
The vast majority of households containing someone older than 75 also contain someone over the age of 77. As a result, relatively few households would lose the concession from this reform and the residual costs are correspondingly high – very close to the cost of simply re-instating the concession in its current form.

#### Distributional effects

Given the relatively high residual costs for the BBC, the distributional effects are relatively small. Under this reform, the poorest tenth of over-75 households measured by income lose 0.3% of income on average, compared with 0.1% for the richest 10%. This is slightly regressive but the magnitude of these effects is small (Figure 25).

There would also be no meaningful change to the targeting of the concession. Using income to define richer and poorer households, 18% of those in the bottom and top decile retain the concession (Figure 26).

**Figure 24 Financial impact of increasing the age threshold to 77, in 2021/22 and over the period 2021/22 – 2029/30**



Source: FRS, BBC, ONS. Frontier calculations

Note: Income is net of implementation costs. %'s are relative to estimated cost of reinstating current concession.

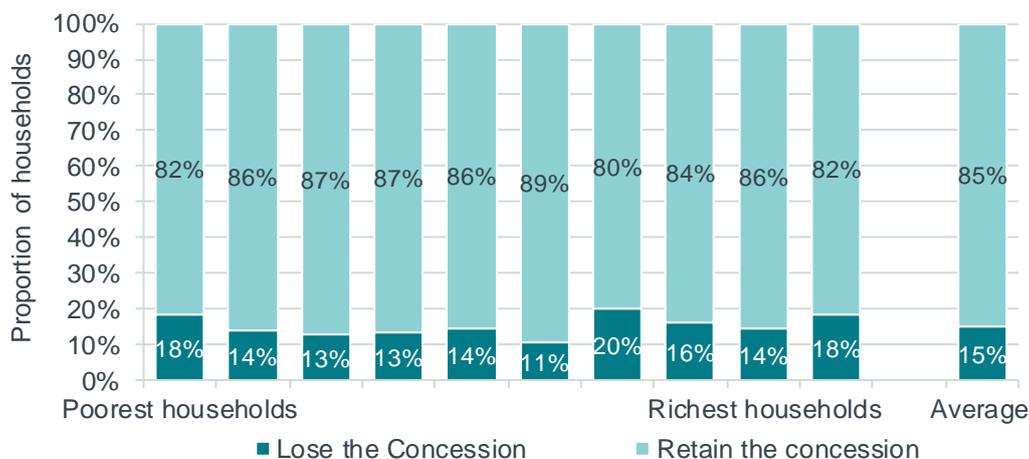
**Figure 25 Current distributional impact of raising age threshold to 77 (income)**



Source: FRS, Frontier calculations

Note: Income deciles are within the over-75s population

**Figure 26 Targeting impact of restricting concession to those over-77 (income)**



Source: FRS, Frontier calculations

Note: Income deciles are within the over-75s population

## Feasibility

Raising the age threshold does not lead to major implementation issues: the same DWP data can be used to verify date of birth so there would be no significant changes to existing processes. The key change is that current recipients of the concession aged 75 or 76 would have to be contacted and asked to start paying again, leading to administrative and compliance costs.

## Overall evaluation

**Figure 27 Overall evaluation: raise age threshold to 77**

### Increase age threshold to 77

Economic	Life expectancy at older ages has risen and qualifying age for other pensioner benefits is rising. However, this is based on the initial choice of 75 which was chosen somewhat arbitrarily.
Financial	We estimate that the residual cost to the BBC is 87% as much as that of reinstating the current concession in 2021/22.
Distributional	Slightly regressive but the impacts are, on average, very small. No meaningful improvement in targeting on poorer households.
Implementation	No significant implementation issues.

## 6.2 Increase age threshold to 80

### Economic rationale

As discussed above an increase in the age threshold is justified on the basis of increased longevity. In addition, increasing the age threshold to 80 would make the concession more consistent with other pensioner benefits and would eliminate the arbitrary threshold of 75 which does not feature as a qualifying age

in any other policy. Specifically, it would make the concession consistent with the following:

- The ‘over 80 pension’ which ensures that over-80s receiving a Basic State Pension of under £75.50 per week (2018/19) receive this amount;<sup>36</sup> and
- Over 80s receive an increase of either £50 or £100 per household in Winter Fuel Payments depending on their circumstances.<sup>37</sup>

Finally, as we illustrated in Chapter 2 individuals aged over 80 are more likely to live alone (49%) than individuals aged 75 and above (41%). Therefore, this variant could help to target the concession on those who are most reliant on television for companionship.

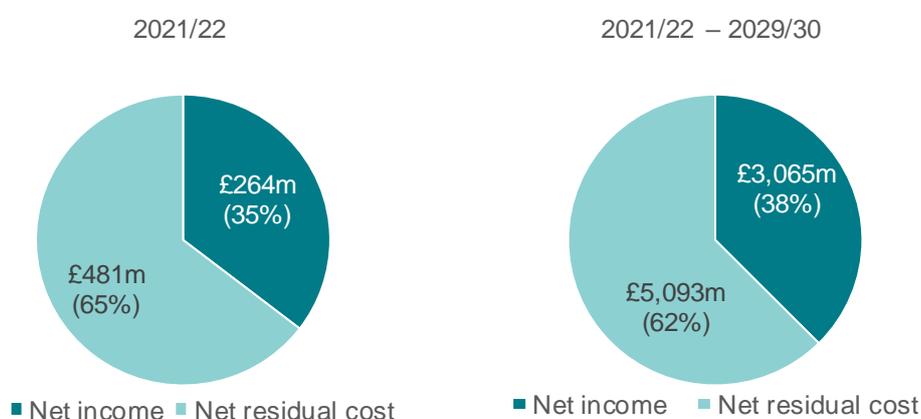
## Financial impact

Raising the age threshold to 80 considerably reduces the number of eligible households and results in a concession less costly to the BBC than increasing the age threshold to 77.

Our modelling suggests that in 2021/22 an over-80s concession would have a residual cost of £481 million. This is 65% of the cost of reinstating the current concession.

The equivalent figure for the period 2021/22 to 2029/30 is 62% (Figure 28).

**Figure 28 Financial impact of increasing the age threshold to 80, in 2021/22 and over the period 2021/22 – 2029/30**



Source: FRS, BBC, ONS. Frontier calculations

Note: Income is net of implementation costs. %'s are relative to estimated cost of reinstating current concession.

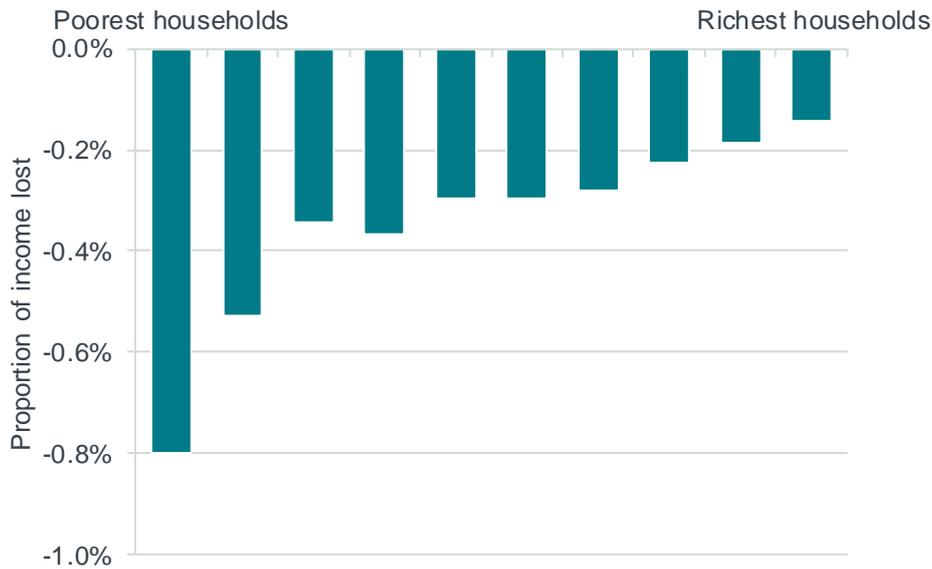
## Distributional impact

This reform, introduced today, would be more clearly regressive than the increase to 77: the poorest 10% of over-75 households would lose 0.8% of income on average, compared with 0.1% for the richest 10% (Figure 29).

<sup>36</sup> <https://www.gov.uk/over-80-pension>

<sup>37</sup> <https://www.gov.uk/winter-fuel-payment/what-youll-get>

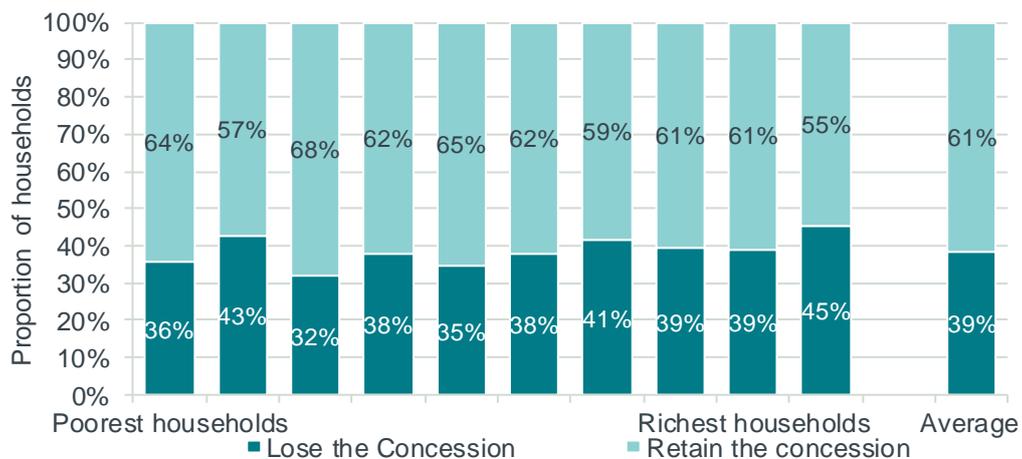
**Figure 29 Current distributional impact of raising age threshold to 80 (household income basis)**



Source: FRS, Frontier calculations  
 Note: Income deciles are within the over-75s population

On average, slightly more households in the bottom half of the over-75s income distribution would retain the concession under this reform than in the top half (Figure 30), but there would not be a significant improvement in targeting the concession on poorer households. 36% of households in the poorest income decile would lose the concession under this reform were it implemented today, compared with 45% in the richest decile and 39% overall. However there is variation across deciles – for example, 43% of those in the *second* poorest decile would lose it.

**Figure 30 Targeting impact of restricting concession to those over-80 (income)**



Source: FRS, Frontier calculations.  
 Note: Income deciles are within the over-75s population

## Feasibility

Raising the age threshold does not lead to major implementation issues: the same DWP data can be used to verify date of birth so there would be no significant changes to existing processes. The key change is that current recipients of the concession aged 75 to 79 would have to be contacted and asked to start paying again, leading to administrative and compliance costs.

## Overall evaluation

**Figure 31 Overall evaluation: raise age threshold to 80**

<b>Increase age threshold to 80</b>	
Economic	Life expectancy at older age has risen. 80 is consistent with other variations in the benefit system. Over 80s are more likely to live alone relative to over 75s.
Financial	We estimate that the residual cost to the BBC is 65% as much as that of reinstating the current concession in 2021/22.
Distributional	Regressive but the impacts are, on average, relatively small; no significant change in targeting.
Implementation	No significant implementation issues

## 7 MEANS-TESTING THE CONCESSION

We examine two variants of this reform:

- Link eligibility to receipt of Pension Credit and maintain the current age threshold of 75;
- Link eligibility to receipt of Pension Credit and reduce the age threshold to the State Pension Age.

### 7.1 Means-testing with threshold at age 75

#### Economic rationale

The economic arguments behind means-testing previously universal benefits centre on targeting resources more effectively on those who need them most. If the vast majority of richer, older households value television sufficiently to pay the licence fee if asked to do so, there is an element of ‘deadweight’ cost to a benefit that does not affect the behaviour or living standards of those recipients in a material way.

A number of economic commentators have called for means-testing of the over-75s concession using Pension Credit. For example, an IFS report (Adam et al., 2012) examining ways to pay for the Dilnot Commission recommendations on funding of personal care costs concluded that means-testing the concessionary licence would be part of an overall package to:

*“... make the tax and benefit system for those above state pension age more coherent.”*

In addition, concessionary television licences for over-75s are means-tested by the government in Jersey.<sup>38</sup> The means-test in Jersey is based on a specific income threshold. Using a direct income based means-test in the current context is not practical due to data limitations. Policy has also changed in Guernsey: since 2016, only over-65s in receipt of means-tested benefits (Supplementary Benefit) have been able to receive a concessionary licence. Before then, all those over-75 and those over-65 receiving Supplementary Benefit were eligible. However existing recipients were able to retain the concession.<sup>39</sup>

The decision to eliminate the universal aspect of this benefit in Guernsey was taken because age was no longer judged to be an indicator of low income, and because the universal policy was seen as providing free TV licences to many people who could better afford to pay than some who did not receive a concessionary licence.<sup>40</sup>

<sup>38</sup> See <https://www.gov.je/Benefits/PensionsRetirement/Pages/TVLicencesOver75.aspx>. The Channel Islands and Isle of Man are able to set independent policy on concessionary licences.

<sup>39</sup> <https://www.gov.gg/article/155441/TV-licenses-for-over-75s-will-be-closed-to-new-entrants>

<sup>40</sup> See <http://www.gov.gg/CHttpHandler.ashx?id=98327&p=0>, p 2831

The government in the UK has also recently introduced a means-test for Child Benefit, which had previously been a universal benefit for households with dependent children. Evidence on this reform is discussed in the box below.

#### Case study: means-testing Child Benefit

There is a recent precedent for introducing a means-test to a previously universal benefit. Child Benefit was reformed in January 2013 from a universal non-taxable cash payment for families with children, to a means-tested benefit.

It was initially proposed that the benefit would be withdrawn completely from families with a higher rate taxpayer. The original policy attracted criticism due to the inequities and inefficiencies created. Analysis by the IFS demonstrated how 17,000 families could increase their net income if the highest earner in that household was able to reduce their taxable income (Brewer and Joyce, 2012). There was also a perceived inequity associated with conducting a means-test on the basis of individual, as opposed to family income.

The policy was later amended so that Child Benefit is withdrawn gradually at a rate of 1% for each £100 of income above £50,000 a year (income here refers to the highest individual earner in the household) (Kennedy, 2012). Tapering the benefit in this way implies that anyone earning over £60,000 would not be entitled to any Child Benefit. The revised reforms avoided the ‘cliff-edge’ issue that would have been associated with removing the benefit as soon as someone became a higher-rate income taxpayer. However, concerns remained that a couple who both earned slightly less than £50,000 would escape any loss, while another where one partner had no earnings but another earned £60,000 would lose eligibility.

In addition to criticisms around the specifics of the policy there was a mixed reaction to the broader logic behind means-testing of universal benefits. There was an acceptance that generous welfare spending may no longer be possible. For example, Chief Executive of Barnardos Martin Narey referred to universal benefits as “an unaffordable luxury” (Cawston, 2015).

One insight from the Child Benefit example is that means-testing based on receipt of Pension Credit would create a ‘cliff-edge’ under which marginal changes to household income would mean some households gain or lose the entire cost of the concessionary licence. This is an inevitable consequence of a passporting approach based on receipt or non-receipt of another benefit, though the numbers involved are likely to be quite small and the administration and enforcement costs of trying to ‘taper’ the amount received based on actual income would be much too large to justify attempting to overcome the cliff-edge issue.

As discussed in Chapter 3 there is precedent for using means-testing and passporting even for schemes not administered by government. Specifically Pension Credit is used as a passport to eligibility for the Warm Home Discount (WHD) scheme which provides a £140 rebate on electricity bills to households who may need help paying their energy bills (Ofgem, 2018). WHD is administered by energy suppliers. The Warm Home Discount (WHD) scheme began in April 2011 and is due to run until at least 2020/21 (Hough, 2016).

More recently, the 2017 Conservative Manifesto included plans to means-test the largest one-off benefit paid to pensioners, Winter Fuel Payments.<sup>41</sup> While there was no detail provided about how this means-test would work (for example, whether it would be based on Pension Credit or some other threshold), the stated goal was to target help where it is needed most and focus assistance on the least well-off pensioners. To date this policy has not been implemented.

### Eligibility for and take-up of Pension Credit

Pension Credit is a means-tested benefit which ensures that older households receive at least some minimum level of income per week. It is assessed against the income of single recipients or the joint income of couples.<sup>42</sup> In our analysis, we assume that where one member of a couple is receiving the benefit and is age-eligible the licence would be taken in their name for the whole household.

### Characteristics of those in receipt of Pension Credit

According to 2016/17 Family Resources Survey, households with a Pension Credit recipient aged 75 or over have net weekly incomes (adjusted for household composition and before housing costs) of £359 per week. This compares with £452 for all households with someone aged 75 or over, and £543 for all households (DWP, 2018 B).

Among all Pension Credit recipients, the average amount received is £56 per week (DWP, 2017). 78% of all claimants have been in receipt of Pension Credit for at least five years, suggesting that relatively few households would move into and out of eligibility for a concessionary licence should it be means-tested (DWP, 2018 F).

Among all those receiving Pension Credit, 56% are single females, 23% are single males and the remaining 21% are couples (DWP, 2017).

We carried out a detailed literature review and analysed survey data to identify some characteristics of those in receipt of Pension Credit and consider evidence relating to eligibility, take-up rates and misreporting. Our full review is given in Annex D. In summary, our findings indicate that:

- the less well-off have higher levels of eligibility, which suggests that Pension Credit is a suitable passporting benefit: those who do not own their own home and those without any investments are more likely to be eligible;
- take-up rates of Pension Credit are also generally higher among lower-income households, lower for more affluent pensioners, lower for those who own their own homes;
- irrespective of income, older households are less likely to claim than younger pensioner households; and
- lack of information, inertia and forgetfulness are cited as reasons for non-take up.

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<sup>41</sup> <https://www.conservatives.com/manifesto>

<sup>42</sup> Specific income thresholds for individuals and couples are discussed in Chapter 3.

There is also evidence from the literature of widespread misreporting of Pension Credit receipt in household survey data, particularly amongst low income pensioners, which means distributional analysis of the reform will probably underestimate any progressive impact. For example, Brewer and O’Dea (2012) point to particular difficulties with interpreting measured income among the poorest 2% to 3% of households. They find that other measures of living standards, such as household expenditure, are much higher for this group than would be expected based on observed income. They conclude that this is highly likely to be driven by under-reporting of income from state benefits.<sup>43</sup> For this reason when exploring the distributional impact of linking to Pension Credit, we also carry out additional analysis based on household expenditure data.

## Financial impact

### The effect of take-up assumptions

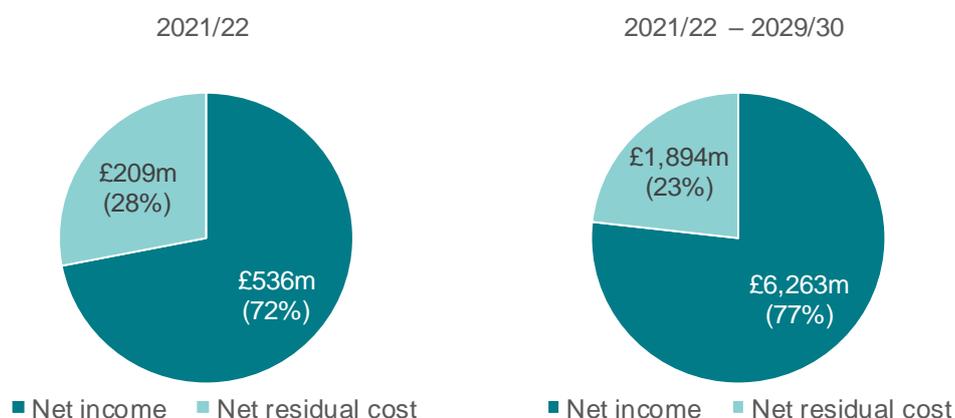
To estimate the financial impact of means-testing, we needed to consider not only how many households would retain the concession, but also whether some of those currently not taking up Pension Credit would decide to do so once it was a passport to a concessionary licence. Around 40% of eligible over-75s do not claim (DWP, 2017). If passporting reduced this, the cost of the means tested concession would be higher than if we assume no effect.

It is hard to evidence what the precise impact on take-up of an effective increase in the rate of Pension Credit of around £3 per week (roughly the current weekly cost of the licence fee) would be, though a body of evidence shows that increasing take up of Pension Credit is extremely challenging and is little affected by a range of different incentives (for example, Radford, 2012). We therefore present our forecasts assuming no increase in take-up of Pension Credit. If take-up rose significantly among over-75s, our estimate of the concession cost would rise.

If eligibility for the concession is linked to receipt of Pension Credit and the age threshold remains unchanged, we estimate that after accounting for additional administration and compliance costs, the cost would be around £209 million. This is 28% of the cost of reinstating the current concession in 2021/22 (Figure 32).

<sup>43</sup> These findings relate to all households, not over-75s alone. An alternative explanation is that very low income households are experiencing short-term shocks to their income, but are able to use savings or borrowing to ‘smooth out’ their spending. This is less likely to be an issue for over-75s where incomes are more stable.

**Figure 32 Financial impact of linking to Pension Credit and maintaining age threshold, in 2021/22 and over the period 2021/22 – 2029/30**



Source: FRS, BBC, ONS, DWP. Frontier calculations

Note: Income is net of implementation costs. %'s are relative to estimated cost of reinstating current concession.

The cumulative cost as a proportion of the cost of reinstating the current concession is lower at 23%. This is primarily because the caseload of Pension Credit is predicted to fall over time.<sup>44</sup>

## Distributional impact

The distributional analysis we present in relation to the means-testing variants was calculated both on the basis of income and expenditure.<sup>45</sup> Our analysis suggests that a means-test implemented today with the current age threshold would lead to average losses of 2.1% of income among the poorest decile of over-75s (measured by income) compared with 0.3% in the richest decile (Figure 33). The reform on the face of it would be regressive as the losses would be much larger in the bottom decile than any other decile. On an expenditure basis this is mitigated somewhat: the poorest decile by spending would lose around 1.4% of income on average compared with 0.6% for the richest decile.

<sup>44</sup> See Chapter 3.2 for more detail.

<sup>45</sup> Expenditure may be a better measure of living standards for poor households than income. However, the 2016/17 wave of the FRS sampled 2,991 households containing someone over the age of 75. The equivalent figure for the LCFS is only 727. As a result we would expect the FRS to be subject to less random variation.

**Figure 33** Current distributional impact of linking to Pension Credit and maintaining age threshold (household income basis and household expenditure basis)

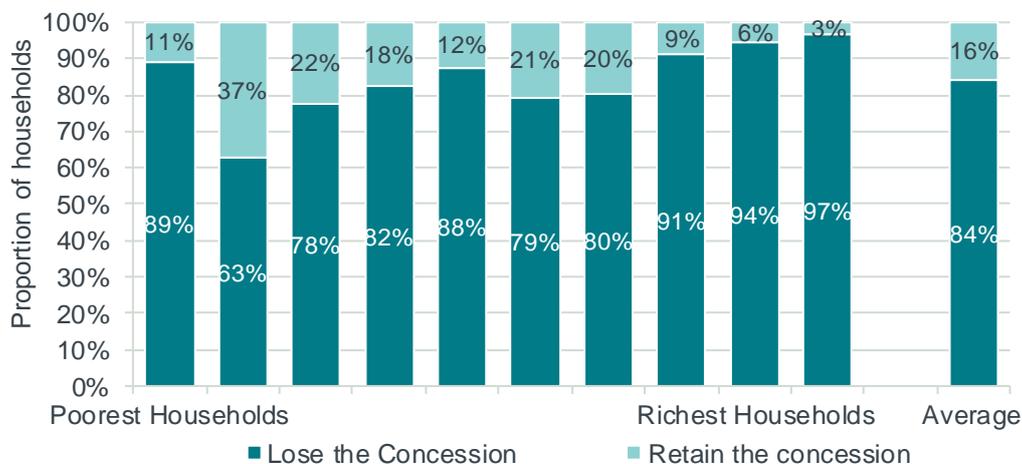


Source: FRS, LCFS, Frontier calculations  
 Note: Deciles are within the over-75s population

Overall, means-testing amongst over-75s is less regressive than allowing the concession to lapse without introducing any replacement, as many poorer households retain the concession reflecting the improved targeting from means-testing. Defining living standards on an income basis, 37% of households in the second-poorest income decile would retain the concession under means-testing compared with just 3% in the richest decile and 16% overall. However only 11% would retain the concession in the poorest income decile (Figure 34).

However on a household spending basis, there is a much clearer gradient between living standards and retaining the concession: 26% of households in the poorest expenditure decile retain the concession compared with just 2% of those in the richest decile (Figure 35).

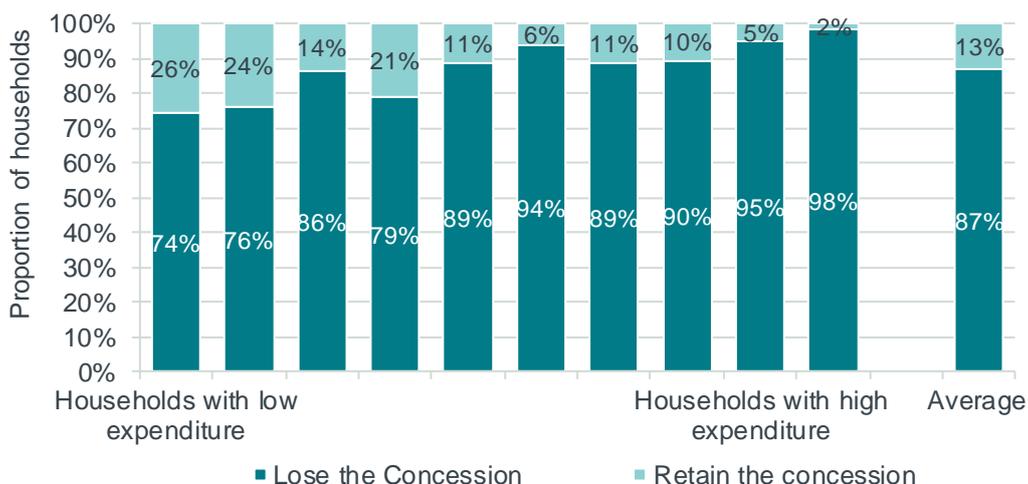
**Figure 34 Targeting impact of linking to Pension Credit and maintaining age threshold (income)**



Source: FRS, Frontier calculations

Note: Income deciles are within the over-75s population

**Figure 35 Targeting impact of linking to Pension Credit and maintaining age threshold (expenditure)**



Source: LCFS, Frontier calculations

Note: Income deciles are within the over-75s population

In addition, both the FRS and LCFS substantially understate the extent to which over-75s receive Pension Credit. Based on DWP administrative data, we estimate that around 24% of over-75 households should receive Pension Credit, even allowing for non-take-up. Observed take up rates, however, are just 16% in the FRS and 13% in the LCFS among this age group. This is broadly consistent with an analysis conducted by the IFS which found that the FRS was only recording 59% of total Pension Credit expenditure (Belfield et al., 2015).<sup>46</sup>

Therefore, retention rates across all deciles for the concessionary licence fee would be materially higher if the reform were means-tested today than is implied

<sup>46</sup> Not restricted to over-75s but based on all Pension Credit recipients. Note that our overall estimates of financial impact associated with means-testing are based on administrative estimates of take-up, rather than survey-based estimates, so should not be affected by these problems with the survey data.

by our analysis. Also, due to misreporting it is likely that the additional retention would be disproportionately focused amongst those in the poorest deciles. However, it is very difficult to quantify this effect precisely.

The reason why there are a small number of Pension Credit recipients among the richest over-75 households is that eligibility for Pension Credit is assessed at the benefit unit (single or couple) level, not the household level. If, for example, an older individual with a low income lived with one of their children who had a high income, they could still be eligible for Pension Credit. Similarly, some of the households in the bottom of the over 75s income distribution will not contain an individual eligible for Pension Credit, as the elderly resident may have a relatively high income while the other residents do not.

## Feasibility

If the BBC implements a means-test based on receipt of Pension Credit (while maintaining the current age threshold) there would be two broad implementation options:

- Link to additional DWP data for external verification; or
- Carry out internal verification of eligibility.

The first would involve DWP verifying eligibility. This would require changes to the current data-sharing agreement between the BBC and DWP which allows the BBC to check eligibility based on age using a National Insurance Number. This relies on cooperation from Parliament and DWP. Our discussions with DWP on the feasibility of linking the National Insurance Number to an additional flag for whether the individual is in receipt of Pension Credit suggest this would be feasible, at relatively modest cost. DWP already uses Pension Credit data to determine eligibility for the Warm Home Discount scheme, so the precedent exists.

Under this approach there will be some extra charges from DWP as one-off start-up costs of the additional data sharing, and other one-off costs such as adapting the current legal framework. There may be costs associated with DWP guiding the BBC through the more complex data and DWP fielding an increased volume of enquiries. These have not been included in the modelling as their precise extent is unclear.

The alternative is for the BBC to verify eligibility internally. Under this approach individuals would have to submit documentary proof of their eligibility to the BBC. Manual processing and handling of these submission is likely to be time consuming and costly.

Even if DWP can carry out initial verification of eligibility there is likely to be a proportion of individuals who cannot be matched to the relevant database who may need to be matched manually.

Because entitlement to Pension Credit can change over time, the BBC would need to determine precisely how the means-test would work. Normally, a 'qualifying week' is chosen such that households receiving Pension Credit in that week are then deemed eligible for passported benefits (this is the case for Warm Home Discount). More than one qualifying week could be chosen, such that

those in receipt of Pension Credit in the most recent qualifying week before they apply for or renew a concessionary licence would be deemed eligible.

Those currently in receipt of a concessionary licence would need to be contacted and asked to verify their eligibility based on receipt of Pension Credit (though the BBC may be able to automate this to some extent based on DWP data, only contacting those believed ineligible). There may also be additional compliance issues resulting from introducing a means-test. We have allowed for a certain proportion of appeals in our modelling using BBC data to estimate the cost.

The costs of processing additional licence fee payments and handling enquiries from the group who have lost eligibility would be partly offset by no longer having to process claims and renewals for the over-75s concession.

## Overall evaluation

**Figure 36 Overall evaluation: means-testing the concession by linking to Pension Credit while maintaining current age threshold**

<b>Means-test with Pension Credit and maintain threshold at age 75</b>	
Economic	Low income households are less able to pay for a television licence. Pension Credit already used as a passport benefit. However there is high non-take up.
Financial	We estimate that the residual cost to the BBC is 28% as much as that of reinstating the current concession in 2021/22. This assumes that Pension Credit take up does not change due to introduction of this policy. Costs will fall over time if the Pension Credit caseload falls as projected by DWP.
Distributional	Improves targeting, particularly using spending to judge relative living standards. On average still a larger relative cost for the poorest households but data constraints make definitive judgement of this difficult.
Implementation	Assuming parliamentary and DWP cooperation, it will be relatively straightforward to link to additional DWP information, though there will be some additional operating costs. BBC could also verify eligibility internally although this may be costly.

## 7.2 Means-testing with threshold at State Pension Age

### Economic rationale

The second means-testing variant involves extending the concession to all Pension Credit recipients regardless of age. Anyone receiving a state pension is entitled to receive Pension Credit, provided their income is sufficiently low.

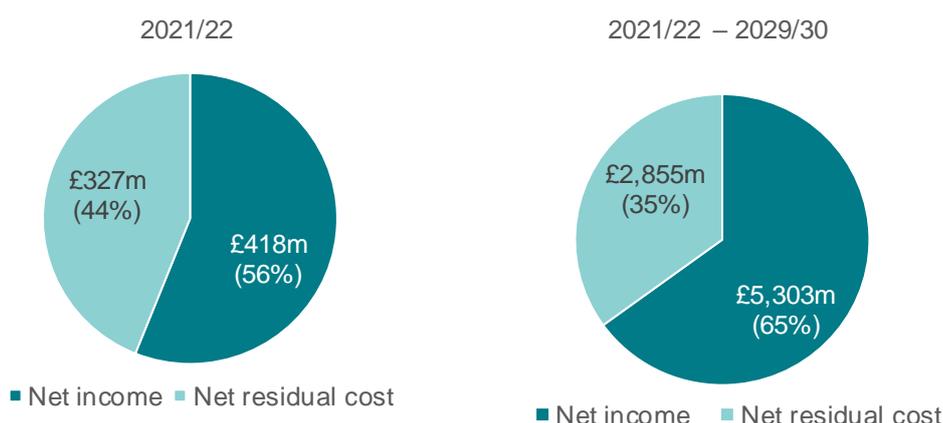
If this reform were introduced today all current recipients of the concession who do not receive Pension Credit would lose eligibility and all of those aged between 65 and 74 currently in receipt of Pension Credit (rising to 66 by October 2020) would gain eligibility.

This variant has the advantage of removing the current arbitrary threshold of 75 from the concession and extending eligibility to any pensioner who is judged by the government to be in need of additional support. This would provide a more coherent pattern of support to low income pensioners.

### Financial Impact

If eligibility for the concession is linked to receipt of Pension Credit and the age threshold falls to the State Pension Age, we estimate that, after accounting for additional administration and compliance costs, the BBC would face a cost of around £327 million. This is 44% of the cost of reinstating the current concession in 2021/22. The cumulative cost by 2029/30 would amount to around £2,855 million (Figure 37). The cost of this reform relative to the cost of replicating the existing the current concession falls over time, primarily because the caseload of Pension Credit is predicted to fall over time.

**Figure 37 Financial impact of linking to Pension Credit and reducing age threshold to 65 in 2021/22 and over the period 2021/22 – 2029/30**



Source: FRS, BBC, ONS, DWP. Frontier calculations

Note: Income is net of implementation costs. %'s are relative to estimated cost of reinstating current concession.

### Distributional impact

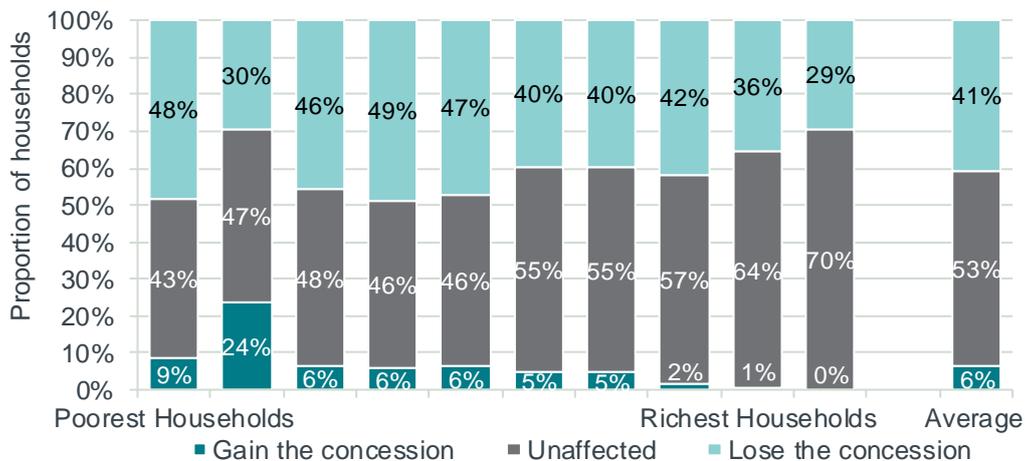
Taking only the current over-75 population, the distributional impact of this option would be the same as reported above for the means-testing option where the age threshold is unchanged, since the same population of over-75 households would retain or lose the concession. However the reduction in the eligible age to the SPA implies that some individuals aged 65 to 74 become eligible for a concessionary licence and so gain from the reform.

In Figure 38 below we illustrate the share of all households containing someone over the age of 65 which gain the concession (eldest resident is aged 65-74 and receives Pension Credit), the share who are unaffected (eldest resident is aged 65-74 and does not receive Pension Credit or eldest resident is 75+ and receives

Pension Credit) and the share who lose the concession (eldest resident is 75+ and does not receive Pension Credit).

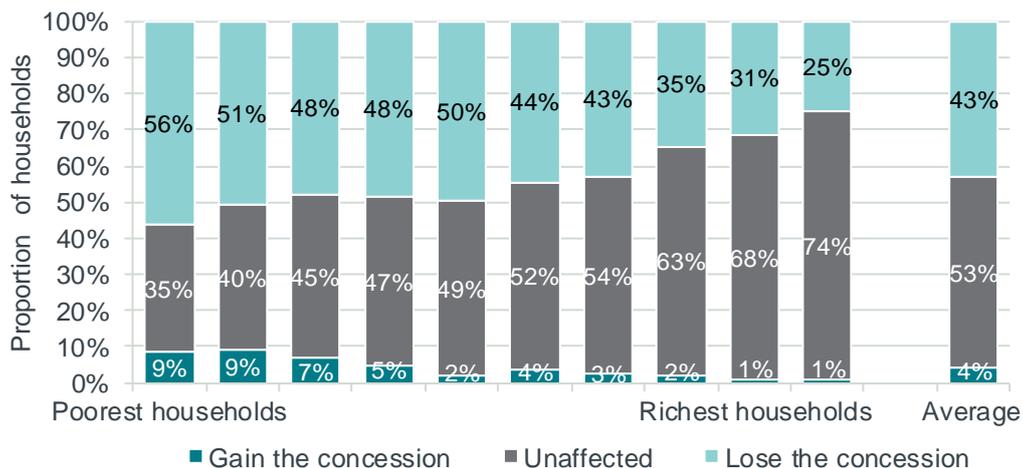
In Figure 39 we illustrate the same analysis when over-65 households are classified according to expenditure rather than income. Again 9% of all households containing someone over 65 in the poorest decile would become eligible for a concession among this age-group, compared with 1% in the richest decile.

**Figure 38 Targeting impact of linking to Pension Credit and removing the current age threshold, households containing someone aged 65+ (household income basis)**



Source: FRS Frontier calculations.  
 Note: Deciles are within the 65+ population

**Figure 39 Targeting impact of linking to Pension Credit and removing the current age threshold, households containing someone aged 65+ (household expenditure basis)**



Source: LCFS Frontier calculations.  
 Note: Deciles are within the 65+ population

When we examine the targeting impact of linking to Pension Credit regardless of age we see that a relatively high share of better-off households are unaffected relative to less well-off households. This is because households containing

someone aged between 65 and 74 have higher incomes on average than households containing someone over the age of 75 and cannot lose the concession as they do not enjoy it currently. However, these relatively well-off households are also considerably less likely to be in receipt of Pension Credit. Therefore as expected we also see that a higher proportion of relatively less well-off households gain the concession relative to richer households.

Specifically, we estimate that if this reform were introduced today, 9% of all households containing someone over 65 in the poorest income decile would become eligible for a concession among this age-group, compared with 24% in the second-poorest decile, less than 1% in the richest decile and 6% overall. Again, these figures should be treated with caution given difficulties with reported means-tested benefit receipt in household survey data.

In addition, we estimate that if this reform were introduced today, the average income loss in the poorest decile (as measured by income) would be around 1%; this compares with 0.1% in the richest decile (Figure 40). On an expenditure basis the poorest decile by spending would lose around 0.9% of income on average compared with 0.2% for the richest decile. These impacts are net as some households in each decile will experience an income gain and some will experience an income loss.

**Figure 40** Current distributional impact of linking to Pension Credit and removing the current age threshold, households containing someone aged 65+ (household income and expenditure basis)



Source: FRS, LCFS Frontier calculations.  
 Note: Deciles are within the 65+ population

## Feasibility

The same process described above in terms of linking to administrative data and possible BBC validation of eligibility would also apply to this variant.

One additional complication is that the introduction of Universal Credit (as a replacement for six working age benefits) means that both members of a couple

will now need to have reached Pension Credit age before they can make a claim.<sup>47</sup> Previously couples could be eligible for Pension Credit if only one member had reached the age threshold. This change will mean that some elderly couples with an age differential will be delayed in accessing a concessionary licence. The number of couples affected will be relatively small as only 20% of the total Pension Credit caseload is composed of couples (DWP, 2017) and the majority of those will contain two individuals above the State Pension Age.<sup>48</sup>

There may be some additional costs for this variant compared with the over-75 variant, as there would be a greater number of eligible older households where queries, checks and compliance issues would be faced.

## Overall evaluation

As above any Pension Credit means-test would clearly focus the concession on those older households who are more likely to find it difficult to pay. This variant has the additional benefit of extending the concession to all pensioners who are judged to be in need of support, rather than creating an arbitrary distinction at 75.

The difficulty around non-take up would still apply to this variant however.

The concession cost would be larger than linking to Pension Credit and maintaining (or increasing) the age threshold. However, the majority of the cost associated with replicating the current concession is avoided, which would help avoid a large reduction in BBC programming and services provision.

While there would be administrative complexities, it seems highly likely that the necessary data could be provided at reasonable cost by DWP.

There will still be some negative distributional consequences as some low income pensioner households are not in receipt of Pension Credit. However these would not be as pronounced as would be the case if the concession lapsed and no replacement was introduced.

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<sup>47</sup> <https://www.ageuk.org.uk/information-advice/money-legal/benefits-entitlements/changes-to-the-benefit-system/>

<sup>48</sup> This issue also applies to the other means-testing variant where an age threshold of 75 is used. However, it is likely to affect an even smaller number of potential claimants as almost all eligible couples will be over SPA.

**Figure 41 Overall evaluation: means-testing the concession by linking to Pension Credit while reducing age threshold to SPA**

<b>Means-test with Pension Credit and reduce threshold to SPA</b>	
Economic	Low income households are less able to pay for a television licence. Pension Credit already used as a passport benefit. However there is a high rate of non-take up. Improved coherence of overall support for low income pensioners.
Financial	We estimate that the residual cost to the BBC is 44% as much as that of reinstating the current concession in 2021/22. This assumes that Pension Credit take up does not change due to introduction of this policy. Costs will fall over time if the Pension Credit caseload falls as projected by DWP.
Distributional	Improves targeting, particularly using spending to judge relative living standards. On average still a larger relative cost for the poorest households but data constraints make definitive judgement of this difficult. Some gains for lower income younger pensioners.
Implementation	Assuming parliamentary and DWP cooperation, it will be relatively straightforward to link to additional DWP information, though there will be some additional operating costs affecting a larger group than a 75 threshold. BBC could also verify eligibility internally although this may be costly.

## 8 OVERALL SUMMARY OF OPTIONS

**Figure 42 Assessment of reform options examined in detail for further consideration**

	Allow the concession to lapse without any replacement	Alter the value of the concession: 50% discount	Age options		Means-testing options	
			Raise age threshold to 77	Raise age threshold to 80	Link to Pension Credit, age threshold 75	Link to Pension Credit, and reduce threshold to SPA
<b>Economic rationale</b>	Equity rationale has weakened; other rationales not very compelling.	Remaining equity / efficiency rationales would apply to partial discount.	Aligns with increased longevity and reforms to State Pension Age, but retains arbitrary threshold.	Better alignment with other benefits that begin at age 80. Over 80s are more likely to live alone than younger pensioners..	Low income households are less able to pay for a television licence. Pension Credit is government-defined measure of need.	Improves targeting and would better align with other benefits.
<b>Financial impact relative to reinstating the current concession</b>	We estimate that the residual cost to the BBC is 10% as much as that of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 56% as much as that of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 87% as much as that of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 65% as much as that of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 28% as much as that of reinstating the current concession in 2021/22.	We estimate that the residual cost to the BBC is 44% as much as that of reinstating the current concession in 2021/22.
<b>Distributional impact</b>	Small regressive impact among over-75 population (smaller effect for discount). No improvement in targeting for 50% variant.		Very slightly regressive impact (more so for over-80s) but costs are small on average. Minor targeting improvements.		Improves targeting, though low take-up of Pension Credit an important factor.	
<b>Feasibility</b>	Straightforward to implement.	Existing precedent for 50% discount. Continued use of DWP data would require new secondary legislation.	No significant implementation issues.		Relatively straightforward to link to additional administrative information, though some legislative process needed. Additional complexity in handling queries. BBC could also verify eligibility internally, although this would be associated with a higher cost.	

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## ANNEX A FULL TERMS OF REFERENCE

### Context

1. In 2000 the Government introduced free television licences for households with at least one occupant aged over 75, with the Government reimbursing the costs of free licences to the BBC.
2. New funding arrangements were announced in July 2015. The reimbursement position has changed: the BBC will be liable for the cost of this concession, phased in from 2018/19, with the BBC bearing the full cost from 2020/21.
3. Following the funding settlement, the BBC now has responsibility for the policy in relation to the concession. The Digital Economy Act 2017 amended the Communications Act 2003 to grant the BBC power to determine a concession for anyone aged 65 and over, effective from 1 June 2020. The BBC must consult before making a decision.
4. In addition the 2017 BBC Charter and Agreement allows the BBC to accept voluntary payments, and so give eligible households an opportunity to contribute to the cost of BBC services.

### Terms of reference

5. In September 2015 the BBC first commissioned Frontier Economics as an independent economics consultancy, to begin a workstream with a view to exploring longer-term funding options relating to the over-75s concession, including voluntary payments. This project has been led by the Chairman (Europe) of Frontier Economics and former Cabinet Secretary, Lord Gus O'Donnell. There have been subsequent developments since September 2015, including the passage of the Digital Economy Act 2017, which sets out the BBC's statutory powers in relation to age-related concessions, and significant changes in the UK media market.
6. The BBC has asked Frontier Economics to prepare an independent report, for publication, which addresses the following two questions:
  - a. What are the implications of reinstating the existing concession, and what are the key features of a case for reforming the concession?
  - b. Are there particular options for reform which Frontier Economics recommends that the BBC should be thinking further about?
7. In considering these key questions, Frontier Economics is asked in particular to consider these four criteria:
  - a. financial impact (including effect on BBC finances and the money available to provide high-quality programming and services);
  - b. distributional impact (effect on different groups);

- c. feasibility (including implementation issues, financial and compliance costs, and how easily any issues could be overcome); and
  - d. economic rationale (economic case for any course).
8. Frontier Economics is asked specifically to consider:
- a. the possibility of voluntary payments, as permitted under clause 49 of the BBC Charter Agreement;
  - b. the possibility (allowed for by the statutory scheme) of a concession for over-65s.

## The role of the BBC

9. The BBC has a statutory duty to consult. It will need to do so at a time when any proposals for reform are at a formative stage, giving sufficient reasons and allowing informed responses for its conscientious consideration. It can express provisional views and put forward particular options.
10. The work carried out by Frontier Economics will assist the BBC as it considers how to approach the consultation exercise. Frontier's final report will not be a consultation document, nor will it include an impact assessment or address the public sector equality duty under s149 of the Equality Act 2010. These are all matters that the BBC will address independently as part of its consultation, appraisal and determination.
11. Having conducted a detailed and open consultation process, the BBC will then ultimately make an informed choice, identifying what it considers to be the right answer on the merits, and giving its reasons.

## ANNEX B STAKEHOLDERS CONSULTED

Figure 43. List of stakeholders consulted

Stakeholders	Key issues discussed
<b>BBC</b>	
<ul style="list-style-type: none"> <li>BBC staff</li> </ul>	Overall aspects of reform and voluntary options, including approach to implementation of reform and voluntary options
<b>Academic experts</b>	
<ul style="list-style-type: none"> <li>Expert on drivers of charitable giving</li> <li>Expert on behavioural economics</li> <li>Expert on older people and loneliness</li> </ul>	Evidence on rationale for an over-75s concession and voluntary contribution options
<b>Think-tanks / research organisations</b>	
<ul style="list-style-type: none"> <li>Institute for Fiscal Studies</li> <li>Reform</li> </ul>	Economic and distributional aspects of reform options
<b>Charitable organisations</b>	
<ul style="list-style-type: none"> <li>PBS Foundation</li> <li>New Philanthropy Capital</li> <li>National Trust</li> </ul>	Evidence on donations and voluntary approaches
<b>Civil Service</b>	
<ul style="list-style-type: none"> <li>DWP stakeholders</li> <li>HMRC stakeholders</li> </ul>	Evidence on options for means-testing and arrangements for data-linking
<b>Campaign groups</b>	
<ul style="list-style-type: none"> <li>Age UK</li> <li>Carers UK</li> </ul>	Reform and voluntary options, impact on older people
<b>Other groups</b>	
<ul style="list-style-type: none"> <li>What If? Innovation</li> </ul>	Evidence on donation mechanisms in other contexts

Source: Frontier Economics

## ANNEX C FINANCIAL MODELLING

### C.1 Construction of financial model

The key dataset underlying our financial and distributional analysis of reform options is the Family Resources Survey (FRS). The FRS is an annual survey that includes information about the incomes and demographic characteristics of households in the UK (DWP, 2018 B).

The most recent wave of data covers financial year 2016/17. Key characteristics include income, age, household composition and receipt of various benefits. We use this information to estimate eligibility for the concession under various reform scenarios.

We use data from eight waves of the FRS from 2009/10 to 2016/17 to analyse trends in household composition and benefit receipt and project these out into the future. In addition, the BBC provided us with estimates of the number of over-75 licences that will be issued if the concession is reinstated in its current form. These projections include those aged over 75 who are living in sheltered accommodation and would therefore be entitled to a substantially discounted licence even if the current over-75s concession was allowed to lapse without replacement. The income that the BBC would receive from this group under any possible reform is very small and has therefore not been included in any of the financial estimates presented. BBC projections are based on ONS estimates of growth in the population of different age groups and the overall rate of household growth (ONS 2017, 2018 C). These BBC projections allowed us to model the cost of the reinstating the current concession in every year up to 2027/28. In order to estimate the proportion of households containing someone over the age of 75 out to 2029/30 we applied the same average growth rate that was observed from the BBC's projections.

Finally we used data from DWP on the projected caseload of pensioner benefits, in particular Pension Credit. Given problems of under-reporting of Pension Credit receipt in the FRS, we rely on these administrative projections for the future number of households containing an eligible recipient under the means-testing scenario. The DWP estimates also account for planned changes in the structure of the relevant benefits.

### C.2 Assumptions around administration and compliance costs of reform options

Implementation costs are divided into four categories:

- Prior to implementing any reform the BBC will have to communicate the upcoming change to the wider public. There will also be internal implementation costs associated with systems changes designed to support the revised concession. To estimate these costs we took the cost of communicating the Digital Switchover as a starting point. We adjusted this figure for inflation and then scaled it down in accordance with the proportion

of all households which contain someone over 75 (since any communication will only need to reach a proportion of households).

- Any reform of the current concession will lead to an increase in the cost of handling enquiries and applications. Using BBC data, we estimated the approximate cost per call at the BBC's contact centre. We then assumed that an additional 10% of the entire over-75s group would call per year as a result of any reform and scaled up the total cost accordingly.
- There will also be some element of non-compliance regardless of the specific reform implemented and certain individuals who lose eligibility may choose to no longer watch live television because of the cost. We assume that all reform options result in a combined 8% non-compliance/non-take up rate.
- There will also be costs associated with contacting existing concessionary licence holders. We assume that regardless of the reform implemented, all over-75 households will have to be contacted each year following reform, inviting them either to certify their on-going eligibility for the concession or to pay for the licence. To estimate the size of this expense we used BBC information on the cost of enquiry letters and evidence from BBC's counterfoil contact reminder strategy to provide us with an indication of how many separate contact attempts would be needed

The last two categories of implementation costs below apply only to the means-testing variants:

- Firstly, there will be costs associated with appeals when an individual loses eligibility. We calculated this cost based on current BBC estimates of complaint handling costs.
- Finally, there will be costs incurred by requesting additional DWP Pension Credit data. This is based on provisional figures supplied by DWP. There will also be some additional charge from DWP to take account of the costs of the additional data sharing.

There may also be costs associated with DWP guiding the BBC through the more complex data and DWP fielding an increased volume of enquiries. These factors have not been included in the modelling as the extent of their impact is unclear.

### C.3 Expenditure-based distributional analysis

As we set out in Chapter 3.1, we carried out the distributional analysis using information on household incomes (from the Family Resources Survey) and household expenditure (from the Living Costs and Food Survey) to categorise the living standards of households affected by the various reform options. The main report featured the distributional analysis on both bases for the means-testing reform options. In this Annex, for completeness we present expenditure-based analysis of the distributional impact for all other reform options.

The 2016/17 wave of the FRS sampled 2,991 households containing someone over the age of 75. The equivalent figure for the LCFS is only 727. This means that within each expenditure decile there are only around 70 to 75 households containing someone aged 75 or over. The expenditure-based analysis is

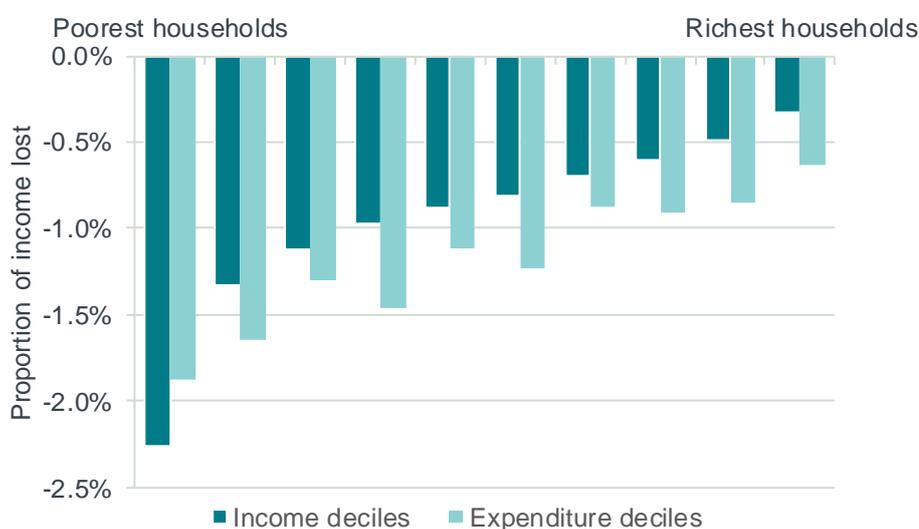
therefore subject to more sampling variation which can affect the patterns of distributional impact which are observed.

Our analysis of the financial impact of various reform options is based on the FRS which has the larger sample size and is the key dataset used to explore the impact of reforms which affect household incomes. The analysis based on the LCFS is primarily to compare patterns of distributional impact given some of the issues explored in Chapter 3.1 on measuring incomes for poorer households. We therefore focus on comparing the pattern of distributional impact across deciles when expenditure or income is used to define living standards, rather than on the absolute magnitude of the average impact across all households.

### C.3.1 Allow the concession to lapse without any replacement

Implemented today, this option costs on average 2.3% of income in the poorest decile of over-75s measured by income, compared with 0.3% for the richest 10% (Figure 44). The reform would be regressive; the losses would be relatively small on average but clearly larger than those associated with retaining a universal 50% concession for over-75s. On an expenditure basis this is mitigated somewhat: the poorest decile by spending would lose around 1.9% of income on average compared with 0.6% for the richest decile.

**Figure 44** Current distributional impact of allowing the concession to lapse without any replacement (household income basis and household expenditure basis)



Source: FRS, LCFS, Frontier analysis

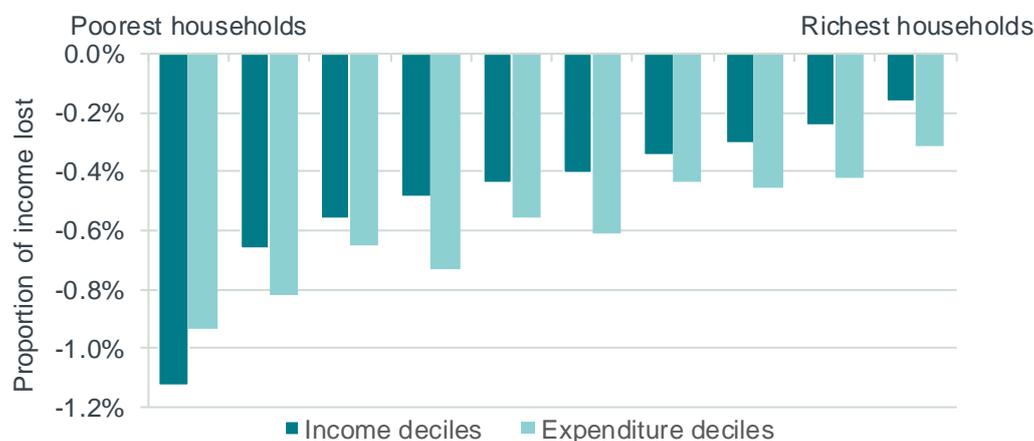
Note: Deciles are within the over-75s population

### C.3.2 Alter the value of the concession: 50% discount

Implemented today, this option costs on average 1.1% of income in the poorest decile of over-75s, compared with 0.2% for the richest 10% (Figure 45). The reform would be regressive, but the losses would be relatively small on average. As above if we use expenditure rather than income to categorise over-75 households the negative distributional effects are slightly reduced. Specifically,

the poorest decile by spending would lose around 0.9% of income on average compared with 0.3% for the richest decile.

**Figure 45** Current distributional impact of reducing the value of the concession by 50% (household income basis and household expenditure basis)



Source: FRS, LCFS, Frontier analysis  
 Note: Deciles are within the over-75s population

### C.3.3 Increase age threshold to 77

#### Distributional impact

Under this reform, the poorest tenth of over-75 households measured by income lose 0.3% of income on average, compared with 0.1% for the richest 10%. This is slightly regressive but the magnitude of these effects is small. The equivalent figures when we use expenditure rather than income to categorise over-75 households the distributional impacts are slightly larger: 0.4% for the poorest tenth of over-75 households and 0.1% for the richest 10% (Figure 46). Some of these discrepancies may be due to minor differences in the income measure used in the LCFS relative to the FRS.

**Figure 46** Current distributional impact of increasing age threshold to 77 (household income basis and household expenditure basis)

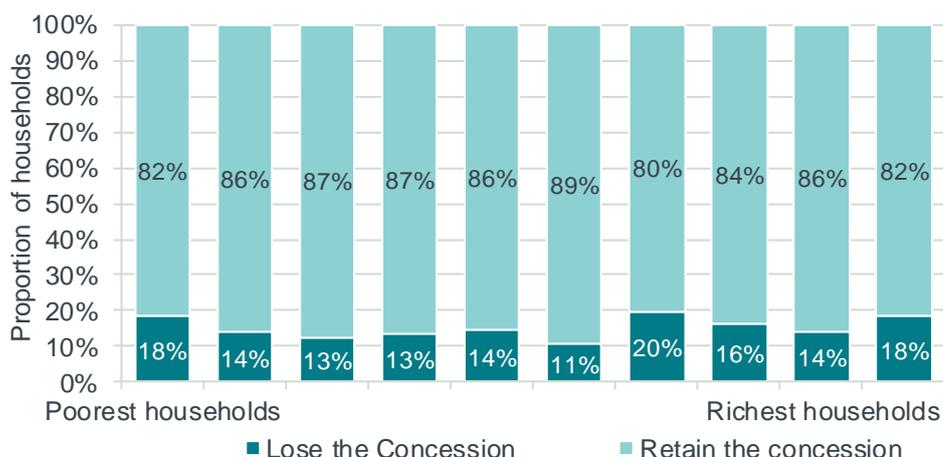


Source: FRS, LCFS, Frontier calculations  
 Note: Deciles are within the over-75s population

**Targeting of the concession**

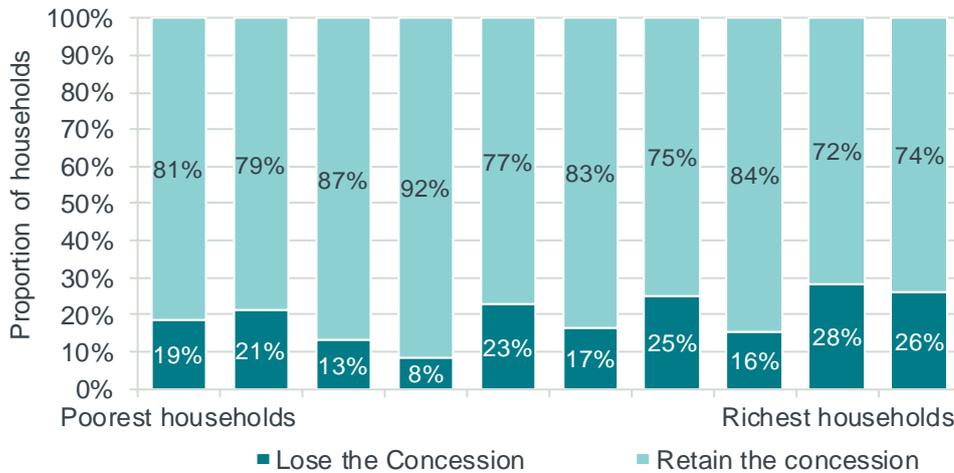
Using income to define richer and poorer households, 18% of those in the bottom and top decile retain the concession (Figure 47). When we use expenditure to create the deciles we see a slightly different pattern of retention (Figure 48). Specifically, a slightly more pronounced progressive gradient is evident. Specifically only 19% of the poorest decile lose the concession whereas 26% of the richest decile are no longer eligible. However, as noted above, there is more volatility from decile to decile, reflecting the small sample sizes.

**Figure 47** Targeting impact of raising age threshold to 77 (income)



Source: FRS, Frontier calculations  
 Note: Deciles are within the over-75s population

**Figure 48 Targeting impact of raising age threshold to 77 (expenditure)**



Source: LCFS. Frontier calculations

Note: Deciles are within the over-75s population

### C.3.4 Increase age threshold to 80

#### Distributional impact

This reform, introduced today, would be more clearly regressive than the increase to age 77: the poorest 10% of over-75 households when measured by income would lose 0.8% of income on average, compared with 0.1% for the richest 10%. When we use expenditure to classify over-75 households into deciles, the overall pattern is similar; the poorest 10% lose 0.7% of income on average and the richest 10% lose 0.3% (Figure 49). Again we see more volatility in this pattern across the distribution, reflecting the smaller sample sizes in the LCFS. Some of these differences in magnitude may also be due to minor differences in the income measure used in the LCFS relative to the FRS.

**Figure 49** Current distributional impact of increasing age threshold to 80 (household income basis and household expenditure basis)



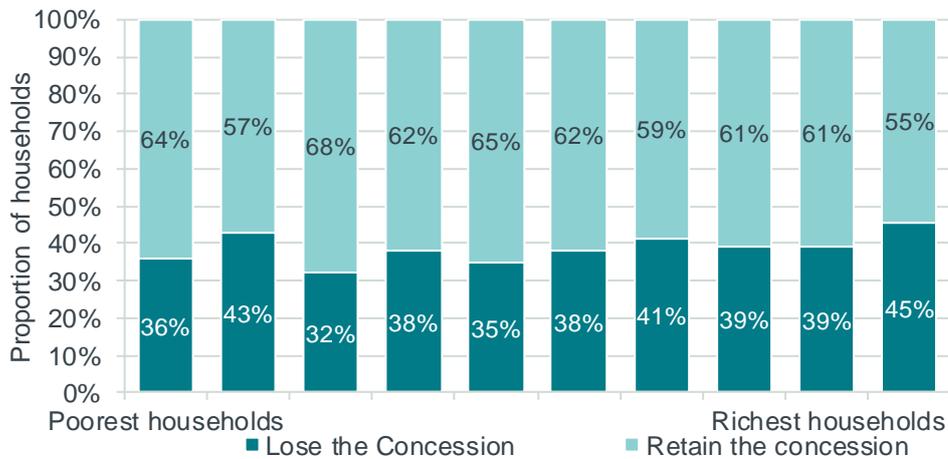
Source: FRS, LCFS, Frontier calculations

Note: Deciles are within the over-75s population

### Targeting of the concession

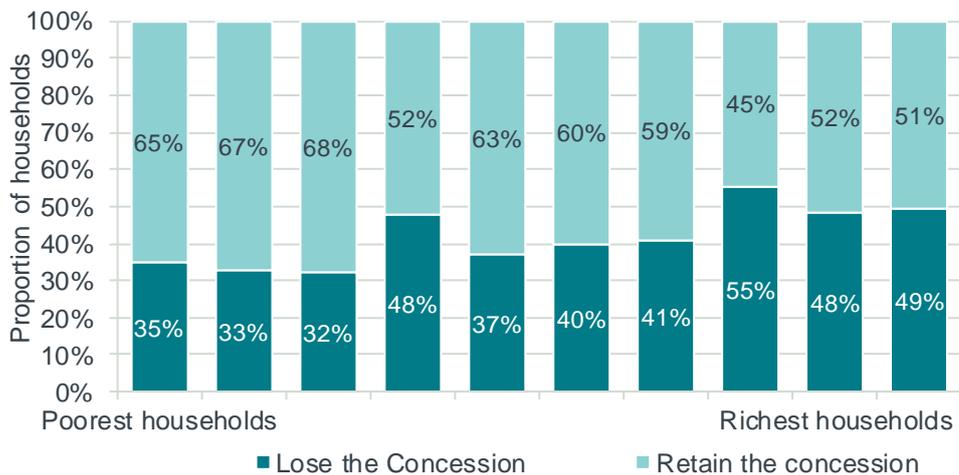
On average, slightly more households in the bottom half of the over-75s income distribution would retain the concession under this reform than in the top half (Figure 50), but there would not be a significant improvement in targeting the concession on poorer households. 36% of households in the poorest income decile would lose the concession under this reform were it implemented today, compared with 45% in the richest decile. However there is variation across deciles – for example, 43% of those in the *second* poorest decile would lose it. A similar pattern is seen when we use expenditure rather than income to classify households (Figure 51). In this case 35% of households in the poorest income decile would lose the concession under this reform were it implemented today, compared with 49% in the richest decile.

**Figure 50 Targeting impact of raising age threshold to 80 (income)**



Source: FRS, Frontier calculations  
 Note: Deciles are within the over-75s population

**Figure 51 Targeting impact of raising age threshold to 80 (expenditure)**



Source: LCFS, Frontier calculations  
 Note: Deciles are within the over-75s population

## C.4 Modelling Inputs

In Figure 52 we present ONS’s (2018 C) household projections and our estimated number of households containing someone over-75, based on BBC modelling. The growth rate of over-75 households is faster than that of total number of households which implies that a rising share of all households will contain someone over the age of 75. This is consistent with Figure 53 which shows ONS (2017) individual (rather than household) population projections. The share of individuals aged over 75 is expected to rise steadily throughout the projection period.

The future cost of the concession in cash terms also depends on the level of the licence fee. In Figure 54 we present CPI inflation data from the ONS<sup>49</sup> and the

<sup>49</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7q7/mm23>

projections used by the BBC that we have used to inflate the licence fee over the period.

We use the Family Resources Survey (FRS) to explore demographic trends and income patterns amongst different household types. All trend analysis carried out by Frontier is based on eight waves of data. Figure 55 provides details on the sample size (both households and individuals) in each year.

**Figure 52** BBC projection of total number of over-75 licences (excluding ARC licences) if the current concession is reinstated in its current form, 2017/18-2029/30

	2017 /18	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	2023 /24	2024/ 25	2025 /26	2026 /27	2027 /28	2028 /29	2029 /30
Over-75 licences (millions)	4.34	4.41	4.49	4.56	4.64	4.83	4.99	5.11	5.22	5.32	5.41	5.53	5.66

Source: BBC, Frontier calculations

**Figure 53** Projection of over 75s population as a proportion of total UK population, 2018-2030

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Over 75's share of total population (%)	8.3	8.5	8.7	8.9	9.3	9.6	9.8	10.0	10.2	10.4	10.5	10.7	10.9

Source: ONS, Frontier calculations

**Figure 54** Forecast CPI inflation and resulting licence fee level, 2018/19-2029/30

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
CPI Inflation	1.023	1.027	1.020	1.020	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Cost of TV Licence	150.5	154.5	157.5	160.5	163.5	167	170.5	174	177.5	181	184.5	188

Source: ONS (2018 D), BBC

**Figure 55** Family Resources Survey individual and household sample sizes, 2009/10-2016/17

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
FRS sample (individuals)	57,380	57,928	47,744	46,420	46,166	44,787	43,678	44,145
FRS sample (households)	25,200	25,350	20,759	20,196	20,137	19,535	19,322	19,380

Source: FRS, Frontier calculations

## ANNEX D PENSION CREDIT LITERATURE REVIEW

### Evidence related to eligibility

A number of studies confirm that eligibility for Pension Credit is higher among poorer households, defined on an income basis. This is of course unsurprising given the eligibility is explicitly income-based and implies that passporting receipt of a concessionary licence to Pension Credit receipt will focus the policy on those over-75s with relatively lower resources.

Studies before the benefit was introduced (Clark, 2001; Brewer and Emmerson, 2003) looked at the distributional impact of reforms to pensioner-related benefits, finding the largest proportional gains for those in the poorest income decile if all households took up Pension Credit. More recent analysis affirmed this (Browne and Hood, 2016), finding that the largest share of total Pension Credit spend, if all eligible households took it up, would go to the poorest income decile. This finding conflates eligibility for Pension Credit and the eligible amount, which cannot be disentangled, but it is likely that both are higher for poorer households.

Other studies that have modelled eligibility for Pension Credit have shown that rates of eligibility are higher for households with characteristics which would be correlated with low income, for example:

- Homeowners are less likely to be eligible (House of Commons Work and Pensions Committee, 2009);
- Social renters, those with no qualifications, those with no investments and those in council tax bands A and B (the lowest bands) are more likely to be eligible (Zantomio, 2008);
- Those eligible have average non-benefit income (including State Pension) of less than £4 per week, compared with over £30 per week for non-eligibles (Zantomio, 2008).

### Evidence related to take-up

The most substantial body of evidence we reviewed related to take-up of Pension Credit. Most of the available evidence is consistent with the hypothesis that take-up rates are higher among lower-income households.

Estimates of non-take up of Pension Credit caseload among over-75s are around 41% (DWP, 2017). There is no specific evidence on the reasons for non-take up among this age group, but evidence cited for non-take up in general by all age groups suggests that a lack of information, inertia and forgetfulness are factors (Radford et al., 2012).

Take-up rates increase with the amount of benefit households are eligible for (Zantomio, 2008; Hancock and Barker, 2005; Pudney et al., 2004); poorer households are eligible for larger amounts of Pension Credit. This finding is consistent with lower administrative estimates of take-up among pensioners only eligible for the Savings Credit element, who have higher incomes.

A number of studies used administrative DWP data matched into survey data to estimate take-up rates based on observed receipt of Pension Credit rather than reported receipt. In these studies, markers for higher income tend to be correlated with lower take-up:

- Take-up rates are lower for more affluent pensioners (Bradshaw and Richardson, 2007; Richardson and Bradshaw, 2008);
- Take-up rates are lower for those who own outright and those in wealthy areas (Commission for Rural Communities, 2007);
- Take-up rates are lower where pensioners are living with younger relatives (Sutherland, 2003).

Other studies have analysed reported take-up rates in surveys (Zantomio, 2008; Hancock and Barker, 2005; Hernandez et al., 2006). These studies also find that take-up rates are higher for those with characteristics correlated with low income, though (unlike the studies matching administrative and survey data discussed above) these studies cannot disentangle actual failure to take-up Pension Credit and mis-reporting.

Another consistent finding is that older households appear less likely to claim than younger pensioner households (e.g. Richardson and Bradshaw, 2008). This appears to hold even controlling for the fact that older pensioners also tend to have lower incomes. Some findings include:

- Take-up rates of Minimum Income Guarantee were estimated at 53 to 56% amongst over-90s, compared with 78% for under-70s (Hernandez et al., 2006);
- Controlling for a range of characteristics, including income, those over-75 were significantly less likely to take up Income Support than younger households (Pudney et al., 2004);
- Those over 75 were less likely to be aware of eligibility rules for Pension Credit (Talbot et al., 2005);
- Amongst those who were not claiming Pension Credit when entitled, those over 75 were more likely to argue they could manage without (Radford et al., 2012).

### Evidence on reporting

The FRS data indicates that a relatively low proportion of the over-75 households with very low incomes report receiving Pension Credit. These low reported rates of receipt in the bottom decile of the FRS are consistent with existing evidence that shows above average measurement error for poorer households. For this reason the distributional analysis we present in relation to the means-testing options should be interpreted with caution. Specifically the results will underestimate the actual improvement in targeting that we would expect if the variants were implemented today.

The specific evidence we found suggests that lower income (and also older) pensioners are more likely to mis-report actual receipt of Pension Credit. Though we cannot be sure whether mis-reporting reflects mislabelling of Pension Credit or simply under-reporting of total income, evidence that very low incomes tend to

be associated with higher spending than income suggests that mislabelling cannot be the whole story.

Key evidence comes from studies that compare reported receipt in survey data with administrative records of receipt matched in from DWP sources. Findings include:

- Those without degrees are more likely not to report actual receipt of Pension Credit (Richardson and Bradshaw, 2008);
- Those eligible for smaller amounts are less likely to report receipt, as are tenants, non-white groups, those with disabilities and those with below degree-level education (Bradshaw and Richardson, 2007);
- Over-80s were more likely not to report receipt (Balarajan and Collins, 2013).

