briefing notes

A SURVEY OF THE UK BENEFIT SYSTEM

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1. Introduction

This Briefing Note provides a survey of the benefit system in Great Britain[1]. We begin in Section 2 with an overview of the current system, giving total expenditure on social security and the cost of individual benefits. In Section 3, we look closely at the present system, examining each benefit in turn. Benefits are arranged into six broad categories based on the primary recipients: families with children, unemployed people, those on low incomes, elderly people, sick and disabled people, and bereaved people. Current benefit rates are for the financial year 2007–08, expenditure figures are estimates for the financial year 2006–07 and claimant data are for February 2007 unless otherwise noted. Whenever possible, expenditure and claimant figures relate to Great Britain.

In Section 4, we look at how the system has evolved to its present state and assess how the patterns of expenditure on social security have changed over the past half-century. We also present a brief look ahead to how the system may change in the near future, given the current set of government proposals.

Further details on benefit eligibility and information about relevant legal issues can be found in the Child Poverty Action Group's *Welfare Benefits and Tax Credits Handbook 2007–2008*.[2] Current benefit rates, number of claimants and expenditure figures are given in the Department for Work and Pensions's Annual Reports and the annual press release detailing new benefit rates.[3] In addition, much of the information contained herein can be found on the DWP website, www.dwp.gov.uk. The Department of Social Security (forerunner to the DWP) publications *The Growth of Social Security* and *The Changing Welfare State: Social Security Spending* contain overviews of the trends seen over the last 50 years.[4]

1. Note that the benefit system in Northern Ireland is identical but is managed by the Department for Social Development of Northern Ireland (DSDNI) which does not provide comparable indices of claimants and expenditure.
2 Child Poverty Action Group, *Welfare Benefits and Tax Credits Handbook 2007–2008*, London, 2007.
3 Department for Work and Pensions, Press Release December 2005, available at www.dwp.gov.uk/mediacentre/pressreleases/2005/dec/ben_rates.pdf.
4 Department of Social Security, *The Growth of Social Security*, HMSO, London, 1993; Department of Social Security, *The Changing Welfare State: Social Security Spending*, London, 2000, available by emailing a request to Electronic-Archive@dwp.gsi.gov.uk.

2. Government Spending on Social Security Benefits

In 2006–07, about £147.1 billion was spent on social security benefits in Great Britain.[5] This amounts to approximately £2,430 for every man, woman and child in the country, and represents 28.2 per cent of total government expenditure (11.4 per cent of GDP). Expenditure on social security represents by far the largest single function of government spending, the next largest being expenditure on health, which accounts for 17.8 per cent of total expenditure).[6]

Approximately 30 million people in the UK – approximately half the total population – receive income from at least one social security benefit. For means-tested benefits such as income support, receipt of the benefit usually depends on the claimant's family income, together with their family circumstances and personal characteristics. For contributory benefits such as incapacity benefit, eligibility usually depends on the claimant alone having paid sufficient National Insurance contributions (NICs) during their lifetime. NICs are made by all employees and employers where earnings are above £100 per week (known as the earnings threshold), although the government usually treats those earning between £87 (known as the lower earnings limit, LEL) and £100 per week as though they were making contributions.[7] Some benefits, such as child benefit, are neither contributory nor means-tested and are universally available to all people who meet some qualification criteria.

All benefits require some residence conditions to be met (usually that the person be present and resident in the UK), although different degrees of 'residence' are required for different benefits. By and large, people 'subject to immigration control' (i.e. people who require leave to enter or to remain in the UK but do not have it) are unable to claim benefits. As the UK was a signatory to the 1951 UN Convention on the Status of Refugees, refugees in the UK have the right to claim certain benefits, such as income support. However, the Asylum and Immigration Act 1999 removed asylum seekers from mainstream benefit payments, and they now have payments administered by the National Asylum Support Service.

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5 Appendix A provides details of government spending on social security from 1948–49 to 2006–07.

6 Sources: Population figures from www.statistics.gov.uk/cci/nugget.asp?id=6, GDP from www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_fig.cfm and government expenditure (including breakdown by function) from HM Treasury, *Public Expenditure Statistical Analyses 2007*, available at http://www.hm-treasury.gov.uk./media/E/B/pesa07_complete.pdf. The quoted 28.2 per cent is calculated based on an estimate of GB GDP, whilst some tax credit figures included here are for UK.. 28.2 per cent is therefore perhaps a slight overestimate. Unfortunately, tax credit expenditure for Great Britain only is not readily available.1

7 For more about the National Insurance system, see S. Adam and J. Browne, *A Survey of the UK Tax System*, IFS Briefing Note 9, London, 2006, available at www.ifs.org.uk/bns/bn09.pdf. Entitlement conditions for contributory benefits are complex – see Child Poverty Action Group, *Welfare Benefits and Tax Credits Handbook 2007–2008*, London, 2007.

Table 2.1. GB Expenditure and claimant figures for all benefits and tax credits, 2006–07

	Expenditure (£m)[a]	% of total expenditure	Claimants[b]
Benefits for families with children			
Child benefit (including former one-parent benefit)	10,146[c]	6.90%	7,378,400
Child Trust Fund	176[d]	0.12%	Not available
Child tax credit	11,700[c,e]	7.95%	5,577,000[f]
Statutory maternity pay	1,296	0.88%	Not available[g]
Maternity allowance	175	0.12%	28,700
Guardian's allowance	2	0.00%	3,100[h]
Education maintenance allowance	553[i]	0.36%	545,370[i]
Total benefits for families with children	*24,048*	*16.33%*	
Benefits for unemployed people			
Income-based jobseeker's allowance	1,962	1.33%	716,900
Contribution-based jobseeker's allowance and UB	478	0.32%	161,100
New Deal programmes (Young Persons and 25-Plus)	82	0.06%	151,310
Job grant	40	0.03%	Not available
Total benefits for unemployed people	*2,562*	*1.74%*	
Benefits for people on low incomes			
Income support	6,823	4.64%	2,134,710
Working tax credit	6,200[c,e]	4.21%	1,988,000
Housing benefit	14,858	10.10%	4,039,700
Discretionary housing payments	18	0.01%	122,330
Council tax benefit	4,072	2.77%	5,096,600
Social Fund payments	444	0.30%	3,321,000 awards
Total benefits for people on low incomes	*32,415*	*22.03%*	
Benefits for elderly people			
Basic retirement pension (contributory)	43,127	30.34%	11,785,670
Basic retirement pension (non-contributory)	34	0.02%	22,460
Earnings-related retirement pension	10,502	6.11%	Not available
Pension credit	6,869[c]	4.67%	2,730,940
Retirement pension – total	*60,532*	*41.15%*	
Winter fuel payments	2,015	1.37%	11,719,000
Concessionary television licences	488	0.33%	4,012,000
Total benefits for elderly people	*63,035*	*42.85%*	
Benefits for sick and disabled people			
Statutory sick pay	85	0.06%	Not available
Incapacity benefit	6,545	4.45%	1,440,930[k]
Severe disablement allowance	904	0.61%	270,700
Disability living allowance	9,156	6.22%	2,860,790
Attendance allowance	4,149	2.82%	1,503,850
Carer's allowance	1,191	0.81%	463,500
Independent Living Funds	256	0.17%	20,003
Motability	10	0.01%	460,000
Industrial injuries benefits	752	0.51%	335,420[l]
War pensions[m]	1,030[c]	0.71%	212,535
Total benefits for sick and disabled people	*24,078*	*16.37%*	
Benefits for bereaved people			
Widows' and bereavement benefits	797	0.54%	58,190[n]
Industrial death benefit	39	0.03%	9,000
Total benefits for bereaved people	*836*	*0.57%*	
Other benefits			
Christmas bonus	145	0.10%	Not available
Other small benefits	1	0.00%	Not available
Total other benefits	*146*	*0.10%*	
TOTAL	**147,129**	**100.00%**	

For notes, see next page.

Notes to Table 2.1

[a] Figures are estimated out-turns. They may not sum exactly due to rounding.

[b] Details of the date on which the claimant count for each benefit was taken are given in the relevant part of Section 3 of this survey.

[c] UK expenditure.

[d] This is an estimate of UK expenditure for 2006–07 from HMRC's Revenue and Customs Account, available at http://www.hmrc.gov.uk/about/hmrc-06-07-acc.pdf

[e] These figures are taken from HMRC's Revenue and Customs Account for 2006–07,. They represent final entitlements rather than payments made, and thus do not include any impact of overpayments. Total payments made differ from final entitlement for working tax credit and child tax credit by £0.7bn, however a detailed split between working tax credit and child tax credit is not available Note that, unlike the figures for the number of families (see note f), these figures do not include payments made to families receiving the equivalent amounts via out-of-work benefits, which are estimated to have totalled £2 billion in 2006–07 (see footnote 10). Such spending is included within the relevant benefits.

[f] Number of families, covering 10.1 million children, as at April 2007. This figure includes both in-work families receiving the child tax credit (4.3 million) and out-of-work families receiving the child tax credit or the equivalent amount via out-of-work benefits (1.2 million). Source: National Statistics, *Child and Working Tax Credits Statistics: April 2007*, available at http://www.hmrc.gov.uk/stats/personal-tax-credits/ctc-wtc-snapshot-apr07.xls

[g] Data is no longer centrally collated for Statutory Maternity Pay. The figure reported here, 300,000 claimants annually, is taken from the response to Parliamentary Question 169300 tabled by Malcolm Bruce MP in April 2004.

[h] Figure courtesy of HM Revenue and Customs.

[i] This figure relates to England and Wales only and refers to those that have received at least one payment in the year. Source: English figures from Learning and Skills Council, *EMA Take Up Data April 2007,* available at http://readingroom.lsc.gov.uk/lsc/National/nat-ematakeup-da-30apr2007-v1.xls. Welsh figures courtesy of the Welsh Assembly Government..

Neither the expenditure nor the caseload is known for Scotland this year. However, it is known that 36,460 claimed EMA in Scotland in 2005/2006 with expenditure of £29.3m. Source: Scottish Executive: http://www.scotland.gov.uk/Publications/2006/11/13100200/1

[j] Figure courtesy of Department for Work and Pensions

[k] Number of recipients is reported here. There were 2,433,400 claimants during the same period, i.e. approximately 60 per cent of claimants received an award. Source: Department for Work and Pensions, *Incapacity Benefit tabulation tool*, available at http://83.244.183.180/100pc/ib/tabtool_ib.html

[l] Includes industrial injuries disablement benefit, reduced earnings allowance and retirement allowance (see Section 3.5.7 and Appendix B). Claimant figures are as of December 2006; note that more than one assessment may be awarded to an individual. Source: Department for Work and Pensions, *Industrial Injuries Disablement Benefit Quarterly Statistics: December 2005*, available at http://www.dwp.gov.uk/asd/asd1/iidb/iidb_quarterly_dec06.asp

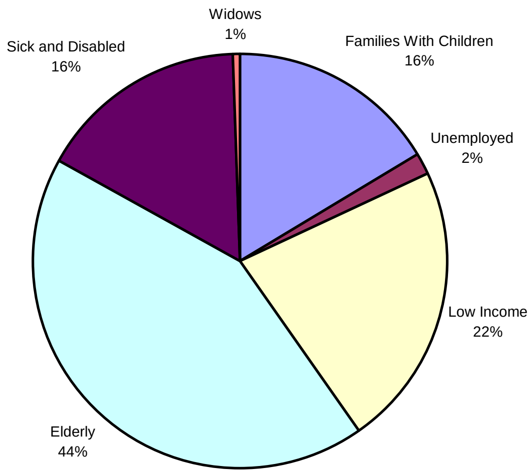
Other benefits not included in this figure are the worker's compensation supplementation scheme and the pneumoconiosis, byssinosis and miscellaneous diseases benefit scheme (both payable to people who contracted certain industrial illnesses prior to 5 July 1948). Expenditure on these schemes amounts to around £1 million.

[m] Figures include both war disablement and war widow(er)'s pensions.

[n] This figure includes claimants of bereavement allowance and widowed parent's allowance; claimants of the war widow's pension are included in the war pensions statistics (see note l above).

Sources: Department for Work and Pensions, www.dwp.gov.uk/asd/asd4/medium_term.asp for benefit expenditure information; HMRC's Revenue and Customs Account for 2006–07, http://www.hmrc.gov.uk/about/hmrc-06-07-acc.pdf; Ministry of Defence, http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/AnnualReports/MODAnnualReports0607/ for war pensions expenditure information; Learning and Skills Council, http://readingroom.lsc.gov.uk/lsc/National/nat-ematakeup-da-30apr2007-v1.xls for education maintenance allowance information; *Hansard*, www.parliament.the-stationery-office.co.uk/pa/cm200304/cmhansrd/vo040505/text/40505w43.htm for statutory maternity pay information from 2005-06.

Figure 2.1. Expenditure by recipient as a percentage of total, 2006–07



Sources: As for Table 2.1.

Table 2.1 presents a breakdown of estimated expenditure and a claimant count for each benefit for 2006–07, organised by primary recipient. The categories are: families with children, unemployed people, those on low incomes, elderly people, sick and disabled people, bereaved people, and others. Figure 2.1 also provides a breakdown for these groups. Retirement pensions are the most expensive benefit, accounting for just under 44 per cent of total expenditure. The 'top five' benefits – retirement pensions, housing benefit, child tax credit, child benefit and disability living allowance – together make up almost three-quarters of total expenditure. There are many other benefits on which total expenditure is quite small.

Note that although most of the figures in Table 2.1 relate to Great Britain, figures for some benefits were only available on a UK basis, e.g. child benefit. However, since total Northern Ireland benefit expenditure is only around £5 billion, figures for Great Britain would not be significantly different for these benefits.

3. A Description of the Current Benefit System, 2006–07

We look at the current system by dividing it into six major categories of primary recipient: families with children, unemployed people, those on low incomes, elderly people, sick and disabled people, and bereaved people. Each subsection starts with a table that summarises every benefit in terms of whether it is taxable or non-taxable, contributory or non-contributory, and whether or not receipt is means-tested. We also give details of total expenditure and the total number of claimants.

The Christmas bonus is the only national benefit not included in any of these sections. This is a one-off payment of £10 to the recipients of certain benefits in the week beginning the first Monday of December. Only one bonus can be received per person, although in couples where both partners receive qualifying benefits, two separate payments can be made. Total expenditure on the Christmas bonus was estimated at around £145 million in 2006–07. Claimant figures are not readily available.

3.1. Benefits for Families with Children

	Benefit	T	C	M	Claimants, as at Feb. 2007[a]	Expenditure, 2006–07 (£m)[b]
3.1.1	Child benefit	×	×	×	7,378,400[c]	10,146[d]
3.1.2	Child Trust Fund	×	×	×	Not available	176[e]
3.1.3	Guardian's allowance	×	×	×	3,100[f]	2
3.1.4	Child tax credit	×	×	✓	5,577,000[g]	11,700[h]
3.1.5	Statutory maternity, paternity and adoption pay[i]	×	✓	×	Not available[j]	1,296
3.1.6	Maternity allowance	×	✓	×	28,700	175
3.1.7	Child maintenance premium	×	×	✓	Not available	Not available
3.1.8	Education maintenance allowance	×	×	✓	545,370[k]	553[k]

T = taxable, C = contributory, M = means-tested

[a] Unless otherwise specified.

[b] Estimated.

[c] Number of families, covering 12,997,300 children in total, in February 2007. Source: National Statistics, *Child Benefit Quarterly Statistics: February 2007,* available at: http://www.hmrc.gov.uk/stats/child_benefit/feb-07.pdf

[d] UK expenditure. Since total Northern Ireland benefit expenditure is only around £5 billion, however, figures for Great Britain would not be significantly different.

[e] This is an estimate of UK expenditure for 2006–07 from HMRC's Revenue and Customs Account, available at http://www.hmrc.gov.uk/about/hmrc-06-07-acc.pdf.

[f] Number of families. Figure courtesy of HM Revenue and Customs (currently unpublished)

[g] Number of families, covering 10.1 million children, as at April 2007. This figure includes both in-work families receiving the child tax credit (4.3 million) and out-of-work families receiving the child tax credit or the equivalent amount via out-of-work benefits (1.2 million). Source: National Statistics, *Child and Working Tax Credits Statistics: April 2007*, available at http://www.hmrc.gov.uk/stats/personal-tax-credits/ctc-wtc-snapshot-apr07.xls

[h] These figures are taken from HMRC's Revenue and Customs Account for 2006–07,. They represent final entitlements rather than payments made, and thus do not include any impact of overpayments. Total payments made differ from final entitlement for working tax credit and child tax credit by £0.7bn, however a detailed split between working tax credit and child tax credit is not available Note that, unlike the figures for the number of families (see note f), these figures do not include payments made to families receiving the equivalent amounts via out-of-work benefits, which are estimated to have totalled £2 billion in 2006–07 (see footnotes 10/11). Such spending is included within the relevant benefits.

[i] Figures are for statutory maternity pay only.

[j] Data is no longer centrally collated for Statutory Maternity Pay. The figure reported here, 300,000 claimants annually, is taken from the response to Parliamentary Question 169300 tabled by Malcolm Bruce MP in April 2004. Source: *Hansard*, www.parliament.the-stationery-office.co.uk/pa/cm200304/cmhansrd/vo040505/text/40505w43.htm.

[k] This figure relates to England and Wales only and refers to those that have received at least one payment in the year. Source: English figures from Learning and Skills Council, *EMA Take Up Data April 2007,* available at http://readingroom.lsc.gov.uk/lsc/National/nat-ematakeup-da-30apr2007-v1.xls. Welsh figures courtesy of the Welsh Assembly.

Neither the expenditure nor the caseload is known for Scotland this year. However, it is known that 36,460 claimed EMA in Scotland in 2005/2006 with expenditure of £29.3m. Source: Scottish Executive: http://www.scotland.gov.uk/Publications/2006/11/13100200/1

3.1.1. Child Benefit

Non-taxable, Non-contributory, Non-means-tested

Nearly 7.4 million families received child benefit (CB) in February 2007, covering almost 13 million children. Introduced in April 1977 to replace the family allowance and the child tax allowance, CB has remained universal, payable to all families with children regardless of income. It is paid at a higher rate for the eldest or only child, and then at a lower rate for all subsequent children. For the purposes of receiving CB, a 'child' is someone under the age of 16, or under 19 and in full-time education.

Table 3.1.1. Current rates of child benefit, £ per week, 2007-08

Eldest or only child[a]	18.10
Subsequent children (each)	12.10

[a] Prior to 6 July 1998, an additional payment for the eldest (or only) child was available to lone parents. This higher rate remains available to claimants who were eligible to receive it prior to the policy change (and who remain so today). For further details, see Appendix B.

In 2006–07, child benefit is estimated to have cost the exchequer almost £10.15 billion.

3.1.2. Child Trust Fund

Non-taxable, Non-contributory, Non-means-tested

The Child Trust Fund was proposed in the lead-up to the 2001 election, and the 2003 Budget announced that any child born after 1 September 2002 will receive an account. The Child Trust Fund is different from traditional cash transfer payments in that it provides support in the form of a financial asset. More specifically, a Child Trust Fund is a financial asset that is created for each newly born child, with an initial endowment provided by the State. Children will be given access to the funds at age 18 and no restrictions will be placed on how the matured fund can be used.

All children receive an endowment of at least £250, and those from families with the lowest incomes are eligible for £500. The first payments began to be distributed in April 2005. Children are eligible for the larger (£500) initial endowment where household income is not greater than the child tax credit threshold (£14,495 in 2007–08). At the child's seventh birthday, the State will make an additional payment into the fund. As with the initial endowment, the value of this second payment depends on income, with those whose families have income in excess of the child tax credit threshold getting £250, and those whose family incomes are less than this threshold getting £500.

An HMRC consultation process[8] is considering the possibility of further 'top-up' payments to be made when children reach 'secondary-school age'. This consultation is considering the age at which payments could be made, as well as the generosity and structure of the possible payments.

Family and friends of the child can make contributions to the account during its 18-year term, subject to a limit of £1,200 a year. In a similar way to the tax relief that applies to

8 Information at http://www.hm-treasury.gov.uk/media/F/E/ctfbriefing_160305.pdf

funds held in individual savings accounts (ISAs), there is no tax on any interest or gains accruing to funds in a Child Trust Fund.

In 2006–07, the Child Trust Fund is estimated to have cost the exchequer £176 million.

3.1.3. Guardian's Allowance

Non-taxable, Non-contributory, Non-means-tested

Guardian's allowance is a benefit paid in addition to child benefit to families bringing up a child or children whose parents have died. If only one parent has died, guardian's allowance may still be payable if the whereabouts of the other parent is unknown. A step-parent does not count as a parent and so may be entitled to receive guardian's allowance for raising a stepchild if both natural parents have died. The claimant need not be the child's legal guardian, but the child must be living with the claimant or the claimant must be making contributions for the maintenance of the child of at least £12.95 per week. Adoptive parents of an orphaned child cannot claim. The rules concerning who counts as a child are the same as for child benefit (see Section 3.1.1).

In February 2007, 3,100 families were receiving guardian's allowance, with expenditure amounting to an estimated £2 million in 2006–07.

Table 3.1.2. Current rate of guardian's allowance, £ per week, 2007-08

All children (each)	12.95

3.1.4. Child Tax Credit

Non-taxable, Non-contributory, Means-tested

The child tax credit (CTC) combines, into a single integrated benefit, support previously provided by the children's tax credit, child credits in the working families' tax credit,[9] child additions to most non-means-tested benefits,[10] and the child elements (i.e. child additions and family premiums) of income support and income-based jobseeker's allowance.[11] CTC is paid on top of child benefit (see Section 3.1.1) and directly to the main carer in the family (as with the childcare element of working tax credit (WTC) – see Section 3.3.2).

CTC is made up of a number of elements: a family element, a baby element (for families with a child under the age of 1), a child element, a disabled child additional element and a severely disabled child supplement (see Table 3.1.3). Entitlement to CTC does not depend on employment status, but does require that the claimant be responsible for at

9 For details of these, see S. Adam and J. Browne, *A Survey of the UK Tax System*, IFS Briefing Note 9, London, 2006, available at www.ifs.org.uk/bns/bn09.pdf.

10 These benefits are carer's allowance, incapacity benefit, retirement pension and widowed parent's allowance.

11 Families that have been claiming income support or jobseeker's allowance with these child elements since before April 2004 still receive these additions unless they apply for child tax credit instead. This is purely for administrative reasons – the amount received is the same whether paid through child tax credit or additions to out-of-work benefits – and the government intends eventually to 'migrate' all these families on to child tax credit, but the date for this migration has been continually postponed since April 2003 because of continuing uncertainty as to whether the IT system operating tax credits will be able to cope.

least one child under the age of 16 (or aged 16–19 and in full-time education). As with WTC, certain changes in family circumstances (for example, a single claimant becoming part of a couple, or vice versa) must be reported immediately to HM Revenue and Customs if penalties are to be avoided.

Table 3.1.3. Current rates of child tax credit, 2007-08

	£ per annum	£ per week
Family element	545.00	10.45
Baby element	545.00	10.45
Child element (each)	1,845.00	35.38
Disabled child additional element (each)	2,440.00	42.96
Severely disabled child supplement (each)	980.00	18.79
Income below which maximum CTC is payable	5,220.00	100.11
Income below which maximum payable if not entitled to WTC	14,495.00	277.97
First withdrawal rate	37%	37%
Second income threshold	50,000.00	958.90
Second withdrawal rate	1 in 15	1 in 15

Note: Weekly numbers are calculated based upon there being 365/7 weeks per year.

CTC and WTC are subject to a single means test operating at the *family* level. Families with annual pre-tax income of £5,220 or less (£14,495 for families eligible only for CTC, i.e. not for WTC) are entitled to the maximum CTC and WTC payments appropriate for their circumstances. Income from most other benefits (including child benefit, housing benefit, disability living allowance and council tax benefit) is not included in the CTC–WTC calculation, while entitlement to income support, income-based jobseeker's allowance or pension credit acts as an automatic passport to maximum CTC. (See Section 3.3.2 for details of WTC.)

For annual family pre-tax income above £5,220, CTC and WTC awards are tapered away at a rate of 37 per cent. The main WTC entitlement is withdrawn first, then the childcare element of WTC, and finally the child and disability elements of CTC. The family element of CTC, however, is not withdrawn until annual family pre-tax income exceeds £50,000, and even then only at a rate of 1 in 15. Both CTC and WTC are refundable, meaning that they are payable even if their amount exceeds the family's income tax liability.

As with WTC, CTC passports its recipients to a variety of other benefits, such as free prescriptions, dental treatment, and sight tests and glasses, provided annual family income does not exceed £15,050. Free school meals are also available to those in receipt of CTC (but not WTC) with annual pre-tax family income of £14,495 or less, i.e. those who receive the maximum amount of CTC but are not entitled to WTC.

HM Revenue and Customs estimates that the total tax credit entitlement of claimants in 2006–07 was £11.7 billion in CTC and £6.2 billion in WTC. However, since their introduction, child and working tax credits have suffered from a major problem of overpayments: many families have been paid more than their true entitlement over the year, either because of administrative errors or because family circumstances changed to reduce their entitlement (e.g. income rose) and HMRC did not find out early enough (or did not respond quickly enough) to make the necessary reduction in payments for the rest of the year. Largely as a result of this, actual spending on tax credits, at £18.6 billion in 2006–07,[12] has been significantly higher than the £17.9 billion of total entitlements.[13] A further £2 billion was paid in child additions to out-of-work benefits (see footnotes 10 and 11).

As at April 2007, 5.7 million families were receiving CTC (or the equivalent amount in out-of-work benefits), of which 4.3 million were in work.

3.1.5. Statutory Maternity Pay, Paternity Pay and Adoption Pay

Non-taxable, Contributory, Non-means-tested

Statutory maternity pay (SMP) is a legal minimum amount that employers must pay to their employees during maternity leave, although almost all the cost can be recouped from the government. Many women receive more than the minimum, but this is paid for by employers and not by the government. To claim, the woman must have been in continuous employment with the same employer for at least 26 weeks up to and including the 15th week before the week the baby is due. She must have earned at least the lower earnings limit for National Insurance contributions (currently £87 per week) on average during the eight weeks up to and including the 15th week before the week in which the baby is due. To claim SMP, the woman need not intend to return to work.

Under new regulations set out by the Work and Families Act of 2006, for women whose babies due on or after April 1 2007, SMP can be paid for up to 39 weeks: the first six weeks' pay will be at a higher rate, and the remaining 33 at a lower rate (see Table 3.1.4). Prior to April 1, 2007, SMP was payable for up to 26 weeks: for the first six weeks, at the higher rate; for the remaining 20, at the lower rate. The period of payment can begin at any time from the 11th week before the baby is due until the week after the birth itself (to coincide with maternity leave). Government expenditure on SMP in 2006–07 is estimated to have been approximately £1.3 billion.

Table 3.1.4. Current rates of statutory maternity, paternity and adoption pay

Higher rate of SMP	90% of the claimant's average weekly earnings
Lower rate of SMP, SPP, SAP	The lesser of £112.75 or 90% of average weekly earnings

Statutory paternity pay (SPP) and statutory adoption pay (SAP) were introduced on 6 April 2003. Both are legal minimum amounts that employers must pay to their employees during paternity/adoption leave, and most of the cost can be reclaimed from the government. SPP is usually paid to individuals whose partner has given birth, but can also be paid when a child is adopted. SAP can only be claimed by one parent (the other may be able to claim SPP).

12 The split in this £18.6 billion between child tax credit and working tax credit is not available.

13 For more on the operational problems with tax credits and attempts to solve them, see M. Brewer, 'Tax credits: fixed or beyond repair?', in R. Chote, C. Emmerson, R. Harrison and D. Miles (eds), *The IFS Green Budget: January 2006*, IFS Commentary 100, London, 2006, www.ifs.org.uk/budgets/gb2006/index.php.

The eligibility requirements for SPP and SAP are very similar to those for SMP, except that they include more stringent employment conditions. For SPP (birth), the claimant must satisfy the 26-week employment rule (see above), but must also be continuously employed by the same employer from the end of the 15th week before the child is due until the child is born. For SPP (adoption) and SAP, the claimant must have been continuously employed for at least 26 weeks ending the week in which notification is received that a child has been matched for adoption. For SPP (adoption) only, employment must then continue with the same employer until the child arrives.

Both SPP and SAP are payable at the lower SMP rate. SPP is available for up to two consecutive weeks between the date the child arrives and eight weeks after this date. SAP is available for up to 26 weeks, starting no later than when the child arrives and no earlier than two weeks beforehand.

Claimant figures for SMP, and expenditure figures for SPP and SAP are not recorded centrally.

3.1.6. Maternity Allowance

Non-taxable, Contributory, Non-means-tested

Maternity allowance (MA) is payable to pregnant women who are unable to claim statutory maternity pay. To be eligible for MA, claimants must satisfy both an employment test and an earnings condition. To satisfy the employment test, the claimant must have been employed or self-employed (not necessarily continuously or for the same employer) for at least 26 of the 66 weeks up to and including the week before the baby is due (known as the employment test period). The earnings condition requires that average weekly earnings in any 13 of the previous 66 weeks are at least equal to the MA threshold that applies at the start of the employment test period; the MA threshold is currently £30.00 per week.

MA (and SMP) claimants receiving certain means-tested benefits may also be entitled to receive a Sure Start maternity grant from the regulated Social Fund (see Section 3.3.6 and Appendix C for further details).

MA is payable for up to 39 weeks (before 1 April 2007 this was 26 weeks). The period in which this can begin is the same as for SMP, i.e. from the 11th week before the baby is due until the week after the birth itself. Claimants may be entitled to an additional payment for a dependent spouse or other dependent adult who cares for at least one of their children, but this is only available if the dependant's earnings are not too high.

In February 2007, 28,700 women were receiving MA. The total expenditure for the year 2006–07 was estimated at around £175 million.

Table 3.1.5. Current rates of maternity allowance, per week, 2007-08

Standard rate	The lesser of £112.75 or 90% of average weekly earnings
Adult dependant (payable for one)	£37.90

3.1.7. Child Maintenance Premium

Non-taxable, Non-contributory, Means-tested

The child maintenance premium (also known as the Child Maintenance Disregard) was introduced on 3 March 2003 as a replacement for the child maintenance bonus (now only available to existing claimants – see Appendix B). Individuals are eligible if they (or their partner) starts or returns to work, or increases hours worked or hourly earnings, such that they are no longer eligible for income support (see Section 3.3.1) or income-based jobseeker's allowance (see Section 3.2.1).

In order to reduce the disincentive to work induced by the withdrawal of means-tested benefits as income increases, £10 of weekly child maintenance is disregarded in the calculation of eligibility for income support or income-based jobseeker's allowance. This disregarded sum is known as the child support premium. It was announced in the 2007 Pre-Budget Report that the Child Maintenance Premium will double to £20 by the end of 2008, and double again to £40 by the end of 2009.

Figures on the number of claimants of CMP, and consequent benefit expenditure, are not readily available.[14]

3.1.8. Education Maintenance Allowance

Non-taxable, Non-contributory, Means-tested

The education maintenance allowance (EMA) comprises a combination of weekly and individual bonus payments for young people from low-income families who stay on for two years of academic or vocational schooling (of at least 12 hours per week) beyond the school-leaving age of 16. The programme was extended nationwide in September 2004, following a pilot scheme in a number of areas. It is currently available to anyone whose 16th birthday falls between 1 September 2006 and 31 August 2007, and whose family income is no more than £30,810 per year. Weekly payments are made on the basis of attendance and vary according to the level of family income. Bonus payments of £100 are made in January and July of each year of attendance, and October in the second year (assuming, of course, that the student has returned to the programme).[15]

Table 3.1.6. Rates of education maintenance allowance for the academic year 2007–08, £ per week

Family income:	Up to £20,817 per year	30
	£20,818–£25,521 per year	20
	£25,522–£30,810 per year	10

Note: When calculating entitlement for the 2007/08 academic year, family income for the 2006/2007 financial year is applied to these thresholds.

Expenditure on EMA in 2006–07 is estimated to be around £553 million in England and Wales. Current claimant figures are not readily available; however, it is estimated that around 545,370 students received at least one payment in 2006–07.

14 Information on the recipients of child maintenance in general can be found on the DWP website at http://www.dwp.gov.uk/mediacentre/pressreleases/2007/oct/hse044-241007.pdf

15 Source: http://ema.direct.gov.uk/ema.html

3.2. Benefits for Unemployed People

	Benefit	T	C	M	Claimants, as at Feb. 2007[a]	Expenditure, 2006-07 (£m)[b]
3.2.1	Income-based jobseeker's allowance	✓	✗	✓	716,900[c]	1,962
	Contribution-based jobseeker's allowance[d]	✓	✓	✗	161,100[c]	478
3.2.2	Job grant	✗	✗	✓	Not available	40
3.2.3	New Deal programmes	n/a	n/a	n/a	151,310[e]	82[f]

T = taxable, C = contributory, M = means-tested

[a] Unless otherwise specified.

[b] Estimated.

[c] Source: Department for Work and Pensions, *Jobseeker's Allowance Claimants tabulation tool*, available at http://83.244.183.180/5pc/jsa_prim/tabtool_jsa_prim.html

[d] Figures include unemployment benefit.

[e] The numbers of individuals on the New Deal for Young Persons and the New Deal 25-Plus were 92,170 and 59,140 respectively, as at February 2007. Source: Department for Work and Pensions, *New Deal for Young People and Long-Term Unemployed People Aged 25+ tabulation tool*, available at http://www.dwp.gov.uk/asd/asd1/tabtools/tabtool_nd.asp

[f] This is the sum of expenditure on New Deal for Young Persons allowances (£41 million) and New Deal 25-Plus allowances (£41 million).

3.2.1. Jobseeker's Allowance

Taxable, either Contributory or Means-tested

Jobseeker's allowance (JSA) replaced unemployment benefit and income support for unemployed people from 7 October 1996. There are two main types of JSA: contribution-based JSA is paid to individuals who have satisfied the National Insurance contribution (NIC) conditions; income-based JSA is paid to claimants who satisfy a family income-based means test (more details below).[16] It is possible to receive contribution-based JSA with an income-based JSA top-up.

To qualify via either method, the claimant must be under 60[17] and must not be receiving income support. In addition, the claimant must not be working for more than 16 hours per week, and must be capable of starting work immediately and of actively taking steps to find a job, such as attending interviews, writing applications or seeking job information. They must also have a current 'jobseeker's agreement' with Jobcentre Plus, which includes such information as hours available for work, desired job and any steps that the claimant is willing to take to find work. Claimants must be prepared to work for up to 40 hours per week and have a reasonable prospect of finding work (i.e. not place too many restrictions on the type of work they are willing to undertake). If a claimant refuses to take up a job offer without good reason, they may be denied further payments of JSA.

16 A third type of jobseeker's allowance, joint-claim JSA, is paid to members of joint-claim couples. It is very similar to income-based JSA. Figures for income-based JSA include joint-claim JSA.
17 As of October 2003, those aged 60–65 must claim pension credit rather than JSA.

People aged 18–24 who have been unemployed and claiming JSA for six months or more are required to participate in the New Deal for Young Persons; those aged 25 or over must participate in the New Deal 25-Plus programme if they have been unemployed and claiming JSA for 18 months (see Section 3.2.3).

Contribution-Based Jobseeker's Allowance

Contribution-based JSA can be paid for up to 26 weeks. To claim contribution-based JSA, the individual must have paid sufficient Class 1 NICs in each of the two tax years prior to the beginning of the year in which they sign on and claim benefit.[18] The individual must not have earnings above a specific level (see below). If the claimant qualifies, they can receive contribution-based JSA irrespective of savings, capital or partner's earnings.

If the claimant has any earnings, £5 per week is disregarded (£20 for some occupations). Any income over this disregarded amount is deducted from the contribution-based JSA allowance pound-for-pound. Thus the most someone aged 25 or over could earn per week and still receive contribution-based JSA is £64.14 (assuming that they are not in one of the special occupations). For those receiving an occupational or personal pension, any amount below £50.00 per week does not affect entitlement, regardless of age.

In February 2007, 161,000 people were receiving contribution-based JSA, at an estimated cost to the exchequer of £478 million in 2006–07.

Table 3.2.1. Current rates of contribution-based jobseeker's allowance, £ per week

Age of claimant:	Under 18	35.65
	18–24	46.85
	25 or over	59.15

Income-Based Jobseeker's Allowance

Those who do not qualify for contribution-based JSA may be able to receive income-based JSA if they have sufficiently low income. Only one partner in a couple can receive income-based JSA, and the partner of the claimant must not be working for more than 24 hours per week (as described above, both forms of JSA require that the claimant is not working more than 16 hours per week). As of March 2001, couples without children must claim JSA jointly. This means that both have to sign on and meet the conditions for benefit.

Income-based JSA works much like income support (see Section 3.3.1), topping up income to a specified level (called the 'applicable amount'), which is intended to reflect the needs of the claimant's family. The applicable amount is the sum of personal allowances, premiums and some housing costs (primarily mortgage interest payments).

18 For more information about the contribution conditions that must be satisfied, see Child Poverty Action Group, *Welfare Benefits and Tax Credits Handbook 2007–2008*, London, 2007, Chapter 31.4.

The amount allowed for each is identical to that for income support (see Table 3.3.1).[19] Clearly, to be eligible, the claimant's income (minus the same earnings disregards as for income support – see Section 3.3.1) must be less than their applicable amount. Income-based JSA is only payable if the claimant's capital does not exceed a specified level. These capital limits are the same as for income support (see Section 3.3.1). Income-based JSA is payable for as long as the qualifying conditions are met.

In February 2007, 716,900 awards of income-based JSA were made, while expenditure on the benefit is estimated to be £1.96 billion in 2006–07. Receipt of income-based JSA automatically entitles individuals to free school meals, health benefits (including free prescriptions, dental treatment and sight tests), maximum council tax benefit, maximum housing benefit and certain Social Fund payments (including the Sure Start maternity grant and funeral payments; see Appendix C).

Table 3.2.2. Current rates of income-based jobseeker's allowance, £ per week

Personal allowance – single person:	Aged 16–17	35.65[a]
	Aged 18–24	46.85[b]
	Aged 25 or over	59.15
Personal allowance – couple:	One or both aged 16–17	Varies[c]
	Both aged 18 or over	92.80

[a] There are two rates – a lower rate of £35.65 and a higher rate of £46.85. Entitlement to the higher rate depends on disability and family circumstances.

[b] This rate does not apply to lone parents: lone parents aged 18 or over receive £59.15.

[c] If both members of the couple are under 18, there are three rates: £35.65, £46.85 (if disabled) and £70.70 (if responsible for a child). If only one is under 18, there are two rates: £46.85 (if the other is 18-24) and £59.15 (if the other is 25 or over).

3.2.2. Job Grant

Non-taxable, Non-contributory, Means-tested

Job grant is a one-off, tax-free payment to individuals aged 25 or over who are starting or returning to full-time work,[20] including those who obtain full-time work as part of the New Deal (see Section 3.2.3). The payment is £100 in the case of single people and couples without children and £250 for those with children. To be eligible, the job must be expected to last for at least five weeks, and applicants must have been receiving a qualifying benefit such as jobseeker's allowance (see Section 3.2.1), income support (see Section 3.3.1), incapacity benefit (see Section 3.5.2) or severe disablement allowance (see Appendix B) for the previous 26 weeks.

In 2006–07, approximately £40 million was paid out in job grants.

19 Dependent child allowances can currently still be claimed under income-based JSA (rather than child tax credit). This is due to temporary transitional arrangements.

20 Full-time employment is defined as 16 hours or more per week.

3.2.3. New Deal Programmes

The New Deal programmes are designed to help unemployed individuals into work. In the past, there were four distinct programmes: the New Deal for Young Persons (for those aged 18–24) and the New Deal 25-Plus (for those aged 25–49) were both compulsory for claimants of JSA who met the relevant criteria after a given amount of time receiving JSA (six months for the Young Persons scheme, 18 months for 25-Plus), and provided employment subsidies and training grants to employers who took on previously unemployed individuals; the New Deal 50-Plus was voluntary and only included a training grant (wage top-ups were also available, but have since been replaced by the 50-plus element of working tax credit – see Section 3.3.2); the New Deal for Lone Parents was also voluntary, and offered training grants and childcare assistance to those who qualified.

A report published in June 2004,[21] however, advocated a much more flexible approach to the New Deal. Under the new system, participation remains compulsory for those aged 18–24 after six months of receiving JSA, and for those aged 25–49 after 18 months. Mandatory participation after 18 months is also being considered for those aged 50–59 (subject to an evaluation of the impact of such an undertaking). However, there is now the option to receive New Deal assistance on a voluntary basis after six months of receipt of JSA, as well as the opportunity for the most disadvantaged individuals to receive specialist assistance as soon as they start claiming JSA. The help on offer to claimants is also more flexible, with a 'menu' of options available (including education and voluntary and subsidised paid work) to ensure that every individual's needs are met. For the 25–49 age range, pilot schemes are additionally being used to test a mandatory short programme of assistance at the six-month mark in order to see whether this enables these individuals to move back into work more rapidly.

In February 2007 there were 151,310 participants in the New Deal Programmes, with a cost to the Exchequer in 2006-07 of £82 million.

21 Department for Work and Pensions, *Building on New Deal: Local Solutions Meeting Individual Needs*, 2004, available at www.dwp.gov.uk/publications/dwp/2004/buildingonnewdeal/mainreport.pdf.

3.3. Benefits for People on Low Incomes

	Benefit	T	C	M	Claimants, as at Feb. 2007[a]	Expenditure, 2006–07 (£m)[b]
3.3.1	Income support	✗	✗	✓	2,134,170[c]	6,823
3.3.2	Working tax credit	✗	✗	✓	1,988,000[d]	6,200[e]
3.3.3	Housing benefit	✗	✗	✓	4,039,700[f]	14,858
3.3.4	Council tax benefit	✗	✗	✓	5,096,600[f]	4,072
3.3.5	Discretionary housing payments	✗	✗	✓	122,330[g]	18
3.3.6	Social Fund payments:[h]	✗	✗	✓		
	Regulated:					
	Sure Start maternity grants				237,000[i]	120
	Cold weather payments				402,000[i]	3
Appendix C	Funeral payments				41,000[i]	45
	Discretionary:					
	Community care grants				271,000[i]	139
	Budgeting loans				1,298,000[i]	107.5
	Crisis loans				1,072,000[i]	29

T = taxable, C = contributory, M = means-tested

[a] Unless otherwise specified.

[b] Estimated.

[c] Source: Department for Work and Pensions, *Income Support tabulation tool*, available at http://83.244.183.180/100pc/is/tabtool_is.html

[d] Number of families (including both individuals and couples, regardless of whether they have children), as at April 2007.

[e] This figure is taken from HMRC's Resource Accounts and Trust Statement for 2006–07, available at http://www.hmrc.gov.uk/about/hmrc-06-07-acc.pdf It represents final entitlements rather than payments made, and thus does not include any impact of overpayments. Total payments made exceeded final entitlement for working tax credit and child tax credit by £0.7 billion; however, a detailed split between working tax credit and child tax credit is not available. The figure relates to UK rather than GB expenditure.

[f] Source: Department for Work and Pensions, *Housing Benefit & Council Tax Benefit Quarterly Summary Statistics: February 2007*, available at http://www.dwp.gov.uk/asd/asd1/hb_ctb/hb_ctb_quarterly_feb07.asp.

[g] Figure courtesy of the Department for Work and Pensions.

[h] Source: Department for Work and Pensions, *Benefit Expenditure Tables, Table 9: Social Fund 1991/92 to 2007/08*, available at www.dwp.gov.uk/asd/asd4/Table9.xls.

[i] Number of awards made in 2006–07. Source: *Annual Report by the Secretary of State for Work and Pensions on the Social Fund 2006/07,* available at http://www.dwp.gov.uk/publications/dwp/2007/annual-report-social-fund.pdf

3.3.1. Income Support

Non-taxable, Non-contributory, Means-tested

Income support (IS) is a benefit paid to people on low incomes, although it is not available to the unemployed (who may be able to claim jobseeker's allowance) or those in full-time work[22] (who may be able to claim working tax credit). IS is thus mainly payable to lone parents and carers, disabled people, and those who are incapable of work (although some other individuals are also eligible).

22 The claimant must work less than 16 hours per week and their partner less than 24 hours per week.

To be eligible, the claimant's family income (minus any earnings disregards) must be less than their 'applicable amount'. The applicable amount is the sum of basic personal allowances and premiums (see Table 3.3.1), and housing costs.[23] The level of IS payable is the amount needed to top up family income to the relevant applicable amount. Since 6 October 2003, pension credit has replaced IS for most people aged 60 or over (see Section 3.4.3), although in a small number of cases, pensioner premiums are still payable under IS (for example, when a claimant aged under 60 has a partner aged over 60). Although allowances and premiums relating to children are being phased out (to be replaced by the child tax credit – see Section 3.1.4), families currently in receipt of IS must still claim the relevant child allowances via IS (rather than CTC).[24] This also applies to the child premiums for jobseeker's allowance (see Section 3.2.1).

Table 3.3.1. Current rates of income support, £ per week

Personal allowance – single person:	Under 18	Varies[a]
	Aged 18–24	46.85
	25 or over	59.15
Personal allowance – couple:	One or both aged 16–17	Varies[c]
	Both 18 or over	92.80
Dependent child[d] allowance:[e]	(each)	47.45
Premiums:	Family[e]	16.43
	Disabled child (each)[e]	46.69
	Carer[f]	27.15
	Disability: single	25.25
	couple	36.00
	Enhanced disability:[e] child (each)[f]	18.76
	single	12.30
	couple	17.75
	Severe disability[g]	48.45
	Pensioner (couple)	88.90

[a] There are two rates – a lower rate of £35.65 and a higher rate of £46.85. Entitlement to the higher rate depends on disability and family circumstances.

[b] Lone parents aged 18–24 receive £57.45, the same rate as single people aged 25 or over.

[c] If both are under 18, there are three possible rates: £35.65, £46.85 (if one is disabled) and £70.70 (if they have responsibility for a child). If only one is under 18, the available rates are £46.85, £59.15 and £92.80. The amount payable depends upon the age of each partner and whether one or both would be eligible for IS (or income-based JSA) were they single.

[d] An individual is classed as a child until the September following their 16th birthday (or until their 19th birthday if they are in full-time education).

[e] The enhanced disability premium is payable where the claimant (or their partner) receives the highest rate of disability living allowance (care) and is aged 60 or below.

[f] This element of IS (also applicable to JSA – see Section 3.2.1) can only be claimed instead of, not as well as, CTC, while the transitional arrangements are in place.

[g] Double the amount is payable if both partners qualify.

23 Housing costs include an allowance for mortgage repayments on the claimant's house (up to a value of £100,000), but exclude rent (which is taken account of in any entitlement to housing benefit). Deductions from housing costs are made for non-dependants in the same way as for housing benefit (see Section 3.3.3 and Table 3.3.3).

24 There is a temporary transitional arrangement in place for administrative reasons.

Some benefits are not counted as income (e.g. attendance allowance, disability living allowance[25]), and recipients of certain benefits may have up to £20 of their income disregarded for the entitlement calculation. IS is not payable if the claimant and the claimant's partner together have more than £16,000 capital. Capital up to £6,000 is ignored (£10,000 for those in care homes). Between these two thresholds, IS entitlement is reduced by £1 for every £250 capital exceeding the lower threshold.

In February 2007, 2.13 million people received IS. Roughly 56 per cent were disabled and 36 per cent were lone parents. Total expenditure on IS for 2006–07 was estimated to be approximately £6.8 billion. Receipt of IS automatically entitles individuals to free school meals, health benefits (including free prescriptions, dental treatment and sight tests), maximum council tax benefit, maximum housing benefit and certain Social Fund payments (including the Sure Start maternity grant and funeral payments; see Appendix C for further details).

Work-Focused Interviews

In 2001 the government began introducing compulsory work-focused interviews (WFIs) for all new claimants of certain benefits. Income support is one such benefit. This means that the claimant (and their partner in some cases, including partners of IS recipients) must attend interviews (the idea of which is to 'help and encourage you to keep in contact with the employment market and eventually begin full-time work'[26]) at trigger points (i.e. when certain criteria are met) as a condition of continuing benefit receipt. These interviews are compulsory for all new claimants of IS, incapacity benefit (see Section 3.5.2), carer's allowance (see Section 3.5.5) and bereavement benefits (see Section 3.6), between the ages of 18 and 60.[27] Additionally, if the applicant is claiming on the basis of incapacity for work, then participation in more frequent WFIs is also compulsory in certain pilot areas, as part of the 'Pathways to Work' scheme (see Section 4.3 for details of future reforms).

3.3.2. Working Tax Credit

Non-taxable, Non-contributory, Means-tested

Working tax credit (WTC) has been available since 6 April 2003 and provides in-work support for low-paid working adults. It replaced the adult and childcare-cost elements of the working families' tax credit, disabled person's tax credit and the New Deal 50-Plus employment credit, and extended in-work support to cover households without children. Since WTC is a tax credit, it is administered by HM Revenue and Customs. Under international accounting conventions, tax credits are counted as negative taxation to the extent that they are less than the income tax liability of the family, and as government

25 Child benefit is also disregarded for those in receipt of child tax credit.
26 Source: Page 980 of Child Poverty Action Group, *Welfare Benefits and Tax Credits Handbook 2007/2008*, London, 2007.
27 In government-issued guidelines, severe disablement allowance (SDA) is also included in the list of benefits for which new claimants are obliged to attend WFIs; however, SDA is no longer available to new claimants (see Appendix B); hence its inclusion under the WFI scheme may be misleading.

expenditure for payments exceeding the tax liability.[28] For our purposes, however, we count all tax credit expenditure as if it were public spending.

Families with children, and workers with a disability, are eligible for WTC provided at least one adult works 16 or more hours per week. Workers with no children and no disability are only eligible if they are aged 25 or over and work at least 30 hours per week.

WTC is made up of a number of components (see Table 3.3.2). There is a basic element, with an extra payment for couples and lone parents (i.e. for everyone except childless single people), as well as an additional payment for those working at least 30 hours per week (30 hours *in total* for couples). WTC also includes supplementary payments for disability, severe disability and those over 50 returning to work. Severe disability supplements are payable where the recipient or their partner receives the highest rate of the care component of disability living allowance (see Section 3.5.3) or the higher rate of attendance allowance (see Section 3.5.4).

Table 3.3.2. Current rates of working tax credit

		£ per annum	£ per week
Basic element		1,730	33.18
Couple and lone-parent element		1,700	32.60
30-hours element		705	13.52
Childcare element	One child		140
	Two or more children		240
Disability element		2,310	44.30
Severe disability supplement		980	18.79
50-plus return-to-work payment (16–29 hours)		1,185	22.73
50-plus return-to-work payment (30+ hours)		1,770	33.95
Income below which maximum WTC is payable		5,220	100.11
Withdrawal rate		37%	37%

Note: Weekly numbers are calculated based upon there being 365/7 weeks per year. 80% of eligible childcare payments are payable (up to the maximum shown).

The maximum amount of WTC payable is calculated by adding together all applicable elements. Claimants are automatically entitled to the maximum amount of WTC if they receive income support, income-based jobseeker's allowance or pension credit, although it should be noted that there are few situations in which both WTC and IS or JSA can be claimed (due to the working restrictions placed on eligibility for IS and JSA). WTC also counts fully as income in pension credit calculations.

WTC that either includes a disability element or is received with child tax credit passports recipients to a number of health benefits, including free prescriptions, dental treatment, and sight tests and glasses, provided gross annual income does not exceed £15,050.

The childcare element of WTC is available to lone parents working 16 hours or more per week and to couples where both partners work for 16 hours or more per week (or if one is incapacitated and thus unable to care for children). This element is payable until the

28 For more information, see www.hmrc.gov.uk/stats/announcepage_1.htm.

September following the child's 15th birthday (16th birthday for disabled children), and care must be given by approved providers such as registered childminders, nurseries and after-school clubs. The childcare component provides 80 per cent of eligible childcare expenditure of up to £175 per week for families with one child or £300 for families with two or more children (i.e. up to £140 or £240 per week respectively). Unlike the rest of WTC, which is necessarily paid to the individual in full-time work (or to the individual agreed upon by the couple where both are in full-time work), the childcare credit is paid directly to the main carer, as with child tax credit (see Section 3.1.4).

WTC is subject to a joint means test with child tax credit (see Section 3.1.4). For WTC claims made before the beginning of a tax year, awards apply to the whole of that tax year (i.e. 6 April to 5 April). For claims made after the tax year has begun, awards apply to the remainder of that tax year. In some instances, changes to personal circumstances affect WTC entitlement, and HM Revenue and Customs must be notified immediately. Examples include a single claimant becoming part of a couple (or vice versa), or where childcare costs are reduced by £10 per week or more for four consecutive weeks. Other changes to circumstances can be disclosed either at the time that they occur or at the end of the tax year, although the latter course may subsequently lead to a necessary repayment of overpaid tax credits if entitlement is reduced.

In April 2007, approximately 1.98 million families were receiving WTC, 1.65 million of which were also receiving child tax credit (see Section 3.1.4). This means that approximately17 per cent of WTC recipients had no dependent children.[29] For 2006–07, expenditure on WTC, based on actual entitlement, is expected to be around £6.2 billion (see Section 3.1.4 on the child tax credit for more details of this).

3.3.3. Housing Benefit

Non-taxable, Non-contributory, Means-tested

Housing benefit (HB) is payable to families with low incomes who rent their homes (for families who own their own homes, mortgage interest payments may be met through income support – see Section 3.3.1). People on income support, income-based jobseeker's allowance or the guarantee credit element of the pension credit are automatically entitled to the full level of HB. For other claimants, the amount of HB payable depends upon income in much the same way as for IS or income-based JSA.

The maximum level of HB is equal to 'eligible rent' minus possible deductions made for any non-dependants because they are expected to contribute towards the rent. An amount is deducted for each non-dependant aged at least 18 based on their gross weekly income.[30] Eligible rent is the weekly contractual rate of rent less ineligible charges included in the rent (such as certain fuel charges, service charges for washing, cleaning, etc., and water charges). However, eligible rent is capped at a 'local reference rent', the rent of suitably sized accommodation in the same locality.

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29 Source: National Statistics, *Child and Working Tax Credits Statistics: April 2007*, available at http://www.hmrc.gov.uk/stats/personal-tax-credits/ctc-wtc-snapshot-apr07.pdf

30 No deductions are made for *any* non-dependant if either the claimant or the claimant's partner is blind, or receives attendance allowance or the care component of disability living allowance. No deductions are made for an *individual*

The amount of HB actually received depends on the claimant's household income relative to the 'applicable amount' and household capital. For HB, the applicable amount is the sum of personal allowances and premiums (but not housing costs, as with IS and income-based JSA). These allowances and premiums (set out in Table 3.3.3) are similar to those for IS and income-based JSA. As of 6 October 2003, those aged 60 or over and not claiming IS or income-based JSA are entitled to higher personal allowances, but they are no longer eligible for the pensioner premium. This is due to the introduction of pension credit (see Section 3.4.3). If income is less than or equal to the sum of allowances and premiums, maximum HB is payable. When income exceeds this level, there is a 65 per cent taper (so HB entitlement is equal to maximum HB minus 65 per cent of the amount by which income exceeds the applicable amount).

Table 3.3.3. Current rates of housing benefit, £ per week

Personal allowance – single person:	Aged 16–24	46.85[a]
	Aged 25–59	59.15
	Aged 60–64	119.05
	Aged 65 or over	138.10
Personal allowance – couple:	Aged 16–59	92.80[b]
	One or both aged 60–64	174.05
	One or both aged 65+	207.00
Dependent child allowance:[c]	(each)	47.45
Premiums:	Family	16.43
	Family with child aged under 1	26.93
	Lone Parent	22.20
	Lone Parent with child aged under 1	32.70
	Disabled child (each)	46.49
	Disability:[d] single	25.25
	couple	36.00
	Enhanced disability:[e] child (each)	18.76
	single	12.30
	couple	17.75
	Severe disability[f]	48.45
	Carer[f]	27.15
	Pensioner:[d] single	59.90
	couple	88.90

[a] This rate does not apply to lone parents aged 18–24. They receive £59.15, the same rate as single people aged 25–59.

[b] If both are under 18, this is reduced to £70.70

[c] An individual is classed as a child until the September following their 16th birthday (or until their 19th birthday if they are in full-time education).

[d] Only one of these premiums can be paid at any one time to any one claimant (including the lone-parent premium, now available only to existing claimants, further details of which can be found in Appendix B).

[e] The enhanced disability premium is payable where the claimant or a family member receives the highest rate of disability living allowance (care component) and is aged 60 or below.

[f] Double the amount is payable if both partners qualify.

non-dependant when the non-dependant is a full-time student, or under 25 and on IS or income-based JSA, or in a range of other situations. A single deduction is made for non-dependent couples.

Some benefits are not counted as income (e.g. attendance allowance, the care component of disability living allowance), and recipients of certain benefits may have up to £20 of their income disregarded for the entitlement calculation. Some childcare costs can also be deducted (up to £175 per week for one child, or £300 for two or more). If the claimant and their partner together have capital that exceeds £16,000, no HB is normally payable. Capital of between £6,000 (£10,000 for those in residential care) and £16,000 is assumed to generate £1 of income per £250 of capital. As of 6 October 2003, there is no capital limit for individuals receiving the guarantee credit element of pension credit, and assumed income from capital for those aged 60 or over is £1 for every £500.

Just over 4 million people received HB in February 2007, of whom 72 per cent also received IS, income-based JSA or the guarantee credit of pension credit (and were therefore entitled to maximum HB).[31] Expenditure on HB in 2006–07 was almost £15 billion.

3.3.4. Council Tax Benefit

Non-taxable, Non-contributory, Means-tested

Council tax benefit (CTB) is payable to families with low incomes who are liable to pay council tax on a property in which they are resident. Many of the conditions for claiming are the same as those for HB (see Section 3.3.3), including those on capital thresholds, applicable amounts and premiums (although since nobody under the age of 18 is liable for council tax, nobody under 18 can claim CTB). In addition, if the claimant is aged 60 or over, and neither the claimant nor their partner receives IS or income-based JSA, then different (more generous) rules apply (see Section 3.4.3).

There is also an alternative benefit, known as the second adult rebate, which is payable instead of main CTB to people who have an adult living with them who is not liable for council tax and who does not pay rent. Claimants eligible both for CTB and for the second adult rebate are paid whichever is of higher value. Second adult rebate is claimed by far fewer people than main CTB and will be ignored for the remainder of this section.

People on IS, income-based JSA or the guarantee element of the pension credit are automatically passported entitlement to maximum CTB. Maximum CTB is the weekly cost of council tax, worked out as the annual bill divided by the number of days in the year and multiplied by seven. If there is more than one person in the house eligible to pay council tax, the maximum benefit is the *share* of the total bill that each benefit unit is eligible for. So, for example, if there were a married couple and a third person all eligible to pay council tax for a given property, one member of the couple would be entitled to claim up to a two-thirds share of the weekly tax, and the third person could claim a one-third share. As with housing benefit, there may be deductions for non-dependants, with

31 Source: Department for Work and Pensions, *Housing Benefit & Council Tax Benefit Quarterly Summary Statistics: February 2007*, available at http://www.dwp.gov.uk/asd/asd1/hb_ctb/hb_ctb_quarterly_feb07.asp

the amount of the deduction based on their gross weekly income.[32] For people not on IS or income-based JSA with an income above their applicable amount for housing benefit (see Section 3.3.3), the taper is 20 per cent.

People living in high-value properties in council tax bands F, G or H (houses costing over £120,000 in England in 1991) who claim CTB after 31 March 1998 have their maximum CTB restricted to that of a band E property.[33]

In February 2007, nearly 5.1 million people received main CTB. It is estimated to have cost nearly £4.1 billion in 2006–07. Of those receiving main CTB, 71 per cent were also in receipt of IS, income-based JSA or the guarantee credit of pension credit.[34]

3.3.5. Discretionary Housing Payments

Non-taxable, Non-contributory, Means-tested

Discretionary housing payments are payments to help meet rent or council tax liabilities. They are payable to those entitled to housing benefit or council tax benefit who require additional financial assistance in order to meet their housing costs. No one has a right to discretionary housing payments, and awards are made out of a cash-limited budget. The amount and duration of payments vary. In 2006–07, an estimated 122,330 awards were made,[35] costing approximately £18 million.

3.3.6. Social Fund Payments

Non-taxable, Non-contributory, Means-tested

The Social Fund was introduced in 1987 to provide money for people in need under a variety of circumstances. Some of the payments from the Social Fund (including cold weather payments, funeral payments and Sure Start maternity grants) constitute a legal entitlement under certain conditions for certain people. Other payments (including community care grants, budgeting loans and crisis loans) are discretionary and budget-limited, and are paid out to people who satisfy the qualifying rules on a case-by-case basis. The various payments from the Social Fund are described in Appendix C. For 2005–06, total net expenditure from the Social Fund is estimated to be £443.5 million.

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32 Deductions for non-dependants are made on a similar basis to those outlined for housing benefit, except that all non-dependants on IS or income-based JSA (not just those under 25), and those on pension credit, are ignored in the calculation of deductions.

33 For more on council tax valuations, see S. Adam and J. Browne, *A Survey of the UK Tax System*, IFS Briefing Note 9, London, 2006, available at www.ifs.org.uk/bns/bn09.pdf.

34 Source: Department for Work and Pensions, *Housing Benefit & Council Tax Benefit Quarterly Summary Statistics: February 2007*, available at http://www.dwp.gov.uk/asd/asd1/hb_ctb/hb_ctb_quarterly_feb07.asp

35 Figure courtesy of the Department for Work and Pensions.

3.4. Benefits for Elderly People

	Benefit	T	C	M	Claimants, as at Feb. 2007[a]	Expenditure, 2006–07 (£m)[b]
3.4.1	Basic state pension	✓	Part	×	11,785,670[c]	43,127
3.4.2	*Earnings-related state pensions:*					
	Graduated retirement pension	✓	✓	×	8,395,000[d]	1,507
	SERPS	✓	✓	×	5,655,000[d]	8,697[e]
	State second pension (S2P)	✓	✓	×	Not available	259[e]
3.4.3	Pension credit	×	×	✓	2,730,940[f]	6,869[g]
3.4.4	Winter fuel payments	×	×	×	12,005,000[h]	2,015
3.4.5	Age-related payments	×	×	×	Discontinued	0
3.4.6	Concessionary TV licences	×	×	×	4,055,000[h]	488

T = taxable, C = contributory, M = means-tested

[a] Unless otherwise specified.

[b] Estimated.

[c] Figure for February 2007 obtained from Department for Work and Pensions, *State Pension Tabulation Tool* available at http://83.244.183.180/100pc/sp/tabtool_sp.html

[d] 1999–2000. More recent figures are not readily available.

[e] The sum of these two figures, together with a £39m figure associated with lump sum payments made to pension claimants who have deferred claiming their State Pension add up to the £8,995m reported in Table 2.1 as the total expenditure on earnings-related pension.

[f] Figure for February 2006 obtained from Department for Work and Pensions, *Pension Credit Tabulation tool*, available at http://83.244.183.180/100pc/pc/tabtool_pc.html. Just under half of claimants receive both savings and guarantee credit, with similar numbers receiving one type of credit only.

[g] UK expenditure. Since total Northern Ireland benefit expenditure is only around £4 billion, however, figures for Great Britain would not be significantly different.

[h] Source: www.dwp.gov.uk/asd/asd4/TableC1.xls (estimated outturn 2006/07).

3.4.1. Basic State Pension

Taxable, Partly contributory, Non-means-tested

The basic state pension (BSP) was introduced in 1948, following the Beveridge Report, with the aim of providing an income for old-age pensioners based upon their record of National Insurance contributions. Originally, the idea was for the BSP to operate on a funded basis, with each generation paying for its own pensions through NICs. This was abandoned immediately on introduction so that the pension could be made payable to the existing generation of pensioners. This left the current 'pay-as-you-go' pension system, whereby the NICs from those currently in work fund the pensions paid out to the generation currently in retirement.

The BSP is payable from the state retirement age, which at present is 60 for women and 65 for men. All pensions are paid for life. The retirement age for women will be increased by six months each year from 2010 so that equalisation at 65 is achieved in 2020. Married partners over the state retirement age receive a dependant's addition on top of the BSP, unless each partner in the couple is able to qualify for a larger pension on the basis of their own contribution record. Widows and widowers are able to inherit their deceased partner's pension entitlement in full if this is worth more than their own entitlement. Those not qualifying for the full amount (because of insufficient NICs – see below) are able to receive a proportion of the BSP, subject to this being at least 25 per cent of the full amount. Those aged over 80 are able to receive the less generous non-contributory basic state pension if this is more than the entitlement based on their own contribution record.

In order to qualify for the full BSP, individuals need to have paid NICs for 90 per cent of a working lifetime;[36] however, individuals are credited with NICs (at the lower earnings limit) for periods spent out of the labour market due to illness, disability or unemployment – hence coverage among male pensioners in particular is very high.[37] Many married female pensioners do not qualify for the BSP, because prior to April 1977 they could 'opt out' of the BSP, in return for which they paid a lower rate of National Insurance. Since April 1977, opting out has been prohibited, and time spent looking after children has reduced the period for which contributions are required.[38] Combined with increasing female labour market participation, this means that more women will qualify for the BSP in future.

From April 2005, individuals can choose to defer receipt of the BSP for as long as they like, as compared with a maximum of five years before then. If an individual puts off claiming their state pension for at least 12 months, they can choose one of two options when they do finally claim. The first option is to earn extra state pension at 1 per cent for every five weeks they put off claiming (this is equivalent to about 10.5 per cent extra for every year compared with about 7.5 per cent extra before 6 April 2005). The second option is a one-off taxable lump-sum payment based on the amount of normal weekly state pension they would have received, plus interest added each week and compounded.[39] Individuals then also get their state pension when they claim it, paid at the normal rate. Individuals must put off claiming their state pension for at least 12 consecutive months, which must all have fallen after 5 April 2005, to be able to choose a lump-sum payment. Both of these options use any earnings-related state pension (see Section 3.4.2) that the individual is eligible to receive in calculating their higher state pension or lump-sum payment. Additional amounts are available to those receiving the age-related addition for long-term incapacity benefit (see Section 3.5.2) and to those with adult or child dependants (although increases for dependent children have now been replaced by child tax credit for new claimants – see Section 3.1.4 and Appendix B).

Until the early 1970s, the level of the BSP was uprated on an ad-hoc basis, but by more than enough to keep pace with increases in average earnings. It was then formally linked to the faster of growth in prices or growth in earnings and remained so until 1981, when it was formally linked to price inflation. The value of the BSP relative to earnings has therefore changed considerably over time, from just under 14 per cent when it was first

36 A working lifetime is defined as the period inclusive of the tax year in which the person turns 16, up to (but not including) the year in which they reach pension age (or the year in which they die). For more about the National Insurance system, see S. Adam and J. Browne, *A Survey of the UK Tax System*, IFS Briefing Note 9, London, 2006, available at www.ifs.org.uk/bns/bn09.pdf.

37 It should be noted that at least one full year of actual paid contributions is required in order to qualify for the contributory element of the basic state pension.

38 See www.thepensionservice.gov.uk/atoz/atozdetailed/homeres.asp for information on home responsibilities protection.

introduced, to around 20 per cent in the early 1980s, before falling to just under 16 per cent today. The government's recent Pensions White Paper[40] envisages a re-linkage of the basic state pension to average earnings in 2012.

Costing some £43.1 billion in 2006–07 and received by 11.8 million pensioners, the BSP is the largest single benefit, constituting approximately 29 per cent of total social security expenditure.

Table 3.4.1. Current rates of basic retirement pension, £ per week

Basic state pension		87.30
Non-contributory basic state pension		52.30
Increase for dependants:	Adult (for one)	52.30

3.4.2. Earnings-Related State Pensions

Taxable, Contributory, Non-means-tested

<u>Graduated Retirement Pension</u>

The graduated retirement pension (GRP) scheme operated between April 1961 and April 1975. It involved an earnings-related element to NICs, on top of the then standard flat-rate contribution. This was designed to entitle individuals to an earnings-related element to their state pension. Initially, all individuals had to contribute to the scheme. This requirement changed from 5 October 1966, so that individuals who were members of an occupational pension scheme could contribute at a reduced rate, in return for which they received a reduced rate of GRP. Average payments under this scheme are relatively ungenerous, not least because entitlements were frozen in cash terms between April 1961 and November 1978 during which period prices quadrupled. For men, every £7.50 of contributions paid into the scheme, and for women every £9 paid, yields an extra 9.37 pence per week on the basic pension rate. Once the claimant reaches the age of 80, they are entitled to an additional 25 pence per week. The GRP is payable even if the individual is not in receipt of the basic state pension.

In 2006/2007, total payments cost the government an annualised equivalent of £1.5 billion (0.1 per cent of GDP).

<u>State Earnings-Related Pension Scheme</u>

The State Earnings-Related Pension Scheme (SERPS) was introduced in 1978 to provide additional retirement income to around half the workforce, whose employers did not provide an occupational pension scheme. Despite being introduced with cross-party support, perhaps its most noticeable feature is how short-lived it has been: SERPS was

39 The compounded rate will be 2 percentage points above the Bank of England's base rate (so if the base rate were 4.5 per cent, the annual rate of return would be 6.5 per cent). As the Bank of England base rate may change from time to time, the rate of interest used to calculate the lump sum could also change.

40 Department for Work and Pensions, *Security in Retirement: Towards a New Pensions System*, London, 2006, available at www.dwp.gov.uk/pensionsreform/whitepaper.asp.

cut dramatically in the Social Security Acts of both 1986 and 1995, before being replaced by the state second pension (S2P) from 2002 (see below for more details). As of April 2002, no future SERPS benefits are being accrued. SERPS is payable even if the claimant is not in receipt of the basic pension.

In order to avoid crowding out existing private pension provision, those who were members of a defined benefit (final salary) pension were allowed to 'opt out' of SERPS on its introduction in 1978. In return, their employer made lower National Insurance contributions on their behalf and the individual's contribution rate was also reduced. In addition, from 1988, individuals were allowed to 'opt out' of SERPS into a defined contribution (money purchase) pension scheme, in return for which a proportion of their NICs were paid into the individual's pension fund. This led to rapid growth in personal pensions, particularly among the young, for whom SERPS represented a worse deal.[41]

The original SERPS formula took individuals' earnings in each year and uprated them by average earnings growth to the year before the individual reached state retirement age. The lower of this amount and the annualised upper earnings limit (UEL) in the year before retirement was used in the SERPS calculation, with the value of the annualised lower earnings limit (LEL) in the year prior to retirement then deducted from this figure. The SERPS pension that an individual would receive was equal to one-quarter of this amount, averaged over the best 20 years' earnings of their life. No SERPS was paid on earnings below the LEL, since it was deemed that these were covered by the basic state pension. No additional SERPS was paid on earnings above the UEL, since those who were contracted out of SERPS only received a rebate on NICs between the LEL and the UEL. Importantly, while contributions were indexed in line with earnings between the year in which they were made and the year of retirement, once in payment, SERPS was indexed to price inflation. In addition, surviving partners could inherit the full amount of their spouse's entitlement.

The 1986 Social Security Act cut future SERPS expenditure (and hence generosity). Individuals will now receive one-fifth rather than one-quarter of their revalued earnings between the UEL and the LEL. In addition, this will be averaged over their *entire* lifetime, rather than their best 20 years of earnings. These cuts are being phased in between April 1999 and April 2009, although earnings from before April 1988 will continue to accrue at the more generous level. The 1986 Social Security Act also reduced the amount that a surviving partner could inherit, from 100 per cent to 50 per cent of their spouse's pension. Originally, this was to apply to surviving partners from 6 April 2000, but due to government documentation failing to inform individuals of the change, it was delayed until October 2002. It is now being phased in over a 10-year period.[42] Those able to show that they acted on incorrect information may be eligible for compensation after this date.[43]

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41 For more details, see, for example, R. Disney and E. Whitehouse, *The Personal Pensions Stampede*, Institute for Fiscal Studies, London, 1992.

42 See Pension Service, *Inheritance of SERPS by Married People*, available at www.thepensionservice.gov.uk/serps/home.asp.

43 For more details of SERPS and inheritance rules, see Department for Work and Pensions, *What to Do after a Death in England or Wales*, 2006, available at www.dwp.gov.uk/publications/dwp/2006/d49_april06.pdf.

The 1995 Social Security Act further reduced the generosity of SERPS. This was the result of two changes. First was the increase in the state retirement age for women, being phased in between 2010 and 2020. Second, there was a technical change to the SERPS formula. This meant that, instead of subtracting the LEL in the year before retirement, now the actual LEL is deducted from earnings before they are uprated by average earnings growth. This is less generous for those retiring now and for several years to come, since the LEL being deducted now is essentially being uprated in line with earnings to the current year while the LEL that was previously being used was increased only in line with prices.

In 2006–07, just under £9 billion was spent on state earnings-related pensions. A total of 9.2 million people were receiving an earnings-related state pension in 1999–2000.[44] Approximately one in two pensioners were entitled to SERPS, and about three-quarters received some form of graduated pension.

<u>State Second Pension</u>

From 6 April 2002, SERPS was replaced (for new contributions) by the state second pension (S2P), essentially a more generous version of SERPS. The formula used to calculate the amount of S2P entitlement is much the same as that used for SERPS, except that it deliberately favours lower earners: in 2007–08, individuals earning below £12,300 qualify for S2P worth £3,390.40 (40 per cent of the income remaining after the annualised LEL has been subtracted from £13,000), regardless of actual earnings. An individual qualifies for an additional 10 per cent of earnings between £13,001 and £30,000, and an additional 20 per cent of earnings between £30,001 and the annualised UEL (currently £34,840); all thresholds are uprated annually. This rather strange structure is designed so that no one loses out from the reform.

The 1998 Pensions Green Paper[45] envisaged that the S2P would become a flat-rate top-up to the basic state pension. This would create some losers, as all individuals would receive 40 per cent of £13,000 (again minus the LEL), regardless of their actual earnings level. Originally, the change was scheduled for April 2007, but the 2002 Pensions Green Paper[46] stated that its introduction was to be kept under review.

3.4.3. Pension Credit

Non-taxable, Non-contributory, Means-tested

Pension credit (PC) was introduced in place of income support for those aged 60 or over (also known as the minimum income guarantee, MIG) on 6 October 2003 in an attempt to improve the incentives to save for retirement. Before this date, pensioners with income in excess of the basic state pension (but less than the MIG) faced a 100 per cent marginal withdrawal rate (£1 of support lost for every additional £1 of their own income). Pension credit attempts to reduce this disincentive to save, by cutting the marginal withdrawal rate to 40 per cent.

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44 Source: *Social Security Statistics*. More recent figures are not available.
45 Department of Social Security, *A New Contract for Welfare: Partnership in Pensions*, London, 1998.
46 Department for Work and Pensions, *Simplicity, Security and Choice: Working and Saving for Retirement*, London, 2002.

There are two elements to the PC: guarantee credit and savings credit. Claimants may be entitled to one or both elements. Guarantee credit works much like the MIG, topping up income to a specified minimum level (called the 'appropriate amount'). The appropriate amount is the sum of a standard amount and additional amounts for special needs or housing costs (see Table 3.4.2). To receive guarantee credit, claimants must be aged at least 60 (this will increase to 65 between 2010 and 2020 in line with the retirement age for women – see Section 3.4.1) and have family income below the appropriate amount. The sum payable is the difference between family income and the appropriate amount. As with the MIG, capital is assumed to yield a flow of income, but the PC rules are more generous: capital below £6,000 (£10,000 for those in care homes) is disregarded, and above this level, every £500 of capital is assumed to provide £1 of income. There is no upper limit on the amount of capital that can be held.

Table 3.4.2. Current rates of guarantee credit, £ per week

Standard amount:	Single person	119.05
	Couple	181.70
Additional amounts:	Severe disability	48.45[a]
	Carer	27.15[a]
	Housing costs	Varies[b]
	Transitional	Varies[c]

[a] Double this amount is payable if both partners qualify.

[b] Housing cost payments are very similar to those for income support (see Section 3.3.1).

[c] A transitional element is paid to those previously on income support or income-based jobseeker's allowance who would be made worse off by moving onto PC. The transitional payment covers the difference between the final IS or income-based JSA applicable amount and the PC appropriate amount (aside from a few adjustments).

Recipients of guarantee credit are automatically entitled to maximum housing benefit (see Section 3.3.3), maximum council tax benefit (see Section 3.3.4), health benefits (including free prescriptions, dental treatment and sight tests) and certain Social Fund payments (see Appendix C). Recipients of the savings credit may also be entitled to some Social Fund payments.

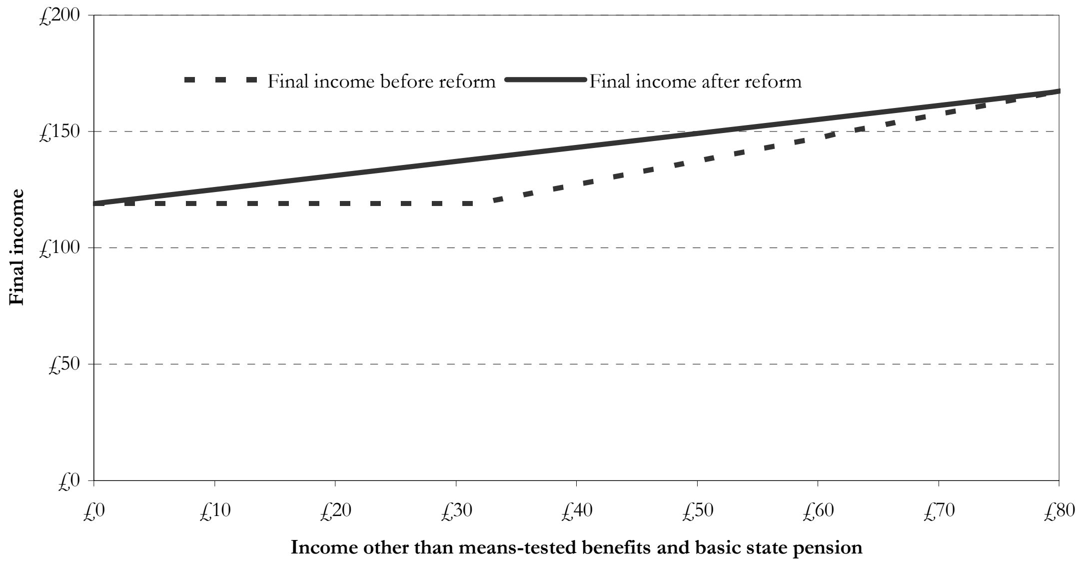
Savings credit rewards people aged 65 or over who have saved for retirement. Only those with income (excluding guarantee credit) that exceeds the appropriate savings credit threshold (see Table 3.4.3) are eligible.[47] For those with income between this amount and the appropriate amount (see above), the amount of savings credit payable is 60 per cent of income above the savings credit starting point. This implies a maximum savings credit payment of 60 per cent of the difference between the appropriate amount and the savings credit starting point. For those with income greater than or equal to the appropriate amount, savings credit is withdrawn at a rate of 40 per cent. This means that a claimant whose income is exactly equal to the appropriate amount will receive the maximum award, but each additional £1 of income reduces the award by 40 pence.

47 Different measures of income are used at different points in the calculation of entitlement to savings credit. See Pension Service, *Pension Credit: Do I qualify and how much could I get?* available at http://www.thepensionservice.gov.uk/pdf/pensioncredit/pc1loct07.pdf

Table 3.4.3. Savings credit, £ per week

Savings credit starting point:	Single person	87.30
	Couple	139.60
Maximum savings credit:	Single person	19.05
	Couple	25.26
Withdrawal rate		40%

Figure 3.1. Effect of the pension credit on the final income of a single pensioner aged 65 or over in receipt of a full basic state pension, 2006–07



Note: Income disregards, taxation and other means-tested benefits ignored.

Source: Updated version of graph taken from M. Brewer and C. Emmerson, *Two Cheers for the Pension Credit?*, IFS Briefing Note 39, London, 2003, available at www.ifs.org.uk/bns/bn39.pdf.

3.4.4. Winter Fuel Payments

Non-taxable, Non-contributory, Non-means-tested

Lump-sum winter fuel payments (WFPs) were introduced in 1997 and are available to households with at least one resident over the age of 60 (with the week beginning the third Monday of September used as the qualifying period). For claimants who live alone, or where only one member of the household qualifies for a WFP, or where the claimant receives pension credit (see Section 3.4.3) or income-based JSA (see Section 3.2.1), the amount received will be £200 if the claimant is aged between 60 and 79, or £300 if aged 80 or over.

Only one payment is made per household. If the claimant lives with at least one other eligible individual, the amount will be determined by the age of the oldest claimant. The payment is split, unless the claimants receive pension credit, or income-based JSA as a couple, in which case it can be paid to either claimant.[48]

Those in residential care homes, and those not receiving pension credit or income-based JSA, are entitled to half the regular payment (£100 if aged 60–79, or £150 if over 80).

In 2006–07, approximately 12 million WFPs were made, at an estimated cost of £2.02 billion.

In 2004-05, an additional non-taxable, non-contributory, non means-tested 'age-related' payment was made available for those aged 70 and upwards. This was extended to those aged 65 and upwards the following year, but has since been discontinued.

3.4.6. Concessionary Television Licences

Non-taxable, Non-contributory, Non-means-tested

Since September 2000, households including an individual over the age of 75 have not had to pay for a television licence. As of November 2009, the cost of a colour television licence is £135.50; in 2006–07, it was £131.50. In that year, over 4 million households benefited from a free television licence, at a cost of around £488 million.

48 Page 554 of Child Poverty Action Group, *Welfare Benefits and Tax Credits Handbook 2006–2007*, London, 2006.

3.5. Benefits for Sick and Disabled People

	Benefit	T	C	M	Claimants, as at Feb. 2007[a]	Expenditure, 2006–07 (£m)[b]
3.5.1	Statutory sick pay	✓	✗	✗	Not available	85
3.5.2	Incapacity benefit	✓	✓	Part	1,440,930[c]	6,545
3.5.3	Disability living allowance	✗	✗	✗	2,860,790[d]	9,156
3.5.4	Attendance allowance	✗	✗	✗	1,503,850[e]	4,149
3.5.5	Carer's allowance	✓	✗	✗	463,500[f]	1,191
3.5.6	War pensions[g]	✗	✗	✗	212,535[h]	1,030[i]
3.5.7	Industrial injuries benefits	✗	✗	✗	334,240[j]	752
3.5.8	Independent Living Funds	✗	✗	✓	20,003[k]	256
3.5.9	Motability	✗	✗	✗	460,000[l]	10

T = taxable, C = contributory, M = means-tested

[a] Unless otherwise specified.

[b] Estimated.

[c] Recipients (as at February 2007); there were 2,433,400 claimants during the same period, i.e. approximately 60 per cent of claimants received an award. Source: Department for Work and Pensions, *Incapacity Benefit tabulation tool*, available at http://83.244.183.180/100pc/ib/tabtool_ib.html

[d] Source: Department for Work and Pensions, *Quarterly Statistical Summary: November 2007*, available at http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Nov_2007.pdf

[e] Source: Department for Work and Pensions, *Quarterly Statistical Summary: November 2007*, available at http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Nov_2007.pdf

[f] Source: Department for Work and Pensions, *Quarterly Statistical Summary: November 2007*, available at http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Nov_2007.pdf

[g] Includes both war disablement and war widow's pensions.

[h] As at 31 March 2007. Source: Defence Analytical Services Agency, *War Pensions – Quarterly Statistics*, available at www.dasa.mod.uk/natstats/pensions/pensionstab11.html.

[i] Estimate of planned UK expenditure for year 2006–07. Source: Ministry of Defence, *Ministry of Defence: The Government's Expenditure Plans 2006/2007 to 2007/2008*, available at: http://www.mod.uk/NR/rdonlyres/A556F11A-E9A4-4330-A96A-898A0B760808/0/gep_0607to0708.pdf

[j] Includes industrial injuries disablement benefit, reduced earnings allowance and retirement allowance (see Section 3.5.7 and Appendix B). Other benefits not included in this figure are the worker's compensation supplementation scheme and the pneumoconiosis, byssinosis and miscellaneous diseases benefit scheme (both payable to people who contracted certain industrial illnesses prior to 5 July 1948). Expenditure on these schemes amounts to around £1 million. Assessments as of March 2007; note that more than one assessment may be awarded to an individual. Source: Department for Work and Pensions, *Industrial Injuries Disablement Benefit Quarterly Statistics: March 2007*, available at http://www.dwp.gov.uk/asd/asd1/iidb/iidb_quarterly_mar07.xls

[k] In 2006–07. Of those receiving ILF awards, 4,626 receive them from the Extension Fund (open only to claimants claiming prior to 1993) and 15,377 collect from the 1993 Fund. Source: Independent Living Funds, *User Profile*; details available at http://www.ilf.org.uk/cms_media/files/profile_june_2007.pdf

[l] Approximate estimate only. Source: www.motability.co.uk/Templates/Internal.asp?nodeid=89589.

3.5.1. Statutory Sick Pay

Taxable, Non-contributory, Non-means-tested

Statutory sick pay (SSP) is a benefit paid by employers for a maximum of 28 weeks to employees who are incapable of work. It is a legal minimum, and many employers will pay more than this amount. As with statutory maternity pay (see Section 3.1.5), much of the cost of SSP is reclaimed from the government.

To be incapable of work, an employee must be unable to do work that they could reasonably have been expected to do under the terms of their employment contract. Even if this is not the case, SSP may still be payable under some circumstances (for example, if a doctor has stated that the employee should not work in order to rest or convalesce after a period of illness). SSP is payable if the period of incapacity lasts for at least four days. Those under 16 or over 65 years of age cannot claim SSP (although the latter condition is subject to possible amendment and in any case individuals over the age of 65 can continue to receive it if they claimed prior to their 65th birthday and their period of entitlement has not yet ended). Also excluded are employees on contracts of less than three months, although those who work on a series of short-term contracts (for the same employer) can claim SSP as long as the total period of employment is longer than 13 weeks. SSP cannot be claimed if weekly earnings are less than the lower earnings limit, currently £87 per week.

SSP is currently payable at a weekly rate of £72.55. The total cost of SSP in 2006–07 was estimated to be around £85 million.

3.5.2. Incapacity Benefit

Taxable, Contributory, Partially means-tested

Employed claimants who cannot work due to sickness will normally receive statutory sick pay (see Section 3.5.1) for the first 28 weeks of their absence, and will then be able to claim incapacity benefit (IB) if they have been credited with enough National Insurance contributions, or, under some circumstances, if they are a widow or widower. If claimants are not entitled to SSP, then IB may be claimed from the outset. The NIC conditions are similar to those for contribution-based JSA (see Section 3.2.1).

Claimants must be incapable of work. Capability for work is determined by the 'own occupation test' for the first 28 weeks of incapacity, which determines whether or not the claimant is capable of returning to the type of job that they were doing before they became incapacitated. After 28 weeks, the claimant must satisfy the 'personal capability assessment', which tests ability to perform any type of work. Claimants of IB are usually exempt from the personal capability assessment if they are in receipt of another disability-related benefit.

Rates of IB are given in Table 3.5.1. IB claimants must be at least 16 years old;[49] for the short-term rates, they cannot be more than five years above pension age; for the long-term rate, they cannot be above pension age. The lower short-term rate – the only rate of IB that is tax-free – is payable for the first 28 weeks of sickness if the claimant is not entitled to SSP, and the higher (taxable) short-term rate is payable (in all cases) from weeks 29 to 52. After a year of entitlement, the (taxable) long-term rate becomes payable. Recipients of the long-term rate may be entitled to an age-related addition to their benefit dependent on their age when entitlement to IB or SSP began. People who are terminally

49 Individuals under the age of 20 (25 with a spell in full-time education), who may not be able to fulfil the NIC requirements for IB eligibility, may still be entitled to claim.

ill or who are entitled to the highest rate of the care element of disability living allowance (see Section 3.5.3) can receive an amount equal to the long-term rate of IB after 28 weeks of eligibility instead of one year. All new claimants of IB must attend work-focused interviews (and participate in the 'Pathways to Work' programme if they are in a pilot area) in order to receive benefit (see Section 3.3.1 for more details).

Table 3.5.1. Current rates of incapacity benefit, £ per week

		Claimant under pensionable age	Claimant over pensionable age
Short-term IB (lower rate)	Standard	61.35	78.05
Increase for dependants:	Adult[a]	37.90	46.80
Short-term IB (higher rate)	Standard	72.55	81.35
Increase for dependants:	Adult[a]	37.90	46.80
Long-term IB	Standard	81.35	–
Increase for dependants:	Adult[a]	48.65	–
Age-related addition:	Under 35	17.10	n/a
	Under 45	8.55	n/a

[a] Increases for child dependants have, since 6 April 2003, been replaced by child tax credit (CTC) for all new claimants; however, existing claimants may still be entitled to claim these additions via IB rather than CTC (see Appendix B).

Since 6 April 2001, there has been a 50 per cent withdrawal rate on any pension income above £85 a week for those in receipt of personal, occupational or public service pensions.

In 2006–07, total expenditure on IB was estimated at around £6.55 billion, with almost 1.44 million people receiving the benefit in February 2007. Of these, 93,600 were on the lower short-term rate, 90,790 were on the higher short-term rate and 1,256,000 were on the long-term rate.[50] Recipients of long-term IB are entitled to the Christmas bonus.

3.5.3. Disability Living Allowance

Non-taxable, Non-contributory, Non-means-tested

Disability living allowance (DLA) was introduced on 1 April 1992 for individuals who become disabled before the age of 65. It replaced and extended attendance allowance and mobility allowance, such that people who could not have qualified for these benefits are now able to claim DLA. Recipients are entitled to the Christmas bonus.

DLA has two components, reflecting the benefits that it replaced: a care component and a mobility component.[51] Each element is available at different weekly rates depending upon the severity of the claimant's disability.

50 Source: Department for Work and Pensions, *Incapacity Benefit and Severe Disablement Allowance tabulation tool*, available at http://83.244.183.180/100pc/ibsda/tabtool_ibsda.html

51 The individual only has to make one claim in order to be considered for both components of DLA.

Disability Living Allowance Care Component

There are three rates of DLA (care):

- For the lowest rate of DLA (care), the claimant must be 16 or over and so disabled that they cannot prepare a cooked main meal for themselves if given the ingredients. Alternatively, they must be so disabled that they require attention from another person for a significant part of each day in connection with bodily functions.

- For the middle rate of DLA (care), the claimant must require frequent attention from another person throughout the day *or* night in connection with bodily functions, or continual daily *or* prolonged nightly supervision to avoid substantial danger to themselves or others.

- For the highest rate of DLA (care), the claimant must be so severely disabled that they require constant supervision or attention throughout the day *and* night with respect to bodily functions, or to prevent danger to themselves or others.

For each rate, the individual must have satisfied the conditions for at least three months prior to claiming, and they must be likely to continue to satisfy these conditions for at least six months after the claim has been made. Children under the age of 16 must satisfy an additional disability test in order for DLA (care) to be awarded (unless they are terminally ill – see below).

Once DLA (care) has been awarded, there is no upper age limit on continued payment; however, no new claims can be made after the age of 65, except where the individual is already in receipt of DLA (mobility) and their condition worsens sufficiently to be eligible for the middle or higher rates of DLA (care).

Terminally ill claimants with a life expectancy of six months or less are automatically entitled to the highest rate of DLA (care) and do not have to satisfy the qualifying period.

Table 3.5.2. Current rates of disability living allowance (care), £ per week

Highest rate	64.50
Middle rate	43.15
Lowest rate	17.10

Disability Living Allowance Mobility Component

To qualify for DLA (mobility), claimants must be aged between 5 and 65 (3 and 65 for the higher rate) when making the claim, and must show that they would benefit from taking outdoor journeys. Further, they must satisfy the relevant disability conditions (outlined below). Children under the age of 16 applying for lower-rate DLA (mobility) must also satisfy an additional disability test. There are two rates of DLA (mobility):

- To claim lower-rate DLA (mobility), the claimant must show that they cannot walk outside without substantial supervision or guidance.

- To claim higher-rate DLA (mobility), the claimant must be (virtually) unable to walk because of their disability, or be deaf and blind, or be severely mentally impaired with severe behavioural problems and qualify for the highest rate of DLA (care).

For both rates of DLA (mobility), the claimant must have satisfied the conditions for at least three months and be likely to continue to satisfy them for the following six months. Terminally ill claimants with a life expectancy of six months or less are not guaranteed to receive DLA (mobility), but if they are entitled to it, they do not have to satisfy any qualifying period.

Table 3.5.3. Current rates of disability living allowance (mobility), £ per week

Higher rate	45.00
Lower rate	17.10

In February 2007, just over 2.86 million people were receiving DLA. Of these, 380,870 people received only the care component, 533,050 received only the mobility component and 1.95 million people received both components. Table 3.5.4 shows the combinations of care and mobility components received by DLA claimants.

Table 3.5.4. Recipients of disability living allowance, as at February 2007

		Mobility rate			
		None	**Higher**	**Lower**	**Total**
Care rate	**None**	0	433,540	99,510	533,050
	Highest	40,970	451,170	143,100	594,270
	Middle	110,930	418,900	386,170	805,070
	Lowest	228,970	387,720	159,830	776,520
	Total	380,870	1,691,330	778,610	**2,860,810**

Note: The figure in the bottom right of the table refers to the total number of people receiving some form of DLA; it may differ from the total claimant figure cited elsewhere due to rounding.

Source: Department for Work and Pensions, *Disability Living Allowance tabulation tool*, available at http://83.244.183.180/100pc/dla/tabtool_dla.html

Of those receiving some form of DLA in February 2007, about 17.5 per cent suffered mainly from arthritis, approximately 25.5 per cent had learning difficulties or other mental health problems, and 7.5 per cent suffered from muscle, bone, joint or back ailments.[52] DLA payments are estimated to have cost the exchequer approximately £9.2 billion in 2006–07.

3.5.4. Attendance Allowance

Non-taxable, Non-contributory, Non-means-tested

Attendance allowance (AA) is a benefit paid to individuals over the age of 65 with care or supervision needs. To qualify for AA, the claimant must satisfy the relevant disability

52 Source: Department for Work and Pensions, *Disability Living Allowance tabulation tool*, available at http://83.244.183.180/100pc/dla/tabtool_dla.html

conditions and must have done so for a period of six months immediately before receipt of AA begins.

AA is paid at two rates: the lower rate is paid if the disability conditions for the middle rate of DLA (care) are met (i.e. the claimant has day *or* night needs), and the higher rate is paid if the conditions for the highest rate of DLA (care) are met (i.e. the claimant has day *and* night needs).

People with a terminal illness and/or those with a life expectancy of less than six months are automatically eligible for the higher rate of AA and do not have to satisfy the six-month qualifying period.

In February 2007, approximately 1.5 million people were entitled to AA at an estimated cost of just over £4.1 billion in 2006–07. Recipients of AA receive the Christmas bonus.

Table 3.5.5. Current rates of attendance allowance, £ per week

Higher rate	64.50
Lower rate	43.15

3.5.5. Carer's Allowance

Taxable, Non-contributory, Non-means-tested

Carer's allowance (CA), previously known as invalid care allowance, is payable to people aged 16 or over who are giving substantial and regular care (usually defined as at least 35 hours per week) to a person receiving the highest or middle rate of DLA (care), or AA, or constant attendance allowance under the war pensions or industrial injuries scheme (see Sections 3.5.6 and 3.5.7 and Appendix D). The claimant must not earn more than £87 per week or be in full-time education.

On top of the basic payment, CA also includes an additional allowance for adult dependants. Child dependant payments (previously available under the old invalid care allowance rules) have now been incorporated into the child tax credit and are only available to existing (and continuous) claimants (see Appendix B). Individuals caring for more than one disabled person cannot claim additional awards of CA.

Claimants of CA are now required to take part in a work-focused interview as a condition of receipt of their benefit (see Section 3.3.1 for more details).

In February 2007, 463,500 people were receiving CA, and expenditure for 2006–07 totalled an estimated £1.19 billion. Nearly 75 per cent of claimants are female.[53] The Christmas bonus is payable with CA.

Table 3.5.6. Current rates of carer's allowance, £ per week

Basic benefit	48.65
Increase for adult dependants	29.05

53 Source: Department for Work and Pensions, *Carer's Allowance tabulation tool*, available at http://83.244.183.180/100pc/ca/tabtool_ca.html

3.5.6. War Pensions

Non-taxable, Non-contributory, Non-means-tested

Individuals who have suffered injury or disability as a result of service in the Armed Forces may be entitled to a war disablement pension, consisting of a number of allowances and supplements (see Appendix D for a detailed breakdown of the various benefits available). Pensions are also available to widows, widowers and dependants of those killed in service (see Section 3.6.2 and Appendix D). As of 31 March 2007, there were 212,535 claimants of war disablement pension in the UK.[54] (See Appendix D for a detailed description of war pensions.)

3.5.7. Industrial Injuries Disablement Benefit

Non-taxable, Non-contributory, Non-means-tested

Industrial injuries disablement benefit (IIDB) is payable to individuals who have suffered injury in an industrial accident, or who have contracted an industrial disease while at work, and as a result, experience loss of faculty and are consequently considered to be at least partially disabled. In the case of injury, benefit is payable only for an industrial 'accident', such that an injury that accumulates over a number of years, through, for example, heavy manual labour, will not normally attract benefit. To receive payment in the case of disease, the claimant must prove that the disease was caused by the occupation itself. In practice, however, onset of disease within a month of last working in the prescribed occupation is normally regarded as sufficient evidence. In addition, a period of 90 days must have elapsed after the onset of the disease, or the time of the accident, before IIDB can be claimed.

The maximum rates of IIDB are shown in Table 3.5.7. The benefit actually paid depends upon the extent of disablement (assessed on a percentage basis). To qualify for IIDB, disablement usually has to be at least 14 per cent. Above this level, benefit is paid at the appropriate fraction of the maximum rate, except that disablement of between 14 and 20 per cent counts as 20 per cent, and all assessments above 20 per cent are rounded to the nearest 10 per cent (multiples of 5 per cent are rounded upwards). Thus a person who is 63 per cent disabled would receive 60 per cent of the appropriate maximum rate, while 78 per cent disability attracts 80 per cent of the maximum, and so on. Increases for dependants are only available if the claimant is also receiving unemployability supplement (US), a benefit which was abolished for new claimants of IIDB in April 1987; US can still be claimed by some war pensioners (see Appendix D).

Table 3.5.7. Current maximum rate of industrial injuries disablement benefit, £ per week

	Claimant aged 18 or under	All other claimants
100% disablement	80.70	131.70

54 Source: Defence Analytical Services Agency, *War Pensions – Quarterly Statistics*, available at www.dasa.mod.uk/natstats/pensions/pensionstab11.html.

Constant attendance allowance (CAA) or the exceptionally severe disablement allowance (ESDA) may also be payable to those in receipt of IIDB. To be eligible for CAA, the claimant must be entitled to the maximum level of IIDB and must also require constant attendance as a result of their disablement. To receive the higher rate of CAA, the claimant must be entirely (or almost entirely) dependent on such attendance and must be likely to remain so for a prolonged period. For the lower rate, constant attendance must be required to a 'substantial extent' over a prolonged period.

ESDA is payable if the individual is in receipt of the higher rate of CAA and is likely to remain so on a permanent basis.

In March 2007, there were an estimated 334,240 claimants of industrial injuries disablement benefit, reduced earnings allowance and retirement allowance, at a cost to the exchequer of around £752 million. The cost inclusive of other industrial injuries benefits is £753 million; however, no claimant information is available for these benefits. Receipt of CAA entitles claimants of IIDB to the Christmas bonus.

Table 3.5.8. Current rates of constant attendance allowance, £ per week

Higher rate		105.40
Lower rate		52.70
	Payable if disablement is exceptionally severe (but not enough to qualify for the higher rate)	79.05
	If attendance is part-time	26.35

3.5.8. Independent Living (1993) Fund

Non-taxable, Non-contributory, Means-tested

The Independent Living (1993) Fund is a government-financed trust to help severely disabled people live at home rather than move into residential care. Claimants must be between 16 and 65 years of age, and in receipt of the highest rate of DLA (care) or the higher rate of attendance allowance. As long as the claimant is receiving at least £200 worth of services each week from the local authority,[55] they are eligible to receive up to an extra £455 per week from the Fund to help pay for care assistance.[56] The amount received depends on weekly care requirements and is means-tested (excluding earned income). Every £250 of savings above £11,500 is assumed to yield £1 of income, and claimants with savings of greater than £18,500 are not eligible for assistance from the Fund. Expenditure on Independent Living Funds for 2006–07 is estimated to be around £256 million, with approximately 20,000 beneficiaries in 2006-07

55 Source: Independent Living Funds, http://www.ilf.org.uk/making_an_application/eligibility/index.html
56 Source: Independent Living Funds, www.ilf.org.uk/making_an_application/eligibility/index.html.

3.5.9. Motability

Non-taxable, Non-contributory, Non-means-tested

Motability is an independent charity set up as a partnership between the government, charities and the private sector. It offers disabled people in receipt of the higher rate of DLA (mobility) hire or hire-purchase facilities on cars, electric wheelchairs and electric scooters. Recipients will pay some or all of their DLA (mobility) allowance towards the cost of hiring a vehicle. There is a 12,000 mile per annum limit on the distance that can be travelled (without additional payments being required), and the claimant must cover costs such as petrol and oil; however, extra money is available to help finance the adaptation of vehicles to suit particular types of disabilities.

The Motability scheme had approximately 460,000 customers in 2006–07, with government expenditure of around £10 million.

3.6. Benefits for Bereaved People

	Benefit	T	C	M	Claimants, as at Feb. 2007[a]	Expenditure, 2006–07 (£m)[b]
3.6.1	Bereavement allowance[c]	✓	✓	✗	21,810[d]	n/a[e]
3.6.2	War widow(er)'s pension	✗	✗	✗	37,795[f]	n/a[g]
3.6.3	Widowed parent's allowance[h]	✓	✓	✗	37,380[d]	n/a[e]
3.6.4	Bereavement payment[i]	✗	✓	✗	Not available	n/a[e]

T = taxable, C = contributory, M = means-tested

[a] Unless otherwise specified.

[b] Estimated.

[c] Bereavement allowance replaced the widow's pension from 9 April 2001. However, there were still 101,830 claimants of the widow's pension in February 2007.

[d] Source: Department for Work and Pensions, *Bereavement Benefit tabulation tool*, available at http://83.244.183.180/100pc/bb/tabtool_bb.html

[e] Expenditure on both widows' and bereavement benefits in 2006–07 is estimated at £797 million.

[f] Source: Defence Analytical Service Agency, *War Pension Statistics: March 2007*, available at www.dasa.mod.uk/natstats/pensions/pensionstab11.html.

[g] Total expenditure on war pensions (including war disablement and war widow(er)'s pensions) for 2006–07 was planned to be £1,030 million.

[h] Widowed parent's allowance replaced the widowed mother's allowance from 9 April 2001. However, there were still 16,640 claimants of the widowed mother's allowance in February 2007. Source*: Widow's Benefit Tabulation Tool*, available at http://83.244.183.180/100pc/wb/tabtool_wb.html

[i] Previously widow's payment.

3.6.1. Bereavement Allowance

Taxable, Contributory, Non-means-tested

Bereavement allowance (BA) replaced the widow's pension from 9 April 2001 and is payable to men and women widowed on or after this date. Claimants must be under pensionable age, but aged at least 45 when their spouse died. The spouse must either have satisfied the NIC conditions – i.e. must have paid (or been credited with) NICs for 90 per cent of a working lifetime, including at least one year where contributions were actually paid (see Section 3.4.1 for details of the definition of a working lifetime) – or have died as a result of an industrial injury or disease. BA is payable for up to 52 weeks after the date of death, unless the claimant remarries in that time (in which case entitlement ceases). It cannot be claimed at the same time as widowed parent's allowance (WPA), although recipients of WPA may become entitled to BA once they are no longer eligible to receive WPA. Women whose husbands died before 9 April 2001 can claim widow's pension, payable at the same rate as BA (men cannot claim widow's pension), and can receive this pension until they reach the age of 65, whereas BA is payable for only one year. The Christmas bonus is also payable with the widow's pension, but not with BA. From 5 December 2005, surviving civil partners are treated the same as widows for the purposes of the payment of bereavement benefits.

The basic rate of BA is £87.30 per week for claimants aged 55 or over and where the NIC conditions are satisfied in full. For every year under that age, the claimant receives 7 per cent less per week, i.e. 93 per cent of the basic rate at age 54 (£81.19 per week), down to 30 per cent of the basic rate at age 45 (£26.19 per week). If the spouse has made insufficient NICs, then the amount of BA is reduced in proportion to the number of years of contributions that have been made.

In addition to BA, 70 per cent of any SERPS (falling in stages to 50 per cent by 2010) and half of any S2P to which the spouse was entitled pass to the claimant after death. In February 2007, approximately 21,810 people were claiming BA.

3.6.2. War Widow(er)'s Pension

Non-taxable, Non-contributory, Non-means-tested

The war widow(er)'s pension (WWP) is payable to widow(er)s of those who have died as a result of service in the Armed Forces. Widow(er)s of war pensioners can also claim if their spouse received constant attendance allowance (see Appendix D) at the time of their death, or was assessed as at least 80 per cent disabled and in receipt of the unemployability supplement of the war disablement pension (see Appendix D) upon death. Payment is normally for life unless the widow or widower remarries.

The basic WWP is payable at two rates. The higher rate is paid if the claimant is aged 40 or over, or is aged under 40 but has children or is unable to support themselves financially. It is also automatically payable to all claimants whose spouses were ranked above Major (or equivalent). Childless claimants under the age of 40 receive the lower rate (until they reach 40, whereupon they graduate to the higher rate). WWP rates vary according to the rank of the late spouse. Full details of rates payable can be found in Appendix D.

Additional payments are made for dependent children and for recipients reaching the ages of 65, 70 and 80. WWP is not payable in addition to a contributory widow's pension or bereavement allowance (see Section 3.6.1), but it can be paid with a basic retirement pension (see Section 3.4.1) earned by the widow(er)'s own contributions. The Christmas bonus is payable with WWP.

A number of other groups are also entitled to a war pension. These include unmarried dependants who lived as a spouse with the deceased, child orphans and infirm adult orphans.

In March 2007, there were 37,795 individuals claiming WWP, with total expenditure on all war pensions in 2006–07 estimated at around £1.03 billion.

3.6.3. Widowed Parent's Allowance

Taxable, Contributory, Non-means-tested

Widowed parent's allowance (WPA) replaced widowed mother's allowance from 9 April 2001 and is a weekly benefit payable to men and women widowed on or after this date. Claimants must be pregnant or have qualifying children (under the same definition as child benefit – see Section 3.1.1). The late spouse must either have satisfied the NIC conditions (see Section 3.6.1) or have died as a result of an industrial injury or illness. Claimants must be under pensionable age. Men whose wife died prior to 9 April 2001 can claim WPA, so long as they were under 65 on that date and have not remarried. Women receiving a widowed mother's allowance before 9 April 2001 (men were not eligible) can continue to do so. It is payable at the same rate as WPA, at £87.30 per week.

Details of increases for child dependants (now available only to existing claimants) can be found in Appendix B. If the late partner's NICs entitled him or her to an additional pension under SERPS or S2P, then part of this is payable as an additional element of WPA (the same rules apply as for bereavement allowance – see Section 3.6.1). A lower basic rate of WPA may be payable if the late spouse's NIC record is insufficient. The WPA may also be reduced if the claimant fails to turn up to a work-focused interview (see Section 3.3.1 for more details).

In February 2007, 37,380 people claimed WPA. Expenditure on both widows' and bereavement benefits and industrial death benefit in 2006–07 amounted to approximately £863 million. WPA attracts the Christmas bonus.

3.6.4. Bereavement Payment

Non-taxable, Contributory, Non-means-tested

Bereavement payment is a one-off, lump-sum payment of £2,000 available to widows and widowers (including surviving civil partners) who claim within 12 months of their spouse's death. Claimants must be under pensionable age, unless their spouse was over pensionable age and not receiving the basic state pension (see Section 3.4.1), in which case entitlement is extended to those over pensionable age. Further, the spouse must have actually paid (rather than been credited with) NICs in any tax year before their death, or died as the result of an industrial illness or accident, in which case this NIC condition is automatically regarded as being satisfied. Claimants who also receive a means-tested benefit could additionally be entitled to a funeral payment (see Appendix C for details).

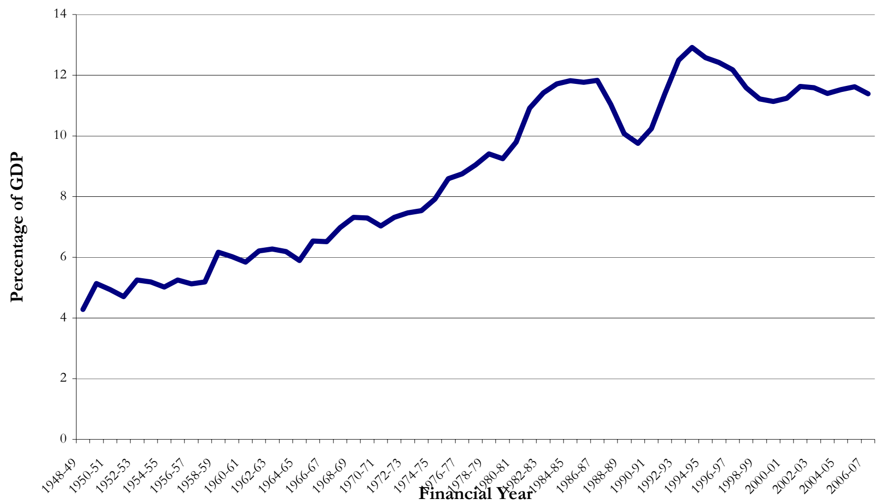
4. Trends in Social Security Spending

In this section, we look at how spending on benefits has changed over time, both in terms of how total expenditure has changed and in terms of how the targeting of the spending has altered with respect to the recipient groups defined in Section 3. We then go on to consider some of the reforms to the UK benefit system that are likely to be introduced over the next few years.

4.1. Social Security Spending, 1948–49 to the Present Day

Social security spending increased almost continuously as a share of national income from 1948 to the early 1980s. As shown in Figure 4.1, social security spending was just over 4 per cent of GDP in 1948–49, but had reached 11.5 per cent of GDP by 1983–84. This was due to an increase in the generosity of many state benefits, as well as an increase in the numbers eligible to claim them. Perhaps the best example of this is the basic state pension, which increased in generosity from around 14 per cent of average male earnings in 1948–49 to nearly 20 per cent in the early 1980s. At the same time, the number of people over state retirement age increased from 6.8 million in 1951 to 10 million in 1981.[57] Another important feature is the large increase in the number of people claiming unemployment benefits, from 340,000 in 1950 to 1,665,000 in 1980.[58]

Figure 4.1. Social security expenditure as a percentage of GDP, 1948–49 to 2006–07



Note: Includes working tax credit and child tax credit, where appropriate.

Sources: Department for Work and Pensions; authors' calculations; GDP deflators from www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_index.cfm.

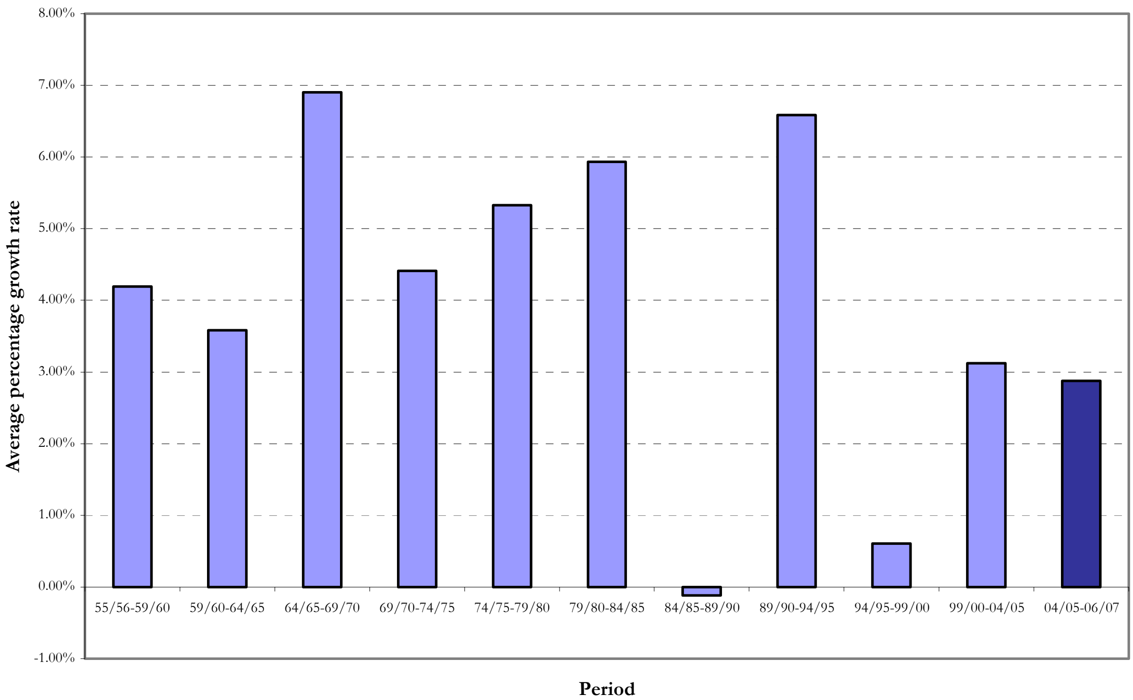
The late 1980s saw the first substantial fall in social security spending as a share of GDP since 1948–49. This was the result of rapid economic growth and the associated fall in claimant unemployment, combined with the fact that many benefits, the most notable of which was the basic state pension, were only increased in line with inflation. The economic downturn in the early 1990s, however, saw the economy contract and

57 Source: Government Statistical Service, *Annual Abstract of Statistics*, 2000 edition.
58 Source: Office for National Statistics website, www.statistics.gov.uk.

unemployment rise to 2.9 million. This led to another dramatic rise in the share of national income spent on social security, which reached an historic high of almost 13 per cent in 1993–94. Since then, social security spending has again fallen as a share of GDP, as the economy has grown and the unemployment count has dropped. Since the turn of the millennium, the proportion of GDP allocated to social security expenditure has been gradually increasing, despite continued economic growth. This is mainly due to the increasing generosity of benefits targeted at pensioners (e.g. the pension credit) and families with children (e.g. the child tax credit).

As with the share of GDP, real expenditure on benefits has risen almost continuously since the 1940s. Figure 4.2 shows the real increases in social security spending seen over each four-year period since 1955–56 together with the rate of growth over the past two years. Over this period, social security spending has grown (on average) in real terms by just over 4.0 per cent per year; however, there have been large fluctuations in the pattern of this growth, particularly over the last 20 years.

Figure 4.2. Average real increases in social security spending over four-year periods, 1955–56 to 2006-2007



Sources: Department for Work and Pensions; authors' calculations; GDP deflators from ONS website, www.statistics.gov.uk.

4.2. Changes in the Composition of Social Security Spending

Not only have there been substantial increases in social security spending since 1948–49; there have also been large changes in the composition of that spending. Figure 4.3 shows the percentage of social security spending going to different types of benefits over the period from 1948–49 to 2000–01, the last year for which a consistent series of this type is available. Figure 4.4 shows benefit spending from 1978–79 to 2006–07 divided very roughly into five categories of recipient, in a similar way to Table 2.1 and Figure 2.1.

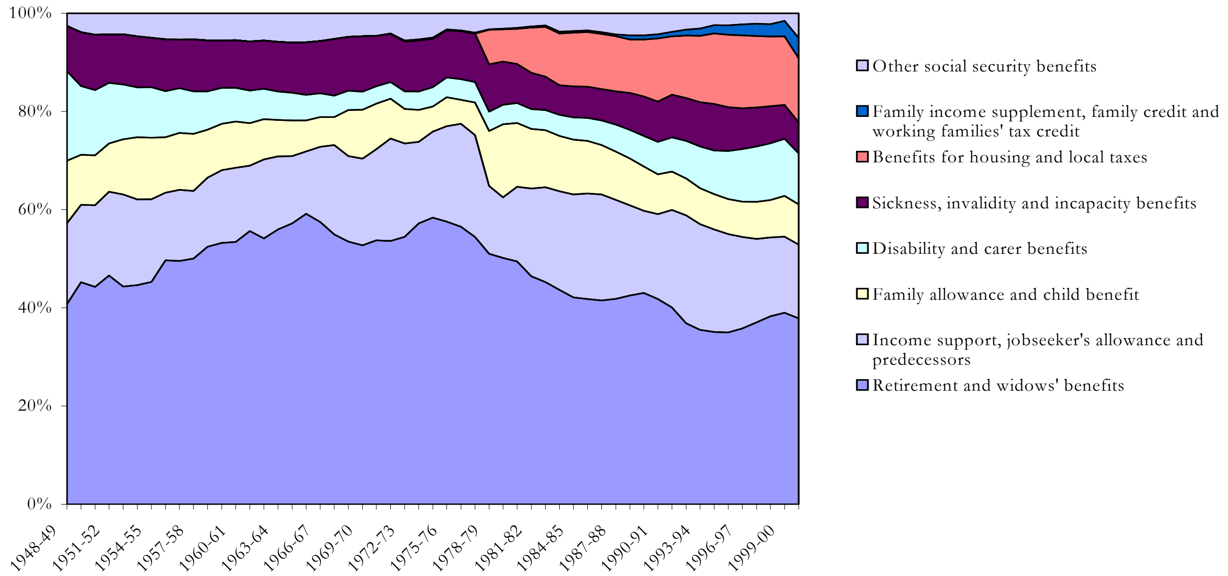
The graphs show that retirement and bereavement benefits have been easily the largest components of benefit spending since 1948–49. They made up 40 per cent of social security spending at the beginning of the period, then rose to nearly 60 per cent by the mid-1970s, as the population aged and there were real increases in the generosity of the basic state pension. The most prominent change since the 1970s, as seen in Figure 4.4, is the fall in the share of benefits going on retirement and bereavement benefits, from 51.0 per cent in 1978–79 to 35.0 per cent in 1995–96, and its recent rise up to 43.4 per cent by 2006–07. However, the latter largely reflects the repackaging of income support for the elderly (which we classify as support for those on low incomes) as pension credit (which we allocate to the elderly).

It is worth emphasising at this point that such issues of classification mean that these breakdowns must be treated with caution. Figure 4.3 appears to show a large increase in universal benefits for children in the late 1970s. However, this is somewhat misleading because the incoming child benefit replaced not only family allowance (accounted for here) but also child tax allowance, which, as part of the tax system, is not included in this graph. Also, the introduction of child tax credit in 2003–04, like the introduction of pension credit, involved a repackaging of part of income support (amongst other things) as well as an increase in generosity, helping to explain that year's rise in the share of benefits going to families with children shown in Figure 4.4. Nevertheless, the recent rise in benefits directed at such families is genuine: having fallen from 16.0 per cent in 1979–80 to 9.7 per cent in 1993–94, the share of benefits going to families with children has risen under the current government to 16.3 per cent in 2006–07.[59]

Perhaps the most significant change in the allocation of spending since the mid-1970s is the sharp increase in the share of benefits to relieve housing costs and local taxes shown in Figure 4.3. This has at least partly been a result of the substantial reduction in the provision of council housing since 1980. The increase in these benefits' share of total spending plays a major part in explaining the rise (from 20.8 per cent in 1978–79 to 23.8 per cent in 2006–07) in the share of spending going to those on low incomes and unemployed people shown in Figure 4.4.

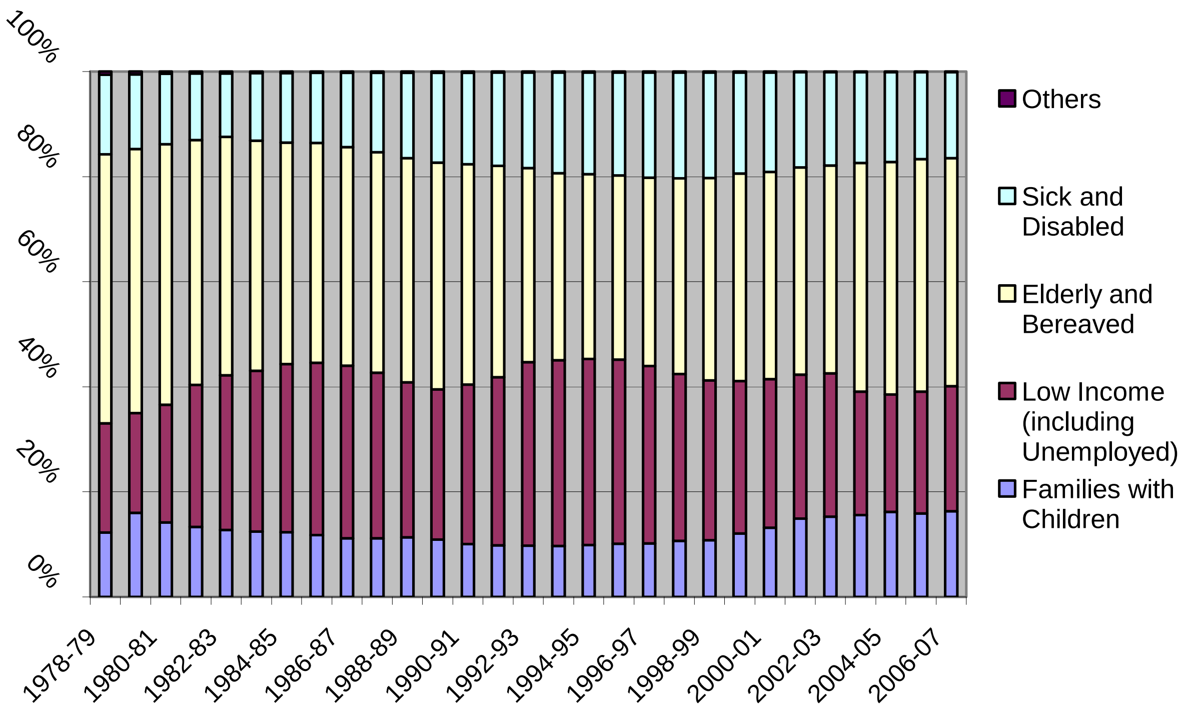
59 For a more detailed and consistent quantification of support for families with children, see S. Adam, M. Brewer and H. Reed, *The Benefits of Parenting: Government Financial Support for Families with Children since 1975*, Commentary 91, Institute for Fiscal Studies, London, 2002, available at www.ifs.org.uk/comms/c91.pdf.

Figure 4.3. Share of total expenditure by benefit type, 1948–49 to 2000–01



Source: Department of Social Security, *The Changing Welfare State: Social Security Spending*, 2000, available by emailing a request to Electronic-Archive@dwp.gsi.gov.uk.

Figure 4.4. Share of total expenditure by recipient group, 1978–79 to 2006–07



Sources: As for Table 2.1.

4.3. Major Reforms since 1948, and the Likely Direction of Future Reforms

There have been substantial changes to the benefit system since 1948. These are briefly summarised (by recipient) in Box 4.1.

Box 4.1. Major changes to the UK benefit system since 1948

Families with Children

- **Child benefit** replaced **family allowance** and the **child tax allowance** from April 1977. While child benefit is payable to all qualifying children, family allowance was payable only to the second and subsequent children.
- **Child tax credit** replaced **children's tax credit** (and the additional child elements of a number of other benefits, including those in working families' tax credit) from April 2003. Children's tax credit was originally introduced in April 2001.

Unemployed People

- **Jobseeker's allowance** replaced **unemployment benefit** and **income support for the unemployed** from October 1996.

People on Low Incomes

- **Income support** replaced **supplementary benefit** from April 1988. Supplementary benefit replaced **national assistance** from November 1966.
- **Working tax credit** replaced **working families' tax credit** and **disabled person's tax credit** in April 2003. Working families' tax credit replaced **family credit** in October 1999, and family credit replaced **family income supplement** in April 1988. Family income supplement was introduced in 1971. Disabled person's tax credit replaced the **disability working allowance** in October 1999.
- Between 1948 and 1966, many local authorities provided recipients of means-tested benefits with additional help for rent and local taxes. In 1966, a national rebate scheme was introduced. This was reformed many times prior to 1990. Since then, help with rents has been delivered through **housing benefit**, while rebates for local taxes were available from 1990 through **community charge benefit** and, since 1993, through **council tax benefit**.

Elderly People

- **Pension credit** replaced **income support** for people aged 60 or over from October 2003.
- Although the **basic state pension** has been in place since 1948, the system of retirement pensions as a whole has been subject to some major changes. Between April 1961 and April 1975, the **graduated retirement pension** was running to provide an earnings-related element on top of the basic pension rate. In 1978, the **State Earnings-Related Pension Scheme (SERPS)** was introduced for people who were not members of an occupational pension scheme. SERPS is now being replaced by the **state second pension (S2P)**.

Sick and Disabled People

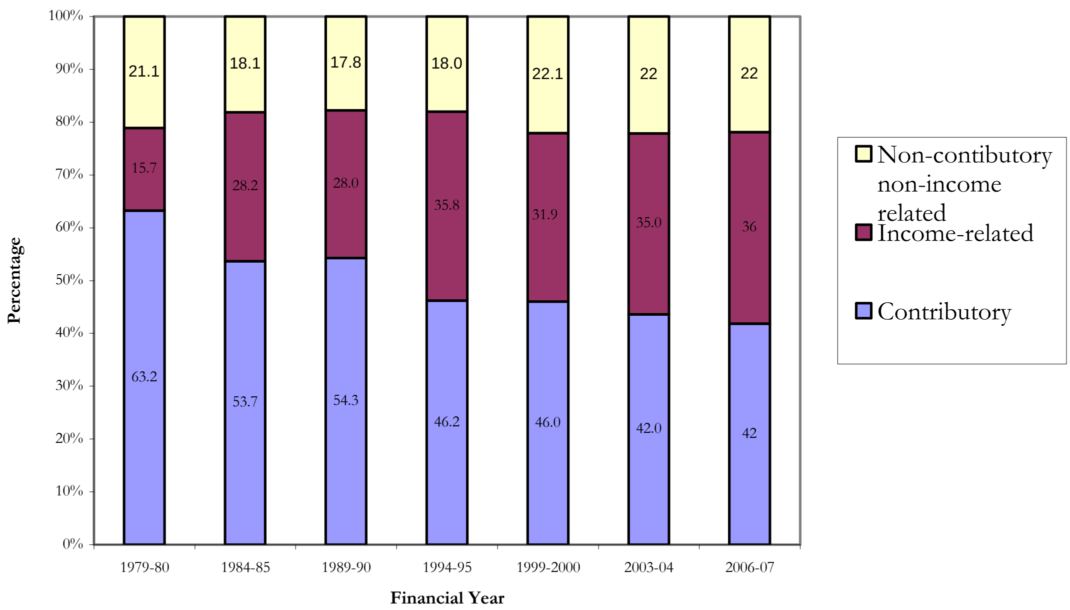
- **Incapacity benefit** replaced **invalidity benefit** and **sickness benefit** from April 1995.
- **Disability living allowance** replaced **mobility allowance** and **attendance allowance** for those aged under 65 from April 1992.

Bereaved People

- **Bereavement benefits** replaced **widows' benefits** in April 2001. Prior to this, the one-off **widow's payment** replaced **widow's allowance** and **industrial death benefit** for cases where the husband died on or after 11 April 1988.

An important distinction between different types of benefits is the extent to which they are non-contributory rather than contingent on having made National Insurance contributions.[60] Again, detailed figures for expenditure on each type of benefit are only available back to 1978–79. They are given for selected years in Figure 4.5, which shows that less than half of benefit expenditure (42.0 per cent) currently goes on contributory benefits. This fraction has been declining almost constantly since 1979–80. In fact, these figures overestimate expenditure on benefits for which contributions have been made, since individuals can be credited with NICs without having actually paid them. This can occur for several reasons: for example, periods spent in full-time education or as registered unemployed are credited with contributions having been made. Also, since April 2000, individuals earning between the lower earnings limit and the earnings threshold do not have to pay any NICs, but are credited as if a contribution has been made.

Figure 4.5. Relative importance of spending on contributory, income-related and other benefits, 1979–80 to 2006–07, selected years



Sources: Department of Social Security, *The Changing Welfare State: Social Security Spending*, 2000, available by emailing a request to Electronic-Archive@dwp.gsi.gov.uk; DWP expenditure tables; authors' calculations.

The declining relative importance of contributory benefits has largely been the result of the growth of non-contributory benefits since the late 1970s. In real terms (2006–07 prices), real expenditure on income-related benefits has increased from £10.3 billion in

60 For details of the current system of NICs, see S. Adam and J. Browne, *A Survey of the UK Tax System*, IFS Briefing Note 9, London, 2006, available at www.ifs.org.uk/bns/bn09.pdf. A Social Security Select Committee report also looked at the contributory principle: *Fifth Report*, 2000, available at www.publications.parliament.uk/pa/cm199900/cmselect/cmsocsec/56/5602.htm.

1978–79 to £51.9 billion in 2006–07, an increase of over 500 per cent. Expenditure on non-contributory non-income-related benefits has, over the same period, grown by 232 per cent. In contrast, real expenditure on contributory benefits increased from £39.9 billion in 1978–79 to £59.9 billion in 2006–07, an increase of just 50 per cent.[61] The vast majority of spending on contributory benefits is on the basic state pension and SERPS or the state second pension (S2P).

Recent developments, such as increases in government expenditure on tax credits, continue this trend by expanding welfare payments to those on low incomes rather than focusing on those who have 'paid in' to the system. Other examples include the current government's policy of focusing additional resources on the poorest pensioners by increasing pension credit (and before it, the minimum income guarantee) in line with earnings while the basic state pension remains linked to prices.

Future Benefit Reforms

There are several reforms to the benefit system that are either in the pipeline or currently being considered by the government.

Incapacity Benefit

The government is currently piloting a set of reforms to incapacity benefit called 'Pathways to Work'. The first element of this programme is a series of compulsory work-focused interviews at regular intervals; those failing to take part can be sanctioned by a reduction in benefits. The programme also features a 'Choices' package, which draws together a number of labour market programmes available to claimants – new Condition Management Programmes operated in collaboration with the NHS, as well as the New Deal for Disabled People and a number of smaller existing schemes. Finally, it provides financial incentives to return to work, with a new return-to-work credit payable at £40 per week for the first year of paid employment after leaving incapacity benefit if earnings are below £15,000. The 'Pathways to Work' pilots started in three areas in October 2003 and a further four areas in April 2004, for new claimants of incapacity benefit (and income support on grounds of incapacity); the pilots have since been extended to several new areas and to some people in the original seven areas whose claim started before the pilots were introduced. From December 2007, Pathways will be delivered in partnership with private and voluntary sector organisations in 15 Jobcentre Plus districts.

The Welfare Reform Act 2007[62] provides for the national roll out of Pathways by April 2008 and the replacement of Incapacity Benefit by an Employment and Support Allowance, which will have both a contributory and income dependent element. The Act provides for a 13 week period during which the claimant's capability for work-related activity would be assessed (and whilst they receive an amount equal to jobseekers' allowance). Those assessed as capable would be expected to engage in work-focused interviews and other activities to prepare for a return to work, similar to the 'Pathways to

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61 Sources: Department for Work and Pensions, *Benefit Expenditure Table 3*, 2006, available at www.dwp.gov.uk/asd/asd4/Table3.xls; authors' calculations.
61 Department for Work and Pensions, http://www.dwp.gov.uk/aboutus/welfarereform/

Work' programme. In return for engaging in specified activities, capable claimants together with those deemed incapable of working, would receive higher payments than the present Incapacity Benefit provides. Those who refused to engage in these activities would see their benefit cut to the rate of jobseeker's allowance.

Benefits for Lone Parents

Work-related activity premium is a new scheme that is being piloted in a few areas from April 2007. The scheme provides £20 per week to non-working lone parents with children aged 11 or over if they "actively take steps to make the transition back into the work place". In practice, this means performing the necessary tasks to prepare for work before applying for a job (such as reviewing skills, writing a CV, planning childcare, etc.). Quarterly work-focused interviews with a personal advisor are provided for recipients of the WRAP.

A similar scheme, work search premium (WSP), has been running in pilot areas since April 2004 and provides payments of £20 per week for lone parents who been receiving income support or jobseeker's allowance for at least a year, have joined the New Deal for Lone Parents, and are actively seeking employment. WSP is not tied to specific job search activities, but receipt is at the continual discretion of a personal advisor with whom the recipient discusses job search on a fortnightly basis. It is available for a maximum of six months.

Lone parents who have been on Income support or income-based Job Seeker's Allowance for at least a year are entitled to a £40 per week (£60 in London) in-work credit payment on top of other benefits and tax credits if they commence employment of more than 16 hours a week. Payment is made for 12 months, much like the return to work credit in Pathways to Work (see above). The scheme is currently operating in a number of pilot areas but will be nationally available from April 2008.

In addition, from October 2008, lone parents with no children under 12 will not automatically qualify for income support by virtue of their being lone parents. From 2010, it is anticipated that this age be reduced to 7. They will, if eligible, be able to transfer to Job Seekers Allowance or other benefits.

Benefit Changes for Job Seekers

The Green Paper on Welfare Reform, published in July 2007.[63] set out a number of changes to the delivery of job-seekers allowance. These changes included:

- After an initial three months on benefit, job search requirements will be widened based on travel to work, type of job and wage instead of focussing on preferred employment.

- After six months on benefit, claimants enter the 'Gateway' stage with a formal review with a personal advisor. They will draw up a back-to-work action plan.

[63] http://www.dwp.gov.uk/welfarereform/in-work-better-off/

Elements agreed as part of this plan will be mandatory, and failure to comply will result in the imposition of sanctions.

- After twelve months on benefit, claimant will be referred to a specialist 'return-to-work' provider from the public, private or voluntary sector. They will be provided with an intensive service. Such services are intended to be funded on the basis of results achieved.

- Claimants still on benefit after 'a defined period' will be required to undertake a period of full-time work experience, either in the community or with a regular employer.

- Finally, mandatory work-focussed interviews every six months are being introduced for the partners of JSA claimants with children.

In addition to these changes to the existing system of JSA, a new scheme called New Deal Plus for Lone Parents is currently being piloted. It was launched in five Jobcentre Plus districts in April 2005 and extended to five more in October 2006. Originally available only to lone parents, it has since been extended to all couple parents in the pilot areas. It brings together an integrated package of measures that includes elements of the New Deal for Loan Parents available nationally, a range of other existing measures that compliment the New Deal for Loan Parents, and a set of pilots. It includes:[64]

- A guarantee about a clear gain from work (from In-Work Credits, tax credits), and some protection when work breaks down (In-Work Emergencies Fund)

- A guarantee of support in finding appropriate childcare (brokered by childcare partnership managers) and, in some cases, additional financial support for childcare

- A guarantee of the ongoing help of professional well trained and properly supported advisers (more adviser contact outside of mandatory work focused interviews, more training, support and tools for lone parent personal advisers).

It was initially anticipated that the pilot would end in March 2008. However, an extended and expanded pilot will be launched in April 2009 to run until March 2011. A qualitative evaluation of New Deal Plus for Lone Parents was published in May 2007.[65]

Pension Reform

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[64] see http://www.dwp.gov.uk/mediacentre/pressreleases/2007/may/emp-021.asp for more information and a brief summary of the evaluation of this scheme.

[65] http://www.dwp.gov.uk/asd/asd5/rports2007-2008/rrep426.pdf

The Pensions Commission was set up in 2002 to 'keep under review the regime for private pensions and long term saving and to make recommendations … on whether there is a case for moving beyond the current voluntarist approach'. It was set up amid concerns that people were not saving enough for retirement.

Following the Commission's final report in April 2006,[66] the government published a White Paper in May 2006[67]. Many of the recommendations that it contained were part of the Pensions Act 2007. Provisions included:

- Increasing the state pension age for both men and women from 65 to 68, in gradual steps from 2024 to 2046. The Pension Commission report suggested that future increases in the state pension age should be linked to changes in life expectancy.

- Re-establishing the link between the basic state pension and average earnings, as opposed to prices, from 2012, although this could be delayed until 2015.

- Reducing the required number of qualifying years from 44 for men and 39 for women to 30 from 2010. Credits for caring responsibilities are to be reformed, which, on average, will make them more generous and bring provisions for the basic and state second pension into line with each other. Both of these changes would benefit women in particular.

- Reforming the state second pension so that from 2030 (or shortly thereafter) all further accruals are flat-rate.

It is also to the government's stated intention that it will continue to index the pension credit guarantee credit in line with earnings beyond April 2008 and continue to reduce the generosity of the pension credit savings credit relative to what it would have been under current policy.

One goal of these reforms is to prevent growing numbers of pensioners being eligible for means-tested support while at the same time ensuring that the incomes of low-income pensioners receiving the pension credit guarantee credit grow in line with average earnings.

The Government published a second White Paper, ("Personal Accounts: A new way to save") in December 2006. It advocated the introduction of a new privately-run system of 'Personal Accounts', in which all employees not automatically enrolled in an employer-provided pension plan would automatically be enrolled, but with a right to opt out. As part of the National Pension Savings Scheme (NPSS), employers would contribute at least 3 per cent of pre-tax salaries, with employee contributions subject to a minimum of 4 per cent which, together with government tax relief of just over 1 per cent, would guarantee a minimum joint contribution of 8 per cent. Employers would only be allowed to opt out of the scheme if they offer individuals a pension scheme that also operates with auto-enrolment and is at least as generous as this default option. The 2007 Pensions

66 Pensions Commission, *Implementing an Integrated Package of Pension Reforms*, April 2006, http://www.webarchive.org.uk/pan/16806/20070802/www.pensionscommission.org.uk/publications/2006/final-report/final_report.pdf

67 Department for Work and Pensions, *Security in Retirement: Towards a New Pensions System*, May 2006, www.dwp.gov.uk/pensionsreform/whitepaper.asp.

Act created the Personal Accounts Delivery Authority to advise on the delivery of the these personal accounts proposals.

Statutory Maternity Pay

As part of its manifesto for the 2005 general election, the government announced its intention to put forward a Work and Families Bill (subsequently passed as the Work and Families Act 2006) to reform paid maternity and paternity leave. It has since conducted a public consultation on its proposals, and it published the response in October 2005.[68]

The Work and Families Act 2006 provided for an increase in the length of paid maternity leave from six months to nine months from April 2007. The government has also set a goal of extending it from nine months to 12 months by 2010. In both cases, this applies to all women claiming statutory maternity pay or maternity allowance. In addition to the extension of paid maternity leave, the government is also proposing to allow mothers to transfer some of their leave entitlement to fathers by 2010. Fathers will be able to take the remainder of the maternity leave period as paid paternity leave if the mother returns to work after six months but before the end of the nine-month paid maternity leave period (this means that fathers can take up to three months' paid paternity leave if the mother returns to work at six months).

Housing Benefit

The government is currently piloting a reform of housing benefit, replacing it with a local housing allowance (LHA) for some private sector tenants. LHA is based on local rent levels, rather than on the claimant's actual rent. Because tenants get to keep (or pay) the difference if their rent is lower (higher) than their LHA, they have an incentive to keep their rent down. And because administrators only need to know about the claimant's income, family size and location, not about their actual rent or the property being rented, it should make assessment of HB eligibility quicker and easier.

The first pilots of LHA started in November 2003, and pilots are currently running for private sector tenants in 18 areas. The Welfare Reform Act 2007 expanded the pilots so that LHA applies to all tenants in the deregulated private sector with effect from April 2008. The government has an aspiration of eventually extending this to all tenants.[69] The Act also provides for monetary sanctions for those in receipt of housing benefit who refuse to engage in rehabilitation after being evicted from their property due to anti-social behaviour.

The Saving Gateway

The Saving Gateway is a new form of savings account aimed at some families (or adults in families) with lower incomes within certain pilot areas in England. The policy is

68 Department for Trade and Industry, *Work and Families: Choice and Flexibility – Government Response to Public Consultation*, 2005, available at www.dti.gov.uk/files/file16317.pdf.

intended to 'increase rates of saving and asset-ownership'[70] among eligible families. The key feature of the accounts that would encourage individuals to place funds into their account is that an individual's contributions to his or her account will be matched at some fixed rate by the government. A first pilot of 18-month Saving Gateway accounts operated between mid-2002 and late 2004 and 'was designed to gain practical understanding of the operation of a savings account for lower income groups'.[71] A second, larger pilot of 18-month accounts was launched in March 2005, and researchers from MORI, along with a team from IFS, were involved in evaluating this second pilot.[72]

The relatively large size of the new pilot scheme, with slightly more than 20,000 accounts across six areas and a total cost of around £15 million, allowed scope to investigate the effect of varying some of the parameters of the policy: different match rates of £1, 50p and 20p were trialled. These match rates were combined with different monthly and account lifetime limits on the amount of matching that an account holder can accrue. The effect of paying an initial endowment, to encourage individuals to open an account, was also examined. Different educational interventions to promote financial understanding were also combined with the policy.

The final evaluation report was published in May 2007.[73] A key aim of the Saving Gateway would be to increase saving and boost the number of savers in lower-income households. The evidence from the evaluation report suggested that accounts in the second pilot of the policy did lead to individuals holding more funds in cash deposits, but there was no significant evidence of increases in broader measures of financial wealth and only limited evidence that individuals were making new savings through economies in expenditure. The evidence that pointed to possible increases in overall saving was only among the lower-income subgroup of participants in the pilot, with no evidence that higher-income participants saved more as a result of opening an account.

Private Sector and Third Sector Involvement

The 2007 Green Paper on welfare reform makes clear that the private and third sectors will play an increasing role in the delivery of benefit services. Areas that this involvement might be seen include Pathways to Work, intensive 'return-to-work' consultations after 12 month of job search, and New Deal Programmes. The 2007 Budget launched the Local Employment Partnerships Scheme which encourages large employers to play a part in getting long-term benefit claimants back to work. The Green Paper makes clear the

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69 Sources: *Welfare Reform Act,* available at http://www.opsi.gov.uk/acts/acts2007/pdf/ukpga_20070005_en.pdf; Department for Work and Pensions, *Building Choice and Responsibility: A Radical Agenda for Housing Benefit*, 2002, available at www.dwp.gov.uk/housingbenefit/publications/2002/building_choice/prospectus.pdf.

70 Abstract in HM Treasury, *Saving and Assets for All*, The Modernisation of Britain's Tax and Benefit System, Number 8, London, 2001.

71 E. Kempson, S. McKay and S. Collard, *Incentives to Save: Encouraging Saving among Low-Income Households*, Final Report on the Saving Gateway Pilot Project, available at www.hm-treasury.gov.uk/media/35D/E1/Incentives_to_save.pdf.

72 Information available at www.direct.gov.uk/savinggateway.

73 Institute for Fiscal Studies and Ipsos MORI Social Research Institute, Final evaluation of the Saving Gateway 2 Pilot: Main Report - May 2007, available at: http://www.hm-treasury.gov.uk/media/7/0/savings_gateway_evaluation_report.pdf

desire to move towards results-based funding, with those organisations that prove successful in getting individuals back to work being given greater funding.

5. Conclusions

The social security system has been subject to almost continual reform over the last 40 years. The need for such reform has, in part, reflected changes to patterns of household formation and increased levels of unemployment since the Welfare State was first introduced after the Second World War. Another important driver of reforms has been different distributional objectives of successive governments. This makes further reform inevitable. However, it is important that continual reform does not leave the system looking ever more complicated. The UK pension system is one prime example. The reforms of recent years have led to an unnecessarily complicated system of delivering income to those in retirement. Other areas of social security are in need of further reform, with perhaps one of the most important areas being the current system of housing benefit. The challenge for policymakers is to introduce social security reform that simplifies the current system without any unwanted distributional side effects.

Appendix A. Benefit Expenditure from 1948–49 to 2006–07

Table A.1. Spending on benefits in cash terms and real terms (2006–07 prices), real increases and spending as a share of GDP

	Cash terms (£m)	Real terms (£m)	Real rise (%)	% of GDP[a]		Cash terms (£m)	Real terms (£m)	Real rise (%)	% of GDP[a]
1948–49	504	12,547		4.28	1978–79	15,873	62,633	7.11	9.41
1949–50	640	15,579	24.17	5.14	1979–80	18,777	63,391	1.21	9.25
1950–51	652	15,527	-0.33	4.93	1980–81	22,658	64,726	2.11	9.80
1951–52	687	15,878	2.26	4.70	1981–82	27,700	72,237	11.60	10.92
1952–53	830	17,711	11.55	5.25	1982–83	31,629	77,027	6.63	11.42
1953–54	874	17,504	-1.17	5.19	1983–84	35,332	82,221	6.74	11.72
1954–55	898	17,520	0.09	5.02	1984–85	38,250	84,566	2.85	11.82
1955–56	1,008	19,272	10.00	5.26	1985–86	41,769	87,561	3.54	11.77
1956–57	1,050	18,603	-3.47	5.13	1986–87	44,920	91,203	4.16	11.83
1957–58	1,125	19,096	2.65	5.19	1987–88	46,608	89,602	-1.76	11.05
1958–59	1,378	22,769	19.23	6.17	1988–89	47,318	85,021	-5.11	10.08
1959–60	1,445	23,667	3.94	6.02	1989–90	50,144	84,073	-1.12	9.76
1960–61	1,487	23,871	0.86	5.84	1990–91	56,478	87,802	4.44	10.24
1961–62	1,662	25,843	8.26	6.21	1991–92	66,304	97,162	10.66	11.39
1962–63	1,761	26,544	2.71	6.27	1992–93	75,259	106,822	9.94	12.49
1963–64	1,881	27,953	5.31	6.19	1993–94	82,438	114,044	6.76	12.91
1964–65	1,954	28,222	0.96	5.89	1994–95	84,859	115,643	1.40	12.58
1965–66	2,322	31,964	13.26	6.53	1995–96	88,707	117,326	1.46	12.42
1966–67	2,456	32,425	1.44	6.52	1996–97	92,215	117,988	0.56	12.18
1967–68	2,788	35,788	10.37	6.98	1997–98	93,346	116,041	-1.65	11.59
1968–69	3,170	38,843	8.54	7.31	1998–99	95,554	115,854	-0.16	11.23
1969–70	3,390	39,407	1.45	7.29	1999–00	100,290	119,190	2.88	11.13
1970–71	3,635	38,989	-1.06	7.03	2000–01	106,016	124,226	4.23	11.24
1971–72	4,227	41,602	6.70	7.32	2001–02	114,426	130,946	5.41	11.63
1972–73	4,894	44,416	6.76	7.46	2002–03	120,460	133,670	2.08	11.59
1973–74	5,505	46,697	5.14	7.54	2003–04	125,618	135,468	1.35	11.40
1974–75	6,896	48,907	4.73	7.91	2004–05	132,449	138,994	2.60	11.53
1975–76	9,327	52,720	7.80	8.58	2005–06	140,649	144,565	4.01	11.62
1976–77	11,099	55,275	4.85	8.75	2006-07	147,129	147,129	1.77	11.39
1977–78	13,343	58,477	5.79	9.04					

[a] The '% of GDP' figures slightly overestimate the true figures since we divide our measure of benefit expenditure (which includes expenditure on tax credits in Northern Ireland) by GDP GB. (Figures on expenditure on tax credits in GB are not available).

Note: Figures should be interpreted with care since many changes have occurred to the ways in which government support for individuals is delivered. For more details, see appendix C of Department of Social Security, *The Changing Welfare State: Social Security Spending*, London, 2000, available by emailing a request to Electronic-Archive@dwp.gsi.gov.uk.

Sources: Department for Work and Pensions for benefit expenditure figures, available at www.dwp.gov.uk/asd/asd4/medium_term.asp; HM Treasury for GDP figures, available at www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_fig.cfm.

Appendix B. Benefits Available Only to Existing Claimants

Child Maintenance Bonus

Non-taxable, Non-contributory, Means-tested

The child maintenance bonus (CMB) was designed to reduce the disincentives to work induced by the withdrawal of means-tested benefits, as it was available if the claimant (or their partner) started or returned to work, or increased hours worked or hourly earnings, such that they were no longer eligible for IS or income-based JSA.

The amount of CMB available depended on the claimant's 'bonus period', defined as any period since 7 April 1997 (until 3 March 2003) when the claimant or their partner was entitled to IS or income-based JSA, and was receiving (or was meant to be receiving) child maintenance. The exact amount payable is the lowest of the following amounts:

- £5 for each week during the bonus period when the claimant was paid (or meant to be paid) at least £5 maintenance, plus, for each week when the claimant was paid less than £5, the amount of maintenance due;
- the actual amount of child maintenance received over the bonus period;
- £1,000.

Housing Benefit (Element of)

Non-taxable, Non-contributory, Means-tested

A lone-parent premium (£5.77) has been payable only to existing claimants since 6 April 1998. As of this date, new lone-parent housing benefit claimants (under-60s only) have been entitled to the family premium alone. See Section 3.3.3 for details of the main benefit.

Basic State Pension (Element of)

Taxable, Partly contributory, Non-means-tested

As of 6 April 2003, dependent child additions to the basic state pension are no longer available to new claimants, as they have been replaced by child tax credit; however, they continue to be available to existing (and continuous) claimants. See Section 3.4.1 for details of the main benefit.

Current rates of basic retirement pension, £ per week

Increases for dependants:	Eldest or only child	9
	Subsequent children (each)	11.35

Incapacity Benefit (Element of)

Taxable, Contributory, Partially means-tested

As of 6 April 2003, the dependent child supplements to incapacity benefit are no longer available to new claimants, as they have been replaced by the child tax credit; however, they continue to be available to existing (and continuous) claimants. See Section 3.5.2 for details of the main benefit.

Current rates of incapacity benefit, £ per week

Increases for dependants	Claimant under pensionable age	Claimant over pensionable age
Short-term IB (lower rate)		
Eldest or only child	–	9
Subsequent children (each)	–	11.35
Short-term IB (higher rate)		
Eldest or only child	9	9
Subsequent children (each)	11.35	11.35
Long-term IB		
Eldest or only child	9	–
Subsequent children (each)	11.35	–

Severe Disablement Allowance

Non-taxable, Non-contributory, Non-means-tested

Benefit	T	C	M	Recipients, as at Feb. 2007	Expenditure, 2006–07 (£m)[a]
Severe disablement allowance	✗	✗	✗	270,700[b]	904

[a] Estimated.

[b] Source: Department for Work and Pensions, *Incapacity Benefit and Severe Disablement Allowance tabulation tool*, available at http://83.244.183.180/100pc/ibsda/tabtool_ibsda.html

Severe disablement allowance (SDA) is payable to individuals who are incapable of work but are unable to claim incapacity benefit because they fail to satisfy the NIC conditions. It has been abolished for new claimants since 6 April 2001. However, people who were entitled to SDA before that date may continue to claim it.

The capability tests to determine eligibility for SDA are the same as those for incapacity benefit (see Section 3.5.2), with people claiming SDA prior to 12 April 1995 exempt from the personal capability assessment. Three groups of people can qualify for SDA (the qualifying conditions must have been met prior to 6 April 2001):

- those who are incapable of work for a consecutive 28-week period which began on or before the claimant's 20th birthday;
- those who have been incapable of work for a consecutive 28-week period and are at least 80 per cent disabled (including registered blind people);

- those who were entitled to claim non-contributory invalidity pension before November 1984.

Claimants must be aged between 16 and 65, although there is no upper limit on the age at which entitlement can continue once an award has been made. Claimants under the age of 20 on 6 April 2001 were transferred to long-term incapacity benefit by 6 April 2002, with no requirement to have satisfied the requisite NIC conditions (see Section 3.5.2). Recipients over the age of 20 can continue to claim SDA for as long as they meet the eligibility criteria, with the linking of periods of entitlement also enabling previous claimants to become eligible for SDA once again.

Current rates of severe disablement allowance, £ per week

Basic benefit		49.15
Increases for dependants:	Adult dependant (for one)[a]	29.25
	Child Dependent	11.35
Age-related addition:	Under 40	17.10
	40–49 inclusive	11.00
	50–59 inclusive	5.50

[a] The adult dependant increase is not paid if, in the previous week, the dependent earned more than £59.15.

SDA comprises a number of elements: a basic allowance, additions for dependants and an age-related addition dependent upon the age at which the incapacity for work began.

In February 2007, an estimated 270,700 people received SDA, and expenditure was estimated to be around £904 million in 2006–07.

Carer's Allowance (Element of)

Taxable, Non-contributory, Non-means-tested

As of 6 April 2003, the dependent child supplements to carer's allowance are no longer available to new claimants, as they have been replaced by child tax credit; however, they continue to be available to existing (and continuous) claimants. See Section 3.5.5 for details of the main benefit.

Current rates of carer's allowance, £ per week

Increases for child dependants:	Eldest or only child[a]	9
	Subsequent children (each)	11.35

[a] No increase is payable for an eldest or only child if the claimant's partner earns £180 or more per week. Every £24 per week above £180 leads to the loss of entitlement for another child (if any).

Industrial Injuries Benefits (Element of)

Non-taxable, Non-contributory, Non-means-tested

The reduced earnings allowance (REA) is a supplement payable only to those assessed as 1 per cent or more disabled as a result of their industrial injury or disease and whose claim began prior to 1 October 1990.[74] The payment is made to compensate people for loss of earnings if they are unlikely to be able to return to their regular occupation or to employment of an equivalent standard. The amount of REA payable is the difference between the wage earned in their previous regular employment and the wage in a job they are likely to be able to do, given their disability, up to a maximum of £52.68 a week.

Retirement allowance (RA) is effectively a reduced form of REA for individuals over pensionable age (for whom REA is not payable). Recipients of REA of at least £2 per week who reach pensionable age and give up regular employment are entitled to RA. The amount payable is the lower of 25 per cent of the REA that was being paid or £12.71 per week.

In March 2007, there were 129,760 claimants of REA. See Section 3.5.7 for details of industrial injuries disablement benefit.

Widowed Parent's Allowance (Element of)

Taxable, Contributory, Non-means-tested

Increases for child dependants in widowed parent's allowance were abolished from 6 April 2003 due to the introduction of child tax credit. However, claimants existing before 6 April 2003 can usually continue to receive child payments as part of WPA. See Section 3.6.3 for details of the main benefit.

Current rates of widowed parent's allowance, £ per week

Increases for child dependants:	Eldest or only child	9
	Subsequent children (each)	11.35

Industrial Death Benefit

Taxable, Non-contributory, Non-means-tested

Benefit	T	C	M	Claimants, in 2006-07	Expenditure, 2006–07 (£m)[a]
Industrial death benefit	✓	✗	✗	8,000[b]	39

[a] Estimated.

[b] Source: Department of Work and Pensions at: http://www.dwp.gov.uk/asd/asd4/TableC1.xls

Industrial death benefit (IDB) is payable to widows of men who died as a result of an industrial accident or disease before 11 April 1988. After this date, other bereavement benefits (mainly the bereavement payment and widowed parent's allowance) are payable instead. Recipients of IDB are entitled to the Christmas bonus.

IDB is payable to existing recipients at one of two rates, depending upon the age at which they were widowed. Allowances are also payable for dependent children. An age

74 New claims can also be made provided evidence can be produced showing that the accident occurred (or disease was contracted) prior to 1 October 1990.

addition of 25 pence per week is payable at age 80, as long as this addition is not being received with any other social security benefit.

In 2006-07, approximately 8,000 people received IDB, at a total cost to the exchequer of approximately £39 million.

Current rates of industrial death benefit, £ per week

Basic rates:	Higher rate	87.30
	Lower rate	26.19
Children's allowances:	Eldest or only child	9
	Subsequent children (each)	11.35

Appendix C. The Social Fund

Below is a detailed breakdown of all Social Fund payments for 2006–07 (see Section 3.3.6). Figures for the recipients of each payment are taken from *Annual Report by the Secretary of State for Work and Pensions on the Social Fund 2006/2007*.[75] Expenditure figures, are taken from there and from DWP's *Benefit Expenditure Tables*.[76]

	Discretionary	**Regulated**	**Repayable**[a]
Budgeting loans	✓		✓
Cold weather payments		✓	
Community care grants	✓		
Crisis loans	✓		✓
Funeral payments[b]		✓	✓
Sure Start maternity grants		✓	

[a] All repayable loans are interest-free.

[b] Funeral payments are recoverable from any money from the deceased person's estate.

Budgeting Loans

Budgeting loans are interest-free loans available to people on income support, income-based jobseeker's allowance or pension credit to help them cover specific intermittent expenses that may be difficult to budget for. Loans are made from a limited budget. To be eligible, claimants must have been receiving IS, income-based JSA or pension credit throughout the previous 26 weeks (short breaks are ignored). Loans vary between £100 and £1,500 depending on family size and the length of time the applicant has been in receipt of one of the above benefits. If the applicant has capital over £1000 (or £2,000 if the claimant or their partner is aged 60 or more), the maximum available loan is reduced by the amount of the excess capital. The loan must be repaid, and, indeed, likelihood to repay is one of the criteria on which allocation of available funds is determined.

In 2006–07, 1.75 million people applied for a budgeting loan. Of these, 1.3 million (74.1 per cent) resulted in a loan being awarded, the average size of which was £451.[77] Total expenditure was £590.4 million, and £482.9 million was recovered from previous loans; therefore net expenditure on budgeting loans in 2006–07 was £107.5 million.

Cold Weather Payments

Cold weather payments are available to people receiving income support or income-based jobseeker's allowance who are also entitled to any of the pensioner or disability premiums or who have a child under the age of 5. Those entitled to pension credit also qualify for the cold weather payment as long as they do not live in a care home.

75 Department for Work and Pensions, *Annual Report by the Secretary of State for Work and Pensions on the Social Fund 2006/2007*, Cm. 7176, available at http://www.dwp.gov.uk/publications/dwp/2007/annual-report-social-fund.pdf

76 Department for Work and Pensions, *Benefit Expenditure Tables, Medium Term Forecast, Social Fund Expenditure 1991/92 to 2007/08*, available at www.dwp.gov.uk/asd/asd4/Table9.xls.

77 For all Social Fund payments, the method of calculating the average award is to divide initial expenditure (excluding the value of review awards) by the number of initial awards.

The system links all eligible individuals to one of 73 national weather centres. If the daily mean temperature (the average of the maximum and minimum temperatures recorded) at the relevant station is, or is forecast to be, 0°C or below for seven consecutive days, the cold weather payment of £8.50 per week is automatically payable. Capital is disregarded.

Clearly, the total cost of this payment is greatly influenced by factors outside the control of the government. For the winter of 2006–07, 402,000 payments were made at a cost of £3.2 million, whilst in 2005-06, 988,000 payments were made at a cost of £8 million.

Community Care Grants

Community care grants (CCGs) are payable to people in special circumstances who are in receipt of income support, income-based jobseeker's allowance or pension credit. They are designed to help people live independently in the community, i.e. to prevent residential care from becoming necessary, or to ease transition back into the community following a residential-care placement; payments can therefore be made to people who are *likely* to receive any of the above benefits on their return. Grants can also be paid to help with the care of prisoners on temporary release, to help with travel expenses, to help people set up home as part of a planned resettlement programme, or to help ease pressure on individuals and their families when community care is involved.

The minimum award is £30 (with minor exceptions). There is no legal maximum. Claimants with capital over £500 (£1,000 for those aged 60 or above) may have their entitlement reduced. In 2006–07, 598,000 applications were received and 576,000 decisions were made, with 271,000 awards made (45.5 per cent of all decisions). The average award was £420, with total expenditure on CCGs of around £139.3 million.

Crisis Loans

Crisis loans are interest-free and are available to people who have suffered an emergency or disaster and have no other means of preventing serious risk to the well-being of themselves or their family. It is not necessary for the applicant to be in receipt of any other benefits to qualify for a crisis loan. There is no minimum payment, but the maximum amount available is £1,500 less any outstand social fund loan (such as a Budgeting Loan) by the applicant or their partner. The applicants will not normally be loaned more than they can afford to repay over a period of 78 weeks.

In 2006–07, there were 1.45 million applications and 1.44 decisions regarding crisis loans, with 1.07 million awards being made (74.4 per cent of the total). The average award was £88, total expenditure was £97.9 million, and £69.1 million was recovered from previous loans; thus net expenditure on crisis loans in 2006–07 amounted to £28.8 million.

Funeral Payments

Funeral payments can be awarded to claimants who are (for good reason) responsible for organising a funeral, but who are unable to meet such a large expense. Claimants (or their partners) must be in receipt of income support, income-based jobseeker's allowance, housing benefit, council tax benefit, child tax credit (at a rate exceeding the family element), working tax credit (including a disability element) or pension credit. The amount payable covers the costs of burial or cremation, documentation necessary for the release of the deceased's assets, some travel expenses and up to £700 for other costs (e.g. flowers or funeral director's fees).

In 2006–07, there were 67,000 applications and decisions, resulting in 41,000 awards (61.1 per cent). The average award was £1,117, and gross expenditure was £46 million, with £1 million being recovered (funeral expenses can be recovered from the deceased person's estate).

Sure Start Maternity Grants

Individuals are eligible for a Sure Start maternity grant if they (or a member of their family) are pregnant, or have given birth in the last three months; or if the claimant (or their partner) has adopted a child who is less than 12 months old, or received a parental order enabling them to have a child by a surrogate mother. Claimants must also be in receipt of income support, income-based jobseeker's allowance, child tax credit (at a rate exceeding the family element), working tax credit (including a disability payment) or pension credit, and must prove that they have received professional advice on the health and welfare of the child or expectant mother. The amount payable is £500 per child. There are no capital limits.

In 2006–07, there were 330,000 applications for the Sure Start maternity grant, of which 237,000 (71.7 per cent) resulted in an award. Total expenditure was £120 million at an average of £506 per award.

Appendix D. War Pensions

The following is a brief description of the various pensions and allowances available to war pensioners. Figures for recipients of each payment are taken from the Defence Analytical Services Agency's *War Pensions – Quarterly Statistics*.[78] Rates information comes from the Veterans Agency publication, *VA Leaflet 9*,[79] correct as of April 2007. Unfortunately, no figures for expenditure on each allowance are available.

War Disablement Pension

War disablement pension (WDP) is payable to individuals who have become at least 20 per cent disabled (as assessed by Department for Work and Pensions doctors) while serving in HM Forces. It is payable at varying rates according to the degree of disablement (to the nearest 10 per cent), with a one-off gratuity (lump-sum payment) available to those who are less than 20 per cent disabled. The current maximum rate of WDP is £7,290 per annum for officers and £139.70 per week for other ranks, payable to those assessed as 100 per cent disabled.[80] In March 2007, 173,850 people received WDP, of whom some 101,545 were aged 70 or over and 146,330 were assessed as 50 per cent disabled or less. Only 6,190 were assessed to be 100 per cent disabled. The Christmas bonus is payable with WDP if the recipient is aged 65 or over.

Unemployability Supplement

Unemployability supplement (US) is payable to war pensioners who are (virtually) unemployable as a result of their disability. New claimants must be under the age of 65, with disability assessed to be at least 60 per cent. The current rate of US is £86.35 per week for non-officers and £4,506 per annum for officers, with increases available for both adult and child dependants.[81] In March 2007, 8,355 people claimed US, alongside which the Christmas bonus can be paid.

Recipients of US may also be entitled to receive invalidity allowance, at a rate that depends upon the age at which unemployability began. There are three rates for invalidity allowance: for non-officers, the highest rate (if aged under 40) is £17.10 per week, the middle rate (if aged between 40 and 49) is £11 per week and the lowest rate (if aged between 50 and 59) is £5.50 per week; for officers, the rates are £892, £574 and £287 per annum respectively. Invalidity allowance was claimed by 6,925 people in March 2007.

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78 Defence Analytical Services Agency, *War Pensions Quarterly Statistics, March 2007*, available at http://www.veterans-uk.info/pdfs/wp_quarter_stats/0307.pdf

79 Veterans Agency, *Rates of War Pensions and Allowances, 2007–2008*, available at http://www.veterans-uk.com/pdfs/publications/va_leaflets/valeaflet9.pdf

80 For those assessed as 20 per cent disabled (the minimum level for receipt of WDA), the rates are £1,458 per annum for officers and £27.94 per week for all other ranks.

81 A rate of £48.65 per week is payable for an adult dependant of a non-officer (£2,539 per annum for the dependant of an officer); £11.30 per week is payable for the oldest (and £13.30 for each subsequent) child of a non-officer (£590 and £694 per annum respectively for the children of officers).

Constant Attendance Allowance / Exceptionally Severe Disablement Allowance

Constant attendance allowance (CAA) is payable to war pensioners who need daily care and attention, and whose war disablement pension is payable at the 80 per cent rate or above. CAA is payable at four rates: the part-time (half-day) rate of £26.35 per week for non-officers (£1,375 per annum for officers) if attendance is required for half a day or less; the normal maximum rate of £52.70 per week for non-officers (£2,750 per annum for officers) if attendance is needed for more than half a day; the intermediate rate of £79.05 per week for non-officers (£4,125 per annum for officers) for those who are severely disabled and require extra attendance; and the exceptional rate of £105.40 per week for non-officers (£5,500 per annum for officers) for very severely disabled people who are entirely dependent upon full-time attendance for their everyday needs. The Christmas bonus is payable with CAA.

Claimants of either the intermediate or the exceptional rate of CAA whose need for constant attendance is likely to be permanent may also qualify for the exceptionally severe disablement allowance (ESDA) of £52.70 per week for non-officers (£2,750 per annum for officers). In March 2007, 3,290 people received CAA; of these, 615 (19 per cent) also received ESDA. Recipients of either of the highest two rates of CAA who are still in gainful employment may also be entitled to the severe disablement occupational allowance of £26.35 per week for non-officers (£1,375 per annum for officers), although this was only received by 10 people (0.3 per cent of those receiving CAA) in March 2007.

Allowance for Lowered Standard of Occupation

An allowance for lowered standard of occupation is payable to war pensioners with reduced earnings capacity if their disablement prevents them from pursuing their regular occupation. Claimants must be under 65 and must have a disablement of at least 40 per cent (but less than 100 per cent). The maximum allowance payable to non-officers is £52.68 per week (£2,749 per annum for officers), and 11,505 people received this allowance in March 2007.

Age Allowance

Age allowance is payable to war pensioners aged 65 or over whose disablement is assessed to be 40 per cent or more. The amount varies according to the degree of disability, with the maximum rate (for 100 per cent disability) currently standing at £28.70 per week for non-officers (£1,498 per annum for officers). In March 2007, 45,080 people claimed age allowance.

Clothing Allowance

An annual clothing allowance (currently £180) may be payable to war pensioners if they are an amputee or if their disability causes exceptional wear and tear on clothing. In March 2007, 4,355 people claimed clothing allowance.

Comforts Allowance

Comforts allowance may be payable to a severely disabled war pensioner receiving CAA or US, to help with the extra expenses associated with severe disability. It is payable at a higher rate of £22.60 or a lower rate of £11.30 per week for non-officers (£1,179 and £590 per annum for officers). Comforts allowance was paid to 9,450 people in March 2006.

Mobility Supplement

The mobility supplement is payable to war pensioners who are at least 40 per cent disabled and have severe difficulty walking. In March 2007, 15,820 people received the mobility supplement. The current rate is £50.30 per week for non-officers (£2,625 per annum for officers). The Christmas bonus is payable with mobility supplement.

War Widow(er)'s Pension

See next page.

Current maximum rates of war widow(er)'s pension

		Lower rate	Higher rate
Rank of late husband			
	Private, Corporal, Sergeant, Staff Sergeant, Warrant Officer Class I and II	£25.37 p.w.	£105.90 p.w.
	First or Second Lieutenant	£1,534 p.a.	£5,590 p.a.
	Captain	£1,744 p.a.	£5,612 p.a.
	Major	£1,957 p.a.	£5,634 p.a.
	Lieutenant-Colonel	-	£5,687 p.a.
	Colonel	-	£5,720 p.a.
	Brigadier	-	£5,837 p.a.
	Major-General	-	£5,950 p.a.
Supplementary pension:[a]	Officers	£3,698.52 p.a.	
	Other ranks	£70.88 p.w.	
Age allowances:			
Officers:	Aged 65–69	£631 p.a.	
	Aged 70–79	£1,211 p.a.	
	Aged 80+	£1,795 p.a.	
Other ranks:	Aged 65–69	£12.10 p.w.	
	Aged 70–79	£23.20 p.w.	
	Aged 80+	£34.40 p.w.	
Increases for children:			
Officers:	Eldest or only child	£869p.a.	
	Subsequent children (each)	£971 p.a.	
Other ranks:	Eldest or only child	£16.65 p.w.	
	Subsequent children (each)	£18.60 p.w.	
Maximum rent allowance:	Officers	£2,085 p.a.	
	Other ranks	£39.95 p.w.	

[a] Payable to widow(er)s of Forces personnel whose service ended before 31 March 1973.

Source: Veterans Agency, *Rates of War Pensions and Allowances, 2007–2008*, available at http://www.veterans-uk.com/pdfs/publications/va_leaflets/valeaflet9.pdf