



**The importance of independent income:  
understanding the role of non-means-tested  
earnings replacement benefits**

Holly Sutherland *ISER University of Essex*

Fran Bennett *University of Oxford*

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# Outline

- **Introduction**
- **The importance of independent income**
- **Non-means-tested earnings replacement benefits (NMTERBs): the (recent) past**
- **Implications of abolition – for family units and (gendered) individuals**
- **Non-means-tested earnings replacement benefits: the present and (possible) future**
- **Conclusions**

# Introduction

- Developed from work in **Within Household Inequalities and Public Policy** (project 5, Gender Equality Network, funded by ESRC): RES-225-25-2001 ([www.genet.ac.uk](http://www.genet.ac.uk))
- + updating analysis by Holly Sutherland of **impact of abolishing contributory and other earnings replacement benefits** (House of Commons Social Security Select Committee inquiry into contributory principle, 2000)
- Available as working paper from Institute for Social and Economic Research, University of Essex:  
<http://www.iser.essex.ac.uk/publications/working-papers/iser/2011-09>  
+ Barnett Paper in Social Research, University of Oxford:  
[http://www.spi.ox.ac.uk/fileadmin/documents/pdf/BennettSutherland\\_28March\\_2011\\_2\\_01.pdf](http://www.spi.ox.ac.uk/fileadmin/documents/pdf/BennettSutherland_28March_2011_2_01.pdf)

- We argue that **independent entitlement to income** is important
- The earnings replacement benefits paid to individuals fulfil a **range of functions** that means-tested benefits, assessed at family level, cannot. This also highlights need to consider **gender differences** in income receipt
- We explore the implications of a scenario in which **non-means-tested earnings replacement benefits are abolished** and means-tested benefits and tax credits fill some of the gap
- This illustrates the effects of **UK trends and direction of proposals for further reform** — in the decline in non-means-tested benefits and the increase in means testing — **taken to their ultimate conclusion**

# The importance of independent income

- **Autonomy** (empowerment/choice/control) as key element in capabilities (eg EHRC framework), quality of life, citizenship ...
- Feminist theory sees **financial autonomy** as key and economic dependence within family as potentially problematic
- **Atkinson (2011):**  
*'everyone should have a right to resources, over which they have control ... For me, it is important that the minimum be defined in terms of income, not consumption. A person might live in a household where others have income that is shared in common, but this would not meet the criterion. Rights are important within households as well as between households.'*

- Independent income can provide **access to some income**  
& **give some ‘say’** within couple relationship  
& **give more control** over destination of income
- Most analyses of income carried out at **family/household** level – but eg National Equality Panel report (2010) on inequality in UK highlighted ***individual incomes***:
  - *‘the resources available to individuals in their own right, and over which they will have strongest control’* (p 179)  
(includes earnings, benefits and tax credits, other incomes)
- **Assumptions necessary** about (eg) benefits intended for family as a whole and/or others in household (eg children)

- **Non-means-tested earnings replacement benefits:**
  - are unaffected by partner's presence/status/resources/actions (unlike means-tested benefits) - ie **assessment**
  - you receive them (or decide who/where) - ie **payment**
  - may be **contributory** or **non-contributory**
- **Benefits such as** (c-b) employment and support allowance & jobseeker's allowance, carer's allowance, maternity allowance
- **Importance to women**, given unequal access to resources – but wage replacement benefits often of **greater value to men**
- In UK, some **60%** claimants are men, **40%** women

# Non-means-tested earnings replacement benefits (NMTERBs): the (recent) past

- **1980s/90s:** cutbacks in working age benefits (Hills, 2003)
- **Pincer movement for women** in particular? ie tightening of contribution conditions + abolition of survivors' benefits/dependant additions (making them more individual)
- **Late 1990s on:** improvements, but largely continuing decline (+ increasing behavioural conditionality) (Williams, 2009)
- **Less important** to household income now than decade ago
- **Inevitable downward spiral** due to poverty orientation of UK benefits system? But may be countered by 'deservingness'/ other factors? (eg carer's allowance?) (eg family benefits?)



# Implications of abolition

- What if NMTERBs for working age people were abolished and means-tested benefits/credits were left to fill the gap?
  - Net budgetary saving
  - Who is fully “compensated”; who are the losers?
- Microsimulation: POLIMOD using 2003/4 Family Resources Survey data, updated to 2008/9 policies
- **Benefits abolished:** JSA (contributory), Incapacity Benefit / Employment and Support Allowance, Maternity Allowance, Severe Disablement Allowance, Carer’s Allowance, Industrial Disablement Benefit and Bereavement Benefits
  - Individual entitlements
- **Means-tested payments that might fill the gap:** JSA (income-tested), Income Support, Child Tax Credit, Working Tax Credit, Housing Benefit and Council Tax Benefit
  - Assessed on family incomes and assets; entitlements depend on family/household composition

# Budgetary effects

£bn / year current prices	2008/9		1999/2000*
Abolition of income replacement benefits	10.51		
Increase in means-tested benefits/credits	-4.50		
Reduction in income tax	-0.19		
<b>Net budgetary saving</b>	<b>5.82</b>		<b>7.58</b>

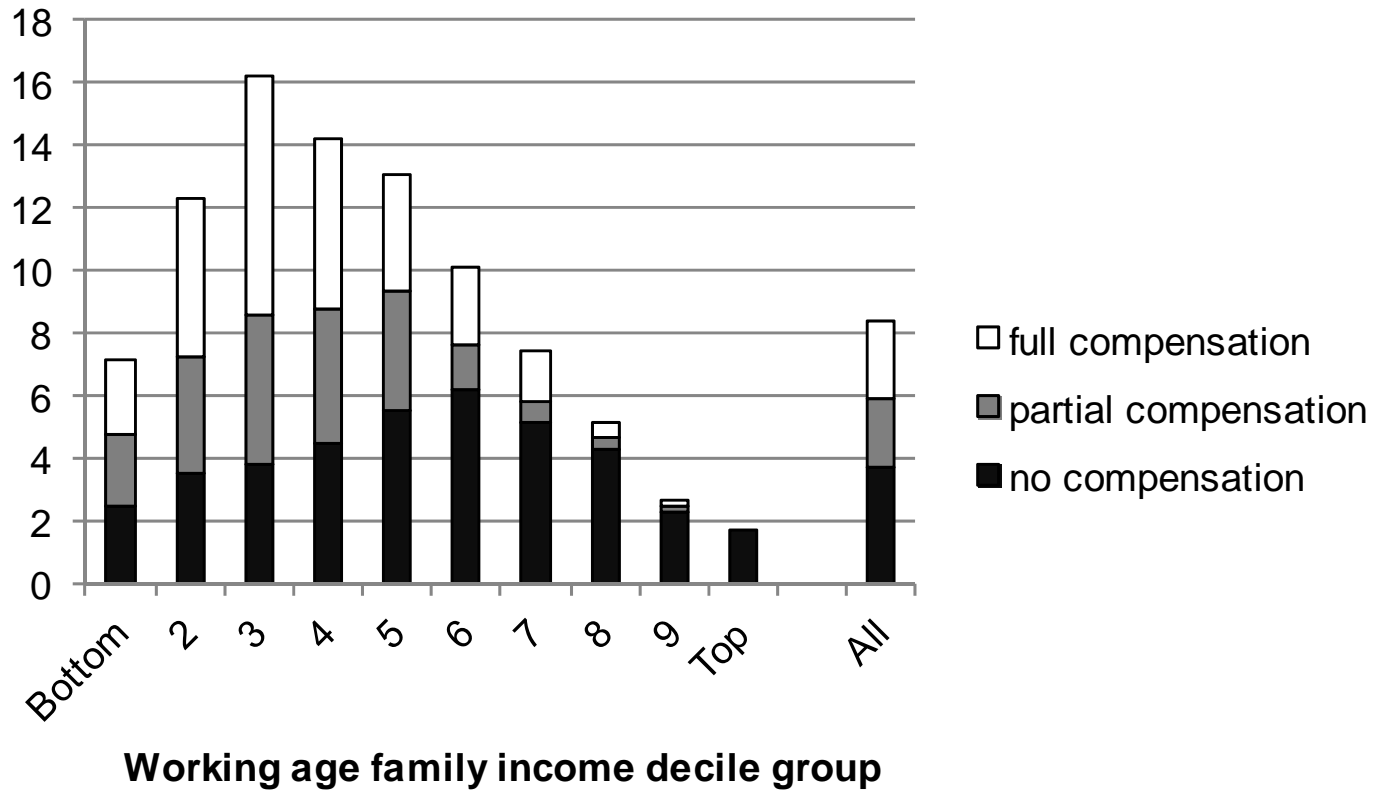
\* From similar 2000 analysis

Assumptions:

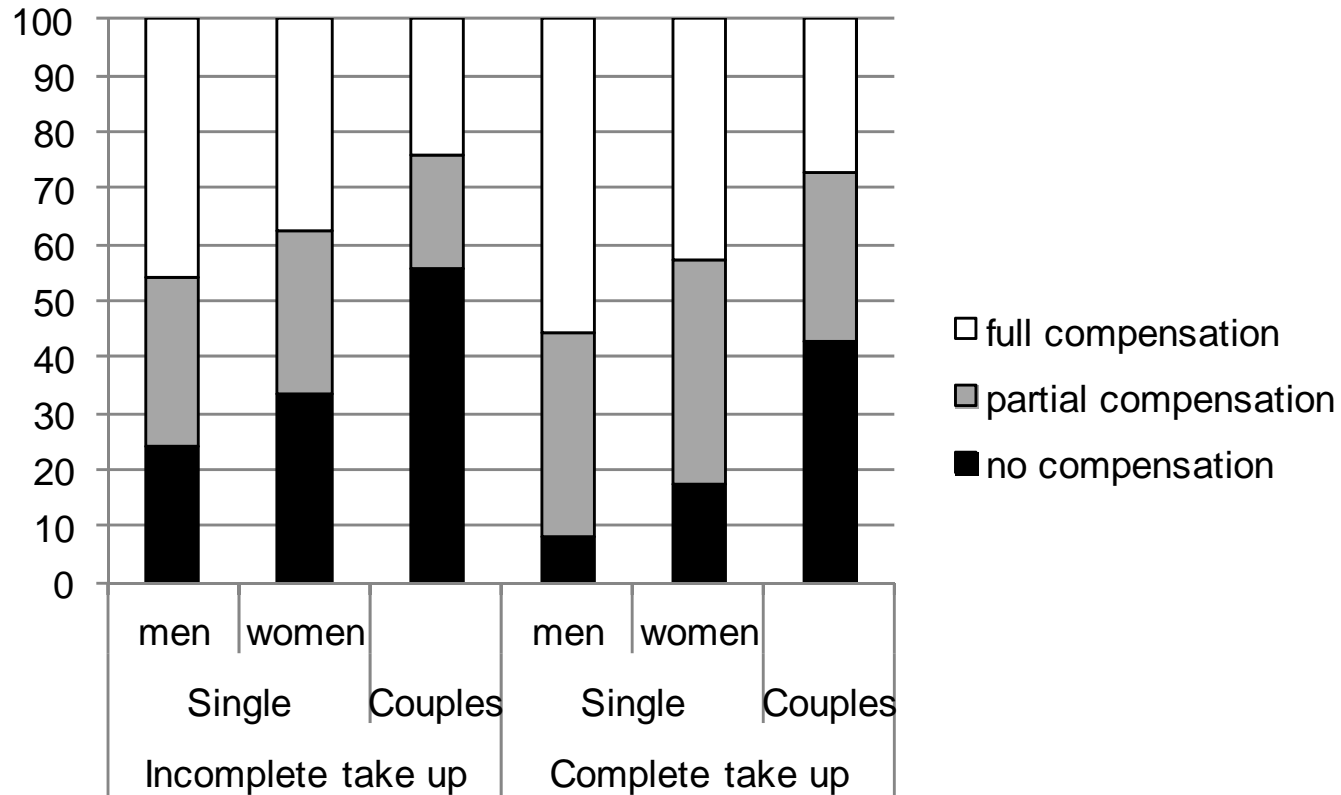
Incomplete take-up of means-tested payments

Additions to IS that are “passported” by receipt of NMTERBs continue

# Extent of compensation by the means-tested system for loss of NMTERBs by **family income level** % of all family units with NMTERBs



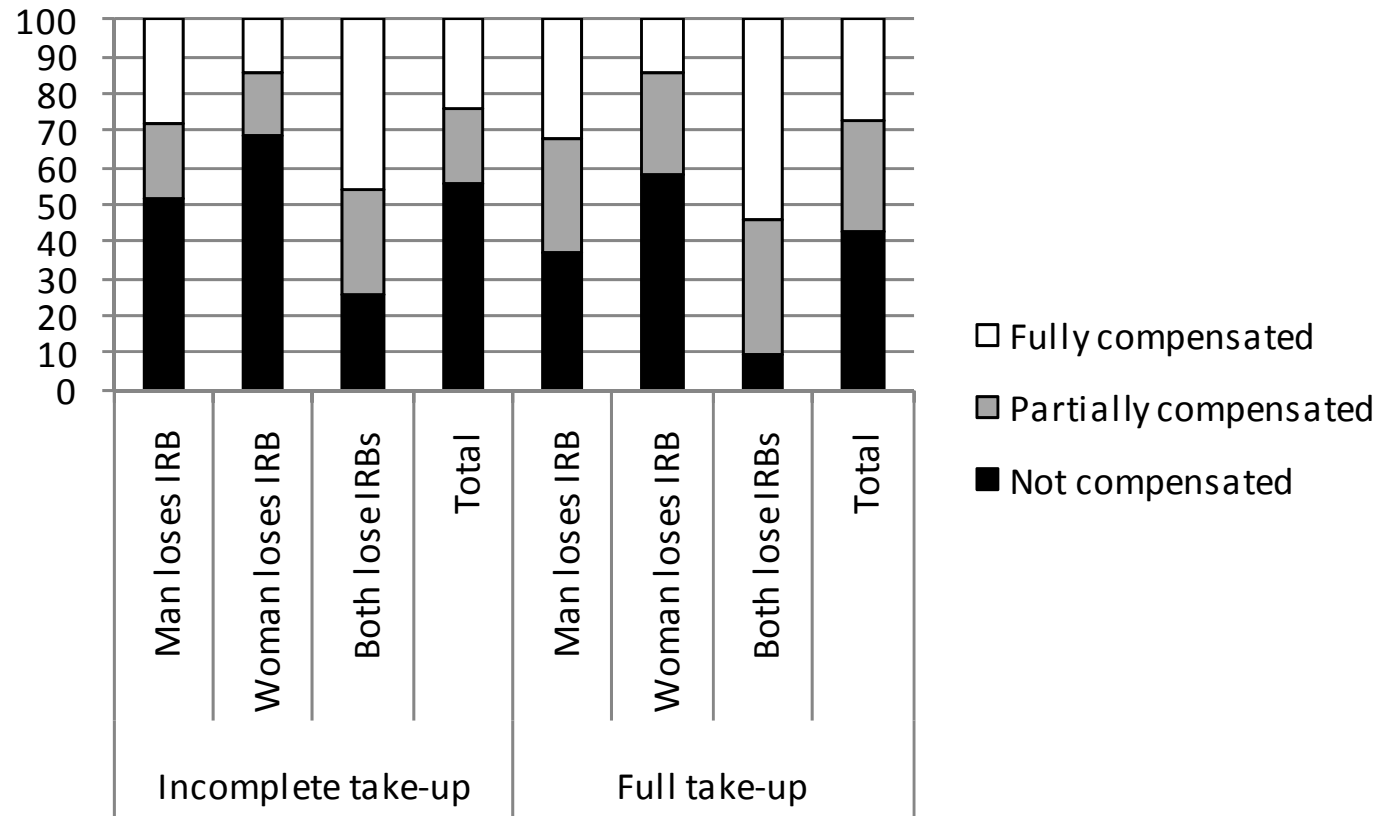
# Extent of compensation by the means-tested system for loss of NMTERBs by **family type** % of each group (with NMTERBs)



# Couples with receipt of NMTERBs

- 1,229 sample couples, representing 1.027 million UK couples
  - 12% both are in receipt
  - 44% the man is in receipt
  - 44% the woman is in receipt
1. Extent of compensation for each couple type
  2. Effects on individual incomes
    - Assumptions about who receives MTBs (assumed split equally)

# Extent of compensation by the means-tested system for loss of NMTERBs by **gender of recipient** % of each group (with NMTERBs)



# Individual incomes

- Assuming that means-tested incomes are shared equally within the couple:
  - Shifting from NMTERBs to means-tested payments results in women 'losing' less in **absolute** terms than men
  - But this is mainly a reflection of the fact that women's NMTERBs are on average 20% lower (i.e. they have less to lose)
  - As a **proportion** of individual incomes (before loss of NMTERBs), women in couples lose more than men
  - This is a reflection of women's lower overall incomes

# Summary (1)

- Individual NMTERBs seem to be less important to family incomes than they were ten years ago
- 9.3% of households, 8.4% of working age family units and 6.3% of working age people (a similar percentage of men and women) would be affected by abolition of these benefits
- About one third of family units would receive no compensation through increases in means-tested payments, one third would be fully compensated and one third would be partly compensated
- Poverty rates (household income) would rise by ~ 1 percentage point
- Single people are more likely to be compensated through the means-tested system than couples because they are less likely to have substantial other incomes
- Single men are more likely to be fully compensated than single women: on average, single women in receipt of NMTERBs have higher other incomes than comparable single men



## Summary (2)

- Individuals in **couples** are less likely to be compensated because their partner may have other sources of income
- Within couples, equal numbers of men and women are in receipt of NMTERBs; but the average value is about 20% higher for men
- In couples NMTERBs make up a smaller proportion of men's incomes than women's incomes (unlike single men and women)
- Women losing benefit are much more likely than men losing benefit to be in couples who are not compensated at all
- As a proportion of individual incomes, women in couples lose more than men; in absolute terms, they lose less
  - **Means-tested payments are not substitutes or alternatives for NMTERBs**
  - **There are asymmetries by gender in the ways this is so**

# NMTERBs: the present and (possible) future

- **Unit of assessment + eligibility criteria** key in past debates
- But (most) recent reform proposals **ignore/downplay** these
- Even government sometimes **fails to differentiate**
- ‘Stress testing’ welfare state in recession: reliance on means-tested benefits **puts burden on partners** (Figari et al, 2010)
- **Changes proposed in Welfare Reform Bill 2011:**
  - employment & support allowance time-limited for many and abolished completely for those disabled from birth
  - carer’s allowance affected by disability benefits reform
  - universal credit abolishes distinction in/out of work (+ contributory benefit paid to UC payee in couples?)

# Conclusions

- **Why are individual working age NMTERBs in decline?**
  - (traditional) UK emphasis on safety net for household, rather than social protection over life-course for individuals and/or badge of citizenship for all
  - (new) focus on activation/supply side/benefit passive
  - nature of labour market: implications (eg 'mini jobs')
  - means-tested benefits: complexity and disincentives
- **But**
  - runs counter to gender equality goals (eg EU aims include economic independence for women and men)
  - partners' incentives and in work poverty worsened
  - contradicts expectations of individual self-sufficiency