Resolution Foundation

Delivering the undeliverable

Five principles to guide policy makers through reforming incapacity and disability benefits

Louise Murphy

6 March 2025

Summary

- Context
  - The Government is set to announce a Green Paper on health-related benefit reform
  - £2bn health-related benefit cuts are baked into OBR forecasts and need to be specified
  - The backdrop? Fast-rising spending on working-age health-related benefits; set to rise by £32bn between 2019-20 and 2029-30, from 1.3% to 2.2% of GDP
- Five principles to guide policy makers through reforming incapacity and disability benefits
  1. Recognise that many of the drivers of rising spend sit outside of the benefits system – and so too will the solutions
  2. Governments tend to focus on reducing health-related benefit in-flows by tightening eligibility criteria – but doing so concentrates large losses among a subset of claimants
  3. There should be more focus on rebalancing entitlements within the benefits system
  4. More action is needed to improve health-related benefit off-flow rates
  5. Ultimately, the Government should prioritise long-term improvements to the health-related benefits system over short-term cuts

Resolution Foundation

The backdrop: spending on working-age incapacity and disability benefits is rising fast

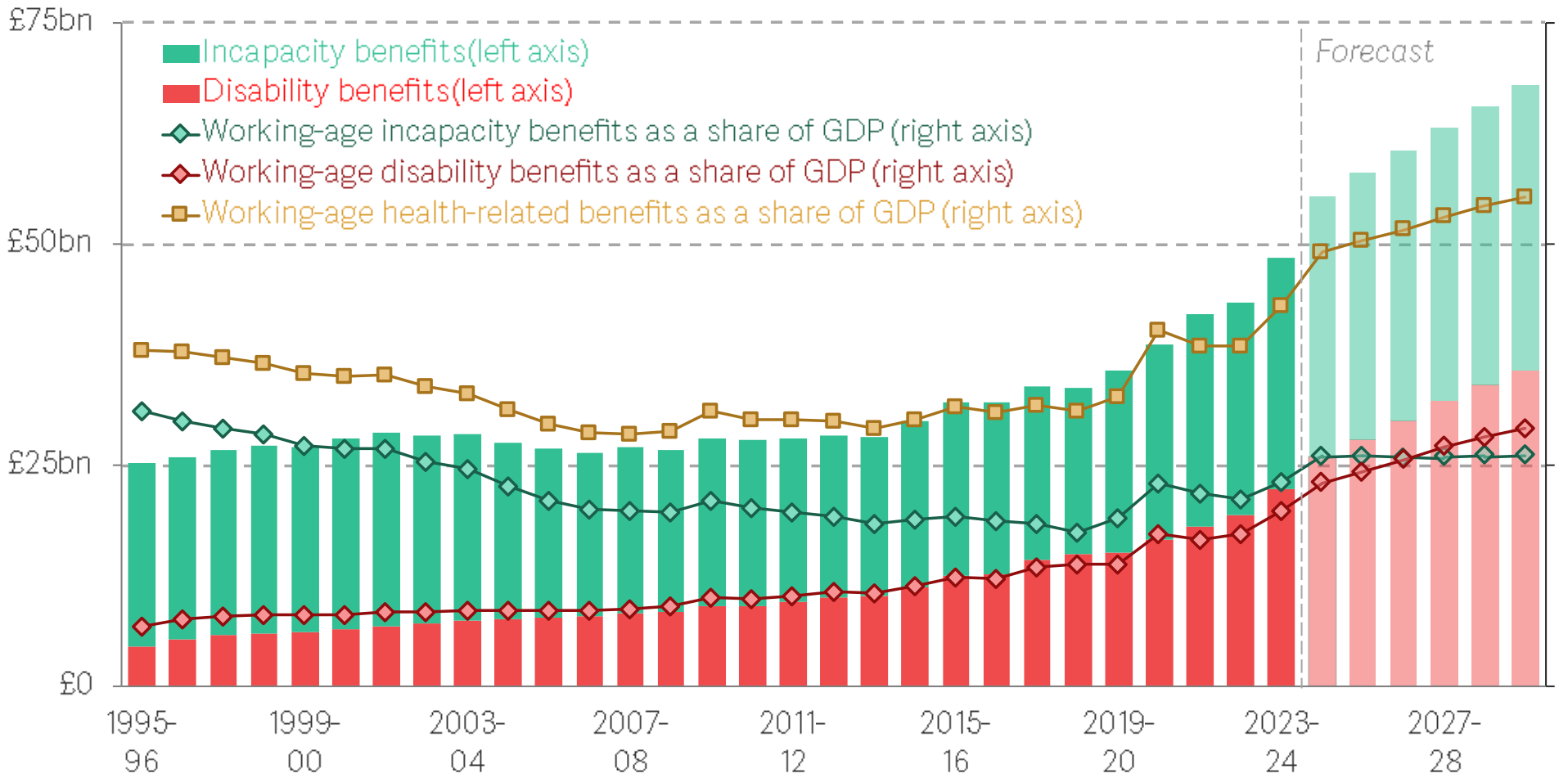
Why is the Government interested now? Green Paper coming this Spring, and unspecified cuts baked into OBR forecasts

Resolution Foundation

- Green Paper coming this Spring
  - Setting out "radical reforms" to create "a system that is fairer on disabled people" and "put spend on sustainable footing"
- £2bn health-related benefit cuts are baked into OBR forecasts and need to be specified
  - The Government was hoping to make cuts worth £2bn by 2029-30 – but the DWP consultation was found unlawful last month, leaving a gap to be filled
- Expecting action on both incapacity and disability benefits
  - Incapacity benefits (UC health):
    - Paid to those who are out of work or on low incomes who have a health condition or disability that limits their ability to work
    - 3.5m claimants in 2024-25; most receive a health element worth £416 per month
  - Disability benefits (PIP):
    - Paid to those with health conditions or disabilities, regardless of their income or savings, to help with extra living costs
    - 3.6m claimants in 2024-25; average award is £586 per month

Why is the Government interested more generally? Working-age health-related benefit spending now stands at 2% of GDP

Working-age incapacity and disability benefit spending, in real-terms (left axis) and as a share of GDP (right axis): Great Britain



Working-age health-related benefit spending up £19bn in real terms between 2019-20 and 2024-25 (£11bn disability benefits; £9bn incapacity benefits)

Set to rise by £13bn in real terms between 2024-25 and 2029-30 (£10bn disability benefits; £3bn incapacity benefits) – disability benefits account for ¾ of the forecast rise

Notes: Deflated to 2024-25 prices using the OBR forecast for the GDP deflator. Incapacity benefits are: Employment Support Allowance, Universal Credit Health, Incapacity Benefit and Severe Disablement Allowance. Disability benefits are: Disability Living Allowance, Personal Independence Payment, Armed Forces Independence Payment, Scottish Adult Disability Payment and Scottish Adult Disability Living Allowance. GDP is for the United Kingdom.
Source: RF analysis of DWP, Autumn Budget 2024 Expenditure and Caseload forecasts; Scottish Fiscal Commission, Economic & Fiscal Forecasts, various; OBR, Economic and Fiscal Outlook.

Resolution Foundation

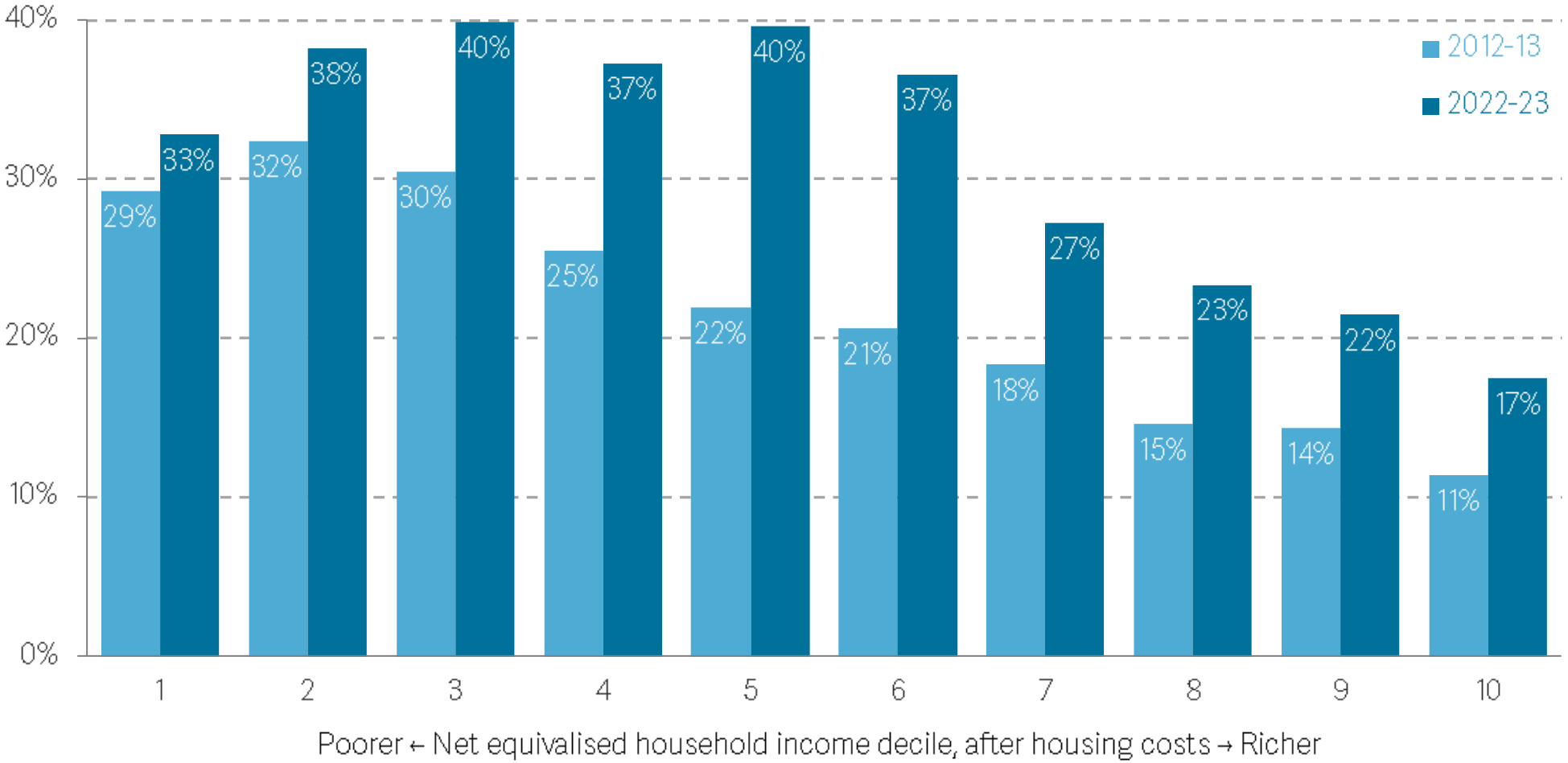
Five principles to guide policy makers through reforming incapacity and disability benefits

Resolution Foundation

1. Recognise that many of the drivers of rising spend sit outside of the benefits system – and so too will the solutions

Our working-age population has become more disabled...

Proportion of working-age families with at least one disabled adult, by household income decile: Great Britain



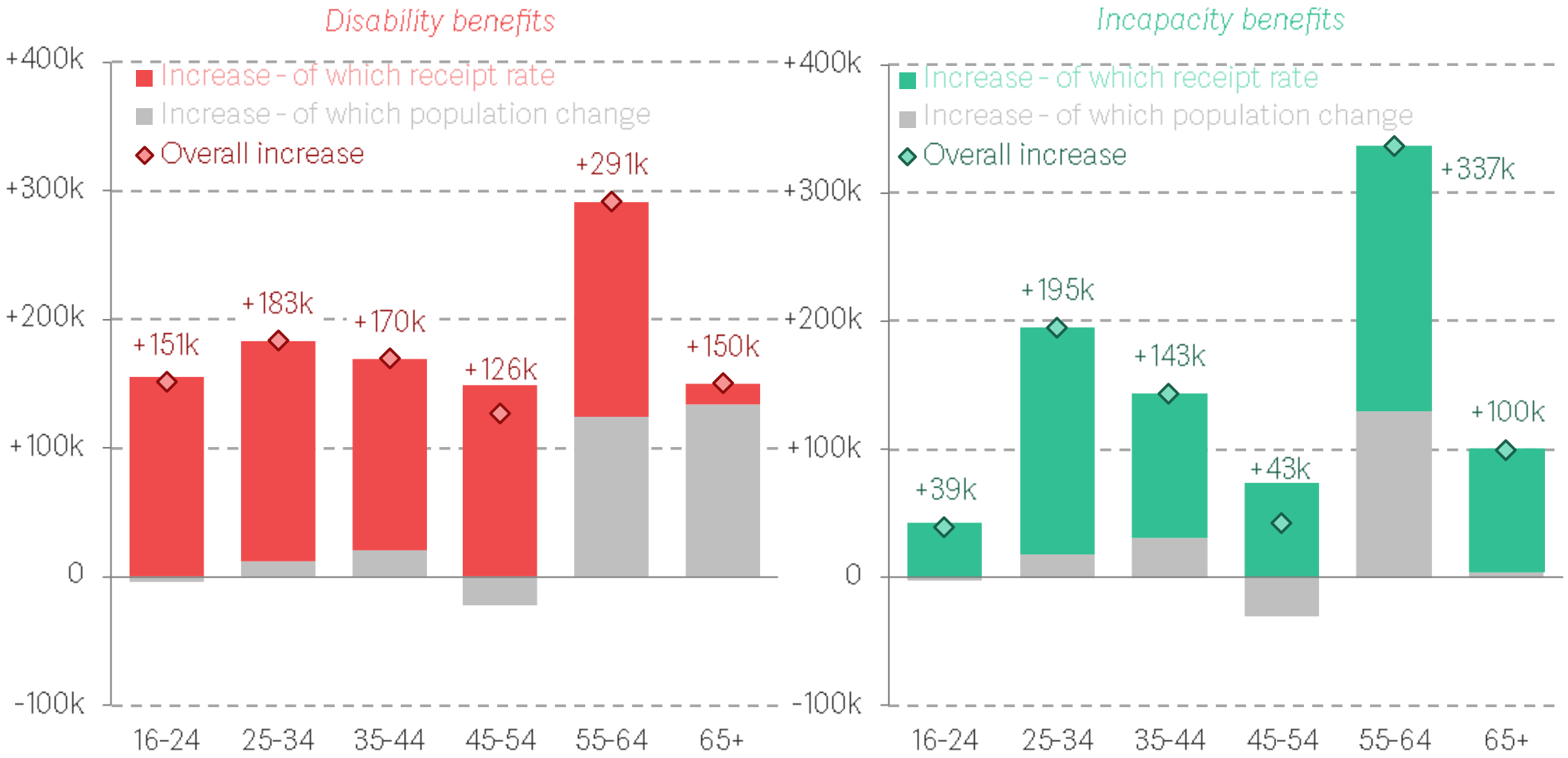
Rising ill-health and disability across the population (not just among benefit claimants)

Improvements in life expectancy at birth are slowing; rising incidence of obesity, diabetes and mental health conditions

Notes: The definition of disability used in the FRS is consistent with the core definition of disability under the Equality Act 2010. A person is considered to have a disability if they have a long-standing illness, disability or impairment which causes substantial difficulty with day-to-day activities.
Source: RF analysis of DWP, Family Resources Survey.

… and an ageing working-age population accounts for one-fifth of the rise in working-age health-related benefit caseloads

Change in working-age disability benefit caseload (left) and incapacity benefit caseload (right) between 2013 and 2023: England and Wales



All else equal, we'd expect working-age health-related benefit caseloads to rise due to:

- Our working-age population getting older
- Policy changes e.g. rising State Pension Age

Notes: Disability benefits include DLA and PIP, and incapacity benefits include the Universal Credit health element, Employment and Support Allowance, Incapacity Benefit and Severe Disablement Allowance. Caseload is for August 2013 and August 2023. Scotland excluded due to the devolution of disability benefits.
Source: RF analysis of DWP, Stat-Xplore; ONS, mid-year population estimates, 2023.

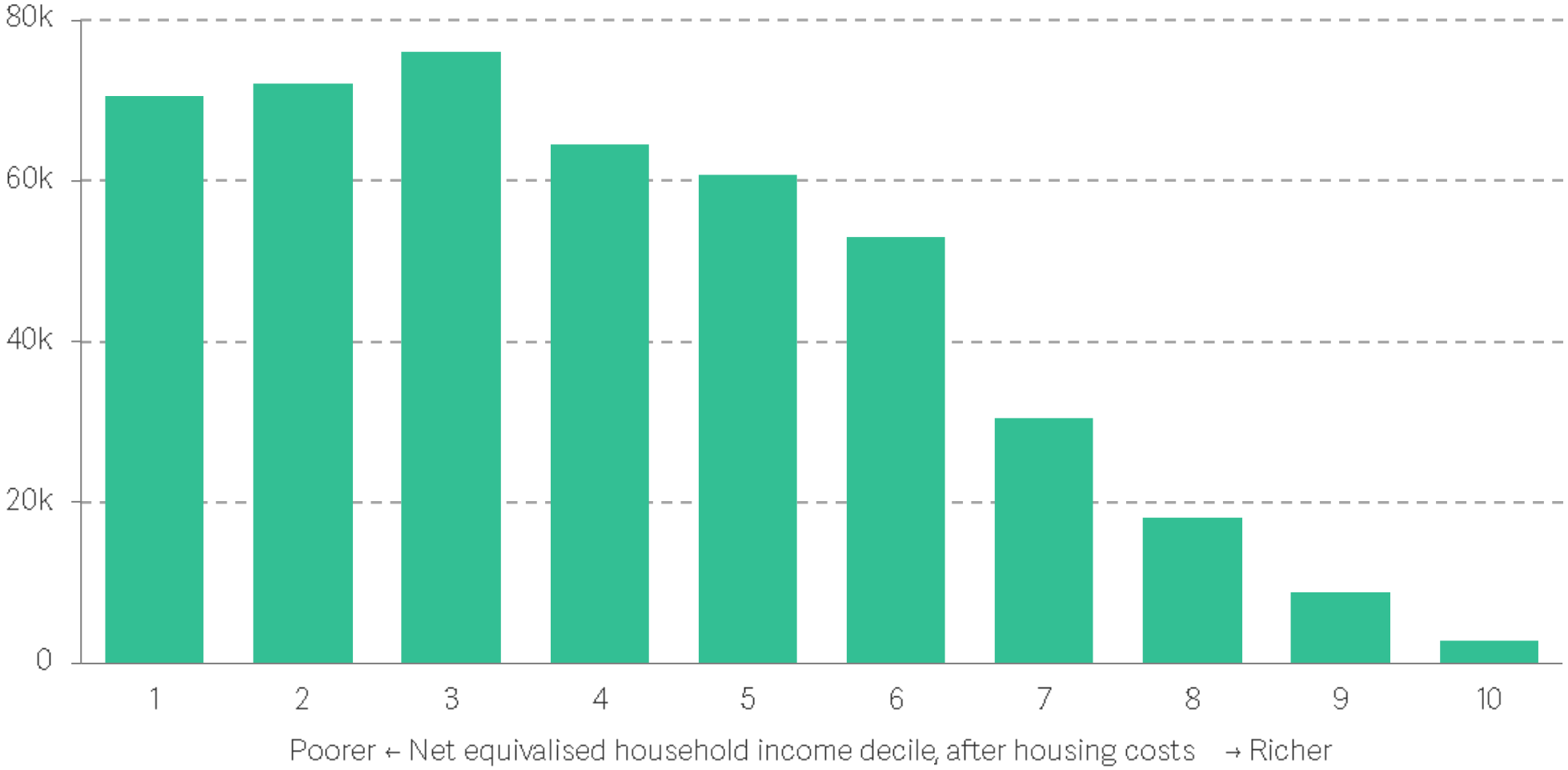
Resolution Foundation

2. Governments tend to focus on reducing health-related benefit inflows by tightening eligibility criteria – but doing so concentrates large losses among a subset of claimants

Previous proposals have focused on tightening health-related eligibility criteria – hitting some low-income families hard…

Resolution Foundation

Estimated number of adults receiving ESA or UC who will lose support due to proposed changes to the Work Capability Assessment, by income decile: UK, 2028-29



Previous Government proposed changes to the Work Capability Assessment used for incapacity benefits, affecting those with mobility- or mental health-related impairments

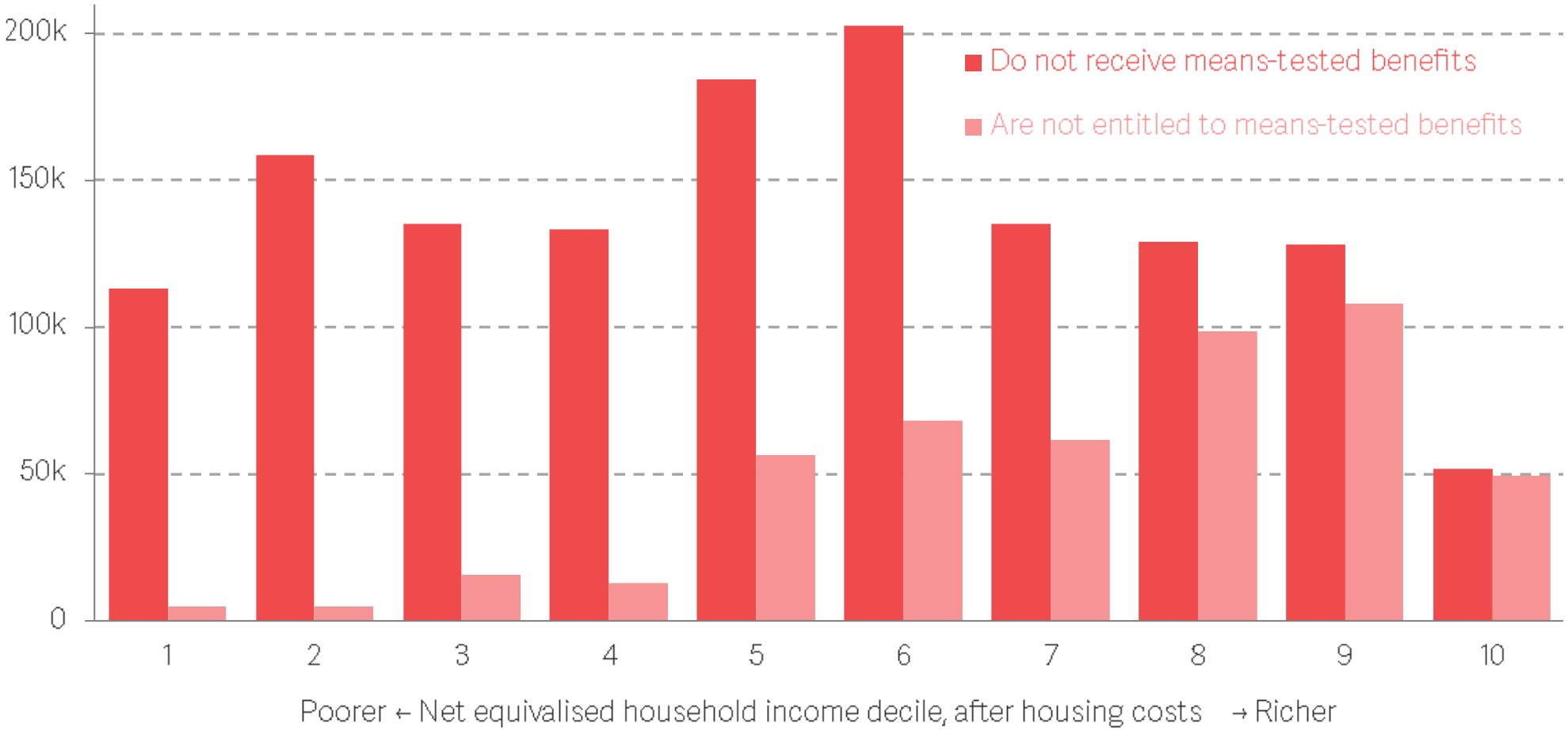
460k would lose support – and only 15k expected to find work

Source: RF analysis of DWP, Family Resources Survey; DWP, Households Below Average Income; DWP, Work Capability Assessment Reform: update to estimated number of claimants affected, 2024.

…the Government could also tighten income-related eligibility criteria – but this doesn't only affect rich households

Resolution Foundation

Estimated number of adults who receive PIP but do not receive, or are not entitled to, means-tested benefits: UK, 2026-27



Notes: Benefit receipt is based on benefits reported in the FRS survey data; benefit entitlement is based on microsimulation modelling of the benefit system.
'Means-tested benefits' refers to Universal Credit or the equivalent legacy benefits.
Source: RF analysis of DWP, Households Below Average Income; DWP, Family Resources Survey, including using the IPPR tax-benefit model.

Rumours that this Government is considering means-testing PIP – but this would be challenging. E.g. if based on means-tested benefit receipt, this would affect up to a third of claimants from across the income distribution

This would go against PIP's policy objective: extra costs of disability not related to household income

More generally: vital that policy makers keep policy rationale of health-related benefits in mind when embarking on reform

Resolution Foundation

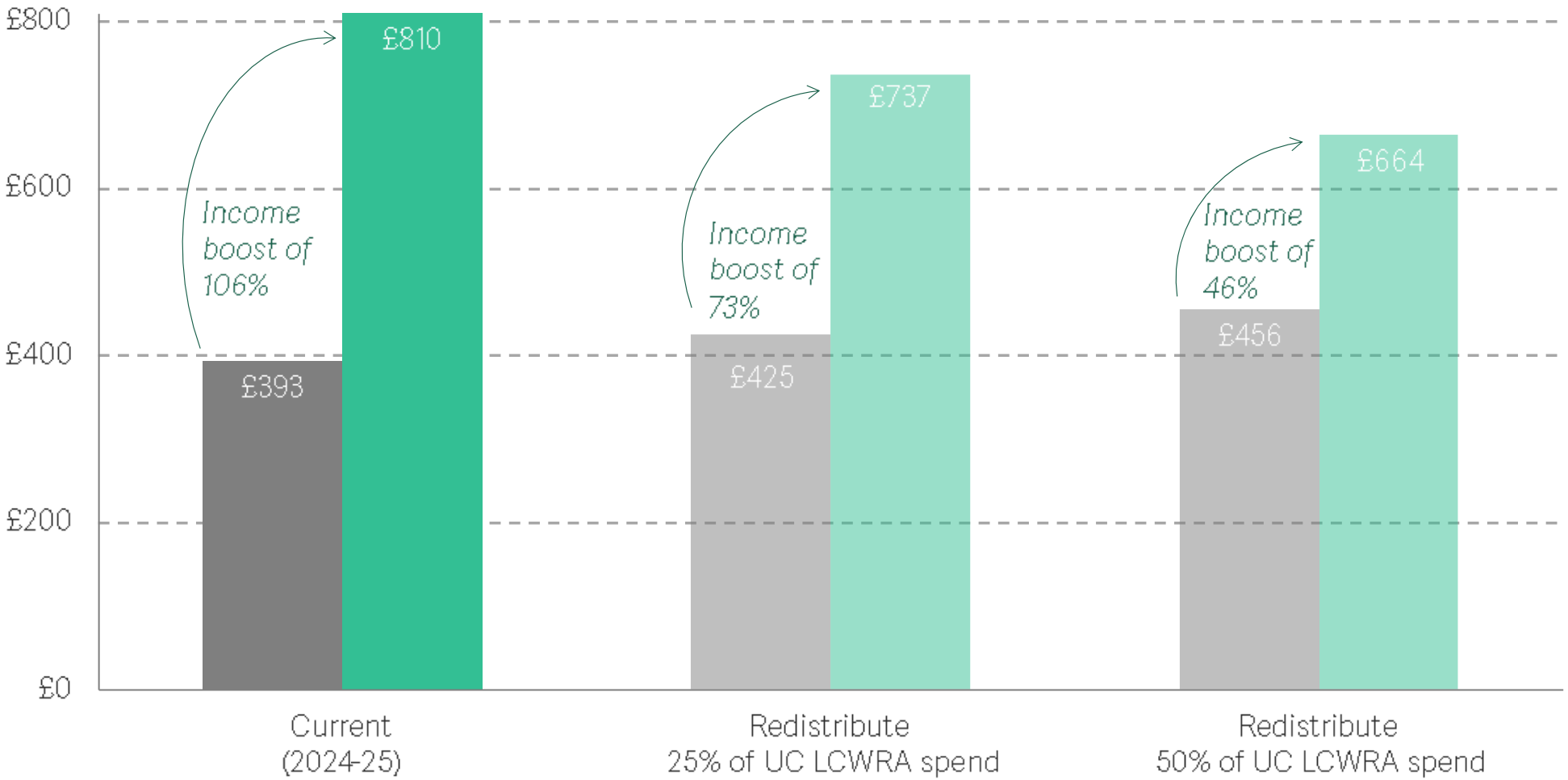
- Tightening eligibility criteria (either health-related or income-related) for new claimants is attractive politically – it allows the Government to say that no existing claimants will lose out…
- …But policy makers should be up-front about the trade-offs:
  - Restricting entitlement concentrates large losses among a small number of claimants whose benefit entitlement is removed entirely
  - Tweaking benefit entitlement rules without updating policy intent can lead to incoherent policy making – it's important that benefit entitlement continues to be linked to the purpose of health-related benefits
    - *If* the Government thinks that current assessments don't perfectly reflect the policy aims of health-related benefits, *then* it is justifiable to pursue reform…
    - …But if the policy intent of PIP is to reflect the additional costs faced by disabled people and boost equality, then means-testing is not consistent with this aim

Resolution Foundation

3. There should be more focus on rebalancing entitlements within the benefits system

The Government could rebalance incapacity benefit entitlements in a cost-neutral way...

Basic UC entitlement per month, and entitlement with the UC LCWRA element, for a single adult under different redistributive scenarios: UK, 2024-25



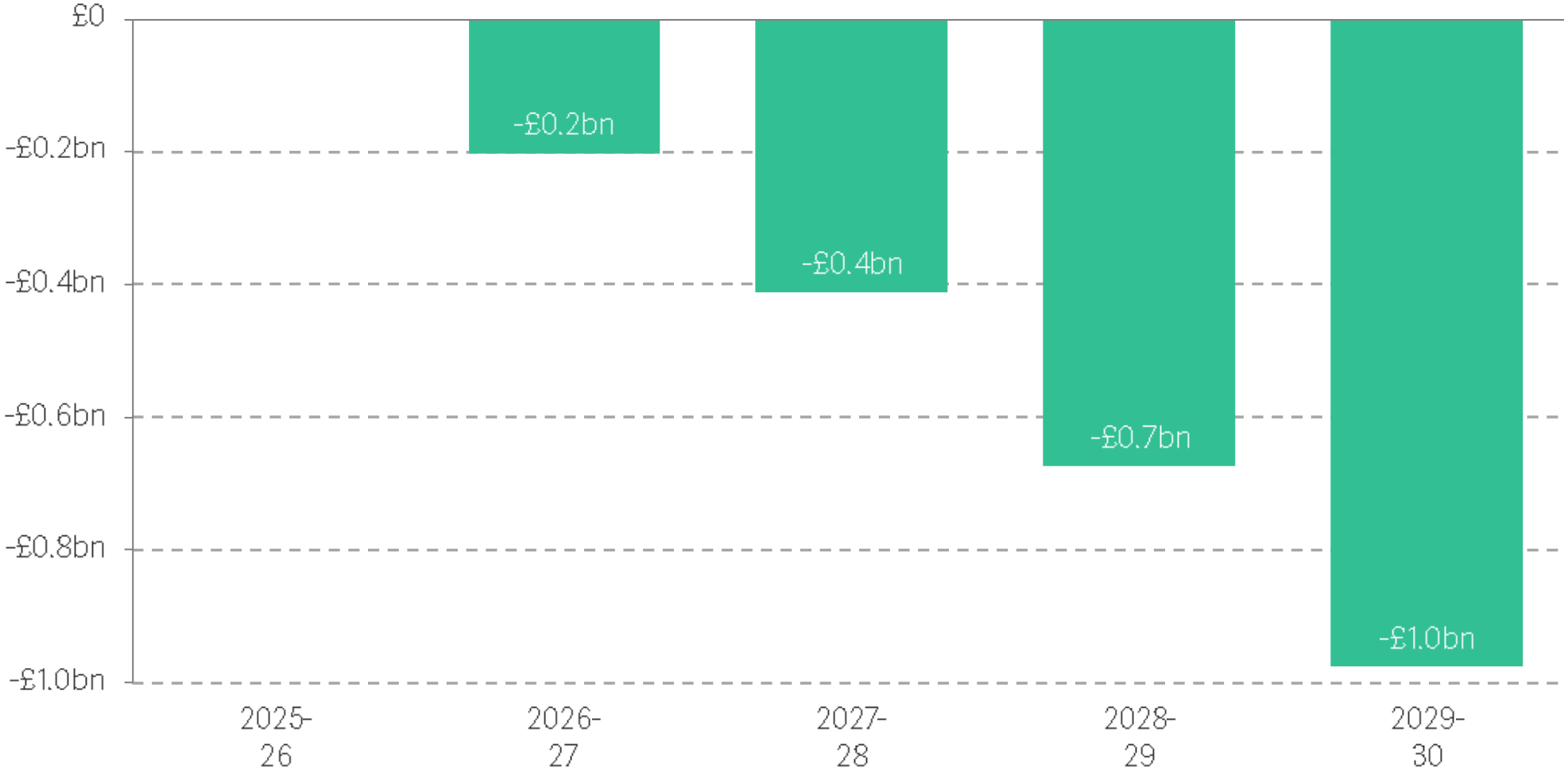
There are big cliff-edges within the benefits system, and these distort incentives – someone out of work due to ill health receives more than twice as much (+106%) as someone unemployed

One solution? Redistribute a portion of incapacity benefits to all benefit recipients

Notes: Scenarios assume that total UC health spend in 2024-25 is redistributed across entire UC population in percentages indicated, with flat rate provided for each UC benefit unit. Assumes the single adult is aged 25 or over and not receiving any support for housing costs. UC LCWRA element is paid to those with 'limited capability for work and work related activity'.
Source: RF analysis.

…But *if the Government is committed to cuts*, freezing the UC LCWRA element would reduce distortions over time

Estimated saving achieved by freezing the Universal Credit LCWRA element at 2025-26 levels: Great Britain



Freezing UC LCWRA element at 2025-26 levels would save £1bn in 2029-30

Benefit cuts would be shared out among the millions of claimants – and could be clearly communicated (holding benefits at current levels while Government embarks on long-term reform)

Notes: Modelling assumes the Universal Credit LCWRA element would otherwise be uprated in line with inflation, and that the caseload continues to grow in line with the latest projections. . UC LCWRA element is paid to those with 'limited capability for work and work related activity'.
Source: RF analysis of DWP, Autumn Budget 2024 Expenditure and Caseload forecasts.

The Green Paper is an opportunity for the Government to assess the additional costs faced by disabled people

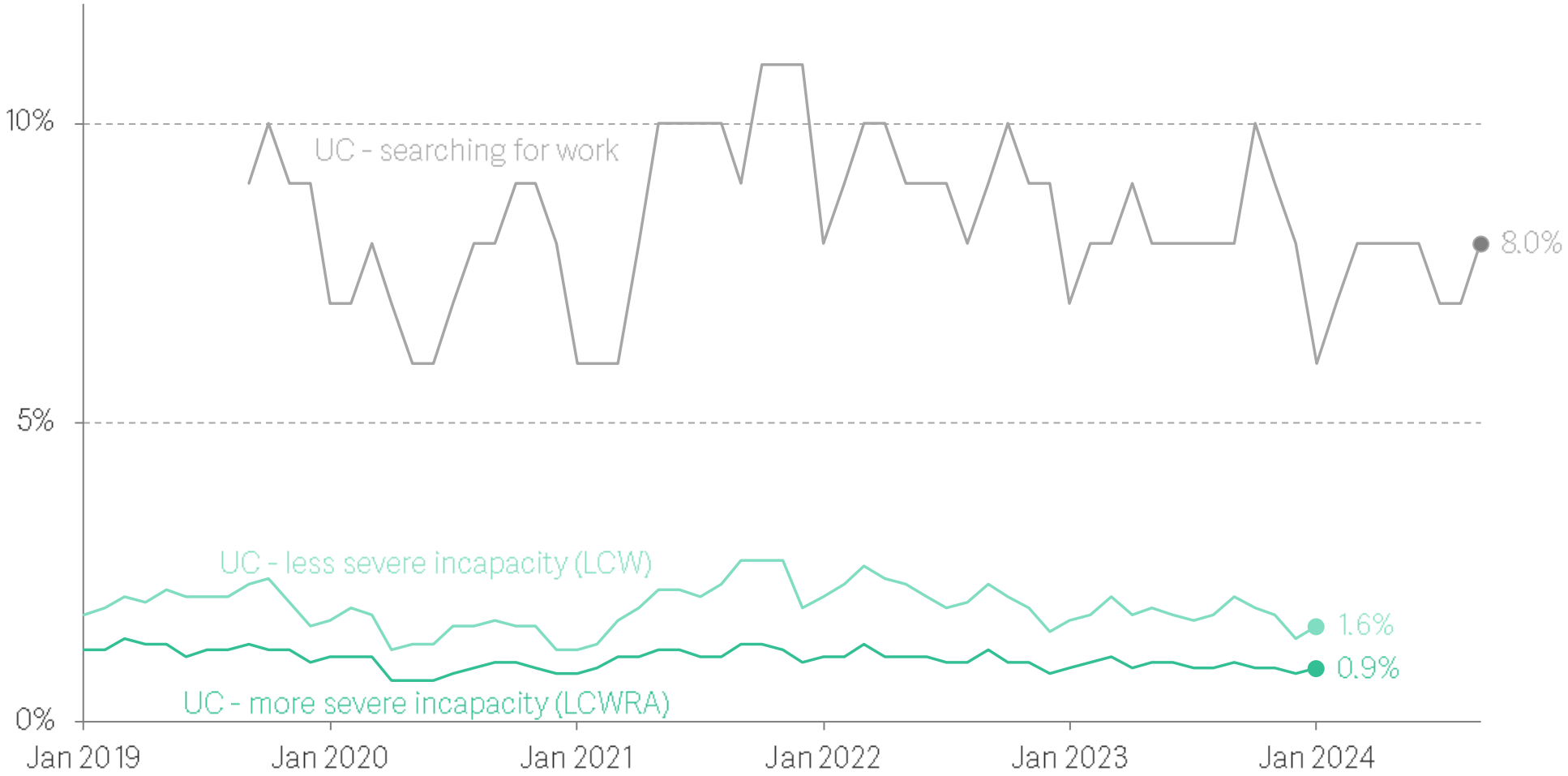
- Clear that disabled people face additional costs, e.g.
  - Specialist goods and services e.g. home adaptations, mobility aids
  - Spending more on everyday costs e.g. specialist food, accessible travel
  - Greater spending on essentials e.g. water, energy *(Scope, 2024)*
- But not clear that current disability benefit entitlements perfectly match up with these costs:
  - PIP was introduced over a decade ago in 2013 – do current entitlements match the current costs faced by disabled people?
  - Costs will vary depending on disability type – does the current range of disability benefit entitlements reflect this well enough?

Resolution Foundation

4. More action is needed to improve health-related benefit off-flow rates

Into-work rates from incapacity benefits are so low that there is ample room for improvement...

Monthly into-work entry rates, for UC claimants who are searching for work and those who have a health condition or disability that affects their capability to work: Great Britain



Less than 1% of people in receipt of UC LCWRA element move into work each month

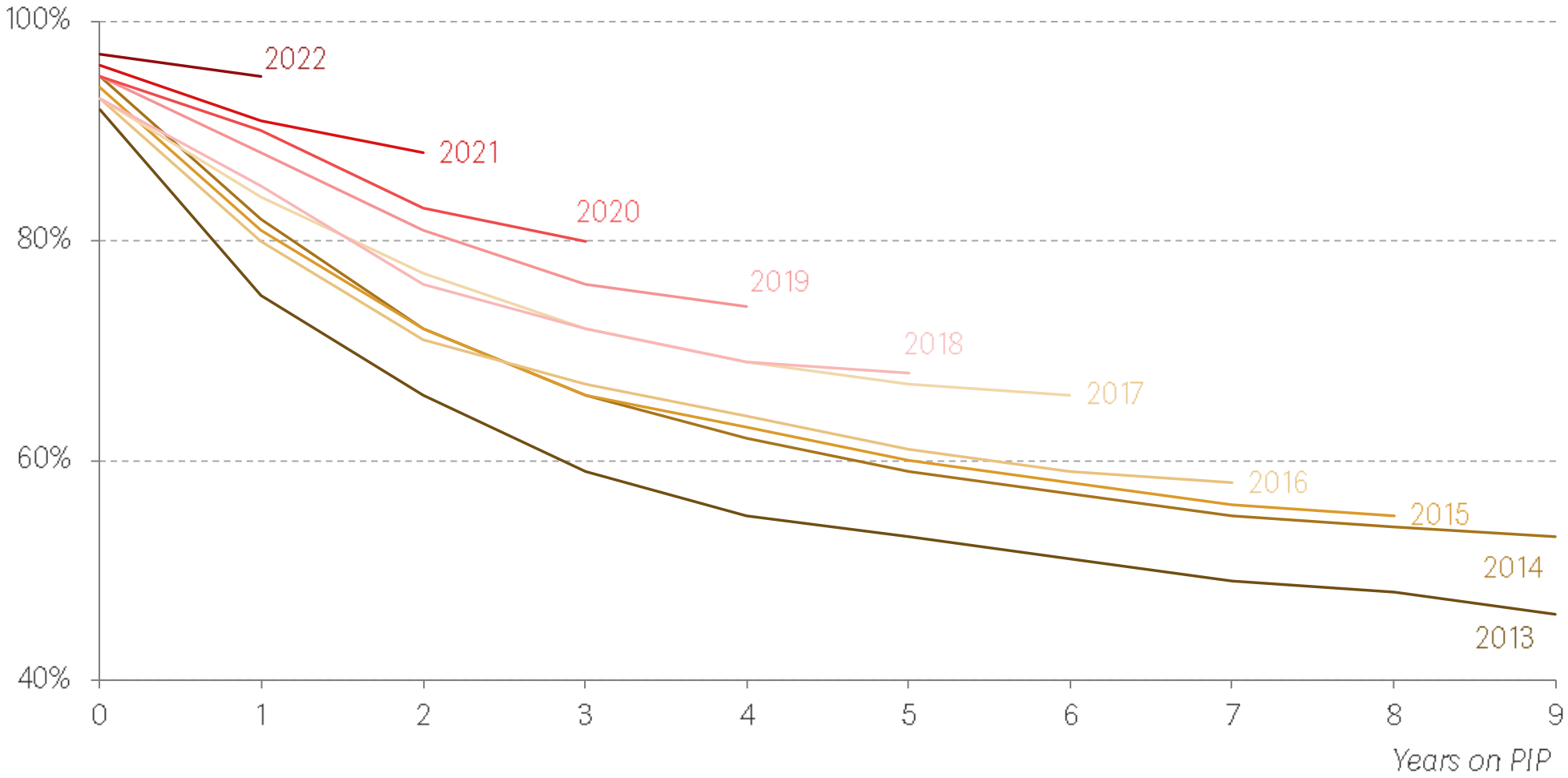
Incapacity benefit off-flow rates have halved over the past decade – just returning to 2012 levels would save £0.6bn per year

Source: OBR, Welfare Trends Report, 2024.; DWP, Get Britain Working White Paper analytical annex, 2024.

… And rising disability benefit durations should be taken seriously

Resolution Foundation

Proportion of PIP recipients still on PIP over time, by year of original award: England and Wales



PIP durations are getting longer over time…

…This is unsurprising: PIP reassessments have not kept pace with rising caseload, and average clearance time for PIP reviews is 50 weeks

Notes: Data shows proportion of PIP claimants who are still on PIP on 1 January of each subsequent year. Data includes new claims to PIP only made under normal rules, and includes working-age claimants only. Data includes claimants living in England, Wales and abroad.
Source: RF analysis of DWP, Evidence Pack: Modernising Support for Independent Living: The Health and Disability Green Paper, 2024.

A range of policies will be needed to improve health-related benefit off-flow rates

Resolution Foundation

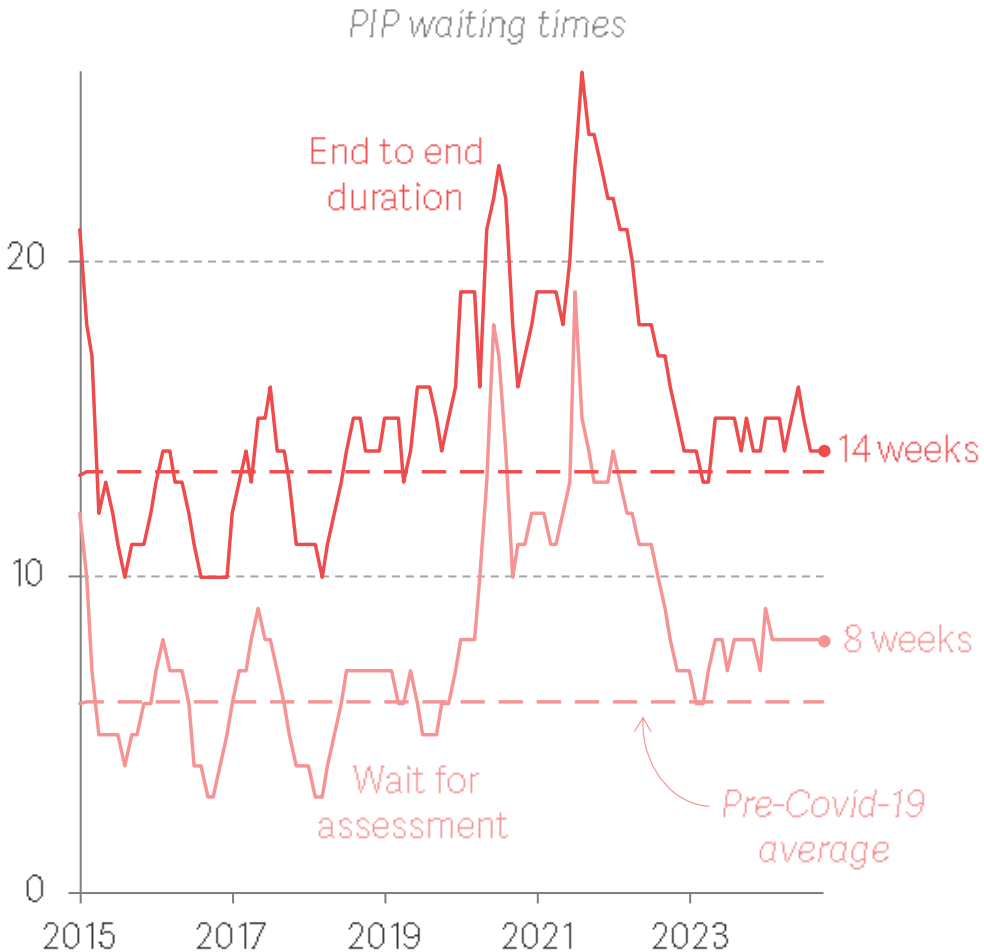
- Policy options should include:
  - Better, fairer reassessments that are regularly scheduled: would capture changes of circumstances and reduce claimant uncertainty
  - Benefit run-ons when incapacity benefit claimants enter work: if designed properly, could de-risk movements into work
  - Employer action to hire and retain disabled staff: good that the Government has launched its Keep Britain Working review
  - Health improvements: ultimately, claimants will continue to qualify for health-related benefits if they remain ill or disabled – we should do more to improve the health of our working-age population

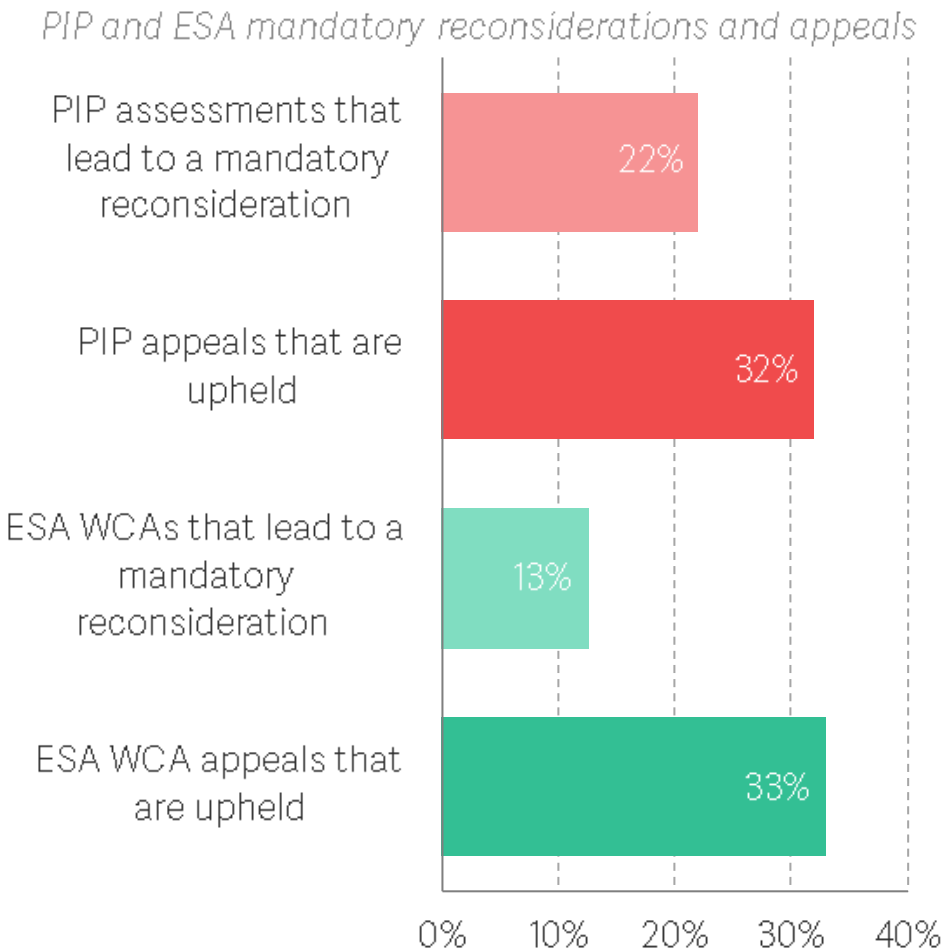
Resolution Foundation

5. Ultimately, the Government should prioritise long-term improvements to the health-related benefits system over short-term cuts

Trust in the health-related benefits system is low: claimants experience long waits and frequent wrong decisions…

PIP waiting times, in weeks (left panel) and PIP and ESA mandatory reconsideration and appeals outcomes (right panel): England and Wales/ Great Britain





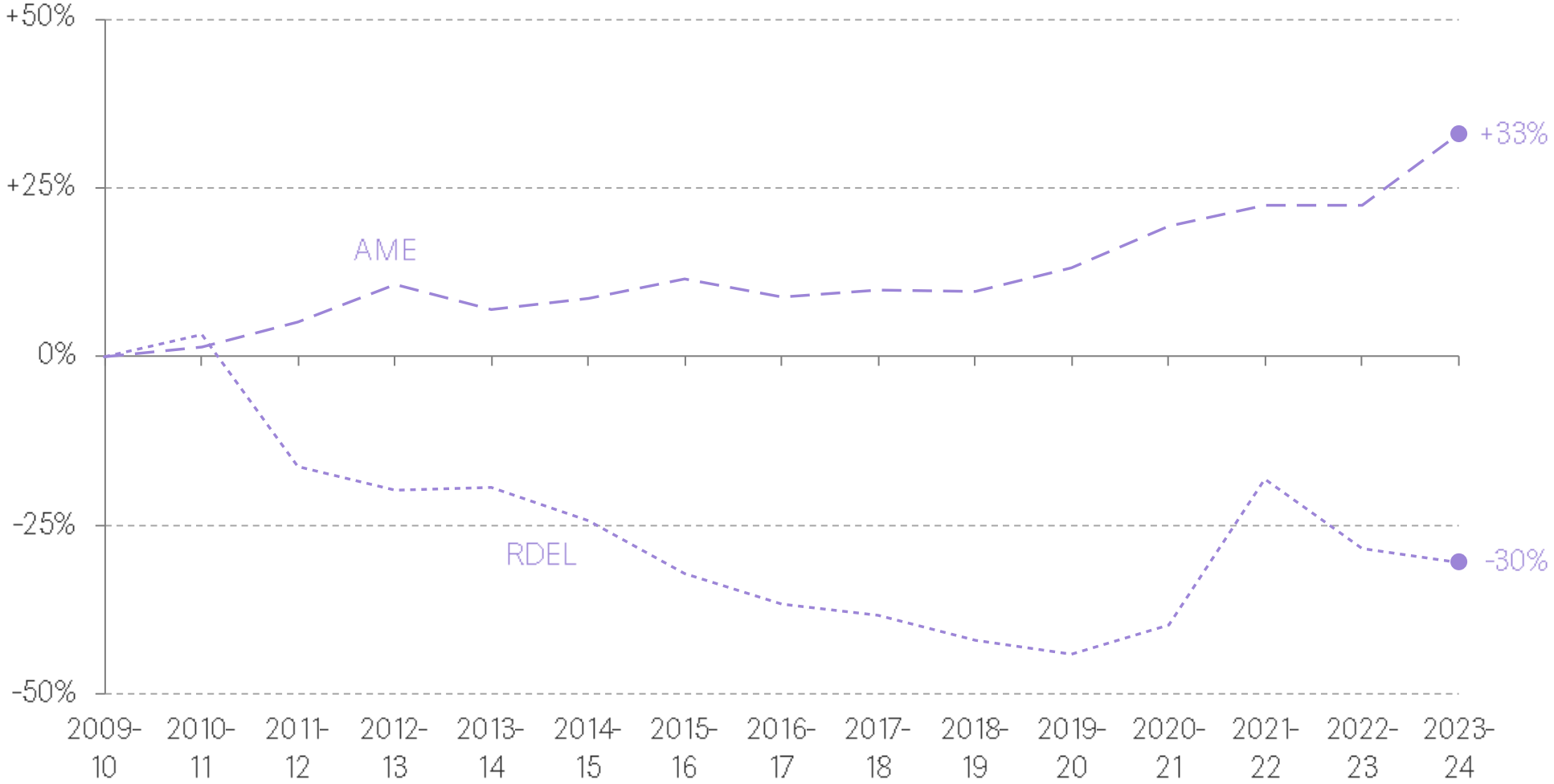
It's right for the Government to have a vision for a better health-related benefits system – the status quo is not good enough

One-in-five PIP assessments lead to a mandatory reconsideration; a third of appeals are upheld

Notes: PIP data is for England and Wales only; ESA data is for Great Britain. PIP waiting time data is for 'normal rules' new claims; pre-Covid-19 average refers to 2015-2019; 'end to end duration' refers to gap between registration and DWP decision and 'wait for assessment' refers to gap between referral to assessment provider and return from assessment provider. PIP mandatory reconsideration and appeals data is for April 2013-September 2024. ESA WCA mandatory reconsideration and appeals data is for October 2013-September 2018; from then on, the number of ESA WCAs completed (and the number of mandatory reconsiderations and appeals completed) was small.
Source: RF analysis of DWP, PIP accredited official statistics; DWP, Employment and Support Allowance: Statistics on the outcomes of Work Capability Assessments.

...This is not surprising – DWP day-to-day spending has been squeezed

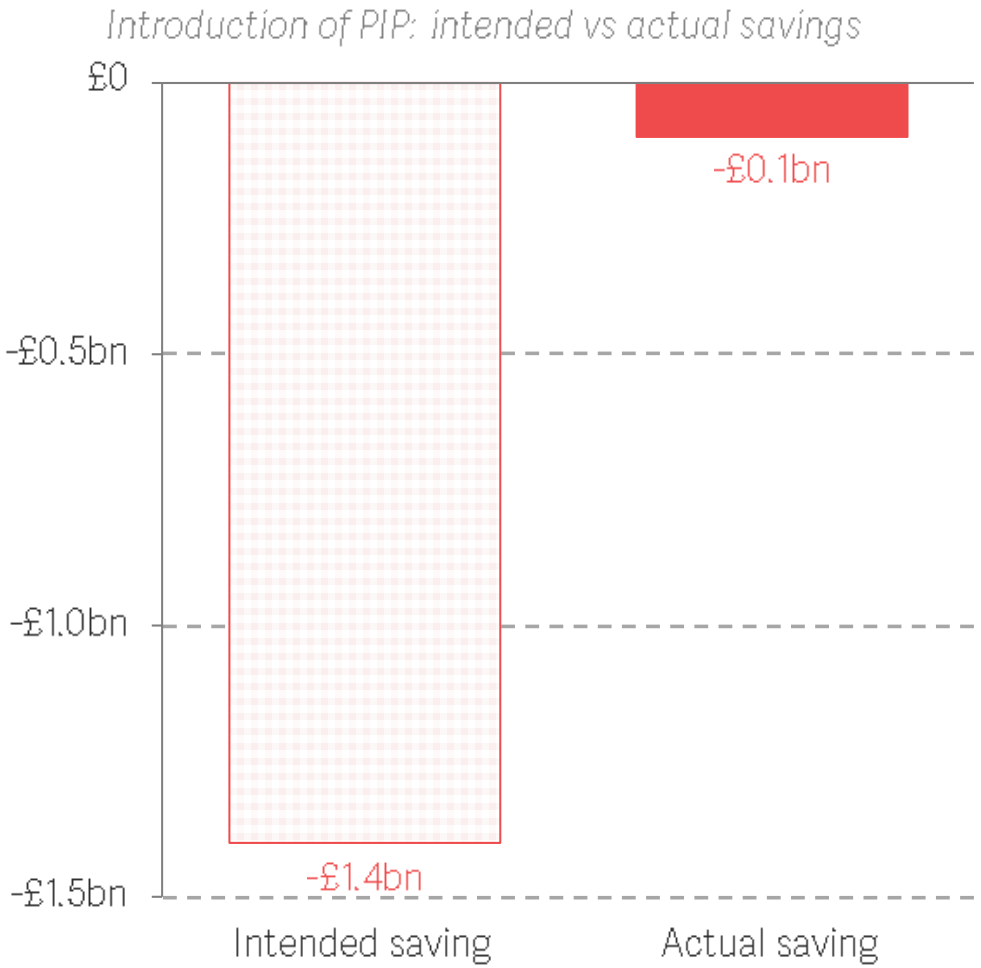
Cumulative change in real-terms AME and RDEL public spending for DWP since 2009-10: United Kingdom

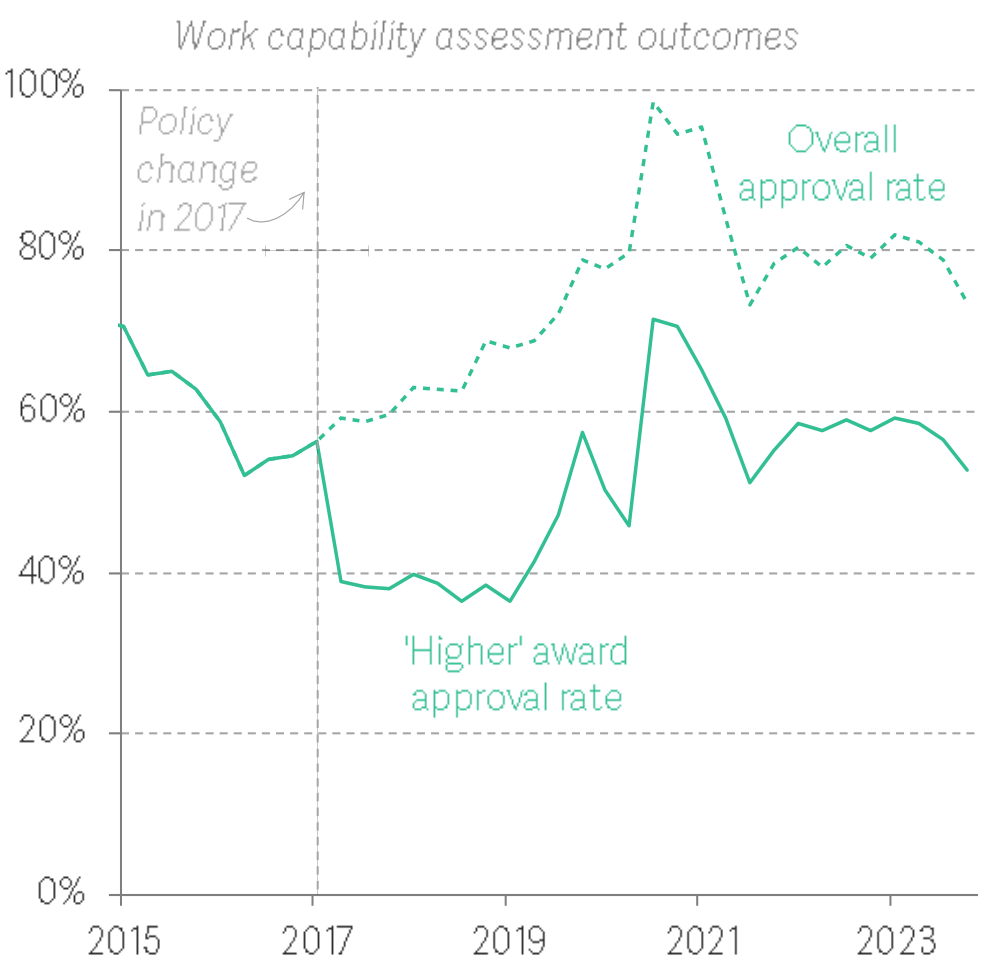


Notes: Deflated using the OBR series for the GDP deflator. AME is 'Annually Managed Expenditure'; RDEL is 'resource departmental expenditure limit'.
Source: RF analysis of DWP, Spending and Budget documents, various; HMT, PESA Tables, various; OBR, Economic and Fiscal Outlook.

The Government's overarching aim should be to pursue long-term, transformational change rather than quick cuts

Intended and actual savings from introducing PIP (left panel) and work capability assessment outcomes (right panel): Great Britain





History teaches us that health-related benefit reform is difficult and savings don't always materialise (e.g. shift from DLA to PIP; removal of UC LCW element)

Reforming the system carefully for long-term gains is more important that securing short-term savings

Notes: PIP intended and actual savings refer to the savings by 2015-16 factored into the OBR June 2010 forecast, compared to the actual saving in 2015-16. 'Higher award approval rate' refers to the share of WCA awards that result in a claimant receiving an additional cash payment relative to those found fit for work. Following policy change, for new onflows from April 2017, there was no additional cash award to being placed in the less severe incapacity (LCW) group.
Source: RF analysis of OBR, Welfare Trends Report, October 2016; OBR, Welfare Trends Report, October 2024.