

Chapter 5 – Better off in work

Summary

- The vast majority of people are significantly better off in work than on benefit. Reforms such as tax credits and the minimum wage have led to major increases in the incentives and rewards from work.
- But we know that some people moving into work find the interaction between benefits and their earned income complicated and uncertain, and it can make the decision to move into work seem difficult and risky.
- In the long term, we want to move to a simpler system potentially based around a single working-age benefit which could simplify the system and make it easier for people to see the gains from work.
- In the short and medium term we will take further steps to simplify the benefits system, making the gains to work clearer, and addressing some of the uncertainties people face in moving into work.
 - We will extend our campaigns to build understanding and awareness of the benefits system, and improve our use of the Better off Calculator.
 - We will also introduce measures that make the gains to work clearer:
 - ~ **We will introduce a guarantee that everyone who has been on out-of-work benefits for 26 weeks or more will be at least £40 a week better off on moving into work.**
 - ~ **We will provide better incentives for lone parents with younger children who want to work for just a few hours a week.**
 - We will increase the amount carers can earn before their benefits are affected.
 - We will extend free school meals to more parents in work so that costs don't increase when they move into work.



- We will introduce a Working Tax Credit (WTC) for older workers working part time past retirement age.
- We will consider the scope to passport people moving from Employment and Support Allowance into work on to the disabled worker element (worth up to £48.50 a week) and 16-hours rule in WTC.
- We will also reform Housing Benefit (HB) to support work incentives and to make it fairer too. We are consulting in parallel on changes to:
 - provide fixed period awards for those in work and starting work to provide more stability; and
 - ensure the benefits system does not support customers to be housed in very high-cost accommodation which would be unaffordable if they moved off benefit.

Introduction

1. In earlier chapters we described how, over the past 12 years, we have radically changed the welfare system for the better – increasing support to help people move into work while raising our expectations of individuals to take up the help on offer.
2. At the same time we have provided additional help for people on low in-work incomes through the tax credit system and the National Minimum Wage. As a result, almost everyone is now better off in work than on benefits.
3. However, the complexity of the tax and benefits systems means that, for some people, these gains are not always clear, and a move from out-of-work benefits to employment can seem risky, with an uncertain financial outcome.

Case study: Better off in work

Anne Marie Nicholls is a lone parent with a 4-year-old daughter Maya. Anne Marie has recently returned to work, having successfully secured two jobs as a lunch-time supervisor and after-school club assistant at The Grove Primary School in Stafford. Anne Marie came to Stafford Jobcentre Plus in August 2008 to see lone parent adviser Steve Burns. During the course of the interview, Steve completed a Better off Calculation for Anne Marie to show her how much financially better off she would be if she was working 16 hours a week or more.

Anne Marie was so keen to get back into the workplace she volunteered at the nursery attached to The Grove Primary School, and attended college to become a qualified classroom assistant. During this time, Anne Marie was offered three jobs within the school, enabling her to come off Income Support and claim tax credits. Anne Marie returned to the Jobcentre Plus at Stafford and her Better off Calculation was rechecked. Steve also put in a claim for WTC, and the Income Support team were notified of her status. Anne Marie was also eligible for a Job Grant of £250 and In-Work Credit.

Working in the same place as where my daughter Maya attends school is perfect. It was really important to me that I found something that would fit around my daughter and this is ideal. By working for a living, I just feel so much better about myself. It has lifted my confidence and the extra money enables me to do a lot more with my daughter.

Anne Marie



4. This chapter sets out the action we will take to overcome these problems to encourage people to move off benefits and into work.

The gains to work

5. The introduction of tax credits, the National Minimum Wage and other changes have meant that the vast majority of people are better off in work than on benefits¹⁶. Table 1 shows that these gains are often very significant – since 1999 the minimum income guarantee from full-time work has increased by around 30 per cent in real terms.

¹⁶ Adam S, Brewer M, and Shephard A, 2006, *The poverty trade-off: Work incentives and income redistribution in Britain*, JRF.

Table 1 – Weekly minimum income guarantees¹⁷

	April 1999	April 2010	Percentage increase in real terms (2)
Family (1) with 1 child, full-time work (35 hours)	£182	£309	28%
Family (1) with 1 child, part-time work (16 hours)	£136	£240	33%
Single person, no children, 25 or over, full-time work (35 hours)	£113	£198	32%
Couple, no children, 25 or over, full-time work (35 hours)	£117	£234	50%
Disabled person (single), working full-time (35 hours)	£139	£247	33%
Disabled person (single), working part-time (16 hours)	£109	£178	23%

Assumes the prevailing rate of the National Minimum Wage and that the family is eligible for Family Credit/ Disability Working Allowance and Working Tax Credit/Child Tax Credit. Full-time work is assumed to be 35 hours. Part-time work is assumed to be 16 hours.

1. Applies to couples with children and lone parents alike.

2. Based on historical Retail Price Index, and projections from HM Treasury economic forecast.

6. We have dramatically reduced the number of people on in-work benefits who see little gain when their earnings increase. Marginal deduction rates (MDRs) show how much of each additional pound of earnings is lost due to taxes and the withdrawal of benefits or tax credits. The number of families facing MDRs of over 70 per cent has more than halved since 1997. There has been an increase in the numbers facing MDRs of between 60 and 70 per cent but this reflects the introduction and increased generosity of tax credits, which has extended financial support to many more households including, for the first time, those without children.¹⁸

¹⁷ HM Treasury, 2009, *Securing the recovery: growth and opportunity – Pre-Budget Report*. December 2009, TSO.

¹⁸ *ibid.*

7. Many families moving into work will also benefit from the extension of free school meals announced in the Pre-Budget Report (PBR)¹⁹. The PBR also announced that from April 2011, people aged 65 and over will qualify for WTC if they work at least 16 hours a week, rather than 30 hours as currently. This will increase the flexibility of the Government's support for older people and expand the choices available for those wishing to work after retirement (this is discussed further in Chapter 6).

The remaining challenges

8. Despite the fact that most people are clearly better off in work, research shows that for some people, taking the decision to move off benefits and into work continues to seem difficult and risky. To tackle this, there are three interlinked challenges that we need to address:
- **Complexity of the benefits system** – the complex system of support can make the journey back to work hard to plan and can obscure the financial gains. For instance, research shows that many people are unaware of the in-work support that is available to them – in particular, the fact that HB is available for people on low earnings²⁰.
 - **Uncertainty about the financial gains of moving into work** – we know from research²¹ that worry about returning to work is widespread among people on out-of-work benefits, with the top three worries being: not having enough money to live on; not coping financially until the first payday; and not having enough money to pay the rent or mortgage during the first weeks in work. Where there are additional costs from moving into work such as travel, childcare or the loss of 'passported' benefits, this can add to people's fears that they may be worse-off in work.²²
 - **Fear of leaving out-of-work benefits** – even if people understand their entitlements, experience of difficulty and delay with the claims process can add to worries about the risk of starting a job. People worry that it will take time for any new in-work benefit entitlements to come through and that they will be left without benefits if they cannot stay in their job.

¹⁹ *ibid.*

²⁰ Turley C, and Thomas A, 2006, *Housing Benefit and Council Tax Benefit as in-work benefits; claimants' and advisors' knowledge, attitudes and experiences*, DWP Research Report No 383.

²¹ Woodland S, Mandy W, and Miller M, 2003, *Easing the transition into work (part 2 – client survey)*, DWP Research Report 186.

²² Harries T, and Woodfield K, 2002, *Easing the transition to work, A qualitative evaluation of transitional support for clients returning to employment*, DWP Research Report 175.

Tackling complexity

9. Our long-term ambition is a simpler system, potentially based around a single working-age benefit. At the moment there is a range of different benefits with different rules and processes. Each of these serves a purpose, but the result is a benefits system that, for some people, can be too complex, leaving them uncertain about the support available to them and how to claim. A single working-age benefit could hugely simplify the system – enabling people to see much more easily what support they would be entitled to in and out of work, helping make the gains to work much clearer and reducing the perceived risks of going back to work (as well as allowing for greater efficiency and helping reduce fraud and error).
10. Moving to such a system will, however, take time. We have previously said that such a major change has to be made in several stages – this is the only way to ensure safe delivery and minimise disruption for our customers. In the meantime, we will take steps to ensure that people are supported to navigate the system effectively and to understand and take up the benefits available to them.

Improving understanding of the benefits system

11. We know that some customers and welfare advisers, including some staff in Jobcentre Plus, have a low awareness and understanding of benefits that are available to people in work or making the transition to work. We are already seeking to address this with an HB and Council Tax Benefit (CTB) awareness and understanding campaign that is running from autumn 2009 to spring 2010. Based on the lessons learned, we will extend the campaign to cover other in-work benefits and transitional payments and support. We will increase awareness of the support available for people moving into work by:
 - promoting incentives to work, financial inclusion and personal responsibility for benefits customers in handling their finances;
 - informing people of the entitlements available and how to access them by highlighting the support available and where they can get it;
 - explaining how a person's entitlement to benefit changes if and when they take a job; and
 - helping customers navigate through the complex landscape of support when moving between benefits and work.
12. Many tenants living in social housing are workless. While the core business of social landlords is housing, some are already involved in the jobs and skills agenda, and tend to be trusted by tenants. We are therefore considering how social landlords might do more to help tenants, for example by signposting where further support can be provided to help tenants into work.

Take Up Taskforce

13. We know that some children are in poverty because their families do not take up all the benefits and tax credits to which they are entitled. If take-up could be increased, so that the families of 10 per cent of these children began claiming all of the benefits and tax credits for which they are eligible, 40,000 children could be lifted out of poverty. This is why we worked with local government to set up the **Take Up Taskforce**, made up of representatives from across Government, local authorities and other organisations working with families. The Taskforce looked at ways of increasing the take up of financial support that is available.
14. The Taskforce published its findings in July 2008²³. It made a number of recommendations for Government, local authorities and their partners. They included:
 - better signposting to the benefits and tax credit providers;
 - raising awareness of the financial support available; and
 - advising providers on how to share data to target potential customers.
15. A cross-Government working group has been set up to take these recommendations forward. It is now developing materials to help staff encourage the families that they work with to take up the financial support to which they are entitled.

The Better off Calculation

16. Jobcentre Plus advisers can provide a calculation, which indicates the financial impact of moving into work. It shows the financial impact of moving into a job based on expected earnings and the in-work support that would be available. This Better off Calculation also allows for the costs of being in work, if these can be identified. It is potentially a very powerful tool for encouraging people to see the financial advantages of moving into a job.
17. This autumn, we made available to the public a similar facility on the Government website, Directgov.²⁴ The Benefits Adviser Service also offers an online calculation of the financial advantages of moving into work.
18. While the Better off Calculation and the Benefits Adviser Service offer a powerful illustration of the financial gains to work, the outcome depends on the information provided. If outgoings such as in-work costs are not included, the results may be misleading. In the past, this has led people to mistrust advice on this issue. In addition, these calculations may be counter-productive, shifting the focus from other aspects of the job (such as making full use of skills or relating to personal interests) and limiting long-term financial planning.

²³ Take Up Taskforce, 2008, *Take Up The Challenge*, Child Poverty Unit.

19. To address these points, we will improve awareness for our Jobcentre Plus personal advisers so that they are able to signpost customers for financial advice. We will also make links between the Better off Calculation and sources of money advice guidance or debt advice as appropriate. By these means we will enhance the contribution that the calculation makes to tackling financial exclusion and debt.
20. In taking forward recommendations from the Perkins Review we will also explore how we ensure local health and social services are aware of and can use the Better off Calculation to promote the importance of work.

Making the gains to work clear

A Better off in Work Credit

21. In December 2007 we announced²⁵ that the Department for Work and Pensions would pilot a Better off in Work Credit (BWC). The purpose of the credit was to ensure that people who had been on out-of-work benefits for at least 26 weeks would see a clear financial gain from moving into work. Anyone in this group whose in-work income (including in-work benefits and WTC) was less than £25 a week more than they received from their out-of-work benefits would be entitled to a credit to bring their income up to this amount. The credit would be paid for up to a maximum of 26 weeks.
22. The pilot was evaluated by the National Institute of Economic and Social Research and their report²⁶ will be published at the end of January 2010. The evaluation confirmed that, because of the availability of other in-work payments, the number of people who might be entitled to the BWC is not high. However, for the minority who would otherwise have had more marginal gains to work, the BWC could provide a valuable additional source of support, particularly helping with transition costs in the early stages of employment. Customers who received the credit found the claiming process simple and the credit useful once they were in work.
23. This fits our existing understanding that back-to-work payments, including in-work credits like the pilot, help make the gains to work clear and reassure people considering going back to work that they will be able to manage financially during the transition. Continuing to pay out-of-work benefits for a period after the beginning of a job also provides security of income during the financially challenging early weeks in work. And, although these payments cease after a set period of time, there is evidence to indicate that their impact carries over into a longer-term commitment to staying in work.
24. We intend to build on the lessons learned in the recent pilots and develop a national BWC. **This will be an enhanced credit which will guarantee that people who have been unemployed for six months or more are at least £40 a week better off in work.** We will be implementing the credit in one region from October 2010 as the first step towards a national roll-out. We expect the credit will be available nationally from January 2011.

²⁵ Department for Work and Pensions, 2007, *Ready for work: full employment in our generation*, Cm 7290, TSO.

²⁶ *The Better off in Work Credit – incentives and experiences* report from the National Institute of Economic and Social Research will be published in the Departmental Research Report series in January 2010. This work outlines customer and staff experiences of the credit and modelling work on the types of households that would be eligible for the credit.

Supporting lone parents and carers into sustainable work

25. We recognise that some people with caring responsibilities – in particular lone parents with young children – may not be able to work for over 16 hours a week (the point where people move off out-of-work benefits). However, wherever possible, we want people to return to work in the longer term and want to provide them with the support they need to do this.
26. Chapter 4 set out how we will support people to prepare for work, for example, by improving their skills. In addition, we believe the experience of a job – even if it is just for a few hours a week – can also help people prepare for leaving benefit. Furthermore, jobs of less than 16 hours a week can allow people who would not be able to work longer to gain experience, motivation and an enhanced sense of self-worth, which can in turn improve their confidence and employability. Employers place a high value on the soft skills that recent experience of work can demonstrate and develop.
27. The benefits system already recognises the stepping-stone effect for people who are getting Employment and Support Allowance, through the permitted work provision. This allows people to work up to the equivalent of 16 hours at the National Minimum Wage for a time-limited period without any impact on benefit payments. By contrast, other people who are not expected to be ready for full-time work do not have this opportunity. Lone parents on Income Support see their benefit reduced pound for pound on any earnings over £20 a week. This provides a very weak incentive for these people to try out work while on benefits.
28. We believe we should improve work incentives for lone parents. In 2010 we will test an increased disregard for lone parents in our progression to work pathfinders, and we are currently looking at the optimal form for that higher disregard to take. This will provide an incentive for lone parents with a youngest child aged below 7 to try out work of a limited number of hours so that they are better prepared to re-enter the labour market when their child is older. We will assess the experience of operating this in the pathfinders. In light of that experience we will take a view on implementing the enhanced disregard on a national basis.
29. Working parents will also be helped by the announcement in the PBR that we will extend eligibility to Free School Meals to primary school pupils in working families with a household income below £16,190. Our aim is that, from September 2011, all primary school pupils in low-income working families will be entitled to receive Free School Meals, benefiting around 500,000 children.
30. We also want to provide better support for carers. Chapter 4 set out our proposals to help people balance their work and caring responsibilities. We will also **raise the earnings limit within Carer's Allowance from £95 to £100 a week**, broadly in line with increases in average earnings.

In-work and out-of work benefits: smoothing the transition

Housing Benefit and Council Tax Benefit changes

31. The administration of HB is much improved and the move to work is now treated as a straightforward change in circumstance rather than a whole new claim. However, complexity and uncertainty around entitlement is still an issue for some people returning to work. HB and CTB are weekly benefits and any changes in income can affect entitlement each week. It is clear for many, in particular those who are just starting a job and have yet to establish a regular earnings pattern, that this can cause great uncertainty. The need to report each change can also place a substantial administrative burden on people struggling to get used to the demands of a job.
32. In addition, we need to ensure that the HB system does not subsidise families to live in more expensive accommodation for prolonged periods that act as a disincentive to work.
33. Because of these and other issues it is clear that further changes are needed. In parallel with this paper we have published a consultation on proposals to reform HB. The consultation includes measures to improve work incentives and to help people make the transition from benefits into work. In particular:
 - helping to make the transition into work easier by fixing HB payments at the out-of-work rate for three months when an individual moves off benefits and into work;
 - reducing the uncertainty surrounding HB payments by moving to fixed period awards of up to six months; and
 - dealing with excessive rents by ensuring that the benefit system does not support customers to be housed in higher cost accommodation which would be unaffordable if they moved off benefit.
34. The consultation also sets out measures to control the costs of HB by reforming the way in which Local Housing Allowance rates are set to more closely reflect the housing choices of other working households not eligible for benefit.

More support for people moving from Employment and Support Allowance

35. Incapacity benefits provide a higher level of support for people who are out of work than the support provided for job seekers. This can mean that financial incentives to move into work are relatively poor. WTC rules mean that people moving off Employment and Support Allowance will normally receive additional support through the disabled worker element and access to WTC when working 16 hours a week or more. However, access to this improved provision can only be determined after someone has gone into work. This means that the real gains to work are not always apparent to people on Employment and Support Allowance who are thinking about taking up a job.

36. We will explore the possibility of new provisions to address the uncertainty faced by people moving into work from incapacity benefits. **We will consider the scope to passport people moving from Employment and Support Allowance to the disabled worker element (worth up to £48.50 a week) and 16-hours rule in WTC.**

Simplifying back-to-work payments and improving administration

37. There are around 30 transitional payments with widely different entitlement conditions and payment arrangements. Personal advisers find the range of options confusing and few customers are likely to be able to understand the range of support available to them.
38. We intend to simplify this system by combining and rationalising existing payments that serve a similar purpose (for example, to cover transport costs). **We will introduce a single Personal Work Support Account and a streamlined payment process.**
39. **We will also roll out the In and Out of Work pilot to the whole country by March 2010.** Whereas in the past, information has been required by a number of organisations when someone moves into or out of work, we will move to a system where Jobcentre Plus collects all the information needed by Her Majesty's Revenue and Customs and local authorities. This system will enable tax credit and HB/CTB claims to be opened, amended and closed more quickly. We will consider how to apply the lessons from this project more widely to support people into work.

Helping people to manage debt as they move into work

40. There is already a strategy for financial inclusion across Government²⁷ that includes expanding access to money guidance (the Financial Services Authority's Moneymadeclear and money guidance pathfinders) and face-to-face debt advice for people with problem debts. However, we believe that we can do more to integrate the financial inclusion strategy with our welfare-to-work goals.
41. We know that debt can have an impact on people's plans for a return to work. As well as the prospect of debt repayments reducing or eliminating financial gains to work, the impact that debt can have on self-confidence and the ability to plan ahead is well documented.
42. People who lose their jobs or who have their hours reduced often need to borrow money. At the same time, people who have reduced incomes are less able to access credit from mainstream lenders. This can lead to people borrowing from high-cost lenders and loan sharks, and getting into a spiral of increasing debt. High levels of debt can be a barrier to getting a job when the economy improves, because when people move into employment, creditors are more able to chase them effectively. People out of work and on low incomes often have to put up greater security to get a loan.

²⁷ HM Treasury, December 2007, *Financial inclusion: an action plan for 2008–11*.

43. As part of our strategy for improving work incentives, we will look to address the impact of financial exclusion and debt. We want to do more to build on the Government's financial inclusion strategy to help more people make the transition to work. Examples include using intermediaries, and improved signposting of Jobcentre Plus customers to appropriate sources of money guidance and debt advice.
44. The Department for Work and Pensions' Growth Fund provides affordable loans via credit unions and Community Development Finance Institutions²⁸ to people on low incomes, including those who have lost their jobs or are working reduced hours, who might otherwise be reliant on high-cost lenders. Access to these affordable loans prevents people getting into the spiral of unsustainable debt that can flow from using high cost-lenders.

Conclusion

45. We have taken steps, through the introduction of tax credits, the National Minimum Wage and other changes, to ensure the vast majority of people are better off in work. Ensuring that people on out-of-work benefits can easily see the gains from moving into work is good for them and good for the country. People who are out of work do not have the same opportunities as people in work to make full use of their talents and enjoy the opportunities for wider self-realisation that a job can offer.
46. Further action to address the constraints imposed by existing systems on people looking for work is essential if we are to avoid the problems seen in previous recessions. Then, many people were left behind on benefits. Ensuring that everyone returns to work as soon as they are ready to do so will help accelerate the recovery in the economy.
47. This chapter has set out how we intend to make clear the financial advantages of a return to work. The roll out of the Better off in Work Credit will ensure that everyone who has been out of work for six months or more will see an increase in their weekly income of at least £40. Simplifying the support available and improving communications will reduce uncertainty and help people plan their journey back to work.
48. These changes further increase the focus of the welfare state on supporting independence, promoting work incentives and tackling poverty.
49. We explain next how we will support jobs to be long-lasting and fulfilling.

²⁸ See <http://www.cdfa.org.uk/cmframe.php?prmid=1200> for more information about Community Development Finance Institutions.