

CARERS look after family, partners or friends in need of help because they are ill, frail or have a disability. The care they provide is unpaid.

Personal accounts: a new way to save

Carers UK response to the White Paper

March 2007

About Carers UK

1. Carers UK is the voice of carers, i.e. people who provide unpaid care by looking after an ill, frail or disabled family member, friend or partner. Carers give so much to society yet they experience ill health, poverty and discrimination because they provide care. Carers UK campaigns to end this injustice.
2. We were set up by carers to improve carers' lives. We do this by campaigning, raising awareness of carers' needs through research and experience, providing information and training professionals. To this day carers run the organisation and decide what needs to be done. Carers UK will continue to campaign until people recognise the true value of carers' contribution to society and carers get the practical, financial and emotional support they need.
3. As well as an individual membership, Carers UK also has a membership of Associates, made up of local carers organisations, local authorities etc. Through this wider network we are in touch with around 450,000 carers. We run a specialist information and advice service, Carersline, which advises around 20,000 carers annually.
4. Carers UK leads the ACE National partnership, funded through the European Social Fund's Equal programme. This partnership has extended the understanding of carers in work: who they are, what jobs they are doing and how they could be better supported. The project is currently examining how care services impact on carers' ability to work. Visit www.acecarers.org.uk for more information.
5. Carers UK welcomes the opportunity to respond to this consultation. We believe the approach taken in the design of personal accounts is the right one. We applaud the Government in taking this step, alongside reform to the state system, which will help millions of people to save for their retirement. This will include many thousands of carers since they are more likely to be employed in lower paid industries than other employees and therefore form an important part of the target group for personal accounts.

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CARERS UK

6. An understanding of the way that the pensions market is not currently working for people on average and low incomes who do not have access to a company scheme must underpin the discussions about personal accounts. We must also seek to understand how people's decisions about employment and pensions are influenced by both their personal situations and Government policy. Caring responsibilities affect people financially but also impact on their health, relationships and general wellbeing.

Who are working carers?

7. Carers UK and the University of Leeds have undertaken analysis of the 2001 census which gives us a wealth of data about working carers¹. There are 2.5 million people in England and Wales who combine unpaid caring with paid work. The majority (1.5 million) of these work full time and men are more likely to work full time whilst caring. Of those 662,000 carers working part-time, 89% are women. Around 380,000 carers are self-employed.
8. The research showed that whilst carers are found in all industries and work at all levels, men and women who provide 20 or more hours of care a week are clustered in low level, low paid jobs and appear to have less access to higher level positions. Working carers are more likely to be unqualified and less likely to hold university degrees than other people in employment.
9. Almost 45% of men and 55% of women who are in paid work and caring for 20 hours a week or more a week are in elementary occupations, process plant and machine operative jobs, sales & customer services or personal services.
10. This research shows that carers are a key component of the target group for personal accounts and caring responsibilities may be the reason why someone is earning a low income. The design of personal accounts must therefore take into account the impact of caring both on employees ability to save but also the factors which influence their decision-making about work and financial affairs.

Carers in retirement

11. There are currently 1.5 million carers over the age of 60. Many of these are relying on means tested benefits - 195,000 receive the Carer's Addition in Pension Credit – and many more are probably unaware that they are eligible for the Carer's Addition because they mistakenly believe they are not eligible to apply for Carer's Allowance once they reach State Pension Age. We know that carers

¹ Who Carers Wins: Statistical Analysis, Evidence from the 2001 Census. Carers UK, 2006

often miss out on benefits, including Pension Credit, because the system is complex and people are often not aware of what they are entitled to. Across the UK carers are missing out on an estimated £746 million in unclaimed benefits².

12. As well as ensuring that the pension system takes into account the patterns of carers' lives, it is important for carers to be able to contribute to a pension for as long as possible. We welcome Government's initiatives to support older workers and the introduction of age discrimination legislation, however we believe that more needs to be done to encourage workplaces to be more flexible and to encourage people to work beyond the age of 65. Given that the peak age of caring is 45-64, carers should have the opportunity to return to work once their caring responsibility ends and many wish to do so. We believe that employees should be able to continue to pay National Insurance Contributions even if they are over State Pension Age so that they are able to improve their state pension entitlement.
13. Of course not all carers are able to work, even when their caring responsibility ends. For some people, their caring responsibilities are too heavy and complex for them to undertake paid employment. Furthermore, carers are more likely to be in poor health than other employees and this is likely to persist into retirement. Men and women with heavy caring responsibilities are two to three times more likely than workers without caring responsibilities to report poor health. Ensuring that the state pension provides an adequate income in retirement is important for those carers that are not able to build up private savings, even once personal accounts are introduced. The reforms to the state pension, which acknowledge the value of caring to society, are very welcome in this regard.

Making personal accounts work for carers

Automatic enrolment

14. Carers UK welcomes the principle of automatic enrolment. Automatic enrolment will especially help carers who are likely to be juggling many commitments which means they have less time to devote to researching and making decisions about personal finance.

Employer contributions

15. Carers UK welcomes the compulsory employer contribution as this will help incentivise participation amongst low earners. However we believe that where an employee chooses to make contributions based on their entire salary (not just salary above £5000), the employer should match this additional contribution. Under the

² Caring and pensioner poverty: A report on older carers, employment and benefits, Carers UK, London, 2005

current proposal in which contribution are only made on earnings over £5000, there will be little benefit to very low earners. It could lead to employers trying to restrict employees' earnings to keep them below this threshold. We already know there are perverse incentives built in to the benefits system³ which impact on carers' ability to work, and are concerned that this may create further incentives for carers to restrict their earnings. There are already many barriers to carers' progression in the labour market (the lack of alternative care services and the earnings limit for Carer's Allowance, for example) so measures that may inadvertently give employers incentives to restrict opportunities should be avoided.

Annual contribution limit

16. Government is proposing an annual contribution limit of at least £5,000 with a higher limit in the first year. Carers UK believes this is an appropriate amount for most years of saving as it gives individuals the option to make contributions which are higher than the minimum. However we are concerned that people who receive a lump sum, for example from inheritance, would not be able to invest it in their personal account. Rather than increasing the annual limit we propose that a lifetime limit to contributions is used instead, as with the lifetime limit of tax relief. This would make it easier for individuals to divert additional resources to their pension and make it more likely that they will accrue additional savings.
17. We welcome the measures to ensure portability of personal accounts. This will help ensure that employees contribute throughout their working life and do not have gaps when they change jobs. Since carers may find it difficult to remain in steady employment, it should be easy to re-enter personal accounts after a period out of the labour market. We support the idea of 'fast-tracking' an employee back in to personal accounts. This will ensure that they do not miss out on contributions because of administrative delay.

Waiting periods

18. Carers UK believes there should not be a waiting period before automatic enrolment into personal accounts, nor should there be for employers offering suitable alternative pension schemes. Even a short delay can lead to a significant reduction in total savings which would negatively impact on retirement income. Immediate enrolment will ensure that employees have the longest opportunity possible to

³ An example is the predicament many carers found themselves in when the minimum wage increased to £5.35 in October 2006. For those carers working 16 hours per week (in order to claim tax credits) they were now earning more than the £84 earnings limit for Carer's Allowance. This caused them to lose nearly £47 each week.

build contributions. This is particularly important for employees with severely disrupted employment records.

Multiple jobs

19. Carers UK believes that where an employee earns more than £5000 from several jobs, their earnings should be aggregated and they should be automatically enrolled into personal accounts. Whilst we appreciate that this is administratively complex, it is a serious detriment to those 350,000 individuals affected, the majority of whom are women.

Employees approaching State Pension Age in 2012

20. Carers UK agrees that employees should be automatically enrolled between the ages of 22 and State Pension Age. However if an employee outside of this age range chooses to opt in to personal accounts, it is right that their employer should also contribute.
21. We believe that those approaching State Pension Age when personal accounts are introduced should also be automatically enrolled. Many employees in this cohort will welcome the opportunity to save towards their pension, particularly if they have had periods out of the labour market. This will encourage them to save and if they do not have other savings it is likely that they will be able to take their pension as a lump sum on retirement. It is important that all employees have information to make a decision about personal accounts based on their particular circumstances but for this group it will be particularly important.
22. In order to encourage older cohorts to contribute to personal accounts and to ensure that it always pays for them to save, individuals should be given every opportunity to ensure they have a complete state pension record. As well as extending access to the Carer's Credit (addressed in paragraph 30 below), we believe that employees over State Pension Age should be able to continue to pay National Insurance Contributions. This would help them build up qualifying years and increase the value of their state pension.
23. Furthermore, people should be able to pay back up to 6 years worth of voluntary National Insurance Contributions for missing years over their entire working life, rather than in the preceding 6 years as it is at present.

Repeat automatic enrolment

24. Carers UK believes that three years is the right period for repeat automatic enrolment of employees who have opted out of personal accounts. Alongside automatic enrolment on starting a new job, this will ensure that employees are given a suitable incentive to save in a

personal account. When employees are opted in after three years, they should be given appropriate information to help them make a decision whether or not to stay enrolled. They should be encouraged to consider how their personal circumstances and expectations about the future have changed.

Carer's Allowance

25. In order to encourage take up of personal accounts and to ensure that individuals contribute at the highest level they can afford, we believe that 100% of pension contributions should be deducted from earnings allowed for Carer's Allowance. The current 50% deduction does not provide sufficient incentives for carers to save when they are on a very low income (which they will be if they are claiming Carer's Allowance with its £84 per week earnings limit).

Governance

26. We welcome the commitment that the delivery authority and personal accounts board will design the fund options based on consultation with people in the target group. We recommend that this group includes at least one person who has had periods out of the labour market because of caring responsibilities.

Interaction with other pensions and savings

27. Personal accounts should be set up in such a way to ensure that it always pays to save. Carers UK is concerned that where a carer has a low level of savings from personal accounts and an incomplete state pension history, they would have been just as well off not saving and relying on means-tested benefits.

28. Government estimates that 30% of households will remain eligible for pension credit in 2050 and accepts that for some pensioner households (up to 10 percent) it will not be worthwhile to save. The difficulty for individuals is that during their working life someone will not necessarily know whether they will end up in this group. This particularly applies to carers who may have been earning a good income during their early working life, but are forced to give up work by an unexpected caring responsibility. Caring can happen to anyone and three in five of us will care at some point in our lives. Women have a fifty-fifty chance of being a carer by the age of 59. The onset of caring responsibilities in someone's forties and fifties could have a devastating impact on their ability to build up a complete state pension record and have private savings which will bring them a decent standard of living in retirement.

29. Given the complexity of making advice and information available on such a large scale, it is preferable to ensure that it always pays to save. This means ensuring that people will be lifted clear of Pension

Credit wherever possible. To achieve this, it is vital that carers are given every opportunity to build up a good state pension record. The reforms the Government is proposing to introduce to the state system – principally the reduction in qualifying years needed for a full Basic State Pension to 30 and the introduction of the Carer's Credit – will make a huge difference and will help many thousands of carers build contributions to their state pension.

30. However, Carers UK believes that the Government should go further in ensuring that all those caring for 20 hours a week or more can access the Carer's Credit. Government itself estimates that restricting eligibility to the credit to those caring for someone claiming certain disability benefits means that 40,000 carers will not get the Carer's Credit for the BSP and 60,000 will not accrue entitlement to S2P. Allowing alternative ways for carers to claim the credit – by allowing a health or social care professional to certify that someone is a carer – will mean that these carers will not miss out.
31. If they are not eligible for Carer's Allowance but are unable to work, carers will often be claiming other benefits – such as Incapacity Benefit or Income Support – which may give them a credit to the Basic State Pension, but they will not necessarily be building up S2P. Carers UK believes that S2P plays a crucial role in lifting someone clear of means-tested benefits and every effort should be made to credit carers with S2P.
32. Individuals must also have a clear understanding of what their future pension entitlement will be. The State Pension Forecasting team plays a crucial role in informing people of their state pension entitlement. Evidence from calls to our Carersline indicate that the reliability of this service could be improved.
33. As well as ensuring carers have a decent state pension base, Government could make changes to capital disregard and trivial commutation limits to ensure that it always pays to save. Increasing the trivial commutation level from the current £15,000 would encourage people to save into a personal account even if they are not going to build up enough contributions to receive a pension income from their savings. Likewise, increasing the capital disregard for Pension Credit from the current £6,000 would encourage a saving culture even among those on low incomes who do not expect their earnings to increase over their lifetime. We recommend raising the capital disregard to at least £10,000.
34. There must also be mechanisms in place to ensure that individuals have access to advice when they are likely to be at risk of it not

paying to save. One idea which has been suggested is a 'traffic light system' which categorises people into green, amber and red categories depending on how likely it is that it will pay to save for someone in their circumstances. We would welcome further consideration of such a scheme as its simplicity would make it easy for people to understand. There should be targeted advice available for households at risk of making the wrong decision to help them make an informed decision.

35. Government is proposing that people should not be able to transfer in and out of their personal account. Carers UK believes that being able to transfer small pots of existing pension savings into a personal account would help those employees who have built up small amounts of savings in several jobs. Consolidating them in to a single pension would ensure that an employee was better able to predict their income from those pensions in retirement. To limit the impact on existing pensions markets, transfers should be included in the lifetime limit on contributions.

Information and advice

36. The delivery authority and personal accounts board must ensure that all potential savers have access to relevant information and advice which will help them make an informed choice about saving for their retirement.
37. This might include several tiers, with all consumers given access to basic information, followed by opportunities for generic advice (over the telephone) and also specific advice (over the telephone and in person).
38. The range of information available should include specific information targeted at carers. This is essential given the complex interactions between earnings, savings and benefits. The implications of leaving and rejoining the labour market at fairly short intervals must be explained.
39. Information should be based around lifetime events and must be coordinated across Government departments. Materials must be tailored around the reality of people's lives, rather than expecting individuals to know what information they require. For example if someone becomes a carer they should have information which tells them about the implications of leaving work in terms of benefits, rights, services and pensions.
40. Information should be available from different sources and the voluntary sector will of course play its part in supporting client

groups. However, the personal accounts board must not rely solely on the voluntary sector for specific advice provision without consideration of capacity and resource issues.

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