

The Royal British Legion Policy Statement

March 2007

War Pensions and Allowances - Uprating

Purpose

This document provides details regarding the uprating of War Pensions and Allowances. It outlines the Legion policy with regard to the re-linking of War Pensions and Allowances to earnings, opposed to the Retail Price Index.

Background

In 1979 the legislation regarding War Pensions and associated allowances was amended. Under the previous legislation, annual increases were directly linked to increases in average earnings. Since 1980 the Secretary of State for Defence has annually increased War Pensions and allowances allowed by the Naval, Military and Air Forces Etc. (Disablement and Death) Service Pensions Order 2006 (SPO06) in line with the Retail Price Index (RPI), or inflation. This has become custom and practice in line with the increases for all other State benefits.

The Department for Work and Pensions (DWP) this year released their White Paper on Pensions entitled "Security in retirement: towards a new pensions system". This document outlines proposals to re-link the State Pension with earnings. Specifically it states:

"We will improve the foundation for all while continuing to tackle pensioner poverty. We will reform the state pension system by uprating both the guarantee element of Pension Credit and the basic State Pension in line with earnings growth rather than prices."

Additionally, at the Labour Party Conference this year, the Prime Minister stated:

"10 years ago I would have described re-linking the Basic State Pension with earnings as 'Old Labour'. Our aim is by 2012, but by the end of the next Parliament at the latest – we are going to do it."

This statement confirms that the government has recognised the need to increase incomes for those over retirement age. Evidence for the need to increase the incomes of people in the ex-Service community can be found in the Legion's research report "Profile of the Ex-Service

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Community in the UK". The report found that 11% people in the ex-Service community report living on a net household income of less than £5,000 per year (less than £420 per month or £100 per week); this is equivalent to 927,000 people. While this figure should be treated with some caution, it is still indicative of a large number of people living in poverty. Those on the lowest incomes are widow(er)s and those aged between 75 and 85 years.

Financial need among the ex-Service community is also set to increase significantly over the next 15 years. Our forecasting work - "Future Profile and Welfare Needs of the Ex-Service Community" - has predicted that the 85+ age group is set to increase by 220%, ballooning from around 290,000 people now to 920,000 by 2020.

Financial Implications

According to figures from the financial analysts at Watson Wyatt, average earnings in the UK have increased by more than 550% over the last 25 years, while the RPI rate of inflation has only risen by around 350%. In 2005 a 100% War Disablement Pension was £127.40 a week, in 1979 this would have been £36. If this same £36 War Pension had increased in line with average earnings it would now be worth around £200 per week. This means that veterans and widow(er)s are now around £70 per week worse off.

As at December 2005, there were 227,125 people in receipt of a War Pension of some kind and 194,645 different allowances paid. These figures are not mutually exclusive and many people receiving an allowance will be in receipt of a War Pension, and/or in receipt of one or more allowance.

The simplest way of providing an indicative figure (and an over-estimate) on the cost of re-linking War Pensions and allowances with average earnings is to calculate the cost of increasing all War Disablement Pensions at 100%. Taking the inflation figure of 2004/05 (2.8%) and the average earnings figure for the same year (4.6%) - the annual cost on the 2005 100% War Pension of £127.40, would be a total increase of around £4.3 million per annum, on these rates.

Recommendation

It has been suggested by Veterans Policy Unit (VPU) staff that War Pension and allowances increases will increase with average earnings when State Pensions and Pensions Credits re-link. However, we should push for an early announcement on this from the Minister for Veterans, and for a change in advance of the State Pension due to the relatively minor financial impact and hardship.

We should also press for this increase to be enshrined in the SPO through an amendment by the Secretary of State. These changes will assist people financially in the short and long-term future.