Options for cutting spending on social security

James Browne, Andrew Hood and Paul Johnson
Background

- Deep cuts in public spending planned
- Social security spending 30% of total in 2012–13
  - And share forecast to grow from 28.5% in 2010–11 to 32.5% in 2017–18
- Expect next spending review to look at cuts to social security spending as well as departmental spending
- Benefits system inevitably affects peoples’ behaviour as well as increasing incomes of recipients
  - Prime Minister called for discussion of trade-offs in June 2012 speech
  - Need to think about strategy for design of system
- Look at current spending and how it has evolved over time before looking at options for savings
Pensioner social security spending
£ billion, 2012 – 13 prices

Note: Figure 8.4 in Green Budget document
Working-age social security spending
£ billion, 2012 – 13 prices

62% increase

Note: Figure 8.5 in Green Budget document
Distributional impact of reforms introduced between January 2010 and April 2015
Relative to default indexation

Change in net income

-14%
-12%
-10%
-8%
-6%
-4%
-2%
0%

Income Decile Group

Poorest 2 3 4 5 6 7 8 9 Richest

Note: Figure 7.7 in Green Budget document
Distributional impact of reforms introduced between April 1997 and April 2015
Relative to default indexation

Note: Figure 8.6 in Green Budget document
Changes currently being introduced

• Many benefit cuts already planned

• 2013 a big year for benefits reform
  – Child Benefit withdrawal from those with higher incomes in January
  – Claims of Universal Credit start in October
  – But Council Tax support being kept separate and localised
  – 1% uprating of most working-age benefits, Disability Living Allowance being replaced by Personal Independence Payment, benefits cap, cuts to Housing Benefit

• Look at across-the-board cuts and cuts to specific parts of system
Across-the-board cuts

- Already have below-inflation uprating of most working age benefits for next 3 years, saving £2.8 billion a year by 2015–16
- Could extend this to more benefits, more years or freeze rather than increase by 1% per year:

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Note: Annual saving at end of period.
Pensioner benefits: options for savings

• Government committed to maintaining spending on state pensions and Pension Credit at current levels
  – These represent more than 80% of current spending on pensioners: implies limited options for savings

• Means test universal benefits received by all pensioners?
  – Very small part of system overall: 2.5% of pensioner social security spend
  – Administratively inefficient to have separate means test
  – But could give to just those on Pension Credit
  – Would save £1.5 to £2 billion a year
Housing Benefit: options for savings

- Escalating cost: 53% real increase since 1997–98
  - Prime Minister concerned that it allows claimants to live in expensive areas and young people to leave home earlier
- Already several reforms to reduce cost
  - National caps on Local Housing Allowance rates; shift to 30th percentile of local rents; CPI indexation from April
- Could go further in reducing Local Housing Allowance rates
  - Though CPI indexation will already mean grow less quickly than rents
- Housing Benefit for under 25s
  - Removing entitlement completely would save £1.8 billion a year
  - But would this be possible? 45% of claimants lone parents
  - Exempting those with children creates new incentive to have a child
Support for children: options for savings

• Support for large families
  – Restricting Child Benefit and Child Tax Credit to 2 children would save £3.1 billion a year
  – Just for those in workless families would save £1.6 billion
  – Restrictions would further reduce savings, particularly if only applied to those in workless households who had additional children

• Child Benefit
  – Already have means test, though assessed on individual rather than joint income
  – Could abolish and roll into Universal Credit with potential to save up to £4.5 billion a year
Disability benefits: possible savings

• Disability Living Allowance (DLA) costs £13.4bn, Attendance Allowance (AA) £5.5bn and Carer’s Allowance (CA) £1.9bn

• DLA recipients under 65 to be reassessed in transition to Personal Independence Payment
  – Expect 20% to lose entitlement
  – Could extend this to older DLA and Attendance Allowance claimants
  – If 20% of these also lost entitlement, would save £2 billion a year

• Could means test, though big structural change
  – Could raise nearly £1 billion by making DLA and AA taxable
  – Two-thirds of claimants already on a means-tested benefit: would save far less than current cost of benefits
Remnants of Beveridge

- 80% of working-age benefits now means-tested in some way
  - Contributory ESA and JSA last remnants of social insurance system
  - Cost £6 billion a year, but abolition would only save £500 million a year as most entitled to Universal Credit

- Bereavement and industrial injuries disablement benefits
  - Currently cost about £1.5 billion a year
  - Could abolish but would lead to some claimants gaining entitlement to other benefits, reducing saving

- But these sorts of reforms change whole nature of support offered
  - Still space for a debate about the role of the contributory principle
Conclusions

• Benefits and tax credits make up 30% of total government spending
  – Inevitably affects peoples’ behaviour as well as supporting vulnerable
• Pensioners account for more than half of social security spending
  – Share recently growing, and largely protected from cuts
• Mixed record on reforms so far
  – Universal Credit potentially big step forward
  – But undermined by decision to leave Council Tax support separate
• Prime Minister started discussion about trade-offs that surround design of benefits system
  – Now need clear strategy for reform