

# FIT FOR PURPOSE

The reform of Incapacity Benefit

SOCIAL POLICY

WELFARE

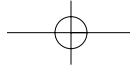
Kate Stanley with Dominic Maxwell



# FIT FOR PURPOSE

THE REFORM OF INCAPACITY BENEFIT

KATE STANLEY WITH DOMINIC MAXWELL



## ippr

The **Institute for Public Policy Research** (ippr) is the UK's leading progressive think tank and was established in 1988. Its role is to bridge the political divide between the social democratic and liberal traditions, the intellectual divide between academia and the policy making establishment and the cultural divide between government and civil society. It is first and foremost a research institute, aiming to provide innovative and credible policy solutions. Its work, the questions its research poses and the methods it uses are driven by the belief that the journey to a good society is one that places social justice, democratic participation and economic and environmental sustainability at its core.

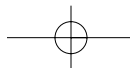
For further information you can contact ippr's external affairs department on [info@ippr.org](mailto:info@ippr.org), you can view our website at [www.ippr.org](http://www.ippr.org) and you can buy our books from Central Books on 0845 458 9910 or email [ippr@centralbooks.com](mailto:ippr@centralbooks.com).

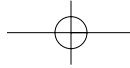
## Our trustees

Chris Powell (Chairman)  
Chai Patel (Secretary)  
Jeremy Hardie (Treasurer)

Professor Kumar Bhattacharyya  
Lord Brooke  
Lord Eatwell  
Lord Gavron  
Chris Gibson Smith  
Professor Anthony Giddens  
Lord Hollick  
Jane Humphries  
Roger Jowell  
Neil Kinnock  
Richard Lambert

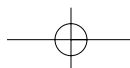
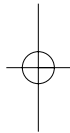
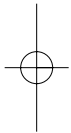
Professor David Marquand  
Frances O'Grady  
Sir Michael Perry  
David Pitt-Watson  
Dave Prentis  
Lord Puttnam  
Sir Martin Rees  
Jan Royall  
Ed Sweeney  
Baroness Williams  
Baroness Young of Old Scone

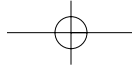




# CONTENTS

<b>Acknowledgements</b>	<b>iv</b>
<b>About the authors</b>	<b>iv</b>
<b>Foreword by William Smith, Ingeus UK</b>	<b>v</b>
<b>Introduction</b>	<b>1</b>
<b>1. The problem with IB</b>	<b>4</b>
<b>2. Other drivers of reform</b>	<b>10</b>
<b>3. Welfare to work</b>	<b>16</b>
<b>4. Options for the reform of IB</b>	<b>19</b>
<b>Conclusion</b>	<b>32</b>
<b>References</b>	<b>33</b>

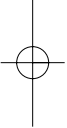




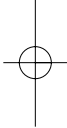
## Acknowledgments

The authors would like to thank our project partners Ingeus and WorkDirections, without whose funding support this project would not have been possible, particular thanks are due to Jane Mansour. Thanks to Lula Durante, Howard Reed, Peter Robinson, Rachel O'Brien and John Schwartz at ippr. Thanks also to all those many individuals and organisations who contributed to the research, particularly Marilyn Howard at the Disability Rights Commission who gave a presentation at our expert's seminar.

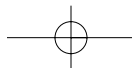
## About the authors

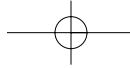


Kate Stanley is Head of Social Policy and a Senior Research Fellow at the ippr. She is author of *The Missing Million: supporting disabled people into work* (2003) and *Sanctions and Sweeteners: rights and responsibilities in the benefit system* (2004) as well as numerous articles and papers on disability and work.



Dominic Maxwell is a Research Assistant at ippr where he specialises in asset-based welfare.





## Foreword

William Smith, Chief Executive, Ingeus UK

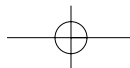
2004 has seen increasing political, media and public interest in the 2.7 million people on incapacity benefits, and, more specifically, on the one million of them who say they want to work. There have been different approaches to this issue, from wanting to improve the scope and capacity of the current New Deal for Disabled People programme, through developing vocational rehabilitation solutions, to rolling out the Pathways to Work programme. And of course, arguments about conditionality – and more recently, time limits – are never far from this discussion.

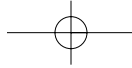
As a provider of employment services to people on incapacity benefits in both Birmingham and London we at Ingeus experience first hand the difficulties faced by individuals who want to return to work but feel unsupported, and disincentivised by the current benefits framework. Consequently, we welcome this paper, with its clear focus on the benefits structure and ways in which it could be improved in order to better support both those clients who want to return to, or take up, work and, of course, those for whom this is not possible or desirable.

The renaming of Incapacity Benefit has been discussed for some time. Key to this is the recognition that seventy-five per cent of people currently claiming have been diagnosed with common health problems, and that many of these do not consider themselves to be disabled. Any new title needs to be inclusive of all those who might access it. It would also seem advisable to take this opportunity to develop a title, or titles, that facilitate the delivery of variable levels of support, in order that the nuances of the needs of the individuals claiming this benefit can be targeted more effectively.

The current benefits structure is based on a false premise which depicts 'incapacity' as a stable state. The reality, which an improved structure would need to reflect, is a continuum: the nature of disabilities and health problems can and do change and levels of capacity fluctuate. This needs to be reflected in a system which allows people to work when they can and safeguards their rights, and benefit levels, when they cannot.

The concept of entitlement and clarity about what that means to the stakeholders involved is also vital to this discussion. On occasion this entitlement is conceived simply in terms of benefits and minimum standards. This definition needs to be challenged and broadened. People claiming incapacity benefits are entitled to the support required to maximise their life chances. This goes beyond financial payments, and includes access to an integrated return to work service alongside alternative support if work is

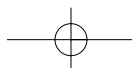
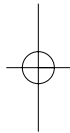
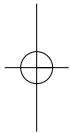


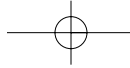


not appropriate. In any discussion about the future structure of incapacity benefits, it is essential to consider how benefits themselves will support this process. For example, the current structure does little to encourage part-time working and support diminishes once people start work.

We look forward to continuing discussion of the reform of incapacity benefits, and stress that this needs to be set within the current delivery context. There is a clear need both strategically and operationally for integrated health and employment services. People with disabilities, and/or health issues, have been let down for too long by a fragmented approach that delivers conflicting messages about the value and appropriateness of opportunities for work.

William Smith  
Chief Executive Officer, Ingeus UK





## Introduction

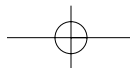
More than a decade of robust economic recovery in the UK has resulted in rising employment and falling unemployment. However, this positive record is tempered by continuing high levels of economic inactivity among certain groups, especially people with a long term health problem or disability. In an attempt to address this, in 2002 the Department for Work and Pensions (DWP) set a target to 'significantly reduce the gap between the employment rate of disabled people and the overall rate' by 2006. Incapacity Benefit (IB) has already been reformed twice in the last decade but it remains flawed and the further reform of IB has recently received attention as one way of meeting this target.

The possibility of reform of IB brings significant opportunities to make it better able to fulfil the dual purpose of providing swift and effective routes off benefits and into work for people experiencing health problems or disability, and providing a decent standard of living when work is not possible. However, reform also brings risks. If reform is not driven by a full understanding of the nature of the problems within IB, or is not grounded in evidence, there is a danger that people – often already at risk of poverty and social exclusion – are further marginalised. And, if disabled people's right to security from benefits were not protected, it would be difficult to justify any increase in responsibilities.

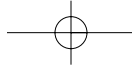
The need to reform IB is a social justice issue and must be driven by the aims of increasing the employment rate of IB claimants and decreasing poverty among claimants and their dependents. The current structure of IB is an inadequate foundation upon which to generate such a transformative change in the lives of claimants and that it therefore needs reform. However, reform of IB can only ever be one small part of the wider structural and cultural changes that are necessary.

The failure of IB is not necessarily the largest cause of the unacceptably high number of jobless people with health problems and disabilities. Previous research by the Institute for Public Policy Research (ippr) has explored the range of wider issues so we do not rehearse them here (see Stanley and Regan 2003; see also Strategy Unit 2004). The seven-point strategy we proposed to support more disabled people (including IB claimants) into work included:

1. developing a new account of disability and work;
2. enhancing the role of the employer;





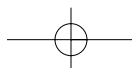


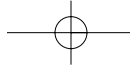
3. strengthening rehabilitation services and refocusing health services;
4. creating more flexible benefits and reducing the risks for people moving off benefits and into work;
5. delivering successful welfare to work initiatives through a twin strategy of expanding and enhancing schemes specifically for disabled people and making mainstream programmes accessible to them;
6. developing an ambitious role for Jobcentre Plus;
7. transforming the expectations of disabled people, employer, the government and the independent sector.

There has been progress in some areas, notably on rehabilitation and health services through the Public Health White Paper and the DWP framework for vocational rehabilitation and progress in welfare to work through the Pathways to Work pilots as well as the continuing roll out of Jobcentre Plus. But there is much still to be done. Research by ippr (Stanley and Regan 2003, Stanley *et al.* 2004) has highlighted fundamental problems with IB which mean wider reforms can only ever be limited in their reach and effectiveness. It was outside of the remit of our previous work to explore the reform of IB. This paper seeks to pull together the learning from those projects and the wider ippr research programme and address the key issues around the reform of IB. In addition to our previous research, we held an expert seminar to examine some options for reform and consulted widely with a range of key stakeholders. This paper does not claim to present definitive solutions to the problems in IB but instead seeks to point towards a socially just rationale and range of options for reform.

The term 'incapacity benefits' is used here to refer to the group of benefits, including IB, that are payable to people on the grounds of a current long term health problem or disability. The term 'IB claimants' is used to refer to people who are currently specifically claiming IB and is used here rather than 'disabled people' because significant numbers of people claiming IB do not consider themselves to be disabled, including many people with a health problem. In addition, there are many people with a health problem or disability who are in work and not claiming any benefits. There are also substantial numbers of people with a health problem or disability who are claiming one or more other benefits but not IB: over 700,000 people claim Income Support on the grounds of 'incapacity', but do not receive IB because they have insufficient national insurance credits.

Although we use the term 'IB claimants', our understanding of the terms 'disabled people' and 'disability' will impact on our analysis. The Disability Discrimination Act 1995 (DDA) defines a disabled person as someone with 'a physical or mental impairment which has a substantial and long term

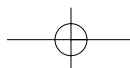
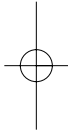
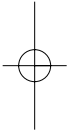


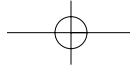


adverse effect on his ability to carry out normal day-to-day activities'. This is a useful functional definition as most IB claimants will be covered by it, even if they do not consider themselves to be disabled, and it is the basis for certain statistics and used for legal purposes. When using this definition we must be mindful of its limitations. It does not adequately reflect how individuals' experience of impairment is shaped by the wider environment. Nor does this definition reflect the changing nature of disability, of the wider environment and the relationship between them all of which should inform thinking about the best routes into work. (see Howard 2003 for a fuller discussion). Crucially, we need to recognise that disability is a dynamic experience and may change over time and be mindful to not simply equate disability and incapacity and thereby replicate the problems of IB (see OECD 2003).

In this paper we refer to 'people with a health problem or disability' rather than the usual shorthand of 'disabled people' in order to reinforce the fact that many IB claimants are experiencing a health problem as distinct from an impairment, which may or may not result in ill-health.

In chapters 1, 2 and 3 we establish what the problem is with the current IB regime and then describe how recent trends also point to the need for comprehensive change to IB. In chapter 4, we consider some of the options for reform and propose a basic structure which we believe could provide the foundations needed for transformative change in the lives of IB claimants.





# 1 The problem with IB

The primary reason to reform IB is that it is failing those who claim it. Intended to provide an income for people unable to work due to a long term health problem or disability, IB is not only failing to fulfil this function adequately but has become a barrier to work. This is a social justice issue. The box below outlines the characteristics of IB and some of the other key benefits for people with disability or long term health problems

## Incapacity benefits

Benefits for people of working age with a long term health problem or disability can be split into four categories: earnings replacement benefits, extra costs benefits, means-tested benefits and compensatory benefits.

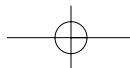
IB, Disability Living Allowance, Income Support on the grounds of incapacity and Severe Disablement Allowance are described here. There are other benefits for this client group but they are claimed by smaller numbers and we do not describe them here.

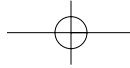
**IB is an earnings replacement benefit** designed to provide an income for people unable to work due to a long term health problem or disability. IB is payable when a medical assessment – the Personal Capacity Assessment (PCA) – judges a person has functional limitations above a certain threshold. This does not mean that a person passing this threshold will be incapable of work, only that it would be unreasonable for the state to *require* such persons to work. However, other IB regulations *do* require that a person must be ‘incapable of work’ for the period of their claim.

IB is divided into three basic rates:

- the first six months is paid at £55.90 per week;
- the second six months at £66.15 per week;
- and any time after that at £74.15 per week.

Additional allowances are available if, for example, the impairment arose before the age of forty-five or the claimant has dependants. IB beneficiaries received an average of £81.09 in the second quarter of 2004 (DWP 2004a). People receive Statutory Sick Pay for the first twenty-six weeks of being unable to work, as long as certain other conditions are met. IB is intended for people experiencing longer term health problems.





IB is a contributory benefit based on national insurance payments and credits (although an element of means testing has been introduced in recent years for people receiving occupational or personal pensions above £85 a week). About two-thirds of IB claimants actually receive IB. The remaining third have insufficient national insurance credits to qualify for IB itself, so are counted as "credits only" claimants: they are credited with national insurance contributions towards their pension, and receive another means-tested benefit, in most cases Income Support with a disability premium.

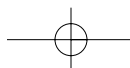
'IB claimants' include people who receive IB:

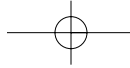
- and are yet to have a PCA;
- or 'beneficiaries' who have 'passed' a PCA;
- or are exempt from the PCA requirement because of the nature of their impairment.

There were 2.5 million IB 'claimants' in the second quarter of 2004, of whom 1.5 million were IB 'beneficiaries'. The cost of IB in 2002/3 was £6.8 billion. The Conservative Government introduced IB in 1995 to replace Sickness Benefit and Invalidity Benefit, as part of the first attempt in the last decade to reduce disability benefit claimant numbers.

**Disability Living Allowance (DLA) is an extra costs benefit** designed to help towards the additional costs of living incurred by people with a health problem or disability. The main condition of entitlement for DLA is requiring help with care needs, such as personal assistance in washing or cooking, or mobility needs, such as equipment for walking unaided. DLA is not normally means tested and is available to people who are both in and out of work. The care component is paid at three rates depending on the extent of the impairment ranging from £15.55 to £80.80 per week. The mobility component is paid at two rates: £15.55 and £41.05 per week.

In 2003/3, 2.4 million people claimed DLA. The cost of DLA in 2002/3 was £7 billion. DLA was introduced by the Conservative Government in 1992 and spending increased beyond expectations doubling between 1992/3 and 1997/8 (Select Committee on Social Security 1998). Spending has continued to grow under Labour and since 1998 has increased by over twenty per cent in real terms. This is almost entirely accounted for by an increase in the number of people receiving DLA. In 1993, 1.2 million claimed DLA, ten years later more than double that number were claiming (ONS 2004).



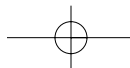


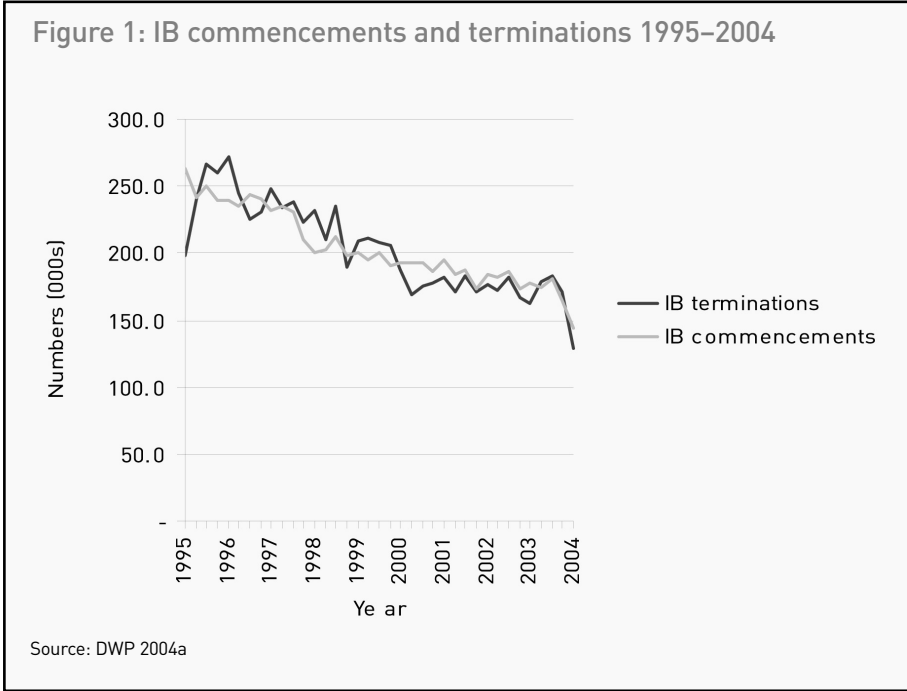
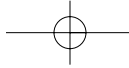
**Income Support** is a means tested benefit available to disabled people with insufficient National Insurance contributions to receive contributory IB. Eligibility for the disability premium on Income Support is dependent on receipt of other benefits such as DLA or IB and incapacity conditions.

**Severe Disablement Allowance** has not been payable to new claimants since April 2001. It was available to people aged sixteen to sixty-five who were incapable of work and without sufficient national insurance contributions to receive IB. 330 000 were in receipt of SDA in 2002/3 and spending stood at £970 million.

Survey research shows that most IB claimants would like to work and believe that they could soon, at least when they first make a claim. Previous work from ippr showed that in Spring 2002 there were around 1.4 million unemployed or economically inactive people who wanted to work (Stanley and Regan 2003). The proportion of economically inactive men with a health problem or disability who would like to work is higher than the proportion of those without a health problem or disability (Strategy Unit 2004). Survey work reported in Alcock *et al.* (2003) suggested that only a quarter of men claiming IB say they can't do any work at all, despite all having some form of work-limiting health problem or disability. Time spent out of work and claiming IB can be detrimental to health and well-being and increase a person's distance from the labour market (DWP 2002).

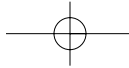
Despite the fact that substantial numbers of IB claimants would like to work, many have a very poor chance of returning to work. The number of people moving off IB and into work (the 'off-flow') has significantly decreased in recent years: in the second quarter of 2004 the off-flow was only sixty-nine per cent of its 2000 level. For people who have been claiming IB for twelve months, the average duration of their claim is eight years, and once people have been on the benefit for twenty-four months they are more likely to die or retire than to leave the benefit for a job. In February 2004, sixty-six per cent of IB claimants had been claiming for more than five years. At the same time the off-flow has decreased, the 'in-flow' – those people starting to claim IB – has also decreased (Figure 1). The number of people moving onto IB and its predecessors since the 1990s has actually fallen by a third, and is now broadly stable following nearly twenty years of rapid increase. This stabilisation of the in-flow is main reason why the overall caseload has not increased more significantly as a result of falling off-flows.

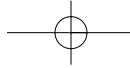




Despite many people’s desire to move into work, very few IB claimants actually do so. One reason for this is the inadequacy of IB policy. Eligibility for IB is based on a person being demonstrably incapable of work every day that they are in receipt of the benefit. At the same time, it is recognised that many people in receipt of IB do want to work and could work, so steps have been taken to require IB claimants to consider work through the introduction of compulsory Work Focused Interviews (WFIs). This paradox asks IB claimants to simultaneously demonstrate their incapacity to work and discuss their capacity to work with a view to taking steps towards moving into work. This policy confusion rests on an implicit understanding that passing the PCA does not necessarily mean a person is incapable of work, only that they have limitations on what work they can do and when. Even where benefits policies are explicit, they can be open to misunderstanding or have untended consequences. Unsurprisingly, this leads to uncertainty, risk aversion and misunderstandings among claimants and employers alike. This includes claimants’ fear that taking steps towards employment may place their benefits at risk and that returning to work will place any future claim at risk.

IB has become a barrier to work rather than a support for claimants. In setting the eligibility criterion as ‘incapable of work’. The current system of Incapacity Benefit insists on all-or-nothing divisions into work or inactivity, health or ill-health, lack of disability or disability. Such crude reductionism fails to reflect the reality of health problems, disability or work as



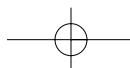


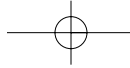
they are experienced by claimants. The extent to which an impairment limits the ability to work, depends on how well society and the workplace are adapted to it, what support is available, how each person deals with their impairment and how employers respond. Work may be impossible on a full-time basis, but possible with reduced hours, more flexibility or relatively minor adjustments. A reformed benefits system would recognise this and respond to it, ensuring easier transitions between work and benefits.

The situation is further complicated by the fact that within IB some groups are treated as 'more incapacitated' than others, for example, blanket impairment-based exemptions from the PCA and WFIs apply to almost one fifth of claimants. Groups exempt from the PCA include, people with a serious mental illness and blind people. These exemptions reflect the fact that there is little point requiring a person to go through a PCA when it is clear they will pass it and may also reflect the fact that it is less reasonable to mandate WFIs for some groups. Nonetheless, these exemptions fail to acknowledge the fact that impairment will impact on each individual in a different way and some people within these groups may benefit from a WFI. Blanket exemptions can also have a negative impact on the expectations of people in the exempt groups and on employers.

Another unhelpful characteristic of IB is the way that it is payable at a higher rate after six months, then at a higher rate again after twelve months. This is because IB was originally intended to provide for long term 'incapacity' and the associated periods out of work, unlike other out of work benefit such as unemployment benefits. The increase in rates of payments over time are useful in accommodating lump sum costs which may only arise after a period out of work but these could be dealt with more effectively through other parts of the welfare state and, in some circumstances, the insurance system (for example, through assets building policies). The increase is also useful in combating persistent poverty amongst long term claimants but this too could be dealt with by ensuring the flat rate is set at a reasonable level and through extra costs benefits. Meanwhile, the increasing rate creates a powerful disincentive for people to move off IB and into work, particularly if they fear that they may be unable to continue working after a period of time and will have to return to IB at the lower rate. The Linking Rules which allow people to return to the same benefit rate they were on if they have to leave employment again within fifty-two weeks are designed to help mitigate this problem but they are not sufficiently well known, understood or easy to administer.

IB is also ineffective in ensuring a decent standard of living for those periods of time or those people for whom work is not an option. The average IB payment is higher than the main unemployment benefit Job Seeker's Allowance (JSA) but in 2002/3 it still only represented an annual income of £4,287, so many IB claimants experience poverty. In 2002/3 the average income of an IB claimant was fourteen per cent below the contemporary



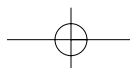
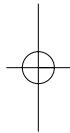
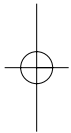


poverty line. The poverty line is set at sixty per cent of median income. In 2002/3 median weekly income was £157, putting the poverty line at £96. The average IB payment was £82.46 (DWP 2004d). People on lower incomes are also more likely than those on higher incomes to become disabled or experience health problems so many IB claimants have experienced prior disadvantage (Berthoud 2003). The disproportionate experience of disability and health problems by people on lower incomes emphasises the social justice imperative for reform.

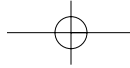
Exacerbating this is the fact that although it has been established that health problems and disability can lead to significant extra costs, DLA is not available to everyone experiencing extra costs and is inadequate to cover all costs (Smith *et al.* 2004). DLA is designed to meet the extra costs incurred by people as a result of a disability, but is only available to people who are assessed as having care and mobility needs, even though people with a wide range of needs incur extra costs as a result of their health problem or disability. However, this is a problem with DLA, not IB.

IB is primarily a contributory, rather than universal, benefit. This means that people with broken work records will receive no or lower payments. This has a particularly significant impact on women and would appear to unfairly proscribe access of people to the benefit that is intended to offer security.

Reform of IB is necessary in order to tackle the social injustice that the current system helps to generate by preventing work for many and failing to prevent poverty. We have established that fundamental problems in the structure of IB act as a barrier to work and while IB is only part of the problem, it must be addressed. For these reasons, comprehensive reform rather than further incremental change is required.







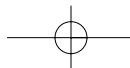
## 2 Other drivers of reform

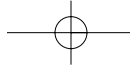
We have argued that reform is necessary to address failures in the current system specifically the need to improve opportunities for work and reduce poverty. However, other motivations for reform exist. This creates the need to develop ideas designed to maximise the opportunities for social justice while speaking to the interests of prudent and achievable public policy and recognising that trade offs do exist in public spending. It is important to assess the validity of other drivers for reform. In this section, we find that some drivers for reform should be treated as valid, if supplementary, while others are a distraction from the core issues.

### Cost

The cost of IB to the public purse is considerable; it stood at £6.6 billion in 2002/3. Incapacity benefits cost over £13 billion. The numbers claiming IB are greater than the combined total of unemployed people and lone parents claiming out of work benefits. However, the number of people moving onto IB since the 1990s has fallen by a third, and is now broadly stable following nearly twenty years of rapid increase. Government spending on IB has fallen by roughly one fifth in relative terms since 1998. This is due to the combination of a fall in the number of total number of beneficiaries and a fall in the real value of the payments (increases in benefits rates have not kept pace with increase in prices). The total number of people claiming IB who become beneficiaries is falling. The yearly moving average of total IB beneficiaries fell in twenty-six of the thirty quarters that the calculation is possible since 1995, and in May 2004 the number of beneficiaries was twenty-per-cent lower than in May 1995 (partly as a result of the tightening of the benefit eligibility criteria in 1995)(DWP 2004a). This decrease has occurred at the same time as the number of people who consider themselves 'disabled' has risen from twenty-one per cent in 1972 to thirty-five per cent in 2002 (Richards *et al.* 2004). This trend is tempered to some extent by rising claims for other forms of incapacity benefits such as Income Support with a disability premium. It is worth noting that some European countries have a higher proportion of the working age population claiming incapacity benefits with over ten per cent in the Netherlands, Denmark and Sweden compared to 7.6 per cent in the UK. The incapacity benefits case-load is also rising in some countries, for example the US.

A desire to reduce the number of claimants in order to reduce public spending cannot in itself provide an acceptable motive for reform for those





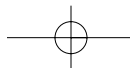
who wish to see employment rates increased and poverty reduced among current IB claimants. This is partly because trends are already heading in the right direction but also because this could lead to harmful unintended consequences (as has occurred following welfare reform in the US in the 1980s, see Stanley *et al.* 2004) and entrench and deepen existing poverty. As we have already seen, average IB payments place claimants' incomes below the poverty line.

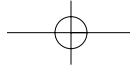
There is, though, a valid cost argument that we must explore. The argument is that savings are required in spending on IB in order to fund other parts of the welfare system. At the 2004 Labour Party Conference, the Prime Minister listed ten things that, if re-elected, Labour would do in a third term. He included making savings from IB and re-directing that money towards pensions as one of these ten:

Year-by-year we will work to increase the numbers who can move off benefit and into work, whether from Job Seeker's Allowance, Incapacity Benefit or any other benefit, and with the money saved, design a pension system that has the basic state pension at its core. (Blair 2004a)

The Prime Minister may have been describing a long term strategy whereby, for example, savings were realised by rolling out effective welfare to work programmes which would reduce the amount of time claimants spent on IB. Savings could then be re-directed towards the increasing pensioner population which would be a welcome move. However, the scale of the challenge of supporting significantly more IB claimants back to work cannot be underestimated and will require substantial resources. On current forecasts IB spending *is* set to drop, but in the short to medium term these savings will be required to continue to expand welfare to work efforts *and* to improve the living standards of IB claimants. Also this drop is partly the result of a decline in the relative value of IB to earnings. Increasing the conditions on IB receipt whilst the rate of the benefit continues to decline relative to earnings would be hard to present as a balanced package of rights and responsibilities. Government plans will be elaborated in the coming months when it publishes 'substantial forward policy strategies' and plans a series of Welfare Reform Acts (Blair 2004a).

The Government is right to identify that there is a need for reform of IB. However, this will cost money, at least in the short-term. Firstly, it is not reasonable to expect to make significant savings on the rates of IB paid. Secondly, there is a need for increased spending on other disability benefits, for example, in meeting the extra costs of disability and health problems. Many of the potential savings to be made in disability spending, and elsewhere within government budgets, will only be achieved over a relatively long time frame. For example, the Public Health White Paper pro-





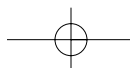
poses to encourage GPs to see work as positive treatment outcome. This will take time to take affect. Likewise, it will take time for Jobcentre Plus to develop the capacity to roll out welfare to work programmes, including Work Focused Interviews (WFIs), to IB claimants.

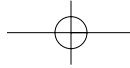
### Fraud and hidden unemployment

If there is a high degree of fraud in IB this would be a further reason for reform and should shape future policy. However, IB fraud levels are low. The National Benefit Review in 2001 estimated fraudulent cases at less than 0.5% (DWP 2001). This compares favourably with six per cent for JSA and 3.6 per cent for Income Support (DWP 2004b).

Fraud is low partly as a result of a rigorous gateway onto IB. Most people claiming IB must undergo a strict medical test (the PCA) by an independent assessor (repeated at intervals during the course of the claim as advised by assessor). However, claimants *are* initially assessed by their GP. There is evidence that some GPs appear not to consider work a positive treatment outcome and their judgement of what is in the best interests of the patient may not be based on a full appreciation of the prospects for people on IB. Alternatively, some GPs may be signing people off work because adequate rehabilitation services are not available in their area, so the likelihood of the individual receiving useful interventions to facilitate a return to work are very limited. Better integration of the NHS with the welfare system and the development of vocational rehabilitation as a profession would be a desirable outcome of the wider reform agenda. Recent important steps towards this include plans to encourage GPs to regard work as a positive treatment outcome contained in the Public Health White Paper and occupational health pilots which are currently testing the impact of a different approach to sick notes.

Aside from fraud, the more subtle question of whether or not there are people claiming a benefit which identifies them as 'incapable' of work when in fact they are capable of some work, gets to the heart of the policy question. The current IB system sets up a binary opposition between capacity and incapacity, whereas many – possibly most – people with a health problem or disability are capable of some work, at least some of the time and sometimes. The concept of incapacity is unhelpful if we want to move to a position where more people are regarded as capable of some work at least some of the time. It is worth noting that only a very small proportion of the IB caseload have short term conditions (such as broken limbs) and stay on IB for a very short period and similarly only a very small proportion have chronic conditions (such as tetraplegia) and are unlikely to be able to work and thereby leave IB. Three-quarters of claimants are described by the DWP as having 'common health problems' which may include back pain and depression from which work may assist





recovery. This means that the vast majority of the caseload are people who are not 'incapable' of work and for whom welfare to work programmes are appropriate. However, only about three per cent of the caseload is engaged in such programmes.

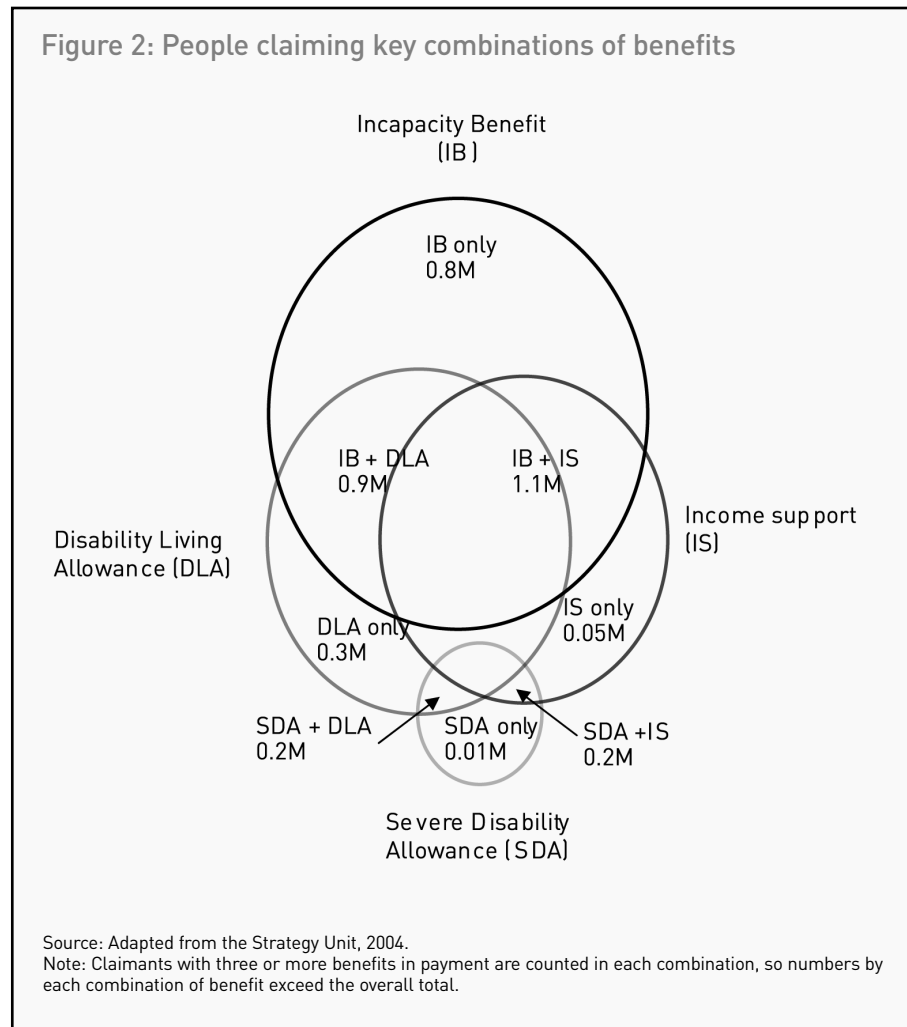
There is also an argument that strong inter- and intra-regional concentrations of IB claimants represent 'hidden unemployment'. IB claims are highly concentrated in areas where unemployment is higher than average. In 2003, there were sixty eight local authority districts in England, Scotland and Wales where ten per cent or more of the entire working age population was out of work and claiming incapacity benefits. Not one of these districts is in a high employment region (Beatty and Fothergill 2004). The trends in the numbers of IB claimants have been much analysed with little definitive agreement on the causes of change. However, industrial re-structuring and the decline of traditional industries are acknowledged as having played a part in increased IB claims during the 1980s and 1990s and this has clearly affected some regions more than others.

IB claimants are an exceptionally diverse group but the non-impairment based barriers to work of many claiming IB are substantial. According to the Strategy Unit (2004), forty per cent have no qualifications and fifteen per cent have poor basic skills, one third have been out of work for at least two years *before* claiming IB and many face employer discrimination, inaccessible transport and work environments. The interaction between disability and employment depends in part on how employers perceive people with a health problem or disability, relative to those without. Addressing this problem clearly becomes more important when there is widespread unemployment than when markets are tight. Whether that means the onus should be on demand-side or supply-side measures is an important issue and should be addressed. There is a need for effective welfare to work programmes that are capable of tackling the non-impairment based barriers to work faced by disabled people. However, these issues raise a more basic point for the reform of IB: the current classification of large numbers of people as 'disabled' and therefore incapable of work goes against their own best interests.

A final argument about the possibility of unfounded claims lies in the significant movement of people from unemployment benefits onto incapacity benefits in the 1980s and early 1990s as IB became increasingly attractive compared to unemployment benefits which were tightened (Bell and Smith 2004). Even now that the IB gateway itself has been tightened, IB remains more attractive to some than JSA because there is no requirement to actively seek work, it is not time-limited and, after six months, it is payable at a higher rate than JSA. This does not mean that there are large numbers of beneficiaries who are not entitled to IB, as all beneficiaries will have passed a PCA (or been exempt) but it does mean that incentives exist to claim IB over JSA.



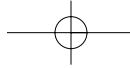
The way in which other benefits relate to IB is crucial. Only one third of IB recipients receive IB alone and four in ten IB recipients, and almost half Income Support on the grounds of incapacity recipients, also receive DLA. This means that any reforms of IB must be seen in terms of how other benefits might be affected. Figure 2 shows the numbers of people claiming key combinations of benefits.



### Future pressures

There are a number of worrying trends in the profile of the IB population. Two key trends relate to the increasing numbers of women claiming IB and the rise in people claiming IB on the grounds of mental health problems.

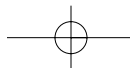
The number of female IB claimants has increased steadily from 763,000 in 1995 to 943,000 in 2004. This reflects a rise from thirty-two per cent to

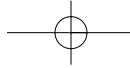


thirty-nine per cent of the total, and if the differing working ages of men and women are taken into account, there are approximately same numbers of men and women claiming IB. This can be partly explained by the fact that more women have entered the workforce during this period and were therefore eligible for IB when they became disabled or experienced a health problem. However, beneath a story of increasing overall female employment, is another story: the employment rate of low-skilled women has actually gone down and their inactivity rate has gone up (Gregg and Wadsworth 2003). This suggests that we should be concerned with the high inactivity rates of low-skilled women rather than simply attributing all change to an across-the-board-increase in women's labour market participation. The equalisation of the state pension age to sixty-five by 2020 – and the increased prevalence of disability at the upper end of the working age – suggest that there will continue to be a significant upward pressure on IB, particularly from older women.

There are also an increasing number of people claiming IB on the grounds of mental health impairment, particularly by young people. By 2004, a third of IB claimants had mental or behavioural problems (DWP 2004a). People with mental health problems represent just under ten per cent of all people with a disability or health problem (DRC 2004) yet seventy-five per cent of people with mental health problems claim benefits, the highest percentage of all impairment types, and a total of almost half a million people (DWP 2004a). People with mental health impairments also have the lowest employment rates at twenty per cent. This does not appear to be due to a lack of desire to work. The 'want to work' rates among people with mental health impairments are very high compared to other impairment groups: fifty-two per cent of all disabled people report that they want to work; but seventy-eight per cent of those with depression or bad nerves and eighty-six per cent of those with mental illness, phobias and panics reported that they wanted to work in Spring 2001 (ONS 2001). The high claimant and low employment rates of people with mental health impairments suggest there is a great deal of work to be done to better understand this issue and to tackle the barriers to work for people with mental health problems. This persistent problem also indicates a potentially increasing pressure on IB.

There is a need to understand and tackle the root causes of these problems which are likely to go far beyond the nature of IB and the wider benefit system. They highlight the need for a more robust system which can cope with these changes in a way that promotes the employment rate of people with a disability or health problem and reduces their poverty.





### 3 Welfare to work

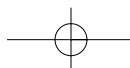
There is an argument that we should focus on the development of welfare to work programmes rather than comprehensive reform of IB. In this section we argue that the reform of IB and expansion of welfare to work for IB claimants are complementary, not mutually exclusive strategies, and that both are necessary to transform the lives of IB claimants.

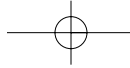
The employment rate of disabled people has been growing faster than that of the workforce as a whole in recent years. Between 1998 and 2004, there was a 6.7% increase in the employment rate of disabled people and the difference with the overall rate decreased by 5.2% (DWP 2004e). Some have argued that what is needed now is a package of further incremental changes to the benefits system and an extension of welfare to work programmes. There is little doubt that both these things could make a significant difference, including changes to Housing Benefit rules, the Linking Rules, earnings disregards and permitted work rules. However, these changes would not preclude the need for more comprehensive reform of IB.

In welfare to work programmes, changes such as giving job brokers in the New Deal for Disabled People (NDDP) network access to the details of people claiming IB; empowering individuals to develop their own interventions; improving work with GPs; and extending the reach of existing welfare to work programmes would all be useful. Spending on active labour market programmes in the UK is low by European standards. The European Union average expenditure on programmes for disabled people as a proportion of GDP was 0.11 per cent in 2001/2; in the UK it was 0.02 per cent. In Sweden, at the top of table, it was 0.49 per cent (OECD 2004). Until the development of the NDDP in 1998 and, more recently, the Pathways to Work pilots, very few steps had been taken to develop active labour market programmes with IB claimants in mind. There are signs that progress is being made. All new IB claimants must now attend a mandatory WFI in areas where there is a Jobcentre Plus, and there is mandatory follow-up contact at least every three years. While still limited, this contact represents a significant break with the past as there was little or no contact with IB claimants and none relating to work.

The Pathways to Work pilots began in October 2003 (with a second wave in April 2004). The key features of the pilots include:

- New claimants attend compulsory WFIs with Personal Advisers. There is contact every month in the first eight months of the claim. The sanction for non-attendance is twenty per cent of the benefit for each missed





interview, currently equivalent to approximately £11 a week. The reduction continues until the person attends an interview.

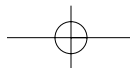
- Access to NHS rehabilitation support to help claimants manage their condition.
- Strong local partnerships with the NDDP.
- Work with local GPs and employers to ensure people on IB are not discouraged from working again.
- Claimants are eligible for a £40 a week return to work credit for twelve months if they move into a job paying less than £15,000 a year.

In 2005, the Pathways approach will be extended to those who have been claiming IB for more than a year. The pilots seem to be based on the recognition that wide-ranging change is needed and should help to provide important evidence about what works. They do not however include any attempt to address the problems within IB itself.

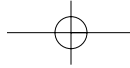
Very early monitoring data appears promising (DWP 2004a). Pathways areas are achieving double the number of recorded job entries compared to other areas (although this may reflect improvements in recording to some extent). The pilots areas are getting six times as many people to take up further help, such as, the NDDP or rehabilitation or condition management compared to national average (twelve to fifteen per cent in Pathways areas compared to two per cent nationally), although very little rehabilitation is available in some places outside Pathways areas. There appear to be positive indications of an increase in off-flows from IB in comparison to both 2003 and non-pilot areas.

Early qualitative evidence suggests that deep-seated beliefs and attitudes may play a role in facilitating or inhibiting the progress of the Pathways pilots. Understanding how the experience of participation in Pathways impacts these beliefs and attitudes will be crucial to the reform process (Dickens *et al.* 2004). More robust evidence from Pathways should be available from Spring 2005 when the preliminary evaluation evidence is expected to be released. The pilots should be given time to show their effects. However, if this early promise is fulfilled and Pathways proves effective over a longer period, it should be rolled out across the country.

The Pathways pilots currently cover about nine per cent of the annual in-flow onto IB across the country. Based on current costings, it would cost £60 million a year to pilot the programme in ten per cent of the country and extend it to those who have been on IB for more than a year. It would cost £500 million a year to roll it out nationally. As current spending on welfare to work for IB claimants is only about £200 million in total, these are not insignificant sums but when we consider that IB expenditure alone cost £6.8 billion in 2002/3 (and over £13 billion if we include Income

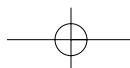
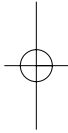
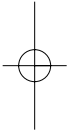


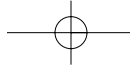




Support claimants on the grounds of 'incapacity') it puts these figures into context. However, the need to make the case for this additional spending cannot be brushed aside. This year a number of employment programmes for IB claimants have exceeded their targets resulting in a shortfall in funding (or – unacceptably – a cap on the delivery success of their programmes). At the same time, Government-wide efficiency reviews mean that Jobcentre Plus is required to reduce its staff. It is essential for government to take a medium term view of the options and consider the savings that stand to be made from the roll-out of the Pathways pilots if they prove to be successful.

The Government needs to give full consideration to the final outcomes of the Pathways pilots, as well as the progress of other welfare to work programmes. It is conceivable that the fundamental weaknesses in IB could be overcome through the strength of the programme, but it is unlikely, and we would argue that reform is also needed. Even if welfare to work programmes were massively expanded, there would still be a need to reform IB in order to shift the expectations of claimants, Jobcentre Plus staff and employers about the capacity of claimants for work and to deliver a route out of poverty for those for whom work is not an option (or at least not at a given time). The expansion of welfare to work on its own will not ensure that IB fulfils its dual purpose. To take an example from another area of welfare, child poverty was not reduced by just increasing welfare to work. There has also been a substantial increase in spending on both out-of-work benefits and tax credits.





## 4 Options for the reform of IB

In this section we return to what we have argued should be the objectives and principles driving reform of IB and consider a number of suggestions that have been made before setting out a possible new structure for IB.

### The purpose of IB

There is a need to preserve the principle that there are people for whom it is unreasonable for the state to require to work in return for benefits, *but* IB provides inadequate policy foundations for transformative change in lives of IB claimants. A reformed IB would need to serve a dual purpose:

- to provide swifter and more effective routes back off benefits and into work for people experiencing work-limiting health problems or disability; and
- to provide a decent standard of living for those periods of time and/or those people for whom work is not possible.

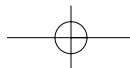
This is essentially in tune with the Government's thinking, as affirmed by the Secretary of State for Work and Pensions:

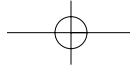
Anything we do in the future has to align with our policy of providing work and providing help, support and security for those who can work and providing help, support and security for those who cannot. (Johnson 2004)

It is sensible to have one benefit which includes people who can and should move into work and those people who cannot, at least not at a given point in time. But it is also important to recognise a possible tension between the two purposes of IB. Policies which seek to encourage people into work, by retaining the financial incentives to working over claiming benefits, may at times be in conflict with those designed to ensure that those who cannot work have a decent standard of living. A careful balance needs to be struck in order to meet both purposes at once which may involve focusing resources on extra costs, rather than out of work benefits.

Some key principles have emerged from our analysis of the current problem. A new IB system must:

- **De-couple disability and incapacity.** Demanding that in order to receive benefits those with a long term health problem or disability must be incapable of all work on every day of their claim reflects a pro-





found poverty of ambition, and leads to uncertainty, risk-aversion and misunderstandings among claimants and employers. The Disability Rights Commission has argued for the replacement of the concept of incapacity: 'Reform ... has to entail moving away from the outdated concept of 'incapacity' towards conditions that enable individuals to make transitions between activities and look for work while retaining entitlement to an income' (2004). De-coupling disability and incapacity will ensure a reformed IB is compatible with welfare to work.

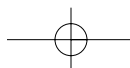
- **Recognise that work is not suitable for all.** While many IB claimants could work (at least some of the time, in certain jobs), there are some for whom this is not an option. The IB system has to deliver alternative routes out of poverty and social exclusion for these people.
- **Supports moves into work.** Recognising that work is not suitable for all must be balanced with the need to support moves into work including making work pay for those who can work. The disincentive effects of benefits are more pronounced for many IB claimants than for others. Only half of those on IB (or Income Support with a disability premium) would experience gains of more than £40 a week if they started working for thirty hours per week at the minimum wage of £4.50 and received the Working Tax Credit (Strategy Unit 2004).

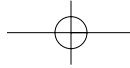
A reformed system that has these principles at its foundation must also be accompanied by an expansion of welfare to work programmes – when the evidence permits – and careful consideration of how the wider benefits system relates to people with health problems or disabilities. Wider reforms and investment are required in line with our seven point strategy outlined above.

### Some possible reforms

A number of ideas for reform of IB have been floated. These include time-limiting access to IB, extending work conditions, merging JSA and IB and tightening the gateway onto IB.

The idea of **time-limiting access to contributory IB** has been circulating in the media but details of how this might work and what benefit and level of benefit people would move onto after the time-limited period expired are not clear. Let us assume that after the period of contributory IB expired, a claimant, if they have not moved into work, would move onto Income Support as happens with JSA. This reform would quickly lead to savings in IB by reducing the level of financial support to disabled people. It would also remove the existing disincentive to leave IB because the rate increases the longer a person is on it. It may also lead to increased work-related activity before, or when, IB expired. However, the evidence on the incentive





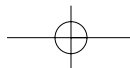
effect of comparable moves is mixed and there is evidence to show that those who move onto means-tested benefits are actually encouraged to withdraw from the labour market once support is withdrawn. There is particularly striking evidence on rates of withdrawal in a time-limited regime from the US (see Stanley *et al.* 2004).

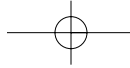
On its own, this reform would run counter to the objective of providing a decent standard of living during those periods of time out of work and for those people for whom work is not possible, and could disproportionately affect those at greatest distance from the labour market. It would also create disincentives for existing claimants to move into work for fear that they could not sustain the job and would have to come back onto the benefit under the new terms. There is strong evidence that where people with disabilities and health problems claim benefits within a regime which does not support their specific needs they remain inactive over a long period. For example, those who failed the PCA and moved onto JSA had the worst work record of all groups in 2002/3: seventy-seven per cent remained out of work after twelve to eighteen months, compared with just over five per cent of other groups of claimants (DWP 2004c).

While IB currently fails to support the specific needs of claimants, the right reforms would address this directly rather than transferring the problem onto another out of work benefit and risking compounding the problem. Cutting off IB after a fixed period without accompanying reform, could simply shift people off IB and onto JSA where they swell the numbers of the long term unemployed (and potentially increasing unemployment figures). Research in 1997 found that the public were hostile to the idea of time limits and means testing of contributory benefits paid to people who were genuinely incapable of work (Stafford *et al.* 1999). Finally, time-limiting access to contributory IB would fail to fully appreciate that some people will not ever be able to move off benefits and into work and time limiting their access to the benefit may be entirely inappropriate. It is important to remove the current incentives to stay on IB for longer periods of time, however, time limits do not appear to be a promising way of achieving this.

A second suggestion has been to **extend the work requirements placed on IB** so that claimants are required to undertake work-related activity in order to be eligible for the benefit. Research by ippr has examined this option in detail (see Stanley *et al.* 2004) and concluded that, while extended conditions could be justified as they could enhance work opportunities for IB claimants, work-related conditions on IB should not currently be extended. There are three central reasons for this:

- **Inadequate policy foundations.** Extended work conditions would exacerbate the existing paradox at the heart of IB whereby claimants are simultaneously required to be incapable of work and take steps to move into work. On its own this reform would therefore be ineffective and



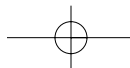


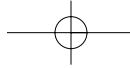
create the risk of harm and negative unintended consequences. So in the absence of wider reform the policy is untenable.

- **Difficulties in identifying capacity for work.** It is difficult to make the subtle distinction between those for whom work is not an option at a given point in time, and those for whom some form and duration of work is possible at a given point in time. A failure to make this distinction accurately could lead to people being sanctioned for failure to comply with conditions with which they are not capable of complying. Improvements in working with GPs and other health professionals, training of personal advisers and the development of vocational rehabilitation should help to make such assessments more realistic in the future. Any future system would need to be applied flexibly.
- **Lack of evidence of what works for whom.** Pathways to Work will continue to improve available evidence about the success of welfare to work programmes. Nonetheless, welfare to work programmes need to be more effective before making them mandatory, this includes tackling demand side barriers, such as employer discrimination. Failure to tackle these wider barriers would mean IB claimants – including those with mental health problems – would be subject to potentially highly demoralising and unrealistic expectations.

The implementation of work conditions would require a massive increase in the capacity of Jobcentre Plus and a substantial increase in public spending on labour market programmes for IB claimants. Research also shows that work-related options for IB claimants need to be closely matched to individual needs to be effective, so a much wider range of programme and support services would need to be made available to facilitate worthwhile work-related activities. On the basis of existing evidence and with the current system of IB, even if extended conditions brought about behavioural change among IB claimants they may not lead to improved outcomes. Increasing the responsibilities of IB claimants without a clear commitment to monitoring benefit rights would represent an unbalanced reform package. It is a reasonable ambition to move towards an end point where eligibility for IB was contingent on participation in paid or other work, rehabilitation or condition management programmes. However, this is contingent upon a reformed IB that was fit for purpose and implementing wider structural changes. We elaborate on this below.

A third idea that has been floated is the **merger of JSA and IB**. This has the advantage of removing the concept of incapacity, the virtue of simplicity and could bring about a real transformation in the perceptions of employers and the self-perception of IB claimants and their expectations of work. However, it would necessarily lead to the watering down of the idea of JSA being a benefit available to people actively seeking work, as there are





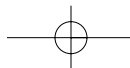
some IB claimants who could not be expected to do this. The key challenge would come in determining which claimants were and which were not expected to comply with current JSA work requirements.

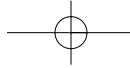
The merger would also lead to a substantial increase in unemployment figures if the claimant count included the newly merged benefit, which would have political implications. Evidence from claimants who have moved from IB to JSA suggests this increase may well be long term without wider reform. On average, twenty-eight per cent of all people claiming JSA were still on the benefit a year later but for people who moved onto JSA from IB, the figure was forty-five per cent in 2003/4. This was despite the fact that former IB claimants were more likely than others on JSA to say that they would accept any job they could get (thirty-nine per cent compared with thirty-two per cent) (Ashworth and Hartfree 2001). As existing claimants would need to have their entitlement protected as the transition to full merger was made, there would be a decrease in off-flow from IB as people were further disincentivised from seeking work for fear of losing their IB entitlement.

There have also been proposals for a wider merger of out of work benefits creating a **new Working Age Benefit**. As we improve our ability to address who can do what work, develop welfare to work strategies for IB claimants and remove structural and attitudinal barriers, the creation of such a benefit may become a desirable option. It is outside of the remit of this paper to examine this in detail.

Fourth and finally, the idea that never really goes away is that we should **tighten the PCA gateway onto IB**. This is a red herring. The PCA gateway was tightened in 1995 and the UK now has one of the most stringent disability benefit gateways in the world (OECD 2003). Crucially, evidence from the OECD shows that there appears to be no correlation between the stringency of the gateway and the number of disability benefit claimants. The US is considered to have the tightest gateway in the world (the gateway process takes a year) but numbers of claimants have been consistently rising while the employment rates of disabled people have also been falling (Stanley *et al.* 2004). One of the arguments used to suggest the gateway should be tightened is the relatively high rate of appeals. While the PCA could no doubt be improved, the rate of appeals is so high partly because lodging an appeal, even one that fails, entitles people to other benefits. Income Support, for example, can be claimed at eighty per-cent of the full level until the appeal is resolved.

The routes onto IB are not just about the PCA gateway. It is more important to focus on early intervention and what happens when a person becomes disabled or has a health problem, including the response of their employers, and people's experiences while on Statutory Sick Pay. The job retention and rehabilitation pilots which began in Spring 2003 in six areas should be helpful in providing evidence about the best ways to achieve this





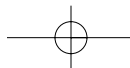
for people who are off work for between six and twenty-six weeks. It is also important to focus on off-flows from IB. It is the recent decrease in the off-flow from IB that has led to a consistently high caseload, while the in-flow has been decreasing. A focus on off-flows though help with return to work has been shown to be a successful approach with unemployed and lone parent claimants.

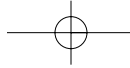
All four of these ideas would run a significant risk of opposition from existing claimants and disability organisations. This opposition may be well-founded and if changes to IB do not have the support of clients and staff, they run the risk of low compliance and promoting a sense of unfairness which will not help us achieve our objectives from the benefit. While none of these ideas appears to hold the answer to the problems in the IB regime, each offers insights into the possible options for reform. In particular:

- A system is needed in which most people are expected to participate in programmes to lead to work, and/or enhance their employability, and/or their well-being and inclusion.
- There would be merit in having a flat rate of benefit and thinking about the relationship between IB, JSA and other out-of-work benefits as a long term goal of reform in a context where overall support is adequate to deliver a decent standard of living to IB claimants.
- It is important to focus on early intervention *and* support for return to work. That is, people actually moving into work or not falling out of employment, rather than focussing on in-flow, which could result in fewer claimants but no increase in the employment rate of disabled people.
- There is a need to think about the end-to-end process. For example, there is a need for a much better shared understanding of work as a positive treatment outcome between welfare services and health services.

### The basic structure of a reformed system

In this section we outline the basic structure of an IB framework for people with health problems or disabilities. This seeks to accommodate the insights gained from consideration of other proposals for reform and fulfil the principles for reform derived from the core purpose of the benefit. This is not a definitive or fully comprehensive structure, or one that it would be possible to implement it in its totality at once. It is presented as a basic structure that could help point towards a positive and ultimately achievable direction for reform. An improved structure might include the following key components:





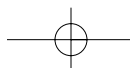
- **A new benefit, Earnings Replacement Allowance (ERA), to replace IB** based on wider eligibility criteria to de-couple incapacity and disability and health problems. In separating the concept of 'incapacity' from financial support for people with a health problem or disability, these changes would prevent the lowering of aspirations and expectations. This would also shift the expectations of employers about the ability of claimants to work and of Jobcentre Plus staff about how to engage with claimants.
- **The enhancement of Disability Living Allowance (DLA)** so that this part of the benefit system can deliver greater security for those for whom work is not an option at least at a particular time. This would be achieved by making it available to more people with a disability or health problem that cause them to incur extra costs.
- Bringing all those people who pass the PCA into a **common framework** and simplifying the overall incapacity benefits system.
- **Action agreements** negotiated between by personal advisers and all claimants to increase clients' opportunities for employment and social and economic inclusion. The agreements would form a contract between the service provider and the claimant. Supporting work also means removing the incentives to stay on IB and extending effective welfare to work programmes.

The new structure would create solid foundations on which to build welfare to work programmes and, possibly, to consider a single Working Age Benefit. Below we briefly elaborate on each of these key elements and then give some illustrative calculations to show how the framework might work.

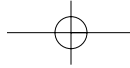
### Earnings Replacement Allowance (ERA)

The reformed IB could be called Earnings Replacement Allowance or ERA. This would describe the function of the payment but neither ascribing disability to those who claim the benefit but do not consider themselves disabled, nor ascribing the stigma of 'incapacity'. This signals that it is not a payment for being disabled or having a health problem. 'Earnings Replacement' need not imply the benefit is any way linked to previous earnings but only that it is designed to replace a basic income earned through paid work. There is currently a labour market programme called Employment Retention and Advancement, known as ERA. If this were to continue under this name an alternative for the new IB might be Earnings Replacement Credit or Income Maintenance Allowance.

ERA would de-couple disability and health problems from incapacity. This would be achieved by changing the eligibility criterion as well as the name. The criterion would no longer be incapacity for work and instead





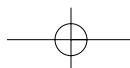


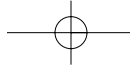
would be having a work-limiting disability. This would be assessed through an adapted PCA which would necessarily have to continue to be primarily based on a functional test but would be measured against a wider eligibility criterion (for example, meaning fewer points were required to pass the eligibility threshold). In the longer term, it should be possible to apply a more sophisticated set of tests which draw on a wider range of professionals.

Changing the criterion is important in increasing the numbers who leave the benefit. The change would mean more people move from JSA to ERA, but this wouldn't matter in itself: individuals with a work-limiting disability or health problem would have access to the support they need and more chance of moving into work rather than being long term unemployed. The cost of direct benefits would not increase as ERA would be set to give greater parity between ERA and JSA. Having said this, reducing the financial incentive to move from JSA to ERA would partly off-set the additional in-flow created by a wider eligibility criterion.

ERA would also be paid at a flat rate so there is less of a disincentive to try work for fear of having to return to the benefit at a lower level. The extra costs of living with a health problem or disability that might arise after an extended period of time out of work would be met through enhanced DLA and other lump sum costs through other parts of the welfare system, such as through asset-based welfare. Also the need to reflect the lump sum costs which may be incurred after an extended period out of work and on ERA will be diminished by the greater number of people enabled to move off the benefit more quickly as a result of the removal of the misunderstandings and fears present in the current system. The additional allowances which are available to people on IB and the disability premium available to people on Income Support, would also be moved from these benefits to the benefit that reflects extra costs of living: so from ERA or JSA or Income Support to DLA. This makes it clear that ERA is a benefit to replace lost earnings while a person is out of work due to health problems or disability, whereas DLA is an allowance to meet the extra costs incurred as a result of a health problem or disability.

It would be prudent to give consideration to the current distinction between contributory IB and other forms of benefits with the same eligibility criteria except that receipt is not contingent on a certain level of national insurance contributions. This may mean bringing IB and Income Support claimed on the grounds incapacity together under the ERA. The implication is that there may be value in exploring the options for means testing ERA although the current form of means testing applied to JSA and Income Support is likely to be inappropriate for the IB client group. This is a much broader discussion about the future of the contributory principle which is beyond the scope of this paper. It is certainly possible that direct savings might be made in public expenditure through the change from IB to ERA





although any such savings would be needed to expand welfare to work programmes and enhance DLA.

Initially, ERA might be applied to new claimants and existing claimants of one year or less, with longer-term existing claimants having 'transitional protection' so that their current benefits are not unaffected unless they choose to opt into the new system of ERA and enhanced DLA.

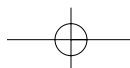
### Enhanced DLA

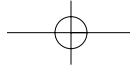
ERA is not compensating someone for having a health problem or disability, instead it is providing a replacement source of income in lieu of paid work. DLA is designed to cover the extra costs of a disability or health problem and, in a climate of tight fiscal constraints, the rate of ERA unlikely to enable people to cover them. It is important that these costs are met but it is clear that the current DLA is inadequate in this respect. This suggests DLA should be enhanced so that it can function to help ensure people have a decent standard of living.

DLA could be enhanced to cover a wider range of the extra costs incurred as a result of the impact of impairment. More people would be eligible and DLA would be made available to cover costs other than personal care and mobility. Recent research has shown that disabled people can incur significant extra costs on clothing, housing and power, adaptations to household goods, and recreation (Smith *et al.* 2004). People who currently receive DLA may become eligible more DLA to cover costs not currently covered. The available data is insufficiently detailed to give a picture of how many more people would be eligible for extra costs payments if the range was extended in this way. DLA is already paid at several different rates within the mobility and personal care-related needs categories but in future would need to respond to more levels of need. Finally, some of the premiums that are available on IB may be more appropriately paid through DLA.

Enhanced DLA would continue to be available to people on other out-of-work benefits and some people in work when it could be counted as taxable income for Working Tax Credit purposes. The Working Tax Credit would continue to be payable on top of DLA to support the financial incentives to work.

The level of DLA would not necessarily be any higher than at present. The outstanding costs not covered through the benefits system might be covered through environmental improvements, enhanced service provision and wages from greater and better employment. If the total cost was payable to the individual this would fail to take into account wider account to reduce the extent to which the wider environment has a disabling effect in individuals. This division of costs means government is not 'double paying' for correcting the disabling environment and the impact of the envi-





ronment on individuals. There would be a need however to re-evaluate the complete level of DLA in the medium term.

The enhancement of DLA would nonetheless mean extra public expenditure on DLA. Aside from the social justice arguments, there is a clear political case for this increase. DLA is not just for people who are out of work, it is not a classic welfare benefit in this sense but rather a hybrid between an out of work benefit and a tax credit. This should make it easier to win acceptance for increases in spending. Both the Conservative and Labour Governments should be proud of increases they have made in spending on DLA. The current Government should make a virtue of the way they have spent more on DLA to increase the standard of living and employment opportunities of people with health problems and disabilities. The Conservative Government before them consistently under-estimated how much DLA would cost but failed to make a virtue of their significant increases in spending on DLA.

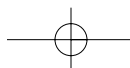
There are also ways in which the costs of an enhanced DLA might be limited. For example:

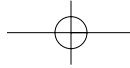
- an upper limit could be imposed on the level enhanced DLA to which an individual was entitled;
- changes to the wider environment through the implementation of existing and planned anti-discrimination legislation and the proposed Commission on Equality and Human Rights could reduce the need for DLA;
- as more claimants move into work their health and well-being may improve leading to a decrease in demand for enhanced DLA.

### Action agreements

An action agreement could be negotiated and mutually agreed between a personal adviser and a claimant. It could be mandatory to fulfil its terms, however, this would not be a punitive form of conditionality, instead it would be the fulfilment of a negotiated agreement. The purpose of the agreement would be to plot a return to work and/or medical and other services to deliver greater opportunities for the social and economic inclusion of IB claimants.

These agreements could build on the action plans that are part of the Pathways to Work pilots. Crucially, the actions agreed would be made up from a range of options selected according to the needs and circumstances of the particular individual at that time and would not necessarily relate to work. They may involve work-search activity, enhancing employability through training and education, or rehabilitation and condition management depending on the impairment and circumstances of the individual at the time. This would act as a means of building trust between the client and the adviser which is particu-





larly important for clients with mental health issues. Agreements would mean developing a broader range of provision, condition management courses and vocational rehabilitation for example, and would mean training advisers so that a cadre of specialised professionals were able to deliver sensitive and personalised services. This does not have to be done through Jobcentre Plus and could be done by providers in the voluntary or private sector.

In some cases, work is not a viable option. Regular contact and reviews should be maintained in these cases to ensure people are receiving their entitlements, the level of care and support needed as well as opportunities for meaningful activity wherever possible. Fulfilment of the terms of the agreement could be backed up with a compliance sanction (similar to that currently used in the Pathways to Work pilots) provided the agreements were personalised and flexible.

Agreements would be regularly reviewed in recognition of the fact that disability is not a status but is dynamic. It would be crucial to communicate that participation in the action agreement would not impact on eligibility for benefit although a failure to fulfil agreed terms may result in a non-compliance action. Personal advisers would be given the authority to guarantee this to clients and in order for this to be possible, the reform of IB as described above would have to happen.

### Illustrative figures

The final costs or savings to the public purse would depend on how the detail is unpacked but the illustrative figures here show how the key questions might be addressed.

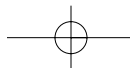
In order to bring greater parity to ERA and JSA either JSA would need to be brought up, or IB or ERA, as it would be, brought down. Expressed simply, at present, IB is paid at three different rates:

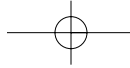
- £55.90 for new claimants
- £66.15 after six months
- £74.15 for those who have been claiming for more than a year.

While JSA has two sets of rates:

- contribution-based for those with sufficient National Insurance Credits paid from £33.50 to £55.65 a week; and
- income-based for those without sufficient National Insurance Credits paid at a range of rates up to a maximum of £55.65.

JSA payments may be increased to take into account dependents and disability; or decreased to take into account savings or a working partner. The average IB payment is higher than the average JSA payment.





The rates at which ERA and JSA are set are political judgements in which the costs of the system are balanced against social justice objectives and other spending priorities. The rates given here do not attempt to fully weigh these judgements, are illustrative, only relate to direct expenditure on the benefits and don't take into account interactions with the tax system and tapers for other benefits. One possible scenario is illustrated in Table 1 and described below. Other options may be to bring the level of JSA up to a higher rate of IB which would have the advantage of tackling poverty more widely, but the disadvantage would be substantial additional costs which would have to be traded off against other spending priorities.

### A possible scenario for ERA and DLA

Here is one way our proposed changes might work. Table 1, opposite, illustrates this scenario:

- **ERA introduced at £55.90** per week for all claimants replaces IB. The main rate of JSA is increased slightly to the same level. This would mean that new claimants onto ERA would receive the same amount as they do presently through IB. Claimants on ERA for longer periods would not receive increased levels of ERA payments but the changes in the eligibility criteria and the simultaneous expansion of effective welfare to work programmes would mean that fewer people would remain on ERA for protracted periods.
- **DLA enhanced** with new categories of need, more rates, incorporating some premiums currently given as part of IB and other benefits. This would mean **more people were eligible** for an enhanced DLA. This extra costs payment would ensure people who experienced disability and health related costs had a decent standard of living whether or not they were in work.

Such a new system is likely to cost more in the short-term although the exact cost would depend on a large number of policy decisions each of which involves a separate debate to whether, in principle, support for disability should be moved from the criterion of incapacity to more a nuanced understanding of need.

These extra costs need not be a barrier. They would result from giving crucial support to those who have been assessed as being in need and from helping people into work where they can contribute to the economy. In addition, the new system would better support claimants into work. This would mean as more people moved into work, the cost would reduce in the long term with eventual savings in direct benefit payments and social service costs and a rise in tax revenues.

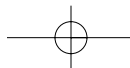
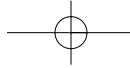


Table 1: Illustrative figures for proposed changes

Benefit	Current amount (£)	Notes	Changed amount (£)	Notes
<b>ERA</b>	55.90 – 74.15	Varies by age and time on benefit	55.90	One rate
<b>DLA e.g. care needs</b>		Three rates		Four rates. Same level as current DLA
Low	N/A		10.00	
Medium-Low	15.55 (Low)		15.55	
Medium-High	39.35 (Med)		39.35	
High	80.80		80.80	
<b>DLA e.g. mobility needs</b>		Three rates		Four rates. Same level as current DLA
Low	15.55 (Low)		15.55	
Medium	N/A		28.30	
High	41.05 (High)		41.05	

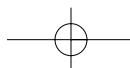


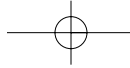
## Conclusion

The primary reason to reform IB is to address social injustice. IB fails to provide incentives and opportunities to move off benefits and fails to provide a decent standard of living for people who cannot reasonably be expected to work. Reform of IB must respond to the dual purpose of providing swifter and more effective routes off benefits and into work, and a decent standard of living for periods of time out of work and for those people for whom work is not possible. Both elements need to be addressed through a package of reforms which include simultaneous changes to other parts of the welfare system, for example, DLA.

A reformed system needs to separate the concept of 'incapacity' from financial support for people with a health problem or disability. The new framework would create solid foundations for the long term, when a single Working Age Benefit and extended conditionality may become compatible with the purpose of benefits for people who are disabled or experiencing health problems. In the meantime, efforts should be focused on removing disincentives to work in the current system – including the psychological barriers around the concept of incapacity – and creating more opportunities for people to plan routes into work and social inclusion.

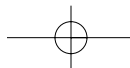
Our discussion of reform is by no means definitive. It is intended as a contribution to the debate and aims to shift focus away from cutting costs and the implications of fraud. Instead it offers positive ways forward which speak to social justice objectives, recognising that this might cost money in the short to medium term.



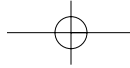


## References

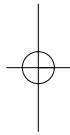
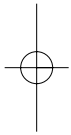
- Alcock, P., Beatty, C., Fothergill, S., Macmillan, R. and Yeandle, S. (2003) *Work to Welfare: how men become detached from the labour market* Cambridge University Press
- Ashworth, K. and Hartfree, Y. (2001) *Well Enough to Work?* DWP
- Berthoud, R. (2003) *Multiple Disadvantage in Employment* JRF
- Blair, T. (2004) Speech to the Labour Party Annual Conference, 28 September 2004 available at [www.labour.org.uk/speeches](http://www.labour.org.uk/speeches)
- Department for Work and Pensions (2004) 'Radical new pilots out-perform the rest of the country to get people on Incapacity Benefit off benefits and into work' News Release 11 October 2004, DWP
- Department for Work and Pensions (2004a) *Incapacity Benefit: Quarterly Report* DWP
- Department for Work and Pensions (2004b) *Fraud and Error in Income Support and Job Seeker's Allowance from April 2002 to March 2003* DWP
- Department for Work and Pensions (2004c) *Client Group Analysis: quarterly bulletin on the Population of Working Age on Key Benefits – May 2004* DWP
- Department for Work and Pensions (2004d) *Households below average income 1994/4–2002/3* DWP
- Department for Work and Pensions (2004e) *Opportunity for All* DWP
- Department for Work and Pensions (2002) *Pathways to Work. Helping people into employment* DWP
- Dickens, S., Mowlam, A. and Woodfield, K. (2004) *Incapacity Benefit Reforms: early findings from qualitative research* DWP
- Disability Rights Commission 'Equal citizenship and Incapacity Benefit reform: Paper to ippr seminar on the future of incapacity benefits' 28 October 2004 available at [www.ippr.org/research/socialpolicy/disabilityandwork](http://www.ippr.org/research/socialpolicy/disabilityandwork)
- Disability Rights Commission 'Conditions for Conditionality. DRC briefing paper' September 2004, DRC
- Gregg, P. and Wadsworth, J. (2003) 'Labour market prosperity and less skilled workers over the recovery' in Dickens *et al.* eds. *The Labour Market Under New Labour: the state of working Britain* Palgrave
- Howard, M. 'An interactionist perspective on bridges and barriers to work for disabled people' available at [www.ippr.org/research/socialpolicy/disabilityandwork](http://www.ippr.org/research/socialpolicy/disabilityandwork)







- Kaplan, G. and Leicester, A. (2002) *A Survey of the UK Benefit System*. IFS Briefing Note 13 IFS
- Kenyon, P. (2003) *Cost Benefit Analysis of Rehabilitation Services Provided by CRS Australia* The Institute for Research into International Competitiveness
- ONS *Labour Force Survey* spring 2001 Office for National Statistics
- OECD (2004) *Employment Outlook 2004* OECD
- OECD (2003) *Transforming Disability into Ability: policies to promote work and income security for disabled people* OECD
- Office of National Statistics (2001) *Fraud and Error in Incapacity Benefits* ONS
- Rickards, L., Fox, F., Roberts, C., Fletcher, L., and Goddard, E. (2003) *Living in Britain No 31 Results from the 2002 General Household Survey* TSO
- Select Committee on Social Security (1998) *Disability Living Allowance: fourth report of session 1997–8* House of Commons
- Sigle-Rushton, W. (2004) *Intergenerational and Life Course Transmission of Social Exclusion in the 1979 British Cohort Study*, CASE paper, 78 CASE
- Stafford, B. (1998) *National Insurance and the Contributory Principle* DSS
- Smith, N., Middleton, S., Ashton-Brooks, K., Cox L. and Dobson B. with Reith, L. (2004) *Disabled people's costs of living: More than you would think* JRF
- Strategy Unit (2004) *Improving the Life Chances of disabled people: analytical report* Cabinet Office
- Stanley, K. and Lohde, L. A. with White, S. (2004) *Sanctions and Sweeteners: extending conditions in the benefit system* ippr
- Stanley, K. and Regan, S. (2003) *The Missing Million: supporting disabled people into work* ippr
- Trades Union Congress (2004) *Defending Incapacity Benefit* TUC
- WorkDirections (2004) 'Building on New Deal. A response from WorkDirections' WorkDirections





ARTS & CULTURE
CRIME
DEMOCRACY & CULTURE
DIGITAL
ECONOMY
EDUCATION
ENVIRONMENT
EQUALITIES
EUROPE
FAMILIES
HEALTH
HOUSING
INTERNATIONAL
MEDIA
MIGRATION
PUBLIC INVOLVEMENT
PUBLIC SERVICES
REGIONS
SOCIAL POLICY
TRANSPORT
WELFARE

**‘The current system of Incapacity Benefit insists on all-or-nothing divisions into work or inactivity, health or ill-health, lack of disability or disability. Such crude reductionism fails to reflect the reality of health problems, disability or work as they are experienced by claimants.’**

Incapacity Benefit is failing its claimants on two fronts. It has become a barrier to work as many claimants fear that taking steps towards employment will place their benefits at risk. It also fails to provide a decent income for people who are unable to work because of long-term health problems or disability.

**Kate Stanley and Dominic Maxwell** call for a new benefits framework to create solid foundations for the long term. They set out practical policies to support people with health problems or disability get back to work and deliver a decent standard of living for those who can't work.

Institute for Public Policy Research  
30–32 Southampton Street, London WC2E 7RA  
T +44 (0) 7470 6100 F +44 (0) 7470 6111  
E [info@ippr.org](mailto:info@ippr.org) | [www.ippr.org](http://www.ippr.org)

