

The Evolution of Disability Benefits in the UK: Re-weighting the basket

Tania Burchardt

Contents

Introduction.....	1
Evolution of disability benefits.....	1
The 1999 reforms	9
Incapacity Benefit.....	11
Severe Disablement Allowance	13
‘Extra costs’ benefits	15
Disability Working Allowance	16
Promoting inclusion and welfare to work?	17
Re-weighting the benefit basket.....	18
Conclusions	24
References.....	25

CASEpaper
CASE/26
June 1999

Centre for Analysis of Social Exclusion
London School of Economics
Houghton Street
London WC2A 2AE
CASE enquiries – tel: 020 7955 6679

Centre for Analysis of Social Exclusion

The ESRC Research Centre for Analysis of Social Exclusion (CASE) was established in October 1997 with funding from the Economic and Social Research Council. It is located within the Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD) at the London School of Economics and Political Science, and benefits from support from STICERD. It is directed by Howard Glennerster, John Hills, Kathleen Kiernan, Julian Le Grand, Anne Power and Carol Propper.

Our Discussion Paper series is available free of charge. We also produce summaries of our research in CASEbriefs, and reports from various conferences and activities in CASEreports. To subscribe to the CASEpaper series, or for further information on the work of the Centre and our seminar series, please contact the Centre Administrator, Jane Dickson, on:

Telephone:	UK+20 7955 6679
Fax:	UK+20 7955 6951
Email:	j.dickson@lse.ac.uk
Web site:	http://sticerd.lse.ac.uk/Case/

© Tania Burchardt

All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

Editorial note

Tania Burchardt is a Research Officer at the Centre for Analysis of Social Exclusion at the London School of Economics.

Acknowledgements

This paper was prepared as part of on-going research funded by the Joseph Rowntree Foundation into the relationship between benefits and employment policy for disabled people. I am very grateful to the Foundation and to members of the Advisory Group set up to oversee the project, who provided helpful comments on an earlier draft. Thanks also to Martin Evans, John Hills and David Piachaud who gave encouragement and constructive criticism along the way, each in their own particular style. Responsibility for the analysis presented and views expressed is, of course, mine alone.

Abstract

This paper attempts to clarify the significance of reforms to disability benefits proposed by the New Labour government in 1998, by setting them in the context of the development of disability benefits since the early 1970s. The first section charts the creation, extension and subsequent series of reforms of disability benefits, and shows that while ‘compensatory’ benefits like Industrial Injuries benefit have played a steady role, ‘extra costs’ benefits like Disability Living Allowance have become an increasingly significant component. Expansion of benefits designed to replace earnings was followed by a contraction in the 1990s, the latter phase accompanied by an increasing emphasis on ‘targeting’. The following section details the latest reforms. These two sections are brought together using hypothetical case studies to illustrate the changing balance between different kinds of benefit – the ‘benefit basket’ – for disabled people, from before the introduction of specific disability benefits through to the system as it might be in 2001. The paper concludes that, in accordance with the guiding principle of welfare reform, “work for those who can and security for those who cannot”, the government’s reforms are designed to reward paid employment, while offering relatively generous provision for those who are obviously unable to work. The question raised is the extent to which altered incentives will be sufficiently powerful to eliminate the category in-between – those who are deemed capable of work but who do not have a job – or whether large numbers of disabled people will fall between the stools of “work” and “security”.

Introduction

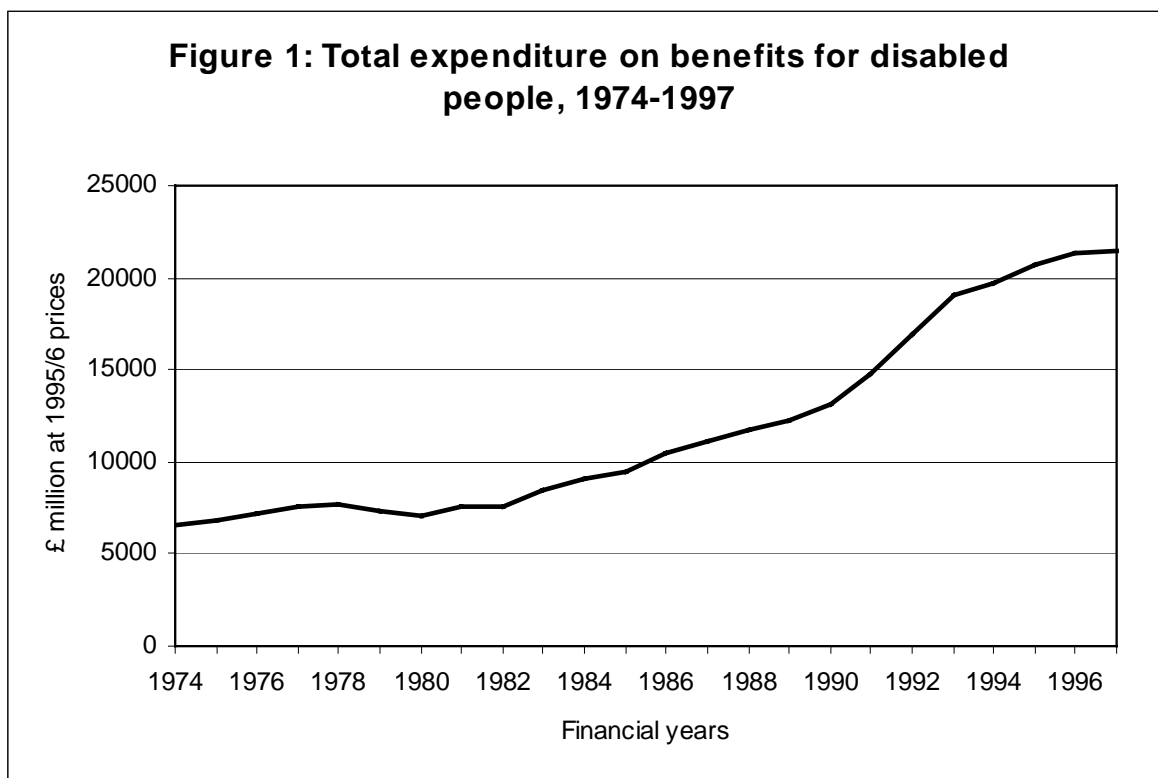
In late 1998, the government published a consultation paper on changes to disability benefits, as part of its broader programme of welfare reform (DSS, 1998a). Media coverage of the proposals was unexpectedly enthusiastic – or at least uncritical – with the Guardian reporting that the Secretary of State for Social Security, Alistair Darling, “won plaudits from the disability lobby and drew a cheer in the commons” (Brindle and Ward, 1998). Cuts to the main benefits which had been anticipated did not materialise and the controversial programme of re-assessing claims to extra-costs benefits was scrapped, while additional resources were promised to some severely disabled people, especially children. However, by the time the proposals were before Parliament as part of the Welfare Reform and Pensions Bill (House of Commons, 1999), several major disability groups had resigned from the official advisory body, and the government suffered an even greater revolt by back-benchers than it had done over the lone parent benefit cuts the previous year.

This paper attempts to clarify the significance of the New Labour reforms by setting them in the context of the development of disability benefits since the early 1970s. The first section charts the creation, extension and subsequent series of reforms of disability benefits, and looks at trends in overall expenditure. The following section details the latest reforms and raises some questions about the extent to which they are likely to achieve their stated objectives. These two sections are brought together using hypothetical case studies to illustrate the changing balance between different kinds of benefit – the ‘benefit basket’ – for disabled people, from before the introduction of specific disability benefits through to the system as it might be in 2001. The paper concludes with an assessment of the extent to which the latest reforms represent a continuation of the evolution of disability benefits or a break with the past.

Evolution of disability benefits

That there has been a dramatic growth in expenditure on benefits for disabled people is now widely recognised, but the magnitude of that growth – illustrated in Figure 1 – may still be surprising to some: expenditure has more than trebled since 1974. Means-tested benefits

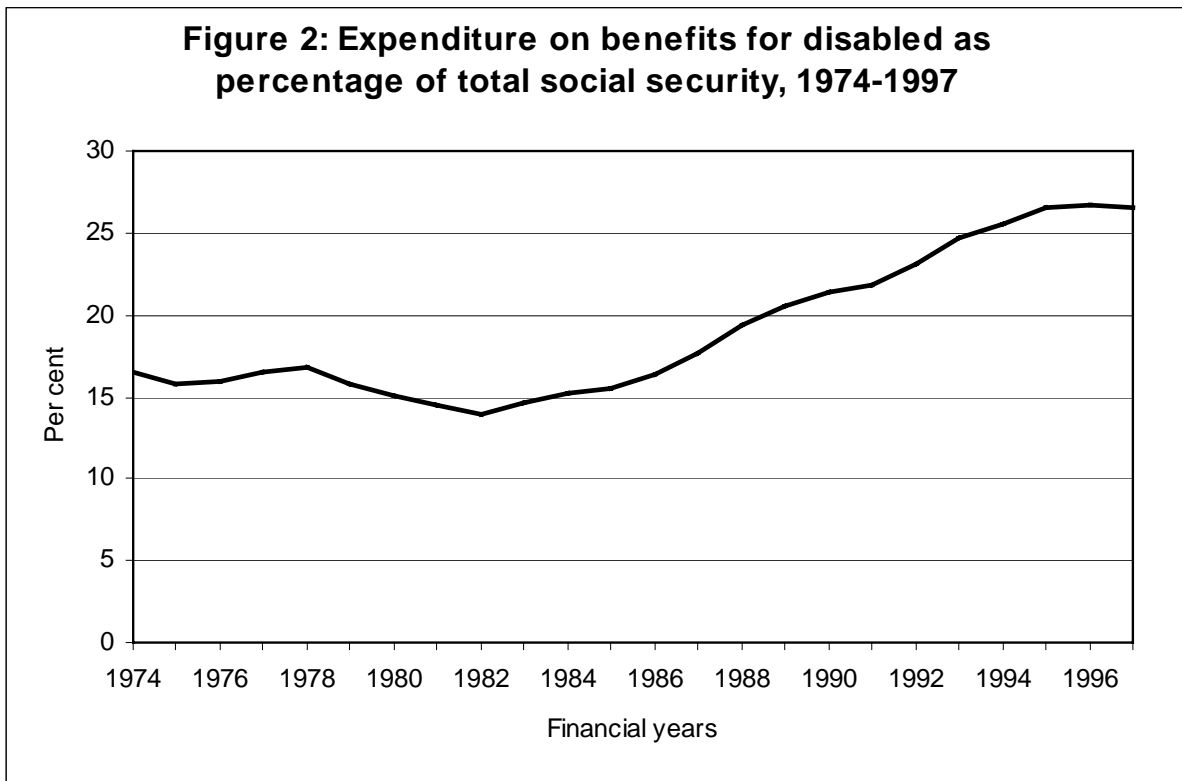
(Income Support and its predecessor, Supplementary Benefit) paid to sick and disabled people have risen particularly sharply, from £600 million in 1979 to £3,500 million in 1997 (in 1995/6 prices).¹ Social security as a whole was growing over the period, but even so, expenditure on disability benefits increased its share from 16 to 27 per cent (Figure 2).



Note: Includes Supplementary Benefit and Income Support paid to sick and disabled people, but not Housing Benefit or local tax benefits.

Sources: DSS (1998b), DSS (1998c), Evans (1998).

1 Does not include Housing Benefit or local tax benefits.



Sources: DSS (1998b), (1998c), Evans (1998).

These overall trends mean little without understanding the benefits which go to make up the total, and how these changed over the period. The constituent benefits are designed to meet a number of different objectives and are paid to people in a wide range of circumstances. It may be helpful to group them into four categories (following Berthoud, 1998):

Compensatory benefits: for individuals who have become sick or disabled as a result of 'serving the nation' whether in a military or ordinary occupational capacity. They are tax-free and are not means-tested, although some are taken into account when assessing income for other means-tested benefits. Industrial Injuries Disablement Benefit (IIDB) and War Disability Pension (WDP) are the main examples.

Earnings replacement benefits: to provide an income for individuals unable to earn as a result of sickness or disability. They may be short or long term, and may or may not be tied to previous employment. They were originally tax-free but are now mostly taxable.² They are not means-tested but are taken into account when assessing income for other means-tested benefits. Currently benefits of this kind include Statutory Sick Pay (SSP), Incapacity Benefit (IB), Severe Disablement Allowance (SDA), and Invalid Care Allowance (ICA). Various predecessors were known as Sickness Benefit (SB), Invalidity Benefit (IVB) and Non-Contributory Invalidity Pension (NCIP).

Extra costs benefits: to provide help towards additional costs incurred as a result of disability. They are tax-free and not means-tested, and they are ignored when assessing income for other means-tested benefits. Attendance Allowance (AA) and Disability Living Allowance (DLA) are the main benefits of this kind currently available; an earlier equivalent was Mobility Allowance (MobA).

Means-tested benefits: to top up income to a minimum level, the exact level being determined by the number of people in the household, any special needs, and housing costs. These are not strictly-speaking disability benefits although disabled people may receive them and be eligible for additional premiums. They currently include Income Support (IS), Housing Benefit and Council Tax Benefit; the main predecessor was known as Supplementary Benefit (SuppBen). Disability Working Allowance (DWA) is an in-work means-tested benefit designed to top up earnings of disabled workers; an equivalent for non-disabled workers with children is Family Credit.

Compensatory benefits were the first to be introduced, indeed the War Disability Pension, created after the First World War, was one of the earliest social security benefits altogether.³ Industrial Injuries Disablement Benefit followed in 1948. Because they were designed to compensate individuals for their disability, the benefits were payable in

2 The rationale for their tax-free status is unclear: other earnings-replacement benefits such as unemployment benefit and the retirement pension were taxable from the outset.

3 This section draws on a number of accounts of the development of disability benefits in the UK, including Berthoud (1998), Evans (1998), and Walker and Walker (1991).

addition to any earnings or other income and were set at a relatively generous level. Despite this – and perhaps thanks to well-organised lobbies of recipients (or potential recipients in the case of IIDB) – they have to date remained largely unchanged, although various supplements and allowances on IIDB were phased out from the mid-1980s.

Earnings replacement benefits have a more chequered history. Prior to 1971, those unable to work due to sickness or disability were generally not distinguished from other non-workers, and simply received means-tested assistance, if they were poor enough. In that year and the following one, Invalidity Pension and Invalidity Allowance were introduced (together known as Invalidity Benefit, IVB), providing an age-related income to those who left employment due to sickness or disability and who had a sufficient National Insurance contributions record. Four years later an equivalent benefit was created for those who did not have a contributions record, known as Non-Contributory Invalidity Pension. It was paid at a much lower level and housewives were not initially eligible. When they became so in 1977, it was on such unfavourable terms that it was declared discriminatory against women, and the benefit was replaced in 1984 with Severe Disablement Allowance. SDA, though still paid at a much lower level than its equivalent contributory benefit, does not distinguish between ex-employees with poor contribution records (often men) and those who work in the home (often women).

Running alongside the development of an earnings-replacement benefit for disabled non-employees was progress on providing an income for carers. The original Invalid Care Allowance was introduced just a year later than NCIP in 1976, but like NCIP, was initially fairly restricted in scope. It was extended to non-relatives with caring responsibilities in 1981 and finally to married women caring for their spouses in 1987.

The 1970s and 1980s were in general periods of expansion and improvement in the coverage of earnings-replacement benefits. However the tide did begin to turn. First in 1980 all long-term benefits, including IVB, were linked to prices rather than being up-rated with earnings as they had been previously. Then through the 1980s short-term sickness benefits became flat-rate (losing their earnings-related element) and responsibility for them was gradually passed to employers. Finally, and decisively, Incapacity Benefit (IB) replaced IVB in 1995: taxable, unlike its predecessor, and with tougher eligibility criteria. For IVB, assessments of incapacity for work could take into

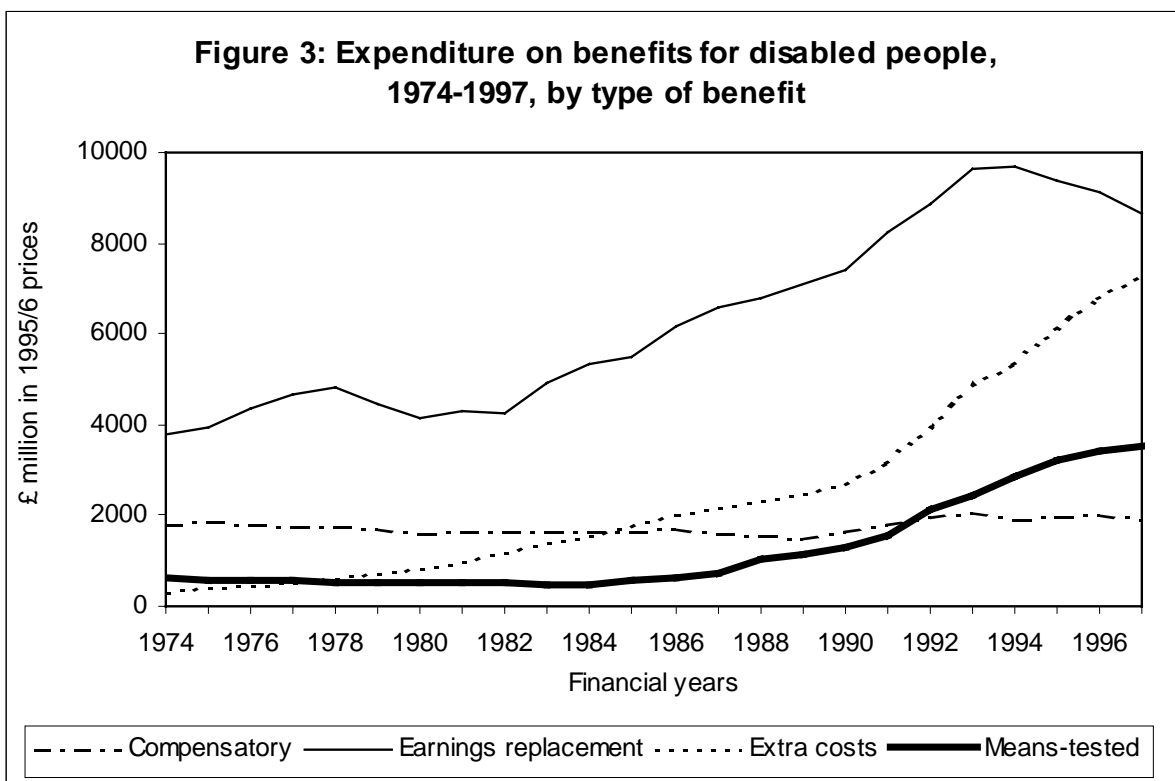
account the claimant's age and qualifications, but for long-term IB the test (at least in theory) is whether there is any work the claimant could perform, regardless of the likelihood of him or her getting such a job or its suitability.

The development of extra costs benefits appears to be one of relatively few areas where social research has had a direct impact on policy. A pioneering survey undertaken by the Office of Population Censuses and Surveys (OPCS) in 1968 identified 3 million disabled adults living in private households. It provided evidence of widespread poverty, and of the sorts of additional expenditure incurred as a result of disability (Harris, 1971). In 1971, Attendance Allowance was introduced for those who required significant amounts of personal assistance, followed in 1975 by Mobility Allowance for those who needed help getting about.

In the late 1980s however further surveys by the OPCS showed that disabled people were still incurring substantial assistance and mobility costs that were not being met by existing benefits (Martin and White, 1988) – 'horizontal equity' between the disabled and non-disabled population was not being achieved. In particular, benefits for those with the most severe impairments were found to be inadequate, while those with less severe impairments were often getting nothing at all. Hence in 1992, extra costs benefits were reformed, with Disability Living Allowance replacing MobA and AA for the under-65s. The lowest rates became payable to those with fewer but nevertheless significant requirements, and the highest rates were made more generous than those of its forerunners.

The evolution of means-tested benefits for sick and disabled people has mirrored the development of both the earnings-replacement and extra-costs strands. In the first instance, sickness and disability were not differentiated from other reasons for being out of work: National Assistance was paid at the same rate regardless of the cause of your claim. Supplementary Benefit incorporated a more generous rate of benefit from 1966 for those out of work long-term, including the sick and disabled. Extra payments for special needs such as personal assistance or additional heating were discretionary, and although some acquired legal status through legislation in the 1960s and 1970s, they still required a detailed examination of each individual case. Income Support replaced SuppBen in 1986, simplifying the means-test and creating premiums based on entitlement to extra-costs benefits rather than on a separate investigation of an individual's circumstances. Evans and others (1994) have shown that in addition to regularising entitlement, IS premiums

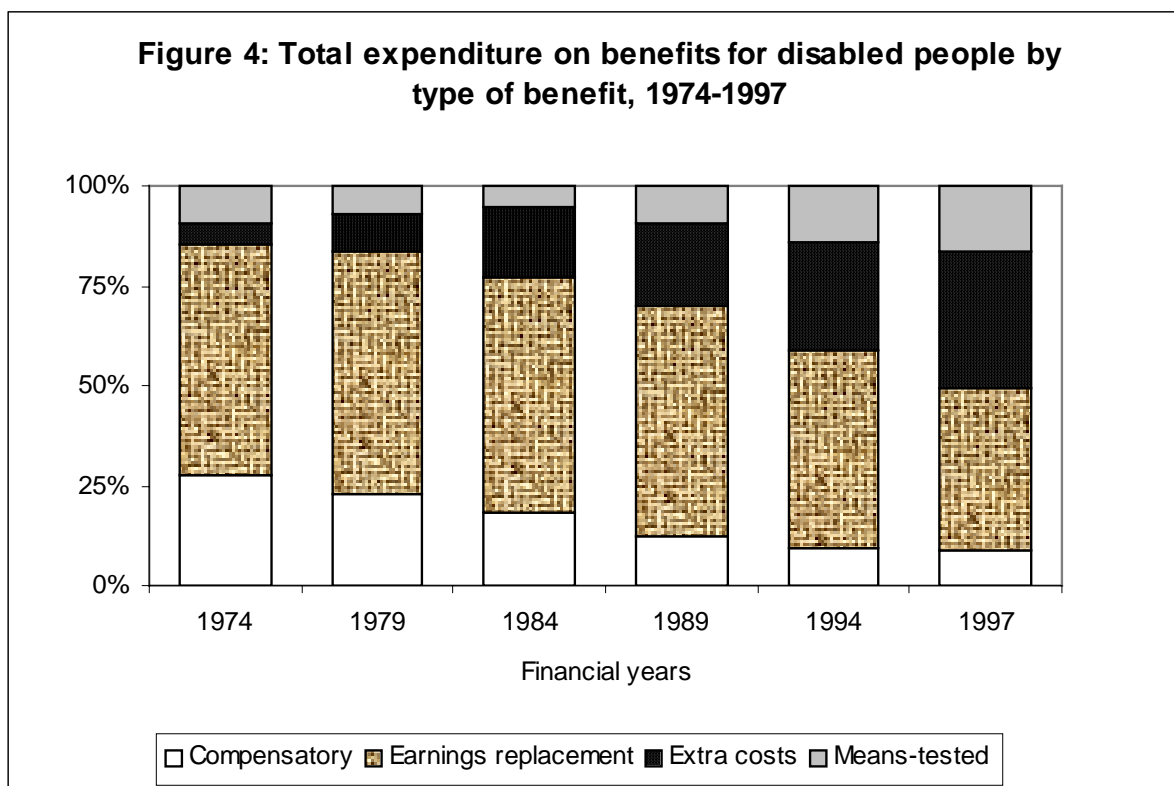
resulted in higher levels of benefit for disabled claimants than under the old system. So as means-testing has evolved, disability has become more explicitly recognised by the system, and the levels of extra payments for disability have been gradually increased.



Note: 'Means-tested' includes Supplementary Benefit and Income Support paid to sick and disabled people, but not Housing Benefit or local tax benefits.
Sources: DSS (1998b), DSS (1998c), Evans (1998).

Figure 3 illustrates the very different contributions these four components – compensatory benefits, earnings replacement, extra costs and means-tested benefits – have made to the overall growth in disability benefit expenditure. Compensatory benefits (IIDB and WDP) have continued at much the same level throughout the period. Extra costs benefits exhibited a steady growth from the early 1970s through to the introduction of DLA in 1992, when expenditure on them increased sharply and has continued to increase year on year. Means-tested benefits stayed relatively flat until the mid-1980s, before accelerating rapidly, perhaps as a result of cut-backs in earnings replacement benefits and widening inequality in society as a whole. Finally expenditure on earnings replacement benefits stayed relatively constant through the 1970s and early 1980s, but then grew significantly until reaching a peak in 1994/5, flattening and then falling away slightly when IB replaced

IVB. As a proportion of total expenditure on benefits for disabled people, compensatory benefits have fallen steadily whilst extra costs benefits have grown (Figure 4). Means tested benefits initially shrank but grew again in the late 1980s and 1990s. Earnings replacement benefits retained a steady share though the 1970s and 1980s, but shrank in the 1990s.



Note: 'Means-tested' includes Supplementary Benefit and Income Support paid to sick and disabled people, but not Housing Benefit or local tax benefits.

Sources: DSS (1998b), DSS (1998c), Evans (1998).

The history of the creation, extension and reform of disability benefits, and the related trends in expenditure, tell the same story: a gradual recognition of the extra costs disabled people face, an expansion followed by tightening up on benefits designed to replace earnings, the latter phase accompanied by an increasing emphasis on 'targeting', and a steady role for compensatory benefits – the first specific disability benefits to be introduced and the only ones never to have been substantially reformed. In the next section, we turn to the government's plans for the future of disability benefits, to examine the extent to which they represent a continuation of these trends.

The 1999 reforms

The government firmly located its proposals for disability benefits in the philosophy of ‘welfare to work’, guided by the principle of “work for those who can and security for those who cannot” (DSS, 1998a). Throughout the consultation paper, measures to encourage disabled people into employment are set alongside proposals to direct additional resources to those most in need.

Specifically, the changes to benefits fall into four groups: firstly, changes relating to Incapacity Benefit (IB); secondly, those relating to Severe Disablement Allowance (SDA); thirdly, changes to ‘extra costs’ benefits such as Disability Living Allowance (DLA) and disability premiums on Income Support (ISdp); and finally, replacing Disability Working Allowance with a Disabled Person’s Tax Credit (DPTC). The first three sets of changes are incorporated in the Welfare Reform and Pensions Bill, and DPTC is created by the Tax Credits Bill. Non-benefit measures, such as establishing a Disability Rights Commission, are also planned but they are not discussed here. The current basic rules for the relevant benefits are as shown in the boxes.⁴

Incapacity Benefit is designed to replace earnings for those unable to work due to sickness or disability. It is a non-means-tested, taxable, contributory benefit, payable to people of working age. For the first 28 weeks it is paid only to those who do not receive Statutory Sick Pay, and disability is assessed on the basis of ability to carry out ‘own occupation’. After that time, anyone who has a sufficient contributions record, and who is assessed as unable to carry out any work, becomes eligible. The first contribution condition requires the claimant to have worked (and earned more than a certain minimum) at some point in their life. The second contribution condition requires that for the last two years, the claimant has been working (and earning more than a certain minimum), or has been registered as unemployed, sick, or a carer.⁵ The basic long-term rate of IB is currently £64.70 per week and there are additions for age and dependants.

4 For further details of current rules, see CPAG (1998a, 1998b).

5 In other words, the conditions exclude those who have never worked, those who have been working but earning less than the lower limit on contributions, and those who have been economically inactive but not in such a way as to be credited by the Contributions Agency.

Severe Disablement Allowance is designed to provide an income for those unable to work due to sickness or disability and who do not qualify for Incapacity Benefit because of an inadequate contributions record. It is a non-means-tested, non-taxable, non-contributory benefit payable to people of working age. To qualify, the claimant must have been disabled for 28 weeks or more and have become disabled before the age of 20, or be “80 per cent” disabled. The basic rate is currently £39.10 and there are additions for age and dependants.

Disability Living Allowance is designed to help with some of the extra costs incurred by disabled people. It is a non-means-tested, non-taxable, non-contributory benefit with two components. The care component is paid at three rates according to assessed need for supervision and help with personal care, and can be claimed by anyone whose disability starts when they are under 65. The mobility component is paid at two rates according to assessed need for help with getting around and can be claimed by anyone aged 5 or over whose disability starts when they are under 65. The lower rate of both components is currently £13.60 per week; the middle rate for care is £34.30; and the higher rates are £35.85 for mobility and £51.30 for the care component.

Income Support disability premiums are paid in addition to the basic rate of IS. Disability premium is payable if the claimant is under 60 and is getting attendance allowance (or the equivalent for industrial or war injuries), disability working allowance, DLA, SDA or long-term IB. Severe disability premium is payable to claimants who are getting attendance allowance (or the equivalent for industrial or war injuries), or the middle or higher rates of DLA care component, and who do not have a spouse or any child aged under 18 living with them, and for whom no-one receives invalid care allowance. Disabled child premium is payable if the claimant has a child who gets DLA or is blind. The current rate of IS for a single person aged 25 or over is £50.35 per week, on top of which disability premium is £21.45 per week, on top of which severe disability premium is £38.50. The disabled child premium is £21.45 per week.

Disability Working Allowance tops up the wages of full-time workers who are disabled. ('Full-time' is defined as 16 hours per week or more). Eligibility is determined by having a disability which puts the individual at a disadvantage in getting a job, and by receipt of other disability benefits, either at the time of the claim for DWA (DLA, AA, or IIDB/WDP increases for attendance needs), or within eight weeks prior to the claim (IB, SDA or ISdp). An award, once made, lasts for 26 weeks. For single claimants the maximum basic amount is £50.75 per week plus £10.80 if working 30 hours per week or more. The amount of benefit is reduced at a rate of 70p in the £ for any income above £59.25.

Incapacity Benefit

Incapacity Benefit was high on the 'hit list' of benefits for reform – in 1997 it cost nearly four times as much in real terms as its predecessor did in 1974. Moreover, it was perceived to be subsidising unemployment and early-retirement, and, as a social insurance benefit, insufficiently targeted on the poor. In the government's opinion, the rules were "unfair and outdated" (DSS, 1998a, p.19). However, no direct cuts have been proposed, nor has its status as an insurance benefit been removed. Instead, the process of claiming is to be revised, the contribution conditions are to be modified, and a partial means-test introduced. Estimated savings are relatively modest at £100 million in the first year (2001/2) and between £650 and £700 million per year in the longer term. The changes can be summarised as follows:⁶

- *Continuing assessment of possibility of returning to work*: the criteria for benefit receipt will remain unaltered, but additional information will be collected focussing on the abilities of the claimant. New claimants will be allocated a personal adviser and may be required to attend an interview at the beginning of the claim, and any time thereafter, to discuss possibilities for returning to work.
- *Contribution condition based on work rather than credits*: the first contribution condition will be changed so that contributions must have been actually paid in one of the last two years, rather than in any year. This means anyone who has not worked in the last two years will be ineligible, although an exception is to be made for those claiming Invalid Care Allowance, provided they have a previous work record.

6 Current recipients of IB will not be affected.

- *Income from private pensions taken into account:* income from an occupational or personal pension, or from a Permanent Health Insurance policy arranged by an employer, will be taken into account when assessing the amount of Incapacity Benefit a claimant will receive.⁷ The amount of benefit will be reduced by 50 per cent of any income from these sources over £50 per week.

Much was made in the run up to the publication of the proposals of the idea that a new test for Incapacity Benefit would focus on what claimants could do rather than what they could not. It was always going to be difficult to design a test of abilities which did not at the same time test inabilities, and indeed details of the new test have yet to be determined. However it seems that the most significant change will be the appointment of a personal adviser to oversee each claim, review it at intervals (possibly requiring the claimant to attend for interview) and develop, where appropriate, a plan for getting the claimant back to work. This approach fits with the overall 'welfare to work' strategy being pursued by the government, and goes some way to addressing the concern that incapacity benefits tend to act as a one way street – the longer claimants spend on the benefit, the harder it is to move into work (Berthoud, 1993).

On contribution conditions, the government may be responding to the fear that incapacity has in some cases become a form of disguised unemployment. From the recipient's point of view, IB may be a more attractive proposition than JSA since it is paid at a higher rate, and from the point of view of the Employment Service, there may in the past have been pressure to classify people as sick to keep the claimant unemployment count low. The Bill attempts to block this route onto IB by restricting eligibility to those who have actually worked and paid contributions in the last two years (as opposed to being credited with contributions, for example while unemployed). It will no longer be possible to go from being unemployed onto IB.

Clearly the government's intention is that those who are fit for work should be subject to the 'carrots and sticks' of the Jobseekers Allowance regime, rather than languishing on IB. However it is possible that the effect of the change in rules would be to encourage those

7 Permanent Health Insurance provides a replacement income when earnings are interrupted by an extended period of sickness or disability. A group policy may be purchased by employers on behalf of employees. PHI policies purchased by individuals will be exempt from this provision.

claimants who could be classified either as unemployed or incapacitated to go straight from work onto IB, without an intervening spell of job-seeking, in order to avoid making themselves ineligible for IB. Which way the incentive will operate is an open question.

A further potential problem is that the reform may deny IB not only to those who should really be classified as unemployed, but also to those who genuinely become sick or disabled after a period of unemployment – and there is a considerable body of evidence which suggests that long-term unemployment contributes to ill health.⁸ The only alternative to IB for those unable to work will be Income Support.

Finally, IB will be means-tested for those in receipt of private pension or insurance income. This tackles another route onto the benefit which is perceived to be illegitimate, namely early retirement. It is thought that especially older men may be using IB as a way of smoothing their way into retirement, with little or no intention of returning to work, and there is some evidence to support this view (Rowlingson and Berthoud, 1998). Under the new rules, someone who retires early on a private pension or sickness insurance will have their state incapacity benefit reduced at a rate of 50 pence in the pound.⁹ As a rough guide, a teacher retiring aged 55 with an occupational pension could expect to have all his or her IB withdrawn.

Again however there is a risk that the incentives may not operate in the way the government envisages. The reform effectively reduces the value of existing and future private pension and insurance arrangements, discouraging people from making such investments. This sits oddly with the government's stated intention to encourage private provision – one of the leading principles of welfare reform as a whole.

Severe Disablement Allowance

Abolition of Severe Disablement Allowance was a surprise component of the government's proposals. The main changes are:

- *No benefit for those who become disabled after the age of 20:* existing claimants of SDA will be protected, but anyone who becomes newly disabled after the age of 20 will not be eligible for SDA. If their assets and income are sufficiently low, and they do not have

8 For a review, see Grayson (1986).

9 To avoid claimants intentionally deferring pension receipt to maximise their IB entitlement, the DSS will have the power to take into account 'notional income' from a pension which could have been claimed but was not.

a working partner, they may be able to claim Income Support instead.

- Incapacity Benefit for those disabled before the age of 20: those who are disabled before the age of 16 will become eligible for Incapacity Benefit (despite not having a contributions record) rather than receiving SDA. This will also apply to those who become disabled aged 16-19 provided they are not in full-time education.¹⁰ Long-term IB is paid at a higher rate than SDA, and should raise most recipients above Income Support level.

According to the government, these two measures are designed “to modernise Severe Disablement Allowance, to direct more help to those for whom it was intended” (DSS, 1998a, p.9), implying that the purpose of SDA was to support those disabled in childhood. In fact, SDA was introduced in 1984 to replace the Non-Contributory Invalidity Pension (NCIP), which, as the name suggests, was the equivalent of the invalidity pension for those with an inadequate contributions record. It is therefore best understood as an earnings-replacement benefit, although it may be the lack of potential to earn or engage in other productive activity that is being compensated, rather than the loss of any actual earnings. The age at which a disability is acquired is irrelevant to the principle of SDA, except in so far as the younger you are, the less likely you are to have made sufficient National Insurance contributions. The consultation paper states that those aged 20 or over will have had the chance to earn and therefore should be eligible for Incapacity Benefit, but that appears to ignore the range of activities in which people may be engaged – bringing up a family, being a carer, studying, being unemployed – before becoming disabled.

Two-thirds of current SDA claimants became disabled after reaching the age of 20; new claimants in their situation will be ineligible for the benefit. In practice, some of them will be able to claim Income Support and may not lose out to a significant extent financially. However, 28 per cent of current claimants are above IS levels or have a partner working more than 16 hours per week, and for them SDA can be an important contribution to family income (DSS, 1997).

10 The Government has laid down an amendment to allow people who become disabled aged 20-24 to claim IB (even without adequate contributions), provided they were in full-time education immediately prior to their 20th birthday, and their disability occurs within two years of their course finishing.

It is not yet clear exactly how the higher rate of benefit for those who become disabled before the age of 20 will interact with Income Support and the new Disability Income Guarantee (discussed below). At present the basic rate of SDA for a single person disabled at any age under 40 is £52.70 per week, and if this is the individual's only income, he or she is better off on Income Support of £71.80 (including disability premium) or £110.30 (with severe disability premium). Under the new rules, a single person disabled before the age of 20 would get IB of £78.30, taking them just above Income Support levels, unless they would be eligible for a severe disability premium. However, IS receipt also brings entitlement to other benefits, such as free dental treatment and prescriptions (in other words IS acts as a "passport" to other benefits), so if the rate of SDA is only slightly above IS, IS may still be a better option.

The saving from stopping new claims to SDA, net of the extra cost of paying benefit at a higher rate to new claimants disabled before the age of 20, is estimated by the government to be £10 million in the first year, and £100 million per year when it has taken full effect. Although the cuts are more drastic than those proposed for IB, the net savings are considerably less, partly due to the smaller caseload and partly due to the fact that many would-be recipients will get Income Support at a similar level instead.

'Extra costs' benefits

The government is proposing to replace the unpopular Benefits Integrity Project, which re-assessed claims to Disability Living Allowance and Attendance Allowance, with a system of regular checks to ensure that changes in individuals' circumstances (for better or worse) are taken into account. There may also in future be a revised claims procedure, but this is still being researched. In the meantime, two main changes to benefits designed to help with the extra costs of disability are included in the Bill, at an estimated cost to the Treasury of £85 million per year when fully in force:

- *DLA-mobility for 3 and 4 year olds:* at present neither higher- nor lower-rate DLA mobility component can be claimed on behalf of a child under 5 years old. For the higher rate only, the minimum age is to be brought down to 3.
- *Additional Income Support disability premium:* a new premium will be payable to those who are receiving the highest rate of DLA-care component, on behalf of themselves or their child, in addition to the basic disability premium and any other premiums to which they are entitled. For a single adult or for a child, the new

premium will be £5.75 per week. So all IS claimants who receive one of the 'qualifying benefits' (see box above) will get disability premium of £21.45 per week, in addition to which those receiving highest rate of DLA-care will get the new premium of £5.75, in addition to which those who qualify for severe disability premium (i.e. those who are receiving higher or middle rate of DLA-care and who do not live with any non-dependants and for whom no-one receives Invalid Care Allowance) will get £38.50 per week. These premiums are all paid on top of the basic IS rate, currently £50.35 for a single adult aged 25 or over.

The extension of higher-rate DLA-mobility to 3 and 4 year olds was prompted by research showing possible detrimental effects on a child's development of not having mobility aids at a young age (Disability Alliance, 1995), and has for many years been the subject of campaigns by disability groups.

The additional IS premium, termed a "Disability Income Guarantee" in the consultation document, is a relatively modest increase in means-tested benefits for some severely disabled people. It will however be payable in addition to other premiums and extra-costs benefits like DLA and goes some way to meeting the gap between identified additional needs of severely disabled people and the benefit income to which they are entitled.

Disability Working Allowance

The Tax Credits Bill (House of Lords, 1999) proposes to replace DWA with a Disabled Persons Tax Credit (DPTC), at the same time as replacing the equivalent benefit for non-disabled people, Family Credit, with a Working Families Tax Credit. The tax credits will be administered by the Inland Revenue, rather than the DSS, and eventually paid through the pay packet rather than as a separate benefit. Few will mourn the passing of DWA: take-up always fell well below anticipated levels, and those who did make a claim were generally already in work. The main differences between the new tax credit and DWA are:¹¹

- *More generous income threshold:* the level of income up to which maximum benefit is payable is being increased by £10 per week for a single person.

11 Details from Inland Revenue (1998).

- *Less severe taper on income over the threshold:* under DWA, benefit is withdrawn at a rate of 70p in the £ for income above the threshold; under DPTC the withdrawal rate will be 55p.
- *Longer period in which to claim:* those whose eligibility for the benefit depends on previous receipt of another disability benefit will have longer in which to make a claim for DPTC. Receipt of IB or IS with a disability premium up to six months prior to the claim for DPTC will count; the limit for DWA is eight weeks. This effectively extends the period over which spells of disability will be regarded as “linked” for the purposes of this benefit.

Whether DPTC will avoid the pitfalls of its predecessor remains to be seen. However the combined effect of a higher income threshold and slower withdrawal rate should mean that eligibility for DPTC will extend to slightly better-paid workers, and reduce the extent to which additional earnings are clawed back by the benefit system.

Promoting inclusion and welfare to work?

There are aspects of the disability benefit reforms which fit with the government’s overall ‘welfare to work’ strategy: the appointment of personal advisers to assist Incapacity Benefit claimants to find work, the attempt to prevent Jobseekers sliding onto IB, measures to discourage early retirement on sickness benefits, and extending the scope of earnings top-ups for disabled workers. There are other aspects which seem to mesh with an anti-social exclusion philosophy – such as the extra resources for severely disabled children, and for severely disabled adults on Income Support.

However there are also reasons to question whether the reforms will achieve their stated objectives, and a worry that they may have unintended side effects. Adjusting work incentives is notoriously difficult and all too often creates other perverse incentives – in this case, for example, to claim IB immediately on losing a job rather than going through a period of job-seeking, or to discourage private pension and insurance provision. Likewise, the move away from social insurance towards means-testing could be seen as weakening the link between work and reward, rather than strengthening it. Moreover, as in other areas of welfare reform, the emphasis on inclusion through paid work carries with it the danger of further excluding those who are unable to work – whether because they cannot find a job or because they are engaged in other activities such as caring. In the case of disability benefits, the exclusion could take the form of forcing more disabled

people onto means-tested benefits – through the withdrawal of SDA for those disabled after the age of 20, and by blocking moves from unemployment to IB.

The seriousness of these concerns – how many people they would be likely to affect and by how much – is a matter for further research. How to trade-off improving work incentives for those able to work and promoting inclusion of those unable to work – a trade-off which may be unavoidable where the two categories cannot be differentiated with certainty – is a matter for political decision.

Re-weighting the benefit basket

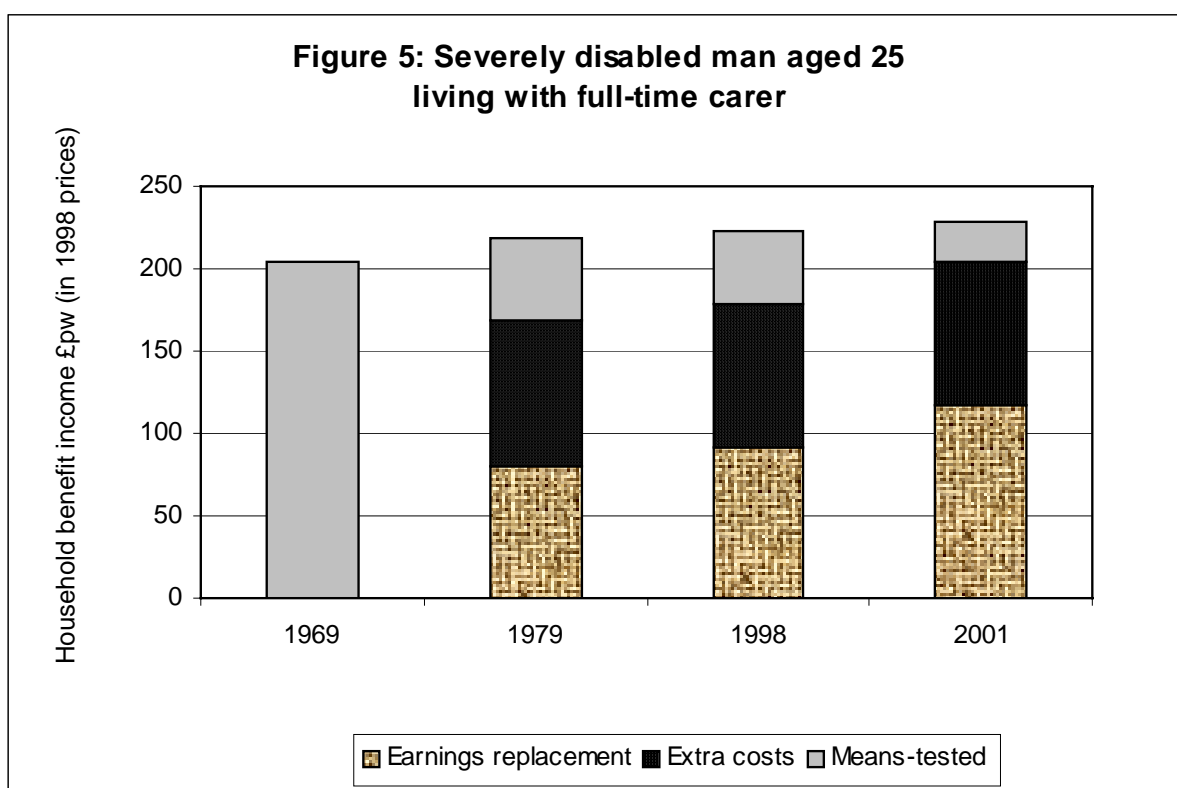
The changing balance between means testing, earnings replacement and extra costs benefits – the ‘benefit basket’ – can perhaps best be illustrated by taking a number of hypothetical case studies, to see how people in different circumstances would have been treated by the benefit system at various points in time, and how they would fare in the future once the latest reforms come into force.

Figure 5 shows the example of a single man aged 25 living with his mother who provides full-time support. He has been severely disabled since birth and neither of them has paid work. The first two bars represent the amounts, in real terms, they would have received under the benefit system as it was in 1969, before the introduction of general disability benefits, and in 1979, after the creation of ‘extra costs’ benefits but before the reforms of the late 80s and early 90s. The third bar shows the current situation, and the final bar shows what the impact of the 1999 reforms might be (assuming all benefits continue to be up-rated in line with prices).

The figure shows that the total amount of benefit income a household in that situation would receive has risen slowly in real terms, from £204.27 per week in 1969 to £222.95 in 1998, and would rise further still to £228.70 under the latest reforms.¹² But the composition of that total has changed markedly – from being entirely means-tested (Supplementary Benefit), to having just a small (11 per cent) means-tested top-up. The most significant change came between 1969 and 1979, with the introduction of earnings replacement benefits in the form of

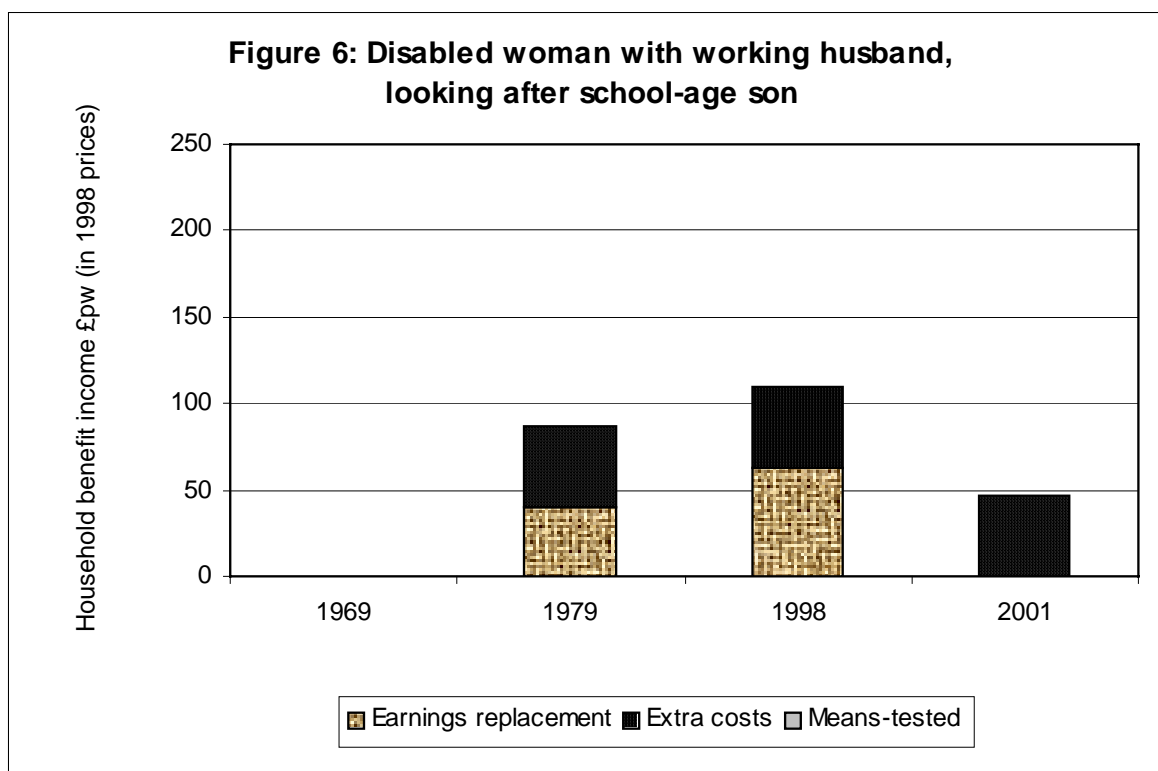
12 All amounts have been converted to 1998 prices using the Retail Prices Index. They do not include Housing Benefit or benefits for local taxes, nor do they include benefits in kind such as assistance provided by social services.

Non-Contributory Invalidity Pension and Invalid Care Allowance, and the creation of extra-costs benefits like Attendance Allowance and Mobility Allowance. Since then the balance for this family has been shifting gradually towards more earnings-replacement and less means-testing, with extra-costs benefits maintaining a steady share. The 1999 reforms would add to the value of the earnings-replacement component by replacing Severe Disablement Allowance with Incapacity Benefit.



Source: Author's calculations based on CPAG (1998a, b) and previous editions.

Figure 6 tells a rather different story. It illustrates the situation for a married woman aged 37, who looks after her 10-year old son, and suffers from a condition which makes walking difficult. She has a husband who works full-time. In 1969, the family would have received no benefit income, because the husband's earnings would have taken them above the means-tested minimum. In 1979, they could have received Housewives Non-Contributory Invalidity Pension and Mobility Allowance. By 1998 these had become Severe Disablement Allowance (SDA) and Disability Living Allowance mobility component respectively, and were slightly more generous than their predecessors, making a total of £109.90.¹³ However, under the latest reforms, the earnings-replacement component of the family's benefit income (SDA) would disappear, leaving them with just £35.85 per week in benefit income.



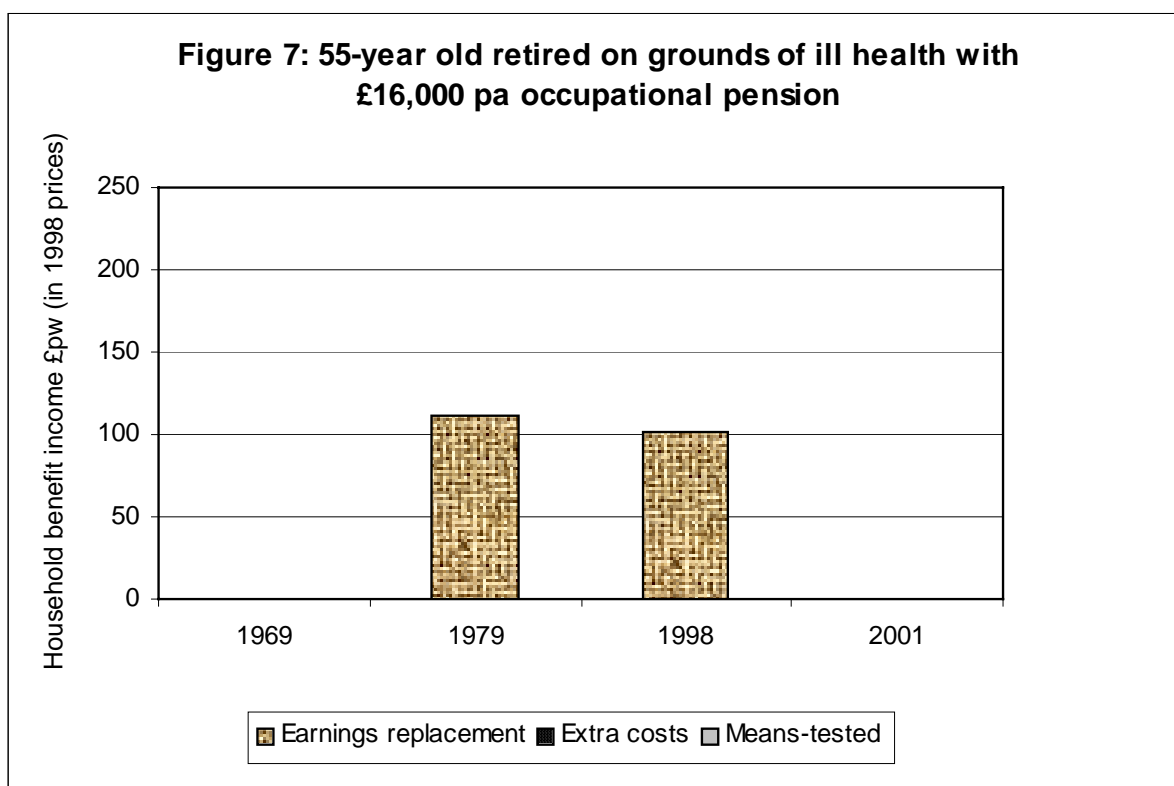
Source: Author's calculations based on CPAG (1998a, b) and previous editions.

Figures 5 and 6 have in common the introduction of extra-costs and earnings-replacement benefits in the 1970s, and their extension in the following two decades. But the latest reforms affect the two families very differently: for the young man disabled at birth living with his

13 Including Child Benefit of £11.45 per week.

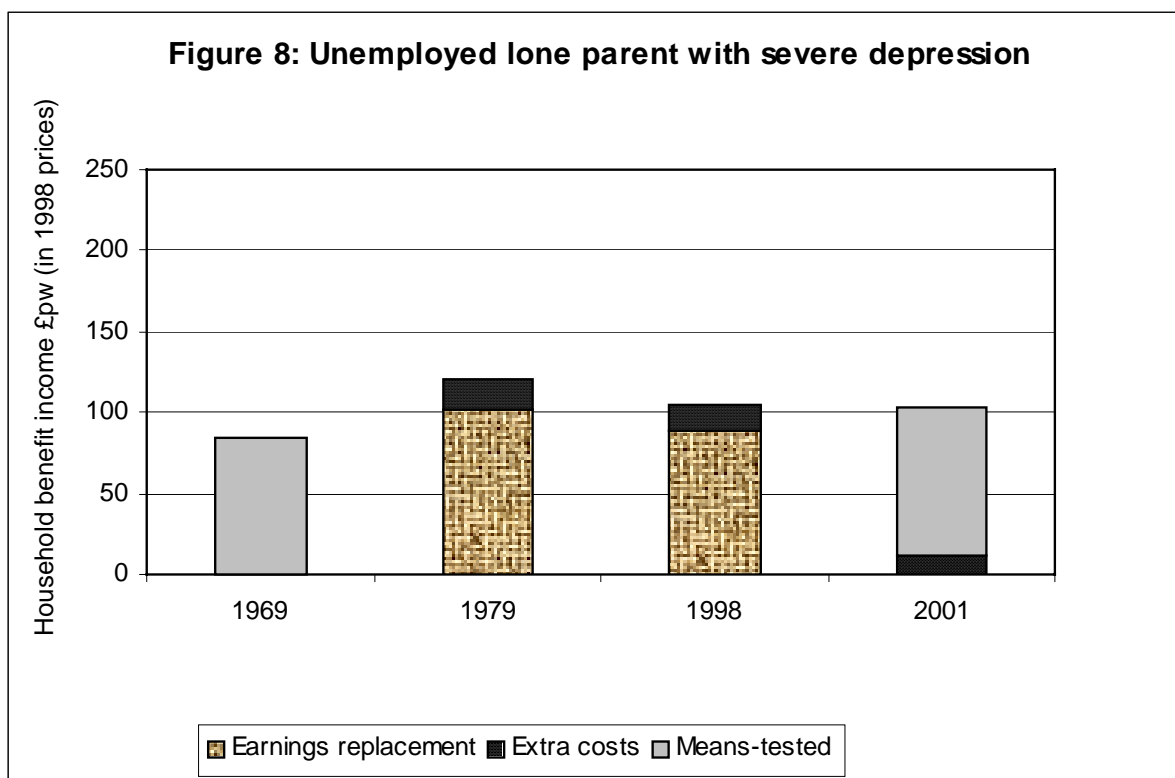
mother, the trend continues, but for the disabled woman looking after her school-age son, the earnings-replacement component is withdrawn.

Figure 7 has a similar overall shape to Figure 6, with the introduction and then withdrawal of earnings-replacement benefits, but through a different mechanism. It represents the situation for a couple both aged 55; he has recently taken early retirement on ill health grounds with an occupational pension and she does not work. In 1979 they receive Invalidity Benefit, which by 1998 has become Incapacity Benefit (IB). (It is paid at a slightly lower rate in 1998, because the wife no longer counts as an adult dependant. In fact, IB is worth even less to the couple than is shown in the figure, because it is taxable, unlike its predecessor.) In 2001, with the Welfare Reform Bill implemented, the couple's IB would be set off against their income from the occupational pension – if the latter was more than £254 per week, they would not receive any IB.



Source: Author's calculations based on CPAG (1998a, b) and previous editions.

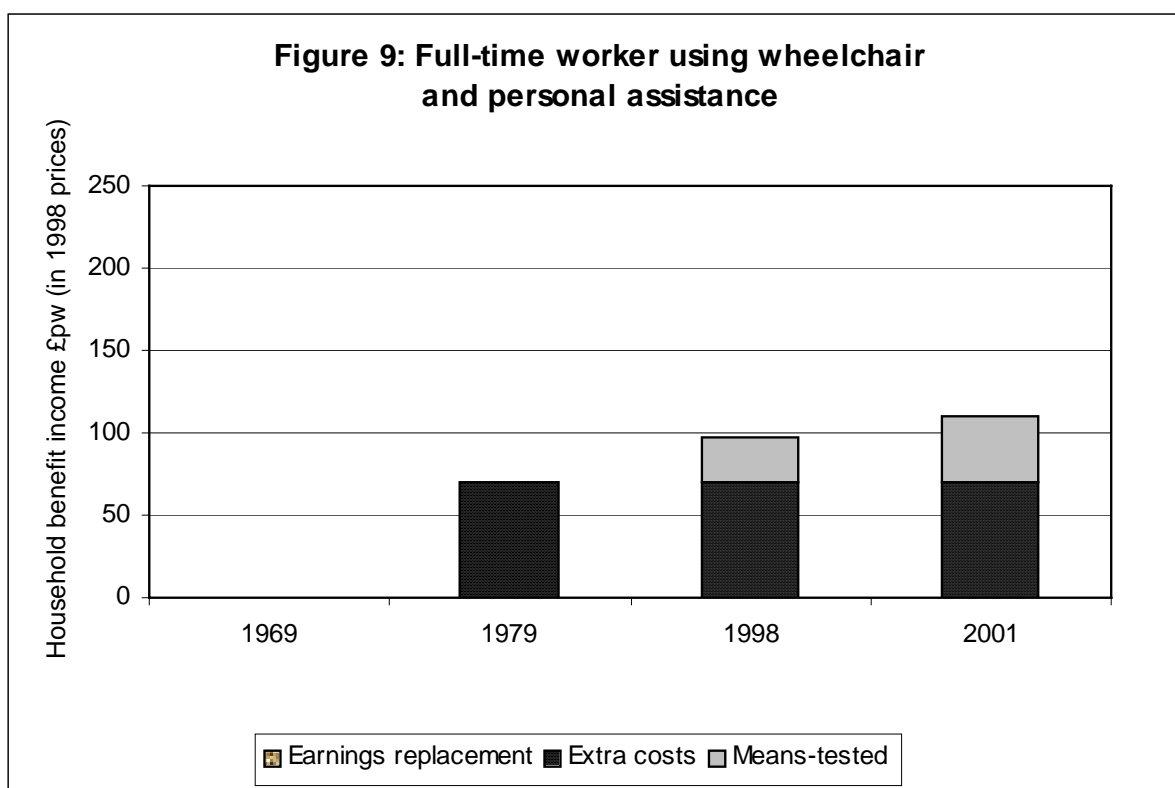
The benefit basket for someone like that depicted in Figure 8 has changed in a particularly complex way. This shows the benefits received by a divorced woman aged 22 who has been unemployed since the age of 19 and has since developed severe depression. She has one child aged 3. In 1969, she would have received a modest means-tested income of £85.02 per week (in 1998 prices). By 1979, this would have been replaced by Invalidity Benefit (IVB) and Child Benefit (CB), bringing someone in her situation up to £120.49 per week. Under current rules, she would still receive IVB's successor, Incapacity Benefit (IB), but because of changes in the way the rate is calculated, it would be worth less, and so her overall income is slightly lower in real terms, at £105.30 per week. Finally, under the latest reforms, she would not be entitled to IB, so all her income (except CB) would come through means-tested Income Support. The benefit basket in 2001 would be almost identical to what it was in 1969 – a means-tested minimum – with the small addition of Child Benefit; the earnings-replacement component has come and gone.



Source: Author's calculations based on CPAG (1998a, b) and previous editions.

Finally, Figure 9 illustrates the case of a single woman aged 46 who works full-time, and uses a wheelchair and some personal assistance. In 1969, she would not have received any benefits. By 1979, extra-costs benefits like Attendance Allowance and Mobility Allowance

would have brought in £70.33 per week (in 1998 prices), and although the benefits have changed their names, the amount has remained the same in real terms. However in 1998 she could receive, in addition, a means-tested top-up to her earnings in the form of Disability Working Allowance, bringing her total benefit income up to £97.58 per week, increasing by £110.02 by 2001, when DWA will have been replaced by the Disabled Persons Tax Credit. (These calculations assume she works a 30-hour week and is paid at the minimum wage of £3.60 per hour). The significance of the introduction of extra-costs benefits, and the later recognition of the labour market disadvantage experienced by disabled people, is clearly shown in this example.



Source: Author's calculations based on CPAG (1998a, b) and previous editions.

What these figures cannot indicate is the number of people affected – how common the different cases illustrated are – nor can it account for behavioural shifts induced by changes in the rules (for example, ceasing to be a carer or getting a job). However, they do alert us to the danger of assuming that either past developments or the latest reforms have uniform effects. Total benefit income has grown for some (Figures 5 and 9), but waxed and waned for others. For some families, means-testing has shrunk (Figure 5), for others it has grown (Figure 9), and for yet others it disappeared only to return (Figure 8). Earnings

replacement has likewise grown for some (Figure 5) but has fallen and is even set to be withdrawn for others (Figures 6, 7, and 8). The one finding which does appear to hold across different families' circumstances is that extra-costs benefits, once introduced, have remained a steady and important component the benefit basket.

Conclusions

This paper has sought to locate the government's disability benefit reforms in the context of the historical development of disability benefits in the UK, drawing out how the treatment by the benefit system of disabled people in different circumstances has changed over time.

The development of various forms of benefit is best summarised in Figure 3. Compensatory benefits, the earliest specific disability benefits to be introduced and the least reformed, have played a steady role, while extra costs benefits have become an increasingly significant component. Expansion of benefits designed to replace earnings was followed by a contraction in the 1990s, the latter phase accompanied by an increasing emphasis on "targeting".

The government's reforms seem to show a continuation of earlier trends for disabled people in work (Figure 9), and for those who have been disabled since an early age (Figure 5), both in terms of an increasing overall level of benefit and in terms of the composition of the benefit basket. But for disabled people who are unemployed (Figure 8), 'housewives' (Figure 6), or early-retired (Figure 7), what the government is proposing is a step change, with more means-testing and less earnings-replacement benefits, and in some cases, less benefit overall.

In accordance with the guiding principle of welfare reform, "work for those who can and security for those who cannot", the government's disability benefit reforms are designed to reward paid employment, while offering relatively generous provision for those who are obviously unable to work. The question raised is the extent to which altered incentives will be sufficiently powerful to eliminate the category in-between – those who are deemed capable of work but who do not have a job – or whether large numbers of disabled people will fall between the stools of "work" and "security".

References

- Berthoud, R. (1993), *Invalidity Benefit: Where will the savings come from?* Policy Studies Institute Working Paper. London: PSI
- Berthoud, R. (1998), *Disability Benefits: A review of the issues and options for reform.* York: York Publishing Services
- Brindle, D. and Ward, L. (1998), “Disabled benefit most from welfare reforms package”, *The Guardian*, 29 October
- Child Poverty Action Group [CPAG] (1998a), *National Welfare Benefits Handbook 1998/9.* London: CPAG
- CPAG (1998b), *Rights Guide to Non-Means-Tested Benefits 1998/9.* London: CPAG
- Department of Social Security (DSS) (1997), “Benefits for sick and disabled people”, *Welfare Reform Focus File 4.* London: DSS
- DSS (1998a), *A new contract for welfare: Support for Disabled People*, Cm 4103. London: The Stationery Office
- DSS (1998b) *Social Security Departmental Report: The Government’s expenditure plans 1998-99*, Cm3913. London: The Stationery Office
- DSS (1998c), *Social Security Statistics 1998.* London: The Stationary Office
- Disability Alliance (1995), *Too Young to Count.* London: Disability Alliance
- Evans, M. (1998), “Social security: Dismantling the pyramids?” in H. Glennerster and J. Hills (eds.), *The State of Welfare: The economics of social spending*, 2nd edition. Oxford: Oxford University Press
- Evans, M., Piachaud, D. and Sutherland, H. (1994), *Designed for the Poor – Poorer by Design? The effects of the 1986 Social Security Act on Family Incomes*, Welfare State Programme Discussion Paper WSP/105. London: London School of Economics
- Grayson, L. (1986), *Unemployment and health: A review of the literature 1979-1986*, Letchworth: Technical Communications
- Harris, A. (1971), *Handicapped and Impaired in Great Britain, Part I*, Office for Population Censuses and Surveys. London: HMSO
- House of Commons (1999), *Welfare Reform and Pensions Bill*, 1998/99 Session, HC Bill 44

- House of Lords (1999), *Tax Credits Bill*, 1998/99 session, HL Bill 39
- Inland Revenue (1998), *Working Families Tax Credit and Disabled Person's Tax Credit*. London: Inland Revenue
- Martin, J. and White, A. (1988), *The Financial Circumstances of Disabled Adults Living in Private Households*. London: HMSO
- Rowlingson, K. and Berthoud, R. (1996), *Disability, Benefits and Employment*, Department of Social Security Research Report No.54. London: The Stationery Office
- Walker, A. and Walker, L. (1991), "Disability and financial need – the failure of the social security system" in G. Dalley (ed.), *Disability and Social Policy*. London: Policy Studies Institute