



Institute for
Fiscal Studies

Simplifying benefits: what should we expect from the new government?

Mike Brewer

Institute for Fiscal Studies

Outline

- “Dynamic benefits” (Centre for Social Justice)
 - I was a technical “adviser” to the group which produced “Dynamic Benefits”: I suggested how they could model the impact of their reforms.
 - The group were interested in my contribution to the Mirrlees review
 - I did not discuss policy recommendations nor contribute to the report
- Mirrlees review
 - My contribution
 - The overall recommendations

What problems do the CSJ identify?

The benefit & TC system:

1. is too complicated
 - Time-consuming and bewildering for claimants; time-consuming & expensive for DWP/HMRC
 - Uncertainty means recipients reluctant to risk losing entitlement
2. leads to weak incentives to work
 - Can be weak incentives to take a job, and weak incentives to increase earnings (especially if have children)
 - Passported benefits a particular problem
3. penalises couples, home-ownership and savings

Sound familiar???

What is the CSJ's solution?

1. Fully integrate ALL benefits and TCs for working-age adults
 - NB CSJ suggest two new benefits, but with common rules & application form, like CTC and WTC. Really just 1 benefit.
 2. Change the way that benefits and TCs are withdrawn to strengthen incentives to be in a low-paying job
- These can each be done in isolation...
 - Can integrate benefits & TCs without changing anyone's entitlement
 - Can strengthen work incentives by changing existing benefits & TCs
 - ... But probably have more power if combined
 - They claim reform would increase spending on B&TCs by £3.6bn, but with higher tax revenue (if ppl enter work), reduced losses to fraud & error, and reduced spending on administration

Benefit & TC integration: pros and cons

- Several groups have argued that integration could reduce complexity
 - An integrated benefit should be easier to administer & understand, and would help more to get their full entitlement. Integrating benefits with WTC would ease transition into work
 - An integrated benefit provides opportunity to make more dramatic reforms; at the very least, would make some current absurdities arising through interactions/gaps more transparent
- Large-scale reforms obviously not cheap, and always risky
- Previous government never seemed fully convinced
 - Made ESA a bit more like income-related JSA/IS
 - Took powers to abolish IS

Benefit & TC integration: the CSJ's proposals

- Universal Work Credit
 - Replace IS, JSA, ESA. Paid with conditions. No “maximum hours” rule
- Universal Life Credit
 - Replace HB, CTB, CTC, DLA (with option of CB). No conditions.
- No replacement for WTC: its role subsumed into UWC & ULC
- Where's Carers Allowance? (presumably part of UWC)
- DWP responsible: single form for both Credits; common rules
- Families receiving Credits choose whether to receive BiKs, but if do then assume have higher income
- Recipients paid FULL entitlements; tapering done via employers
- Large earnings disregards; common withdrawal of 55% of net income (like WFTC) – more later

Withdrawing Credits through employers

- CSJ envisage that
 - Credits paid to families in full and employers withdraw any excess
 - DWP would tell employers which employees this would apply to, the withdrawal rate (55% of post-tax income) (and, perhaps, the maximum amount to withdraw)
 - Periodic (annual?) reconciliations
- Lots of opportunities for screw-ups
 - Under and overpayments, especially for two-earner couples & those in erratic employment with non-compliant employers
 - How cope with changes in family status or unearned income?
- I originally suggested this, but I am not convinced !
- But this is not integral to overall vision; no reason why Credits can't be assessed and paid as current set of benefits (or WFTC)

What might the Credits be worth?

- Nothing sacred about these numbers. CSJ sought to strengthen incentives and minimise low-income losers.
- Basic entitlements to Credits set at similar levels to today
- UWC and ULC withdrawn sequentially at 55% net income (WFTC). Means maximum METR across all B&TCs is 69%
- Higher earnings disregard
 - <25: £1,500/yr; >25 or couple with kids: £5,000/yr; Lone parent: £8,000/yr (Reflects current high rate of WTC relative to IS/JSA)
 - Remember: no WTC; higher disregards extend the reach of the UWC so it paid to those in work on low earnings
 - HOWEVER, those receiving HB/CTB have lower disregards. Disregard falls by £1.80 for every £1 of HB entitlement, by £1.30 for every £1 of CTB entitlement, subject to a floor
- As ULC includes DLA, better-off disabled people lose (as would parents if CB included)

Overall thoughts

- Few would argue with goals of simplicity, and stronger incentives to work for those on low-earnings
- But dramatic reforms are costly and risky, and strengthening incentives to work is costly
- CSJ outline interim steps
 - Align benefits so no-one entitled to more than 1 out-of-work benefit [NB personal favourite: scrap CA and have recipients claim IS or WTC (with appropriate changes to rules)]
 - Increase earnings disregards and reduce withdrawal rates in means-tested benefits
 - Move tax credits back to DWP
- Perhaps this a better guide to likely reforms?
- But IDS clearly under pressure to reduce welfare spending ...

The Mirrlees review

- My contribution (<http://www.ifs.org.uk/mirrleesreview/dimensions/ch2.pdf>)
 - Strengthen incentives to work at all, even at cost of extending number of WORKING families on high METRs
 - Short-run (in order of priority):
 - higher disregards in MTBs and introduce 2nd earner disregard in TCs
 - Aligning WTC rates with IS/JSA
 - Cut tax credit withdrawal rate
 - Long-run: integrate all benefits & tax credits
- Overall review conclusions still being considered, but will cover tax, benefit and tax-benefit integration