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Welfare savings

Mike Brewer

£11 billion a year welfare savings by 2014-15

- Index almost all benefits with CPI, not RPI
  - Saves £5.8bn
- Benefits and tax credits for families with children
  - Saves £3.2 bn
- Housing benefit
  - Saves £1.8 bn
- Disability Living Allowance
  - Saves £1.1 bn
- Other: £0.7 bn

- £1.0 bn giveaway to pensioners

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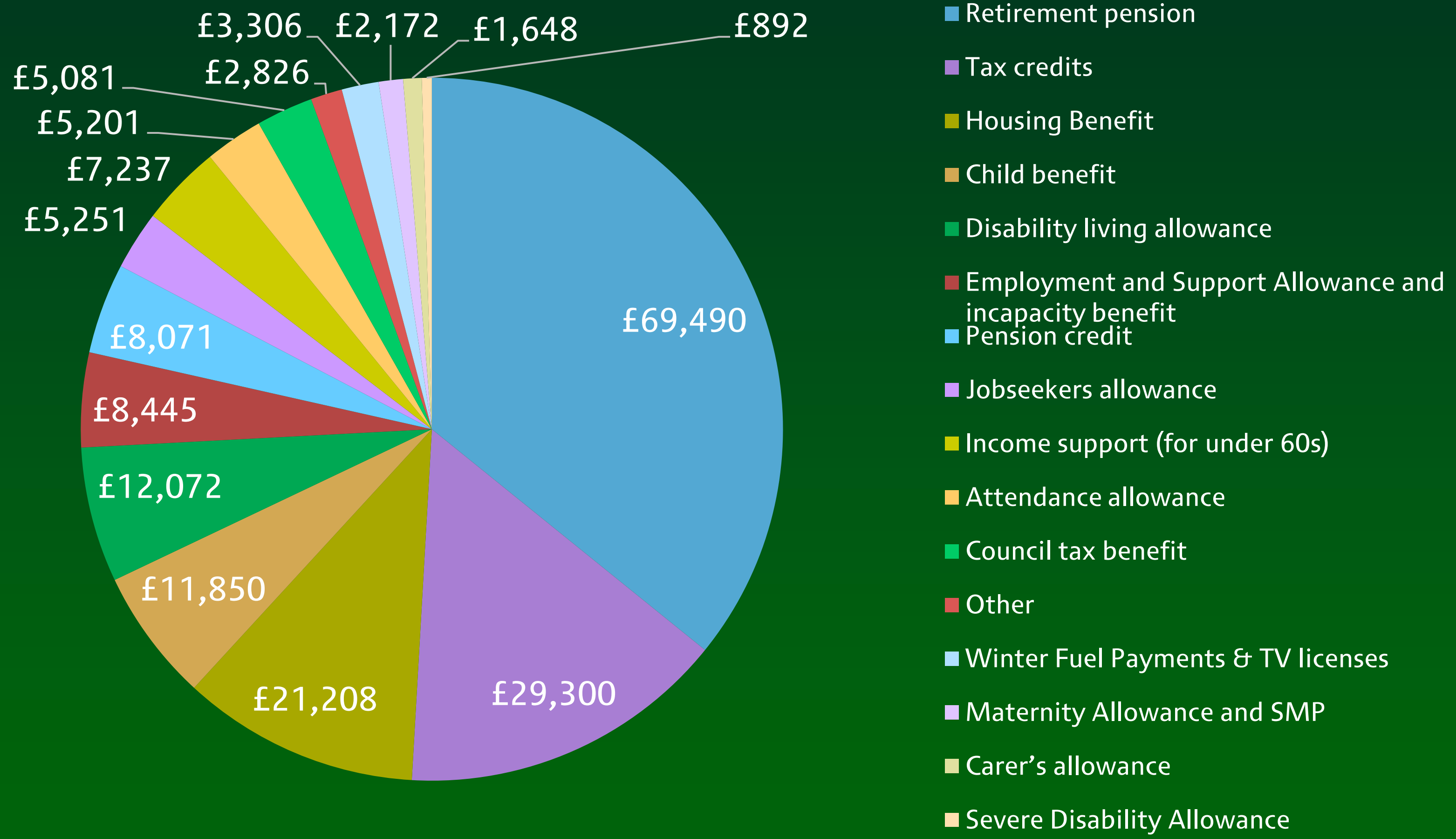
Welfare spending, 2010-11



Figures show estimated spend in £m in 2010-11.

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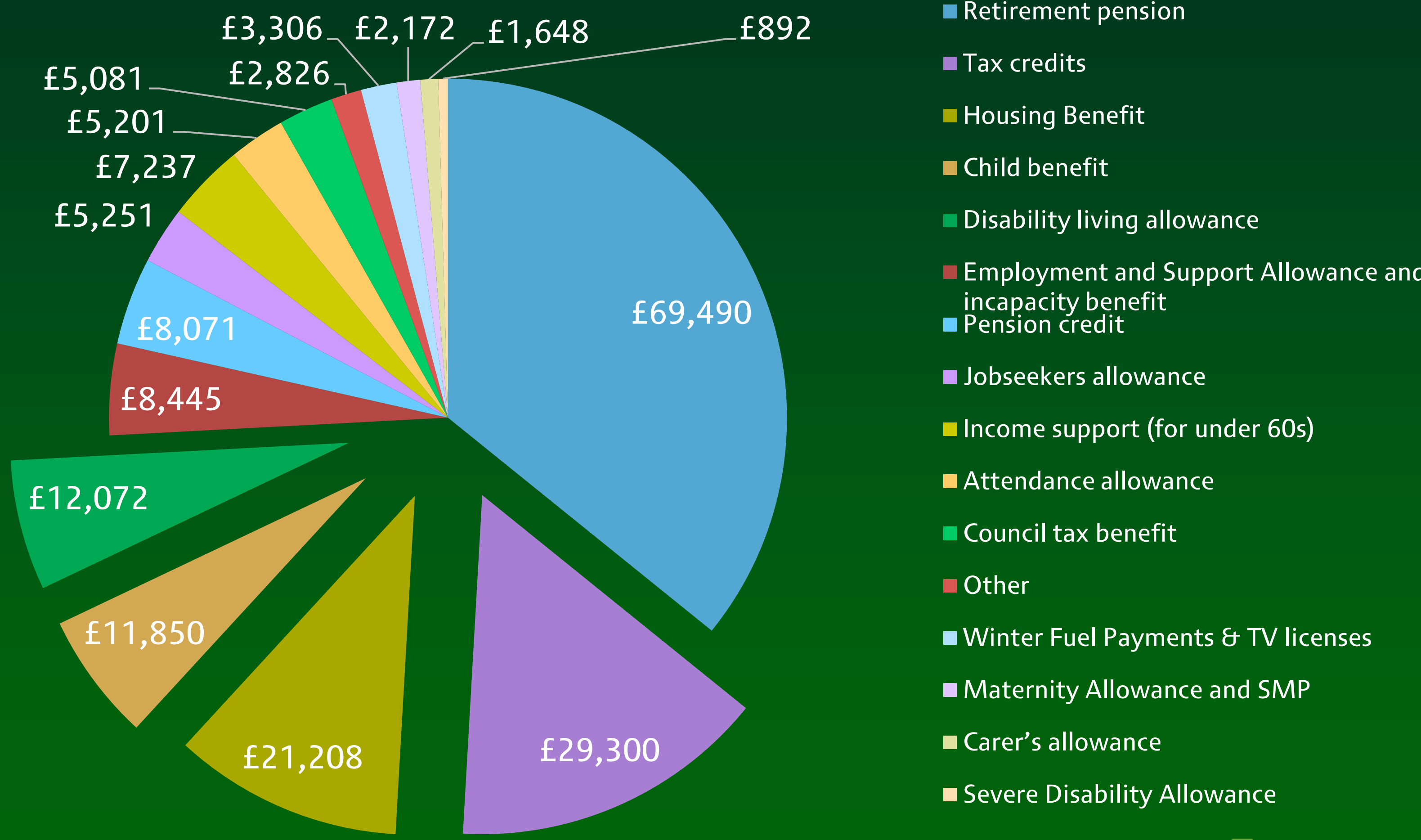
Welfare spending, 2010-11: the main losers



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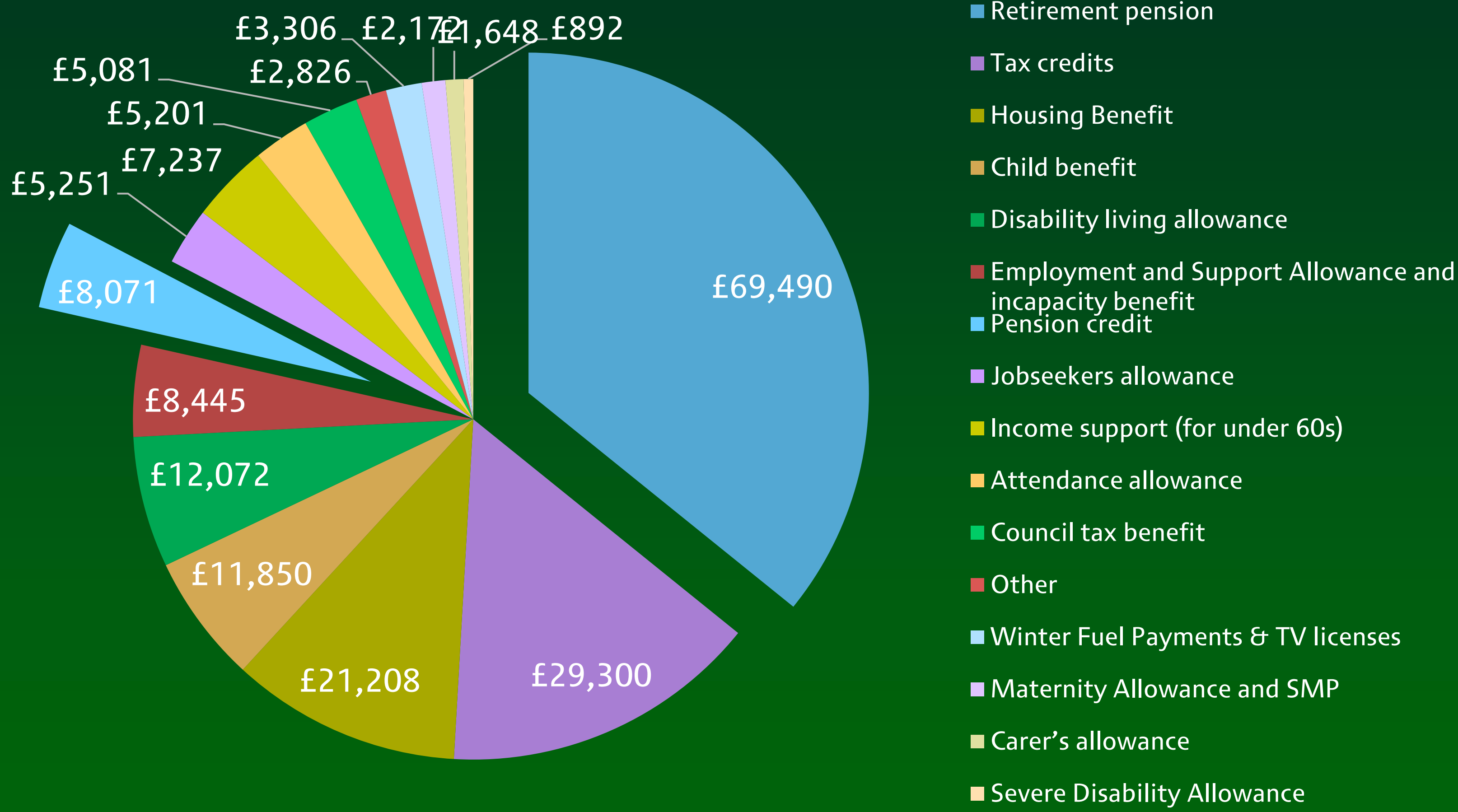
Welfare spending, 2010-11: the main winners



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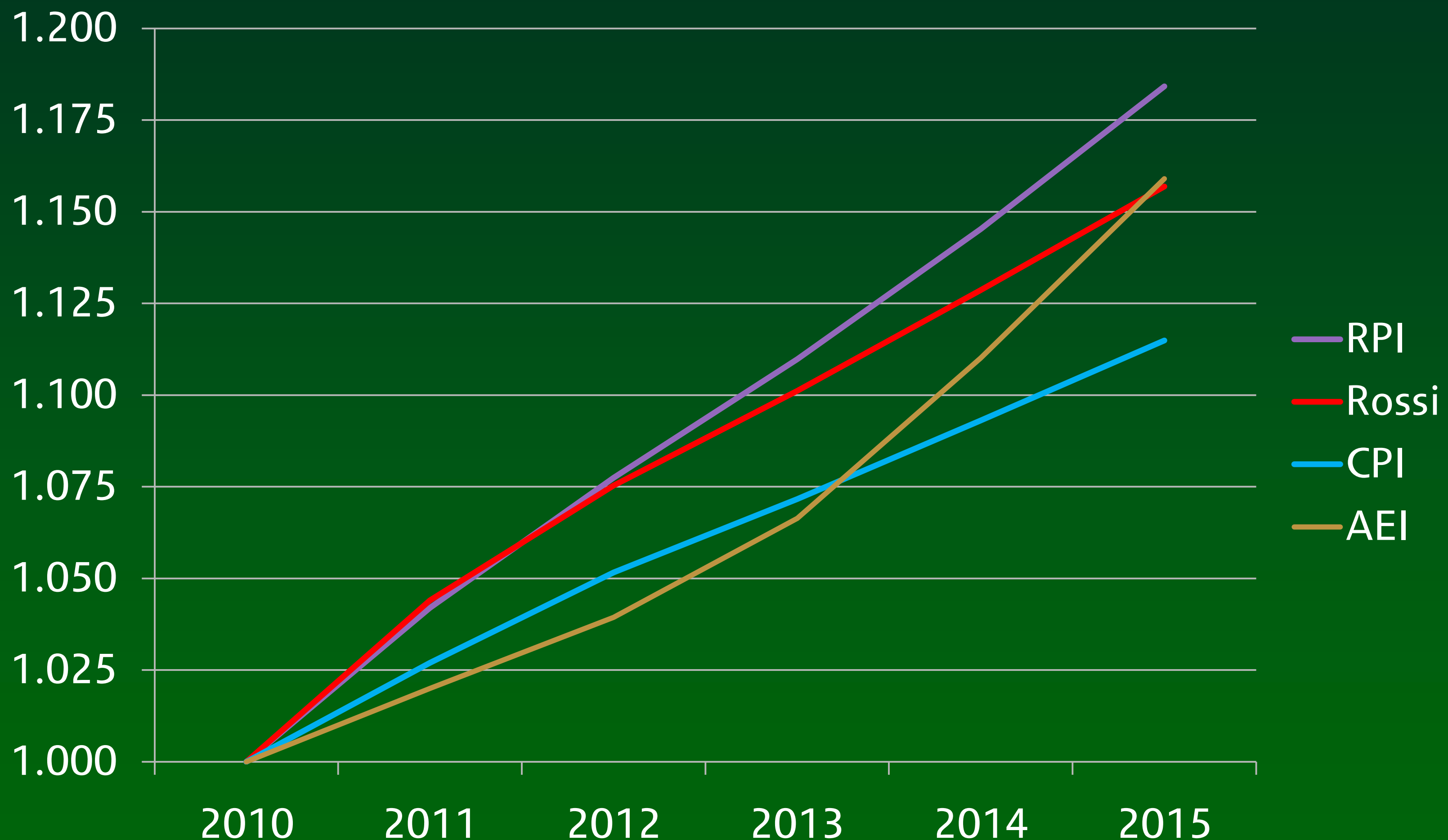
Uprating rules (saves £5.8 bn)

- From April 2011, index almost all benefits, tax credits, state second pension and public service pensions with CPI
  - Means-tested benefits previously indexed to Rossi & others to RPI
  - Exceptions: basic state pension and pension credit guarantee
- CPI tends to be lower. Why?
  - CPI excludes most housing costs
  - CPI calculated differently such that *even if* baskets of goods were the same, it would be lower than the RPI

Benefit levels under different indexation rules



Assumes benefits increased by CPI in Q4 of previous year, RPI or Rossi of September of previous year, average AEI over all of previous year

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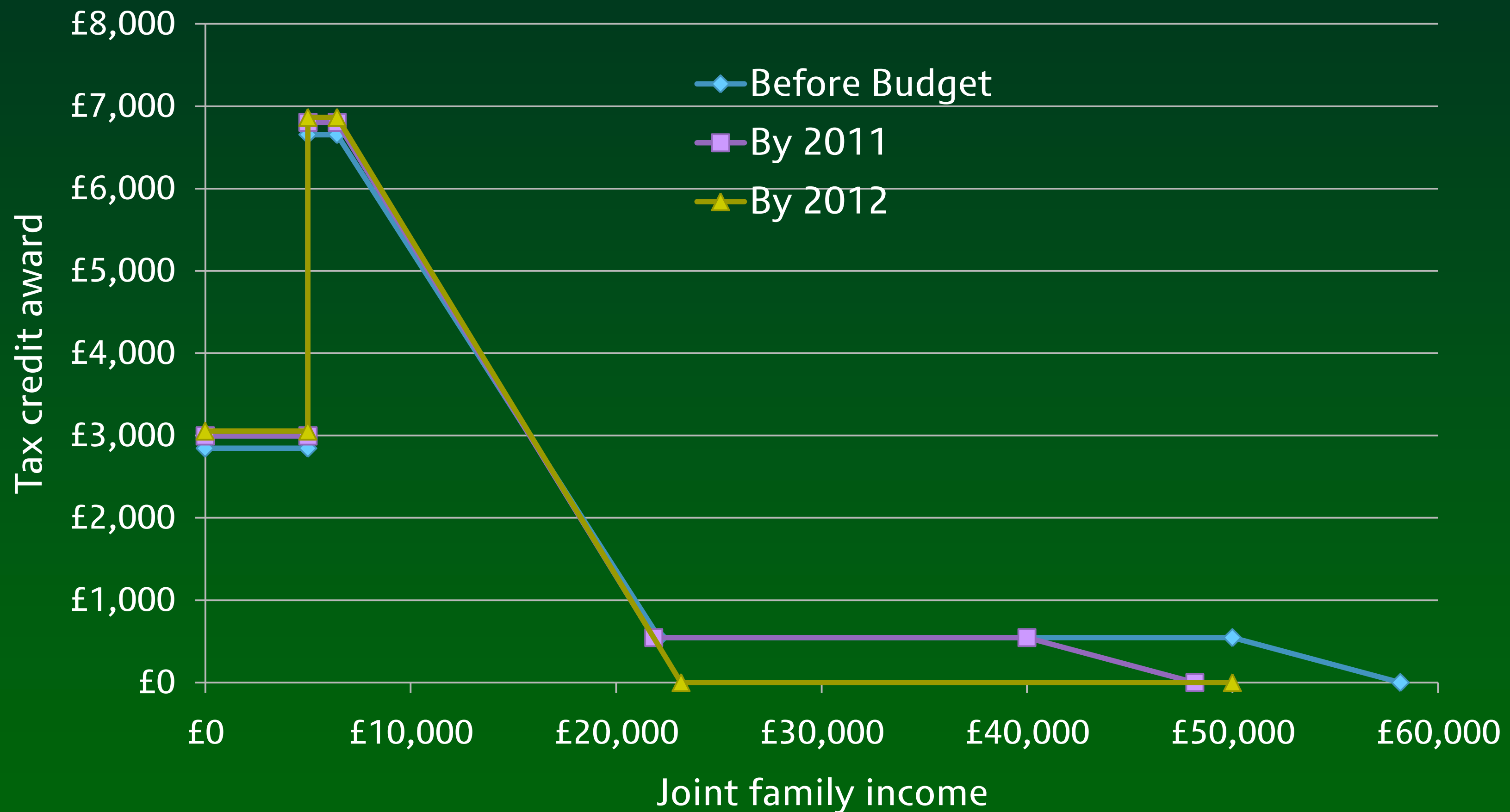
Uprating rules (saves £5.8bn)

- From April 2011, index almost all benefits, tax credits, state second pension and public service pensions with CPI
  - Means-tested benefits previously indexed to Rossi & others to RPI
  - Exceptions: basic state pension and pension credit guarantee
- CPI tends to be lower than RPI and Rossi. Why?
  - CPI excludes most housing costs
  - Formula means would be lower even if basket of goods identical
- Is it justified?
  - "Fairer reflection of benefit claimants' experiences"? Probably not
  - "Better representation of the way consumers change their consumption patterns in response to price changes"? Probably yes
  - "Fairer than a benefits freeze"? Unclear, but savings from change in indexation escalate indefinitely

Benefits and tax credits for families with children (£3.2 bn saving)

- Tax credits (£3,220m) (NB some affect those without children)
  - Combine family element with child element (£625m)
    - Tax credits stop at c£26,000 for 1-child family by April 2012 (not £58,000)
  - Increase taper from 39% to 41% (£765m)
  - Scrap baby element and toddler tax credit (£455m)
  - Changes to disregards and backdating (£1,335m)
- Freeze CB for 3 years (£975m)
- Phase out contributions to Child Trust Fund (£560m)
- Scale-back maternity grants (£225m)
- Lone parents look for work when children reach 5 (not 7) (£180m)
- But impact on poorest offset by staged rise in child element CTC of £210/yr by April 2012 (costs £1,995m)
  - HMT claim child poverty will not rise thanks to this

Tax credit changes



Assumes 1 child aged over 1, work <30 hours, no childcare.
Uses 2010 rates and ignores indexation changes

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Benefits and tax credits for families with children (£3.2 bn saving)

- Sensible?
  - Tax credits and child benefit more focused on poor, but less targeted at babies and infants
  - Overpayments will rise
  - Poorest get more, but others get less, so incentives to work must be weaker
  - Number facing higher METRs will rise, showing tension between strengthening incentives to work and saving money

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Housing benefit (£1.8 bn saving)

- HB in private sector called *local housing allowance* and currently set relative to median rents in local area
  - From 2011, set LHA relative to 30^{th} percentile of rents AND subject to nationwide caps AND 4-bedroom limit (£490m)
  - From 2013, break link with rents by linking to CPI (£390m)
- Pay less HB to those under-occupying social housing (£490m)
- Means-test HB more aggressively (£340m)
- Cut HB for long-term unemployed (£110m)
- Are these sensible?
  - Some will need to move house or economise, and high-cost areas will be less affordable for those on HB
  - Breaking link with rents means LHA rates become increasingly arbitrary over time
  - Why pay less to long-term unemployed?

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Disability Living Allowance (£1.1 bn saving)

- Real spending grown by 4.6% a year since 1997-98
- Will introduce medical assessment from April 2013 for new claimants and existing recipients (over 3 year period)
  - Will eventually cut costs/caseload by 20%
  - Some savings due to existing recipients being deemed healthy
- Is this sensible?
  - Hard to object to measuring health accurately or objectively; makes DLA like incapacity benefit/employment and support allowance (ESA)
  - Severity of (and savings from) reform will depend on details of health assessment
  - Some argue Work Capability Assessment in ESA is too stringent and inflexible when determining who is "fit for work"

Pensioners (cost £1.0 bn)

- Basic state pension to rise by greatest of prices, earnings and 2.5%
  - In April 2011, will measure prices with RPI (expected to be 4.2%)
  - From April 2012, will measure prices with CPI
- Pension credit guarantee continue to rise with earnings, but will rise faster in April 2011 to match state pension
- Pensioners spared cuts elsewhere
  - Winter fuel payments protected, maternity benefits cut
  - Working-age HB recipients treated more harshly than pensioners
  - Savings made from DLA, but Attendance Allowance unaffected
- Increases differential treatment of those above and below the pension age in benefit/welfare system

Welfare savings: conclusion

- £11bn of savings, over half from indexation and most of rest from 4 largest working-age benefits and tax credits
- Tax credits and child benefit more focused on poor children, but less targeted at babies and infants, and with more overpayments
- HB less generous for most recipients in private rental sector
- Tighter rules for Disability Living Allowance
- Case for changing uprating rules not conclusive, but spreads pain across all working-age benefit recipients
- Overall impact on work incentives mixed
- Giveaway for pensioners

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