

A MILLION OFF INCAPACITY BENEFITS?

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BACKGROUND

- ❑ 2.7m incapacity claimants of working age in UK
- ❑ Biggest group of non-employed claimants
- ❑ Outnumber claimant unemployed by three-to-one
- ❑ Numbers up four-fold since 1970s
- ❑ Up 200,000 since 1997

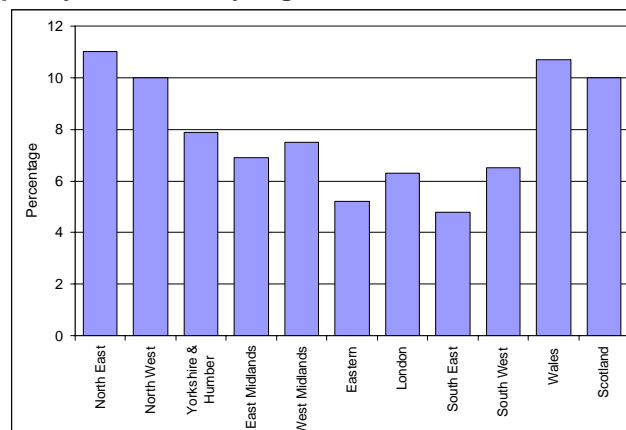
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IS THIS POVERTY?

- ❑ Incapacity Benefit pays £60-80 per week
- ❑ IB rate = c.15% of average earnings
- ❑ But.... not means-tested for most
- ❑ And.... top-up means-tested benefits (IS, HB, CTB)
- ❑ And.... Disability Living Allowance for some

PLACE MATTERS....

Incapacity claimants by region, Nov 2005, as % working age



Source: DWP

PLACE MATTERS....

% of working age claiming incapacity benefits – Top 10, August 2004

| | | | |
|-------------------|------|--------------------|------|
| Easington | 20.5 | Rhondda Cynon Taff | 16.2 |
| Merthyr Tydfil | 20.5 | Knowsley | 15.7 |
| Blaenau Gwent | 19.2 | Caerphilly | 15.6 |
| Glasgow | 16.5 | Liverpool | 15.4 |
| Neath Port Talbot | 16.5 | Barrow in Furness | 14.6 |

Source: DWP, ONS

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PLACE MATTERS....

% of working age claiming incapacity benefits – Bottom 5, August 2004

| | |
|------------------------|-----|
| Elmbridge (Surrey) | 2.5 |
| Forest Heath (Suffolk) | 2.4 |
| Surrey Heath | 2.2 |
| Wokingham (Berks) | 2.1 |
| Hart (Hampshire) | 1.8 |

Source: DWP, ONS

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BASELINE PROJECTIONS

- Stock by age, sex and region
- On-flows and Off-flows, by age, sex and region
- From 2005 to 2015

BASELINE PROJECTIONS

IB numbers, Great Britain

| | |
|--------|----------------|
| 2005 | 2,699,000 |
| 2015 | 2,766,000 |
| Change | <hr/> + 67,000 |

Source: Authors' estimates based on DWP data

THE KEY GOVERNMENT REFORMS

- ❑ Rolling out Pathways to Work initiative across the whole country
- ❑ Employment and Support Allowance to replace IB for new claimants – with new 'conditionality'
- ❑ All incapacity claimants to be paid at same rate as JSA until Personal Capability Assessment

SUPPLEMENTARY MEASURES

- ❑ Improvements to workplace health
- ❑ Better absence management
- ❑ Changes to Personal Capability Assessment
- ❑ Support for GPs
- ❑ End to escalation in payment rates after 6 and 12 months

PATHWAYS TO WORK

- ❑ Compulsory work-focussed interviews for most new IB claimants
- ❑ Routing to rehabilitation, training
- ❑ £40 per week return-to-work premium
- ❑ Existing claimants can opt-in
- ❑ Pilots since 2003, currently one-third of country

PATHWAYS – THE EVIDENCE

- ❑ In Pathways pilot areas, the share of new claimants leaving IB within 6 months is **8 percentage points** higher than in non-Pathways areas

PROJECTION: BASELINE PLUS NATIONAL ROLL-OUT OF PATHWAYS AT CURRENT IMPACT

IB numbers, Great Britain

| | |
|---------------|------------------|
| 2005 | 2,699,000 |
| 2015 | 2,240,000 |
| Change | - 459,000 |

Source: Authors' estimates based on DWP data

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PROJECTION: BASELINE PLUS DOUBLE IMPACT OF PATHWAYS ACROSS WHOLE COUNTRY

IB numbers, Great Britain

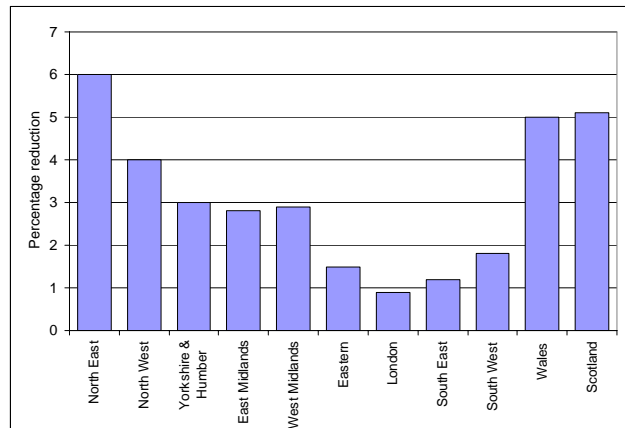
| | |
|---------------|------------------|
| 2005 | 2,699,000 |
| 2015 | 1,715,000 |
| Change | - 984,000 |

Source: Authors' estimates based on DWP data

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PROJECTION: BASELINE PLUS DOUBLE IMPACT OF PATHWAYS ACROSS WHOLE COUNTRY

Reduction in IB numbers 2005-15, as % working age



Source: Authors' estimates based on DWP data

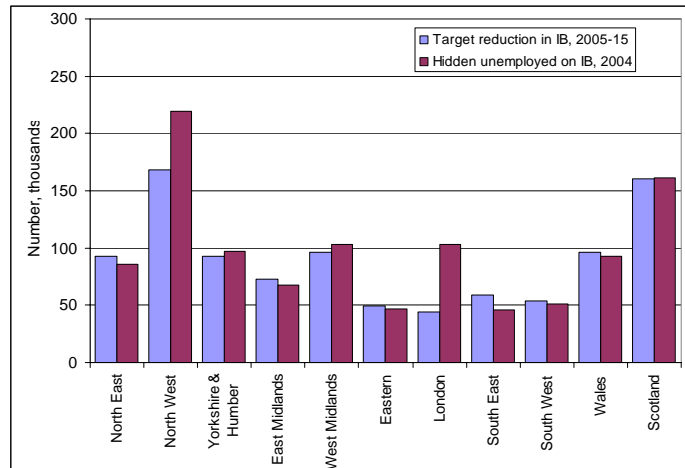
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IS THIS DELIVERABLE?

- ❑ hidden unemployment
- ❑ employment growth
- ❑ reduction in claimant unemployment

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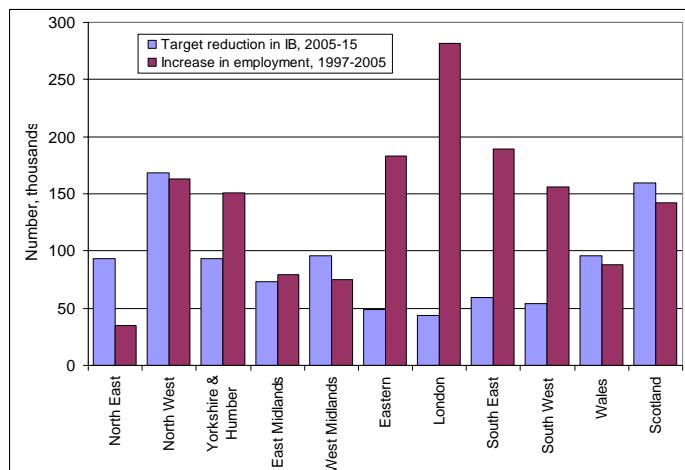
COMPARISON WITH ESTIMATED HIDDEN UNEMPLOYMENT



Source: Authors' estimates

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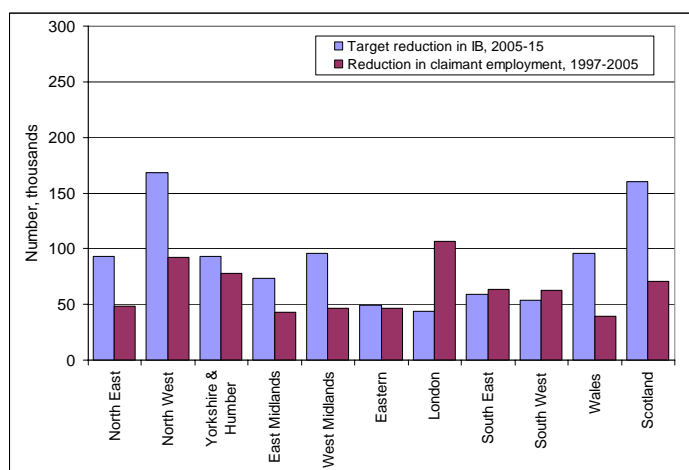
COMPARISON WITH EMPLOYMENT GROWTH



Source: Authors' estimates and ONS

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COMPARISON WITH REDUCTION IN CLAIMANT UNEMPLOYMENT



Source: Authors' estimates and ONS

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SIX KEY OBSERVATIONS

- ❑ IB numbers unlikely to just fall away
- ❑ Rolling out Pathways might get half way there
- ❑ Government target requires overall impact of reforms to be double the current impact of Pathways across the whole country
- ❑ There are enough hidden unemployed
- ❑ Employment growth in North, Scotland, Wales would need to accelerate – or other sources of labour supply dry up
- ❑ Required reduction in IB numbers exceed reduction in claimant unemployment since 1997, especially in high IB areas

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SO WILL THE GOVERNMENT HIT ITS 1m TARGET?

- ❑ National economic growth of the last ten years would need to be sustained
- ❑ And the big increases in employment would need to be where IB claimants are concentrated
- ❑ On balance, no.