

## 9. Options for reducing spending on social security

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### Summary

- Total social security spending is forecast to be £220 billion in 2015–16, around 30% of total government expenditure. It is therefore possible that whoever forms the next government will look at cutting spending in this area as part of a deficit reduction strategy.
- Pensioners are expected to receive 55% of social security spending in 2015–16. This proportion has been growing as a result of increased numbers of pensioners, greater state pension entitlements among those who recently reached the state pension age, and the fact that pensioners have so far been largely protected from the cuts to social security. Continuing to protect pensioners would require much larger cuts to working-age social security for a given reduction in public spending.
- The Conservatives have said that they would seek to make further cuts of £12 billion to annual social security spending were they to form the next government. To give an idea of scale, freezing all benefits and tax credits other than state pensions for five years would cut spending by £13 billion, taking an average of £800 a year from 16 million families. To cut spending on this scale while protecting pensioners entirely would require more severe cuts to working-age benefits; even continuing the Conservatives' proposed freeze of most working-age benefits for five years would only reduce spending by £6.9 billion.
- Other options that could save substantial sums include making all tenants pay at least 10% of their rent (£2.5 billion), abolishing child benefit and increasing universal credit to compensate low-income families (£4.8 billion), reducing the generosity of means-tested support for children to its 2003–04 level (£5.1 billion) and restricting benefits for families with children to the first two children (which would save around £4 billion a year in the long run).
- Many of the policies suggested by the Conservative and Labour parties – withdrawing winter fuel payments from higher- and additional-rate taxpayers, cutting housing benefit for young people, reducing the benefit cap, and increasing child benefit by 1% for a further year – would reduce spending by relatively little.
- The social security system not only gives support to vulnerable groups but also affects incentives around how much paid work to do, where to live and with whom, and even the number of children to have. Giving exemptions from cuts for groups deemed more vulnerable can weaken work incentives and strengthen incentives for people to have children or claim disability benefits. When considering possible changes to the social security system in the coming years, policymakers should bear these trade-offs in mind, have a clear vision for what they want the social security system to achieve and ensure that the overall system of support is coherent.

## 9.1 Introduction

Between 2010–11 and 2015–16, a deficit reduction package of £115 billion has been introduced, of which £17 billion has comprised cuts to social security benefits and tax credits (more details are contained in Chapter 1). The structural deficit is forecast to be 3.6% of national income in 2015–16. Different political parties have different views about how much further fiscal tightening is desirable in the next parliament, but all three main UK parties would require some further tax rises or spending cuts in order to meet their stated targets for borrowing.

Given that spending on social security benefits and tax credits will make up around 30% of total government spending in 2015–16, it is likely that any government taking office after the general election later this year will consider making further cuts to social security spending. The current Chancellor of the Exchequer, George Osborne, has said that the Conservatives would seek to introduce £12 billion of further cuts to annual social security spending were they to form the next government.<sup>1</sup> And calculations by IFS researchers have shown that meeting the plans for public borrowing outlined by the current government without raising taxes or accelerating the pace of public spending cuts would require a reduction in social security spending of £21 billion per year.<sup>2</sup> The outlook for spending on public services is discussed in Chapter 7, while Chapter 10 sets out options for increasing tax.

Despite discretionary reductions in the generosity of social security benefits and tax credits, total spending in this area is expected to be roughly the same in 2015–16 as it was in 2010–11 in real terms (adjusted for CPI inflation). This is because other developments – including an ageing society, a growing private rented sector pushing up the housing benefit caseload, and lower-than-expected earnings growth – have put upward pressure on spending, and some reforms to disability benefits have not delivered the reduction in spending that had been expected.<sup>3</sup> As a share of national income, spending has fallen since 2010–11 and, under current policies, it is forecast to fall from 11.9% in 2014–15 to 11.2% in 2017–18, when the structural current budget is expected to move into surplus.<sup>4</sup> If a further £12 billion of cuts to social security spending were implemented in 2017–18, this would fall a further 0.6 percentage points to 10.6% of national income, around its average level from 1997–98 to 2007–08, the decade before the crisis.

There are inevitable trade-offs associated with spending on social security. Benefits obviously increase the incomes of those who receive them. But the system can also impact on people's incentives to work or save, on their decisions about where to live and with whom, and even on choices about how many children to have (and when to have them). As well as considering which groups one wishes to support, it is important that

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<sup>1</sup> <http://www.telegraph.co.uk/news/politics/georgeosborne/10553228/George-Osborne-warns-of-12bn-cuts-in-Government-welfare-spending-after-next-general-election.html>.

<sup>2</sup> See R. Crawford, 'Alternative choices over the future spending squeeze', presentation at IFS post-Autumn Statement briefing, 2014, <http://www.ifs.org.uk/publications/7467>.

<sup>3</sup> For further details, see A. Hood and D. Phillips, 'Benefit spending and reforms: the coalition government's record', IFS Briefing Note BN160, 2015, <http://www.ifs.org.uk/publications/7535>.

<sup>4</sup> Source: Authors' calculations using DWP, HMRC, OBR and DSDNI data. This chiefly arises because most benefits and tax credits increase in line with inflation by default, so they are forecast to grow less quickly than national income.

these factors are borne in mind when designing a social security system. Time-limited social-insurance-type benefits have smaller disincentive effects, but may not be targeted at the most vulnerable groups. By contrast, reducing benefits for less vulnerable groups – such as those who are in work, those without children or those who are not recognised as having a disability by the benefits system – weakens work incentives and introduces (or strengthens) perverse incentives for individuals to have children or to claim disability benefits. In this chapter, we examine ways in which further reductions could be made to the social security budget, noting how different options would affect these trade-offs.

Section 9.2 examines the current composition of social security spending and how spending has evolved over recent years. In Section 9.3, we analyse different options for reducing expenditure on social security benefits. Section 9.4 concludes.

## **9.2 Social security spending: evolution and composition**

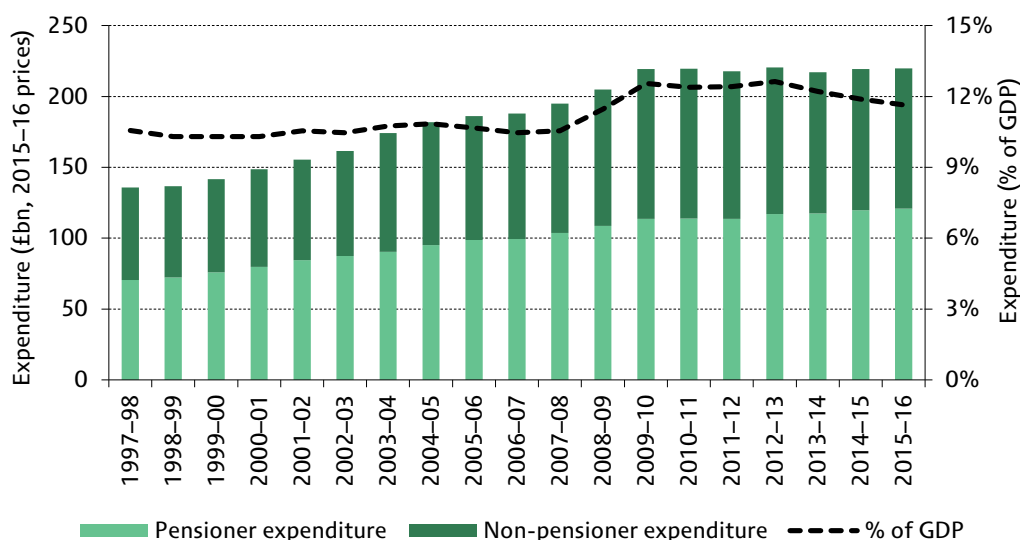
When thinking about future options for reducing spending on social security, it is useful to first understand how and why spending levels have changed in recent years, which groups have gained and lost the most from recent discretionary changes to the system, and who gets the most support at the moment. This section provides some of that important context.

### **The evolution of social security spending**

Figure 9.1 shows total social security spending (spending on cash benefits, tax credits and state pensions) in each year from 1997–98 to 2015–16. Between 1997–98 and 2007–08, spending on social security grew roughly in line with national income, remaining at around 10.5% of GDP. Since real GDP was growing strongly for most of this period, this meant a 44% increase in real-terms (CPI-adjusted) spending across the decade. The Great Recession then led to a sharp increase in social security spending as a share of national income (to 12.5% by 2009–10), as national income fell and spending rose. This is not surprising: social security spending is always likely to rise sharply as a share of national income in recessions. The implication is that if spending does not fall as a share of national income when the economy is growing relatively quickly (as was the case from 1997–98 to 2007–08), social security will take up an ever larger share of the economy's resources over time.

Spending was stable over the first half of the current parliament, before declining to a forecast 11.6% of national income by 2015–16. This is lower than at the start of the parliament but higher than in the decade before the recession: while national income is expected to be 26% higher in cash terms in 2015–16 than in 2007–08, non-pensioner spending is expected to be 34% higher and pensioner spending 44% higher. As can be seen from the figure, the decline in social security spending as a share of national income across the course of the parliament is the result of the return of economic growth rather than a real-terms fall in spending. Spending on pensioners is actually expected to be 6.2% higher in real terms in 2015–16 than it was in 2010–11, while non-pensioner spending is expected to be 6.5% lower. In other words, over this parliament, rising pensioner spending has cancelled out the reduction in expenditure on those of working age.

Figure 9.1. Expenditure on social security benefits and tax credits, 1997–98 to 2015–16



Note: Figures exclude spending on council tax benefit. Pensioner expenditure is all spending directed at pensioners, including benefits that also go to those of working age.

Source: Authors' calculations using DWP, HMRC, OBR and DSDNI data.

Discretionary changes made by the Labour and coalition governments over the last 20 years are important in explaining these trends. In particular, lower-income families with children and pensioners saw large real increases in benefit entitlements under Labour (particularly in the period up to 2003–04). In the case of families with children, this increase was delivered primarily through the introduction and expansion of tax credits. In 1997–98, spending on the benefits that were replaced by tax credits<sup>5</sup> was £7.1 billion (in 2015–16 prices). By 2010–11, spending had more than quadrupled in real terms, with spending on child and working tax credit at £33.2 billion (again in 2015–16 prices).<sup>6</sup> Pensioners not only benefited from discretionary changes under Labour, such as the introduction of pension credit, but have also been broadly protected from the cuts to social security implemented by the coalition. In fact, the introduction of the ‘triple lock’ has led to increases in the generosity of the basic state pension relative to both prices and earnings over recent years. Meanwhile, working-age households without children, who benefited little from the changes made by Labour, have seen real-terms cuts to entitlements under the coalition.

Table 9.1 shows the effect of these changes on the real-terms (CPI-adjusted) generosity of benefit entitlements for particular example families. Entitlements for a couple with two children, both if they are unemployed and if one adult is on median full-time earnings, increased dramatically over the period from 1997 to 2010, and remained well above their 1997 real-terms level in 2015. Similarly, the benefit entitlement of a pensioner with no private income or state pension entitlement is much higher in real terms than in 1997. By contrast, the entitlement of a single unemployed person with no children has been roughly unchanged over the past two decades.

<sup>5</sup> That is to say, family credit, disability working allowance and child additions to income support and jobseeker's allowance.

<sup>6</sup> Source: Authors' calculations using DWP and DSDNI data. Note that some of this additional tax credit spending will have reduced entitlement to (and hence spending on) housing benefit and council tax support.

Table 9.1. Real weekly benefit entitlement by household type, 1997–2015

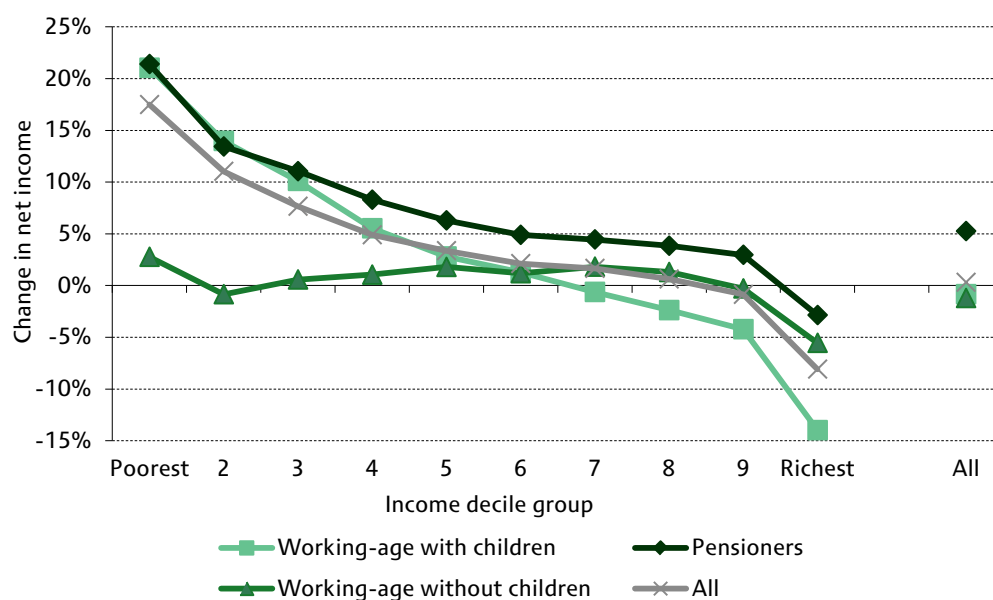
Family type	April 1997	April 2010	April 2015	1997–2010	2010–2015	1997–2015
Unemployed couple with 2 children	£210	£277	£281	32%	1%	34%
Couple, one with median full-time earnings, with 2 children	£29	£84	£74	191%	-12%	155%
Pensioner with no private income or state pension entitlement	£104	£154	£155	49%	0%	49%
Single unemployed person, no children	£71	£74	£73	4%	-1%	3%

Note: Figures in 2015–16 prices, CPI-adjusted. These figures do not include housing benefit or council tax support.

Source: Authors' calculations using TAXBEN run on updated data from the 2012–13 Family Resources Survey. Median earnings from Annual Survey of Hours and Earnings, various years.

Of course, looking at example families cannot tell us the overall impact of discretionary changes on different groups or on the population as a whole. It is also important to set these figures alongside tax changes, which affect household incomes too. To that end, we use the IFS microsimulation model of the tax and benefit system to estimate the mechanical effects of tax and benefit changes across the income distribution between 1997–98 and 2015–16, as shown in Figure 9.2.<sup>7</sup>

Figure 9.2. Distributional impact of tax and benefit changes introduced between 1997–98 and 2015–16



Note: Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale.

Source: J. Browne and W. Elming, 'The effect of the coalition's tax and benefit changes on household incomes and work incentives', IFS Briefing Note BN159, 2015, <http://www.ifs.org.uk/publications/7534>.

<sup>7</sup> The effects of changes are estimated by comparing incomes under the 2015–16 tax and benefit system with those under the system that would have been in place in 2015–16 if there had been no discretionary changes since 1997–98.

Looking first at the population as a whole, the figure shows that changes have acted to increase household incomes at lower income levels. Some of this is explained by changes in tax policy, such as the raising of the income tax personal allowance, but most is the result of increases in the generosity of the social security system. Pensioners have benefited the most from tax and benefit changes over the period as a whole, gaining around 5% of household income on average. Although households with children have actually lost close to 1% of income on average, the large gains towards the bottom of the income distribution reflect the fact that cuts to social security entitlements for this group under the coalition government have only partly reversed the increase in generosity under Labour. However, working-age people without children at low income levels benefited significantly less from Labour's reforms and they are therefore now little better or worse off compared with where they would have been under an 'unreformed' 1997 system.

Some of the most important reasons for increases in real spending on social security are economic and demographic changes, rather than the policy reforms analysed in Figure 9.2. Most importantly, state pension spending rose by 3.8% a year (or 2.7% per pensioner) under the Labour government and by 2.7% a year (1.9% per pensioner) under the coalition. This long-run trend towards higher state pension spending per pensioner reflects *historic* policy changes that mean that the entitlements of younger cohorts of pensioners are determined by more generous rules and the fact that more women in those cohorts were in paid work. There have also been secular increases in spending on housing benefits and disability benefits, not explained by explicit discretionary increases in generosity. The near-doubling of real-terms spending on housing benefit over the last two decades reflects rising private rents and the growth of the private rented sector, as well as reductions in other government subsidies for housing.<sup>8</sup> And spending on disability living allowance and attendance allowance increased by over 90% in real terms between 1997–98 and 2015–16, despite no discretionary increases in the levels of these benefits.

Between 1997–98 and 2010–11, discretionary giveaways can be thought of as being responsible for nearly all of the increase in spending on social security.<sup>9</sup> In contrast, recent years have seen a striking divergence between the size of the cuts to social security implemented and the actual change in real social security spending.<sup>10</sup> Despite nearly £17 billion of discretionary cuts to the social security budget (relative to the plans the government inherited),<sup>11</sup> economic and demographic trends have acted to increase expenditure, particularly on state pensions, such that the level of real (CPI-adjusted) spending in 2015–16 will be similar to its level in 2010–11 (as shown in Figure 9.1). Some of these factors are likely to continue to exert upwards pressure on social security spending in future.

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<sup>8</sup> A. Hood and L. Oakley, 'The social security system: long term trends and recent changes', IFS Briefing Note BN156, 2014, <http://www.ifs.org.uk/publications/7438>.

<sup>9</sup> This is not to say that economic and demographic trends were unimportant during this period, but that they had roughly offsetting effects. For example, the ageing population increased spending on state pensions and other pensioner benefits but employment rates among lone parents increased and the incapacity benefit caseload fell, reducing the cost of working-age benefits.

<sup>10</sup> For a fuller explanation of this divergence, see A. Hood, 'What is happening to spending on social security?', IFS Observation, 2014, <http://www.ifs.org.uk/publications/7447>.

<sup>11</sup> Source: A. Hood and D. Phillips, 'Benefit spending and reforms: the coalition government's record', IFS Briefing Note BN160, 2015, <http://www.ifs.org.uk/publications/7535>.

## The current composition of social security spending

Before discussing options for reductions in the generosity of the system for certain groups, it is important to understand the composition of current social security spending and the characteristics of recipients. We look here at expected spending on major benefits and tax credits in 2015–16, alongside the position of families entitled to each of those benefits in the income distribution. This provides a sense of the likely distributional consequences of reductions in the generosity of different elements of the social security system. We begin by looking at the composition of pensioner spending, before turning to examine non-pensioner spending.

### Spending on pensioners

Table 9.2 shows spending on state pensions and other benefits going to pensioners in 2015–16. Unsurprisingly, the vast majority of spending goes on state pensions, with £70.2 billion spent on the basic state pension and a further £21.8 billion spent on additional state pensions.<sup>12</sup> Altogether, spending on state pensions is 41.8% of total social security, up from 36.6% in 2010–11. Given the public discourse in this area, it is also important to note the composition of other benefit spending on pensioners. Spending on pension credit is less than £7 billion, and the cost of the much-discussed universal pensioner benefits – winter fuel payments and TV licences – is less than £3 billion. Together, they cost less than disability benefits for pensioners (£10.7 billion).

Figure 9.3 shows how entitlements to these benefits are distributed. Because the state pension is not means tested, the distribution of entitlements to it broadly reflects the position of pensioner households in the overall distribution – more prevalent in the middle, and relatively sparse at the top and bottom. Entitlement to the means-tested pension credit (and, to a lesser extent, housing benefit) is concentrated towards the bottom of the distribution. More surprisingly, over two-thirds of pensioner entitlements to disability benefits are held by families in the top half of the overall income distribution. In part, this is because these benefits themselves intentionally move people up the

**Table 9.2. Social security spending on pensioners, 2015–16**

	£ billion	% of total social security spending
State pensions	92.1	41.8
<i>of which:</i>		
<i>Basic state pension</i>	70.2	31.9
<i>Additional state pensions</i>	21.8	9.9
Disability living allowance and attendance allowance	10.7	4.9
Housing benefit	6.8	3.1
Pension credit	6.5	3.0
Winter fuel payments and TV licences	2.8	1.3
Other	2.1	1.0
<b>Total</b>	<b>121.0</b>	<b>55.0</b>

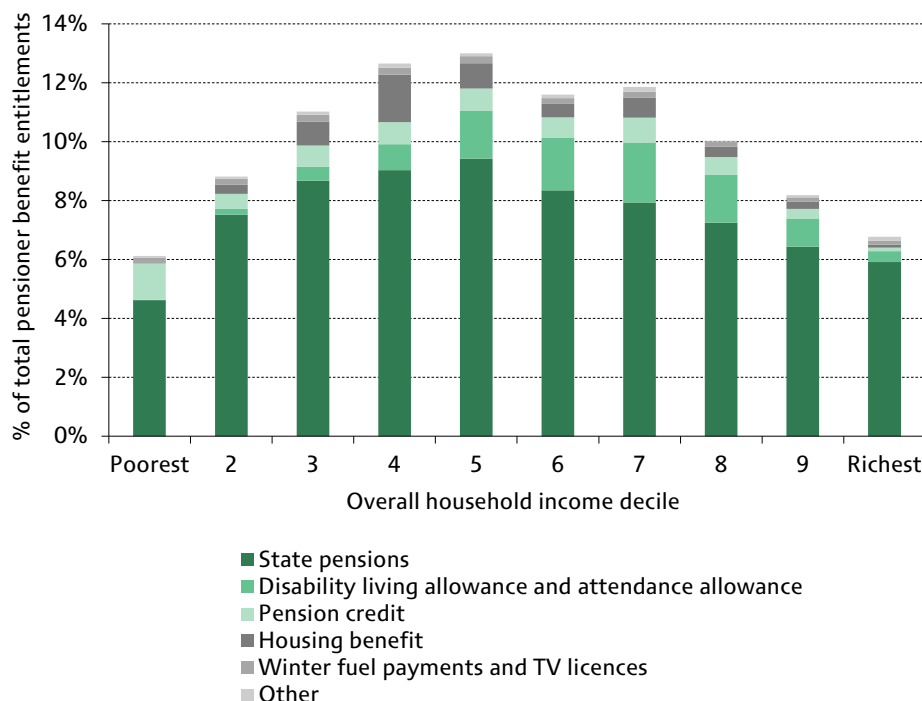
Note: Columns may not sum due to rounding. ‘Other’ includes the Christmas bonus, financial assistance scheme, industrial injuries benefits, war pensions and others.

Source: Authors’ calculations using DWP, HMRC, OBR and DSDNI data.

<sup>12</sup> The latter figure includes spending on the graduated retirement benefit, State Earnings-Related Pension Scheme and state second pension.



Figure 9.3. Pensioner benefit entitlements by whole population income decile group, 2015–16



Note: Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale.

Source: Authors' calculations using TAXBEN run on updated data from the 2012–13 Family Resources Survey.

distribution in an attempt to compensate for the costs of disability. Any single pensioner receiving attendance allowance (AA) has sufficient benefit income (from AA and pension credit) to be in at least the fifth income decile group.

### Spending on those of working age

In 2015–16, 45% of total social security spending will be directed at non-pensioners. Table 9.3 shows how that spending is allocated across the major benefits for this group. Around half of all working-age social security spending is accounted for by tax credits (child and working tax credit) and housing benefit. In both cases, a large share of expenditure goes to low-income working families, rather than being exclusively targeted at out-of-work families – for example, less than a third of tax credit spending goes to out-of-work families.<sup>13</sup> A further quarter of the spending on working-age people is directed at disabled individuals, mostly through employment & support allowance (included in incapacity benefits in Table 9.3) and disability living allowance. Out-of-work benefits for the non-disabled (jobseeker's allowance and income support) are expected to cost just £5.2 billion in 2015–16, or less than 3% of total social security spending (although total spending on that group is significantly higher, as some are also entitled to tax credits and/or housing benefit).

The difference in the allocation of entitlements across the income distribution between pensioners and non-pensioners is immediately visible in Figure 9.4 compared with Figure

<sup>13</sup> Source: HMRC Child and Working Tax Credit Statistics, available from <https://www.gov.uk/government/statistics/child-and-working-tax-credits-statistics-finalised-annual-awards-2012-to-2013>.



Table 9.3. Social security spending on non-pensioners, 2015–16

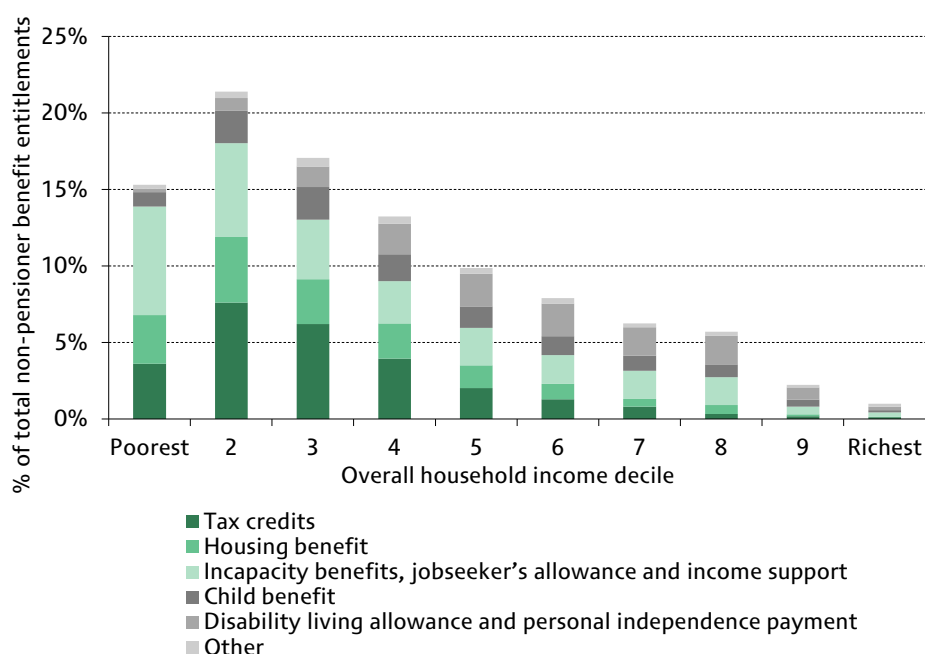
	£ billion	% of total social security spending
Tax credits	29.9	13.6
Housing benefit	19.2	8.7
Incapacity benefits	15.1	6.9
Child benefit	11.7	5.3
Disability living allowance and personal independence payment	10.9	5.0
Jobseeker's allowance and income support	5.2	2.4
Other	6.6	3.0
<b>Total</b>	<b>98.8</b>	<b>45.0</b>

Note: Columns may not sum due to rounding. Incapacity benefits are incapacity benefit, employment & support allowance, severe disability allowance and income support on grounds of disability. 'Other' includes bereavement benefits, carer's allowance, statutory maternity pay, industrial injuries benefits and others. Figure for child benefit is the total amount paid out, not net of spending later recovered in tax through the high-income child benefit charge.

Source: Authors' calculations using DWP, HMRC, OBR and DSDNI data.

9.3: the means-tested character of most support available to non-pensioners means that entitlements are greatest towards the bottom of the income distribution. For example, families in the bottom half of the overall income distribution have 90% of all entitlement to tax credits and 86% of all entitlement to housing benefit. One similarity with pensioner entitlements is that, again, much of the entitlement to disability benefits (in this case largely disability living allowance) is held by families further up the overall income distribution, reflecting the absence of a means test for these benefits.<sup>14</sup>

Figure 9.4. Non-pensioner benefit entitlements by whole population income decile, 2015–16



Note and source: See Figure 9.3.

<sup>14</sup> Note that tax credits also include disability premiums, which are specifically designed to support the income of low-income families containing someone with a disability.

## 9.3 Options for future cuts

We now look at some options for making further reductions in spending on particular areas, bearing in mind the trade-offs that are at the heart of designing a social security system. Table 9.7 (at the end of this chapter) summarises the estimated savings from the options we consider.

An obvious way to reduce expenditure would be to simply reduce the levels of benefits, tax credits and state pensions across the board. Spending has been cut by a significant sum over the course of the current parliament by first switching most benefits and tax credits from RPI to CPI indexation and then increasing most working-age benefits by 1% per year in nominal terms for three years from 2013–14 to 2015–16. The Conservatives want to continue along these lines, by freezing most working-age benefit rates for the first two years of the next parliament. These are all policies that have left the basic structure of the benefit system for working-age people broadly intact, maintaining existing choices over the balance between supporting different groups and the extent to which it distorts individuals' decisions.<sup>15</sup>

Alternatively, one can reduce spending, and target benefits more precisely at the poorest, by means testing more aggressively. But this will tend to weaken the incentive for individuals to enter paid work (since it means that they lose more of their benefits if they do so) or to increase their earnings.

It is also possible, of course, to make cuts to the generosity of benefits for particular groups of people where the current system is thought to be overly generous or to produce unacceptable distortions to individuals' behaviour. However, as this section shows, such changes do not necessarily yield significant spending reductions, often because the groups in question are small; and dealing with some distortions can generate others.

Another way in which spending on social security benefits and tax credits can be reduced is by imposing tighter restrictions on eligibility criteria, in particular for disability benefits. It is harder to calculate the amount by which these sorts of changes could reduce spending compared with other changes to monetary levels of entitlement, as the current government has found to its cost. Neither the introduction of employment & support allowance nor that of personal independence payment has as yet reduced spending by as much as had been hoped for (and they may never do).

Finally, larger structural reforms to the social security system can, though need not, be designed in ways that reduce total expenditure. Rationalising the system of support for a particular group can be done in a way that reduces the total amount of support given or better focuses support on the most needy (though, again, this may lead to weaker work incentives).

In the remainder of this section, we first show by how much spending can be cut by making across-the-board cuts to social security benefits and tax credits, before examining cuts to benefits for different groups. In each case, we will point out the distributional and

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<sup>15</sup> Of course, by making the benefit system 'smaller', these reforms reduce the extent to which it weakens work incentives and any other perverse incentives. However, if some benefits are 'protected' from real cuts (as most disability benefits have been from the 1% uprating from 2013–14 to 2015–16), this can make some perverse incentives (such as the incentive to claim employment & support allowance rather than jobseeker's allowance in this case) stronger.

incentive impacts of the changes. Our baseline is the social security system expected to be in place in April 2015, but given that we are interested in how cuts to spending could be made in the long run, we assume that universal credit is fully in place.<sup>16</sup>

### Across-the-board cuts

There have been significant changes to the way in which benefits are uprated over time under the current government. Most benefits now go up in line with CPI inflation each year (as opposed to RPI or Rossi inflation).<sup>17</sup> Furthermore, for the three years from 2013–14 to 2015–16, most working-age benefits have increased by only 1% – they would have increased by 2.2%, 2.7% and 1.2% in April 2013, April 2014 and April 2015 respectively in the absence of this policy.

Restricting future nominal increases in benefits would be an obvious way of reducing spending. Table 9.4 indicates how much spending could be cut by for a series of different options depending on which benefits are affected, by how much and for how long. (The estimates are, of course, sensitive to the forecast level of inflation.) The scope of benefits subject to below-inflation uprating ranges in the table from only child benefit (in line with the Labour Party’s policy to increase it by 1% in 2016–17<sup>18</sup>), through the same benefits that are currently subject to 1% uprating (broadly, all working-age benefits and housing benefit but not disability benefits) and all benefits other than those specifically aimed at pensioners (i.e. including disability benefits), to everything other than state pensions (here we are adding in pension credit and disability benefits for older people) and finally all social security payments including state pensions. We consider three options for each

**Table 9.4. Annual reductions in spending from changes to uprating policy, given current inflation forecasts (£ billion, 2015–16 prices)**

Benefits in scope	1% uprating for two years	Two-year freeze	Five-year freeze	Number of families affected (million)
Child benefit only	0.1	0.3	0.9	6.9
All working-age benefits excluding disability benefits	0.8	2.4	6.9	11.4
All working-age benefits	1.1	3.2	9.4	13.1
All except state pension	1.7	4.4	13.2	16.1
All benefits, tax credits and state pensions	3.3	7.0	20.1	19.8

Note: Numbers affected are numbers affected at any given point in time, not at any point over the two- or five-year period.

Source: Authors’ calculations using TAXBEN run on uprated data from the 2012–13 Family Resources Survey. Based on OBR inflation forecasts of 1.2% in September 2015, 1.8% in September 2016 and 2% in subsequent years.

<sup>16</sup> More precisely, we assume that all households are subject to the universal credit regime rather than the current regime and that no households receive any transitional protection to compensate them for any losses they may experience as a result of being moved across to universal credit.

<sup>17</sup> The big exception to this is the basic state pension, which is subject to a ‘triple lock’ whereby it increases in line with the highest of CPI inflation, average earnings growth and 2.5%.

<sup>18</sup> Since child benefit is expected to increase by 1.2% in 2016–17 in the absence of this policy, this change would only reduce expenditure by £30 million a year. Source: Authors’ calculations using TAXBEN run on uprated data from the 2012–13 Family Resources Survey. Expected increase is OBR forecast for September 2015 CPI inflation.

of these groups of benefits: increasing them by 1% in 2016–17 and 2017–18, freezing them in those two years, and freezing them for the duration of the next parliament (five years).

We can see that uprating by 1% for two years would not yield substantial reductions in spending unless it were applied to state pensions as well as other benefits and tax credits. This largely arises because inflation is not forecast to be substantially higher than 1% in 2016–17 and 2017–18 – the forecasts of the CPI inflation number to be used to increase most benefits and tax credits in these two years are 1.2% and 1.8% respectively, meaning that this change would represent only a cumulative 1% fall in the value of most benefits but a more substantial fall in the value of the triple-locked basic state pension. Freezing benefits for two years would lead to a more substantial cut in spending (here, most benefits and tax credits are being cut by around 3% rather than 1%). Note, though, that our estimate of the reduction in spending from the Conservatives' proposal to freeze all non-disability benefits for those of working age for two years is now substantially lower than was estimated by HM Treasury when first announced (£2.4 billion rather than £3.2 billion<sup>19</sup>). This is because inflation in these two years is now expected to be lower than it was previously.<sup>20</sup> We now estimate that 11.4 million households would lose an average of around £200 a year from this policy. Freezing all benefits and tax credits but not state pensions for five years would reduce spending by £13.2 billion – i.e. slightly more than the Conservatives have said they would seek to achieve, if current CPI inflation forecasts are correct. The 16.1 million families who receive the benefits that would be affected by this freeze would, on average, lose around £800 a year as a result of this policy.

It is important to note that setting future benefit rates in nominal terms (as opposed to, say, uprating benefits by 1% less than CPI inflation) means that the size of the real cut, and hence the amount by which spending has been cut, depends on inflation out-turns. By specifying future benefit rates in this way, the government's policy of 1% uprating of benefits has cut spending by considerably less than had been intended: CPI inflation in September 2014, which would have been used to uprate most benefits and tax credits in April 2015 in the absence of the 1% rule, turned out to be 1.2%, rather than the 2.2% forecast when the 1% rule was announced at Autumn Statement 2012. Specifying future increases in benefits in nominal terms rather than in relation to a measure of inflation also means that recipients are exposed to inflation risk.

A justification proposed by the Chancellor for these types of policy in the past<sup>21</sup> has been that benefits for those who are not working have increased more quickly than earnings, as a result of falling real earnings since the recession. Figure 9.5 shows that this is the case for benefits received by out-of-work working-age families – jobseeker's allowance (and income support) increased in line with prices up to 2013 and have since increased by 1% a year, while there were significant discretionary increases in child tax credit

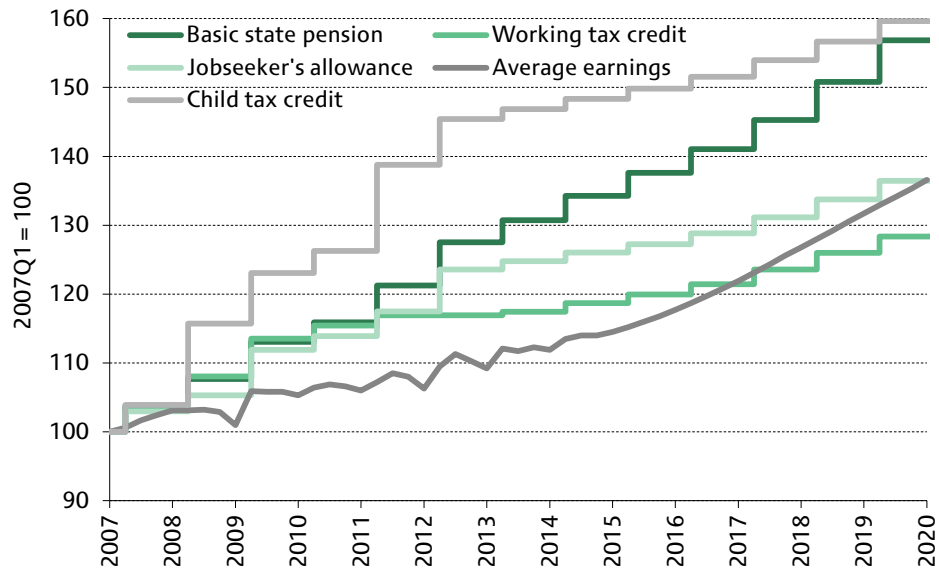
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<sup>19</sup> <http://www.telegraph.co.uk/news/politics/georgeosborne/11128133/George-Osborne-Freeze-benefits-to-make-Britain-fairer.html>.

<sup>20</sup> Under the OBR's latest inflation forecast, this policy would represent a 3% cut to the benefits and tax credits in question rather than a 4% cut under the previous set of forecasts (the OBR forecasts from March 2014).

<sup>21</sup> In his 2012 Autumn Statement speech, the Chancellor said that 'average earnings have risen by around 10% since 2007. Out of work benefits have gone up by around 20%. That's not fair to working people who pay the taxes that fund them. Those working in the public services, who have seen their basic pay frozen, will now see it rise by an average of 1%. A similar approach of a 1% rise should apply to those in receipt of benefits.' See <https://www.gov.uk/government/speeches/autumn-statement-2012-chancellors-statement>.

Figure 9.5. Benefit levels and average earnings



Note: Child tax credit is for a family with two children. Working tax credit is for a couple where at least one member works at least 30 hours a week.

Source: Earnings and inflation forecasts from Office for Budget Responsibility (<http://budgetresponsibility.org.uk/economic-fiscal-outlook-december-2014/>). Past benefit levels from Department for Work and Pensions, various years.

between 2008 and 2011.<sup>22</sup> It is also true for the basic state pension, which has risen more quickly than earnings because of the triple lock, and for working tax credit, received by low-income working families, despite the fact that it has been increased by less than inflation each year from 2011–12 to 2015–16.

Under current policy and current OBR forecasts for inflation and earnings, working tax credit will fall back to its pre-crisis level relative to average earnings early in 2016, but most out-of-work benefits (with the notable exception of child tax credit) will not do this until 2020. Increasing jobseeker's allowance by 1% in 2016–17 and 2017–18 would only bring this date forward to the end of 2019. A two-year freeze would bring it forward further to the beginning of 2019, whereas freezing these benefits for longer than this would bring it forward to the middle of 2018.

In the remainder of this section, we examine cuts that could be made to specific groups of benefit claimants. We begin by examining the potential reduction in spending from means-testing universal credit more aggressively, which would reduce the amount received by low-income working families. We then look at cuts to the benefits received by particular demographic groups.

### Means-testing universal credit more aggressively

Over the next few years, universal credit is planned to become the main programme of means-tested support for working-age people, replacing six existing means-tested

<sup>22</sup> Note, however, that over the previous 30 years, benefits tended to grow less quickly than earnings as earnings grew in real terms and most benefits tended to be increased only in line with prices. It is only true that benefits grew more quickly than earnings over this specific recent period. If benefits were increased in line with earnings over the longer term, this would lead to a big increase in forecast future social security spending as earnings growth is projected to be greater than inflation in the future.

benefits and tax credits<sup>23</sup> on which a total of £64 billion is forecast to be spent in 2015–16.<sup>24</sup> Broadly speaking, the way universal credit works is that there is a maximum amount of universal credit that each family is entitled to and families can earn a certain amount (the so-called ‘work allowance’) before universal credit starts to be withdrawn but then lose 65p of entitlement for each pound of earnings above their ‘work allowance’. Therefore, two ways of making cuts to universal credit without affecting the most vulnerable – those who have no private income or financial assets – would be to reduce the work allowances or to increase the taper rate. Both involve means-testing support more aggressively. Reducing the work allowances by 10% would reduce spending by £700 million annually. Alternatively, universal credit could be withdrawn at a steeper rate above the work allowances. Increasing the taper rate from 65% to 70% could reduce spending by £1.3 billion a year.<sup>25</sup>

Both of these reforms would weaken the incentive for a family to have one person in paid work (as opposed to none), since the amount of in-work support would be reduced whereas the amount received by workless families would be unchanged. Those who remained on the universal credit taper would also see their incentive to earn a little more weakened as they would lose more of each additional pound earned in benefit withdrawal.

These policies would not weaken work incentives across the board, however. Some families would lose entitlement to universal credit altogether as a result of a higher taper rate, meaning that they would no longer face withdrawal of universal credit if they increased their earnings. We estimate that 3.4 million workers would see their effective marginal tax rates (the percentage of each additional pound earned lost in either higher taxes or lower benefit entitlements) increase by an average of 4 percentage points as a result of increasing the universal credit taper rate to 70% and that 0.4 million would see their effective marginal tax rates fall by an average of 50 percentage points. And as families would have less in-work support to lose by increasing their earnings, both of these policies could strengthen the incentive for families to increase their earnings more substantially. One way in which families could do this is if both members of a couple worked rather than just one. In effect, these reforms would make it less attractive to be a single-earner couple, both relative to neither member of the couple working and relative to both being in paid work.

The OECD recently recommended reforms along these lines, in combination with a stricter regime of out-of-work benefit conditionality.<sup>26</sup> It points out that the current design of universal credit, with substantial entitlements for low-income working families, encourages part-time work at the expense of full-time work. However, moving to a system where the taper rate was closer to 100%, as the OECD recommends, would rely heavily on the effectiveness of strict out-of-work benefit conditionality (monitoring of job-search behaviour, compulsory participation in labour market programmes etc.) to

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<sup>23</sup> Income support, income-based jobseeker’s allowance and employment & support allowance, housing benefit, child tax credit and working tax credit.

<sup>24</sup> Source: Authors’ calculations using DWP, OBR and DSDNI data. The figure excludes housing benefit spending on pensioners, since that is not included in universal credit

<sup>25</sup> Source: Authors’ calculations using TAXBEN run on updated data from the 2012–13 Family Resources Survey. Note that this estimate assumes full take-up of universal credit; in reality, since some families will not take up their universal credit entitlement, the saving will be less than this.

<sup>26</sup> See OECD, *Connecting People with Jobs: Activation Policies in the United Kingdom*, OECD Publishing, 2014.

ensure that individuals choose to work full time rather than not working at all (given that the financial incentive to move off benefits and into paid work would be weaker). There would therefore be risks associated with moving in this direction, though the OECD points out that similar systems in Germany and Austria have not led to large numbers of families opting out of the labour market altogether. This would also be a reversal in the direction of policy in the UK, where support for working families has been gradually expanding over the last half-century.

## Young adults

It has been suggested that the social security system is overly generous to some young adults. The Conservatives have proposed removing entitlement to housing benefit from some of those aged 18–21,<sup>27</sup> and the Prime Minister has in the past suggested removing housing benefit entitlement from at least some of those aged under 25. In addition, both the Conservative and Labour parties have suggested tightening the system of entitlement to jobseeker's allowance for those aged under 21.

Table 9.5 shows current spending on housing benefit for different groups of young adults. As of August 2014, the government was spending an average of around £100 a week on housing benefit for 310,000 individuals aged under 25, adding up to £1.6 billion a year.<sup>28</sup> Simply abolishing the benefit (or making the equivalent change to universal credit entitlements) for that group would therefore reduce spending by about £1.6 billion. However, in practice, it is likely that exemptions would apply – for example, the majority of housing benefit spending on under-25s goes to individuals who themselves have children, and it may not be realistic to expect them to live with their own parents. If instead housing benefit were abolished only for under-25s not living with children, the reduction in spending would fall to around £700 million. If entitlement were only removed from those aged 21 and under, it would reduce housing benefit (or universal credit) expenditure by around £700 million, but the spending cut would fall to around half that if those with children were exempted. And families with children are not the only group that might be protected. For example, those leaving the care system might not see their entitlement to housing benefit removed.

The Prime Minister recently announced that a future Conservative government would remove housing benefit eligibility from those aged 21 and under who were claiming jobseeker's allowance (JSA).<sup>29</sup> This would affect less than a quarter of housing benefit

**Table 9.5. Spending on housing benefit for young adults**

		<i>Spending (£ billion, 2015–16 prices)</i>	
		<b>Not employed</b>	<b>All</b>
<i>21 and under</i>	Without children	0.3	0.4
	All	0.6	0.7
<i>Under 25</i>	Without children	0.6	0.7
	All	1.3	1.6

Note: Figures are housing benefit spending as of August 2014.

Source: Authors' calculations using DWP Tabulation Tool.

<sup>27</sup> See <http://www.theguardian.com/society/2014/sep/28/david-cameron-welfare-youth-unemployment> and <http://www.bbc.co.uk/news/uk-politics-30998212>.

<sup>28</sup> All figures in this paragraph are authors' calculations using the DWP Tabulation Tool.

<sup>29</sup> See, for example, <http://www.bbc.co.uk/news/uk-politics-30998212>.



claimants aged 21 and under who were not employed (and less than 20% of this group as a whole). Other out-of-work claimants are entitled to either employment and support allowance or income support because they are disabled, carers or lone parents with children aged under 5. However, it would affect some couples with children and lone parents with older children. We estimate that this change would affect around 24,000 families and reduce spending by £120 million a year.<sup>30</sup>

Beyond reducing or removing housing benefit entitlements, further spending cuts could be sought by restricting the eligibility of young adults to jobseeker's allowance (or the equivalent component of universal credit). The Labour Party has suggested replacing JSA for 18- to 21-year-olds with a 'youth allowance', which would have the same cash value as jobseeker's allowance but be means tested against parental income.<sup>31</sup> It suggests the initial cuts to spending from such a policy would be around £65 million a year. Indeed, the revenue effect of any policy restricting eligibility to jobseeker's allowance is likely to be small: total spending on JSA for under-25s is just over £700 million a year.<sup>32</sup>

In summary, total spending on housing benefit and jobseeker's allowance for those aged under 25 is less than £2.5 billion a year, or around 1% of the total social security budget. This means that even dramatic changes, such as the removal of entitlements for sections of this group, would deliver only a small reduction in spending.

Of course, changes in this area of the system need not be motivated by a desire to reduce expenditure – cutting or removing entitlements would have a significant impact on the incentives facing some young adults as they make important decisions around work, training and where to live beyond the end of compulsory education. But again there would be real trade-offs. Big reductions in entitlements could leave those whose parents were unable to support them without any means of support, and any exemptions could create new distortions to individuals' incentives. For example, if those with children were exempted, there would be a stronger incentive for young people to have children. And if, as the Conservatives have recently proposed, only those housing benefit recipients claiming JSA were affected, there would be a stronger incentive for young people to claim employment and support allowance instead, or be a lone parent (with a child under 5) in order to qualify for income support. These issues would have to be borne in mind when making changes to the benefit entitlements of this group.

## **Families with children**

As Section 9.2 showed, one of the areas where the generosity of the social security system has increased the most over recent decades is the support provided to low-income families with children. Indeed, the cuts to tax credits and other benefits for this group implemented over the course of the current parliament have only partially reversed the real-terms increases in generosity under Labour. Further cuts to entitlements for this group could be an option.

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<sup>30</sup> Source: Authors' calculations using DWP Tabulation Tool data relating to August 2014.

<sup>31</sup> <http://www.theguardian.com/politics/2014/jun/18/labour-welfare-plan-benefits-means-testing-training-ed-miliband>.

<sup>32</sup> Source: DWP Tabulation Tool. DWP does not provide this figure separately for under-21s.

### *Incorporating child benefit in universal credit*

One high-profile change has been the introduction of a means test for child benefit. From January 2013, child benefit was withdrawn from families containing an individual with a taxable income over £50,000, and removed completely for those families containing an individual with a taxable income over £60,000.

Whether or not all support for children should be means tested, the high-income child benefit charge is not a well-designed policy. It means that there are two very different forms of means-tested support for families with children existing in parallel, without any clear rationale behind this. It creates very high effective tax rates between £50,000 and £60,000 which vary with the number of children, it involves significant compliance costs for those affected (HMRC expects that half a million more individuals will have to submit a self-assessment tax return as a result of it<sup>33</sup>), and the way that the charge is assessed (against the *individual* income of the highest-earning adult rather than the joint income of a couple) creates significant inequities between couples where the two members have roughly equal incomes and those where one earns more than the other.<sup>34</sup>

If child benefit is to be considered as just one more part of the means-tested benefit system, then a more sensible form of means-tested support for families with children already exists through the child tax credit system, which will be subsumed into universal credit in the future. It would be possible to abolish child benefit and increase the appropriate components of universal credit such that those receiving universal credit did not lose out. We calculate that this policy would reduce benefit entitlements by around £4.8 billion a year, since there are over 4.3 million families who receive child benefit at the moment but who will not be entitled to universal credit in the future, each of whom would lose over £1,000 a year.<sup>35</sup> This would be a radical change to the structure of the benefits system, but would mean that the system of support for families with children was much more coherent. However, this rationalisation of the system need not be accompanied by such a large reduction in entitlements – it would be possible to incorporate child benefit within universal credit but to withdraw it from a higher threshold (as used to be the case with the family element of child tax credit).<sup>36</sup> By choosing the level of this threshold, one can alter the distributional impact of this reform, with concomitant implications for the amount by which spending is reduced.

### *Cutting benefits for large families*

An alternative way of reducing the generosity of the social security system for families with children would be to limit the number of children for which families can claim support. Some Conservatives, including the Secretary of State for Work and Pensions,

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<sup>33</sup> Source: HMRC, 'Child benefit: income tax charge for those on higher incomes', Tax Impact and Information Note, Budget 2012, available from <http://webarchive.nationalarchives.gov.uk/20141007023213/http://www.hmrc.gov.uk/budget2012/tiin-0620.pdf>.

<sup>34</sup> For example, a couple where one parent earns £60,000 and the other earns £40,000 lose all their child benefit but a couple where both parents earn £50,000 are unaffected.

<sup>35</sup> This calculation is made on the basis of changes to entitlements. To the extent that take-up of universal credit is lower than that of child benefit, the savings would be larger.

<sup>36</sup> Note that this would involve significant administrative costs. Some families who currently receive child benefit without having to go through a full means test would have to do so in order to claim universal credit.

Table 9.6. Reduction in spending from limiting benefits for families with children by family size

	<i>Estimated cut (£ billion, 2015–16 prices)</i>	
	<b>Two-child limit</b>	<b>Three-child limit</b>
Child benefit	1.0–1.1	0.3
Child benefit for non-working families	0.3	0.1
Child element of universal credit	2.8–3.3	0.8–1.1
Child element of universal credit for non-working families	1.2–1.5	0.4–0.5

Note: Upper bounds are calculated using administrative data, lower bounds using TAXBEN.

Source: Authors' calculations using HMRC data (<https://www.gov.uk/government/statistics/child-benefit-statistics-geographical-analysis-august-2013>, <https://www.gov.uk/government/statistics/child-and-working-tax-credits-statistics-finalised-annual-awards-2012-to-2013>) and TAXBEN run on updated data from the 2012–13 Family Resources Survey.

have, for example, suggested that child benefit could be limited to the first two children in a family.<sup>37</sup>

Table 9.6 shows the estimated reduction in spending from a number of different reforms that limit state support to a given number of children. Looking first at reforms to child benefit, limiting payments to the first two children would reduce spending by around £1 billion a year, with 1.2 million families losing a little less than £1,000 a year. If payments were instead limited to the first three children, the reduction in spending would fall to around £300 million a year, as only around 300,000 families would then be affected. Much bigger reductions would be possible if the limit on the number of children eligible were also applied to the child element of universal credit (currently the child element of child tax credit). Limiting payment of the child element to the first two children in a family would reduce spending by around £3 billion (with 900,000 families losing an average of over £3,500 a year), and limiting it to three children would reduce spending by £1 billion (in both cases, these reductions in spending are in addition to those from limiting child benefit).

One of the rationales that have been provided for this kind of policy is that, while most working families have to incorporate financial considerations into decisions around having children, child-contingent benefits mean that non-working families do not face the same incentives (or disincentives).<sup>38</sup> On that logic, one might want to implement the limit on the number of children eligible only for non-working families. Table 9.6 shows how this restriction would affect the likely reduction in spending from such a policy. Limiting child benefit for non-working families only (something that would be administratively difficult) would reduce spending by around £300 million if payments were limited to the first two children and by around £100 million if payments were limited to the first three children. Again, those affected would lose around £1,000 a year on average, but only 300,000 (or 100,000) families would be affected. Implementing the same policies for the child element of universal credit would reduce spending by between £1.2 billion and £1.5 billion and around £500 million respectively, with those affected losing an average of £4,000 a year.

<sup>37</sup> <http://www.theguardian.com/society/2014/dec/14/child-benefit-limited-two-children-iain-duncan-smith>. Note that the benefit cap already has this effect for some families with very high rents.

<sup>38</sup> See, for example, [http://www.huffingtonpost.co.uk/2013/12/15/two-child-limit-benefits\\_n\\_4446773.html](http://www.huffingtonpost.co.uk/2013/12/15/two-child-limit-benefits_n_4446773.html).

To the extent that the purpose of limiting benefits by family size is to change the incentives facing non-working families, it would seem to follow that any limit would apply only to those families who had (or conceived) an additional child after the implementation of the policy. In that case, the figures above would represent the potential long-run cut to spending; the initial reduction would be much smaller.

Some large working-age families, particularly those living in high-rent areas, have already been affected by the introduction of a 'benefit cap' – a restriction on the total weekly amount of benefit a family can receive, set at £350 per week for childless single adults and £500 per week for other families (with some exemptions, notably for those receiving certain disability benefits). This has led to significant reductions in the amount of benefit these families receive (DWP estimates that the average loss among those affected in November 2013 was £70 a week) and appears to have led to some of those affected moving into work. It does not seem to have led to many claimants moving to cheaper accommodation (at least so far).<sup>39</sup>

Currently, only around 27,000 families are subject to the cap, and even fairly sizeable reductions in its level would not deliver a significant reduction in spending. The Conservatives have proposed to reduce the cap for couples and lone parents from £26,000 to £23,000 a year (£500 per week to about £440 per week), which would reduce spending by only £135 million a year.<sup>40</sup> Those who would be affected by this change would be those who are subject to the cap at the moment – who would all lose a further £3,000 per year – and 70,000 other workless families<sup>41</sup> who have a benefit income of between £23,000 and £26,000 – who would lose less than £3,000 per year.

The benefit cap is not a coherent way of reducing the benefits of larger families or those living in high-rent areas. If the government felt that the benefits system was too generous to these groups, a more coherent response would be to change the underlying benefit entitlements of these families directly by reducing the amount of support given to large families (as we discuss above) and/or limiting the amount of support for housing costs, rather than layering an overall cap on a system designed to allow higher payments.

### *Reversing discretionary increases in tax credits*

As discussed in Section 9.2, the past two decades have seen large increases in the generosity of tax credits for low-income families with children, with spending on tax credits (and their predecessors) more than quadrupling in real terms between 1997–98 and 2010–11. More specifically, the child element of child tax credit (which will become the child element of universal credit) has risen by 44% in real terms (relative to CPI inflation) since the introduction of the current system of tax credits in 2003.<sup>42</sup>

One way to reduce social security spending on families with children would be simply to reverse that increase in generosity, returning the child element to its 2003–04 real-terms level. We estimate that doing so would reduce spending by around £5.1 billion a year.

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<sup>39</sup> Source: Department for Work and Pensions, *Benefit Cap: Analysis of Outcomes of Capped Claimants*, DWP ad-hoc research report, 2014, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/385970/benefit-cap-analysis-of-outcomes-of-capped-claimants.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/385970/benefit-cap-analysis-of-outcomes-of-capped-claimants.pdf). For more discussion, see C. Emmerson and R. Joyce, 'Coping with the cap?', IFS Observation, 2014, <http://www.ifs.org.uk/publications/7482>.

<sup>40</sup> Source: <http://www.dailymail.co.uk/news/article-2927561/New-welfare-crackdown-workshy-100-day-election-countdown-begins-PM-vows-slash-cap-3-000-days-Tory-election-victory.html>.

<sup>41</sup> Source: *ibid.*

<sup>42</sup> The child element has risen by 33% relative to RPI (used for uprating until 2011–12) since 2003.

This significant reduction in spending reflects a large impact on the 3.7 million families with children entitled to universal credit, who would lose nearly £1,400 a year on average. We estimate that this would increase relative child poverty by about 300,000 children, or 2.5 percentage points. This would mean that the government was on course to miss its supposedly legally-binding 2020 child poverty targets by an even larger margin.<sup>43</sup>

The above reform would reduce the incomes of both non-working and working low-income families with children, as both groups are entitled to universal credit. If instead one wanted to reverse the increase in generosity only for non-working families, it would be possible to compensate fully 1.9 million of the 2.4 million working families through higher work allowances (the amount they can earn before universal credit starts to be withdrawn).<sup>44</sup> This combination of a reduction in the child element back to its 2003 level and an offsetting increase in work allowances would affect 1.8 million families and reduce spending by around £2.5 billion a year (i.e. the compensation of working families halves the number affected and the cut to spending). By reducing the incomes of non-working families while protecting in-work families, a reform of this nature would also strengthen the incentives for families with children to be in work.

One could, of course, take an entirely different approach to reducing social security spending on low-income families with children. As well as increasing the generosity of support for non-working families with children, changes since 1997–98 have increased the level of in-work support available to such families. Rather than reducing the entitlements of non-working families, one could instead reduce the generosity of the system for low-income working families with children, by reducing their work allowances. This would represent the continuation of a policy direction already taken by the coalition government, which has made changes to the work allowances expected to reduce spending by over £1 billion a year. If the work allowances of families with children were cut to the same level as those for families without children, we estimate that social security spending would fall by £3.3 billion a year (with over 2 million families losing an average of almost £1,500 a year). This reform has the advantage of protecting the families with the lowest incomes (those with no one in work) but, by reducing the amount families can earn before universal credit can be withdrawn, it weakens their incentive to have someone in paid work.<sup>45</sup>

## **Disability benefits**

As we saw in Section 9.2, a substantial proportion (18%) of total benefit spending goes on benefits for those with disabilities and those who care for them. In 2015–16, it is forecast that £13.6 billion will be spent on employment & support allowance, £14.7 billion will be spent on disability living allowance (DLA) and personal independence payment (PIP, which will ultimately replace DLA), £5.6 billion will be spent on attendance allowance (AA) and £2.4 billion on carer's allowance (CA). We also saw that spending on DLA and

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<sup>43</sup> IFS researchers have repeatedly argued that it is impossible that these targets will be hit under any plausible scenario – for the latest projections and more discussion, see J. Browne, A. Hood and R. Joyce, 'Child and working-age poverty in Northern Ireland over the next decade: an update', IFS Briefing Note 154, 2014, <http://www.ifs.org.uk/publications/7448>.

<sup>44</sup> Note, however, that those with earnings below the work allowance would not be compensated by doing this.

<sup>45</sup> Though, as we noted earlier, policies such as these strengthen the incentive for both members of a couple to work rather than just one, and for those in work to increase their earnings.

AA has increased very significantly over time, having risen by over 90% in real terms since 1997–98 despite no real policy changes in this area. Reforms to constrain these rising costs are therefore likely to be an important area for future governments to look at.

### *Means-testing disability benefits*

Disability living allowance and attendance allowance exist to compensate those with disabilities for the additional costs that they face in terms of additional care and mobility costs, irrespective of how much other income they have or whether they are in work. Thus, these benefits are claimed by households at all income levels: as we saw in Section 9.2, the largest concentration of claimants of DLA and AA is in the upper-middle of the income distribution, at least in part because the income received from these benefits pushes recipients further up the distribution. Carer's allowance exists to support those who provide care to someone on one of these benefits, and covers both pensioners and those of working age. These are all benefits that are worth the same cash amount to all recipients as they are neither means tested nor taxable.

There are good reasons to keep things this way: these benefits are intended to compensate disabled people for the additional costs that they face and provide support for those who provide care for disabled people that might otherwise have to be paid for out of the public purse. Even so, a government looking to reduce the deficit might consider taxing these benefits or replacing them with means-tested benefits so that support only went to those without other means of support (such as income from earnings or other sources or a partner in paid work). A government considering changes such as these would have to think carefully about the aims of disability and carers' benefits before making any such changes.

Making DLA and PIP taxable would raise about £915 million a year; doing the same for AA would reduce spending by £550 million in 2015–16.<sup>46</sup> Spending cuts could also be achieved by scrapping these benefits and introducing new disability premiums in universal credit and pension credit. While it is hard to be precise about how much spending could be cut through such a policy, we estimate that around one-third of DLA and AA claimants would not be entitled to either universal credit or pension credit. Although this does not imply that spending would be reduced by a full third of the cost of the benefits, it does suggest that a radical policy such as this could lead to a significant reduction in spending. Scrapping CA and allowing claimants to claim universal credit instead would reduce spending by around £300 million a year.<sup>47</sup> The reduction in spending is relatively small as most claimants of CA would be entitled to claim another means-tested benefit to offset the loss of CA.

### *Tightening disability tests*

Another way of reducing expenditure on these benefits would be to make the disability tests more stringent. The introduction of employment & support allowance (ESA) and PIP are examples of policies in this area that have already been introduced. In both cases, the roll-out has not gone smoothly. There is a big backlog of ESA claimants waiting for a medical assessment and more of those who have been assessed have been found to be

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<sup>46</sup> Source: 2014–15 figures from table 1.5 of HMRC Statistics, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/302317/20140109\\_expenditure\\_reliefs\\_v0.4published.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/302317/20140109_expenditure_reliefs_v0.4published.pdf), updated in line with nominal GDP to 2015–16 values.

<sup>47</sup> Source: Authors' calculations using TAXBEN run on updated data from the 2012–13 Family Resources Survey.



entitled than the government had previously expected. Meanwhile, the roll-out of PIP has been significantly delayed.

Notwithstanding these issues, it may be possible to go further by applying these changes more widely. For example, the government could also reassess DLA claimants aged 65 and over for entitlement to PIP – we estimate that this could reduce spending by around £½ billion a year in the short run assuming that DLA claimants aged 65 and over are as likely to be entitled to PIP as the government expects equivalent claimants aged under 65 to be. (Note that in the longer run there will be no DLA claimants aged 65 and over anyway, since DLA could only be claimed by those aged under 65, who now have to claim PIP, meaning that this reform would not reduce expenditure in the long run.) These figures are based on assumptions about how many claimants would lose entitlement – given the experience from the introduction of ESA, it is far from guaranteed that the introduction of PIP would reduce spending by as much as the government is currently expecting – and therefore the amounts that could be saved from applying the policy to those aged 65 and over could be commensurately lower too.

A related reform would be to stop giving additional support to those in the Work-Related Activity Group of ESA (those who are less disabled and are expected to engage in ‘work-related activity’ with a view to returning to work in future) over and above that given to JSA claimants. The current government apparently recently considered introducing such a policy.<sup>48</sup> We estimate that this change could reduce spending by upwards of £1 billion a year once ESA is fully in place and the current backlog of ESA claims is cleared, though there remains considerable uncertainty around how large the Work-Related Activity Group will be in steady state.<sup>49</sup> Eliminating the additional support given to those placed in the Work-Related Activity Group would give a stronger incentive to those currently in that group to appeal in an attempt to get into the Support Group.

## Support for rents

Housing benefit accounts for almost 12% of total social security spending, costing the exchequer £26 billion a year. And despite discretionary cuts in generosity of over £2 billion a year made by the coalition government, real-terms spending is expected to be £1 billion higher in 2015–16 than it was in 2010–11 as higher private rents, the growth of the private rented sector, and weak earnings growth combined to push up spending.

Of the £26 billion expected to be spent on housing benefit in 2015–16, around 60% (£16 billion) will go to tenants in the social rented sector, with the remaining 40% (£10 billion) going to tenants in the private rented sector. Therefore, any attempt to cut housing benefit spending significantly may well involve reforms affecting social tenants, most of whom currently pay no net rent (i.e. their housing benefit covers all rent). We consider social tenants first and then look at further restrictions to entitlements in the private sector.

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<sup>48</sup> See <http://www.bbc.co.uk/news/uk-politics-29821696>.

<sup>49</sup> There were around 475,000 members of the Work-Related Activity Group in May 2014 (source: DWP Tabulation Tool), but there were a further 500,000 individuals claiming ESA who had not yet been assessed, and a further 61,000 claimants of incapacity benefit waiting to be assessed for ESA eligibility. A rough calculation from these figures suggests that around £700 million could be saved by removing the Work-Related Activity Group component from those already assessed as being entitled to it (since the 474,000 individuals in question would each lose around £29 a week), with possible further savings coming in the future once more people are assessed for eligibility for ESA and put in the Work-Related Activity Group.



### Social tenants

Until recently, the housing benefit entitlement of all social sector claimants (subject to a means test) was simply their rent. This is no longer true for around 660,000 of the 3.3 million social sector claimants, who have had their entitlements reduced on the basis that they are deemed to be under-occupying their property (a policy sometimes referred to as a 'bedroom tax' or the removal of a 'spare room subsidy').<sup>50</sup> One way to reduce housing benefit spending would be to subsidise less than 100% of the rents of other social tenants too. For example, one could reduce the subsidy for social tenants from 100% to 90% of their rents, reducing spending by around £1.6 billion a year (or £2.5 billion a year if private tenants were also included).<sup>51</sup> Alternatively, one could subject all social sector claimants to the local housing allowance (LHA) rules that govern the maximum entitlements of most private sector claimants.<sup>52</sup> We estimate that this would reduce spending by around £700 million a year, with around 750,000 social sector families with rent greater than the LHA rate losing an average of nearly £1,000 a year.

Cuts to spending from subjecting social tenants to the same LHA rules as private tenants are limited by the fact that their rents are subsidised, making them less likely to be above the relevant LHA rate at which support is capped. Estimates suggest that the gross cost to the government of this rent subsidy was around £7 billion in 2007–08.<sup>53</sup> By allowing social rents to rise towards those in the private sector, the government could reduce the cost of this subsidy, but under the current system this would be mostly offset by higher spending on housing benefit.<sup>54</sup> If, however, social sector entitlements were not allowed to rise in line with increased rents, but were subject to the LHA rules, a government could remove some or all of the subsidy while seeing a smaller increase in housing benefit spending. Such a package of changes would actually increase social security spending, but reduce total public spending. Of course, any government looking at making changes of this type should take into account the weaker work incentives that would result from raising social rents, and the fact that new social tenants are (depending on allocation criteria) likely to be among the most disadvantaged. More broadly, reforms in this area need to be considered in the light of the overall purpose of maintaining a social sector distinct from the private housing market.

### Private tenants

The simplest way to reduce the generosity of private sector housing benefit is to lower the maximum amount of rent that housing benefit will cover (the LHA rate). The coalition government reduced LHA rates from the 50<sup>th</sup> percentile of rents in a local area to the 30<sup>th</sup> percentile of rents, a change that was expected to reduce spending by £505 million in

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<sup>50</sup> Source: DWP Impact Assessment, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214329/social-sector-housing-under-occupation-wr2011-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214329/social-sector-housing-under-occupation-wr2011-ia.pdf).

<sup>51</sup> Source: Authors' calculations using TAXBEN run on updated 2012–13 Family Resources Survey data.

<sup>52</sup> Those who have been continuously renting the same property without a change in their family circumstances since April 2008 are not subject to the LHA rules.

<sup>53</sup> Source: <http://webarchive.nationalarchives.gov.uk/20120919132719/http://www.communities.gov.uk/documents/housing/pdf/1290130.pdf>. To our knowledge, this is the most recent estimate available.

<sup>54</sup> It would not be entirely offset, because some social tenants do not receive housing benefit, and those affected by the under-occupancy rules would not see their entitlement rise by the full amount of any rent increase.

2015–16.<sup>55</sup> Early evidence suggests that this resulted in most claimants paying more rent, with a small increase in the proportion moving house.<sup>56</sup> We estimate that a further reduction in LHA rates to the 20<sup>th</sup> percentile of local rents would reduce spending by roughly £400 million a year, with 1.5 million claimants having their entitlements reduced, by an average of around £300 a year.<sup>57</sup> This would of course represent a significant change, from a system where housing benefit claimants could afford half of all properties of the appropriate size in their area, to one where they could afford only two in ten of those properties.<sup>58</sup>

Regardless of generosity, the link between LHA rates and local rents should relate to current levels of local rents rather than historic ones. This is no longer government policy; in 2013, the coalition moved to indexing LHA rates, previously determined by local rents, with CPI inflation.<sup>59</sup> In the long run, this will create an absurd situation whereby geographical relativities in rent subsidies in the distant future will depend on geographical differences in rent levels in 2012 rather than their current relativities.<sup>60</sup> Restoring a link with current rents would cost the government money if private rents continue to rise in real terms, though it is questionable whether the current system of CPI indexation would be sustainable in this case, as it would mean that private sector rents became less and less affordable over time for housing benefit claimants. Allowing housing benefit entitlements to bear increasingly little relation to levels of housing costs would call into question the whole point of its existence as a distinct benefit.

A reform to private sector housing benefit that could improve incentives for a larger share of tenants would be the introduction of partial subsidies above a certain threshold. Currently, rents of housing benefit claimants are subsidised at 100% up to the LHA rate (approximately the 30<sup>th</sup> percentile of local rents) and 0% above that. This leaves many tenants with no immediate incentive to find or negotiate a rent lower than their LHA rate, since they face none of the additional cost of higher rent up to that point. Rather than further reducing LHA rates, one could, for example, reduce the subsidy for rent between the 10<sup>th</sup> and 30<sup>th</sup> percentiles to 50%. This would be likely to reduce spending by slightly more than reducing LHA rates to the 20<sup>th</sup> percentile, and would give more tenants an incentive to reduce their rent.<sup>61</sup> More generally, the introduction of partial subsidies over certain bands of rent would allow the government to trade off incentives and the generosity of support with greater precision.

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<sup>55</sup> Source: HM Treasury, *Budget 2011*, <http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/2011budget.htm>.

<sup>56</sup> M. Brewer, C. Emmerson, A. Hood and R. Joyce, *Econometric Analysis of the Impact of Local Housing Allowance Reforms on Existing Claimants*, DWP Research Report, 2014, <http://www.ifs.org.uk/publications/7277>.

<sup>57</sup> This is the long-run saving, i.e. assuming all private sector tenants are subject to the LHA regime. If entitlements for social tenants were also capped at the 20<sup>th</sup> percentile, we estimate the long-run saving would rise to £1.3 billion (relative to the current system).

<sup>58</sup> Strictly speaking, LHA rates are based on the percentile of the private rent distribution excluding those properties rented by housing benefit claimants (not all properties).

<sup>59</sup> Technically, LHA rates are now the lower of the CPI-indexed 2012 rate and the 30<sup>th</sup> percentile of rents. This will matter less and less over time if rents grow in real terms. In the short run, the nominal increase in LHA rates was limited to 1% in April 2014 and April 2015, with some exemptions for areas with high rent growth.

<sup>60</sup> For further discussion of the problems with the CPI indexation of LHA rates, see A. Hood and D. Phillips, 'Benefit spending and reforms: the coalition government's record', IFS Briefing Note BN160, 2015, <http://www.ifs.org.uk/publications/7535>.

<sup>61</sup> Although it would weaken the incentive for some tenants (those with rents between the 20<sup>th</sup> and 30<sup>th</sup> percentiles).

There are of course other ways to reduce the generosity of private sector housing benefit. For example, the coalition government has abolished five-bedroom LHA rates (reducing the entitlements of some very large families), introduced national caps on LHA rates (affecting claimants in some parts of central London) and extended the shared accommodation rate to single people under 35. However, further changes to the rules governing room entitlements, or a reduction in the national caps, are unlikely to cut spending significantly since they would only affect a small subset of private sector housing benefit claimants.

### Contributory benefits for those of working age

The benefits system for working-age people has become increasingly means tested over the last 35 years. Over 80% of spending on working-age people was means tested in 2013–14, compared with only a quarter in 1978–79.<sup>62</sup> Given that the social insurance element of the benefits system for working-age people has decayed so much already, one option for further cuts would be to remove its remnants entirely by scrapping contributory JSA and ESA. Total expenditure on these benefits is projected to be £5.1 billion in 2015–16, though abolishing them would not cut spending by this amount since many claimants would be entitled to claim means-tested support. Our modelling suggests that spending would be reduced by only around £600 million if these benefits were abolished, since the majority of claimants would be entitled to claim the same support through universal credit – we estimate that only around a quarter of claimants would lose out as a result of this change.

However, there have been calls to move back towards a system of social insurance against unemployment and disability – for example, Labour has proposed a more generous rate of contributory JSA for those who have made at least five years of National Insurance contributions.<sup>63</sup> Although means-testing ensures that support is targeted at the most vulnerable at any point in time, social security contributions that give entitlement to higher benefits can have less of a disincentive effect than an equivalent tax on earned income. Contributory benefits also provide a degree of insurance against unemployment and disability shocks that cannot be provided by private insurance markets because of problems of adverse selection and moral hazard.<sup>64</sup> It may also be seen as fair to relate the amount an individual receives from the social security system when they suffer an adverse shock to the amount they have contributed to the system. And contributory benefits give those who are unemployed or disabled some *individual* income in their own right that they might not receive under a purely means-tested system.<sup>65</sup>

There is certainly still room for a substantial debate to be had about the role of the contributory principle.

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<sup>62</sup> Source: A. Hood and L. Oakley, 'The social security system: long-term trends and recent changes', IFS Briefing Note BN156, 2014, <http://www.ifs.org.uk/uploads/publications/bns/BN156.pdf>.

<sup>63</sup> See <http://www.bbc.co.uk/news/uk-politics-27911518>.

<sup>64</sup> Adverse selection occurs when those who know they are more likely to lose their job or become disabled purchase insurance but those who think they are less likely to become unemployed or disabled do not, meaning that the cost of insurance increases and the pool of people who wish to purchase insurance shrinks. Moral hazard occurs when those who have purchased unemployment put less effort into keeping their job as a result of knowing they will be partially compensated if they lose it.

<sup>65</sup> For more on this, see F. Bennett and H. Sutherland, 'The importance of independent income: understanding the role of non-means-tested earnings replacement benefits', Institute for Social and Economic Research (ISER), Working Paper 2011-09, 2011, [https://www.iser.essex.ac.uk/files/iser\\_working\\_papers/2011-09.pdf](https://www.iser.essex.ac.uk/files/iser_working_papers/2011-09.pdf).

## State pensions and other benefits for pensioners

We saw in Section 9.2 that the total amount of social security spending received by pensioners has been rising rapidly in recent years. This is both because of an increase in the size of the population aged over the state pension age and because average entitlements have been increasing. Discretionary policy changes, higher entitlements to state pensions among those who have reached state pension age more recently resulting from past changes to state pension rights accrual, and higher female labour force participation have all been important drivers of this rise.

We also saw that more than three-quarters of total social security spending on pensioners goes on state pensions. This implies that if spending in this area is to be reduced significantly, it is likely that state pension expenditure will have to be reduced. There are two obvious ways in which this could be done: the number of people entitled to claim state pensions could be reduced by increasing the state pension age; or the generosity of state pensions could be reduced – for example, by increasing the basic state pension in line with CPI inflation or average earnings growth rather than the ‘triple lock’.<sup>66</sup> It seems unlikely that either of these could be achieved in the next five years: all the main political parties have pledged to retain the triple lock for the duration of the next parliament,<sup>67</sup> and changing individuals’ state pension ages at short notice would disrupt the plans of those approaching state pension age. In any case, state pension ages for both men and women are already set to increase over the course of the next parliament. Making frequent changes to pension policy is undesirable – if governments frequently backtrack on promises made, people will have less confidence about how much they will receive from the state in retirement, making it difficult for them to plan for retirement.

On the other hand, if there are concerns about the costs implied by current promises to pensioners, it makes sense to announce a move to a more sustainable path sooner rather than later. And working-age benefit recipients will have already seen three years of below-inflation increases by the end of this parliament. We have seen that including state pensions and other pensioner benefits in a two-year freeze more than doubles the amount by which spending would be reduced, from £3.2 billion to £7.0 billion, with £2.6 billion of this coming from freezing state pensions. A less severe option would be to suspend the triple lock for a number of years and increase the basic state pension in line with CPI inflation instead. We estimate that this could reduce spending by £900 million a year if it were done for two years from 2016–17 or £2.9 billion a year if it were sustained for the whole of the next parliament.<sup>68</sup>

The other benefits received by pensioners are relatively small by comparison – even pension credit, the main means-tested benefit received by those aged over the female state pension age, represents only around 5% of total social security spending on this group. A way of reducing spending without affecting those on the lowest incomes would be to abolish the savings credit component (the part received by those with a small

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<sup>66</sup> Note that the ‘triple lock’ involves the basic state pension increasing more quickly than earnings over the long term, meaning that state pension spending would take up an increasing share of national income over time, which could not be sustainable in the very long run.

<sup>67</sup> See <http://www.bbc.co.uk/news/uk-25609485>, <http://www.bbc.co.uk/news/uk-politics-25614562> and <http://www.ft.com/cms/s/0/4532b902-8aa3-11e3-9465-00144feab7de.html#axzz3Oiltl5CU>.

<sup>68</sup> Source: Authors’ calculations using TAXBEN run on updated data from the 2012–13 Family Resources Survey.

amount of state or private income above the basic state pension). We estimate that this would reduce spending by around £900 million a year if it were introduced immediately in 2015–16. However, this reduction in spending would not persist into the long term: there is already an intention to close savings credit to pensioners who reach the state pension age after April 2016 and who will receive the single-tier pension, meaning that it will eventually disappear in any event. A small reduction in spending could be found by abolishing savings credit for all new claimants.

One frequently-discussed option is means-testing the universal benefits that are received by pensioners, namely free TV licences for those aged 75 and over and winter fuel payments. These are only a very small part of the total cash support received by pensioners – around 2% of the £121 billion received by pensioners in 2015–16. Abolishing both completely would reduce spending by £2.8 billion a year, but would lead to low-income losers.

Designing a new system simply to assess entitlement for these benefits would be highly inefficient from an administrative point of view. However, it might be possible to assess entitlement using an existing piece of the tax and benefit system. The Labour Party has proposed removing winter fuel payments from higher- and additional-rate taxpayers, which would affect between 600,000 and 700,000 families and reduce spending by around £150 million a year, a trifling amount in the context of total pensioner social security spending. A more substantial cut to spending could be made in this area if these payments were only given to those claiming pension credit. Our modelling suggests that, under the assumption of full take-up of pension credit, this would reduce spending by around £1.2 billion a year in winter fuel payments, with a further £350 million reduction in spending if this were also applied to free TV licences for those aged 75 and over. Allowing for non take-up of pension credit might increase the reduction in spending by a further £100–£200 million, meaning that the total cut would be somewhere between £1½ billion and £2 billion a year. Non-take-up would also, of course, mean that some of the lowest-income pensioners – those who do not take up the means-tested support to which they are entitled – would lose out from these changes.

Although this cut is not a trivial sum, it still represents scarcely 1% of total social security spending on pensioners. The debate around winter fuel payments seems to have become totemic rather than a serious discussion about whether less can be spent on supporting the elderly through the benefits system.

## **9.4 Conclusion**

Social security spending – including all benefits, tax credits and state pensions – is forecast to be around £220 billion in 2015–16, which is around 30% of total government expenditure. More than half of this money goes to pensioners, and this proportion has been rising over the course of this parliament as the number of pensioners has increased, entitlements to state pensions among those who have recently reached state pension age have risen, and pensioners have been largely protected from the cuts to benefits and tax credits that have affected working-age households. Given the ongoing structural budget deficit, it is possible that whoever forms the next government will look at cutting the social security budget. Meanwhile, an ageing society, lower levels of homeownership and weak earnings growth may continue to put upward pressure on spending.

In this chapter, we have examined various options for reducing expenditure. Broadly speaking, there is a choice between making cuts across the system as a whole and reducing benefit entitlements for particular groups. But all such decisions should be made with a clear view of the aims of the social security system. For example, we currently have a highly means-tested system for working-age people but more universal provision for pensioners. There is still a debate to be had around whether there is a role for a social insurance system for those of working age, to what extent support for disabled people should be means tested, and whether we have the balance right between support for housing costs through the benefits system and the provision of social housing at subsidised rates to poorer households. Reforms that change the fundamental nature of the social security system would require bigger structural changes than we have considered in this chapter.

Even if one thought that the balance between universal and means-tested support were broadly correct at the moment, the system could be rationalised in ways that could (but need not) involve reductions in total expenditure. The introduction of universal credit, combining six means-tested benefits into a single payment, should help rationalise the system. But the decisions to leave support for council tax outside universal credit and to introduce a new mechanism for withdrawing child benefit from higher-income families through the tax system will not. For pensioners, state pensions combined with means-tested top-ups represent a coherent system of support for older people, but it is less clear that additional universal benefits such as winter fuel payments and free TV licences should also form part of this. Again, rationalising the system could lead to reductions in expenditure (for example, if these additional payments were only given to those on pension credit) but need not do so.

The Conservatives have said that they would wish to cut £12 billion from the social security budget if they were to form a majority government after the general election. To give an idea of the scale of cuts this would require, freezing all benefits and tax credits but not state pensions for the entirety of the next parliament would cut spending by a little more than this amount. Protecting pensioner benefits from these cuts entirely would require more severe cuts for those of working age – freezing all working-age benefits (including disability benefits) for five years would cut spending by only £9.4 billion, requiring additional spending cuts to be found from other areas such as support for families with children or housing benefit. Such decisions could increase the extent to which those on benefits face the same incentives and costs as those in work when deciding where to live or how many children to have. But they could also leave some vulnerable groups with no means of support or introduce new perverse incentives into the system – for example, if housing benefit were withdrawn from most young people but an exemption were given for those who had children, this would strengthen the incentive for young people to have a child.

These trade-offs are an inevitable part of designing a social security system. But they can be ameliorated by ensuring that the system as a whole is properly designed to give support in the most efficient way. It is important that whoever forms the next government has a clear sense of what the social security system is for, and seeks to design a system that achieves this objective in the most coherent way, even as that government aims to reduce its cost.



Table 9.7. Estimated reductions in spending from different cuts to social security

Policy	Estimated saving (£ billion, 2015–16 prices)
<b><i>Across-the-board cuts</i></b>	
Increase child benefit by 1% for 2 years / Freeze for 2 years / Freeze for 5 years	0.1/0.3/0.9
Increase all working-age benefits except disability benefits by 1% for 2 years / Freeze for 2 years / Freeze for 5 years	0.8/2.4/6.9
Increase all working-age benefits by 1% for 2 years / Freeze for 2 years / Freeze for 5 years	1.1/3.2/9.4
Increase all benefits and tax credits but not state pensions by 1% for 2 years / Freeze for 2 years / Freeze for 5 years	1.7/4.4/13.2
Increase all benefits, tax credits and state pensions by 1% for 2 years / Freeze for 2 years / Freeze for 5 years	3.3/7.0/20.1
Increase child benefit by 1% in 2016–17	0.03
<b><i>Means-test universal credit more aggressively</i></b>	
Reduce universal credit work allowances by 10%	0.7
Increase universal credit taper rate to 70%	1.3
<b><i>Cuts to benefits for young adults</i></b>	
Abolish housing benefit for those aged 21 and under without children / only those who are not employed	0.4/0.3
Abolish housing benefit for all those aged 21 and under / only those who are not employed	0.7/0.6
Abolish housing benefit for those aged under 25 without children / only those who are not employed	0.7/0.6
Abolish housing benefit for all those aged under 25 / only those who are not employed	1.6/1.3
Means-test jobseeker's allowance for 18- to 21-year-olds against parental income	0.1 <sup>a</sup>
<b><i>Cuts to benefits for families with children</i></b>	
Abolish child benefit and incorporate with universal credit	4.8
Restrict child benefit to 2/3 children	1.0–1.1 <sup>b</sup> /0.3
Restrict child benefit to 2/3 children for non-working families	0.3/0.1
Restrict child element of universal credit to 2/3 children	2.8–3.3 <sup>b</sup> /0.8–1.1 <sup>b</sup>
Restrict child element of universal credit to 2/3 children for non-working families	1.2–1.5 <sup>b</sup> /0.4–0.5 <sup>b</sup>
Reduce benefit cap from £26,000 to £23,000 a year	0.2
Reduce child element of universal credit to 2003–04 level in real terms	5.1
Reduce child element of universal credit to 2003–04 level in real terms with offsetting increase in work allowances to protect working families	2.5
Reduce work allowances for families with children to level for families without children	3.3



Policy	Estimated saving (£ billion, 2015–16 prices)
<b><i>Cuts to disability benefits</i></b>	
Make DLA and PIP taxable	0.9 <sup>c</sup>
Make AA taxable	0.6 <sup>c</sup>
Scrap carer's allowance	0.3
Reassess DLA claimants aged 65 and over for entitlement to PIP	0.5
Abolish Work-Related Activity Group element of ESA	1.0
<b><i>Cuts to support for rents</i></b>	
Reduce maximum housing benefit for social tenants from 100% to 90% of rent	1.6
Reduce maximum housing benefit for all tenants from 100% to 90% of rent	2.5
Reduce maximum housing benefit entitlements for social sector tenants to LHA rates	0.7
Reduce LHA rates to 20 <sup>th</sup> percentile of rent distribution	0.4
<b><i>Abolish contributory benefits for those of working age</i></b>	
Abolish contributory JSA and ESA	0.6
<b><i>Cuts to state pensions and other pensioner benefits</i></b>	
Increase basic state pension with CPI inflation rather than 'triple lock' for 2/5 years	0.9/2.9
Abolish savings credit component of pension credit	0.9
Abolish free TV licences for those aged 75 and over and winter fuel payments	2.8
Remove winter fuel payments from higher- and additional-rate taxpayers	0.2
Restrict winter fuel payments to those on pension credit	1.2
Restrict free TV licences to those on pension credit	0.4

<sup>a</sup> Source: Labour Party costing.

<sup>b</sup> Source: Authors' calculations using administrative data.

<sup>c</sup> Source: 2014–15 figures from table 1.5 of HMRC Statistics,

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/389539/20141231\\_expenditure\\_reliefs\\_v0.3.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/389539/20141231_expenditure_reliefs_v0.3.pdf), uprated in line with nominal GDP to 2015–16 values.

Source: Authors' calculations using TAXBEN run on uprated data from the 2012–13 Family Resources Survey unless otherwise stated.