Target efficiency of disability benefits for older people in Britain

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Outline

• Policy Background
• The personal costs of disability
• Measuring financial need, final income and target efficiency
• Data and simulation methods
• Assessment of the current system of disability benefits for older people
• Assessment of reforms
• Conclusions
Policy Background

• Tight Local Authority (LA) budgets for social care services have resulted in scrutiny of the disability benefits (DBs) system to see if money spent on DBs could be released for social care.
• Many more older people receive DBs than receive LA care; DBs have a non means-tested component whereas LA care is largely means-tested.
• Commission on the Future of Health and Social Care in England, recently suggested means testing DBs for older people to release money to put into health and social care.
• Important to take account of disability costs in any assessment of whether DBs are going to people who need them (Hancock and Pudney, 2014).
The personal costs of disability

- Various estimates of the personal costs faced by disabled people have been made using the compensating variation principle (e.g. Zaidi and Burchardt, 2005; Jones and O’Donnell, 1995).
- Costs faced by disabled older people have been found to be substantial on average (£100 pw, 2007 prices) and strongly related to level of disability (Morciano et al, 2014).
- Recent non parametric approach produces costs which are lower on average (£48-£61), but still exceed mean levels of disability benefits (£28) or total public support (£47) and are strongly-related to severity of disability (Hancock et al, 2013).
- The standard parametric approach is prone to large overestimates unless standard assumptions hold; the non parametric approach may produce underestimates.
- We use the non parametric estimates so that policy conclusions are not driven by overestimates of disability costs.
- Our estimates aim to identify the effect of severity of disability on material living standards not on ‘happiness’.
Estimated disability costs compared with value of external support received (April 2007 prices)

Source: Hancock et al. (2013). Based on 4 years of data from the Family Resources Survey – around 21,000 pensioner units.
Aims of public support for older disabled people

• To compensate, at least partially, for the costs that disabilities bring?
• Targeting support on those least able to afford those costs e.g. those whose incomes after meeting those costs would be below some threshold (a poverty line?)
• Three relevant income definitions:
  – Income before any public support (disability benefits and LA services), net of disability costs i.e. achievable standard of living in the absence of public support – ‘pre-benefit income’
  – Final income, including disability benefits and the value of LA services for comparison against a poverty threshold to which disability costs have been added
  – Final income, including disability benefits and the value of LA services, net of disability costs i.e. standard of living achievable with public support, for comparison with non disabled people
The disability benefit system (April 2012 rates)

• Attendance Allowance (AA) and Disability Living Allowance (DLA), non means tested, non taxable, non contributory, disregarded in assessable income for mean-tested benefits, mutually exclusive

• Can be included in assessable income for means tests for social care after an allowance for disability-related expenditure

• Contributions to personal disability costs, not earnings replacement

• AA, claimable from age 65
  – £77.45 or £51.85 p.w; 1.6m GB recipients; £5.4bn annual cost

• DLA must be claimed before age 65 but can continue after 65
  – payable rates range from £20.55 to £131.95 (‘care’ and ‘mobility’ components); 0.9m DLA recipients aged 65+; £3.9bn annual cost

• Disability-related addition to means-tested benefits via the severe disability premium (SDP) £58.20, if AA or DLA (care) rec’d at middle or higher rate, subject to certain conditions. **Annual cost for 65+: 20% of total DBs ???**

• DLA is gradually being replaced by Personal Independence Payment – same structure but new assessment procedures
Methods (I)

Data
- Four years of Family Resources Survey (FRS) data (2004/5 to 2007/8) restricted to households containing a single person aged 65+ or a couple where one partner is 65+ and the other has attained the (then) state pension age. Around 20,000 ‘pensioner units’.

Simulation model
- CARESIM, used here as a static tax-benefit model for private household population; simulates income tax liabilities, entitlements to means-tested benefits, liability for user contribution to Local Authority home care.
- Varies levels of components of disability benefits for those reporting receipt or extends/removes receipt according to disability level.
- Disability level measured by an index constructed from self-reported difficulties in 9 domains of life e.g. getting around the home, recognising when in danger.
- All money values expressed in 2012 prices.
Methods (II)

Take-up of means-tested benefits assigned randomly, according to assumed take-up rates

1. Pension Credit, entitled to Guarantee Credit: 77%
2. Pension Credit, entitled to Savings Credit only: 55%
3. Housing Benefit/Council Tax Benefit, receiving Pension Credit: 100%
4. Housing Benefit, not receiving Pension Credit: 87%
5. Council Tax Benefit, not receiving Pension Credit, renters: 86%
6. Council Tax Benefit, not receiving Pension Credit, owners: 38%

No explicit response to change in entitlement but if reforms affect entitlement to Pension Credit/Guarantee Credit/Savings Credit, they can affect take-up
Is disability benefit expenditure well-targeted by financial need?
Disability benefits expenditure by income decile, HBAI AHC definition (includes DBs)
Disability benefits expenditure by income decile, HBAI and pre-DBs definitions

Decile of income (pensioner units)

% of DB expenditure

- HBAI AHC (includes DBs, no allowance for disability costs)
- Pre-DBs, AHC

1 (low) 2 3 4 5 6 7 8 9 10 (high)
Disability benefits expenditure by income decile, HBAI, pre-DBs and post disab. costs
Target efficiency

• Analysis above suggests public support is received disproportionately by those in most financial need but:
  – Some expenditure goes to those on higher incomes
  – System could still ‘overcompensate’
• 2 types of targeting errors (Cornia and Stewart, 1993; Mangiavacchi and Verme, 2013; Ravallion, 2009):
  (1) benefits go to non-poor (Besley, 1990; Creedy, 1996)
  (2) benefits do not reach some of the poor
• Terminology varies and is confusing
• I shall call (1) inclusion errors and (2) exclusion errors, following, Mangiavacchi and Verme, 2013
Operationalising targeting errors

• Define a poverty threshold, or range of thresholds
  – % of minimum income level within Pension Credit plus disability costs
  – compare with income including DBs and the value of care services but before deduction of disability costs as these are added to the threshold

• Define the scale of inclusion errors as:
  – % of total net transfers to older people which goes to the pre-transfer non-poor or brings the pre-transfer poor above the poverty threshold (Creedy’s ‘spill-over effects’)

• Define the scale of exclusion errors as:
  – the additional transfers that would be needed to eliminate poverty as % of total transfers to older people

• NB: use total transfers rather than just disability-related as some changes to disability benefits can affect receipt of other means-tested benefits through changes in take-up
Two measures of poverty

Foster, Greer and Thorbecke, 1984:

$$FGT(a) = \frac{\sum_{i}^{N} I(y_i < Z)(1 - \frac{y_i}{Z})^a}{N}$$

a=0: head count i.e. % of people with incomes (y) below poverty threshold Z

a=2: FGT(2), higher weight given to greater shortfalls below poverty threshold
## Understanding the current system of DBs for older people

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Cost change as % of net transfers</th>
<th>Cost change as % of total DBs, MTBs and LA care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remove all DBs including SDP</td>
<td>-11%</td>
<td>-33%</td>
</tr>
<tr>
<td>Remove AA/DLA, retain SDP, current take-up of MTBs</td>
<td>-9%</td>
<td>-27%</td>
</tr>
<tr>
<td>Remove AA/DLA, retain SDP, full take-up of MTBs by older disabled people</td>
<td>-6%</td>
<td>-17%</td>
</tr>
<tr>
<td>Remove SDP, retain AA/DLA</td>
<td>-2%</td>
<td>-6%</td>
</tr>
<tr>
<td>Remove DLA mobility</td>
<td>-2%</td>
<td>-7%</td>
</tr>
<tr>
<td>Current system with full take-up of MTBs by older disabled people</td>
<td>+3%</td>
<td>+9%</td>
</tr>
<tr>
<td>Fully compensate for disability costs</td>
<td>disability level through AA/DLA, remove SDP</td>
<td>+20%</td>
</tr>
<tr>
<td>Fully compensate for disability costs</td>
<td>disability level through SDP, remove AA/DLA (current take-up)</td>
<td>+6%</td>
</tr>
</tbody>
</table>
Head count poverty rates, upper 50% of disability

- No AA, DLA or SDP
- No AA or DLA, SDP retained, current MTB take-up rates
- No AA or DLA, SDP retained, full take-up of MTBs
- AA/DLA retained, SDP abolished
- No DLA mobility
- Current policy and MTB take-up rates
- Current policy with full take-up of MTBs
- No AA/DLA, disability costs fully compensated thro' SDP
- Disability costs fully compensated through AA, no SDP
Head count poverty rates, lower 50% of disability

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- No AA or DLA, SDP retained, current MTB take-up rates
- No AA or DLA, SDP retained, full take-up of MTBs
- AA/DLA retained, SDP abolished
- Current policy and MTB take-up rates
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FGT(2) poverty index, upper 50% of disability

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- No AA/DLA, disability costs fully compensated thro' SDP
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Inclusion errors as % of total transfers

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- No AA/DLA, disability costs fully compensated thro' SDP
- Current policy with full take-up of MTBs
- Current policy and MTB take-up rates
- No DLA mobility
- No AA or DLA, SDP retained, current MTB take-up rates
- No AA or DLA, SDP retained, full take-up of MTBs
- No AA, DLA or SDP

DB expenditure going to non poor or bringing poor above poverty line as a propn of total net transfers
Some potential revenue-neutral reforms

(1) Increase AA/DLA by 40% for high rate recipients in the top 30% of the disability distribution (No new benefit recipients)

(2) Increase AA/DLA by 24% for those in top 20% of disability distribution, also ensuring that all those in the top 20% (including non recipients) get this enhanced rate AA/DLA. High rate AA/DLA halved for other high rate recipients, middle rate of AA/DLA removed.

(3) Remove AA/DLA, increase SDP by 90% for all in top 20% of disability, current take-up patterns

(4) Remove AA/DLA, increase SDP by 90% for all in top 20% of disability, reduce SDP by 25% for other high rate AA/DLA recipients, no SDP for middle rate AA/DLA recipients, with full take-up of MTBs by the top 20% of disabled.

DLA mobility and lower rate of DLA care removed throughout. In (1) those receiving only higher DLA mobility transferred to middle rate DLA care
Poverty impacts
Head count poverty rates, upper 50% of disability

- **Current policy and MTB take-up rates**
- **Enhance high rate AA/DLAc for recipients in top 30% of disability**
- **Abolish AA/DLA, enhance SDP for all in top 20% of disability but non take-up of MTBs remains**
- **Enhanced high rate AA/DLAc reaches all in top 20% of disability**
- **Abolish AA/DLA, enhance SDP for top 20% of disability, full take up of MTBs by them**
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Enhance high rate AA/DLAc for recipients in top 30% of disability
Current policy and MTB take-up rates
FGT(2) poverty index, upper 50% of disability

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FGT poverty index

poverty threshold
FGT(2) poverty index, lower 50% of disability

![FGT(2) poverty index graph]

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- Enhance high rate AA/DLAc for recipients in top 30% of disability
- Current policy and MTB take-up rates

Poverty threshold

70% GC level 75% 80% 85% 90% 95% 100% 105% 110% 115% 120% 125% 130% 135% 140% 145% 150% 155% 160% 165% 170%

FGT poverty index

0.00 0.02 0.04 0.06 0.08 0.10 0.12
Targeting errors
DB expenditure going to non poor or bringing poor above poverty line as a propn of total net transfers

- **Enhance high rate AA/DLA** for recipients in top 30% of disability
- **Current policy and MTB take-up rates**
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Inclusion errors as % of total transfers

Poverty threshold

70% GC level, 75%, 80%, 85%, 90%, 95%, 100%, 105%, 110%, 115%, 120%, 125%, 130%, 135%, 140%, 145%, 150%, 155%, 160%, 165%, 170%
Exclusion errors as % of total transfers

Abolish AA/DLA, enhance SDP for all in top 20% of disability but non take-up of MTBs remains

Enhance high rate AA/DLAc for recipients in top 30% of disability

Current policy and MTB take-up rates

Abolish AA/DLA, enhance SDP for top 20% of disability, full take up of MTBs by them

Enhanced high rate AA/DLAc reaches all in top 20% of disability
Emerging conclusions

• Poverty impact and target efficiency can be achieved without means-testing if rates of benefit are more closely related to severity of disability and benefits reach the most severely disabled

• If this is achieved within existing budget, those with lower levels of disability will lose

• Discussion of integrating DBs and social care needs to consider ‘exclusion errors’ for social care

• Removing DBs from social care recipients adds to Local Authority costs
References


• Cornia, A.C. and Stewart, F. (1993) Two errors of targeting *Journal of International Development* 5 459-496


