Institute for Fiscal Studies

The social security system: long-term trends and recent changes

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Executive summary

- Public spending on social security has risen as a share of national income over time, from around 4% in 1948–49 to nearly 13% in 2013–14. It is the largest single component of government spending, making up around 30% of total expenditure.
- More than half of social security spending goes to pensioners, and their share of total spending has been rising in recent years. This partly reflects the ageing population, but it is also the result of policy choices, including the current government's decision to focus cuts to the social security budget on working-age individuals.
- The contributory principle plays an increasingly marginal role in the social security system, particularly for those of working age. In 2013–14, around four-fifths of non-pensioner social security spending was means-tested, compared with around a quarter in 1978–79.
- Support specifically for families with children is now mostly delivered through the tax credit system. On a consistent basis, real-terms tax credit spending more than quadrupled between 1997–98 and 2010–11, from £7 billion a year to over £30 billion a year. This drove over two-thirds of the real-terms increase in spending directed at the whole non-pensioner population over this period.
- Real-terms spending on housing benefit has almost doubled over the last two decades. This reflects rising private rents and the growth of the private rented sector, as well as reductions in other government subsidies for housing.
- By the end of the parliament, reforms introduced by the current government will have reduced working-age social security spending by around £20 billion a year relative to estimated spending on an unreformed system. The overall cap on social security spending (excluding the state pension and the most cyclical benefits) introduced by the current government represents a new mechanism for controlling expenditure in the UK.

1. Introduction

The British welfare state has changed dramatically in size and shape over the 70 years since the Beveridge Report. The share of national income spent on social security has increased more than threefold, from around 4% of national income in 1948–49 to nearly 13% in 2013–14.[2] Spending on social security now makes up around 30% of total government expenditure.[3] And having started with a focus on the old, ill and unemployed, the system now also supports the incomes of many low-income working families, particularly those with children. In addition to these long-run trends, the welfare state has undergone a significant reshaping in recent years, as a result of the fiscal consolidation. By the end of the parliament, reforms introduced by the current government will have reduced social security spending on those of working age by around £20 billion a year (relative to estimated spending on an unreformed system) while leaving pensioners broadly unaffected. This briefing note describes both long-run trends and more recent changes, providing an overview of the evolution of the British benefits system over the last half-century.

Section 2 provides an overview of overall social security spending since 1948 and discusses long-term trends in the structure of the benefit system. Section 3 provides a summary of key changes in the nature of support offered to families with children, support for housing costs, benefits for those at older ages, and support for the ill and disabled. Section 4 documents some of the common themes that emerge when considering the changes to the benefit system that have been made in recent years. Section 5 concludes.

2. An overview of social security spending: 1948–49 to 2013–14

Throughout this section, we define social security spending as all central government spending on cash benefits and tax credits. This measure will not, of course, capture all the support provided to households and, as a result, changes in social security spending may reflect changes in how support is delivered rather than changes in overall generosity. For

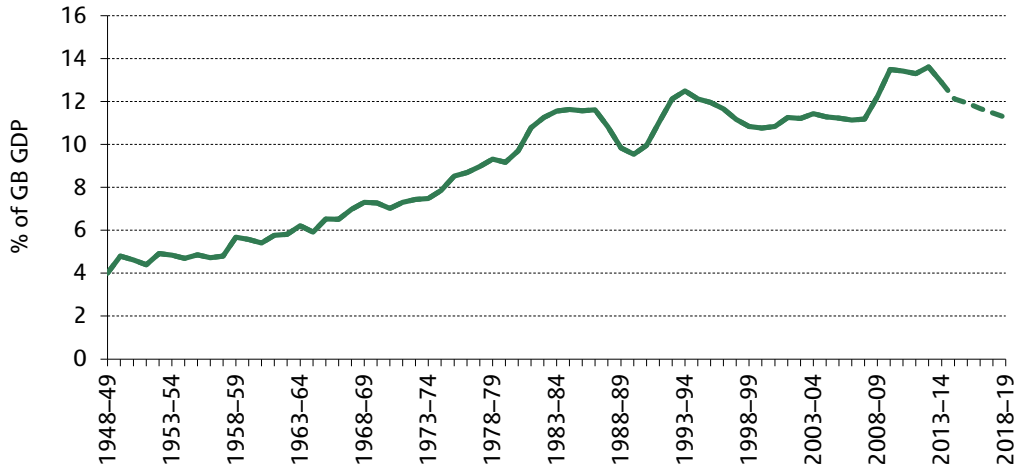
[2] Figures are for Great Britain. See Section 2 for sources.

[3] Source: https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

example, moving from subsidising social housing to a greater reliance on housing benefit will increase social security spending, even if there is no increase in the total support offered.

On the above definition, social security spending increased almost continuously as a share of national income from 1948 to the mid-1980s. As shown in Figure 1, social security spending was around 4% of GDP in 1948–49, but had reached over 11.5% of GDP by 1983–84. This was due to both an increase in the generosity of many state benefits and an increase in the numbers eligible to claim them. Perhaps the best example of this is the basic state pension, which increased in generosity from around 14% of average male earnings in 1948–49 to nearly 20% in the early 1980s. At the same time, the number of people over state pension age increased from 6.8 million in 1951 to 10 million in 1981.[4]

Figure 1. Social security expenditure as a percentage of national income: 1948–49 to 2018–19



Note: GB figures. Includes working tax credit and child tax credit, where appropriate. Council tax support was localised in 2013 and no longer appears in the spending figures. This partly explains the reduction in spending. Figures from 2014–15 onwards are forecasts.
Source: Authors' calculations using benefit expenditure from https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014 and GDP from https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-june-2014-quarterly-national-accounts.

The late 1980s saw the first substantial fall in social security spending as a share of national income since 1948–49. This was the result of rapid economic growth and the associated fall in claimant unemployment,

[4] Government Statistical Service, *Annual Abstract of Statistics*, 2000 edition.

combined with the fact that many benefits, including the basic state pension, were only increased in line with inflation. The economic downturn in the early 1990s, however, saw the economy contract and unemployment rise to 10.7% (as measured by the Labour Force Survey).[5] This led to another dramatic rise in the share of national income spent on social security, up to 12.5% in 1993–94. After that, social security spending fell as a share of national income, as the economy grew and the unemployment count dropped. This spending gradually increased following the turn of the millennium, despite continued economic growth. This was mainly due to the increasing generosity of benefits targeted at lower-income families with children (for example, child tax credit) and lower-income pensioners (for example, pension credit), discussed in more detail in Section 3.

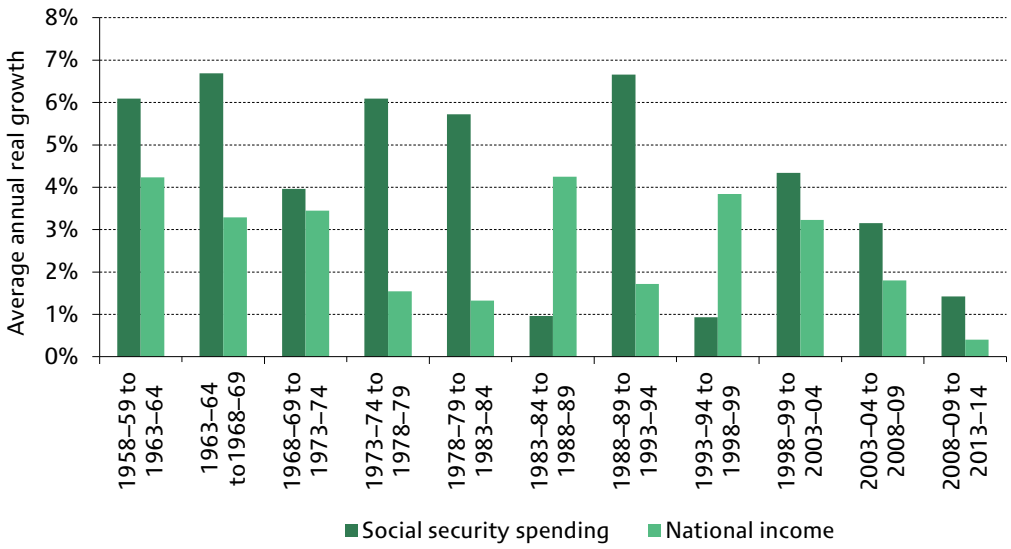
Largely as a result of the recent recession, expenditure as a proportion of national income rose substantially from 11.2% in 2007–08 to 13.5% in 2009–10 (due to both an increase in benefit payments to the newly unemployed and the lower level of national income). Spending then grew to an all-time peak of 13.6% of national income in 2012–13. The cuts to the benefit and tax credit system being implemented by the coalition government have arrested the rise in the proportion of national income spent on social security (at a time of flat or falling national income), with the proportion standing at an estimated 12.9% in 2013–14. On current forecasts, spending will fall to 11.2% of national income by 2018–19, as the economy recovers, although that would still leave spending as a greater share of national income than in any year before 2008–09.

Figure 2 shows the average annual real increases in social security spending seen over each five-year period since 1958–59, compared with the average annual real growth in national income. Over this period, social security spending has grown (on average) in real terms by around 4.2% per year (compared with average annual growth in national income of 2.6%). However, there have been large fluctuations in the pattern of this growth, particularly over the last 25 years. The pattern of spending can be seen to be broadly countercyclical, as one would expect, although this relationship has weakened over the last decade-and-a-half. Despite

[5] Source: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/october-2014/sty-labour-market-statistics.html.

reasonably strong (and certainly stable) economic growth between 1998–99 and 2008–09, growth in social security spending outstripped growth in national income, reflecting the large increase in the generosity of benefits for families and pensioners, especially at the start of this period of Labour government. And in contrast to recessions in the early 1980s and early 1990s, real benefit spending did not grow as rapidly in response to the most recent recession. One reason for this is that the rise in unemployment was relatively muted compared with the fall in national income after 2008, peaking at 8.5% in late 2011, compared with over 10% in the earlier downturns.[6] Importantly, the recent rise was sharp but short, whereas a high rate of unemployment persisted well beyond the end of previous recessions. Another reason is the current government's cuts to the generosity of working-age benefits (discussed in Section 4).

Figure 2. Average annual real increases in social security spending and national income over five-year periods: 1958–59 to 2013–14



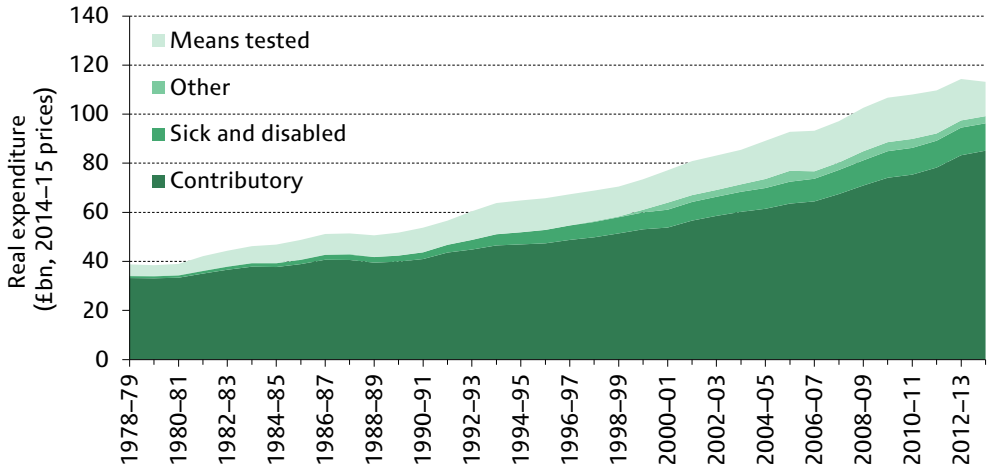
Source: Authors' calculations using benefit expenditure from https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014 and GDP from https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-june-2014-quarterly-national-accounts.

As well as growing significantly as a share of national income, the welfare state has seen dramatic structural change over the last few decades. Figures 3a and 3b illustrate how the structure of the social security system has changed since 1978–79 along two key dimensions – the allocation of

[6] Source: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/october-2014/sty-labour-market-statistics.html.

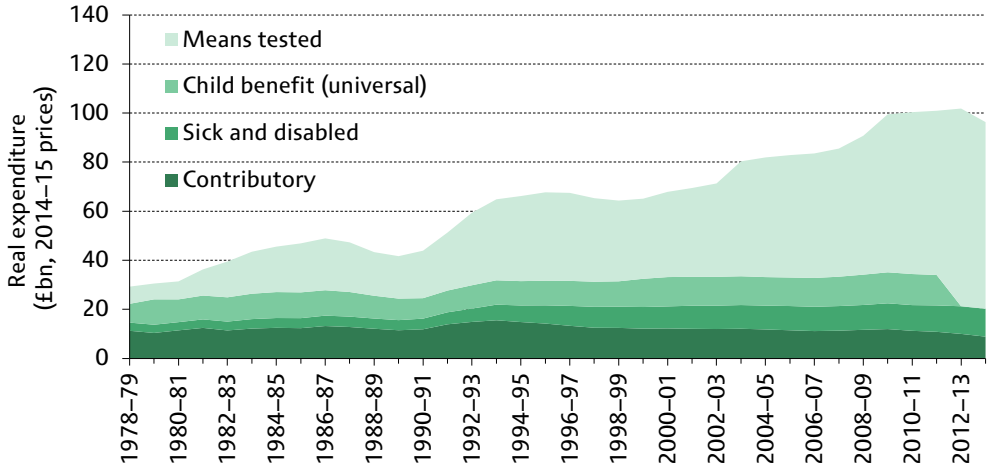
spending between pensioners and the rest of the population and the relative importance of means-testing and the contributory principle.

Figure 3a. The composition of benefit spending on pensioners: 1978–79 to 2013–14



Source: Department for Work and Pensions, 'Benefit expenditure and caseload tables 2014', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

Figure 3b. The composition of benefit spending on non-pensioners: 1978–79 to 2013–14



Source: Department for Work and Pensions, 'Benefit expenditure and caseload tables 2014', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

Comparing Figures 3a and 3b, it can be seen that total spending on pensioners was more than £15 billion higher than total spending on the rest of the population in 2013–14, having been less than £10 billion higher as recently as 2011–12. This recent growth in the share of social security spending going to pensioners (from 52% of social security spending in 2011–12 to 54% in 2013–14) continues a longer-term trend – as recently

as 1996–97, the government actually spent more on benefits and tax credits for the rest of the population. This change is partly explained by the ageing population, but it also reflects the large increases in the generosity of means-tested benefits for pensioners under the 1997 to 2010 Labour government, and the current government's decision largely to protect pensioners from cuts it is making to the social security system.

Figures 3a and 3b also show the decline of the contributory principle and the corresponding increase in the importance of means-testing. Currently, less than half of benefit expenditure (45%) goes on benefits that are described as contributory, compared with 65% in 1978–79. In fact, that figure overstates the true importance of the contributory principle, because many of the remaining 'contributory' benefits have only a tenuous link between entitlements and contributions (as discussed in more detail in Section 3 with respect to the state pension). Real-terms expenditure on contributory benefits increased from £44 billion in 1978–79 to £94 billion in 2013–14, slightly more than doubling in real terms. This compares with a more-than-sevenfold increase in spending on income-related benefits (from £12 billion in 1978–79 to £90 billion in 2013–14).

While some spending on pensioners has been means tested throughout this period, the relative importance of means-testing for that group has risen only slightly over time. This is in sharp contrast to the dramatic shift towards means-testing for non-pensioners, shown in Figure 3b. Real expenditure on means-tested benefits for this group has grown from £7 billion in 1978–79 to £76 billion in 2013–14, and from 24% to 79% of spending. Two key explanations for this dramatic rise are the increase in spending on housing benefit (as the importance of social housing has declined) and the rapid growth of tax credit expenditure since the early 2000s. Both of these changes are discussed in greater detail in Section 3.

As well as reflecting particular policies, the decline in the contributory principle is explained by the changing context in which successive governments have attempted to provide support. The contributory principle was at the heart of the Beveridge report of 1942, which assumed a country in which, for the most part, men worked and married women didn't, the only lone parents were widows, and life expectancy was lower than the state pension age. This cannot be said of the UK today. The proportion of working-age men in work has fallen from 88% in 1951 to 77% in 2013, while the proportion of working-age women in work has

risen from 33% to 67%.[7] At the time of the Beveridge Report, only around one in 20 births was outside marriage;[8] by 2010, nearly a quarter of dependent children were living in lone-parent households.[9] Male life expectancy climbed from around 58 in 1940 to 78 in 2010,[10] but the male state pension age remained the same. The system envisaged by Beveridge could never have accommodated the growing number of lone parents and long-term unemployed in obvious need of support but without a history of formal contributions.

Recent years have seen suggestions from across the political spectrum that the role of the contributory principle should be strengthened, in a partial reversal of this long-run trend. Ed Miliband has proposed raising the contributory rate of jobseeker's allowance (JSA) above that of means-tested JSA (to about £100 per week compared with the current £72.40), while extending the length of time for which people need to have made National Insurance contributions in order to qualify.[11] Meanwhile, David Cameron has proposed increasing benefit conditionality for all but those who have sufficient contributions.[12] However, an attempt to strengthen the role of the contributory principle to a meaningful extent would face an inevitable trade-off – either there must be greater payments for those who have contributed (increasing total spending) or benefits must be made less generous for those who have not contributed and who are typically among those on the lowest incomes.

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[7] Source: 1951 figures – A. H. Halsey and J. Webb (eds), *Twentieth-Century British Social Trends*, Palgrave Macmillan, London, 2000; 2013 figures – Office for National Statistics, *Summary of Employment, Unemployment and Economic Inactivity*.

[8] Source: http://www.ons.gov.uk/ons/rel/vsob1/birth-summary-tables--england-and-wales/index.html.

[9] Source: http://www.ons.gov.uk/ons/rel/family-demography/families-and-households/2001-to-2010/dep-kids-sum.html.

[10] Source: http://www.ons.gov.uk/ons/dcp171776_253938.pdf.

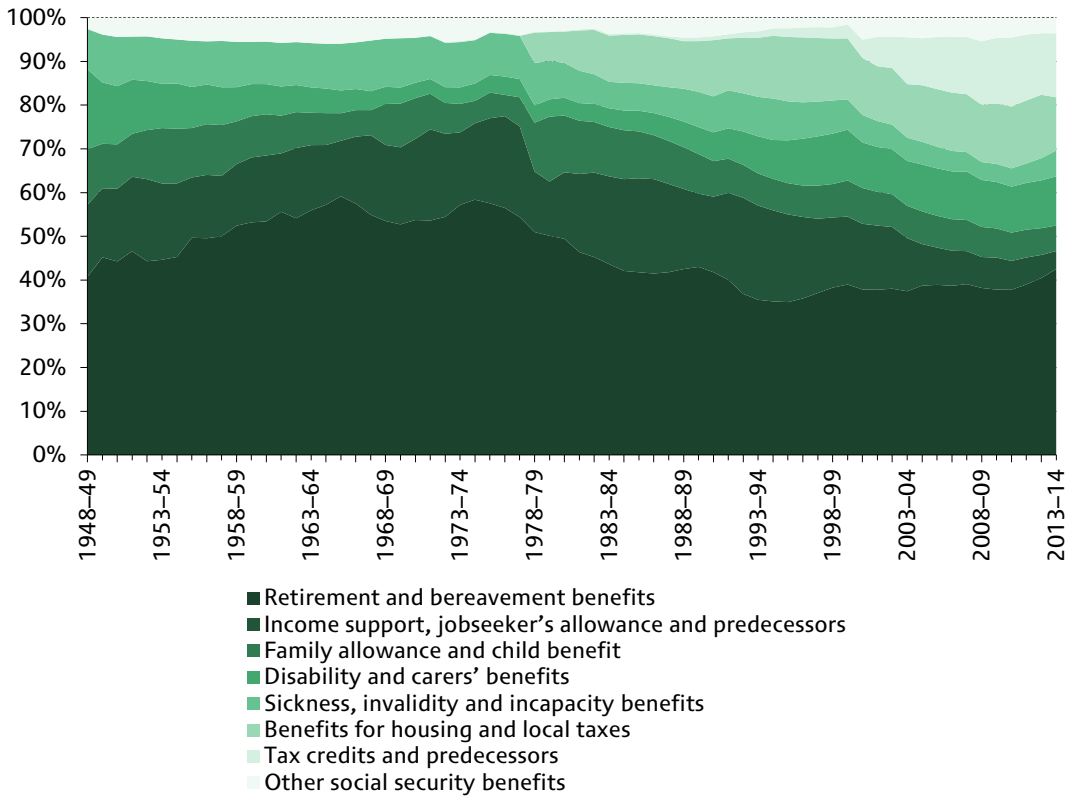
[11] Source: http://www.bbc.co.uk/news/uk-politics-27911518.

[12] http://www.telegraph.co.uk/news/politics/david-cameron/9354163/David-Camerons-welfare-speech-in-full.html.

3. Long-term trends in social security spending

As well as looking at overall levels of spending on social security benefits and tax credits, it is important to consider how spending has been allocated between different objectives. Some benefits (for instance, jobseeker's allowance, income support and sickness benefits) are designed to help those with low income, perhaps due to circumstances that may have been unforeseen. Others assist with particular costs (such as housing costs or costs incurred as a result of living with disability). Other benefits are targeted at supporting particular groups (for example, families with children or pensioners).

Figure 4. Share of total social security expenditure by benefit type: 1948–49 to 2013–14



Source: 1948–2001 – Department of Social Security, *The Changing Welfare State: Social Security Spending*, 2000. 2001–14 – Department for Work and Pensions, 'Benefit expenditure and caseload tables 2014', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

Figure 4 attempts to distinguish several broad categories of support to show how the composition of spending has changed over time.[13]

[13] This analysis differs from that provided in Section 2 in that spending is broken down by benefit (or groups of benefits) rather than by types of recipient. For example, a

Retirement and bereavement benefits have been easily the largest components of benefit spending since 1948–49. They made up 40% of social security spending at the beginning of the period, then rose to nearly 60% in the mid-1970s, as the population aged and there were real increases in the generosity of the basic state pension, before falling to 35% by 1995–96. The recent rise to over 42% by 2013–14 partly reflects the repackaging of income support for older people (which we classify as support for those on low incomes) as pension credit (which we allocate to older people). However, it is also a consequence of the current government's decision to protect pensioners from the cuts to social security made in recent years (see Section 4 for more details).

Looking at more recent years, the most dramatic change in the composition of social security spending has been the increase in spending on tax credits. While some of that increase reflects a repackaging of part of income support (amongst other things) and the replacement of the married couple's allowance and additional personal allowance (which provided support through the income tax system), there was also a significant increase in the generosity of the support offered to low-income families with children or with someone in paid work.

Another important change in the allocation of spending is the large increase in the share of benefits designed to meet housing costs and local taxes. This increase is largely due to the dramatic rise in housing benefit expenditure, which is itself the result of both rapid increases in private rents and growth in the number of private renters (who, on average, pay higher rents than those in social housing). However, from 2013, council tax support was localised and is no longer included in our figures (see Section 4).

The rest of this section looks in more depth at key trends in the four largest areas of spending on social security: support for families with children, help with housing costs, support for older people, and benefits for the sick and disabled.

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smaller proportion of spending goes on retirement and bereavement benefits than on pensioners as a group, since they also receive benefits not specifically targeted at that group, such as housing benefit.

Families with children[14]

Families with children can benefit from a range of 'child-contingent' support, i.e. benefits and tax credits that are allocated on the basis of the presence of children in a household. There are several important trends in the evolution of support for these families.

Spending on child-contingent support rose slowly (and somewhat unsteadily) relative to prices between 1975 and 1999. However, Adam and Brewer (2004) find that 45% of the increase in spending between the mid-1970s and 1999 was caused by the changing characteristics of households with children, such as the increasing proportion of households with children where no adult is in paid work. In other words, changes to tax and benefit policies between 1978 and 1999 were responsible for 55% of the increase in spending over that time.

In contrast, spending (both total and per child) rose dramatically and unprecedentedly from 1999, and almost all of the increase was due to policy changes. The scale of these changes reflected the Labour government's aim to abolish child poverty within a generation.[15] Indeed, the changes were large enough that the cuts to social security introduced in the current parliament, such as the freezing of child benefit between 2011 and 2014, have only gone a fraction of the way towards reversing the increase in generosity for families with children seen between 1997–98 and 2010–11. For example, households with children in the bottom tenth of the overall income distribution saw their net incomes increase by 20% as a result of all tax and benefit changes between 1997–98 and 2010–11, while all changes between 2010–11 and 2015–16 are expected to reduce their net incomes by 5%.[16]

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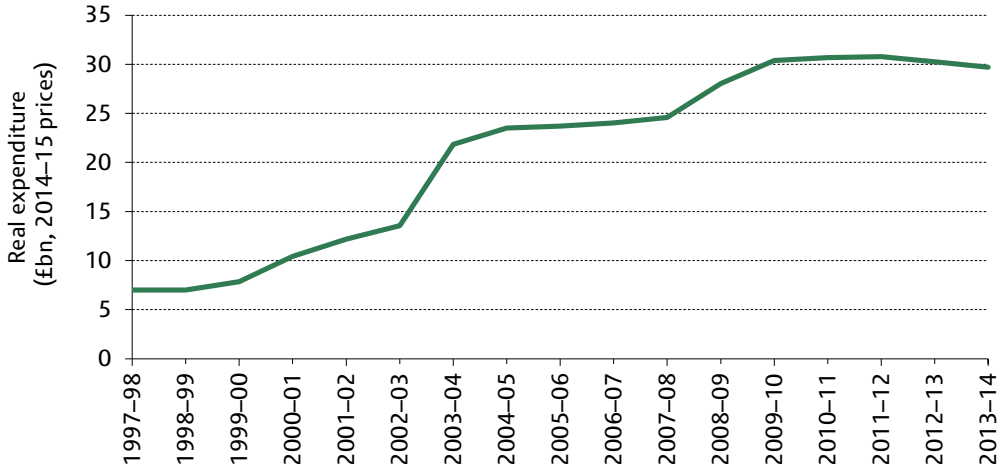
[14] This subsection draws on S. Adam and M. Brewer, *Supporting Families: The Financial Costs and Benefits of Children since 1975*, Policy Press, Bristol, 2004, http://www.jrf.org.uk/sites/files/jrf/jr160-families-costs-children.pdf.

[15] In the Beveridge Lecture of March 1999, Tony Blair announced a commitment to 'eradicate' UK child poverty by 2020. This commitment was subsequently enshrined in law by the Child Poverty Act 2010; for details, see http://www.parliament.uk/briefing-papers/SN05585.pdf.

[16] Source: J. Browne, A. Hood and P. Johnson, 'Options for cutting spending on social security', in C. Emmerson, P. Johnson and H. Miller (eds), *The IFS Green Budget: February 2013*, 2013, http://www.ifs.org.uk/budgets/gb2013/GB2013_Ch8.pdf; R. Joyce and D. Phillips, 'Tax and welfare reforms planned for 2013–14', in C. Emmerson,

The increase in generosity seen in the 2000s came largely through the introduction and extension of the current tax credit system. As shown in Figure 5, spending on tax credits (and the benefits they partly or fully replaced) more than quadrupled over the period of the last Labour government, from around £7 billion in 1997–98 to over £30 billion by 2010–11. Indeed, over two-thirds of the real-terms increase in spending directed at the whole non-pensioner population over this period was driven by higher spending on tax credits. This new spending mostly benefited low-income families with children, both in and out of work, and so represented a significant shift towards means-tested (and away from universal) support for this group.

Figure 5. Spending on tax credits and equivalents: 1997–98 to 2013–14



Source: Department for Work and Pensions, 'Benefit expenditure and caseload tables 2014', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

The importance of means-testing has increased further with recent changes to eligibility for child benefit. From January 2013, child benefit is withdrawn from households containing individuals with a taxable income of over £50,000 a year.[17] The peculiar nature of the means test, operating at the individual rather than the family level, adds to the impression that, in its current form, child benefit is something of an awkward 'halfway

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P. Johnson and H. Miller (eds), *The IFS Green Budget: February 2013*, 2013, http://www.ifs.org.uk/budgets/gb2013/GB2013_Ch7.pdf.

[17] For details of this change, see R. Joyce, 'Withdrawal symptoms: the new "High Income Child Benefit charge"', IFS Observation, January 2013, http://www.ifs.org.uk/publications/6527.

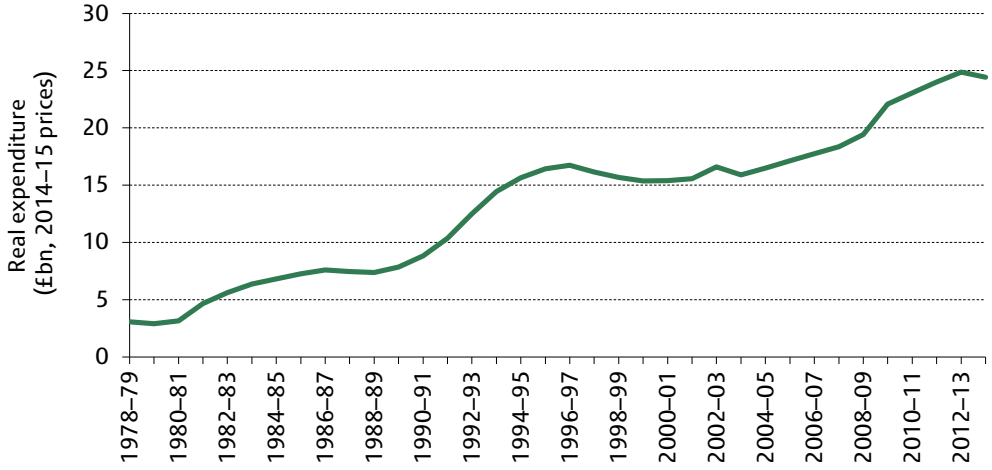
house' – no longer universal but not one of the means-tested benefits that will be incorporated into universal credit.

Under current government plans, from 2016 it will no longer be possible to make a new claim for child tax credit and, during 2016 and 2017, the Department for Work and Pensions (DWP) will begin to transfer existing child tax credit claims to universal credit or pension credit. The child element of child tax credit was the main tool used to increase generosity of benefits for families from 2003–04 to 2010–11, and the child element of universal credit will provide the same support in broadly the same manner.

Housing costs

By far the largest benefit aimed at helping low-income families with their housing costs is housing benefit (HB). HB is payable to families with low incomes who rent their homes. (For families who own their own homes, mortgage interest payments may be met through income support, jobseeker's allowance, employment and support allowance or pension credit.)

Figure 6. Spending on housing benefit: 1978–79 to 2013–14



Source: Department for Work and Pensions, 'Benefit expenditure and caseload tables 2014', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

Spending on housing benefit has grown enormously over the last few decades, as shown by Figure 6. From around £3 billion in 1978–79, spending has risen to nearly £25 billion in 2013–14. As the graph shows, expenditure rose particularly quickly in the early 1990s, increasing by 84% in only four years from 1989–90 to 1993–94. While partly the result

of the early 1990s recession, this increase was also a result of the removal of rent controls on new tenancies from 1989; as private rents increased sharply, so did the cost of the subsidy provided through housing benefit. As a result, spending per claimant rose by 56% over those four years, while claimant numbers rose by 18%.

Recent years have also seen housing benefit spending increase significantly, with spending up 28% in the four years from 2008–09 to 2012–13. This increase is partly explained by the growing number of households entitled to some HB, as employment has fallen and earnings have grown more slowly than rents. In 2012–13, 66% of social renters and 25% of private renters received HB to help with their rent, up from 59% and 19% respectively in 2008–09.[18] The increase in spending also reflects a continuation of longer-term trends in the composition of those entitled to housing benefit. Since the start of the 2000s, the proportion of HB claimants in the private rented sector has been increasing, from one-fifth in 2001–02 to one-quarter by 2008–09. This trend then accelerated, with one-third of claimants in 2012–13 being private renters.[19] This compositional shift largely mirrors changes in the housing tenure of the overall population: in 2001–02, only around 30% of renters were in the private sector, but by 2012–13 that figure was over 50%.[20] Since private sector rents are, on average, significantly higher than social sector rents, the growing share of claimants in the private sector acts to increase spending.[21]

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[18] Source: Department for Communities and Local Government, *English Housing Survey: Headline Report 2012–13*, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/284648/English_Housing_Survey_Headline_Report_2012-13.pdf.

[19] Source: Department for Work and Pensions, 'Benefit expenditure and caseload tables 2014', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

[20] Source: Figure 2.9 of C. Belfield, J. Cribb, A. Hood and R. Joyce, *Living Standards, Poverty and Inequality in the UK: 2014*, IFS Report R96, 2014, http://www.ifs.org.uk/publications/7274.

[21] For a more detailed analysis of recent changes in housing benefit expenditure, see Office for Budget Responsibility, *Welfare Trends Report*, 2014, http://budgetresponsibility.org.uk/welfare-trends-report-october-2014.

It is crucial to note that much of the growth in spending on housing benefit over recent decades reflects a change in the way governments have chosen to support low-income households in this area, rather than an increase in generosity. As the Hills Review of social housing noted, 'there has been a pronounced switch in the way housing subsidies are provided from supply-side subsidies (which reduce the cost of housing) to demand-side subsidies (which help people pay for it)'.[22] The review provides an estimate that the government's capital spending on housing fell by more than half between 1975–76 and 2003–04, from around £14 billion to less than £7 billion (in 2014–15 prices). The decline in supply-side subsidies is also evident in the fall in the number of dwellings built by the government, from nearly 130,000 in 1975 to fewer than 25,000 in 2013.[23]

Whatever the underlying cause, recent governments have responded to increases in HB expenditure by reducing the generosity of the benefit, often by weakening the link between entitlements and claimants' actual housing costs. In the mid-2000s, the Labour government introduced a (locally-determined) cap, above which rents cannot be covered. A package of reforms announced by the coalition government, and introduced in April 2011, further reduced the maximum rents that can be covered.[24] In the social sector, housing benefit has been cut by 14% (or 25%) for working-age claimants occupying a property with one more bedroom (two or more additional bedrooms) than the government thinks is necessary given their family composition. One in three (some 660,000) working-age claimants of HB in the social rented sector are estimated to be affected by this 'removal of the spare-room subsidy' (or 'bedroom tax').[25]

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[22] Page 64 of J. Hills, *Ends and Means: The Future Roles of Social Housing in England*, CASEreport 34, Centre for Analysis of Social Exclusion, London, 2007, http://eprints.lse.ac.uk/5568/1/Ends_and_Means_The_future_roles_of_social_housing_in_England_1.pdf.

[23] Source: Department for Communities and Local Government, Live Table 244 https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building. Figures include dwellings built by housing associations.

[24] For details of this package of reforms, see section 4.3.3 of A. Hood and L. Oakley, 'A survey of the GB benefit system', IFS Briefing Note BN13, 2014, http://www.ifs.org.uk/publications/1718.

[25] Department for Work and Pensions, 'Housing benefit: under occupation of social housing', Impact Assessment, June 2012,

The government intends to integrate HB into universal credit (UC) by 2017. Under current government plans, from 2016 it will no longer be possible to make a new claim for HB, and during 2016 and 2017 DWP will begin to transfer existing claims to UC.

Older people

The majority of support for older people has always been provided through the state pension system. This subsection provides an extremely brief history of that system, before discussing the role of means-tested benefits for this group.

Bozio, Crawford and Tetlow (2010, p. 5) summarise the history of the UK pension system as 'the story of a mainly non-contributory system, periodically tempted by the higher replacement rate of social insurance schemes, but always frightened by their cost'.[26] This assessment highlights several key trends within the British pension system, which have culminated in the government's latest state pension reform – the introduction of the single-tier pension from April 2016.

The first key trend is that the contributory principle underlying Beveridge's 1942 proposal for the state pension has been significantly weakened over time. Beveridge's original proposal was that individuals would be provided with a flat-rate income in old age that would be just sufficient to lift them above an absolute measure of poverty. This income was to be funded through contributions paid during working life. However, the post-war Labour government wanted pensioners to benefit from the new system immediately, and so chose to introduce a 'pay-as-you-go' system rather than a funded one; that is, they linked the generosity of pensions to the contributions of those of working age, rather than to the past contributions of pensioners. Today, National Insurance rates are set according to the overall budgetary needs and distributional objectives of the government and are not formally linked to state pension spending.

The original basic state pension (BSP) was not particularly 'contributory' in the usual sense; one's final benefit depended on the number of years of

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229366/social-sector-housing-under-occupation-wr2011-ia.pdf.

[26] A. Bozio, R. Crawford and G. Tetlow, 'The history of state pensions in the UK: 1948 to 2010', IFS Briefing Note BN105, 2010, http://www.ifs.org.uk/publications/5000.

National Insurance contributions rather than on the level of these contributions. However, there has been a strong trend even further away from the contributory principle, and towards universality. Indeed, it will be very difficult to spend 35 years of working-age life in the UK and not get full entitlement to the new single-tier pension (STP). This trend towards universality has been motivated by the desire to reduce poverty rates among the pensioner population and by concerns around fairness towards women (reflected in the crediting of more and more unpaid activities).

Meanwhile, governments have made occasional attempts to link individuals' income in retirement to the income they enjoyed while working. By the late 1950s, there was growing pressure on the state to provide an earnings-related top-up to the BSP for those who did not have access to an occupational pension. The additional pension from such schemes (graduated retirement benefit (GRB), followed by the State Earnings-Related Pension Scheme (SERPS) and then the state second pension (S2P)) moved the system away from one of flat-rate benefits. However, the GRB was relatively ungenerous, while SERPS – the most generous system that has been in place in the UK – was perhaps only implemented because of the apparent failure of the government to recognise or accept the implied cost of the scheme.[27] After the true costs became clear, subsequent governments have spent the last 30 years unpicking the policy, so that accruals to the new single-tier pension will have no earnings-related component at all, for the first time since 1961. Thus, while the current system may be financially sustainable (although spending is still projected to rise as a share of national income – as shown in Figure 7 later), the UK state pension system has never provided the high level of earnings replacement that has existed and continues to exist in many continental European countries.

In recent years, there has been a clear emphasis on trying to create a simpler state pension system. The current system is the product of

[27] Hemming and Kay (1982) pointed out that the implied future cost of the original SERPS system did not appear to have been properly calculated by the government before the reforms were introduced in 1975 (R. Hemming and J. Kay, 'The costs of the State Earnings Related Pension Scheme', *Economic Journal*, 1982, 92, 300–19).

decades of complicated policy changes:[28] the pension benefits available to a given individual depend not just on their National Insurance contributions history but also on the dates they made these contributions and the date at which they reach the state pension age. Much more than other public policy, pension provisions find it more difficult to escape the promises – either implicit or explicit – made in the past: repeated reforms to state pensions make it harder for individuals to make appropriate, well-informed decisions about how much to save privately for retirement. The new, simpler, STP is intended to make it easier for individuals to plan for retirement, as, in the long run, the vast majority of individuals should receive a pension exactly equal to the full value of the pension. The simplicity of the STP may mean that it has a better chance of surviving than the multitude of reforms that have gone before, thereby ending a long period of large and frequent upheaval in the design of state pensions. However, exact contributory conditions, the age at which the pension can be received and indexation rules are still likely to change.

A final key trend in state pension provision has been the gradual increase in the state pension age. An increase for women from 60 to 65, in order to equalise treatment of men and women (in a way that reduces state spending), is taking place between 2010 and 2018. The state pension age for both men and women is then set to rise, reflecting an attempt to address the fiscal sustainability issues resulting from increasing life expectancy. The Pensions Act 2014 has accelerated this process and introduced a structured method for considering future increases.[29]

Alongside these various changes to the state pension system, the role of means-tested benefits in supporting the incomes of the poorest pensioners has become increasingly important over time.[30] From just over £4 billion a year in 1979–80 (around 11% of total benefit spending on pensioners), real-terms spending on means-tested benefits for pensioners rose to

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[28] For a more detailed discussion of the current pension system, see section 4.4 of A. Hood and L. Oakley, 'A survey of the GB benefit system', IFS Briefing Note BN13, 2014, http://www.ifs.org.uk/publications/1718.

[29] For details, see https://www.gov.uk/government/collections/pensions-bill.

[30] For a more detailed description of these benefits, see A. Bozio, R. Crawford and G. Tetlow, 'The history of state pensions in the UK: 1948 to 2010', IFS Briefing Note BN105, 2010, http://www.ifs.org.uk/publications/5000.

£18 billion (17%) by 2009–10.[31] Part of the increase in later years was driven by the introduction of pension credit in 2003–04, which raised the minimum income pensioners received from the state. Means-tested benefits played an important role in dramatic declines in pensioner poverty rates, but there were growing concerns about their detrimental impact on the incentives for private retirement saving among the working-age population. While these concerns were partly addressed by the savings credit element of pension credit (which reduced the withdrawal rate faced by pensioners with some private income), they also served to motivate the introduction of the single-tier pension, which has been set at a level explicitly designed to guarantee that all those with full entitlement will not qualify for means-tested pension credit.[32]

The last couple of decades have seen the introduction of some universal benefits for older people, in addition to state pensions and means-tested benefits. The largest of these is the winter fuel payment, which was introduced in 1997–98 and now costs just over £2 billion a year (less than 2% of total benefit spending on pensioners).

Figure 7 shows projections of benefit spending on the pensioner population up to 2063–64. An ageing population means that the share of national income devoted to pensioner benefits is projected to increase, though DWP estimates that the STP will reduce spending on state pensions by 0.4% of national income by 2063–64 (relative to a counterfactual of no reform).[33] The graph shows the phasing-out of BSP and additional state pensions, as well as a reduction in reliance on pension credit. Despite the increase in the share of national income going to state pensions, the major concern for policymakers going forward is regarding the adequacy of the state pension. Although the majority of pensioners will be eligible for the full STP, for many individuals this will, in the long run, represent a reduction in the income that they can expect to receive from the state in

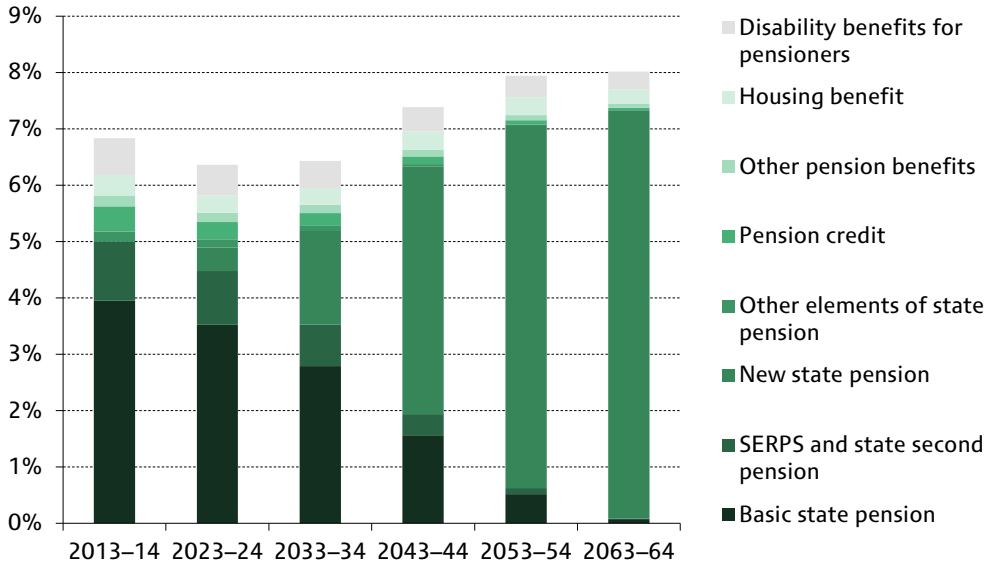
[31] Department for Work and Pensions, 'Benefit expenditure and caseload tables 2014', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

[32] As a consequence, savings credit will be abolished as the single-tier pension is introduced.

[33] See page 83 of Office for Budget Responsibility, *Fiscal Sustainability Report*, July 2014, http://cdn.budgetresponsibility.org.uk/41298-OBR-accessible.pdf.

retirement relative to the previous system.[34] The current government has sought to encourage individuals to counteract this reduction in generosity by increasing private saving, through policies such as automatic enrolment.

Figure 7. Share of GDP spent on each type of pensioner benefit: 2013–14 to 2063–64



Source: Department for Work and Pensions, 'Long term projections of pensioner benefits', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

Sick and disabled people

The history of support for sick and disabled people in the UK is best told as the history of two almost autonomous systems of support – benefits designed to replace earned income for those unable to work because of sickness and disability, and benefits designed to compensate individuals for the costs of disability. In addition, there have long been benefits in the UK that provide compensation for injuries or illness that are caused by work or that occur during service in the armed forces. These benefits have changed only slightly over time and make up a very small proportion of total spending on support for sick and disabled people.[35]

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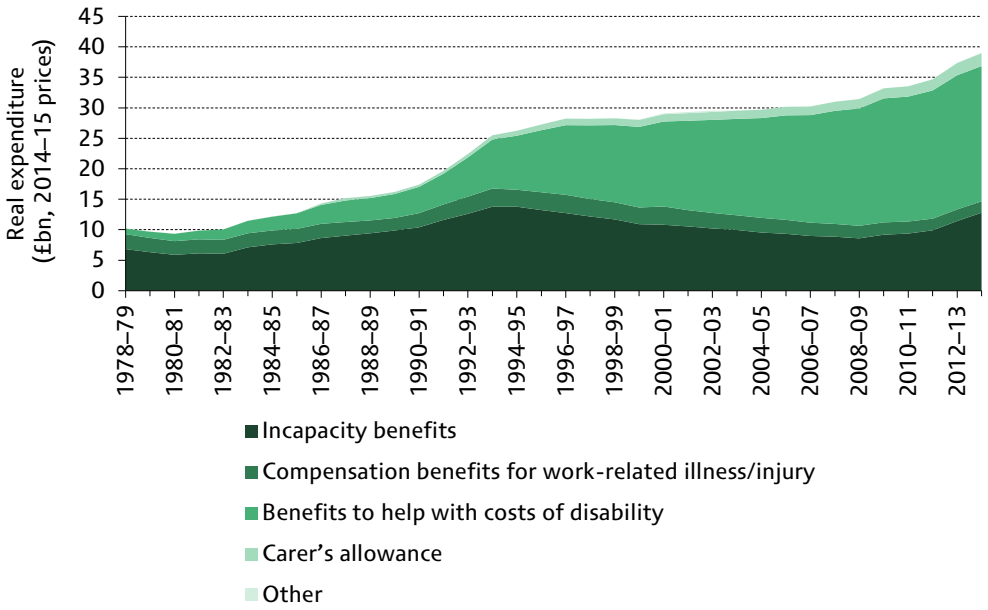
[34] See, for example, R. Crawford, S. Keynes and G. Tetlow, *A Single-Tier Pension: What Does It Really Mean?*, IFS Report R82, 2013, http://www.ifs.org.uk/publications/6796.

[35] For a fuller history of disability benefits, see J. Banks, R. Blundell, A. Bozio and C. Emmerson, 'Disability, health and retirement in the United Kingdom', IFS Working Paper W11/12, 2011, http://www.ifs.org.uk/wps/wp1112.pdf.

Spending on incapacity benefits (chiefly sickness benefit and then invalidity benefit) rose relatively steadily in real terms between 1948–49 and 1990–91. Particularly sharp spending increases in the early 1990s, shown in Figure 8, triggered the replacement of invalidity benefit with incapacity benefit (IB), introduced in 1995. Following that reform, real-terms spending on incapacity benefits fell until the onset of the Great Recession in 2008. Some of this decrease in spending simply reflects the shuffling of claimants onto different benefits. For instance, from 1995, those reaching the state pension age were forced to move onto their pension whereas they could previously continue to claim invalidity benefit instead. As a result, some of the reduction in spending on disability benefits will have been offset through higher state pension spending. However, in many cases, the lower spending resulted from stricter eligibility rules, as reforms have attempted to both slow the rate of flow onto disability benefits and move people off them and into work. The Personal Capability Assessment (introduced in 1995 to test eligibility for IB) was designed to reduce the number of individuals entitled, and therefore encourage potential claimants to return to work.

Figure 8. The composition of spending on sickness and disability benefits: 1978–79 to 2013–14



Note: Figures do not include income support in case of disability.
Source: Department for Work and Pensions, 'Benefit expenditure and caseload tables 2014', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014.

In recent years, incapacity benefits have undergone another significant reform, with employment and support allowance (ESA) replacing both contributory IB and means-tested income support on grounds of disability.[36] Under ESA, claimants complete a Work Capability Assessment, which determines whether they are placed in the 'support' group or the 'work-related activity group'. Those in the second group are mandated to attend a work programme. This increased conditionality, alongside a more stringent health test than under IB, was expected to reduce claimant numbers, and hence spending. However, the Office for Budget Responsibility's recent *Welfare Trends Report* suggests that the reduction in expenditure will be much smaller than initially expected. At the time of Budget 2011, spending on incapacity benefits in 2014–15 was expected to be £10 billion, over £4 billion lower in real terms than in 2008–09. By the 2014 Budget, 2014–15 spending was expected to be £13.5 billion, less than £1 billion lower than in 2008–09.[37]

The government intends to integrate ESA into universal credit by the end of 2018–19, at which point expenditure on incapacity benefits is forecast to be at its lowest level as a share of national income since the late 1960s.[38]

Meanwhile, spending on benefits designed to help with the additional costs of disability has risen dramatically, from less than £1 billion in 1978–79 to over £22 billion in 2012–13. The sharpest increase was over the five years from 1990–91 to 1995–96, when spending on these benefits more than doubled in real terms. This increase coincided with the introduction of disability living allowance (DLA) in 1991, which increased eligibility for working-age adults and children, and so led to a growing number of people claiming a disability benefit. Although the increase in spending slowed from the mid-1990s onwards, it continued to rise at an average of over 4%

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[36] The increase in spending on incapacity benefits in recent years shown in Figure 8 partly reflects this reclassification – means-tested ESA is included whereas income support on grounds of disability is not.

[37] Source: Office for Budget Responsibility, *Welfare Trends Report*, 2014, http://budgetresponsibility.org.uk/welfare-trends-report-october-2014/.

[38] Source: Department for Work and Pensions, 'Benefit expenditure and caseload tables 2014', https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014; GDP from https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-june-2014-quarterly-national-accounts.

a year in real terms through to 2010–11. Partly in response to this trend, the current government is in the process of replacing DLA with personal independence payment (PIP) for those of working age. The aims of PIP were to introduce a more objective health assessment and to reduce spending by 20%.[39] All new claims were for PIP from June 2013, and existing claimants are scheduled to be moved over between late 2015 and late 2017.

4. Current trends in social security spending

At 29% in 2013–14, expenditure on social security represents by far the largest single area of government spending.[40] It is unsurprising, therefore, that cuts to social security have formed an important part of the coalition's plan to reduce the deficit. In making those cuts, the current government has decided to (mostly) protect pensioners while reducing spending on working-age benefits and tax credits by an estimated £20 billion a year by 2015–16 (relative to an unreformed system). This section does not provide a detailed analysis or assessment of the individual changes that have been made. Instead, it attempts to draw out the key patterns that have emerged in the changes made to the social security system in recent years and how they relate to the longer-term trends described in previous sections. These are changes to indexation rules, the introduction of caps on social security spending, the increase in levels of conditionality, and the localisation of some areas of support.

Indexation

How benefits are uprated each year is important.[41] Indexation policies affect changes in indexed parameters every year, so the effects of indexation policy accumulate over time and its impacts on the levels of benefits can soon become large. Therefore, a slightly less generous form of indexation can yield significant savings over a short time period.

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[39] Department for Work and Pensions, 'Disability living allowance reform: impact assessment', May 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220176/dla-reform-wr2011-ia.pdf.

[40] https://www.gov.uk/government/collections/benefit-expenditure-tables.

[41] See R. Joyce and P. Levell, 'The impact in 2012–13 of the change to indexation policy', IFS Briefing Note BN120, 2011, http://www.ifs.org.uk/publications/5713.

From 2011–12, the inflation index used for uprating most benefits, tax credit thresholds and public service pensions changed from the retail price index (RPI) or Rossi index (RPI without housing costs) to the consumer price index (CPI). CPI inflation tends to be lower than both RPI and Rossi inflation, and at the time of implementation this change was expected to save the government £5.8 billion in 2014–15.[42] In contrast, while the generosity of indexation of working-age benefits has been reduced, the state pension has been 'triple-locked' since 2012–13: it is increased in line with the highest of earnings growth, CPI price inflation and 2.5%.

In addition to this permanent change to indexation, the current government has capped the nominal increases in most working-age benefits and tax credits at 1% for the three years from April 2013. This is projected to reduce social security spending by around £3 billion in 2017–18.[43] The current Chancellor, George Osborne, recently announced his desire to pursue a similar policy in the next parliament, freezing most working-age benefits in 2016 and 2017 in order to save another £3 billion a year.[44] Below-inflation increases in benefits slightly reduce the entitlements of a large number of people claiming a range of different benefits, whereas in the past cuts have tended to be made to particular benefits rather than reducing the generosity of the system as a whole.

Another important change to indexation was the move to uprating local housing allowance (LHA) rates by CPI inflation from April 2013.[45] In effect, this policy replaces a link to current rents with one to historical rents; a benefit aimed specifically to support low-income households in meeting their housing costs will bear less and less relation to those costs over time.

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[42] Table 2.1 of HM Treasury, *Budget 2010*, June 2010, https://www.gov.uk/government/publications/budget-june-2010.

[43] http://www.gov.uk/government/publications/autumn-statement-2012-policy-decisions-table/autumn-statement-2012-policy-decisions-table.

[44] http://press.conservatives.com/post/98719492085/george-osborne-speech-to-conservative-party-conference.

[45] LHA rates are subject to the 1% nominal cap in 2014–15 and 2015–16. In future, LHA rates will in fact be the lower of their CPI-uprated level and the 30th percentile of rents in the local area.

Overall caps

Throughout the history of the social security system, governments have sought to control expenditure largely by changing the generosity and/or eligibility criteria of particular benefits. In a break from this historical pattern, the current government has introduced overall benefit caps at the household and national levels.

In April 2013, the government introduced a cap on the total weekly benefit entitlement of households. If a household's total weekly income from 'specified benefits' included in the cap exceeds their cap level, and they are not exempt, their housing benefit payment (or ultimately their universal credit payment) will be reduced to bring them down to the cap, currently set at £350 a week (for childless single claimants) or £500 a week (for other households).[46] Essentially, the benefits cap only affects low-income families with large numbers of children and/or very high rental costs. An estimated 73% of affected households contain at least three children and 49% are in Greater London (where rents are highest).[47] When it was announced, the cap was expected to save between £200 million and £300 million each year.[48]

In Budget 2014, the government introduced a cap on total social security spending, set initially at the level of the Office for Budget Responsibility (OBR)'s forecast. The cap will apply to all social security spending with the exception of the state pension and automatic stabilisers such as jobseeker's allowance.[49] If the government wishes to spend more on one area of social security, projected spending elsewhere in the social security budget will need to fall (or be made to fall via cuts), to stay within the

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[46] For more details about the specified benefits limited by the benefits cap, as well as various exceptions, see pages 1169–74 of Child Poverty Action Group, *Welfare Benefits and Tax Credits Handbook 2014/15* or https://www.gov.uk/benefit-cap.

[47] Department for Work and Pensions, 'Impact assessment for the benefit cap', July 2012, http://www.dwp.gov.uk/docs/benefit-cap-wr2011-ia.pdf.

[48] Source: Table 3 of HM Treasury, *Spending Review 2010*, October 2010, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/203826/Spending_review_2010.pdf.

[49] A full list of expenditure items within the scope of the welfare cap can be found in annex A of HM Treasury, *Budget 2014*, March 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293759/37630_Budget_2014_Web_Accessible.pdf.

overall cap. In order to change the level of the cap or the list of included expenditure, there must be a debate and vote in the House of Commons. The OBR will assess the government's performance against the cap once a year alongside the Autumn Statement.[50]

Although these two policies are, of course, very different – one operates at the household level, the other at the national level – they both reflect an attempt to control social security spending in a way that is new to the UK. Rather than focusing on entitlements to particular benefits (at the household or national level), these caps aim to control overall spending directly.

Conditionality

In a number of different parts of the social security system, recent years have seen a renewed focus on linking the receipt of benefits to certain conditions. With regard to sickness and disability benefits, this represents the continuation of the long-run trend discussed in Section 3, as they become subject to more stringent and more frequent medical assessments. For instance, unlike its predecessor (disability living allowance), there are no medical conditions that will lead to an automatic entitlement to the new personal independence payment (PIP). Furthermore, the assumption is that PIP will be awarded for a fixed term, of between 1 year and 10 years, rather than being awarded for life. Claimants will automatically be reassessed at the end of their term, as well as during it if circumstances change.

In addition to greater conditionality, the current government has also overseen a continuation in the long-run trend towards the increased use of sanctions when conditions are not adhered to, particularly the job-search requirements associated with unemployment benefits. For example, in the year following the introduction of a new sanctions regime in October 2012, the number of jobseeker's allowance (JSA) sanctions rose by 12%

[50] For a more detailed discussion, see R. Crawford, C. Emmerson and S. Keynes, 'Public finances: risks on tax, bigger risks on spending', in C. Emmerson, P. Johnson and H. Miller (eds), *The IFS Green Budget: February 2014*, 2014, http://www.ifs.org.uk/budgets/gb2014/gb2014_ch2.pdf.

(93,000), at a time when the number of JSA claimants was actually falling.[51]

The movement towards increased conditionality could accelerate with the introduction of universal credit (UC). Most significantly, claimants who are in work but earn under the 'conditionality earnings threshold' could also be made subject to conditionality requirements and potentially face resulting sanctions.

Localisation

Recent years have seen something of a reversal in the long-run trend towards the increasing centralisation of the social security system, with the localisation of council tax support and the abolition of the discretionary Social Fund.

The government localised support for council tax from April 2013. It abolished council tax benefit (CTB) across Britain and now gives local authorities in England (and the Scottish and Welsh governments) grants to create their own systems for rebating council tax to low-income families.[52] Local authorities in England, and the Scottish and Welsh governments, are given a grant based on 90% of what would have been spent on CTB in that area. Some local authorities have chosen to maintain the previous system essentially unchanged, financed by savings made elsewhere in their budgets, but most have adopted schemes that are less generous in some way (although pensioners in England have been protected). Of the 2.0 million working-age households in England that could previously have had their council tax fully rebated, 70% had to pay some council tax in 2013–14.[53]

The variation in council tax support (CTS) that is clearly developing might be welcomed on the basis that it reflects variation in local needs and

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[51] Source: C. Belfield, J. Cribb, A. Hood and R. Joyce, *Living Standards, Poverty and Inequality in the UK: 2014*, IFS Report R96, 2014, http://www.ifs.org.uk/publications/7274.

[52] For a comprehensive discussion of the reforms, see S. Adam and J. Browne, *Reforming Council Tax Benefit*, IFS Commentary C123, May 2012, http://www.ifs.org.uk/comms/comm123.pdf.

[53] S. Adam, J. Browne, W. Jeffs and R. Joyce, *Council Tax Support Schemes in England: What Did Local Authorities Choose, and with What Effects?*, IFS Report R90, 2014, http://www.ifs.org.uk/comms/r90.pdf.

priorities. However, it also increases complexity and bureaucracy. Local authorities that introduced minimum council tax payments, for instance, have seen larger increases in queries about CTS received by the Citizens Advice Bureau. Looking at the benefits system as a whole, the government's decision to both exclude CTS from universal credit and localise it looks questionable.[54] Keeping CTS separate from UC increases complexity and could lead to the reintroduction of the extremely high effective tax rates UC was supposed to eliminate. The extent to which this will happen will depend on how CTS schemes interact with UC. It is up to devolved governments and local authorities, which have no experience in designing benefit systems, to deal with these difficult issues.

The Social Fund was created in the late 1980s to help those on low incomes meet exceptional expenses. The regulated part of the Social Fund – Sure Start maternity payments, funeral payments, winter fuel payments and cold weather payments – continues to provide short-term support for households according to nationally determined guidelines. However, in April 2013, the discretionary Social Fund was abolished.[55] Centrally-funded crisis loans and community care grants have been replaced by locally-administered assistance from local authorities and the devolved administrations. Budgeting loans will remain in place for applicants in receipt of existing income-related benefits until they migrate to universal credit (at which point they may be eligible for a 'budgeting advance').

The stated objective of this shift was to replace parts of the Social Fund that were complex and poorly targeted. For instance, it was argued that it is difficult to properly assess requirements for crisis loans centrally, and so awards were not going to those in greatest need. It is intended that local authorities will be able to incorporate assessments into existing systems (such as social services) so that provision is directed to the most serious of cases. However, in order to realise the benefits of localisation,

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[54] See S. Adam and J. Browne, *Reforming Council Tax Benefit*, IFS Commentary C123, May 2012, http://www.ifs.org.uk/comms/comm123.pdf.

[55] DWP's Impact Assessment for the localisation of the discretionary Social Fund provides more details: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220189/social-fund-localisation-wr2011-ia.pdf.

administration of the new schemes must be adequately funded, and the difficulty of predicting demand must be taken into account.

5. Conclusion

The evolution of the UK benefit system since the 1940s has encompassed several key trends. Overall spending on social security has increased dramatically, with significant changes in the groups prioritised and methods used to deliver support. There has been a decline in the use of contribution-based benefits, and a shift towards universal or means-tested payments, which are increasingly delivered via the tax credit system. From the 1990s, greater focus was placed on benefits for families and pensioners, and there was an increased emphasis on encouraging people to take up work. More recently, several themes have emerged in the way the current government has approached reducing social security spending, including the protection of pensioners, less generous uprating of most working-age benefits, caps on total spending, stricter benefit conditions and the localisation of support.

It is important that any government looking to make further savings from the social security budget approaches the task with a plan for the future of the social security system as a whole. To introduce reforms without such a perspective in mind is to risk increasing rather than reducing complexity and inefficiency, at a cost to recipients and taxpayers alike.

Appendix: Major reforms

Benefits targeted at families with children

Past reforms

- **Child benefit** replaced **family allowance** and the **child tax allowance** from April 1977. While child benefit is currently payable to all qualifying children (subject to the high-income child benefit charge), family allowance was payable only to the second and subsequent children.
- **Statutory maternity pay** was introduced in 1987.
- In 2000, the **Sure Start maternity grant** replaced the **Maternity Payment Scheme**.

- **Statutory paternity pay** and **statutory adoption pay** were introduced in April 2003.
- **Child tax credit** replaced **children's tax credit** (and the additional child elements of a number of other benefits, including those in working families' tax credit) from April 2003. Children's tax credit was originally introduced in April 2001.
- Since January 2013, some **child benefit** is withdrawn from all households where someone earns over £50,000, and households where someone earns over £60,000 lose all their child benefit.

Future reforms

- Child tax credit will be replaced by **universal credit** by 2017.
- There will be a new scheme of **statutory shared parental pay** for babies due on or after 5 April 2015.

Benefits targeted at unemployed people

Past reforms

- **Jobseeker's allowance** replaced **unemployment benefit** and **income support for the unemployed** from October 1996.
- The **Work Programme** replaced the **New Deal** in June 2011.
- The **job grant** was abolished in April 2013.
- **In work credit** and **return to work credit** were abolished in October 2013.
- The **new enterprise allowance** was rolled out nationally between April and August 2011.

Future reforms

- **Universal credit** will replace jobseeker's allowance by 2017.

Benefits targeted at people with low income

Past reforms

- **Income support** replaced **supplementary benefit** from April 1988. Supplementary benefit replaced **national assistance** from November 1966.

- **Working tax credit** replaced **working families' tax credit** and **disabled person's tax credit** in April 2003. Working families' tax credit replaced **family credit** in October 1999, and family credit replaced **family income supplement** in April 1988. Family income supplement was introduced in 1971. Disabled person's tax credit replaced the **disability working allowance** in October 1999.

- Between 1948 and 1966, many local authorities provided recipients of means-tested benefits with additional help for rent and local taxes. In 1966, a national rebate scheme was introduced. This was reformed many times prior to 1990. Since then, help with rents has been delivered through **housing benefit**, while rebates for local taxes were available from 1990 through **community charge benefit** and, from 1993 to 2013–14, through **council tax benefit**.

- Several changes to **local housing allowance** (LHA) rules came into effect in April 2011:
    - setting LHA rates at the 30th percentile of local private sector rents rather than the median (50th percentile);
    - removal of up to £15 per week over and above rent that claimants were entitled to if their rent was less than their LHA rate;
    - abolition of the five-bedroom LHA rate;
    - national caps on LHA rates at £250, £250, £290, £340 and £400 per week for the shared accommodation, one-bedroom, two-bedroom, three-bedroom and four-bedroom rates respectively;
    - in January 2012, extension of the coverage of the shared accommodation rate, to include most single adults without dependent children aged between 25 and 34 not living in shared accommodation.

- From April 2013, **LHA rates** are increased in line with the consumer price index (CPI) each year, rather than in line with local rents. However, increases in LHA rates are limited to 1% for two years from 2014–15 (except for areas with the highest rent increases).

- From April 2013, **housing benefit** for working-age people in social sector housing is reduced by a fixed percentage of their eligible rent if they are under-occupying their property (living somewhere that the government considers too large for them). The reduction is 14% for one extra bedroom and 25% for two or more.

- Since April 2013, a **benefit cap** has been in force, which is achieved by reducing housing benefit payments to ensure that no family receives more on benefits than the average net earnings of a family in work.
- In April 2013, **council tax benefit** was abolished and responsibility for **council tax support** was localised.
- The **discretionary Social Fund** was abolished in April 2013.

Future reforms

- Housing benefit, income support and working tax credit will be replaced by **universal credit** by 2017.

Benefits targeted at older people

Past reforms

- Although the **basic state pension** has been in place since 1948, the system of retirement pensions as a whole has been subject to some major changes. Between April 1961 and April 1975, the **graduated retirement benefit** was running to provide an earnings-related element on top of the basic pension. In 1978, the **State Earnings-Related Pension Scheme** (SERPS) was introduced for people who were not members of an occupational pension scheme. SERPS was replaced by the **state second pension** (S2P) in 2002.
- **Winter fuel payments** were introduced from the winter of 1997–98 and extended to most men and women aged over 60 from 2000–01.
- **Free television licences for over-75s** were introduced in November 2000.
- **Pension credit** replaced **income support for people aged 60 or over** from October 2003.

Future reforms

- The government is introducing a new flat-rate **single-tier pension** for people who reach state pension age on or after 6 April 2016, replacing the basic state pension and the state second pension.
- The introduction of the single-tier pension will lead to the abolition of the **savings credit component of pension credit.**
- In October 2015, the government intends to introduce a new class (3A) of **voluntary National Insurance contributions** to allow pensioners

who reach state pension age before 6 April 2016 to top up their additional state pension.

- The **state pension age** will reach 66 for both men and women in October 2020, and will reach 67 between 2026 and 2028, earlier than originally planned.

Benefits targeted at sick and disabled people

Past reforms

- **Disability living allowance** replaced **mobility allowance** and **attendance allowance** for those aged under 65 from April 1992.
- **Incapacity benefit** replaced **invalidity benefit** and **sickness benefit** from April 1995.
- From April 2005, the **War Pensions Scheme** has been replaced by the **Armed Forces Compensation Scheme** for injuries and death suffered after that date.
- **Employment and support allowance** (ESA) replaced incapacity benefit and **income support on grounds of disability** for new claimants in October 2008.
- **Personal independence payment** replaced disability living allowance for new working-age claimants from June 2013.
- **Armed forces independence payment** was introduced in April 2013.

Future reforms

- The government aims to have reassessed existing working-age disability living allowance claimants for entitlement to the **personal independence payment** by the end of 2017.
- The government hopes to transfer existing income-related ESA claims to **universal credit** by the end of 2018.

Benefits targeted at bereaved people

Past reforms

- Women widowed before 11 April 1988 could receive the **widow's pension** or **widowed mother's allowance**. From 1988, a one-off **widow's payment** may also have been payable, replacing **widow's allowance** and **industrial death benefit**.

- **Bereavement allowance** replaced the widow's pension in April 2001, while **widowed parent's allowance** replaced widowed mother's allowance. **Bereavement payment** replaced widow's payment.
- From April 2005, surviving dependants of those who die while serving in the armed services can receive the **survivors' guaranteed income payment** in the Armed Forces Compensation Scheme.

Future reforms

- After April 2016, **bereavement support payment** will replace bereavement payment, widowed parent's allowance and bereavement allowance.