Resolution Foundation

Cold comfort

Mitigating the Winter Fuel Payment cut

1 October 2024

Alex Clegg and Jonathan Marshall

The announcement that Winter Fuel Payments are to be restricted to recipients of Pension Credit or similar means-tested benefits has sparked controversy[1]. The Government and its defenders point to the lack of sense, in these straitened times, of making fuel payments to all pensioners when the majority do not need them. Opponents, however, highlight the number of low-income pensioners who do not claim (or even qualify) for Pension Credit, who are now set to lose much-needed support.

Universal Winter Fuel Payments are clearly an inefficient way to address the current reality of energy cost pressures in Britain, especially when non-pensioner families are more likely than pensioners to be living in fuel stress. But concerns for vulnerable pensioners who are set to lose out are valid and, with the Government unlikely to reverse its decision, mitigations should be put in place this winter to soften the impact of the cut. As such, this spotlight focuses on what can be done to help them, and other households facing similar pressures, through a winter of high fuel costs. Viable options should meet two criteria: the ability to be targeted at both income and energy needs, and allowing the Government to retain a large portion of the pencilled-in saving from the Winter Fuel Payment restriction. A social tariff would be ideal, but isn't feasible for the imminent winter, so we explore four alternatives:

1. **Reducing bills directly through reforms in energy policy** – which can be scaled by energy use but cannot target based on incomes.
2. **Cutting costs for families on pre-payment meters** – this would largely benefit poorer families, but a relatively small number of them compared to other options.
3. **An expansion of the Warm Home Discount scheme** – which enables greater support to be channelled to poorer benefit-receiving families, but does little to help those who have lost the Winter Fuel Payment.
4. **A substantial expansion of the Cold Weather Payments scheme** – perhaps the most promising avenue, in that it can target based on reasonable proxies for income

and energy need, and could replicate a cut-price version of the universalism lost in the Winter Fuel Payment cut.

The Government's decision to means test Winter Fuel Payments is controversial, but pensioners are on average far better off than in the past

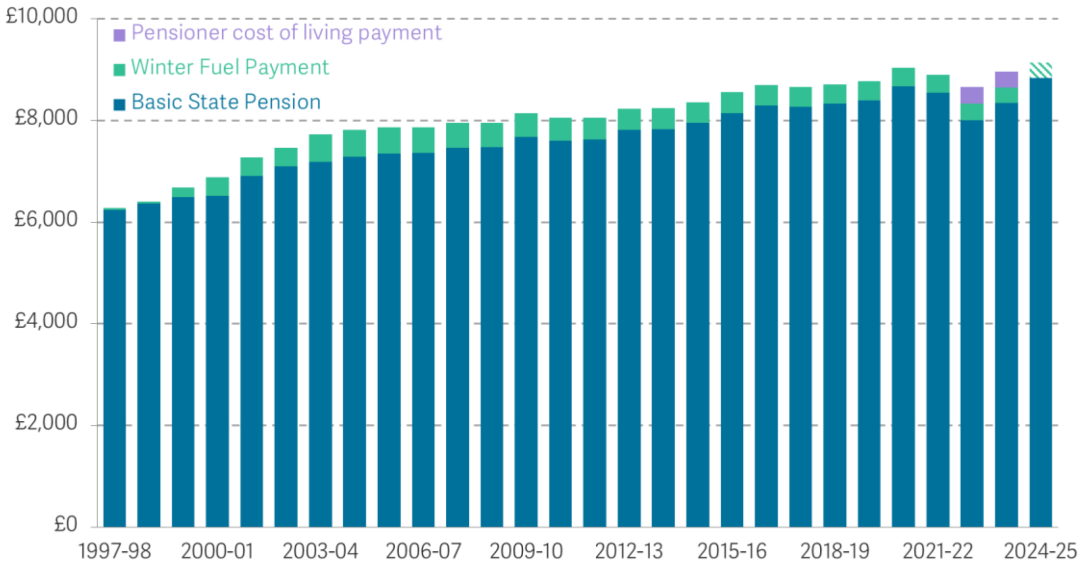
In July, the Government announced that Winter Fuel Payments (WFPs) will from this winter be paid only to the 1.5 million pensioner families in receipt of Pension Credit (PC) or an equivalent means-tested benefit, as part of an effort to reduce what it has quantified as a £22 billion 'black hole' in the country's public finances. The payments have been made to almost all pensioner households every winter since their introduction in 1997, and are currently worth £200 or £300 depending on age and family composition.[2] The decision will mean up to 7 million families losing the payment this winter, saving the Government £1.3 billion, rising to £1.5 billion in subsequent years (in current prices).

This move has sparked fierce debate. The Government and its defenders point to the oddity, in straitened times, of making payments to all pensioners, when some of them are very wealthy. Others, however, point to the vulnerable pensioners – who don't claim or even qualify for Pension Credit – that are now set to lose much-needed support this winter. Disability campaigners have pointed to the risk of excess winter deaths, and MPs from across the political spectrum have taken umbrage with the decision.

In charting a course through the row, one crucial part of the context is the broadly positive trends in pensioner incomes over the last generation or two. When WFPs were introduced by then-Chancellor Gordon Brown in 1997, three-in-ten pensioners were living in relative poverty, and the State Pension did not provide an adequate safety net (not least because millions of women did not fully qualify for it). Since then, pensioner poverty has roughly halved – falling to 16 per cent – and as Figure 1 shows, the real annual value of the Basic State Pension has risen by £2,600 (in 2024-25 prices), chiefly through an accretion of annual rises, which are currently set through a generous formula known as the 'triple lock'.

Figure 1 **The adequacy of the State Pension has increased considerably since Winter Fuel Payments were introduced in 1997**

Real annual value of the Basic State Pension and the Winter Fuel Payment, 2024-25 prices: Great Britain



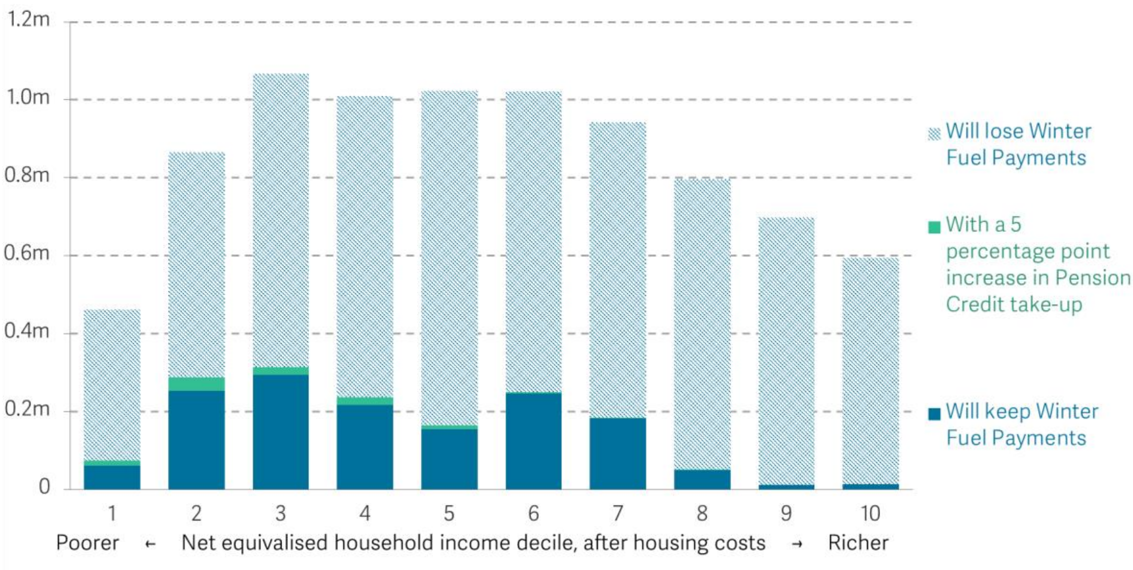
Notes: Winter Fuel Payment amounts shown are for a pensioner aged 80 or over. Figures for 2022-23 and 2023-24 includes £300 pensioner Cost of Living payments. Winter Fuel Payments in 2024-25 will be restricted to families claiming Pension Credit or another means-tested benefit. All figures deflated by CPI.
Source: RF analysis of DWP, Benefit and Pension Rates.

But many pensioners will still be squeezed this winter by low incomes, costly energy, or both

Of course, even if pensioners as a whole receive far more than in 1997, some will still struggle with energy bills this winter. As Figure 2 shows, continuing with the WFP for Pension Credit recipients won't shield all (or most) poorer pensioners from the cut. We estimate that around one million pensioner families among the poorest fifth of all UK households will lose the money, either because they're entitled to Pension Credit but don't claim (the most recent official estimates confirms take-up remains stubbornly low, with around 37 per cent – or 800,000 eligible families – missing out), or because they are just above the entitlement threshold, sometimes because of the stiff adjustment that the calculation makes for savings and other assets.[3] The Government has promised an active Pension Credit take-up campaign, but even if this works as it expects it would only boost the take-up rate by 5 percentage points. That would mean about 100,000 additional families keeping the WFP this winter, when – as we have seen – a decent guess of the problem group would be around eight times that.

Figure 2 **Most poorer pensioner families will lose the Winter Fuel Payment, despite its continuation for those on means-tested benefits**

Estimated number of pensioner families who will lose and keep Winter Fuel Payments, by whole population income decile, 2024-25: Great Britain

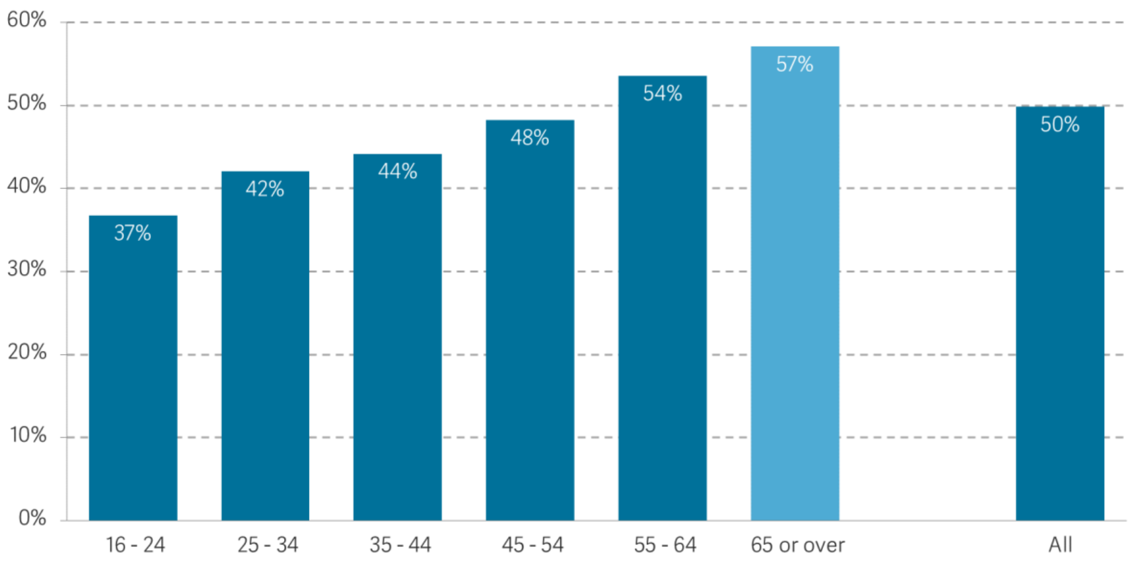


Notes: Shows pensioner benefit units only, organised into income deciles by equivalised after-housing-costs household incomes for the whole population (i.e. including non-pensioner families), including disability benefits.
Source: RF analysis of DWP, Family Resources Survey using the IPPR tax benefit model.

The energy price outlook adds to concerns that poorer pensioners could struggle this winter. Although energy costs have fallen from extraordinary highs reached in 2022, the price cap remains significantly higher than pre-crisis levels, at an annualised £1,717 for an average household in Q4 2024 compared with £1,277 in Q1 2022, in nominal terms. But pensioner households are not 'average' households when it comes to energy consumption. First, they are likely to spend more time in their homes than the working-age population. They are less likely to be out at work, of course, and 45 per cent of people in England and Wales over the age of 65 report that they have a disability, for example, compared to 23 per cent of the working-age population.[4] Second, as Figure 3 shows, households headed by those aged 65-plus are more likely to live in a home with poor energy efficiency (i.e. an Energy Performance Certificate (EPC) rating of D or worse) than younger age groups. And third, elderly people are simply more likely to be physically vulnerable to the cold, in various ways.

Figure 3 **Pensioners are more likely to live in energy-inefficient homes than younger households**

Proportion of households living in property with an Energy Performance Certificate of D-G, by age band, 2020-21: England



Notes: Households organised into age bands by age of the household reference person.
Source: RF analysis of MHCLG, English Housing Survey.

The benefit system gives the Government options to mitigate the impact of the Winter Fuel Payments cut

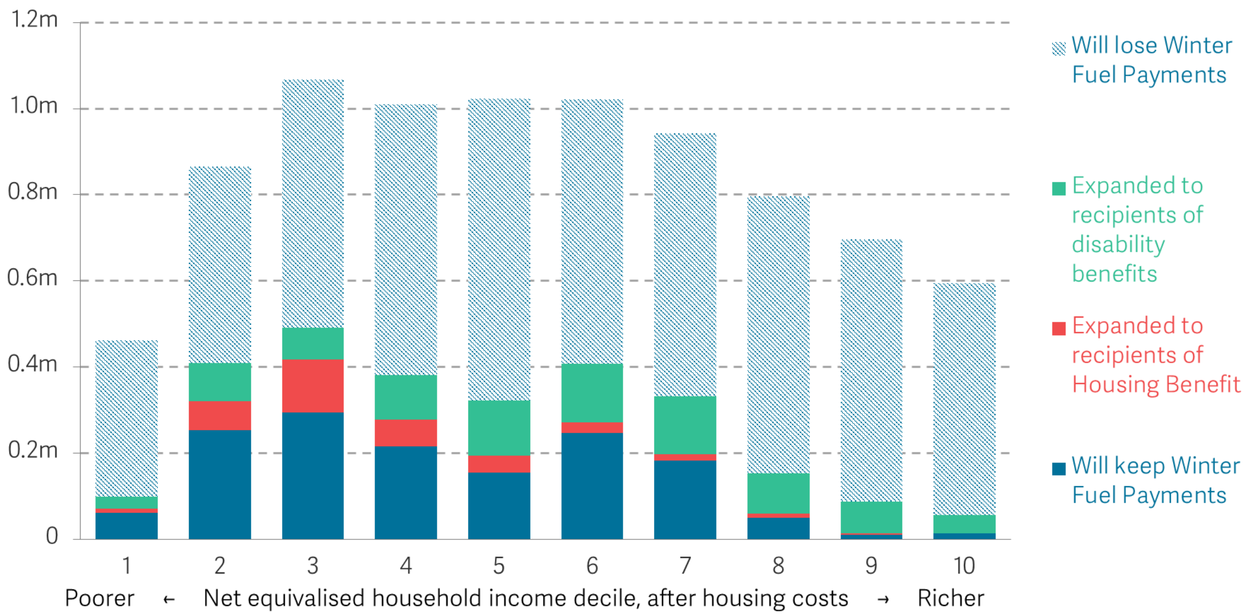
The Government is giving no sign that it could backtrack on its basic decision. But could it do more to ensure that fewer vulnerable pensioners struggle this winter? The Government itself pointed to the recently-extended Household Support Fund as a potential source of relief for pensioners losing their payment, but in reality there are two reasons it's unlikely to protect most of them. First, some councils are choosing to use the fund to make 'passported' payments to people on means-tested benefits such as Pension Credit – in other words, to exactly that same group that will hang on to their WFPs. For another, even where local authorities maintain a chunk of the Household Support Fund for discretionary relief, the tests they will apply are uncertain, and vulnerable older people would need somehow to know about these local and improvised schemes in order to apply. Take-up is likely to be even worse than it is with Pension Credit, a scheme which is nationwide, permanent and publicised. The underlying challenge here is that receipt of existing benefit is by far the best proxy the Government has for identifying those in need, which means those who, for whatever reason, don't or can't claim risk being invisible to novel efforts at targeted help.

Nevertheless, the existing benefit system could be used to do more for vulnerable pensioners who are set to lose the Winter Fuel Payment. For a start, payments could be restored for those in receipt of Housing Benefit, which has a much higher take-up rate than

Pension Credit (79 per cent compared to 63 per cent). We estimate this would result in a further 360,000 families receiving WFPs this winter, 300,000 of whom are in the bottom half of the income distribution (see Figure 4), at a cost to the Government of around £100 million this year.[5] And it could go further and pay WFPs to all pensioner households in receipt of a disability benefit too. Doing so would cost an additional £200 million this winter, and would benefit a further 900,000 families, of which 420,000 are in the bottom half of the general income distribution.[6]

Figure 4 **Continuing with Winter Fuel Payments for extra groups of benefit claimants could protect up to 1.3 million more pensioner families**

Estimated number of pensioner families who will lose and keep Winter Fuel Payment under expanded eligibility criteria, by whole population income decile, 2024-25: Great Britain



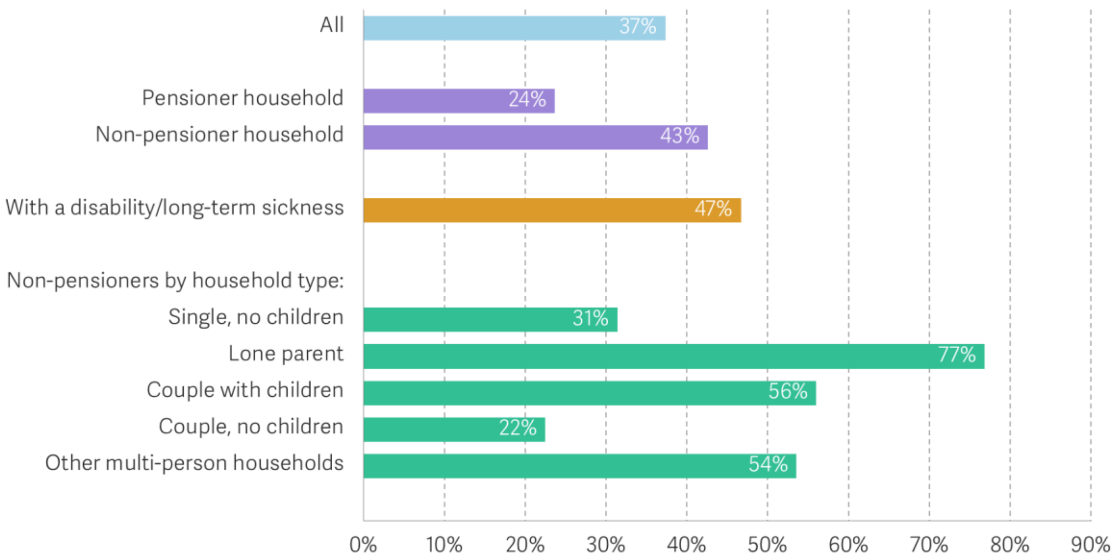
Notes: Shows pensioner benefit units only, organised into income deciles by equivalised after-housing-costs household incomes for the whole population (i.e. including non-pensioner benefit units), including disability benefits. Assumes no increase in Pension Credit take-up. Disability benefits include Attendance Allowance, Disability Living Allowance and Personal Independence Payment.
Source: RF analysis of DWP, Family Resources Survey using the IPPR tax benefit model.

Non-pensioners are currently missing from the debate around additional support with energy bills

All attention is currently on pensioners, as it is this group that is suddenly set to experience an unexpected drop in support this year. But non-pensioners are nowadays almost twice as likely as pensioners to be living in fuel stress, defined as being required to spend more than 10 per cent of their after-housing-costs income on energy bills to maintain an adequate standard of warmth (Figure 5).[7] This is even more pronounced for families with children: couples with children are more than twice as likely to be in fuel stress than pensioner households (56 per cent versus 24 per cent respectively), while lone parents were more than three times as likely (1.2 million lone parent households - a staggering 77 per cent - were in fuel stress last year). In this context, continuing to pay Winter Fuel Payments to rich pensioners while poorer working-age families receive no additional support is harder to defend; a policy solving the problems of the past, rather than those of today.

Figure 5 **Non-pensioners, especially families with children, are more likely than pensioners to be in fuel stress**

Projected proportion of households in fuel stress, by age group and household type, 2023-24: England



Notes: Fuel stress is defined as being required to spend greater than 10 per cent of after-housing-costs household income on energy bills to maintain an adequate standard of warmth. Energy spending figures were produced by disaggregating required spending on household fuels into unit and standing charges, and uprating each in line with changes in the Ofgem price cap. Household incomes uprated from 2020-21 values in line with the income projections in A Clegg and A Corlett, The Living Standards Outlook 2024, Resolution Foundation, August 2024, controlling for age and income quintile.
Source: RF analysis of MHCLG English Housing Survey.

Targeting all families with low incomes and high energy costs, regardless of age, would be a better way of providing energy support

While the immediate political pressure is about mitigating losses for pensioners, in principle the fairer way to provide support for energy bills would be to target all poorer families with high energy costs, regardless of age. In practice, there are obvious constraints both from the Government's desire to hold on to the bulk of the Winter Fuel Payment saving it has earmarked, and from the need to ensure that any mitigation is done through reliable and readily available tools, which can get cash out quickly.

Designing a solution that meets all of these criteria is decidedly tricky. Our most obvious "tool" is the benefit system, but that confronts take-up problems, and lacks information on households' energy needs. The alternative mechanism – acting more directly on energy bills – can easily pick out high costs, but is unable to pinpoint who has a low income. So, while no option is perfect, there are still options. We explore four alternative approaches and ask which could provide a quick-fix this winter, and which might offer a more enduring solution for the future.

Option 1: Reducing bills – badly targeted or very badly targeted

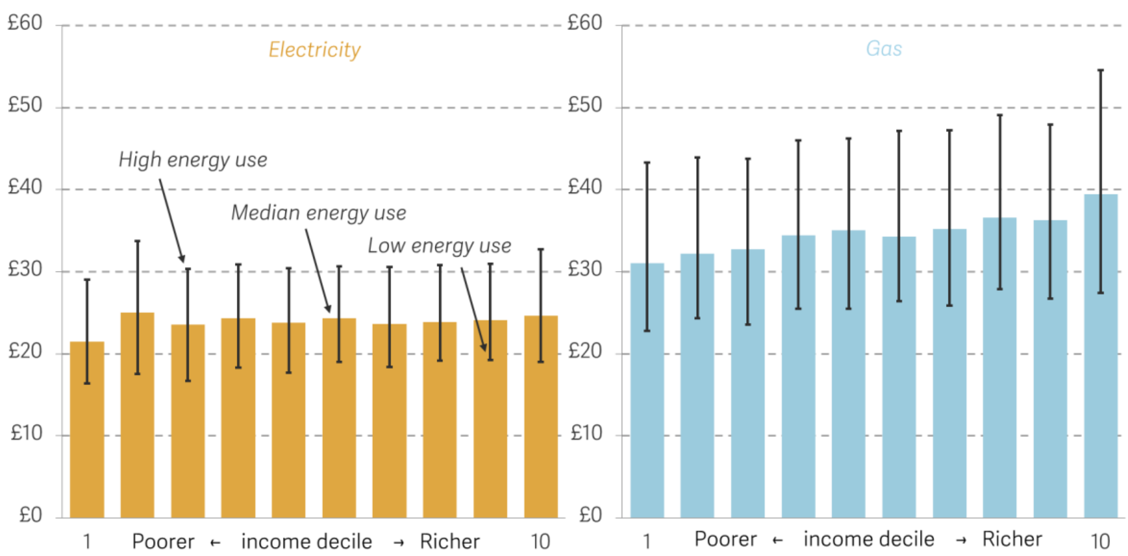
The new Government has prioritised reforming the energy system, with an emphasis on ensuring that the benefits of cheap, renewable electricity are passed through to consumers. But developments within the energy sector inevitably take time, and the distributional effects are extremely complex, depending on the evolving way that different households consume energy in the home.

However, rapid, direct action on prices is theoretically possible: subsidies and caps can and, in recent times, have reduced the price paid for each kilowatt hour of electricity and gas consumed in the home – therefore cutting bills more for those who use more energy. But the last couple of years have borne out the obvious reality that large universal subsidies are costly, and incompatible with the over-arching aim of saving the Government money.

A more modest way to provide support to heavy energy-using families could be reforming various use-related charges on bills that relate to public policy. Across gas and electricity bills, a typical household pays £165 per year towards these costs, but most of this (£105) is tied up with funding legacy renewable energy projects, such as the Renewable Obligation and Feed-in-Tariff, and as such is in the 'too complicated to move quickly' camp. That leaves levies that fund insulation schemes (the Energy Company Obligation) and those that alleviate the costs of high network charges for household in very remote areas, which currently add £25 to the typical electricity bill and £36 to gas bills – so just over £60 in total. One short-term fix could be for the Exchequer to fund these policies instead of billpayers, a move often called for (for electricity at least) to make low carbon heating options more economically appealing. But – other than for extremely heavy energy users, using several-fold the typical amount – this would provide less support than the Winter Fuel Payment. And because a use-related saving would be enjoyed by everyone – young as well as old, rich as well as poor – it would be expensive (approximately £1.5 billion per year, thereby negating savings from limiting Winter Fuel Payments) as well as badly targeted. While poorer heavy-users would gain more than average users, the overall distributional effects would be suboptimal, with the top of the income distribution gaining more than the bottom (see Figure 6). Another perversity would be some who have very high heating costs (because they aren't on the gas grid and heat their homes with other fuels, such as heating oil) would not enjoy the full benefit. Most fundamentally perhaps, the Government would be paying for scatter-gun compensation while wiping out the whole saving from the WFP cut.

Figure 6 **State funding of some energy levies would bring down all energy bills proportional to consumption, but would in no way target the poor**

Average (median) savings from state funding non-energy policy costs currently funded through electricity unit charges (left panel) and gas unit charges (right panel), by after housing costs income quintiles, including interquartile ranges based on energy consumption, 2024-25: England



Notes: Energy spending figures were produced by disaggregating required spending on household fuels into unit and standing charges, and uprating each in line with changes in the Ofgem price cap.
Source: RF analysis of MHCLG English Housing Survey, Ofgem Price Cap data.

Another means of reducing unit costs, albeit only for electricity, would be for the Government to reduce or abolish the Carbon Price Floor at the Autumn Budget. This tax raised approximately £700 million in 2023 and was instrumental in pricing coal generation out of the system, but it has run its course and now only acts to increase the cost of wholesale electricity prices, pushing up typical electricity bills by around £8 in 2023 as a result (a figure that will fall as the power grid decarbonises). But, although there is a clear rationale for dispatching with this tax, this reasoning does not apply for support this winter: it suffers from the same lack of targeting as the previous option, but on a scale that would do too little even for heavier users to compensate in any meaningful way for the lost Winter Fuel Payment.

Other levies that the Treasury could, theoretically, pick up apply to standing charges which all homes pay: such surcharges currently fund the Warm Home Discount (which helps poorer families, and is discussed below) and the Green Gas Levy (which funds the production of biomethane). These charges are, again, too small in scale (£22 per household – split almost evenly between gas and electricity bills) for their waiving to provide anyone with much relief. And going down this route would be the worst-targeted option yet, since the relief would neither be concentrated on poorer families nor heavy energy users, but simply spread equally nearly among all homes. It would amount to a flat-rate cash transfer to all households, which – amid a fiscal squeeze – is something to avoid.

Option 2 – cutting costs on pre-payment meters: helps some customers feeling the squeeze, but misses many more

Households that pay for electricity via pre-payment meters (PPMs) are extremely vulnerable to winter fuel costs, for multiple reasons. For one thing, unlike those who pay via direct debit or standard credit, they are unable to spread the costs of winter energy consumption over 12 months. For another, they are much more likely to be poor: 85 per cent of all families with PPMs are in the bottom half of the income distribution. The cost of energy as billed through these meters might thus look like a much worthier candidate for public support than measures that target all energy users. But there are reasons why it cannot be a complete solution: while it can do something for a third of English households on means-tested benefits (34 per cent of whom have PPMs), it would do nothing for the other two-thirds. And – pertinently to the immediate political problem – it would benefit far more working-age households (14 per cent of whom have PPMs) than pensioner households (5 per cent). All told, just 11 per cent of English households are on PPMs, and only 19 per cent of the poorest half of households, meaning many would miss out.[8]

But the focus on high energy unaffordability means that this remains an avenue worth exploring, and there is a precedent for intervention: the last Government acted to curb pre-payment prices during the peak of the energy crisis. The new Government could act again, reducing the unit prices (set through Ofgem's price cap), with the state making up the difference. For households with typical consumption who pay for both electricity and gas fuels via PPMs, a 10 per cent cut in unit costs would translate into savings of £140 per year, with the majority during the winter, at a cost of £330 million to the Government.

Option 3 – expand the Warm Home Discount: targeted support for many poor families, but excludes those who don't claim benefits

Turning to solutions aligned to the benefit system, additional support could be provided through an expansion of the Warm Home Discount scheme, which currently offers an annual £150 reduction in energy bills automatically to the poorest Pension Credit claimants (i.e. those receiving the Guarantee Credit), and also on a discretionary basis to recipients of other means-tested benefits (including Housing Benefit) living in properties deemed to have high energy costs based on their age, type, floor space and energy efficiency rating. So, this is an option which offers at least some targeting on grounds of both income and (crudely) energy use. One shortcoming is that the scheme is only mandated for larger energy suppliers, but this is less of an issue than it used to be (92 per cent of GB households are currently with the 'Big Six' energy companies, compared to 83 per cent in Q1 2022). But there are also bigger gaps. An expanded Warm Home Discount won't reach any poor families not claiming benefits and many of those pensioners who would gain are precisely those who will retain the Winter Fuel Payment. Some extra pensioners would gain through their receipt of Housing Benefit, but that group could also be targeted simply by expanding Winter Fuel Payments to pensioner Housing Benefit recipients. In sum, a higher Warm Home Discount is not well targeted as a means of compensating pensioners losing their WFPs. But it could be an effective method of delivering increased support to poorer working-age households with high fuel bills, or at least those who claim benefits they are entitled to. As such, it is worth keeping in mind.

Option 4 – Cold Weather Payments: an effective quick-fix

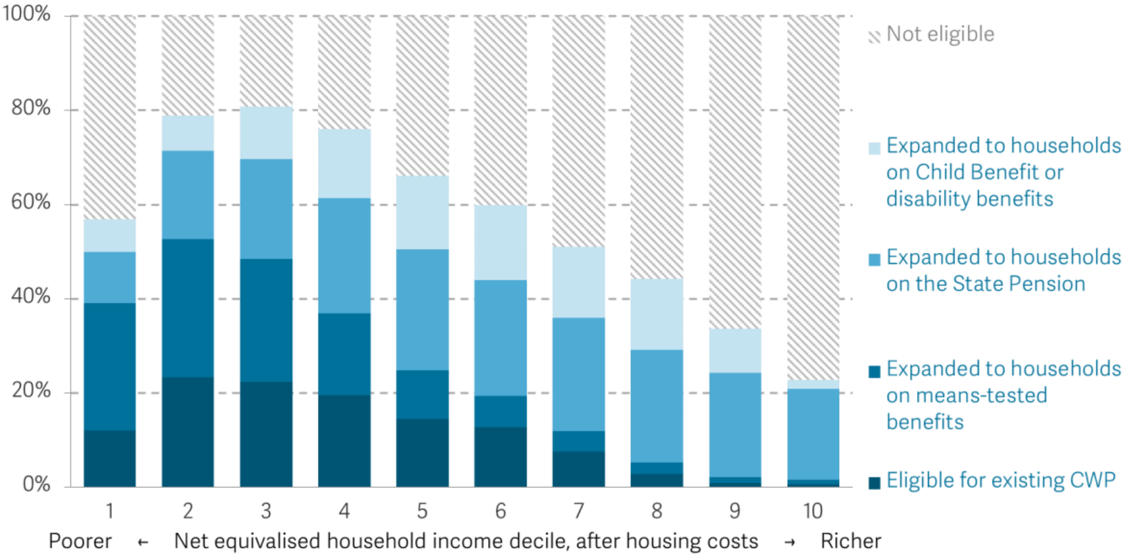
Another benefit-system option is the Cold Weather Payments scheme, which is tied to incomes via benefit eligibility, but also indirectly to energy consumption, because payment is conditional on local temperature. At present, alongside those poorest "Guarantee Credit" Pension Credit recipients, only a select group of working-age benefit claimants are eligible, broadly those deemed unable to work by dint of a health condition or disability, and those out-of-work with a dependent child under the age of five. Payments worth £25 are triggered when local temperatures fall below freezing for seven days in a row.

The scheme could be amended, and quickly, to raise the temperature at which payments are triggered and to expand eligibility. It could even restore a cut-price version of the universalism surrendered by means-testing Winter Fuel Payments, but in a way that is far cheaper because the award is only made during a cold snap. Figure 7 shows the proportion of families in each income decile that would be eligible for Cold Weather Payments under three potential options for expansion:

1. Expanding eligibility to all households in receipt of a means-tested benefit – meaning more of the poorest families would receive support, including non-pensioner households.
2. Expanding eligibility to all households in receipt of a means-tested benefit or the State Pension – this would replicate the universalism for pensioners lost in the restriction of Winter Fuel Payments, ensuring that all poor pensioners would be covered.
3. Expanding eligibility to all households in receipt of a means-tested benefit, the State Pension, Child Benefit, or a disability benefit – this would extend the universalism of option 2 to households with children or a disability.

Figure 7 **Expanding eligibility for Cold Weather Payments could provide a short-term solution for targeted energy support**

Proportion of families that would be eligible for Cold Weather Payments under different options for expansion, by income decile, 2024-25: GB



Notes: Benefit units organised into income deciles by equivalised after-housing-costs household incomes, including disability benefits. Rates of eligibility in each bar are cumulative.
Source: RF analysis of DWP, Family Resources Survey using the IPPR tax benefit model.

Around 4 million families were potentially eligible for payments in 2023-24. Expanding the scheme to all recipients of a means-tested benefit or the State Pension (option 2 above) would add around 12 million eligible families across Great Britain, and expanding to all in receipt of means-tested benefits, State Pension plus all those getting Child Benefit or a disability benefit (option 3 above) would extend eligibility to around 16 million families.

The cost of an expanded Cold Weather Payments scheme would depend not only on these sorts of choices as regards eligibility, but also on weather conditions during the winter. The flipside of the financial uncertainty for the state is economic security for families, who would know that if temperatures plunged they would be offered some extra resources to pay for it. Costs in recent years have been highly variable, ranging from close to zero in 2021-22 to £150 million in 2022-23. But the Government could expand the scheme and also ensure it held on to a large chunk of the original Winter Fuel Payment saving by limiting the number of payments each family could receive.

Conclusion

Our focus in this spotlight has been on getting through a difficult winter that is already looming. Looking further ahead, the Government can – and should – seek to give itself better options for future years, for which we have more time to prepare. Investment in energy efficiency will also be vital to control costs both for families and for the Government, particularly as older households are currently more likely to live in energy inefficient homes.

More particularly in relation to fuel poverty, ministers should move towards the establishment of a government-run social tariff, through which incomes and energy needs can be taken into account directly. This will allow for the channelling of support that is both targeted and scaled, and not reliant on such imperfect proxies as benefit receipt and the certified energy efficiency of a home.

Sadly, tardy progress on required data matching within Government (despite there being more than two years since the energy crisis hit) means that it is simply too late to have a comprehensive social tariff up and running this winter. A quicker fix is needed. Universal Winter Fuel Payments were not an efficient way to address the current reality of energy cost pressures in Britain. But worries around removing them from poor or vulnerable pensioners are valid, and immediate mitigation measures are warranted. And as they are put in place, it is also right to reflect on what can cost-effectively be done for non-pensioners, especially families with children, who are – although they didn't get the Winter Fuel Payment – actually more likely than pensioners to be living in relative poverty and fuel stress.

All potential quick fixes are imperfect, including those detailed in this note – there is not yet a good and systematic way to target those with low incomes and high fuel bills. But an expanded Cold Weather Payments scheme looks as good an option as any in terms of concentrating support where it is most needed. It offers a way for the Government to tell all pensioners they will get something in the event of a serious chill, while at the same time offering something to poorer working-age families, who have until now been neglected in the discussion. And the Government could do all this while still pencilling in a large chunk of the savings it had hoped to secure from cutting the Winter Fuel Payment.

---

[1] Thanks to Mike Brewer, Tom Clark and Lindsay Judge for comments.

[2] Winter Fuel Payments are not paid to people who have been in hospital for more than a year, were in prison during the qualifying week in September of the relevant year, or to most people who have lived in a care home for more than 13 weeks. When first introduced in 1997-98, Winter Fuel Payments were worth £50 (in nominal terms) for pensioners receiving certain income-related benefits, and £20 for other pensioner households. This was increased to £100 for all pensioner households in 1999-00; to £200 in 2000-01; and an extra £100 was added for households with someone aged 80 or over from 2003-04. Since then, the payments have been frozen in nominal terms, except for the addition of the £300 pensioner cost of living payments paid in 2022-23 and 2023-24.

[3] Pension Credit receipt is modelled using the DWP's Family Resources Survey and IPPR tax benefit model. This is not a perfect method to determine which families will lose the Winter Fuel Payment as it is not based on actual benefit receipt, but it provides the most reliable estimate given the known issues around underreporting of benefit incomes in the Households Below Average Income dataset. The model gives Pension Credit caseload and eligible-not-claiming figures that are very close to the most recent admin data and official take-up estimate figures. There is no capital limit in Pension Credit like there is in Universal Credit, but under Pension Credit rules £1 is added to a claimant's weekly income for every £500 (or part thereof) of capital they have above £6,000.

[4] RF analysis of DWP, Family Resources Survey, 2022-23. See Figure 7 in L Judge and L Murphy, Under Strain: Investigating trends in working-age disability and incapacity benefits, Resolution Foundation, June 2024.

[5] Alongside the Winter Fuel Payment announcement in July, the Chancellor stated that plans to merge Pension Credit and pensioner Housing Benefit were to be brought forward “as soon as operationally possible”, providing a further reason to include Housing Benefit receipt in the WFP eligibility criteria now.
[6] The measure of income we use to define the income distribution includes income from disability benefits. There are arguments for excluding such income when assessing living standards, as this income is intended to cover the additional costs associated with disability. If we had done this then benefit units in receipt of disability benefits would clearly be more likely to be in the bottom half of the income distribution.
[7] Note that ‘fuel stress’ is the same way that fuel poverty is defined in Scotland and, until 2019 how it was calculated in England too. Since 2019, English households have been deemed to be in fuel poverty if their required spending on energy to meet certain living standards meant their residual income falls below the poverty line, or 60 per cent of median incomes, but only if they live in inefficient housing (EPC D or worse).
[8] Source: RF analysis of MHCLG English Housing Survey.