

Universal Credit Policy Briefing Note 4

Contributory Benefits

1. Policy rationale

- a) As stated in the White Paper¹, contributory benefits will continue separately when Universal Credit is introduced. Claimants recognise and strongly support the contributory principle and the Government believes it is right that people are able to access support after paying into the system.
- b) Although contributory benefits will continue to be available separately, the Government believes that a number of rules could be simplified to mirror those of Universal Credit and to make sure that work always pays.

2. History

- a) The main contributory benefits for people of working age are Jobseeker's Allowance and Employment and Support Allowance. These benefits are available to people of working age, who have paid the required National Insurance contributions, when they are unable to work because of contingencies such as unemployment and illness.
- b) Over the past 20 years a number of changes have been made to contributory benefits to re-enforce the principle that these benefits are only intended to provide cover for temporary interruptions of work. They have also been modernised to reflect changes in society and the labour market and reduce the incentive to claim incapacity benefits.

3. Policy Considerations / limiting factors

- a) Under Universal Credit claims are made under a household basis, whereas contributory benefits are claimed on an individual basis. Universal Credit is also means tested, while contributory benefits typically only take into account a limited range of income and disregard capital.
- b) Existing contributory benefits have different hours and earnings rules, which in some cases do not provide strong financial incentives for claimants to return to work. People on contributory Jobseeker's Allowance are only allowed to earn £5.00 a week before their benefit is reduced, whereas people on contributory Employment and Support Allowance can earn up to £20.00 or £95.00 a week (depending on their circumstances).

¹ Universal Credit Welfare that works.

4. Key policy proposals

- a) As part of the process of simplifying the benefit system prior to the introduction of Universal Credit, we are reassessing existing contributory Incapacity Benefit and Severe Disablement Allowance customers below pension age for eligibility for contributory Employment and Support Allowance. This process, involving some 1.5 million customers, will take three years and is expected to be completed in spring 2014. On completion we will have reduced the number of benefits payable to people who claim benefit as a result of a health condition or disability. We will also have taken a major step to ensuring that disabled people get the same level of financial support and support to return to work.
- b) People on contributory Employment and Support Allowance can earn up to £95.00 a week without their benefit being affected, whilst people on contributory Jobseeker's Allowance are only permitted to earn £5.00 a week. These rules can act as a disincentive to work and as we said in the White Paper we want to take the opportunity to align the earnings rules with the introduction of Universal Credit. We have therefore taken powers in the Welfare Reform Bill to enable us to introduce similar earnings rules for these benefits as in the Universal Credit, where we are proposing a taper of 65% and a new system of disregards. This will ensure that customers benefit from the tapered rate available in the Universal Credit and enable them to increase the number of hours they work without having their benefit suddenly withdrawn.
- c) We also intend to deliver new claims for Employment and Support Allowance and Jobseeker's Allowance on the same system as Universal Credit so that where customers are entitled to a contributory benefit or a contributory benefit as well as the Universal Credit their administration can be streamlined and customers will receive an improved experience.
- d) Contributory benefits will continue to be payable where customers do not qualify for Universal Credit as long as they satisfy the conditions of entitlement for those benefits.

5. Further work we will do

- a) Once the reassessment of existing incapacity benefit awards is completed, arrangements will be made to migrate people claiming ESA on to the same system as Universal Credit. This will enable customers to benefit from a simplified level of support. We will set out more details in due course of our approach for claimants of contributory benefits.
- b) We intend to publish a revised Impact Assessment and Equality Impact Assessment when the Bill goes into the Lords stage, to incorporate the impact of the recent policy announcements.

ISBN: 978-1-84947-607-2

13 May 2011