Simplifying benefits: what should we expect from the new government?

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Outline

• “Dynamic benefits” (Centre for Social Justice)
  – I was a technical “adviser” to the group which produced “Dynamic Benefits”: I suggested how they could model the impact of their reforms.
  – The group were interested in my contribution to the Mirrlees review
  – I did not discuss policy recommendations nor contribute to the report

• Mirrlees review
  – My contribution
  – The overall recommendations
What problems do the CSJ identify?

The benefit & TC system:

1. is too complicated
   - Time-consuming and bewildering for claimants; time-consuming & expensive for DWP/HMRC
   - Uncertainty means recipients reluctant to risk losing entitlement

2. leads to weak incentives to work
   - Can be weak incentives to take a job, and weak incentives to increase earnings (especially if have children)
   - Passported benefits a particular problem

3. penalises couples, home-ownership and savings

Sound familiar???
What is the CSJ’s solution?

1. Fully integrate ALL benefits and TCs for working-age adults
   – NB CSJ suggest two new benefits, but with common rules & application form, like CTC and WTC. Really just 1 benefit.
2. Change the way that benefits and TCs are withdrawn to strengthen incentives to be in a low-paying job
   • These can each be done in isolation…
     – Can integrate benefits & TCs without changing anyone’s entitlement
     – Can strengthen work incentives by changing existing benefits & TCs
   • ... But probably have more power if combined
   • They claim reform would increase spending on B&TCs by £3.6bn, but with higher tax revenue (if ppl enter work), reduced losses to fraud & error, and reduced spending on administration
Benefit & TC integration: pros and cons

• Several groups have argued that integration could reduce complexity
  – An integrated benefit should be easier to administer & understand, and would help more to get their full entitlement. Integrating benefits with WTC would ease transition into work
  – An integrated benefit provides opportunity to make more dramatic reforms; at the very least, would make some current absurdities arising through interactions/gaps more transparent

• Large-scale reforms obviously not cheap, and always risky

• Previous government never seemed fully convinced
  – Made ESA a bit more like income-related JSA/IS
  – Took powers to abolish IS
Benefit & TC integration: the CSJ’s proposals

- Universal Work Credit
  - Replace IS, JSA, ESA. Paid with conditions. No “maximum hours” rule

- Universal Life Credit
  - Replace HB, CTB, CTC, DLA (with option of CB). No conditions.

- No replacement for WTC: its role subsumed into UWC & ULC
- Where’s Carers Allowance? (presumably part of UWC)
- DWP responsible: single form for both Credits; common rules
- Families receiving Credits choose whether to receive BiKs, but if do then assume have higher income
- Recipients paid FULL entitlements; tapering done via employers
- Large earnings disregards; common withdrawal of 55% of net income (like WFTC) – more later
Withdrawing Credits through employers

- CSJ envisage that
  - Credits paid to families in full and employers withdraw any excess
  - DWP would tell employers which employees this would apply to, the withdrawal rate (55% of post-tax income) (and, perhaps, the maximum amount to withdraw)
  - Periodic (annual?) reconciliations

- Lots of opportunities for screw-ups
  - Under and overpayments, especially for two-earner couples & those in erratic employment with non-compliant employers
  - How cope with changes in family status or unearned income?

- I originally suggested this, but I am not convinced!

- But this is not integral to overall vision; no reason why Credits can’t be assessed and paid as current set of benefits (or WFTC)
What might the Credits be worth?

- Nothing sacred about these numbers. CSJ sought to strengthen incentives and minimise low-income losers.
- Basic entitlements to Credits set at similar levels to today.
- UWC and ULC withdrawn sequentially at 55% net income (WFTC). Means maximum METR across all B&TCs is 69%.
- Higher earnings disregard:
  - <25: £1,500/yr; >25 or couple with kids: £5,000/yr; Lone parent: £8,000/yr (Reflects current high rate of WTC relative to IS/JSA)
  - Remember: no WTC; higher disregards extend the reach of the UWC so it paid to those in work on low earnings.
  - HOWEVER, those receiving HB/CTB have lower disregards. Disregard falls by £1.80 for every £1 of HB entitlement, by £1.30 for every £1 of CTB entitlement, subject to a floor.
- As ULC includes DLA, better-off disabled people lose (as would parents if CB included).
Overall thoughts

• Few would argue with goals of simplicity, and stronger incentives to work for those on low-earnings

• But dramatic reforms are costly and risky, and strengthening incentives to work is costly

• CSJ outline interim steps
  – Align benefits so no-one entitled to more than 1 out-of-work benefit [NB personal favourite: scrap CA and have recipients claim IS or WTC (with appropriate changes to rules)]
  – Increase earnings disregards and reduce withdrawal rates in means-tested benefits
  – Move tax credits back to DWP

• Perhaps this a better guide to likely reforms?

• But IDS clearly under pressure to reduce welfare spending …
The Mirrlees review

- **My contribution** ([http://www.ifs.org.uk/mirrleesreview/dimensions/ch2.pdf](http://www.ifs.org.uk/mirrleesreview/dimensions/ch2.pdf))
  - Strengthen incentives to work at all, even at cost of extending number of WORKING families on high METRs
  - **Short-run (in order of priority):**
    - higher disregards in MTBs and introduce 2nd earner disregard in TCs
    - Aligning WTC rates with IS/JSA
    - Cut tax credit withdrawal rate
  - **Long-run:** integrate all benefits & tax credits
- **Overall review conclusions still being considered, but will cover tax, benefit and tax-benefit integration**