

## Chapter 6

# Simplifying and streamlining the benefit system

## Chapter six – Simplifying and streamlining the benefits system

### Summary

We believe that continuing to simplify the benefits system and updating it to reflect modern society is central to delivering better outcomes for individuals and the country as a whole.

Reducing unnecessary complexity means that people can better understand and more quickly access the support they need. It is also an essential part of focusing the welfare system more actively towards work and underpinning more personalised employment support and conditions. It will also help modernise those aspects of the benefits system which were designed for an earlier era and don't meet the needs of 21st century families and society.

This must be a long-term goal. It cannot be achieved overnight. But this chapter sets out a series of proposals to accelerate progress including:

- abolishing Income Support (IS) and so creating a system based around two benefits, Jobseeker's Allowance (JSA) and the Employment and Support Allowance (ESA), when resources allow;
- seeking views on how carers and others who receive IS can be provided for within this structure;
- reducing the differences between existing rates of incapacity benefits and ESA; and
- changes to the contribution conditions for ESA and JSA.

These proposals signal our commitment to continue the process of simplifying and streamlining the system of benefits for people of working age. Some of the proposals are radical but we believe that they are necessary to revitalise the benefits system and produce better outcomes for individuals.

### A modern system of support

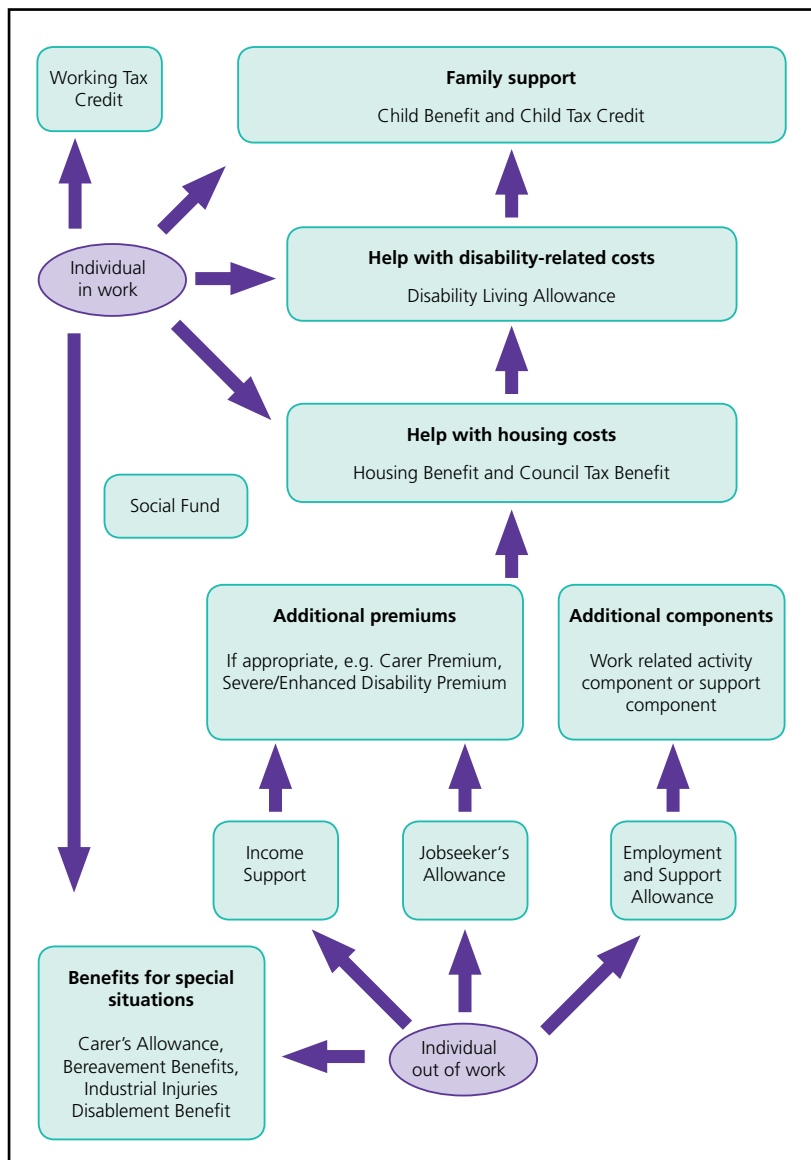
- 6.1 Today's benefits system is expected to do much more than pay money to those in need. Getting money to people during difficult times is essential and there are, of course, those who need continued support. But we have to ensure for the vast majority that the welfare system helps people to help themselves rather than encouraging dependency. Cash transfers alone will not encourage this personal responsibility. A modern system needs to help people to prepare for, and return to, work; to learn new skills and to identify new opportunities. We need a system which ensures that those claiming benefits work with us to help develop their potential.

6.2 The benefits system of the future must consistently develop and encourage a greater sense of personal responsibility and instil the message that, for the vast majority, benefits are a temporary help in times of need. It must also be clear and encourage people to do the right thing rather than, as was the case in the past, to give them incentives to stay on benefit.

## Working-age benefits: the need for change

6.3 Figure 6.1 shows how the working-age benefit structure will look from October 2008.

Figure 6.1: Structure of working-age benefits



- 6.4 The benefits system deals with millions of claims from millions of people – all with individual needs and circumstances. This means there will always be some complexity in the system. But at the moment the current tangle of conflicting and overlapping benefits leads to confusion for customers and our staff.
- 6.5 For customers, the complexity of the system can obscure their choices and mask what they can expect from us – as well as what we expect of them. The benefits of moving into employment are not always easy to see, creating doubt and uncertainty about leaving the benefits system. Although creating a simpler system is a worthy goal in itself, our changes are driven by our desire to improve the experience and expectations of our customers.

## Working-age benefits: the way forward

- 6.6 Radical streamlining of the benefits system is not a new idea. The concept of reducing the number of working-age benefits has gained momentum in recent times. The Institute for Public Policy Research (IPPR),<sup>27</sup> David Freud<sup>28</sup> and others have proposed models for a single benefit. We believe that the idea of reducing the number of benefits has great merit – a radical, modernising reform to remove some of the complexity inherent in the current system.
- 6.7 In designing a simpler system, we must still recognise that people's needs are many and varied. Any welfare system must have the flexibility to cope with these diverse needs. But that does not prevent us transforming the way in which people engage with the system. A simplified system of income-replacement benefits would free staff from juggling the administration of different benefits and give them more time to help our customers understand their entitlement and the support we can offer.
- 6.8 Such a system would be based more on individual need and less on the type of benefit received. For those capable of work in the longer-term but with significant barriers or responsibilities, activity would start gently and increase as they are able to manage more activity. We want to explore whether, over the long-term, this can be achieved in a single benefit drawing on the best features of JSA, IS and the new ESA.

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<sup>27</sup> Sainsbury R and Stanley K, 2007, *One for all: active welfare and the single working-age benefit*, The Institute for Public Policy Research

<sup>28</sup> Freud D, 2007, *Reducing dependency, increasing opportunity: options for the future of welfare to work*, Corporate Document Services

**Question 22: Is a system based on a single overarching benefit the right long-term aspiration? How could a simpler system be structured so as to meet varying needs and responsibilities?**

- 6.9 In **Chapter 2** we set out our proposals to move lone parents from IS to a modified income-based JSA, improving outcomes for them and their children. We think there is a strong case for going further and abolishing IS altogether as it is a largely passive benefit that expects very little from its recipients and does nothing to prepare them for a life after benefits. In fact, its very name implies financial dependence and inactivity. We therefore propose to take powers to abolish IS, and to use these powers as soon as resources allow.
- 6.10 With the proposals to move lone parents to a modified JSA and disabled people and people with long-term health conditions claiming IS to ESA, IS would be a benefit mainly for carers plus an assortment of much smaller groups. We want to consult widely on how the best interest of these groups and in particular carers, can be best served within the benefits system.
- 6.11 We fully recognise that people currently on IS cannot be expected to be immediately available for work or be actively seeking a job. If IS was abolished, either ESA or JSA could be used to provide them with the same amount of financial support as now without any additional conditionality. However, there may be a case for keeping ESA as a benefit that specialises in supporting disabled people and people with long-term health conditions, with JSA as the benefit for other groups.

## Carers on Income Support

- 6.12 As we move towards abolishing IS, when resources allow, we need to consider how we support carers. Carers are one of the primary groups on IS and are not currently subject to any work-focused activity, as we recognise the importance of their caring responsibilities.
- 6.13 But for many, their caring is a temporary role. Over 50 per cent of working-age carers not in employment say they would like to work either now or in the future.
- 6.14 As we committed to in the recent Carers Strategy<sup>29</sup> we need to work towards creating a benefit system that cannot only adapt to the specific needs of carers, but also helps prepare them for their future. We will continue to do this, using the principles outlined in the Carers Strategy. We believe that it is only right that carers are able to gain from the same opportunities as others within the benefit system.

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<sup>29</sup> Department of Health, 2008, *Carers at the heart of 21st-century families and communities*

- 6.15 It may make sense to move those carers currently on Income Support onto a modified form of JSA. This would not require them to undertake work-focused activity to keep their benefit, but would be consistent with the strategy's focus on helping those who would like to combine caring with paid work, or prepare for work later. Those carers who do not feel able to combine paid work with caring would not be required to do anything more than they do at present and there would be no change to their benefit income.
- 6.16 Carers who wanted to undertake paid work alongside their caring or prepare for work at some point in the future, would still be able to volunteer for increased support from Jobcentre Plus. This includes working with a personal adviser to build a plan for returning to work or undertaking training to learn a new skill. This increased interaction would help some carers to combine caring with work immediately and make it easier for others to rejoin the labour market when their caring responsibilities changed.

**Question 23: Would moving carers currently on IS onto JSA be a suitable way of helping them to access the support available to help combine caring with paid work or preparing for paid work?**

## Moving other IS claimants to JSA

- 6.17 As well as lone parents and carers, there are approximately 80,000 people claiming IS for very diverse reasons, such as people involved in a trade dispute, some foster parents, refugees learning English and jurors. With such diversity there is scope to consider how each group could be best served in a system based on JSA and ESA, when resources allow.

## Smoothing the transition to ESA

- 6.18 ESA is a new benefit with a very different structure of rates and allowances. Over time, we believe it is fair to make sure that everyone receiving benefit because of sickness and disability, is treated equally.
- 6.19 To smooth the transition from existing benefits to ESA, we will begin the process of aligning rates from April 2009 in advance of incapacity benefits claimants being moved to ESA. People in receipt of higher benefit rates because they started claiming at younger ages (Age Additions) will have their benefit rate gradually brought into line with the rate they are entitled to under ESA.

- 6.20 Age Additions have been abolished in ESA. We no longer presume that those on incapacity benefits will never work again. In future, most claimants who are out of work because of sickness or disability will receive the same rate of benefit. Instead of using Age Additions as a proxy for those with the greatest needs, we will be able to target them directly through the higher benefit rates in the Support Group of between £5.00 a week and around £16.00 a week extra.
- 6.21 These changes will be made in a way which ensures no existing customers lose out in cash terms. They will continue getting the higher cash payments until their entitlement under ESA reaches the same rate. For those who could be getting a higher level of benefit once they move onto ESA, we will delay the start of alignment until we have confirmed their level of entitlement at the first Work Capability Assessment (WCA).
- 6.22 As part of these alignment measures, we will also change the basis on which incapacity benefits are uprated. Future uprating will be according to the Rossi index rather than Retail Prices Index (RPI) on current projections. In the first few years from April 2009, this measure will result in an increase in benefit payments overall, compared to uprating under the previous formula. Uprating both incapacity benefits and ESA by the same index will prevent differences in benefit rates widening over time. This will ensure that customers with similar circumstances are treated equally.

## Reforming the contribution conditions

- 6.23 At the moment, people can qualify for contributory IB and JSA by working for as little as four weeks. We propose to strengthen the link between claiming contributory benefits<sup>30</sup> and periods of recent work by:
- reducing the number of contribution years in which a claimant can qualify for ESA from three years to two. This will ensure that qualification for ESA is based on recent work. This measure simplifies the benefits system by bringing this aspect of the ESA rules into line with those for JSA;
  - modernising the qualifying contributions period for benefit so that people can qualify only after a reasonable period of work. In future, our reforms will ensure that people have to work for around six months before they can qualify for contributory ESA and JSA.
- 6.24 We will retain existing protections that allow disadvantaged groups such as carers and young disabled people to qualify for ESA. Other qualifying conditions for contributory ESA, for example those that apply to self-employed people, will remain unchanged. People who no longer qualify for contributory ESA under the new arrangements will be able to apply, instead, for income-related ESA.

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<sup>30</sup> The contributory principle is at the heart of our welfare system. Broadly, people pay contributions while they are working and receive benefits when they are unable to work

- 6.25 This reform will also help to ensure that access to the UK benefits system for workers from other countries, including nationals from other European Economic Area (EEA) states, is limited to those who have a connection with, and have made a contribution to, the UK.<sup>31</sup> We are currently reviewing all aspects of EEA nationals' access to benefits; the review will report by autumn 2008.

## Wider reform of the benefits system

- 6.26 Other parts of the benefits system have remained largely unchanged since 1948, when the welfare state was formed. Among the oldest elements of the system are:
- Bereavement Benefits, which are paid to people whose partner has died. These are based on the partner's National Insurance contributions and include lump sums and weekly payments; and
  - Industrial Injuries Disablement Benefits (IIDB) which provide compensation for those who have been injured or contracted a disease as a result of their work.
- 6.27 These benefits provide financial support at a time of need and it is fundamentally right that the benefits system should provide help in these circumstances. However, the benefits were also introduced at a time when social expectations were very different. For instance, we have moved a long way from times when it was usual for women, in particular, to depend financially on a partner. Similarly, a disability no longer necessarily means a life of dependency. There are a greater range of employment opportunities and many more opportunities to retrain, learn new skills and return to work.
- 6.28 A consultation exercise on the IIDB scheme was carried out in 2007. We received many helpful responses but think it is important to reconsider the reform of IIDB in the context of our wider changes to the welfare system.

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<sup>31</sup> The UK's membership of the EEA enables free movement of workers between this country and other member states. Further measures ensure workers who exercise their right of free movement within the EEA do not lose social security rights built up in different member states. This means that EEA nationals who come to the UK may be entitled to access benefits here. The EEA consists of the 27 European Union member states plus Iceland, Liechtenstein and Norway. Switzerland is not part of the EEA but enjoys similar ties via bilateral treaties

- 6.29 We are in no doubt that the welfare system should continue to provide support for people in these circumstances. We do consider, however, that there may be attractions in reforming the benefits in order to meet the expectations of a modern welfare state. In particular, we are interested in how we might reform the benefits to support people while they adjust to changed circumstances and help them return to living independent lives.
- 6.30 This could mean, for example, ensuring the benefits provide more support upfront through lump-sum payments to those in need but do not unduly undermine a person's motivation to move into work or begin a relationship with a new partner, where appropriate, in the longer-term.

**Question 24: How might we reform Bereavement Benefit and IIDB to provide better support to help people adjust to their new circumstances while maintaining the work focus of the modern welfare state?**

**Question 25: Are lump sum payments a good way of meeting people's needs? Do they give people more choice and control? Could we make more use of them?**

## Reform of the Social Fund

- 6.31 The Social Fund provides a safety net of grants and loans for the most vulnerable in times of crisis, supporting those without a stock of savings and assets to fall back on. We believe the Social Fund plays a valuable role in poverty reduction and we have invested heavily in Social Fund reform, most recently through the package of reforms announced in the 2004 Pre-Budget Report. As set out in the *Financial Inclusion Action Plan (2007)*, we are committed to ensuring that people on low incomes have access to services which help them to manage their money on a day-to-day basis, to plan for the future and to know where to turn if they find themselves in financial distress. We are open to considering new ways and opportunities to achieve these goals. As part of this, in December 2007, we commissioned a financial practical feasibility study into whether the private and third sectors can be brought into partnership with the Government in delivering a reformed Social Fund Budgeting Loan scheme.
- 6.32 We are particularly interested in the scope for the Budgeting Loan scheme to provide more effective help that will allow more people to overcome financial exclusion and return to work. We have been discussing with organisations representing our customers, and other possible stakeholders, how reform could achieve this and we look forward to the feasibility study report.

- 6.33 As always, we are keeping the wider Social Fund under review to ensure that it meets the needs of customers in today's society who are in need of financial help in exceptional circumstances.

## Conclusion

- 6.34 The proposals in this chapter signal our commitment to continue the process of simplifying and streamlining the system of benefits for people of working age. Some of the proposals are radical but we believe that they are necessary to revitalise the benefits system and produce better outcomes for individuals.