

Institute for
Fiscal Studies



Options for reducing spending on social security

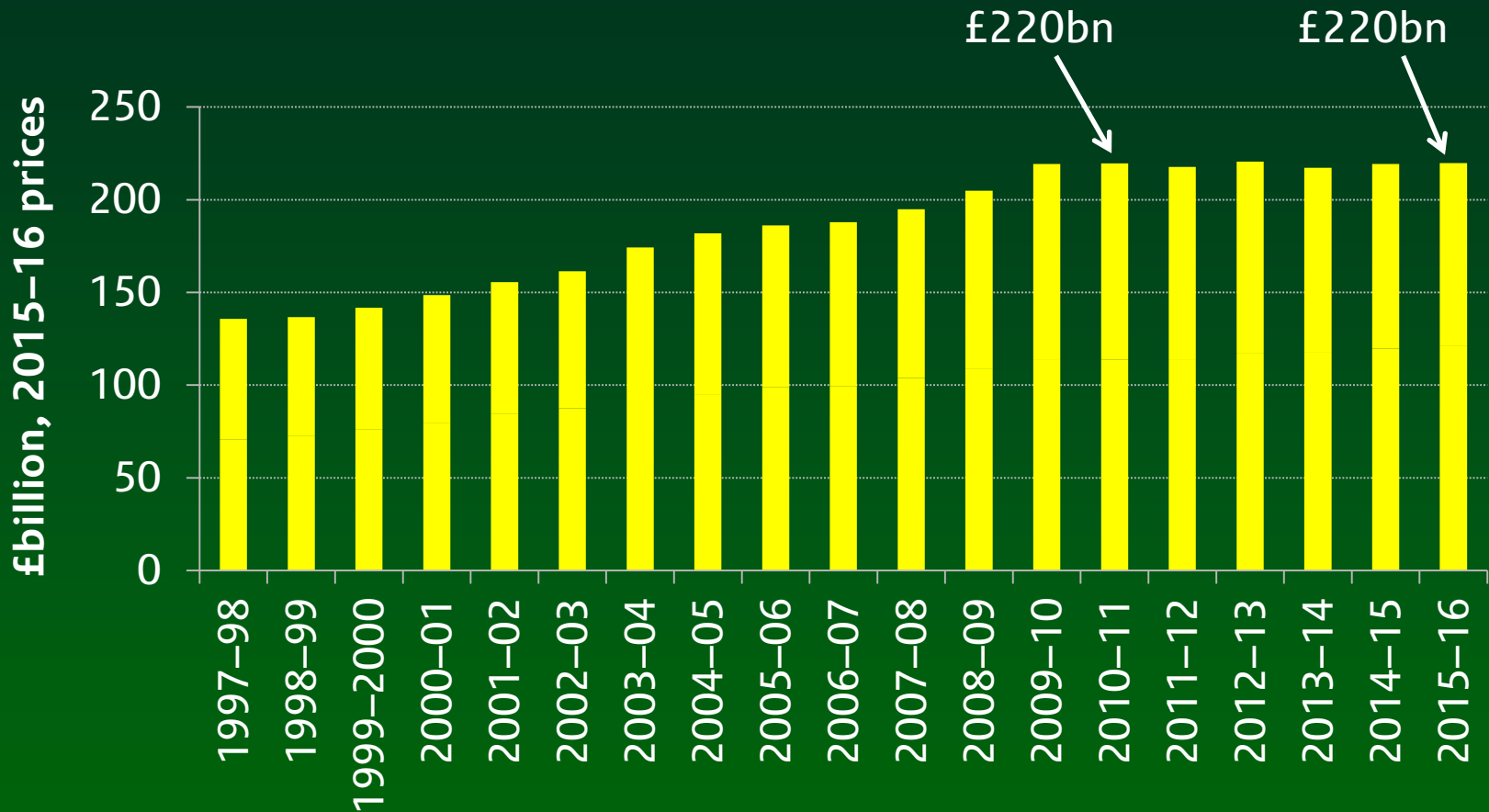
Andrew Hood



Social security under the coalition: headlines

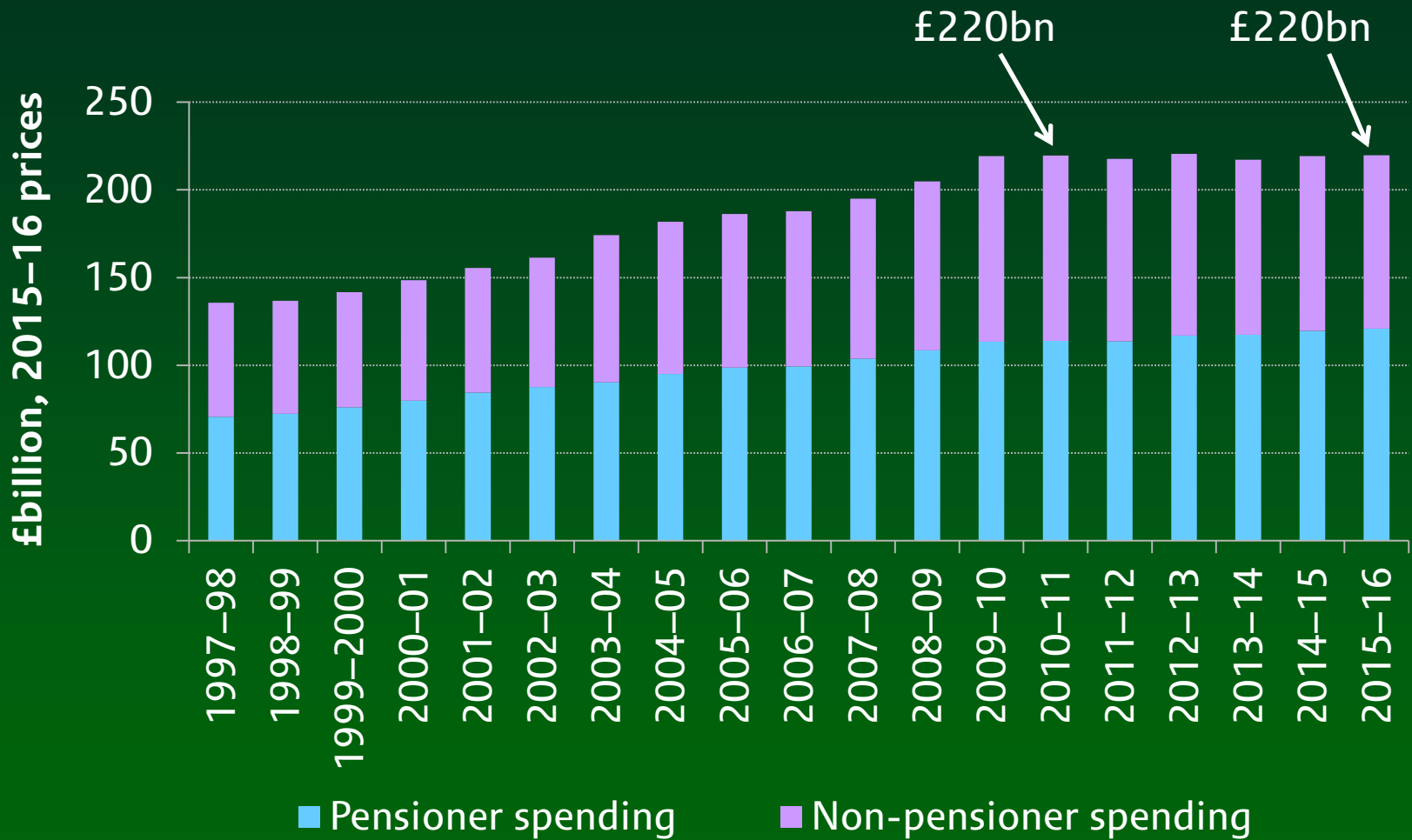
- The current government have implemented £17 billion of cuts to the annual social security budget...
- ...but due to underlying pressures pushing up spending, real-terms spending is forecast to be the same in 2015–16 as in 2010–11

Social security spending: 1997–98 to 2015–16



Notes and sources: see Figure 9.1 in Green Budget document

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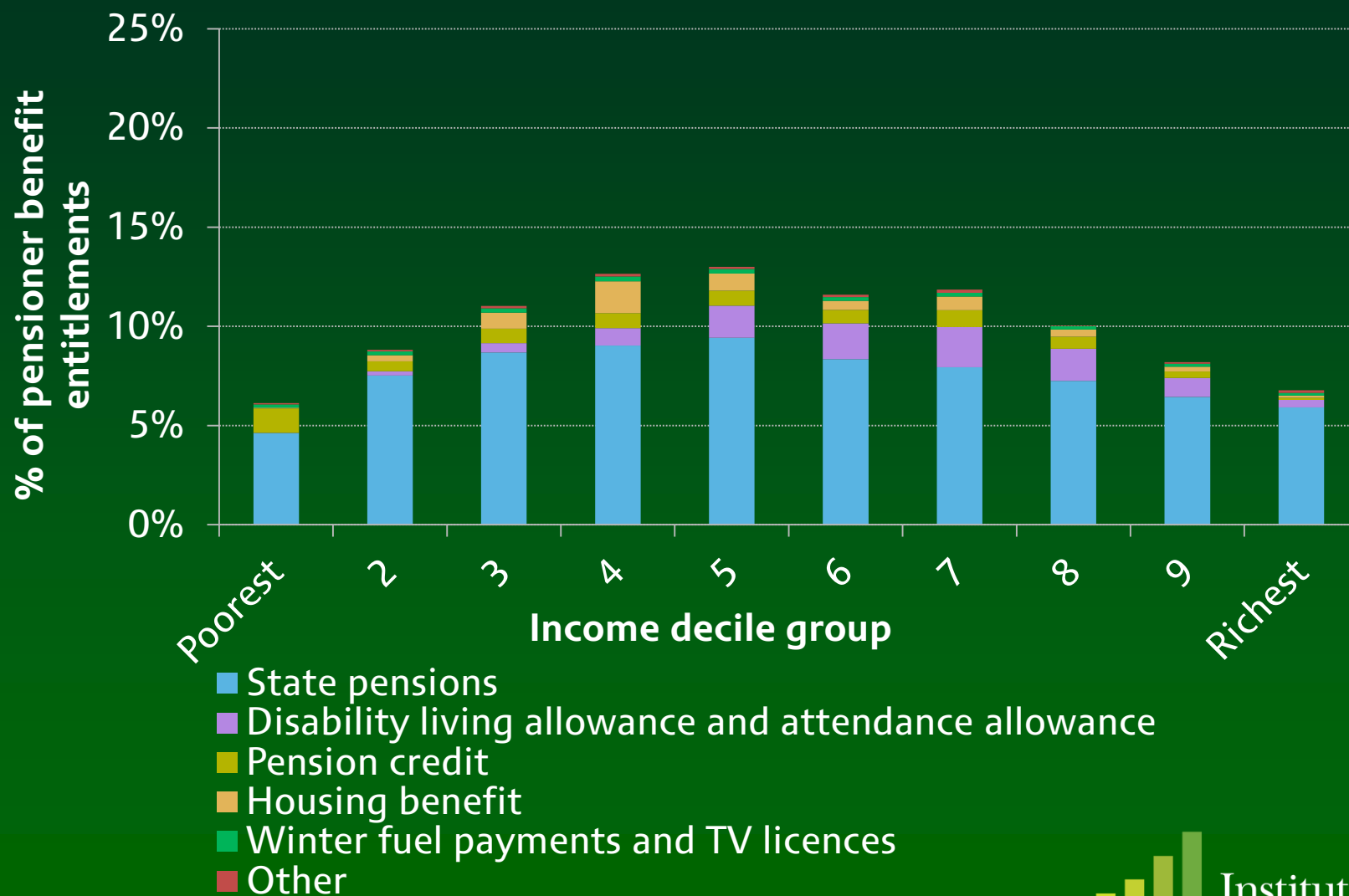


Notes and sources: see Figure 9.1 in Green Budget document

Social security under the coalition: headlines

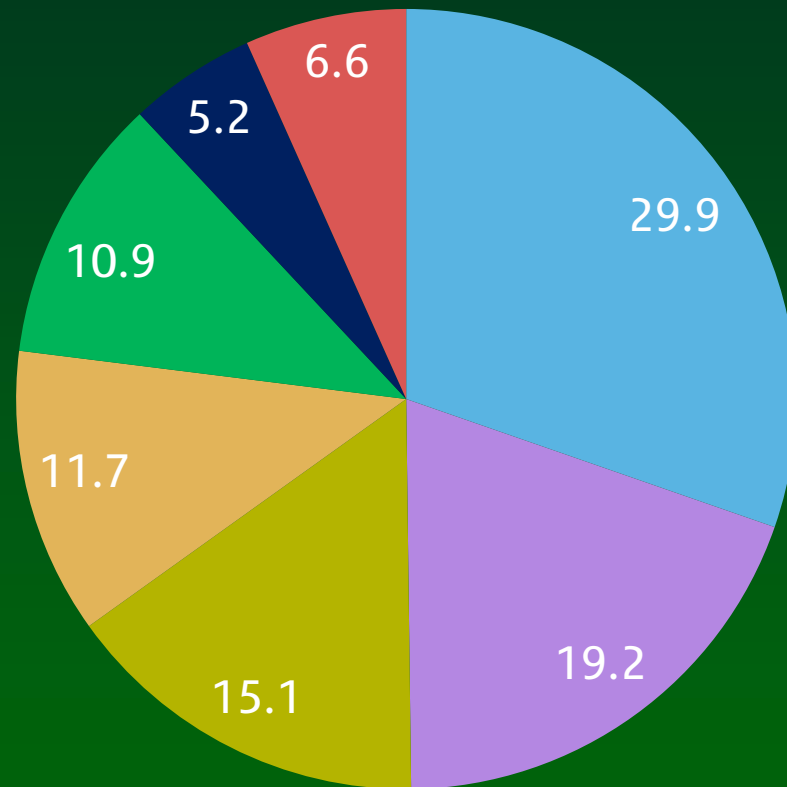
- The current government have implemented £17 billion of cuts to the annual social security budget...
- ... but due to underlying pressures pushing up spending, real-terms spending is forecast to be the same in 2015–16 as in 2010–11
 - £7 billion rise in pensioner spending offset fall in working-age spending
- Cuts have been focused on those of working age
 - particularly families with children...
 - ...but only partial reversal of increases in generosity for that group under Labour

Pensioner benefit entitlements by whole population income decile: 2015–16



Non-pensioner benefit spending: £billion, 2015–16

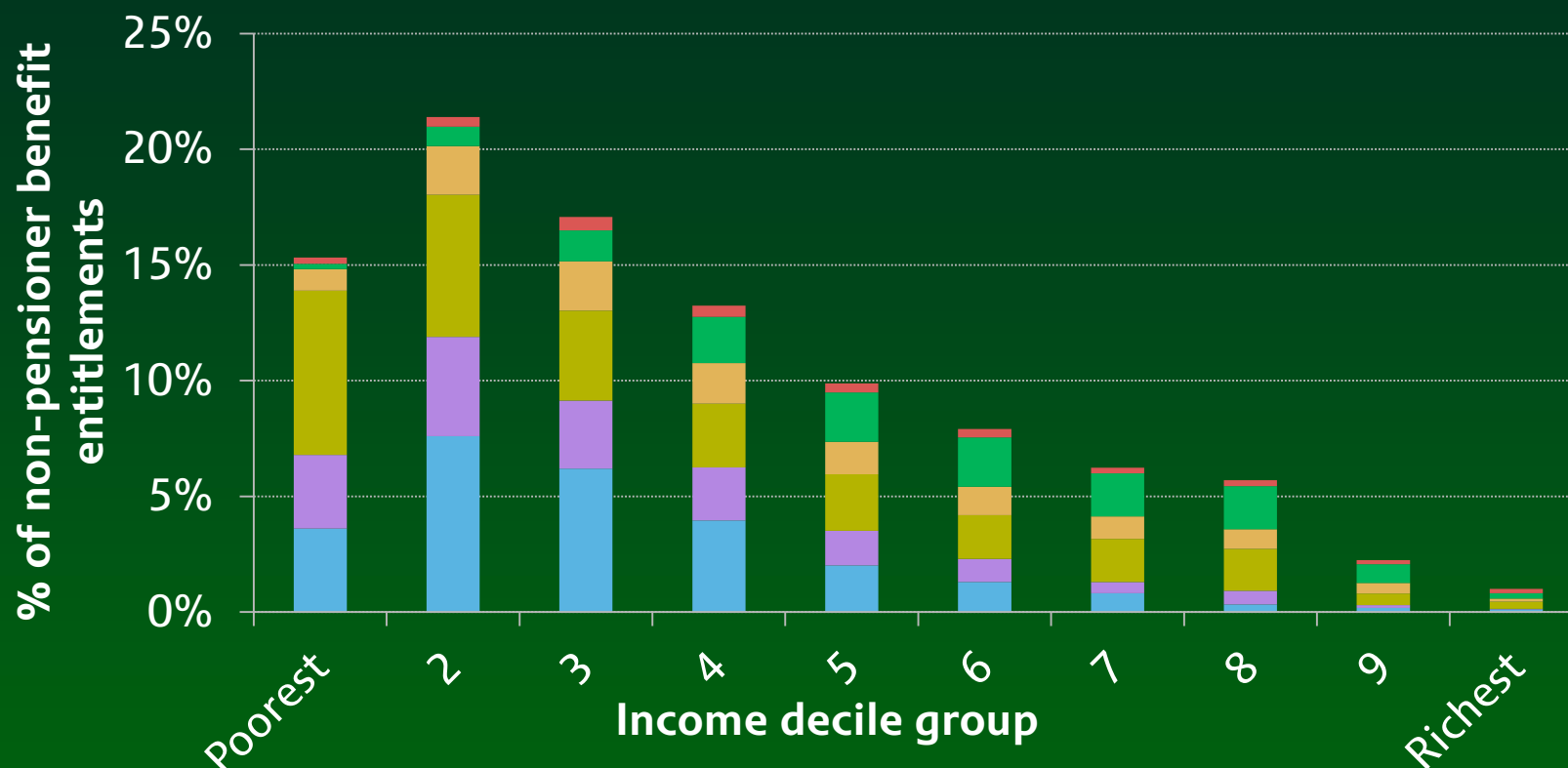
- Tax credits
- Housing benefit
- Incapacity benefits
- Child benefit
- Disability living allowance and personal independence payment
- Jobseeker's allowance and income support
- Other



Total = £98.8 billion



Non-pensioner benefit entitlements by whole population income decile: 2015–16



- Tax credits
- Housing benefit
- Incapacity benefits, jobseeker's allowance and income support
- Child benefit
- Disability living allowance and personal independence payment
- Other

Notes and sources: see Figure 9.4 in Green Budget document



Options for further cuts: context

- £21 billion a year needed to meet coalition plans for deficit reduction without accelerating public service cuts or raising taxes
- Chancellor George Osborne has said the Conservatives would look to cut a further £12 billion a year
 - Less than £3 billion of which has been outlined
- 3 main political parties all committed to maintaining the “triple lock” on the basic state pension
 - Over 30% of spending already protected from cuts
- We do not advocate any particular reforms

Options for further cuts: outline

1. Across-the-board cuts
2. Means-testing more aggressively
3. Cuts to benefits for young adults
4. Cuts to benefits for families with children
5. Cuts to disability benefits
6. Cuts to housing benefit
7. Abolishing the remaining working-age contributory benefits
8. Cuts to state pensions and other pensioner benefits

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Across-the-board cuts

- Increasing benefits by less than inflation is an obvious way of reducing real-terms spending
 - £9 billion of the cuts in this parliament have come from changes to how benefits are increased over time
 - Relatively small fall in real entitlements for large numbers of people

Annual reductions in spending from changes to uprating policy given inflation forecasts (£ billion)

Benefits in scope	1% uprating for two years	Two-year nominal freeze	Five-year nominal 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

Notes and sources: see Table 9.4 in Green Budget document



Across-the-board cuts

- Increasing benefits by less than inflation is an obvious way of reducing real-terms spending
 - £9 billion of the cuts in this parliament have come from changes to how benefits are increased over time
 - Relatively small fall in real entitlements for large numbers of people
- Continuing Conservatives' proposed freeze on most working-age benefits for 5 years reduces spending by £7 billion
 - Current proposal (two-year freeze) saves £2.4 billion
- Five-year freeze on everything except state pensions saves £13 billion

Cuts to benefits for young adults

- Total spending on housing benefit (HB) and jobseekers' allowance (JSA) for those aged under 25 is less than £2.5 billion
 - So even big changes would not deliver large reductions in spending
- Abolishing housing benefit for those aged 21 and under would reduce spending by £700 million a year
 - Conservative proposal to remove HB from 18-21 JSA claimants would save £120 million a year
- Need to think carefully about impact of changes on incentives
 - Eg. abolishing HB for JSA claimants only creates incentive to claim ESA or income support (for lone parents and carers) instead

Cuts to benefits for families with children

- Abolishing child benefit and compensating low-income families through universal credit would reduce entitlements by £4.8 billion
 - Possible to rationalise the system without such big cuts
- Reversing real-terms increases in child tax credit since 2003 would cut spending by £5.1 billion a year
 - But estimated impact of 300,000 more children in poverty
- Limiting child benefit and child element of universal credit to two children could cut spending by £4 billion a year
 - Savings only achieved in the long run if existing families protected
 - Lowering the benefits cap (mainly affecting large families) from £26,000 to £23,000 would save around £150 million a year



Cuts to housing benefit

- Spending on housing benefit forecast to be £26 billion in 2015–16
 - Making all tenants pay at least 10% of rents would save £2.5 billion
- Most of the cuts to housing benefit so far have been reductions in maximum entitlements in private rented sector
 - Further cut in maximum entitlements to 20th percentile of local rents (from 30th percentile) would save around £400 million a year
 - Extending maximum entitlement rules to social rented sector could save around £750 million a year
- Potential reforms need to be seen in light of broader questions around how best to provide support for housing costs

Cuts to pensioner benefits

- Over three-quarters of pensioner spending is on state pensions, so hard to make significant cuts if they are untouched
 - Increasing the basic state pension in line with CPI (rather than triple lock) for next parliament would reduce spending by £2.9 billion a year
- Restricting winter fuel payments and free TV licences to pension credit recipients would save between £1 ½ and £2 billion a year
 - Labour proposal to remove winter fuel payments from higher- and additional-rate taxpayers would save only £150 million a year

Conclusions

- Below-inflation increases in working-age benefits only cannot deliver a £12 billion reduction in spending in the next parliament
 - Extending the proposed Conservative freeze to 5 years would deliver a total cut of £7 billion a year
 - Adding disability benefits and pensioner benefits (except state pension) would increase size of cut to £13 billion
- Other cuts suggested so far save very little
- Next government needs coherent vision for social security system
 - Should all support for children be means-tested?
 - How is support for housing costs best provided?