Smoothing the path from incapacity benefits to work: Introducing incentives and reducing disincentives within UK social security arrangements

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SOCIAL SECURITY ARRANGEMENTS

Presentation at The Year 2000 International Research Conference on Social Security
at Helsinki, 25-27 September, 2000

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Note: The author is engaged on evaluative research on the New Deal for Disabled People, and work incentives for incapacity benefit claimants. The views expressed in this paper are hers alone, and do not reflect views of the Department of Social Security, which funds the research, or the colleagues with whom she works on these projects.

Introduction

A guiding principle of the new Labour government’s programme for fundamental reform of the UK welfare state is that people who can work should be helped to do so (UK, DSS, 1998a). The Government’s determination to tackle social exclusion by helping people move away from dependence on benefits and towards greater financial independence through the labour market means that the ‘Welfare to Work’ programme extends to incapacity benefits claimants. Ways of providing personalised advice and support and offering a range of options to help moves towards paid work are being tried in the New Deal for Disabled People Personal Advisor Pilot Projects (Arthur et al., 1999) and innovative schemes (Blackburn et al., 1999). Making work pay is being tackled through reform of the tax and benefit system (HM Treasury, 2000). Alongside go a range of measures which are designed to remove some of the apparent ‘disincentives’ which result from the structural interface between earnings, benefits and tax, and to introduce new ‘incentives’ which, it is hoped, will influence attitudes and behaviour, and act to smooth the path from incapacity benefits to work.

Providing personalised support through New Deals is a general policy approach, and is not just for disabled people. Programmes and measures for disabled people, both in the New Deal and some Employment Service measures, mirror UK active labour market policies. Increasingly, active labour market policies, and incentives are being extended to groups of people previously assumed to be inactive, including lone parents. It is worth looking in detail at why incapacity benefits claimants might respond to ‘incentives’, and what evidence we have for behavioural
response. The paper is written within the UK context, but the increasing prominence given to so-called ‘incentives’ is a feature of welfare reform and disability policy in a number of other European countries (Drøpping et al., 2000).

The first section of the paper summarises key aspects of the participation of disabled people in work in the UK, and obstacles and problems faced by some incapacity benefits claimants who would like to try or return to work. Among the problems are the financial risks and uncertainties that may be involved, and the second section of the paper explains aspects of the UK earnings/benefits/tax interface which are perceived as problematic. We look next at the range of measures which represent policy responses to such problems, and then at what is known about the effectiveness of such measures. On reflection, the author concludes that while particular measures may be found helpful to individual people, especially those relatively close to participation in work, who are considering moving off incapacity benefits altogether, much remains to be learned about how influential such measures are on behaviour. Moreover, the author tentatively suggests, with a move to a case-management approach in welfare-to-work policies, which include individualised information provision and discretionary control of access to programmes and measures, it may become harder to assess the effectiveness of so-called incentives. It may become more difficult to distinguish the effect of ‘incentives’ on client behaviour from the effect of that same measure on the way that the adviser or ‘broker’ goes about achieving their own work-related goals.

1. Disabled people and employment

Analysis of the Winter 1999/2000 Labour Force Survey in Great Britain (DRC, 2000) shows that long-term disabled people\(^1\) account for nearly one fifth of the population of working age, but are only about half as likely as non-disabled people to be in employment. Of 6.4 million long-term disabled people of working age, 46 per cent are in work, (including 14,000 self-employed people) and another six per cent unemployed and looking for work. Employment rates among disabled people vary, according to particular types of impairment. Among people with mental health problems, as many as 73 per cent are not in work and rely on state benefits for their income, and this is true of 63 per cent of people with learning difficulties. People who report difficulty in hearing, however, or have diabetes or breathing problems, are more likely to be in work.

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\(^1\) This definition includes those people with a disability which has a substantial adverse impact on their day-to-day activities or limits the kind or amount of work they can do, and those known to have a progressive condition. It may exclude some people with progressive conditions and severe disfigurements who feel that these do not limit their work or have a substantial adverse impact on their day-to-day activities.
Most people claiming incapacity benefits feel they are too sick or disabled to work (DRC, 2000). However, of the 48 per cent of disabled people who are economically inactive, just over one third (one million people) say that they would like work, and if we look specifically at incapacity benefits claimants of working age, some 43 per cent (574,000 people) would like to work (DRC, 2000). Few have been achieving this transition - only two per cent of a sample of people claiming the main benefits for sick and disabled people in 1992 had moved into full-time work some 16 months later (Rowlingson and Berthoud, 1996).

The problems and obstacles faced by disabled people who want to work are multi-dimensional, and reflect their disadvantage in all areas of social and economic activity. The demand for labour and organisation of work are, of course, key determinants of access to jobs. There will often be competition for scarce jobs between non-disabled people and disabled people. The ILO unemployment rate for the UK in February/April 2000 was 5.7 per cent.

Lunt and Thornton (1999) explored how change in the nature and organisation of work might impact on the labour market participation of disabled people. It was hard to reach firm conclusions about whether the decline of the manufacturing sector, the growth of the service sector, the growth of part-time work, development of new forms of self-employment, and changes in skill requirements had overall advantageous effects for disabled people. It seemed likely that while there would be new opportunities for some disabled people, others would see former avenues to work closing down, depending on individual personal circumstances. Lunt and Thornton (1999) concluded that evidence about impairment and labour market participation suggests that mental illness and learning difficulty are impairments which are most likely to limit the amount and type of work that people undertake.

Also important in determining whether disabled people can participate in the labour market are other components of societal organisation such as education, transport and building design. Opportunities for employment often depend on educational achievement, skills and training. Across all age groups, disabled people generally have lower levels of qualifications than non-disabled people (Meager et al., 1999) and are twice as likely to have no qualifications at all (DRC, 2000).

The location of jobs in relation to availability, suitability and expense of transport options, and the length of the journey to work may close down some opportunities for individual disabled people, and the working environment may impose similar constraints. The Disability Discrimination Act, 1995 requires employers to make reasonable changes so that a disabled
person is not at substantial disadvantage in continuing employment or recruitment. However, employers of fewer than 15 employees are exempt from the Disability Discrimination Act. The Employment Services agency has a number of different programmes to support disabled people within mainstream programmes, and specific programmes for disabled people who need particular kinds of help. Examples are the Job Introduction Scheme, the Supported Employment programme, Work Preparation and Access to Work (Thornton and Lunt, 1997).

Disabled people also face attitudinal barriers, stereotyping and prejudice among potential employers, and working colleagues (Honey, Meager and Williams, 1993; European Foundation, 1998). These limit the opportunities available, and have an additional effect in lowering expectations and confidence among some disabled people (Arthur et al., 1999). Disabled people over 50 years old believe their age is a barrier to work (Rowlingson and Berthoud, 1996).

A move from incapacity benefits to work may also mean financial problems. The average gross hourly wage rates of those disabled people who do work are lower than the hourly rates of non-disabled employees (DRC, 2000). Disabled employees have fewer opportunities for training at work (Meager et al., 1999), and promotion (Prescott-Clarke, 1990). In addition, disabled people identify a number of particular risks and uncertainties in moving off incapacity benefits, related to their perceived earnings capacity, and structural/operational aspects of the benefits system. The next section explains key aspects of the UK benefits system, to provide contextual information.

2. Disability benefits and tax credits
   
   The overall benefit framework

   A complex array of benefits and allowances for sick and disabled people in the UK has developed incrementally to address a number of objectives (Burchardt, 2000; Walker and Walker, 1991) and what follows is only a brief summary:

   • *extra-costs benefits* are designed to help disabled people meet their extra living costs. The main benefit is disability living allowance, which has two components, related to costs of care and mobility, respectively. Disability living allowance is non-contributory and non-means-tested, and payable to people both in and out of work.

   • *compensation benefits* include industrial injuries benefits and war pensions, payable to people both in and out of work. This paper is not concerned with this part of the benefit system.
• *earnings-replacement benefits* are for people who are deemed incapable of work. Incapacity benefit is available to people with sufficient National Insurance contributions, and is paid at three rates: lower rate/short term for the first 28 weeks of incapacity for work; higher rate/short term after 28 weeks of entitlement, and long-term rate after 52 weeks of entitlement. The rates increase with length of entitlement, and there are additions for dependents. There is no earning-related component. Long-term incapacity benefit, in money terms, is more valuable than the jobseekers allowance (unemployment benefit) paid to people who are able to work.

Severe disablement allowance is a non-contributory earnings-replacement benefit, with age-related additions, and additions for dependants. It will be abolished for new claimants, by the Welfare Reform and Pensions Act, 1999. From 2001 disabled claimants without a contributions record will be eligible for social assistance; people who become disabled before reaching 20 years will be entitled to incapacity benefit.

Entitlement to the earnings replacement benefits depends on being incapable of work. Medical tests are used to decide whether a person is incapable of doing the work they were doing when taken ill (for the first 28 weeks), or, after 28 weeks, whether they are capable of doing any work - a personal capability assessment measures the effect of medical condition on functional ability. If a person ‘fails’ these tests of incapacity, they lose entitlement, and may be required to register as available for work.

Historically, the UK, like USA, has operated an ‘all-or-nothing’ system of income replacement disability benefits, designed to provide income only for total incapacity. While some incapacity benefit recipients may work up to certain hours or earnings limits, these are only concessions, and in administrative terms they remain incapacity benefit recipients. Several European countries, on the other hand, have systems which recognise partial capacity, systems designed explicitly to allow partial benefits to be combined with earnings.

• *means-tested benefits* are also available. Income support (social assistance) includes an additional disability premium after a year (six months for people claiming severe disablement allowance). Income support may be paid as the main earnings replacement benefit, when claimants are subject to the personal capability assessment test described above. Other people may claim income support on top of other incapacity benefits, to bring incomes up to minimum social assistance levels. Housing benefit and council tax benefit
are means-tested benefits to help with rent and local tax, and are available generally to people on low incomes, both in and out of work. Both include additional premiums for disabled people.

Tax credits
Two so-called tax credits were introduced in October, 1999, with the aim of ‘making work pay’ for people on low/middle earnings. Working families tax credit (WFTC) is available to working parents, and disabled person’s tax credit (DPTC) to disabled people, with or without children. Self-employed people as well as employees may claim the tax credits, which are administered by Inland Revenue, and in many cases paid by the employer.

Within the above system, interactions between different benefits and tax credits influence overall levels of income and access to welfare. Of particular importance to some disabled people are the effects on actual rent paid (for example, when benefits/tax credits count as income for purposes of housing benefit) and entitlement to free prescriptions for medicine (a ‘passport’ with income support, but not other benefits).

Problems perceived
Within the policy context of incapacity benefits and paid work, there are well-known problems in the system described above, which are discussed elsewhere (Berthoud, 1998; Howard, 1998; Thornton, 2000). First, the system can be said to support, or even encourage, incapacity. Once an assessment of incapacity has been made people have access to higher value benefits and are not expected to return to or enter work.

Secondly, the system based around an assumption that capacity for work is an ‘all-or-nothing’ question, is not well-suited to people who can do some work, or can work occasionally (Berthoud, 1998). Until recently, doing paid work while claiming incapacity benefits was not allowed unless it was demonstrated that such work was ‘therapeutic’, by a doctor’s submission in advance that the particular work envisaged ‘helps to improve, prevent or delay the deterioration in the disease or disablement which causes the incapacity to work’. A small disregard of earnings for purposes of income support allows some people to have small jobs of, for example, 3-4 hours at minimum wage levels, but if income support was topping up other incapacity benefits, such work would have to be ‘therapeutic’ to be allowed.

Thirdly, the system is not well suited to gradual progression from incapacity benefits to small part-time jobs, and then perhaps longer hours or higher earnings. Such a progression is constrained both by the ‘all-or-nothing’ conceptualisation of incapacity for work, and by the
administrative bench-mark within the benefit/tax credit system which sets 16 hours as the dividing line between being ‘in’ or ‘out’ of work. Lastly, but importantly, it is hard to disseminate knowledge about such a complex system to those who require timely and appropriate information, and hard for people who need such knowledge to gain it.

These problems, in combination with the job opportunities available in a low-wage economy and the impact of poor health or impairment, lead to a number of benefit traps, and the attachment of risk and anxiety to particular options for working and/or claiming. One of the main thrusts in social security reform to support employment policy for disabled people has been the introduction of new measures and the extension or adaptation of existing measures which might be considered as providing some positive ‘incentives’ to smooth the path from incapacity benefits or removing structural barriers or obstacles which might be seen as ‘disincentives’. The next section discusses what we know about clients’ perceptions of financial obstacles perceived, and the fears and anxieties which influence their behaviour.

3. Obstacles, risks and anxieties

Looking across the whole population of incapacity benefits claimants, there is evidence of perception of the following financial risks and anxieties in considering moves towards paid work:

- loss of incapacity benefits
- loss of DLA
- a risky transition period in moving off incapacity benefits onto earnings
- feeling unable to afford to work
- feeling that work will not lead to being better-off
- anxiety about being able to sustain paid work
- not understanding opportunities and constraints of the benefit system

For individual claimants, of course, such risks are perceived differently, and sometimes not at all, depending on their individual circumstances.

Loss of incapacity benefits

People who do not feel ready to move off incapacity benefits sometimes fear that any move in this direction, such as doing some voluntary work or even demonstrating interest in work might lead to a reassessment of capacity for work which, in turn, might lead to loss of incapacity benefits (Davis, 1996; Arthur et al., 1999). If people do lose incapacity benefits before they can work or get a job, they are likely to face reduction in income as they return to lower value unemployment.
benefits, and have to wait to requalify for maximum entitlement. Some of those who lose incapacity benefits because they are assessed as capable of work are expected to then make themselves available for work in order to retain out-of-work benefit income. Having to return to lower benefit incomes, the bureaucracy required to maintain or reestablish income, and/or the requirement to seek work are much feared by people who do not feel ready for this (Arthur et al., 1999).

**Loss of disability living allowance**

Disability living allowance is a valuable benefit, of considerable importance in enabling many disabled people to meet some of their general cost-of-living expenses (Noble et al., 1997). Doing paid work does not, in itself, affect entitlement to disability living allowance, but having a job might be interpreted as an indication of a lower need for supervision and care during working hours, which might result in loss of disability living allowance or reduction in level of payment. There is little evidence about the overall number of people who actually experience loss of or reduction of disability living allowance in this way. However, there is evidence from a number of studies that knowing this is a possibility raises considerable anxieties among some disabled people (Arthur et al., 1999; Beyer et al., 2000). There is also evidence that other household members are anxious about possible loss of disability living allowance, and this can influence decision-making about trying work (Corden, 1997). Relatives who provide care and supervision sometimes control the use of disability living allowance, rather than the recipient her/himself; and a carer’s own entitlement to invalid care allowance depends on receipt of disability living allowance of the person for whom care is provided. Thus clients’ parents or partners may also be keen that these valuable benefits for extra costs and caring are not jeopardised.

**A risky transition period**

Those who are interested in a move off incapacity benefits often view the transition period as potentially risky (Arthur et al., 1999). It can be hard to pay rent or mortgage and other normal household expenses without benefits, while waiting for first pay cheques. People without savings or other significant sources of income may see no alternative to borrowing to tide them over. There is a fear of debt, and its consequences. These problems of transition from out-of-work income to earnings, especially for people whose earnings are low, also affect non-disabled unemployed people (Corden and Craig, 1991; Shaw et al., 1996). They are thus well-known, and people claiming incapacity benefits may already have previous experience from earlier parts of their life, or have in their households other people who have experience of the problems that arise.

In addition to worrying about how they will pay ordinary household expenses and deal with
incoming bills while they are waiting for wages, people may expect work related expenses. The costs of fares and clothes for work are often higher for disabled than non-disabled people (Berthoud et al., 1993) and some may need special items or equipment.

We see in the following section that there are a number of measures for easing this difficult transition period. However, those people who know about such measures may fear that the system will not work properly, and delays or difficulties will still arise (Shaw et al., 1996).

Feeling unable to afford to work

Being able to earn enough money to meet requirements is a significant barrier to many incapacity benefits claimants when they think about working (Arthur et al., 1999). Rowlingson and Berthoud (1996) looked at the hours and earnings preferred by non-working disabled people on the margins of work. Most were hoping to work at least 30 hours, and set a reservation wage lower than the actual wage of people working those hours. They were not pricing themselves out of work. Those wishing to work 16-29 hours had a reservation wage well within the threshold of entitlement to the in-work benefit which preceded disabled person’s tax credit.

People who are farther from the labour market, and whose impairment or ill-health puts considerable constraints on the type or amount of work they can do, may see part-time work as the only possibility for themselves. These, and others who see substantial obstacles to getting other than low-paid work, feel that they cannot afford to leave incapacity benefits. There are many influences on such beliefs, including knowledge of available in-work financial support, expectations of expenses incurred in working, the impact on overall household income and expectations of interactions between housing costs, benefits and earnings.

Some people who live in supported accommodation are unlikely ever to be able to earn enough to cover the cost of their living and service arrangements if they move off incapacity benefits, even with financial support from in-work benefits and tax credits (Davis, Murray and Flynn, 1993). Again, the beliefs and views of people who have caring responsibilities for the disabled person, or are concerned for their welfare, can be powerful influences (Bewley, 1997). The lack of fit between housing benefit and other benefits can be a major obstacle for people who would like to move to independent accommodation and try work, for example people discharged from hospital with histories of mental health problems (Zarb, 1996).
Feeling that work will not lead to being better off

Even if people feel that they would not be worse off in work than if claiming incapacity benefits, some believe that they would not be any better off. Whether this is true depends very much on individual circumstances, for example the level of earnings, take-up of in-work benefits and tax credits, work expenses, child care arrangements and day-to-day living expenses. There are particular groups of disabled people who may gain minimal amounts, or nothing, even in relatively well paid jobs. These include disabled people who pay charges to their local authority for care at home, and live in an area in which such charges increase as income rises (Kestenbaum and Carva, 1998). Another group are people who live in residential care or group homes and depend on income support and local authority funding to help to meet their fees for accommodation and care (Corden, 1997; Beyer et al., 2000). Any earnings above the personal expenses allowance may be recovered by the local authority.

Anxiety about sustaining paid work

Sustaining daily work on a regular basis may seem hard: and some people need regular breaks from work through the day (Arthur et al., 1999), or a variety of tasks (Prescott-Clarke, 1990). People worry that working arrangements will not be flexible enough to enable them to continue working. Health conditions which fluctuate over time lead to additional anxieties about moving to work. People who face unpredictable onset of debilitating back pain, for example, or the possibility of recurring symptoms of mental illness, worry about what will happen if they get ill again, after they have taken a job (Arthur et al., 1999). Those who do not know if they will be able to sustain work perceive a risk in returning to lower-level sickness benefits after what might prove to be just a short time in a job, and new medical assessments which might lead to loss of incapacity benefits altogether. Anxieties about having to leave work again are well-founded - research on people who move from incapacity benefits into work by using disability working allowance (the precursor of disabled person’s tax credit) showed that two out of three subsequently left because of ill health or disability (Arthur and Zarb, 1997).

Not understanding the opportunities and constraints of the benefit system

In such a complex system, with so many risks and uncertainties attached to change in administrative categorisation, some people feel they do not understand enough to be confident about changing their circumstances (Beyer et al., 2000). It may then seem sensible not to take any initiatives which would ‘upset things’. There is also fear of inadvertently doing something which is not allowed, or might be interpreted wrongly by administrators, invoking sanctions and penalties. The current Government continues to give high priority to detecting, deterring and preventing fraud in all areas of social security (UK, DSS, 1998a, 1998b). The Benefit Integrity
Project which focussed on ‘non-legitimate’ claimants of disability living allowance (Roulstone and Drake, 2000) was initially inherited from the previous government, and was subsequently scrapped, but anxieties raised among some disabled people are still retained. When the popular image of a fraudulent claimant is somebody ‘working and claiming’ it can be hard for people to understand the different arrangements under which ‘working and claiming’ is allowed, and might be encouraged.

A complex system is, of course, a particular problem for people whose impairment includes learning or communication difficulties. People with sensory impairments face additional obstacles in information transfer (Corden, 1995). In the same way, uncertainty and risk are likely to be particular problems for people with mental health conditions such as anxiety, depression or paranoia.

4. Measures to introduce incentives and reduce disincentives

The evidence that people perceive financial obstacles and ‘traps’ in moving off incapacity benefits towards or into work has led to policy development across a number of government departments. So-called ‘work incentive’ measures are now the business of the Inland Revenue, the Employment Service, the Department of Social Security and pilot projects in the New Deal for Disabled People, who are encouraged to work together and share knowledge and understanding of the issues involved, as well as co-operate at the practical level, within the thrust of joined-up government. Opportunities have been taken to pilot new measures for incapacity benefits claimants during 1999-2000, and findings will be available soon.

The picture of the current range of financial ‘incentive measures’ for incapacity benefits claimants is represented in Figure 1.
Figure 1: Incapacity benefits and work incentives, 1999-2000

- Voluntary work
- Job Finder’s Grant (one-off payment)
- Lone parent ‘run-on’ of income support (2 weeks)
- ‘Run-on’ of housing benefit (4 weeks)
- Job Match (6 months)
- Additional disabled person’s tax credit (6 months; renewable)

Incapacity benefit

Incapacity benefit and paid work

Paid work

Therapeutic work

Income support disregard

Incapacity earnings provision

3 week Work Trial

52 week link

2 year link

16 hrs

30 hrs

Additional disabled person’s tax credit
The figure shows clearly the concentration of measures on or around the point of what, in the UK system, represents participation in work. Once they are working 16 hours a week, people cross the administrative divide between being ‘in’ work and ‘out’. The economic approach to analysis of labour supply and incentives focusses on this point of participation. We see a number of measures which become available at this point, and they fall generally into three kinds:

- measures to ease the transition
- measures to boost low earnings and make work pay
- ‘anchor-lines’ and ‘safety nets’

The rules of some of these measures are complex, and I shall discuss them in general terms only.

**Measures to ease the transition**

In the means-tested benefit system, for both disabled and non-disabled people *extensions* of 4 weeks payment of housing benefit, and for lone parents, 2 weeks income support, are designed to help long-term claimants of these benefits to meet basic living costs while they wait for first wages. The *Jobfinder’s Grant* was a one-off payment of £200 for disabled people who start work in lower-paid jobs, designed to off-set some of the initial expenses that people may face when starting a job. This was made available to people who had been claiming incapacity benefits, on a pilot basis in selected areas for a year from April 1999.

**Measures to boost low earnings and make work pay**

*JobMatch* aimed to encourage disabled people to gain work experience with one or more part-time jobs, by providing an extra weekly allowance of £50 on top of wages, for up to 26 weeks. *JobMatch* was also made available to people who had been claiming incapacity benefits on a pilot basis for one year from April 1999.

*Disabled Person’s Tax Credit (DPTC)* was introduced in October 1999 replacing disability working allowance (DWA). The policy objective of DWA was two-fold: to encourage disabled people who wanted to work to leave incapacity benefits, and to provide financial assistance to disabled people who were already in work (Rowlingson and Berthoud, 1996). The aim of DPTC is ‘to make work pay for disabled people whether in work or returning to work’ (HM Treasury, 2000). It probably acts both as a long-term subsidy to low-paid employment and as a short-term support for people whose earnings are reduced for a time due to ill-health, and its role in job retention is to be strengthened in October this year, by creation of a fast-track to DPTC for people who are currently off work sick but have a job to go back to.
The eligibility criteria for DPTC are complex. The person concerned must have a physical or mental disability which puts them at a disadvantage in getting a job; and must be, or have been, receiving an incapacity or disability benefit. The amount of entitlement depends on the hours of work, the size of the person’s family, the ages of any children and whether any are disabled, and any child care costs. The maximum amount available for each set of circumstances is then reduced by 55 per cent of the amount by which family income exceeds a ‘threshold’ figure.

Anchor-lines and safety-nets

*WorkTrial* enables a person to try a job for up to 15 working days. This gives a potential employer an opportunity to assess whether the person can do the job, and enables the person concerned to decide whether the job is suitable for them, while remaining on incapacity benefits. *WorkTrial* was made available to people claiming incapacity benefits, on a pilot basis in the first instance, in April 1999. The measure can be thought of as providing an ‘anchor-line’ back to benefit for people who would like to take advantage of a vacancy but where there is some uncertainty about the suitability of the job.

Other ‘safety-nets’ are designed to reduce risk for people who may find they are unable to sustain work, after moving off incapacity benefits. A so-called ‘linking rule’ has been in operation since October 1998, enabling people to return to the same benefits, and the same level of benefit they were receiving before they started work or training if they become incapable of work again within 52 weeks. For people claiming DPTC there is a similar link for up to two years.

Turning now to those people on the other side of the administrative divide of 16 hours work weekly, the range of work incentive measures is smaller. Since October 1998 there has been no limit to the amount of work that may be done on a voluntary basis by people claiming incapacity benefits. However, permission for each particular activity must be sought from the Benefits Agency, the person concerned formally recorded as using the *voluntary work provision*. The policy acknowledges that doing some work in a voluntary capacity may be a helpful step for some people on the way into or back to work, but aims to maintain control of the type and amount of work that is permitted for people assessed as incapable of work.

In some circumstances, people may be allowed to undertake some kinds of paid work without being treated as incapable of work. There has long been provision to allow so-called *therapeutic work*, which is work done on the advice of a doctor, and must either help to improve, prevent or delay the deterioration in the disease or disablement which causes the incapacity to work. Such work must not be done for more than 16 hours, and there is an earnings limit, equivalent to
around 16 hours work at minimum wage level. A more recent introduction is the *incapacity earnings provision*, which was made available in April 1999, allowing incapacity benefit claimants to earn up to £15, without the need for medical recommendation. This measure enabled more people to undertake some work and gain financially. There was already a *disregard* of up to £15 of earnings for disabled people claiming income support. £15 is equivalent to around 4 hours work, weekly, at minimum wage levels.

It is clear that under the current rules, it would be hard for anybody claiming incapacity benefits to build up their working week gradually, towards the point of moving off benefit altogether, unless their work was considered ‘therapeutic’. It is also important to remember that any work carried out while claiming incapacity benefits may be taken into account when the person undergoes the medical assessment of capacity for work.

There is still much to learn about how effective such personal incentives are. The final section of the paper reviews what is known so far, and issues that have arisen.

5. **How effective are personal incentive measures for incapacity benefits claimants?**

Despite the policy commitment towards increasing personal incentives, there is as yet rather little information about the effectiveness of such measures. There has not yet been a full-scale evaluation of *DPTC*. Its predecessor, *DWA*, which was specifically designed to encourage disabled people who wanted to work to leave incapacity benefits, proved to be unsuccessful in this respect. During 1992-95 only two per cent of working age recipients of the main incapacity benefits moved into full-time work, and most of those did this without the help of *DWA* (Rowlingson and Berthoud, 1996). Rowlingson and Berthoud discussed possible reasons for this lack of success, including lack of expectation of working among people who see their impairment as a major barrier to work; the desire, especially among men, of having a ‘proper job’ which meant independence from the state; low awareness of *DWA*, and not taking *DWA* into account when looking for jobs. Jobs available were unattractive, but low pay and low status were only part of the problem - people emphasised other major barriers such as employers’ attitudes, and the general lack of vacancies. Rowlingson and Berthoud concluded that of the 1,600,000 disabled people who were claiming or had been claiming incapacity benefits in 1993, only 200 had been encouraged into work by *DWA*.

*DWA* was introduced during a recession, and low demand for labour. Numbers of users remained low, however, despite falls in unemployment during the 1990s. When *DWA* was first introduced an average case-load of 50,000 claimants was anticipated (Zarb *et al.*, 1996). By July 1999 there
were only around 17,000 claimants. Probably only one in five of those entitled to DWA received it (Rowlingson and Berthoud, 1996). There are likely to be many reasons for such low take-up.

It is worth pointing to van Oorschot’s thesis that particular structural aspects of benefits tend to depress take-up (van Oorschot, 1995). Disability working allowance had all the features identified by van Oorschot as tending to depress take-up.

By January 2000 there were some 15,000 people receiving DPTC and some 6000 with on-going DWA claims. In view of availability of DPTC further up the income scale than DWA, which would bring more people into scope, and the fact that child maintenance is disregarded in the income calculation for the tax credit, which might be expected to encourage take-up, there are fewer claimants than might be expected at this stage. There is some evidence that knowing about the tax credit can reassure disabled people that they can afford to take a job (Beyer et al., 2000). There is also evidence that people who are interested in moving towards work from incapacity benefits value informed advice about in-work financial support including tax credits, and information provided on an individual basis by New Deal Personal Advisers can influence their views about working (Arthur et al., 1999). The complexities of the rules mean that some people are unlikely to be able to work out themselves what their potential entitlement might be. Interviews and discussions with disabled workers in supported employment showed that most had insufficient knowledge about DWA to make ‘any kind of judgement about whether they would be better, or worse, off if they claimed DWA’ (Zarb et al., 1996, p.61).

The tax credits are, of course, only part of the package designed to ‘make work pay’. Also important in guaranteeing minimum income for workers was the introduction of the national minimum wage in April, 1999 along with reductions in National Insurance Contributions and starting rate of income tax. Although there have been a number of attempts to use economic theory to model the labour supply response to the 1999 package of tax and benefit changes (see Blundell et al., 1998; Gregg et al., 1999) these have not looked specifically at the impact of DPTC. Economic studies of in-work credits for working families such as family credit, and the Earned Income Tax Credit in the USA (see, for example, Eissa and Liebman, 1996) generally suggest that such credits have potential to raise labour market participation among poorer families. Another general finding is that a reduction in marginal deduction rates can help some people increase their earnings, although there is also some effect in that some people reduce their hours of work in response to withdrawal of in-work support as incomes rise. We do not yet know whether any such patterns can be seen in relation to DPTC.
Small-scale evaluative research on *Jobmatch*, *WorkTrial* and *Jobfinder’s Grant* in respect to people claiming incapacity benefits was conducted during 1999-2000 (Corden, work in progress). Pilot projects were conducted in 15 local areas in Great Britain, and research included interviews with people who had used the measures, and key staff who advised and implemented the measures. One focus of enquiry was the effectiveness of promotional and advertising material, and the impact of specialist advice provided by staff in a number of agencies. Numbers of incapacity benefits claimants who used these measures have not yet been published.

The last three measures, piloted among incapacity benefit claimants during 1999-2000, have been available to other groups of people over a longer period, and there have been a number of evaluation studies. A study based on administrative statistics of some 29,000 *Jobfinder’s Grants* awarded during 1995-97 to people who had been long-term unemployed, with a follow-up survey to a sample of clients, showed a relatively high level of deadweight in the grant acting as an incentive to take low-paid work (Dickinson and Broome, 1998). The grant seemed to have most effect where the financial decision was tight. However, there was evidence that the grant did smooth the transition back into work, and encouraged people to stay in work. Gardiner (1997) has reviewed 42 different ‘welfare to work’ measures, and identified the *Jobfinder’s Grant* and *Jobmatch* as the most successful. However, Beyer *et al.* (2000) point out that in the context of movement off incapacity benefits, the potential effectiveness of these measures to ease transitions may be rather different.

Systematic data about the numbers of people claiming incapacity benefits who are allowed to do some therapeutic work or voluntary work have not been routinely collected, and there has not been a full evaluation of the *therapeutic work provision*. It seems likely that few incapacity benefits claimants do any paid work. A survey of 2,263 people who left incapacity benefit during 1996 (Dorsett *et al.*, 1998) showed that only four per cent had done any paid work during the spell on benefit, and two per cent some unpaid work. There has been some criticism of the therapeutic work provision, on the grounds of inequity in the way that it works (Mental Health Foundation, 1996; Social Security Advisory Committee, 1997). Some people whose impairment or health condition is unlikely to change, for example some people with learning difficulties, have found that they cannot use this measure, and have felt constrained in the opportunities they might take to do some work (Simons, 1998; Beyer *et al.*, 2000). The therapeutic work provision has also been used by some people for whom a particular work opportunity has been created, by employers or charitable/voluntary organisations who can offer small payments for what on a commercial basis might be considered unproductive work. Introduction of the minimum wage
has, in some cases, made the cost of such ‘jobs’ too high for them to be continued, and some
disabled people have been laid off (McCurry, 2000).

If we look to studies on other groups of clients, there is some evidence that small jobs of less
than 16 hours a week can boost working prospects. Among families with children claiming out-of-
work benefits, people with ‘mini-jobs’ were more likely to be working more than 16 hours the
following year, and the more hours worked, the stronger the effect (Iacovou and Berthoud, 2000).
However, there is also some evidence that people claiming income support are frustrated by
‘disregard’ arrangements. Among lone mothers claiming income support and unemployed people
earnings disregards were perceived to act as a disincentive to part-time work (Thomas et al.,
1999?) and arrangements for repaying, when the person entered work, some of the earnings which
had counted against income support, was not a strong incentive to increasing hours of part-time
work, or taking work of more than 16 hours. Among income support claimants, generally,
knowledge of the earnings disregards rules is limited (Shaw et al., 1996).

As Beyer et al. (2000) point out, the income support disregard has not been uprated since 1982,
and people can work only a few hours before it is no longer financially worth-while doing more.
Introduction of the minimum wage appears to have led to job loss among some disabled people
whose previous earnings were below the income support disregard, if employers were unwilling
to pay higher wages (Mencap, 2000), (a similar situation as that described above for therapeutic
work). The income support disregard will be increased to £20 in 2001, allowing between five and
six hours work at minimum wage levels.

We know that people who do not have paid work sometimes undertake some work or activity on
a voluntary basis. A survey of people receiving income support during 1992-94 showed that some
ten per cent had undertaken regular unpaid voluntary work (Shaw et al., 1996). Among lone
mothers claiming income support, and unemployed people, voluntary work was more of a
transitional activity or an indirect route back to work, than a direct stepping-stone into
employment (Thomas et al., 1999). Among the early participants in the New Deal for Disabled
people pilot projects, 19 per cent had been doing voluntary work (Arthur et al., 1999). Disabled
people who were interviewed in that study explained that doing some voluntary work can help
to maintain activity, and quality of life while claiming incapacity benefits and can provide
opportunities to maintain or develop skills, which may be useful when the time comes to think
about working.
Finally, there has so far not been a full evaluation of the impact of the linking rules on decisions about working. It is hard to estimate take-up of the 52 week rule, because people leaving incapacity benefits voluntarily do not always notify the reason for ending a spell on incapacity benefits. However, there is indication from the interim evaluation of the New Deal for Disabled People (Arthur et al., 1999) that people are reassured by knowing that they can regain their benefits if they are unable to sustain work. We know that most people who move from incapacity benefits to paid work do continue to experience health effects on their capacity to work (Dorsett et al., 1998). Dorsett et al. found that 14 per cent of people surveyed who had left incapacity benefit for paid work during 1996 had moved back to sickness or disability during the following 12-18 months. This may give some indication of the proportion of people who might need to use a 12 month or two year linking rule.

Discussion
The authors of the last major evaluation of DWA, the benefit designed to help disabled people take up or stay in paid work, (Rowlingson and Berthoud, 1996) found that DWA did not work as a work incentive and they found no direct evidence from their own study, or earlier work, that financial disincentives are the main reason why disabled people remain so much longer out of work, and on benefit, than unemployed people (p.213). Returning to this issue, Berthoud (1999) emphasises the need to think carefully about the different circumstances of people claiming incapacity benefits, and the kinds of incentives which might have some effect. His suggestion that some incentives for individual people close to participation in work can be effective is supported by emerging findings from early evaluation of the New Deal for Disabled People (Arthur et al., 1999). Some people who are considering leaving incapacity benefits and trying work are reassured by learning about the linking rules, and they are influenced by information about how to boost in-work incomes, and manage transitional periods.

Such people represent a very small proportion of incapacity benefits claimants, however. For most incapacity benefit claimants the most effective incentives might be those which encouraged or rewarded moves in the direction of paid work, or at least, did not penalise or make such moves more difficult. This paper has shown that there are currently rather few measures for people at this earlier stage, and until recently, very little interest in development or evaluation of what exists. Part of this is due to the hitherto rigid divide within the benefit system between being totally incapable of work, and fully able to take a job. There was a logical inconsistency in a system which defined people as incapable of all work, and forbade most people from doing any work, but at the same time offered the same people rewards or incentives for doing some work.
Finding a way out of this inconsistency, and changing popular perceptions and beliefs which have grown up within this system is a major challenge for current policy-makers.

No matter what the range of incentives, however, their effect will be lessened if levels of knowledge and understanding are low, and undermined if people do not believe or trust the information they have (Corden and Craig, 1991). This is especially important in the context of incapacity benefits claimants, many of whom have learning difficulties, communication problems, find it hard to concentrate, or are anxious. It is also important in an environment of welfare restructuring, in which administrators and advice-givers are dealing with rapid changes in systems and rules, and programmes are being piloted, developed or abandoned. Such an environment increases the potential for administrative error, delay and inconsistency, which in turn has an effect on trust and understanding among claimants.

Finally, I believe it is becoming even more important in the new policy environment to be wary of the discourse of personal incentives and disincentives. Moves towards work from incapacity benefits are increasingly being administered within a ‘case-managed approach’ (Field, 1998). The direction of current welfare-to-work policies is individualised information provision and advice-giving by the case manager who has performance goals related to moving people towards work. The new case manager/adviser may liaise with employers, and may also have some discretionary control of access to measures and financial resources which might smooth the clients’ path to work. A new Working Age Agency to deliver benefits to all people of working age is scheduled to start in 2001. The new agency will provide a single integrated service to benefit claimants of working age, and employers, including a single point of access for advice on looking for work and accessing benefits; technological support; information, advice and support to those who are not able to work. The approach will build on basic model pilots, currently being tested in 12 areas (ONE). Staff will focus on outcomes for clients, and initiating change.

In the new environment, with greater emphasis on the management of change and delivery of results, it is likely to become harder to assess the effectiveness of so-called incentives. It may not be easy to distinguish how a measure influences the behaviour of a disabled person from how it is used by the adviser/broker in terms of achieving their own work-related goals. It may be time to look carefully at the whole concept of ‘incentives’ in the new working/claiming environment.
References


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