

Working-age 'welfare': who gets it, why, and what it costs

The June 2010 Budget projected spending on social security benefits and tax credits of £193 billion in 2010/11 – 28 per cent of total public expenditure. Given the state of public finances, spending on this scale has to expect intense scrutiny. To help inform the debate, this paper provides some basic facts about the five main benefits that make up, or add to, the income of workless, working-age adults. The five are: Jobseeker's Allowance (JSA); Income Support (IS); the Employment and Support Allowance (ESA); Incapacity Benefit (IB); and Disability Living Allowance (DLA).¹

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Key points

- Of the approximately five million out-of-work, working-age adults currently receiving an income replacement benefit, about 50 per cent do so because of disability or ill-health (ESA or IB/IS), 30 per cent because of unemployment (JSA) and 20 per cent by virtue of being either a lone parent or a carer (IS).
- 1.8 million working-age adults (who overlap with this group) also receive a benefit because of their care and/or mobility needs (DLA).
- Working-age benefit claimants are disproportionately concentrated in the UK's weakest local economies.
- After allowing for inflation, JSA and IS of £65.45 a week are worth what they were in 1997. £65.45 is equivalent to just 41 per cent of the Minimum Income Standard for a single working-age adult.
- The projected spending on income-replacement benefits (£20.2 billion) and DLA (£6.6 billion) in 2010/11, though large, accounts for only one seventh of the total bill for social security and tax credits in that year.
- Major reforms have been made to working-age benefits since October 2008, for lone parents and especially for those who are disabled or ill. There is no doubt that these reforms have tightened the conditions for eligibility: what is unclear is by how much.
- The extension of ESA to existing claimants of incapacity benefits from autumn 2010 onwards strongly risks causing distress while doing little to increase employment.
- There are particular concerns that the health needs of mental health service users are not being taken fully into account under the new eligibility conditions.

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The benefits and who they are for

Table 1 summarises the key facts about the five benefits, with the information arranged according to the client group for whom each is intended. In describing these benefits further, we separate out the first four, which are income replacement benefits, from the fifth, which adds to income.

Income replacement benefits: JSA, ESA, IS and IB

Income replacement benefits are for adults who are either completely without work or who (in some cases) are working just a few hours a week. They fall into three groups.

- *Those able to work.* Except for the two groups below, *Jobseeker's Allowance (JSA)* is the default benefit for workless, working-age adults. To receive the benefit, a person must be available for, and actively seeking, a job (usually a full-time one). In August 2010, around 1.5 million people were receiving JSA, a figure that has changed little since the start of the year.
- *Those unable to work due to disability or ill-health.* Until October 2008, these people received either *Incapacity Benefit (IB)* or *Income Support (IS)*. Since then, new claimants receive the *Employment and Support Allowance (ESA)*. ESA begins with an assessment phase to determine a person's capability for work. In February 2010, around 2.6 million people were receiving one of these benefits. The switch from IB/IS to ESA is discussed further below.
- *Lone parents with young children, carers and a small number of miscellaneous others* receive *Income Support (IS)* for which there is no requirement to be seeking work. The major change here over the past two years has been

the reduction in the age of the youngest child below which a lone parent remains eligible for IS (down from the 16th birthday to the 7th). In February 2010, around 0.9 million people of working-age were receiving IS.

Since an individual can only receive benefits under one of these three headings at any one time, the numbers can be added up to produce the much-publicised figure of five million people receiving an out-of-work benefit.

It should also be noted that many workless adults do not receive benefit: for example, the almost 2.5 million people officially classified as unemployed exceed by fully one million the number claiming JSA. Although the latter has stabilised at around 1.5 million, in the two years from the start of the recession, an estimated 4.2 million people had been claiming JSA at one time or other during that period, more than 10 per cent of the working-age population (MacInnes T, *et al.*, forthcoming).

Disability benefits: DLA

The main difference between DLA and the other benefits is that entitlement is based on need: neither work status, income nor contributions are relevant. A medical examination by a health care professional acting on behalf of the DWP may be required. Like the other four benefits, however, it does add directly to a claimant's income. Claimants are:

- *Those who need help with everyday tasks, and/or have mobility difficulties.* DLA offsets the notional additional costs associated with disability. In February 2010, around 1.8 million people of working age were receiving DLA. Since a person can receive DLA as well as one of the other four benefits, this number cannot be added to the previous total of five million.

ESA work capability assessment

ESA has introduced a tougher medical assessment. Pilots of the new test suggested that about 10 per cent of those who previously qualified for incapacity benefits would not be eligible for ESA. Yet actual results up to May 2010 show that, of the completed initial assessments, 66 per cent were found fit for work, 24 per cent were allocated to the Work Related Activity Group and 10 per cent to the Support Group.²

Citizens Advice has reported 'grave concern' at the numbers found fit for work. It concludes that the assessment does not effectively measure fitness for work and is producing inappropriate outcomes (Citizens Advice, 2010). With 40 per cent of

subsequent appeals against a 'fit for work' finding going in favour of the appellant,³ there is clearly something wrong.

Failing to qualify for ESA doesn't mean that a claimant is completely fit. IB claims always had to be ratified by doctors working for DWP, but claimants did not have to prove they were incapable of all work in all circumstances. Instead, they had to demonstrate a sufficient degree of ill-health or disability to be not required to look for work. That still remains the case, but in effect the medical bar has been raised. In the new system, many men and women with lesser health problems will therefore be pushed onto JSA instead, or out of the benefits system altogether if they are denied income-based JSA because of other household income.

Table 1 The five benefits

Client group	Benefit	Grounds of entitlement	Projected expenditure 2010/11 GB ⁴	Claimants GB ⁵		Basic weekly amount for one person			Recent changes					
				Feb 2010	Of which: men	April 2010 (main cases)	% change since April 1997 after inflation ⁶	As % of Minimum Income Standard						
Workless adults actively seeking a full-time job	Jobseeker's Allowance (JSA)	National Insurance contributions	£0.8bn	1.5m	73%	£65.45 (£51.85 under 25)	-1½%	41%	Lone parents claiming JSA (due to reduced entitlement to IS since 2008) are not required to be seeking a full-time job					
		Low income	£3.8bn											
Workless adults unable to work because of ill-health or disability	Incapacity Benefit (IB)	National Insurance contributions	£5.5bn	1.1m	62%	£91.40	+8%	57%	Closed to new claimants in 2008 who must apply for ESA instead					
	Income Support (IS)	Low income	£4.6bn							1.0m	54%	£93.45	-1½%	58%
	Employment and Support Allowance (ESA)	National Insurance contributions	£1.6bn											
Workless lone parents with young children; carers (under 60)	Income Support (IS)	Low income	£2.7bn	0.9m	12%	As JSA but £65.45 lone parent over 18	-1½%	41%	Introduced in Oct 2008 as a replacement for Incapacity Benefit and Income Support on the grounds of disability					
		Need (may be subject to medical examination)	£6.6bn							1.8m	54%	Care component: £71.40, £47.80 or £18.95. Mobility component: £49.85 or £18.95	+4% to +6½%	N/A
Those who need care and/or with mobility difficulties	Disability Living Allowance (DLA)	Need (may be subject to medical examination)	£6.6bn	1.8m	54%	Care component: £71.40, £47.80 or £18.95. Mobility component: £49.85 or £18.95	+4% to +6½%	N/A	Introduced in Oct 2008 as a replacement for Incapacity Benefit and Income Support on the grounds of disability					

Housing Benefit

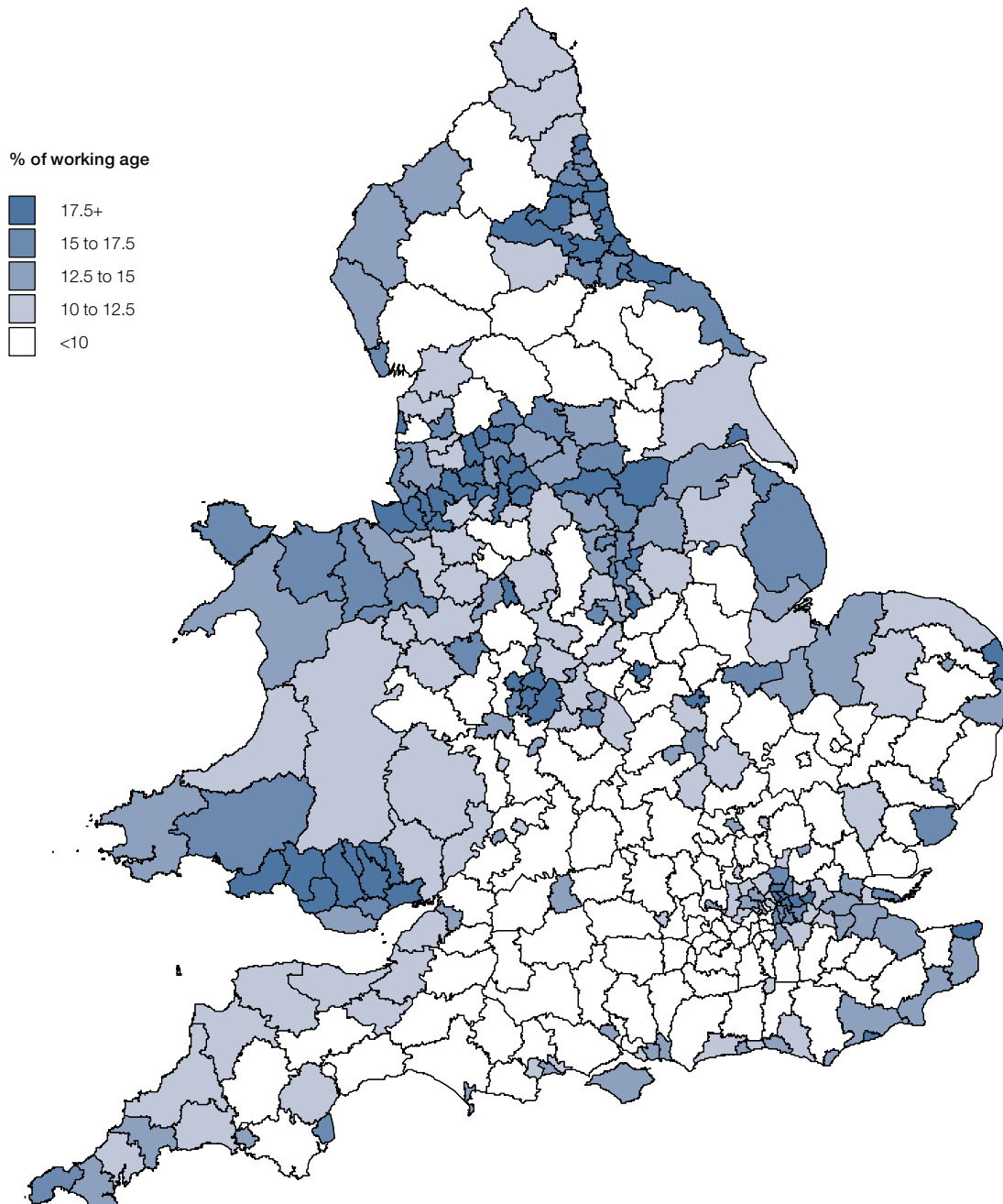
Housing Benefit (HB) has not been discussed here because it does not contribute to income in the way that the benefits here do. When HB takes the form of rent rebate, the claimant does not see the money. When it is a rent allowance claimants do get the money (which does help their cashflow) but only to pass it to their landlord. Limits on the amount of HB certainly *reduce* the income of benefit claimants, for example, where the rent exceeds the Local Housing Allowance.

The geography of benefit claims

Working-age benefit claimants are far from evenly spread across the country. High numbers are above all a problem of the older industrial areas and, to a lesser extent, of some seaside towns and London boroughs.

At one extreme, in Blaenau Gwent and Merthyr Tydfil in South Wales, 26 per cent of working-age adults are out of work and on either JSA, IS or IB/ESA (the last of which is the largest group just about everywhere). At the other, there are districts in southern England outside London where the overall claimant rate lies between 5 and 6 per cent.

Figure 1 Out-of-work claimants of JSA, IS, IB or ESA (English and Welsh local authorities), 2009



What lies behind the variation across the country?

These differences are rooted in the pattern of employment change over the last 30 years. In the days when the industries of older industrial Britain were still working, the numbers on benefits were far lower. It was only after the coalmines closed, for example, that the IB claimant rate in mining areas took off (see for example Beatty, *et al.*, 2007). In effect, incapacity benefits hid unemployment. But in the parts of Britain where the economy has consistently been strongest, few have needed to claim benefits (Beatty and Fothergill, 2005). In these places, even many of those with health problems or disabilities have been able to find work.

In older industrial Britain it is no longer the ex-miners, ex-steelworkers and the like who dominate the benefit figures. They are now rapidly passing

Transfer of current IB claimants to ESA

ESA has been in operation for all new claimants since October 2008, but because most of these have recent work experience they stand a fighting chance, if fit, of returning to the labour market. Existing IB claimants will only begin to be called in for the new medical test from autumn 2010 onwards, with the intention of calling in all of them by 2013. These men and women mostly face multiple obstacles to working. Their work experience is primarily in low-grade jobs, 60 per cent have no formal qualifications, more than half are over 45 and more than half have not worked for five years or more – hardly factors likely to endear them to potential employers (Beatty, *et al.*, 2009).

Given that IB claimants face health problems or disabilities of some kind, often live in the weaker local economies, and will find intense competition from other jobseekers in the wake of recession, the realistic chances of existing claimants finding work are slim. In these circumstances, the requirement that they should undergo the new test is likely to cause considerable distress – and for little tangible gain in terms of employment.

into retirement. But where an imbalance persists in the local labour market a new generation has been squeezed out – the men and (increasingly) women who find it hardest to keep a foothold in a competitive labour market (Beatty and Fothergill, 2007).

The need for a buoyant labour market

These geographical differences mean that assumptions based on the labour markets of the prosperous South can't be applied to large parts of the Midlands, the North, Scotland, Wales and Northern Ireland. Leaning on benefit claimants to find work may deliver results where there are plenty of jobs. Where jobs are harder to come by, enforced job search is less likely to be fruitful. Furthermore, in the weaker local economies of the UK many of the benefit claimants who find work will simply do so at the expense of other jobseekers, pushing them instead onto benefits.

In the areas with particularly high numbers of working-age benefit claimants, the solution lies with help for individuals, especially those marooned for long periods on incapacity benefits, combined with sustained local economic regeneration. Economic growth does work: the long economic boom to 2008 did reduce benefit numbers in older industrial Britain, including even IB numbers from around 2003 onwards (see for example Webster, *et al.*, 2010).

Disability, illness and benefit reciprocity

While jobseekers with a limiting illness or disability need a buoyant labour market, surveys of current IB claimants have shown that they see their health condition or disability as the major obstacle to their engaging in paid employment. There are a range of reasons for this: some feel they are too ill to work; others report widespread discrimination by employers; others have caring responsibilities which, taken together with their own condition, mean they cannot manage paid employment. For many people who have mental health issues and want to work, the poor-quality work, which is the only employment available to those at the bottom of the labour market, is detrimental to the management of their condition (DWP and DH, 2009).

The importance of mental ill-health: the special case of Northern Ireland

The importance of mental ill-health as an obstacle to paid employment has grown across the UK over the past decade (Anyadike-Danes, 2010). In February 2010, 43 per cent of working-age claimants of Incapacity Benefit qualified for reasons of mental ill-health; in Northern Ireland, the proportion is slightly higher.⁷

Where Northern Ireland stands out is in the severity of such illness, with the NI Department of Health estimating a 25 per cent greater incidence of mental disorders in the region than in England, Scotland, Wales or the Republic of Ireland (Bamford Review of Mental Health and Learning Disability, 2006). Almost 3 per cent of the entire population in the region were awarded the benefit because of severe mental ill-health. In order to be awarded DLA, one's illness has to disable one to the extent that simple tasks, such as shopping, cooking and personal care, require assistance.

The link between depression and living on low incomes has been well established, with studies showing that people living in poverty and with lower levels of educational qualifications are at a higher

risk of depression (Lorant, *et al.*, 2003; Weich, *et al.*, 2001). Thus, the reduced real levels of working-age benefits over the last 30 years have contributed to levels of mental ill-health in regions where there are few jobs available. However, in Northern Ireland, there is an additional factor.

The evidence indicates that the decades of conflict which beset Northern Ireland since 1969 are the key to understanding both the higher incidence and greater severity of mental illness in the region. International studies have found that political conflict, particularly community-based conflict, produces psychological distress in those who are exposed to the violence (Ajdukovic, 2004; Campbell, *et al.*, 2004). Both internationally and within the region, people in poorer households were found to be more likely to suffer significant health stresses and also more likely to have borne the brunt of 'the Troubles' (Ahern and Galea, 2006; O'Reilly and Browne, 2001). The areas that suffered most of the political violence are also the poorest areas (Fay, *et al.*, 1998). Thus, it is the interaction of conflict with chronic poverty in particular parts of the region that causes a higher incidence of severe mental ill-health in Northern Ireland.

Case study: obstacles to employment among disabled people⁸

Mary is in her early 40s. She is a graduate, with two Masters degrees. After her marriage broke down, she tried to work but, with young children and no car, found it too stressful and had to rely on benefits. After six years struggling to make ends meet, she became very ill and was hospitalised with severe depression. Hospital staff and her community psychiatric nurse helped fill out the necessary forms and she was awarded DLA. She says: 'Having the cushion of the additional money from DLA took off loads of stress and really helped me manage my condition. After about a year, I felt semi-stable enough to go out and do something.' She re-trained but there were no jobs available. Eventually, she started volunteering which helped with her condition and, when a suitable job became available, she applied and got it.

What seemed like the perfect job was a disaster, with poor management and excessive pressure. She became ill again and had to leave. While she was able to invoke the 104-week rule which allows anyone with a long-term illness who tries paid work to return to the same benefits within two years if the job doesn't work out, the delays in administering her benefits – she lived for two months on child tax credits, DLA and borrowing from friends – meant yet more stress and greater ill-health. In the course of sorting out her return to benefits, she failed to attend an appointment about her benefits. 'I was so ill and my medication messes my memory anyway, so I just forgot.' Because she had received Severe Disablement Allowance, she was not penalised for forgetting her appointment. 'I worry about other mental health service users who are facing these "reforms"', she says. 'If they forget their appointments, or are maybe too depressed to open their appointment letter, they could lose their benefits.'

What are the benefits worth and what do they cost?

How much are these benefits worth?

The value of the income replacement benefits in Table 1 range from £65.45 per week for JSA and IS to £96.85 for those in the ESA 'support group'. In practice, the actual amounts paid range more widely than that, with those under 25 usually entitled to less and those under 18 usually entitled to nothing, while people with greater levels of disability can receive more (via the low-income/means-tested versions of the benefit). Some people will also be receiving some DLA, while the family income of the quarter or so of adults in workless households living with dependent children will include Child Benefit and Child Tax Credit.

Nevertheless, a single person who is able to work and who has no dependent children will be living on £65.45 a week. This money will have to cover all items of expenditure apart from housing costs, including food, clothing, water, heating, light and travel. It is therefore reasonable to ask how adequate this is as a basis on which to live.

The Minimum Income Standard (see box) provides a yardstick by which to answer this: £161.45 per week for a single adult of working-age (Davis, *et al.*, 2010). As Table 1 shows, compared with this amount, benefits for workless adults range from just over 40 per cent of this amount (for IS, JSA and the assessment phase of ESA) to 60 per cent of it for those unable to work by reason of disability and ill-health. Since MIS takes no account of the extra costs of disability, the higher level of benefit will not represent as much as 60 per cent of the total amount of money that is actually needed. While there is no suggestion here that benefits ought to be at the level of the MIS, the sheer scale of the shortfall is indicative of the fundamental inadequacy of current levels.

The Minimum Income Standard (MIS)

The MIS is based on research into what items members of the public, informed where relevant by expert knowledge, think should be covered by a household budget in order to achieve a minimum socially acceptable standard of living in the UK today. Updated every two years, the latest report, by the Centre for Research in Social Policy at Loughborough University, was published in July 2010. See www.minimumincomestandard.org

Why are benefits so low?

The main reason why the value of these benefits is so low is that while they have gone up each year in line with inflation, average living standards (except during recession years) have gone up faster. This has been the policy since at least the late 1970s. While the last government put both child and pensioner benefits up by much more than inflation, it stuck firmly to the inflation level for IS and JSA. As a result, after allowing for inflation, they are still worth the same as in 1997. IB and DLA rose slightly, by between 4.5 per cent and 8 per cent above inflation, over the 13-year period.

How much money is at stake?

Although the projected spending on income-replacement benefits of £20.2 billion and £6.6 billion on DLA add up to a considerable sum, it still only accounts for 13.8 per cent (one seventh) of the total bill for social security and tax credits in 2010/11 of £193bn.⁹ As a share of public spending, it represents 3.8 per cent and as a share of gross disposable household income, 2.7 per cent.

Conclusion

Major reforms have been introduced for working-age benefits since October 2008, with most lone parents now required to meet the conditions for JSA once their youngest child turns seven, and with the introduction of a whole new regime for those unable to work through disability or illness. That these reforms represent a tightening of the conditions for eligibility is not in doubt: the only question is by how much. While the buoyancy of the labour market will be the crucial determinant of how many people require out-of-work benefits, there can also be no doubt that these reforms, introduced by the last government, will reduce benefit expenditure below what it would otherwise have been.

About the paper

This paper was commissioned as part of our response to the debate on forthcoming public spending cuts. Join the debate at www.jrf.org.uk/public-spending

End notes

- 1 This discussion, and especially Table 1, cannot include all the regulations for benefit entitlement. Advice about entitlement to benefit is available from Citizens Advice.
- 2 Source: DWP (July 2010), *Employment and Support Allowance: Work Capability Assessment: Official Statistics*, table 4.
- 3 Source: DWP (2010), *Employment and Support Allowance: Work Capability Assessment: Official Statistics*, table 5.
- 4 Source: DWP Expenditure tables, summer 2010, tables 2 and 3. Available at: http://research.dwp.gov.uk/asd/asd4/index.php?page=medium_term (Accessed on 7 September 2010).
- 5 Source: DWP tabulation tool. Available at <http://research.dwp.gov.uk/asd/index.php?page=tabtool> (Accessed on 7 September 2010)
- 6 The measure of inflation is the Retail Prices Index for 'all items excluding housing'. The reason why the values of JSA and IS have gone down slightly is that they are uprated by the slightly different Rossi index.
- 7 Source: DWP tabulation tool. Available at: <http://research.dwp.gov.uk/asd/index.php?page=tabtool> (Accessed on 15 September 2010). In November 2009, the proportion of all IB claimants receiving it on the grounds of mental and behavioural disorders was 47 per cent (Department for Social Development).
- 8 Based on an interview for a qualitative study on obstacles to employment among disabled people in Northern Ireland.
- 9 Source: HM Treasury, Budget June 2010, table C13.

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