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Pensioners Face Payment Reductions Over Outdated £10,000 Savings Rule

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Thousands of pensioners across the UK could see their benefits reduced or withdrawn due to what experts are calling an "unfair" savings limit set by the Department for Work and Pensions (DWP). The threshold has remained unchanged since 2009 and could leave many older people worse off despite rising inflation and living costs.

Henry Tapper, chair of AgeWage and Pension Playpen, said the government needs to act swiftly to reassess the outdated rules. "Refreshing the amounts people can have in their accounts before losing a pension credit claim is both just and easy for the Department for Work and Pensions to do," he said.

At present, those applying for Pension Credit, a means-tested benefit designed to support low-income pensioners, must have savings and investments below £10,000 before their entitlement is affected. Any amount above that sees a notional income of £1 per week added for every £500 saved, excluding a person's main residence. Critics argue that this calculation assumes an interest rate far higher than what is realistically available in today's market.

But Stephen Lowe, director at the retirement advice group Just Group, pointed out the harsh financial logic behind the rule. "The £10,000 lower capital limit means that every £500 of savings, not including the main residential property, held by people who qualify for pension credit counts as £1 income a week, which can erode the income received from the benefit," he explained.

"This feels unfair on two fronts, given many pensioners will aim to keep a rainy-day fund in the event of emergency repairs or a large, unexpected cost. It is the equivalent of a 10.4 per cent interest rate. Secondly, the limit has not moved since 2009, and it is likely, therefore, that more and more people are seeing their benefit income reduced as they fall into this bracket," Lowe added.

The debate around the current capital limit has grown louder in light of inflation, which has significantly reduced the real value of savings. Many pensioners keep modest emergency funds to cover unexpected costs such as home repairs or medical needs. But under the current rules, doing so could penalise them.

There is growing concern that many pensioners who are entitled to support are either unaware of their eligibility or feel uncomfortable claiming benefits. Former Pensions Minister Baroness Ros Altmann has long campaigned for reform and urged the DWP to take action to ensure that older people receive the support they deserve.

"There are huge problems with the help available to the lowest-income pensioners," she said. "So many are too proud to claim what they see as 'handouts' even though this is part of their entitlement because we all know the UK state pension is so low relative to all other developed countries."

Baroness Altmann also highlighted the disparity between pensioners who qualify for Pension Credit and those who narrowly miss out. “Those just above the pension credit level lose out on thousands of pounds of extra benefits which pension credit recipients can enjoy, such as council tax and energy bill rebates, free TV licences and healthcare, so they end up far worse off than others just because they have small pensions or some savings,” she added.

The issue also lies in how assumed income is calculated from savings. The former pensions minister criticised the method: “Thirdly, the savings aspect of pension credit does not look at the actual income savers receive. If they have over £10,000 savings, the means test assumes they receive a level of interest far, far above market rates, over 10 per cent interest.”

Around 850,000 pensioners in the UK may be eligible for Pension Credit but are not claiming it. An update to the savings threshold could encourage many to come forward and access the help available to them.