Reforms to working-age benefits

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Economic and Social Research Council

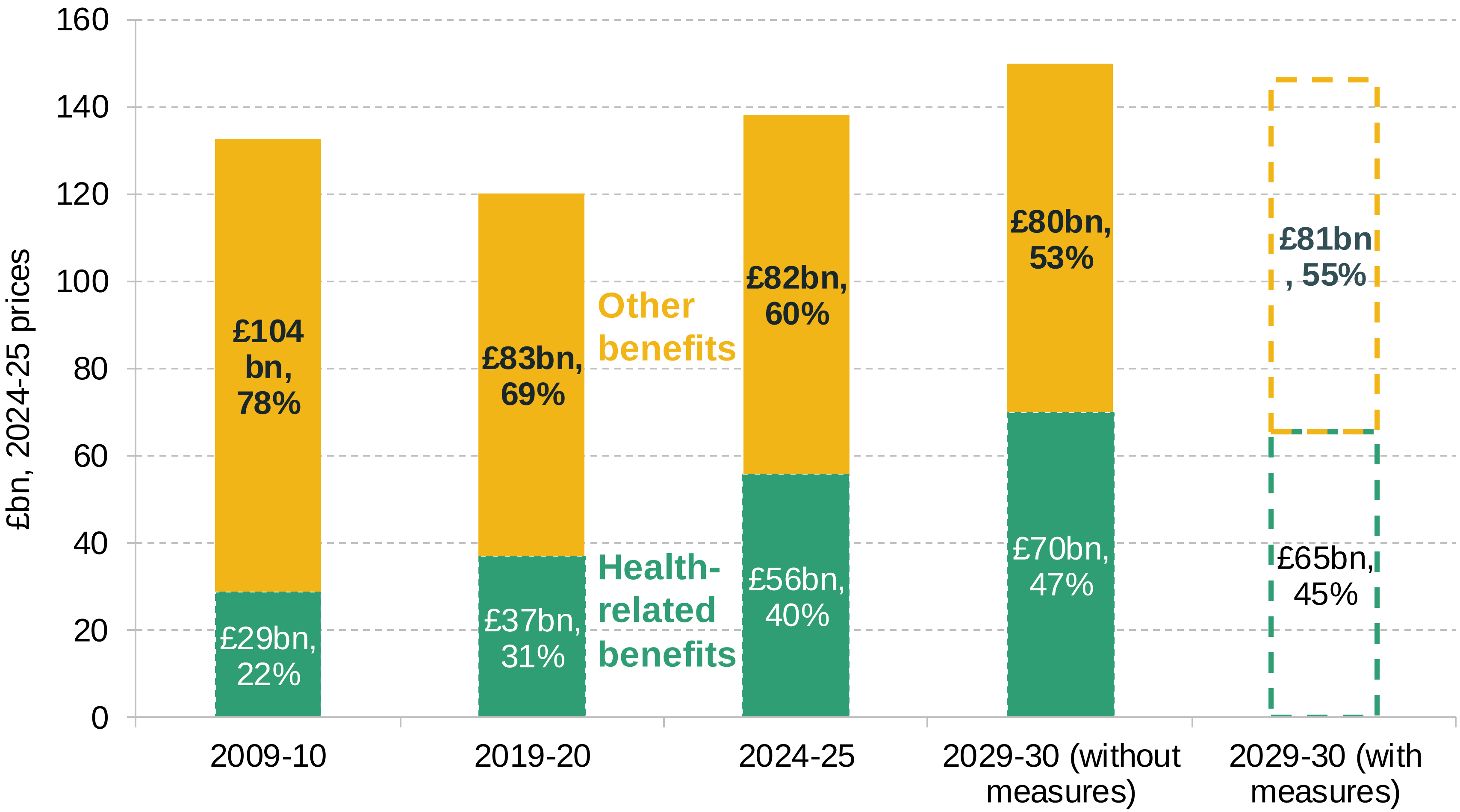
What has the government announced?

- Increase basic rate of universal credit (UC) by 4.8% by 2029–30 - **£1.9bn cost** (6.9m gain average of £275 p.a.)
- Reduce health element of UC: frozen, and, for new claimants, halved too (£5,100 to £2,400 p.a. in today's prices) - **£3.0bn saving** (3m lose average of £1,100 p.a.)
- Tighten eligibility criteria for personal independence payment (PIP) - **£4.5bn saving** (800,000 lose average of £4,500 p.a. + block grant adjustment to Scotland)
- Extra emp. support for people with health conditions - **£1bn cost**
- Confirm cancellation of previous gov. plan to make it harder to qualify for health element of UC - **£1.6bn cost**

- Other reforms announced but not yet enough detail for OBR to score

The shape of the welfare system

Working-age welfare spending (£bn, 2024-25 prices)



Note: Spending excludes disability benefits in Scotland. Health-related benefit spending includes spending on incapacity benefits and disability benefits. It does not include spending on carer benefits or spending on housing support for people with disabilities.
Source: Authors' calculations using OBR Economic and Fiscal Outlook, DWP caseload and expenditure tables

But these costings highly uncertain

- Key reforms' uncertainty labelled 'very high'. OBR's estimate of tightening PIP eligibility:
  - 'Static' basis: 1.5m fewer would qualify under new rules
  - Changes in claimant & assessor behaviour mean 700,000 qualify after all – but could be much more or much less

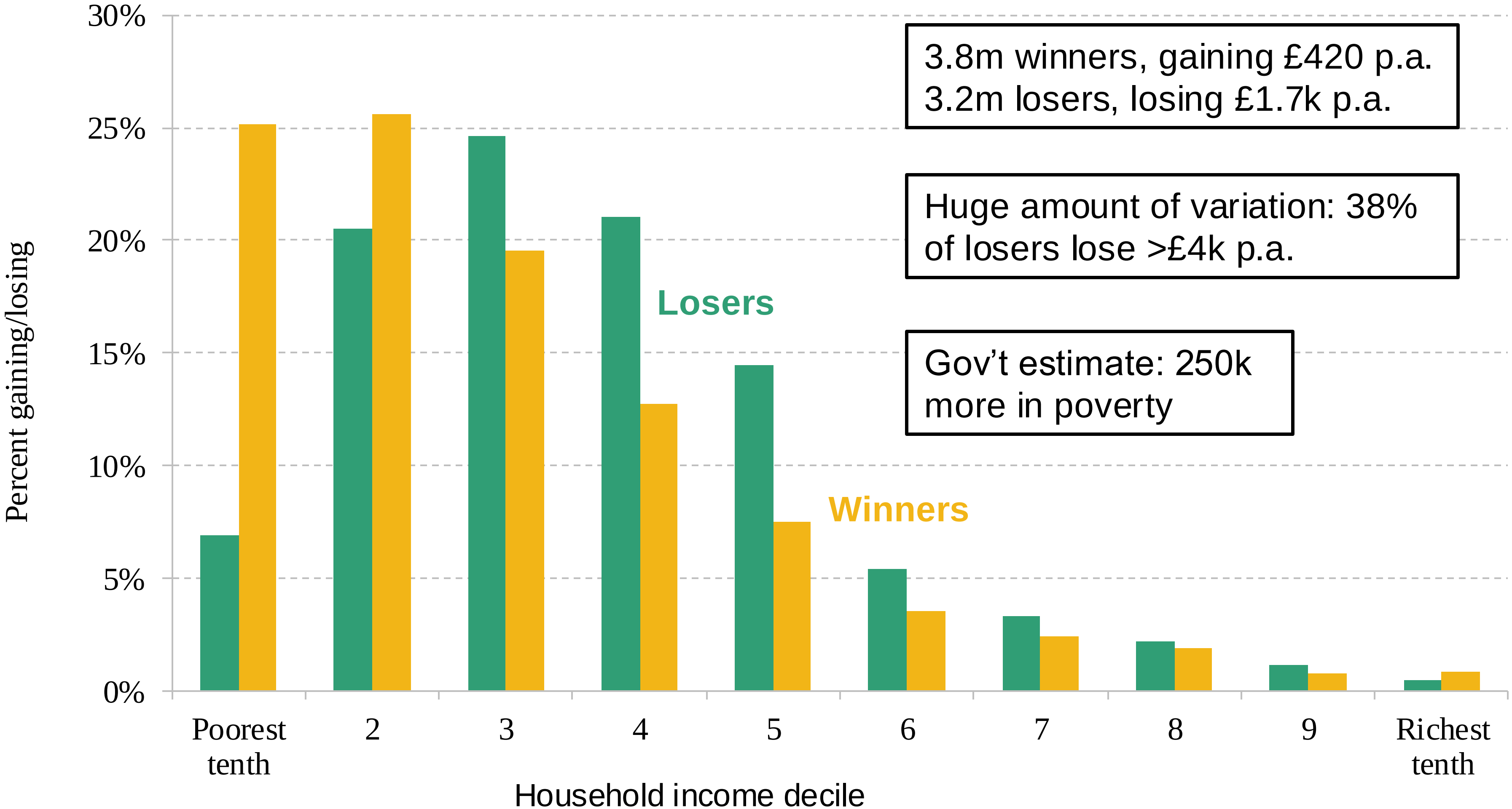
OBR justifiably cautious – changes in behaviour can make reforms save much less than expected:

- Employment and support allowance: expectation for 10-20% to be in more severe group…
  - … in fact more than 70% were
- PIP replacing disability living allowance: expectation for more severe group[1] caseload to fall from 1.3m to 0.9m…
  - … in fact rose to 1.6m

[1] Defined as getting over £6,000 per year in today's prices. Expectations and outturns in this bullet relate to May 2018.

Both gains and losses fall mostly amongst poorer households

Distribution of winners and losers, 2029-30



Note: Among working-age households only
Source: Author's calculations using TAXBEN and Pathways to Work impact assessment.

Employment effects

- Package generally strengthens work incentives for those with health conditions – but may be particularly unlikely to respond
  - No OBR scoring – yet
  - Previous £1.6bn cut to incapacity benefits (cancelled yesterday) - 371,000 lose £4,400 per year; OBR expected 10,000 into work
- £1bn for employment support programmes
  - Based on similar previous programmes, might expect increases in employment in tens of thousands
- Small mitigation against effects on poverty

More to come

Biggest welfare-cutting fiscal event since 2015, but more to come:

- Cut to health element: £3bn saving by 2029-30 – after fully rolled out, £8.5bn
- PIP eligibility tightening: by 2029-30 perhaps a bit under half of caseload yet to be reassessed
- Scrap work capability assessment: ~£2bn cut (before behavioural responses)

Offset by policies still to be specified…

- Additional UC premium for severe disability (unknown)
- New unemployment insurance scheme (unknown)

Conclusion

- Trade-off government is making:
  - Reduce incomes – in some cases by a lot – for those with health conditions
  - In return, stronger incentives & assistance to get into work for many with health conditions, weaker incentives to apply for health-related benefits
- Risk 1: Many of those affected will be very unresponsive to financial incentives & assistance
- Risk 2: changes in claimant & assessor behaviour might mean hoped-for savings do not materialise → fiscal situation trickier still

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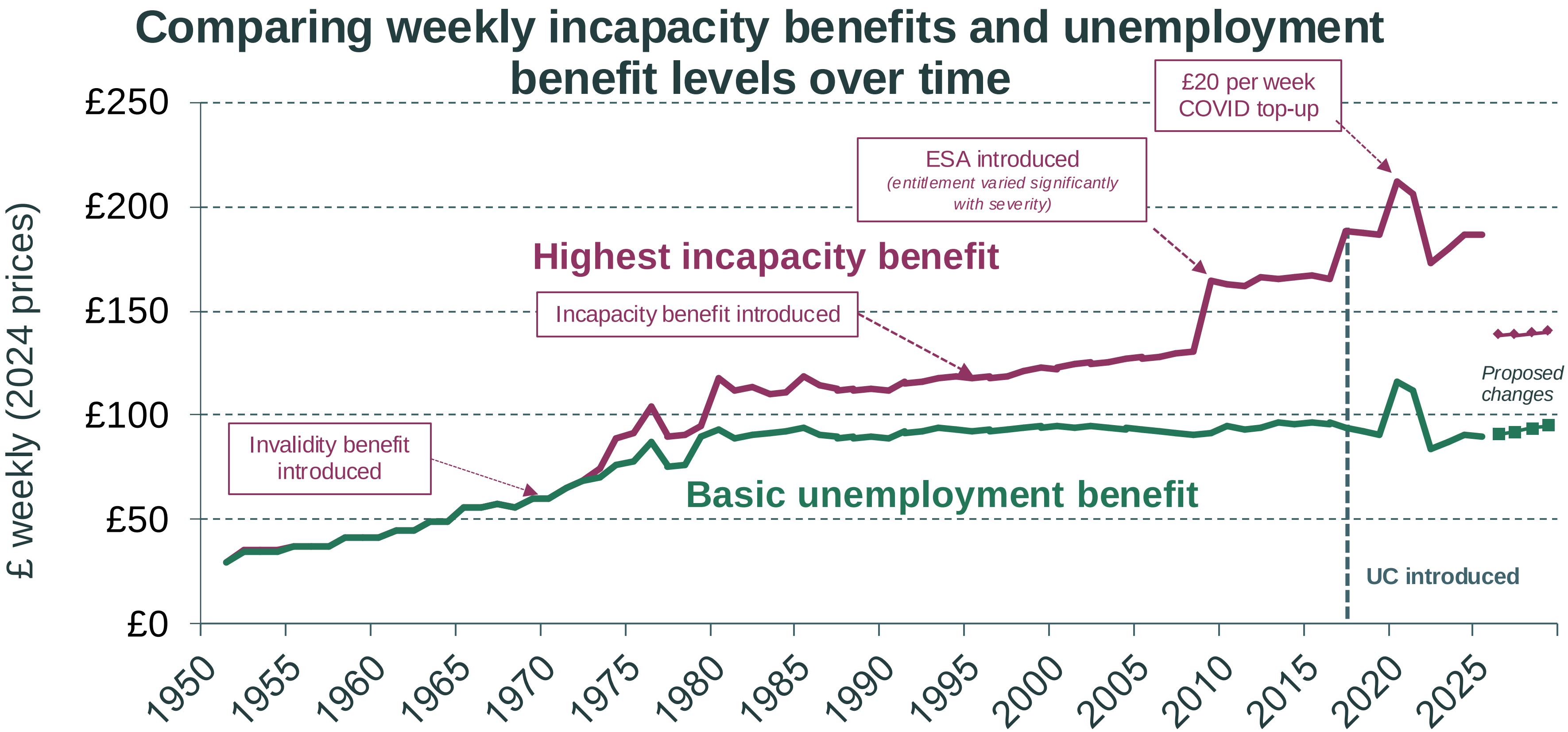
Over the last 50 years, governments have gradually created a gap between incapacity benefits and unemployment benefits



Source: Department of Social Security (various years), Social Security Statistics, London: Government Statistical Service; Department for Work and Pensions (various years), Work and Pensions Statistics, London: Government Statistical Service; Child Poverty Action Group, Welfare Benefits Handbook (various years), London: CPAG.

CPIH from ONS. Note: The transition to Universal Credit is shown in 2017, when the main national roll-out began. Figures are based on a new long-term claim by a single, childless adult aged 45 who is not receiving disability benefits. Does not include support for housing costs or cost of living payments. Incapacity benefit line shows the highest amount possible for an individual with these characteristics (note that those receiving disability benefits could get considerably more ESA).

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