



THE STRATEGIC
SOCIETY CENTRE
ANALYSIS • EVIDENCE • POLICY

The Future Cost of Housing Benefit for Older People

James Lloyd

June 2012

www.strategicsociety.org.uk

About the Strategic Society Centre

The Strategic Society Centre is a London-based public policy think-tank. We apply evidence-based strategic policy analysis to complex societal problems. Our vision is a strategic society identifying and responding to the challenges it confronts. Our work is independent, objective and free of partisan association.

The Strategic Society Centre
145-157 St John Street
London EC1V 4PY

info@strategicsociety.org.uk
www.strategicsociety.org.uk

The Strategic Society Centre is a registered charity (No. 1144565) incorporated with limited liability in England and Wales (Company No. 7273418).

About the Author

James Lloyd was appointed Director of the Strategic Society Centre in September 2010. He read Philosophy at University College London, and has Masters degrees in Comparative Politics and in Public Policy. James has worked at a number of Westminster and academic think-tanks, and at the Prime Minister's Strategy Unit. He has a particular interest in social care, assets and wealth, pensions and ageing. His previous publications include 'A National Care for Long-term Care', 'Asset Accumulation in Focus: The Challenges Ahead' and 'The Roadmap: England's Choices for the Care Crisis'. James is an Advisor to the ESRC Research Centre on Micro-Social Change at the University of Essex.

james.lloyd@strategicsociety.org.uk

Published by The Strategic Society Centre.

© The Strategic Society Centre, 2012

Contents

Executive Summary	Page 3
1. Introduction	Page 5
2. Housing Benefit: The current picture	Page 6
3. Projecting the Future Cost of Housing Benefit	Page 8
4. Conclusion	Page 13
Appendices	Page 15

Acknowledgements

This report has benefitted from comments by Dr Frank Eich.

However, all responsibility for content and errors rests solely with the author.

Executive Summary

Should public policy be neutral to tenure or encourage home-ownership? This report considers how trends in longevity and tenure will affect the future cost of Housing Benefit for older people in the very long term. By the time that someone aged 20 in 2010 has reached the age of 70 in 2060, the number of pensioners in the UK will have increased from 12.6 million to 18.8 million. Assuming that downward trends in owner-occupation continue, we can assume that 40% of these pensioners in 2060 will rent, and the UK Exchequer will have to spend an extra £8.13 billion on Housing Benefit for pensioners each year compared to today. Debate on declining rates of home-ownership must recognise the long-term implications for public spending, and it is legitimate for public policy to take aggressive steps to increase rates of ownership.

Rising house prices and declining rates of home-ownership among the young have led some to argue that policymakers should now focus on improving the private rented sector.

However, this debate ignores the public spending implications of declining rates of home-ownership, particularly related to the cost of Housing Benefit for future pensioners.

This report considers how trends in longevity and tenure will affect the future cost of housing benefit for older people in the very long term, in order to explore whether public policy be neutral to tenure or should home-ownership.

Total public expenditure on Housing Benefit in the UK was £21.429 billion in 2010-11. In 2009-10, there were 1.48 million pensioners receiving housing benefit in the UK, out of a total of 4.07 million recipients across all age groups, suggesting that around 11.8% of pensioners receive Housing Benefit.

By 2030, the number of pensioners in the UK will have grown from 12.6 million to 15.9 million. However, by the time that someone aged 20 in 2010 has reached the age of 70 in 2060, the number of pensioners in the UK will

have increased from 12.6 million to 18.8 million.

The proportion of people living in owner occupied homes in England is projected to fall from a peak of 72.5% in 2001 to 63.8% in 2021. In 1997 over 40% of those aged under 30 owned their own home and 30% rented private accommodation. In 2009, less than 30% owned their home and nearly 50% rented privately.

It can therefore be assumed that rates of owner-occupation among the pensioner population by 2060 will be 60%. In other words, among today's 20-year olds, two out of five will rent for their whole life.

Around 50% of pensioner renters receive Housing Benefit. Using the above assumptions, it is can be reasonably projected that by 2060, there will be 3.76 million pensioners claiming Housing Benefit, and the UK Exchequer will have to spend an extra £8.13 billion on Housing Benefit for pensioners compared to today, totalling around £13.45 billion each year.

Debate on declining rates of home-ownership must therefore begin to recognise the long-term implications for public spending, in the

form of higher public spending on pensioner Housing Benefit. Public policy should not be neutral to tenure, and should target the highest rate of owner-occupation consistent with other policy objectives.

Given that declining rates of home-ownership – together with increasing longevity – will result directly in higher public spending on pensioner Housing Benefit in future, it is legitimate for policymakers to take aggressive steps to increase rates of owner-occupation now in order to reduce these future costs.

1. Introduction

Should policymakers encourage home ownership?...

Should public policy be neutral to tenure or should it encourage home-ownership?

In recent years, house prices in the UK have risen above the rate of inflation and the age of 'unassisted' first-time buyers has increased. For example, in 1997 over 40% of those aged under 30 owned their own home and 30% rented private accommodation. In 2009, less than 30% owned their home and nearly 50% rented privately.¹

Policymakers in the UK confront the strong possibility that rates of home-ownership will decline markedly across the population in coming decades.

One response among stakeholders has been to underscore the need for improvements in the private-rented sector (PRS) relating to volume, quality, choice and price. Some have emphasised the importance of growing the availability of buy-to-let properties through institutional investment.²

However, although debate on this issue has frequently shown awareness of the personal frustrations of those unable to achieve the goal of home ownership, the public spending implications of declining rates of home-ownership in the long-term have been largely neglected.

This omission is significant. Individuals that live their whole lives in rented accommodation must also pay rent their whole lives. Among working-age individuals, responsibility for rental costs mostly rests with households, and state support is limited to the poorest households. Among a working-age population in the UK of around 40 million, 2.6 million received Housing Benefit in 2009-10.

As this report shows, among pensioners, the situation is somewhat different. Few pensioners can afford the cost of rent out of their private pension income, and as

such, reliance on public support is proportionally higher.

This means that the cost of pensioner Housing Benefit for the Exchequer may be a key concern for policymakers in coming decades, given declining rates of owner-occupation. The effects – and costs – of this trend may be multiplied by parallel trends in life expectancy and the size of the pensioner population.

This report therefore considers how trends in longevity and tenure will affect the future cost of housing benefit for older people in the very long term, in order to explore whether public policy be neutral to tenure or should home-ownership.

Key points:

- ▶ Rising house prices and declining rates of home-ownership among the young have led some to argue that policymakers should now focus on improving the private rented sector.
- ▶ However, this debate ignores the public spending implications of declining rates of home-ownership, particularly related to the cost of Housing Benefit for pensioners.
- ▶ This report considers how trends in longevity and tenure will affect the future cost of housing benefit for older people in the very long term, in order to explore whether public policy be neutral to tenure or should home-ownership.

2. Housing Benefit: The current picture

How does Housing Benefit work, who receives it and how much does it cost?...

How does Housing Benefit work?

If someone is on a low income, whether or not they are in paid work, they may be entitled to financial help from the state to pay all or part of their rent.

In order to be eligible for Housing Benefit, a person must not: have savings of over £16,000 unless they are receiving the 'guarantee credit' component of Pension Credit; live in the home of a close relative; or, be a full-time student.

An important restriction applies to Housing Benefit: if someone lives with a partner or civil partner, only one of them can receive Housing Benefit. However, the wider housing needs of the household are taken account of in evaluating an individual's claim for Housing Benefit.

If a person rents a property or room from a private landlord, their level of Housing Benefit is calculated using Local Housing Allowance rules. If someone lives in council accommodation or other social housing, the most Housing Benefit they can receive is the same as their 'eligible' rent. Eligible rent includes: rent for the accommodation; and, charges for some services, such as lifts, communal laundry facilities or play areas.

The amount of Housing Benefit a person receives also depends on personal and financial circumstances: the income of the household from earnings, benefits, tax credits and occupational savings; household savings; circumstances such as age, the size of the family and whether any member has a disability.

In addition, claims for Housing Benefit are reviewed on the basis of someone's home, i.e. whether the amount of rent is reasonable for a household's particular home; whether it is a reasonable size for the rent; and, whether the amount of rent is reasonable for the area.

Those living in (council) social housing will receive

Housing Benefit from the council straight into their rent account. Those who are not council tenants can receive Housing Benefit by cheque, or by direct payment into a bank or building society account.

Public Expenditure on Housing Benefit

Total public expenditure on Housing Benefit in the UK was £21.429 billion in 2010-11 (Source: DWP).

In 2009-10, there were 4.07 million direct recipients of Housing Benefit in the UK, across all age groups, of whom 1.48 million were pensioners. The pensioner population in the UK numbered around 12.5 million in 2009-10, suggesting that around 11.8% of pensioners receive Housing Benefit.

As the table below shows, not all individuals who are entitled to claim Housing Benefit do so. The DWP estimates that in 2009-10, between 240,000 and 390,000 pensioners who would be entitled to claim Housing Benefit did not do so, and the take-up rate was therefore between 79% and 86%.

The average value of Housing Benefit received by pensioners in 2009-10 was £69 per week, and the cost to the Exchequer for that year was £5.32 billion (Source: DWP, 2012).

Across all age groups (pensioner and working-age), the average amount received by those in private rented accommodation is typically higher. In 2009-10, the average amount claimed by private renters was £101 per week, compared to £70 per week in the social rented sector. Around 11% of pensioners claiming Housing Benefit rent privately, compared to 28% of non-pensioners.

Among pensioners claiming Housing Benefit, 70% live with someone with a disability.

Caseload take-up of Housing Benefit by family type

	Year	Pensioners	All
No. of recipients (thousands)	2008-09	1,510	4,030
	2009-10	1,480	4,070
Estimated range of entitled non-recipients (thousands)	2008-09	240:410	700:1,200
	2009-10	240:390	750:1,140
Take-up ranges (%)	2008-09	79:86	77:85
	2009-10	79:86	78:84

Source: DWP

Recent rule changes for Housing Benefit are set out in Appendices 1 and 2.

Key points

- ▶ Total public expenditure on Housing Benefit in the UK was £21.429 billion in 2010-11.
- ▶ In 2009-10, there were 1.48 million pensioners receiving housing benefit in the UK, out of a total of 4.07 million recipients across all age groups, suggesting that around 11.8% of pensioners receive Housing Benefit.

3. Projecting the Future Cost of Housing Benefit

By 2060, the number of pensioners in the UK is projected to increased to 18.8 million from 12.6 million today...

What will be the cost of Housing Benefit for pensioners in the future?

This chapter explores the potential impact of two key trends: changes in the rates of owner-occupation across the population, as well as increasing life expectancy.

How many pensioners will there be in future?

The number of pensioners in future will be determined by two factors:

- ▶ Changes to the State Pension Age - for example, from December 2018 the State Pension age for both men and women will start to increase, reaching 66 in October 2020;
- ▶ Trends in life expectancy.

However, the State Pension Age is itself determined by multiple factors, including:

- ▶ Trends in healthy life expectancy;
- ▶ Employment patterns among older workers;
- ▶ The wider fiscal context for public spending.

Existing projections from the DWP of the future number of claimants of the Basic State Pension provide high-quality estimates for the number of pensioners that will live in the UK in future:

Projected Basic State Pension Caseload 2010-2060 (millions), UK

Year	2010/ 11	2015/ 16	2020/ 21	2030/ 31	2040/ 41	2050/ 51	2060/ 61
Caseload	12.6	13.2	12.9	15.9	17.6	17.4	18.8

(Source: DWP, 2011)

The number of pensioners in the UK is projected to increase steadily in future decades, particularly during

2030-2060. By 2030, the number of pensioners in the UK will have grown from 12.6 million to 15.9 million. However, by the time that someone aged 20 in 2010 has reached the age of 70 in 2060, the number of pensioners in the UK will have increased from 12.6 million to 18.8 million.

It is important to note that in the 2012 Budget, the government announced plans to both increase the value of the Basic State Pension in future, and to explore how changes to the State Pension Age could be automatically linked to trends in longevity. Such changes could reduce the number of individuals eligible for the State Pension in future. However, for the purposes of the current analysis, the above projections are valid.

Projected rates of tenure

Around 68.5% of UK households owned their home in 2009.³ Historically, rates of home-ownership in the UK have been around average compared to other countries:

Aggregate homeownership rates in selected OECD countries (2004)

Country	Rate (%)
Spain	83.2
Ireland	81.4
Greece	73.2
Belgium	71.7
Mexico	70.7
United Kingdom	70.7
Australia	69.5
Canada	68.9
United States	68.7
Italy	67.9
Finland	66.0
Netherlands	55.4
France	54.8
Denmark	51.6
Austria	51.6
Germany	41.0

Source: Andrews D and Calda Sanchez A (2011)

Previous research suggests that the proportion of people living in owner-occupied housing will fall to 63.8% in 2021...

Multiple trends determine rates of home-ownership across the population:

- ▶ Trends in life expectancy
- ▶ Trends in net inward migration
- ▶ Trends in house prices
- ▶ Rates of new home building
- ▶ Trends in household formation, in particular, age of marriage
- ▶ Household income and economic growth
- ▶ Household earnings risk
- ▶ Interest rates in the UK and the global economy, determining 'costs of capital' and mortgage costs
- ▶ Trends in mortgage lending ('loan-to-value' and deposits required) and the perceived riskiness of UK property
- ▶ Trends in buy-to-let mortgage lending
- ▶ Trends in rates of return on UK buy-to-let investments compared to other 'asset classes', e.g. equities.

Almost all of these factors have during the last decade put downward pressure on rates of owner-occupation in the UK, as prices have increased and affordability has declined.

A study by Oxford Economics projected that the proportion of people living in owner occupied homes in England will fall from a peak of 72.5% in 2001 to 63.8% in 2021.⁴

No projections of rates of home-ownership in the UK up to 2060 have been undertaken.

Importantly, rates of owner-occupation vary by age group, reflecting both 'life-stage' and 'cohort' factors (i.e. the varying success of different cohorts in getting on the 'property ladder'). Analysis of the Wealth and Assets Survey (WAS) for 2006-08 found that owner-occupation rises from 20% in the 16 to 24 age group, to 79% in the 55 to 64 age group, before falling to 63% in the 85 and over age group.⁵

Indeed, the rate of home-ownership varies substantially within the older population, as shown by analysis of the English Longitudinal Study of Ageing (2006):

Proportion of owner-occupiers in 54+ age-group in England (2006)⁶

Age	54-59	60-69	70-79	80+
Owner Occupiers	84.73	84.70	77.22	69.62
Non-owner Occupiers	15.27	15.30	22.78	30.38
Standard error	0.95	0.79	1.03	1.54

Assuming that rates of home-ownership are similar between England and the rest of Great Britain, this table suggests that the current rate of home-ownership among the pensioner population is around 75%. It also appears that the rate of home-ownership among pensioners is set to increase in coming decades as those currently aged 55-65 retire, reaching a plateau of around 85% in 2026 and remaining at that level for at least 10 years.

However, beyond this cohort, there are compelling reasons to forecast that the rate of owner-occupation among pensioners will decline. These relate, firstly, to those long-term factors that have depressed rates of owner-occupation among younger groups, such as rates of household formation, stagnant rates of new home building (supply) and the growth of the 'buy-to-let' sector.

As described in the Introduction, in 1997 over 40% of those aged under 30 owned their own home and 30% rented private accommodation. In 2009, less than 30% owned their home and nearly 50% rented privately.⁷ Research by Cardiff University for the Joseph Rowntree Foundation projected that the total number of 18-30 year olds owning their home in 2020 will decrease by around 1.1-1.3 million from today.⁸

Survey research suggests the attitudes of ‘generation rent’ may be hardening against home-ownership...

In addition to these long-term trends, attitudes and expectations among younger cohorts may now be conspiring to reduce rates of owner-occupation.

A survey undertaken by NatCen found that shifts in attitudes in younger age groups appear to be occurring.⁹ Two thirds of the 20 to 45 year olds interviewed said they either had no realistic prospect of owning their own home in the next five years because of affordability, or had effectively given up on owning their own home and were not therefore saving toward a deposit. Such research highlights the important role of attitudes and behaviour in determining rates of tenure, in addition to economic factors such as global interest rates and social factors such as household formation.

Will the current ‘generation rent’ of renters aged 20-35 subsequently become owner-occupiers in later life. Recent analysis by the Institute for Fiscal Studies suggests that cohorts with low homeownership rates at 30 have historically closed about 80% of the ‘ownership-gap’ by the time they reach age forty.¹⁰ However, such simulations use historic data to analyse the experience of previous cohorts, and it would be potentially inappropriate to infer that current or future cohorts of 30-year olds would be similarly successful in closing the ‘ownership gap’. Interestingly, one academic study found that the principal cause of declining rates of home ownership among the young between 1980 and 2000, besides later ages of marriage (household formation) was increased earnings risk.¹¹ The global financial crisis that began in 2007 and is ongoing at the time of writing has arguably resulted in unprecedented earnings risk for the young, suggesting negative effects on home-ownership rates may be concurrent.

Making forecasts regarding rates of owner-occupation among future cohorts of pensioners – particularly today’s ‘generation rent’ - is therefore highly complex.

Nevertheless, for the sake of the current analysis, it is assumed that rates of owner-occupation among the pensioner population by 2060 will be 60%. In other words, among today’s 20-year olds, two out of five will rent for their whole life. This is broadly in line with the projection by Oxford Economics projected that the proportion of people living in owner occupied homes in England will fall from a peak of 72.5% in 2001 to 63.8% in 2021.¹²

What proportion of pensioners renting their home in future will receive Housing Benefit?

In order to estimate what proportion of pensioners renting their home in future will receive Housing Benefit, it is first necessary to understand the current picture.

At present, around 25% of the pensioner population in the UK live in rented accommodation, and 11.5% of the older population receive Housing Benefit. The difference between these figures can largely be related to the fact that if someone is living with a (civil) partner, only one of them can receive Housing Benefit. In short, many pensioners receiving Housing Benefit are actually part of a couple, and both benefit from the household’s receipt of Housing Benefit payments.

In addition, not everyone entitled to Housing Benefit claims this support, and if they did, the DWP estimates this would see 1.87 million pensioner claimants, or 16% of the older population. Finally, some pensioners may have high incomes but rent because of their preferences or other factors, for example, they rent ‘supported living’ accommodation. Indeed, around 7% of older people live in specialist housing, and 77% of this housing is rented.¹³

This suggests that a very high proportion of the 25% of pensioner population that rents do in fact live in households that receive Housing Benefit.

Projections suggest that around 3.76 million pensioners in the UK will rent in 2060 and around half will claim Housing Benefit...

Given future projections of pension income for low to middle income earners, even in the context of UK pension reform designed to boost pension saving,¹⁴ this suggests that any increase in the percentage of pensioners who rent is likely to be matched by a similar increase in pensioner Housing Benefit claimants. In the future – as now – few pensioners are likely to be able to afford their rental costs in retirement without support from the state. In short, more pensioner renters will mean more pensioners claiming Housing Benefit.

For the sake of the current analysis, it can be assumed that in future, 50% of pensioner renters will live in households that receive Housing Benefit, and as such, the proportion of the pensioner population claiming Housing Benefit will be equal to 50% of pensioner renters.

How many pensioners will receive Housing Benefit in future?

Using official projections, and making conservative assumptions about the rate of home-ownership among the pensioner population in future, and the proportion of pensioner renters who will claim Housing Benefit, it is possible to formulate projections as to the number of pensioners who will receive Housing Benefit in future.

On the basis of the above analysis, we can assume that by 2060:

- ▶ 18.8 million pensioners will live in the UK;
- ▶ Around 40% will rent, i.e. 7.52 million.
- ▶ Around half of pensioner renters will live in households receiving Housing Benefit.

On this basis, we can assume that by 2060, there will be 3.76 million pensioners receiving Housing Benefit.

This represents a 154% increase from the current figure of 1.48 million pensioners receiving Housing Benefit.

What will be the cost of Housing Benefit for older people in future?

The average value of Housing Benefit received by pensioners in 2009-10 was £69 per week, and the cost to the Exchequer for that year was £5.32 billion (Source: DWP, 2012).

Multiple factors will determine how much Housing Benefit is paid to people in future, and these are explored in Appendix 3.

For the sake of the current analysis, and in order to provide a direct comparison, the current average figure of £69 per week can be used.

Number of Pensioner Housing Benefit Recipients and Costs to the Exchequer in 2060

Year	2009-10	2060-61
Pensioners receiving Housing Benefit (million)	1.48	3.76
Cost to the Exchequer (£ billion)	5.32	13.45

Using the above assumptions, it is can be reasonably projected that by 2060, there will be 3.76 million pensioners claiming Housing Benefit, and the UK Exchequer will have to spend an extra £8.13 billion on Housing Benefit for pensioners compared to today, totalling around £13.45 billion each year.

Key points:

- ▶ By 2030, the number of pensioners in the UK will have grown from 12.6 million to 15.9 million. However, by the time that someone aged 20 in 2010 has reached the age of 70 in 2060, the

By 2060, the cost of pensioner Housing Benefit will have increased by around £8.13 billion compared to today...

number of pensioners in the UK will have increased from 12.6 million to 18.8 million.

- ▶ The proportion of people living in owner occupied homes in England is projected to fall from a peak of 72.5% in 2001 to 63.8% in 2021. In 1997 over 40% of those aged under 30 owned their own home and 30% rented private accommodation. In 2009, less than 30% owned their home and nearly 50% rented privately. For the sake of the current analysis, it is assumed that rates of owner-occupation among the pensioner population by 2060 will be 60%. In other words, among today's 20-year olds, two out of five will rent for their whole life.
- ▶ It appears that around 50% of pensioner renters receive Housing Benefit.
- ▶ Using the above assumptions, it is can be reasonably projected that by 2060, there will be 3.76 million pensioners claiming Housing Benefit, and the UK Exchequer will have to spend an extra £8.13 billion on Housing Benefit for pensioners compared to today, totalling around £13.45 billion each year.

4. Conclusion

Debate on declining rates of home-ownership must recognise the significant cost this may impose on public spending, in the shape of pensioner Housing Benefit...

Should public policy be neutral to tenure or should it encourage home-ownership?

This report has explored what impact trends in longevity and the size of the pensioner population, together with trends in rates of owner-occupation, will have on the cost to the Exchequer of Housing Benefit for older people.

Using official projections and some basic assumptions regarding tenure and the value of Housing Benefit, the report has found that by 2060, the state will need to spend an extra £8.13 billion on Housing Benefit for older people, in today's terms.

In short, trends in home-ownership are not fiscally neutral for the Exchequer, particularly when combined with trends in longevity. As explored in Appendix 2, recent reforms to Housing Benefit are unlikely to substantially affect the cost of Housing Benefit for older people.

Implications for policy

What do these figures mean for policy? Several conclusions can be drawn.

First, debate and discourse around declining rates of home-ownership needs to change. At present, concerns about 'generation rent' are typically portrayed in the media in terms of the 'human cost': families forced to rent etc.; young people missing out on the satisfaction of owning their home.

However, although the 'human cost' of declining rates of owner occupation are undoubtedly important, the costs to public spending in the long-term are mostly ignored, despite – arguably – being more important.

This must change. Whenever declining rates of home-ownership among the young feature in public

discourse, the ultimate cost this will impose on public spending must be highlighted.

Second, since declining rates of home-ownership will have severe fiscal consequences in the long-term, policymakers should therefore explicitly target the highest possible rates of owner-occupation consistent with economic stability (i.e. a lack of 'housing bubbles', or high-rates of foreclosures) and labour market flexibility. In short, policymakers should not be neutral to tenure. Higher rates of home-ownership are ultimately cheaper for the taxpayer.

Third, given trends in longevity and owner-occupation, which will conspire to see the cost of the Housing Benefit bill for the public purse increase by 153% by 2060, it is legitimate for policymakers to take aggressive steps to increase rates of owner-occupation now, in order to reduce these costs. On the one hand, this relates to supply in the housing market: new home building, and construction of new social housing, which allows the state to house people at lower cost than the private rental market.

It also means taking aggressive steps in relation to demand-side factors in the housing market. In particular, policymakers should examine 'over-consumption' of housing by certain groups in society, such as second home ownership, and the size of the buy-to-let sector. Although the current rules around ownership and property-taxation enable some individuals to own multiple properties, such behaviour will impose significant costs on the Exchequer in the long-term, and policymakers therefore have a legitimate reason to implement strident measures to reduce such activities.

Key points:

- ▶ Debate on declining rates of home-ownership must begin to recognise the long-term implications for

public spending, in the form of higher public spending on pensioner Housing Benefit.

- ▶ Public policy should not be neutral to tenure, and should target the highest rate of owner-occupation consistent with other policy objectives.
- ▶ Given that declining rates of home-ownership – together with increasing longevity – will result directly in higher public spending on pensioner Housing Benefit in future, it is legitimate for policymakers to take aggressive steps to increase rates of owner-occupation now, in order to reduce these future costs.

Appendices

Appendix 1: Recent Rule Changes to Housing Benefit

The rules for pensioners changed from 2 November 2009; the level of capital a pensioner can hold before it is taken into account when assessing eligibility increased from £6,000 to £10,000. This has the effect of increasing the amount some pensioners with capital holdings of more than £6,000 may be entitled to and may make some of these pensioners entitled when previously they would not have been. The maximum capital Pensioners could hold before being ineligible for Housing Benefit remained the same at £16,000. (Source: DWP, 2012)

Local Housing Allowance (LHA) was introduced from 7 April 2008, any new Housing Benefit claimants or those who moved homes after this date were assessed under the new Local Housing Allowance rules. From 6 April 2009 a cap of five bedrooms was introduced to the Local Housing Allowance (LHA) rates. The LHA rates set the maximum amount of Housing Benefit a person is entitled to based on the median average rent by each Broad Market rental Area. This means some LHA claimants may have their entitlement reduced if they are privately renting a house with 6 or more bedrooms and their rent is more than the 5 bedroom rate.

Appendix 2: What will be the impact of changes to Housing Benefit and the Local Housing Allowance?

From 1 April 2011, the government made changes to the Local Housing Allowance arrangements, which are used to pay Housing Benefit to individuals in the Private Rented Sector. The main changes are:

- ▶ Setting rates at the 30th percentile in each area, a reduction from the 50th percentile currently used. This means about three in ten properties for rent in

the area should be affordable to people on HB rather than five in ten properties as now;

- ▶ Making the four bedroom property rate the maximum payable
- ▶ No longer allowing customers to keep the difference between their rent and the LHA rate
- ▶ Disabled customers who need overnight care may be able to claim for an extra room for a non-resident carer;
- ▶ Introducing a maximum weekly rate. The maximum weekly rates will be:

£250 for a one bedroom property
£290 for a two bedroom property
£340 for a three bedroom property
£400 for a four bedroom property

However, it is reasonable to expect that these changes will have limited effect on Housing Benefit payable to older people in future. The government's own Equality Impact Assessment observes that currently: "92% of Local Housing Allowance customers are of working age while only eight per cent are elderly, compared to 66% and 34% respectively for Housing Benefit overall. In this context, these measures will affect working age customers more than the elderly."¹⁵

Appendix 3: Factors determining public expenditure on Housing Benefit

The need for housing benefit among households is primarily determined by household income and rental costs. However, public expenditure on housing benefit is determined by a far greater number of factors, including:

- ▶ Trends in average rental costs;
- ▶ Trends in average household size;
- ▶ Trends in household formation;
- ▶ Trends in earnings growth and household income.

¹ Hughes M (ed.) (2010) *Social Trends: No. 40*, Office for National Statistics

² For example, see Alekason V (2011) *Making a Rented House a Home*, Resolution Foundation, London

³ Black O (2011) *Wealth in Great Britain*, Office for National Statistics

⁴ Oxford Economics (2011) *Housing Market Analysis - July*

⁵ Daffin C (ed.) (2009) *Wealth in Great Britain*, Office for National Statistics

⁶ Ross A et al. (2008) *The Age of Inheritance*, ILC-UK, London

⁷ Hughes M (ed.) (2010) *Social Trends: No. 40*, Office for National Statistics

⁸ Clapham D et al. (2012) *Housing Options and Solutions for Young People in 2020*, Joseph Rowntree Foundation

⁹ Blackwell A and Park A (2011) *The Reality of Generation Rent*, NatCen, London

¹⁰ Bottazzi R et al. (2012) *House prices and home ownership: a cohort analysis* - IFS Working Paper W12/10, Institute for Fiscal Studies, London

¹¹ Fisher J and Gervais M (2009) *Why Has Home Ownership Fallen Among the Young?* - IFS Working Paper W09/08, Institute for Fiscal Studies, London

¹² Oxford Economics (2011) *Housing Market Analysis - July*

¹³ Pannell J et al. (2012) *Older People's Housing: Choice, Quality of Life and Under-Occupation*, Joseph Rowntree Foundation

¹⁴ Emmerson C and Wakefield M (2009) *Amounts and Accounts: Reforming private pension enrolment*, Institute for Fiscal Studies, London

¹⁵ DWP (2010) *Equality Impact Assessment Housing Benefit*, London

The Strategic Society Centre
145-157 St John Street
London
EC1V 4PY

www.strategicsociety.org.uk
info@strategicsociety.org.uk

The Strategic Society Centre is a registered charity (No. 1144565)
incorporated with limited liability in England and Wales (Company No.
7273418).