

# Universal Credit Policy Briefing Note 1

## Additions for longer durations on Universal Credit

### 1. Core objectives

- a) Universal Credit should support all people to participate fully in society, including remaining in or returning to work. Therefore, Universal Credit will provide more generous support for disabled adults and disabled children than it does for people in similar circumstances who are not disabled.
- b) We intend that people who are assessed as having limited capability for work, or limited capability for work-related activity as well, should be provided with more support than other people to reflect the extra costs of having longer durations on benefit.

### 2. Considerations/limiting factors

- a) The Government intends to reform the current system of multiple, overlapping disability premiums and Tax Credits and instead create a much simpler system.
- b) The Government does not believe it would be right for resources released from this reform to return to the Exchequer. The last Government, constrained by complexity of the existing arrangements, could only set a very small difference between the two Employment and Support Allowance (ESA) components – some £5. The Government believes that this difference is far too small and means that people who need the most support would get a raw deal from these reforms if that was maintained.
- c) So as part of these changes, as resources become available the Government intends to raise the weekly rate of the support component equivalent from £32.35 today<sup>1</sup> in stages to around £77. This will help to focus resources more effectively on severely disabled people.
- d) As Universal Credit will mean that Tax Credits will no longer be needed, including the disability elements, support should be available to people both in and out of work to reinforce incentives to work.

### 3. Key policy proposals

- a) **A Single Assessment:** We want to build on the framework of the WCA to develop a supplement to the assessment that will accurately identify

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<sup>1</sup> All benefit rates are in 2011/12 prices

individuals with enduring health conditions that limit their long term ability to fully provide for themselves through work;

- b) **Higher Earnings Disregard and Single Taper:** creating a work incentive, which allows people to earn between £2,080 a year (i.e. the disregard floor) and £7,000 a year before the standard Universal Credit taper applies – thus keeping 100% of their earnings up to that level before Universal Credit starts to be withdrawn at 65%;
- c) **Two Additions:** consisting of a higher addition (support component equivalent), ultimately worth around £77 per week (up from £32.35); and lower addition (work-related activity component equivalent), worth £26.75 per week (as now). Payment is based on the single assessment;
- d) **Equalised additions for adults and children including increased support for the most severely disabled children:** The cash additions for families with disabled children and the cash additions for adults will be aligned, with the lower rate at £26.75 and the upper rate at around £77 per week. The higher amount is over £52 a year more than the current rate. The Government will also extend eligibility for the higher rate to children who are severely visually impaired who currently only qualify for the disabled child element in Child Tax Credit (those registered or certified as blind). Eligibility for the disabled child additions will, as now, be linked to the rate of Disability Living Allowance they receive.
- e) **Within Universal Credit individuals will only qualify for either a disability or a carer element, not both.** The Government is removing current overlapping provision that allows people to simultaneously claim an addition by virtue of a medical condition and a carer element for themselves to reflect the fact that the additions are paid in respect of not being able to work through either a medical condition or by virtue of caring responsibilities. However, as now, couples could get a disability addition for one member and the carer element for the other partner.
- f) Whilst many people may benefit from Universal Credit, **transitional protection will apply to current claimants** so that there will be no cash losers as a direct result of the move to Universal Credit where circumstances remain the same.

#### **4. Policy rationale**

- a) There are 7 different components within the current system of benefits and tax credits associated with disability. These are paid at different rates, have different qualifying conditions and different purposes.
- b) The premiums were not intended to contribute towards the extra costs experienced by disabled people – this is the role of Disability Living Allowance (DLA). The main Disability Premium was created as a simplification in 1988 to replace the previous complexity within Supplementary Benefit. Its underlying rationale was to reflect that

claimants who have longer durations on benefit face higher costs. The Severe Disability Premium was introduced as a higher and additional premium for people living on their own (or treated as such) with high care needs not met by someone receiving Carers Allowance. There have been problems with its administration over the years, together with questions as to its rationale and whether it is targeted appropriately. It also overlaps in complex ways with social care. Later, the Enhanced Disability Premium was introduced to target more support on people experiencing more barriers to the labour market (using receipt of the DLA higher rate care component as a proxy). The Working Tax Credits disability elements and the predecessor benefits stemmed from concerned about work incentives.

- c) When Employment and Support Allowance (ESA) was introduced in 2008, the Enhanced Disability Premium continued (as is the Severe Disability Premium) and is payable automatically to top up the support component in income-related ESA. The Severe Disability Premium is also paid in ESA. However, the creation of the work-related activity and support components lead to the abolition of the basic disability premium in ESA.
- d) Within Universal Credit we do not intend to replicate every aspect of this provision in the current system, which is difficult to deliver, can be prone to error and confusing for disabled people. Instead, we intend to reform the disability premiums as part of our simplification. The best way to provide additional support to severely disabled people, through Universal Credit, is to provide all those in the support group with an addition that is substantially higher than the current support component in ESA.
- e) Additional payments for disabled children also began with the 1988 reforms. These additions were not intended to reflect the extra costs experienced by families with disabled children, met through DLA, but the costs that were met under the system of supplementary benefits, such as costs of extra heating or baths. These entitlements were wrapped up into a simplified Disabled Child Premium paid at the same rate as the adult Disability Premium
- f) When the Enhanced Disability Premium was introduced in 2001 a mirroring provision was made for children. When Child Tax Credits were created in 2003 the disabled child premium and enhanced rates were converted into the disabled child element and severely disabled child element. More generous uprating over the period 2003 - 10 has seen the child payments increase at a faster pace than the adult payments, leading to a lack of alignment in rates. The Government aims to align child and adult payments through these reforms.

## **5. How it will work in practice**

- a) The new additions will be simpler and fairer than the current system; they will not require the claimant to apply for multiple benefits or Tax Credits and will give over twice the cash addition for the Support Group than is currently payable under ESA. The simpler, rationalised system should also

help to smooth the transition into adulthood for severely disabled young people who need to rely on Universal Credit for ongoing support.

- b) Having both an addition and a disregard will make work pay and encourage more people to make the move into some work, with a clearer understanding of the impact work will have on their benefit entitlement.
- c) For example, a single, non-householder receiving the work-related component would need to earn around £10,200 per year before their Universal Credit is eroded; a single householder would need to earn £4,300 before this started to happen.
- d) Transitional protection will protect the existing entitlements of people already receiving the various premiums in the current system. In an individual case the need for transitional protection will depend on how the overall benefit entitlement is affected by the move to Universal Credit. The groups who may need some transitional protection as a result of the changes described in this paper include:
  - Families who receive the disabled child element of Child Tax Credit (or the disabled child premium in Income Support) for a child but not the severely disabled child element
  - People who have been awarded the severe disability premium in the existing out of work benefits
  - People with an addition not linked to limited capability for work or work-related activity (eg the disabled worker element in working tax credit)
- e) Using the Policy Simulation Model (PSM) we estimate that around 300,000 households will gain from these reforms and around 300,000 households will lose from these reforms.<sup>2</sup>
- f) Some of these households may gain from Universal Credit as a whole. For those households who would lose from Universal Credit as a whole, transitional protection will apply where circumstances remain the same.

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<sup>2</sup> This estimate is based on the DWP's Policy Simulation Model (PSM) which simulates the incomes and benefits that households will receive in the future; it projects forward demographic, economic and policy changes to the introduction of Universal Credit. This is currently the only source which has enough data to be able to assess entitlement to Universal Credit across the whole population, and provide a consistent overall assessment of policy changes which impact on different groups in different ways. The PSM is based on data from the Family Resources Survey and as such its accuracy is dependent on accurate reporting of benefit receipt. Comparisons with administrative data suggest that numbers impacted may be higher than the PSM estimates. Administrative data from DWP and HMRC suggests that currently around 170,000 households receive the disabled element in Child Tax Credit (or the disabled child premium in Income Support) and around 240,000 households receive the severe disability premium. These figures cannot be summed to provide a better estimate of the impacts of the overall policy, they do not take account of the fact that some families may receive both payments, nor how the overall policy, demography and economic circumstances might change numbers affected between now and the full introduction of Universal Credit.

## **6. Further work we will do**

- a) We will update the impact assessment and equality impact assessment for the Welfare Reform Bill to take account of the changes set out in this note.
- b) Increases in the higher addition (support rate equivalent) will be phased in from 2013 as savings from the simplifications are realised. Details will be released at the time of the annual up-rating statements. During the phasing-in period the higher rate for severely disabled children may exceed the adult rate as it will not be less than the Child Tax Credit equivalent.
- c) The Department will undertake further work as part of the Universal Credit implementation to develop a supplement to the Work Capability Assessment to ensure it can accurately identify individuals with enduring health conditions that limit their long term ability to fully provide for themselves through work. Once developed, the Department will ensure this supplement can be reviewed as part of the ongoing annual independent reviews of the WCA, currently being undertaken by Professor Harrington.