Briefing

Resolution Foundation

Getting On: Universal Credit and older workers

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Executive Summary

Over the last two decades the age profile of the UK workforce has been transformed. Increased life expectancy and changing patterns of work have seen the number of older workers increase by 50 per cent (from 5 million in 1992 to 7.5 million in 2012). Further efforts to boost employment among this group will be vital to living standards in the coming decades. One of the key aspects of this debate relates to how the tax-benefit system encourages or discourages employment among older people. As the government's flagship welfare reform, Universal Credit (UC) will be key to this question in the coming years.

As things stand, UC's role in supporting older people to return to or progress in work has received relatively little attention, despite the fact that UC has major implications for this segment of the population, making some worse off (particularly those working over 16 hours) and others better off while also altering incentives to work. This note sets out briefly some of the benefits and drawbacks of the new system for older people and what more might be done to shape a system that truly works for the group.

First, it makes clear that UC will have a number of benefits for older people. The new system provides improved incentives to save into a pension, providing those over 50, among whom savings rates are low, with a greater reason to save (although this upside is slightly offset by new capital limits that will mean UC is withdrawn from people with large private savings). It also facilitates flexibility in work, helping those who wish to retire gradually and those who are unable to work full-time due to caring duties or poor health.

Second, it looks at how these benefits could be improved upon by increasing awareness of the upsides of pension saving under UC and the risks of other forms of saving, ensuring that carers can share in the new opportunities for flexible working under UC, and designing an in-work conditionality regime that fits the needs of the 300,000 low income older workers who will be affected.

Third, the note looks briefly at how UC could be modified to boost employment rates among older people. At present UC contributes relatively little to this end because, in its welcome drive to simplify the tax-benefit system UC has been designed on an age-blind basis. There is a question as to whether age-related elements could be used in UC to attract older people to remain in work for longer or to re-enter the labour market, particularly for workers over 55 who are approaching retirement. The note explores the impact of incorporating age-related disregards for over-55s into the system. With the roll-out of UC staggered over a period of years there is time to adjust the design of UC so that it could play more of a role in responding to the continued ageing of the UK workforce.

Introduction

As our society ages the share of the population that is over 50 continues to expand. One in three people of working age in the UK is already over 50[1] and population growth among this group will continue to far outpace that of the under-50s.[2] On the whole, these post-war baby boomers, born between around 1945 and 1965, are a prosperous generation. Many have benefited from rising employment rates in their working lives, demographic power to shape markets and politics, and a timely asset boom. Others, though, have not shared in this prosperity. For many older people on low and middle incomes, with meagre savings set aside for retirement, future living standards will rest heavily on staying in work for longer.

Successive governments have made moves to address the barriers to remaining in work that some older workers face. The introduction of anti-age-discrimination legislation in 2006, removal of the default retirement age in 2011, extension of the right to ask for flexible working arrangements to all employees in 2012, and the planned increases in the State Pension Age (SPA)[3] will all help to encourage work. Yet, despite these efforts, major barriers remain. Today a majority of the four million inactive or unemployed older people (one in three 50 to 64 year olds)[4] have been affected by some mix of caring responsibilities, poor health, poor skills or weak financial incentives.[5] Many take early retirement without adequate provision for a comfortable old age[6], raising pressures on the state from benefit spending[7] and foregone tax revenues. Some who suffer from health problems receive Incapacity Benefit (IB) or Employment and Support Allowance (ESA) and yet want to work, while receiving little support.[8]

Improving employment rates among older people should therefore be a priority. While the UK has seen the number of 50-64 year olds in employment increase by 50 per cent in the last two decades (from 5 million in 1992 to 7.5 million in 2012) it still does not rank among the best performing countries when it comes to employment rates among this group.[9] Indeed, despite significant improvements prior to 2008, the UK has actually lost ground relative to other advanced economies.[10] Universal Credit (UC), the government's flagship welfare reform project, is an important opportunity to improve this performance. One in five families who will receive UC include one or more people aged 50 or over.[11] Yet as things stand, supporting older people to return to or progress in work through UC has received relatively little attention.

This note sets out briefly some of the benefits and drawbacks of the new system for older people and explores what more might be done to modify UC to benefit older people. Chapter 1 focuses on two aspects of UC that will benefit older people: improved incentives to save and increased flexibility to work. Chapter 2 digs deeper to examine ways in which these welcome improvements can be further improved.

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[1] ONS, *Population Estimates Mid-2010*, 2011: The working age population is typically described as those aged 16 to 64. However as increases in the state pension age expected to reach age 70 over the next 50 years, the 16-69 group are used here as a better definition of the working age group.
[2] ONS, *2010-based NPP Reference Volume*, 2012
[3] DWP, *Long term State Pension sustainability: increasing the State Pension age to 67 (Impact Assessment)*, 2013
[4] ONS, *Labour market statistics*, 2012
[5] OECD, *Pensions at a Glance: Retirement-income systems in OECD and G20 countries*, 2011
[6] There is already evidence that households are not saving enough. The majority of people in low to middle income households either have no pension (other than state pension) or a frozen pension and the problem appears to be getting worse, see Resolution Foundation, *Squeezed Britain, 2013.*
[7] Older people already make up half the incapacity benefit and severe disability allowance caseload. One in four of the jobseeker's allowance (JSA) caseload is aged between 45 and 64 and more than a third of those on JSA who are over-50 have been claiming for more than a year. (DWP tabulation tool, accessed January 2013)
[8] *Welfare to Work: Tackling the Barriers to the Employment of Older People*, NAO; 2004
[9] Resolution Foundation, *Unfinished Business: barriers and opportunities for older workers,* 2012
[10] ibid
[11] Author's analysis

Chapter 3, takes a step back to explore how UC might be modified to ensure it does all it can to help boost employment rates among older people and sets out the case for incorporating age-related disregards for over-55s into UC in order to do so.

Chapter 1: The benefits of UC for older people

Universal Credit (UC) is designed to remove distortions in the current tax and benefit system. Within the complex pattern of winners and losers that UC creates, some elements of the system clearly benefit older people. This section looks briefly at two such elements: incentives to save and flexibility around work.

Improved incentives to save into a pension

Households are not saving enough to maintain their living standards in retirement.[12] This applies in particular to lower income households who are more likely to be in receipt of state support. UC will have a number of implications for incentives to save.

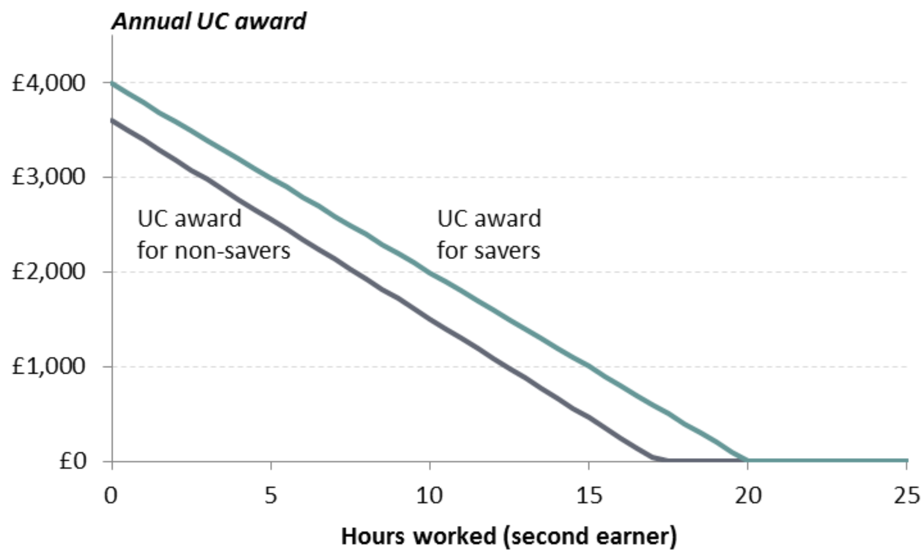
On the one hand, UC will reduce the incentive to save because it will include a capital means-test. This will mean that UC is withdrawn gradually from people with more than £16,000 in savings. This will disincentivise saving into standard savings instruments. On the other hand, it is welcome that UC will improve incentives to save into a pension for older people in receipt of means-tested benefits. At present, people aged over 50 who receive benefits other than tax credits receive a 50 per cent 'disregard' on their pension contributions. This means that, for every additional £1 they save into a pension, their income for the purposes of benefit calculation falls by 50p, increasing benefit entitlement. Tax credit recipients by contrast are treated twice as generously, receiving a 100 per cent disregard.

Under UC, this differentiation is removed and all recipients of means-tested benefits have 100 per cent of their pension contributions disregarded. This means that all UC recipients saving into a pension will see their UC entitlement rise for every extra pound they save.[13] Taken alongside other measures that serve to bolster pension saving, including auto-enrolment[14] and tax-free pension contributions,[15] many more people will have a far greater incentive to save.

Figure 1 below illustrates what these changes will mean for a low earning couple under UC (each contributing 5 per cent of their income to a formal pension scheme) compared to an equivalent couple who choose not to save. It makes clear that the UC award is consistently higher for the saver couple compared to the non-saver couple, irrespective of the hours worked by the second earner. The financial incentive to save increases marginally as the second earner takes on more hours until it peaks at 17.5 hours worked. At this point the saver couple is entitled to an award worth £560 more than that of the non-saver couple.

[12] See for example IFS, *The adequacy of wealth among those approaching retirement*, 2012
[13] This assumes no financial loss from pension saving as opposed to other forms of saving.
[14] DWP, *Impact Assessment of Pension (Automatic Enrolment) Regulations 2009*, 2009
[15] DWP, *How can we incentivise pension saving? A behavioural perspective*, 2012

Figure 1: Universal Credit award for a saver couple and a non-saver couple



Notes: Both couples have a main earner working full-time on a wage of £7.55 per hour and a second earner working at minimum wage (£6.19).The saver couple put 5 per cent of their gross employment income into a pension. The non-saver couple do not put any of their income into a pension. Both are 61 years and have £2,000 of capital. They have no dependent children, and no specialist needs. They have eligible housing costs of £100 per week.

Source: Author's analysis

Those who choose to save into a pension within the UC system will continue to gain from tax relief on their pension contributions, as they do under the current system.[16] Figure 2 shows how much extra UC a pension saver will receive under UC compared to a non-pension saver and also shows the total increase in income a pension saver will experience once pension tax relief is included. It focuses on a dual earning household in which both partners save into a formal pension scheme. The chart makes clear that a saving couple can gain a maximum additional income of £710 after their extra award and tax relief are taken into account.[17] In the example shown below in Figure 2, if the second earner works part time at 17 hours per week, they will receive over half (55 per cent) of the more than £1,000 they contribute to their pension pot per year through an increased UC award (£560 higher than for non-savers). Single earner households will also see gains compared to non-saver households with net income gains of up to £500 a year once their additional UC award and tax relief have been taken into account.

[16] This means their final net income is higher before the UC award, which will result in a lower UC award. However this does not have a detrimental impact on the overall entitlement as the income gained from the tax relief is greater than that lost in the UC award.

[17] However, the total additional income for savers under UC post-tax relief peaks at 18 hours. This is because while tax relief on pension contributions for a couple peaks continue to rise until the point at which both are working full-time, the reduction in their combined UC award lowers correspondingly leaving them with a lower net additional income.

Figure 2: Difference in UC award and total income after tax relief between pension savers and non-pension savers under UC

Notes: Both couples have a main earner working full-time on a wage of £7.55 per hour and a second earner working at minimum wage (£6.19).The saver couple put 5 per cent of their gross employment income into a pension. The non-saver couple do not put any of their income into a pension. Both are 61 years and have £2,000 of capital. They have no dependent children, and no specialist needs. They have eligible housing costs of £100 per week.

Source: Author's analysis

More flexible support for short hour jobs

The second notable advantage of UC for older workers relates to flexible working. This is a general benefit of UC but one that is particularly important for workers seeking to retire gradually; needing to balance work with the management of their health; or to balance a job with other responsibilities such as caring.[18]

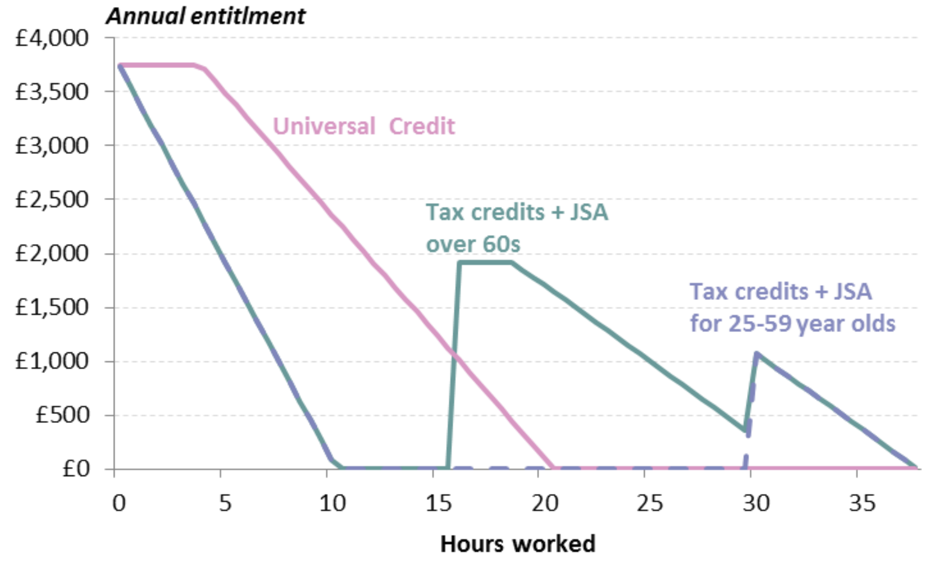
UC increases flexibility by abolishing the hours thresholds that operate under the current tax credit system. In doing so, one of the main features of UC is to provide claimants with support for working small numbers of hours.

Figure 3 shows how this aspect of UC plays out for claimants of different ages. It illustrates the effects of the 16 and 30 hour thresholds built into the current tax credit system, with low earners over 60 facing losses of up to £1,920 if their hours fall below 16 hours and smaller losses if their hours fall below 30 hours. In abolishing both the 16 and 30 hour thresholds, low earners of any age will find that their initial UC award of £3,750 for working up to 5 hours per week is tapered away at a uniform rate until it reaches zero.[19]

[18] HSBC, *The future of retirement in a world of rising life expectancies,*2005; Policy Studies Institute, *Older workers: employment preferences, barriers and solutions*, 2009

[19] This example is for a single person without dependents or special needs. This picture would look different for people in a different situation such as parents or couples.

Figure 3: Comparison of Universal Credit and working tax credits



Notes: This example is for a single male (age 61) on a wage of £7.00 per hour. They have no eligible housing costs under either the current system or Universal Credit. They have no dependent children, and no specialist needs. Under the current system this individual is not eligible for any working benefits until they have worked at least 16 hours a week. Once they have exceeded this threshold, they receive the basic element of WTC (£1,920 per year). This award then tapers away to zero until a second, smaller boost from the 30 hour element (£790). This person is not eligible for contributory jobseeker's allowance; the WTC basic element is more generous for people who are 60 and above than for those under 60. The over-60s are eligible for this element if they work 16 hours per week, while the under-60s need to work 30 hours before they are eligible for this tax credit.

Source: Author's analysis

Figure 4 shows what these changes will mean for a household's final income. First, it shows final income under the current tax and benefit system for two typical single adults: one under 60 and one over 60 (neither of which have dependent children). In today's system, support varies for under and over 60s. Second, it shows final income for adults over 25 (again without dependent children) under the future UC system, when entitlement will not vary for over and under 60s.

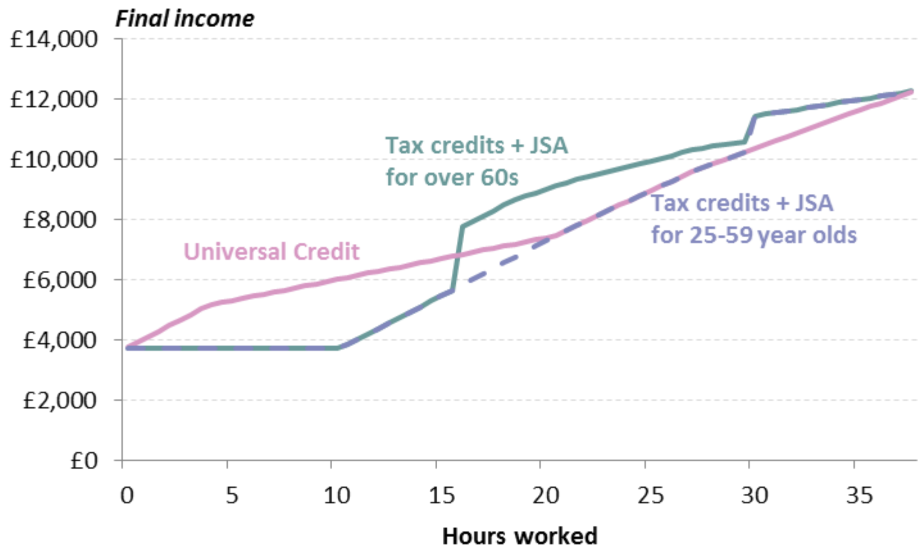
We can assess how final income changes from the current system to UC by looking at people working different amounts of hours per week:

- For those working fewer than 16 hours per week, no single adults—either under-60s or over-60s—receive WTC. Under UC all such individuals will receive a benefit award. Therefore their final income is higher under UC than under the current system for both age groups.
- For those working between 16 and 30 hours, only over-60s receive tax credits in the current system while under-60s do not. For both age groups, their UC award soon tapers away to zero. However, the WTC award received by the over-60 adult means their income is higher under the current system than UC. Therefore, the introduction of UC will mean this group face a loss of income. This is not the case for under-60s, who receive no benefit award in either system.
- For those working more than 30 hours, both over- and under- 60s receive some working tax credits. However neither group will receive any UC entitlement. Therefore, for a typical low earning single adult, their final net income is higher under the current system than UC irrespective of their age.[20]

[20] Discussion limited to over-25s

This analysis demonstrates some of the advantages and disadvantages of UC. The shift to UC is more detrimental to the final income of a low-earning single over-60 than for someone under 60. However, the smoothness of the UC system, and its relative generosity for those working a low number of hours, will enable older workers to reduce their hours without facing the cliff edges in entitlement that occur under WTC.

Figure 4: Comparison of final net income under Universal Credit and working tax credits



Notes: This example is for a single male (age 61) on a wage of £7.00 per hour. They have no eligible housing costs under either the current system or Universal Credit. They have no dependent children, and no specialist needs. This person is not eligible for contributory jobseeker's allowance.

Source: Author's analysis

Chapter 2: Improving the current UC offer

Improved incentives to save and increased flexibility will benefit older workers. There are also aspects of UC that could have a less positive effect on outcomes for older people. In this section we point to three such areas. In each case, new thinking may be needed to ensure the system does not disadvantage some groups.

Making sure people take advantage of increased incentives to save

While UC improves incentives to save, these benefits are focused on people saving into formal pension schemes. Indeed, under UC, people with other forms of savings of over £6,000 will see their award withdrawn gradually. While this 'capital means test' also exists under the current system, UC will impose an upper capital limit of £16,000 beyond which no entitlement will be awarded. This cut-off is a departure from tax credits and risks some claimant households being forced to use up non-formal pension savings ahead of retirement.

Education about this shift in savings incentives will be important, helping individuals to transition to a system in which formal pension saving is more advantageous. Low earners need access to trustworthy formal pension schemes that offer good value for money. The creation of NEST, the government run pension scheme for low earners, meets this need (although through its cap on contributions may not fully benefit some middle earners saving larger amounts in later life). It is also important that steps are taken to raise financial awareness among low earners about the financial advantage of saving into a formal pension scheme under UC and the risks of saving in other ways. This case should be made as the government proceeds with auto-enrolment.

Ensuring that carers benefits from flexibility

We have seen that UC will increase flexibility by abolishing hours thresholds and by smoothing the way in which support is withdrawn. As things stand, older people with caring responsibilities will continue to face sizeable obstacles to taking advantage of these improvements. While UC supports flexible working, these benefits are likely to be out of reach for many with caring responsibilities. With informal caring falling disproportionately on the shoulders of older people[21] and with over-50s more likely to be informal carers in the UK than in most western advanced economies[22], this differentiation risks widening the gulf between work and caring. Without a better deal for working carers, the rising demand for informal care,[23] coupled with the rising SPA and pressures on the formal care system,[24] could leave an ever greater number of older people locked out of the labour market.

Tailoring in-work conditionality to older workers

A key aspect of UC that has not yet been finalised is the extension of conditionality to working claimants. This is a major innovation of the UC system and will see around 1.2 million low paid working people subject to job-seeker style conditionality for the first time, albeit in a lighter touch form. Our estimates suggest that people over 50 or those with a spouse over 50 comprise nearly a quarter (23 per cent) of this group.[25] These older workers, like the rest of those affected by extended conditionality, will be expected

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[21] The Princess Royal Trust for Carers, *Always On Call, Always Concerned: A Survey of the Experiences of Older Carers*, 2011
[22] OECD, *Health at a glance*, 2011
[23] R Wittenberg et al, *Projections of Demand for and Costs of Social Care for Older People in England, 2010 to 2030, under Current and Alternative Funding Systems,* 2011
[24] AgeUK, *Care in Crisis*, 2012
[25] Resolution Foundation analysis of DWP, *Family Resources Survey 2009-10. Also s*ee Resolution Foundation, *Conditions Uncertain*, 2012

to meet a new, “higher” conditionality earnings threshold equivalent to a 35 hour week at the national minimum wage through a combination of additional employment, higher hourly wages or increased hours.

The nature of the conditionality regime—how it will be monitored, the form of support on offer and the sanctions for non-compliance—will therefore have a considerable impact on older workers. On the one hand, more generous provision at lower hours could encourage older workers to reduce their hours more quickly than under today’s system. On the other hand, if older workers seeking to retire gradually are subject to intensive conditionality they may simply exit the labour market. An in-work conditionality regime could, by contrast, provide high quality employment support and advice to help older workers progress.

An in-work conditionality regime that benefited older workers would tailor conditions to personal requirements and support appropriate to the group at large. This will not be easy. We know that employment support is hard to tailor to the needs and requirements of older people, especially with respect to job progression.[26] A particular concern relates to Information Technology (IT) where older people may be doubly disadvantaged. A lack of up to date IT skills is the biggest skills barrier for older people and must be addressed as part of effective employment support. However, any in-work conditionality regime is likely to rely heavily on new technology in order to manage costs. This in itself could be a barrier for older people to access support. Adequate IT training for older people and alternative routes for older workers without IT skills will, therefore, both be essential as part of an effective in-work conditionality regime for this group.

[26] DWP, *How ready is Jobcentre Plus to help people in their 60s find work?*, 2012

Chapter 3: Boosting employment rates among low income older people

Beyond the specific benefits and costs of UC for older people there is a bigger question of system design. As things stand UC risks missing an opportunity to boost employment incentives for older people, particularly those over 55 who are nearing retirement. This is because, in its welcome drive to simplify the tax-benefit system, UC has been designed on a largely age-blind basis. It only distinguishes between those above and below aged 25. Indeed, UC removes the remaining age-related hours rules present in the current system.[27] One option for reintroducing an age-specific element to UC would be to reintroduce a form of age-related credit to encourage a return to work. This note, however, focuses on the option of introducing age-related disregards into the UC system.

Investment in these reforms would need to be weighed against other priorities. However, as Chapter 1 outlined, there is a strong economic and social case for investing to raise employment rates among older people. There is also good reason to believe that making work more financially attractive can have a powerful effect on employment levels in this group. In-work credits for older workers, for example, are known to increase the number of older workers moving into work and staying in work, as long as the credit is substantial enough.[28] We also know that changing financial incentives (including, for example, delaying SPA) can encourage older people to stay in the workplace.[29]

There is already a developed debate about how the tax-benefit system can encourage or discourage work. Much of this debate, however, has focused mainly on the tax system rather than the benefit system. There is a case for exploring whether the targeting of funding by means of incorporating age-related elements within UC could help extend working lives. In theory this could be done by altering the set of allowances, elements and disregards on which UC is based. Allowances already vary by the household status of recipients (single or couple) and their age (under or over 25). Specific elements are also provided for those with particular needs, such as childcare or a disability. The actual award any recipient will receive is a product of their designated allowance plus any applicable additional elements. This is then tapered away depending on the recipient's level of income, minus any income disregards they may qualify for, at a rate of 65 per cent.

We focus on one possible reform of UC to boost work incentives to older people: introducing an age-specific disregard. Altering the criteria that apply to the 800,000 households with one or more adult over 55 will impact on the generosity of the UC awards received by members of this group. The average award among these older recipients stands at £5,600 a year (compared to an average award of £6,900 for the 6.9 million households under 55[30]). The lower awards this group receives means that more generous funding could deliver quite marked proportional increases in the size of older workers' awards.

Disregards

The UC system permits certain amounts of income to be exempt from means-testing. These are referred to as income disregards. Because a disregard protects a certain amount of earnings from the UC means-test, raising disregards can boost work incentives for some groups (with the trade-off that incentives will fall for others).

[27] For example, more generous working tax credits for over-60s.
[28] P. Haan and V. Prowse, *A structural approach to estimating the effect of taxation on the labour market dynamics of older workers*, 2009; P. Haan and V. Steiner, *Making work pay for the elderly unemployed – evaluating alternative policy reforms for Germany*, 2008; L. Laun, *The effect of age-targeted tax credits on retirement behaviour*, 2012
[29] J. Gruber and D. Wise, *Social Security Programs and Retirement around the World: Micro-Estimation*, 2004
[30] Largely the result of the absence of dependent children among the over-55s

The amount of income disregard under UC is dependent on marital status, disability status and whether or not the recipient is responsible for any children. For some types of household, the disregards also depend on whether the household receives any housing support. In an attempt to re-balance support more equally across different households, those who are not in receipt of housing support are assigned higher disregards. This means they are able to keep more of their earnings than those who receive a lot of housing support. As Table 1 makes clear, single people without dependent children and couples without dependent children have far lower income disregards than other groups.[31] These two groups also lack a more generous disregard for those who are not in receipt of housing support.

Table 1: Current disregards under Universal Credit

Family type	Monthly disregards (min – max)
Single, no children	£111 – 111
Single, children	£263 – 734
Single, poor health	£192 – 647
Couple, no children	£111 – 111
Couple, children	£222 – 536
Couple, poor health	£192 – 647

Source: DWP, Universal Credit Impact Assessment, 2012

Amending the current range of disregards for over-55s would be another way to recognise age within UC and to thereby incentivise employment. There are a number of considerations that need to be taken into account if different disregards for older people were to be incorporated into UC:

- Household type: under UC disregards for single people and couples without children are the same. This is a departure from the structure used for the allowances, which recognises household type and provides differential rates accordingly. Having identical disregards for single people and couples in UC disadvantages the latter, as their dual earnings are treated in the same way as a single person's. As such it does not recognise that a couple would be far worse off if they have the same level of household income as a single person. Any changes to disregards should try to reflect the differences in living costs that different households face.
- Housing: as mentioned above, households without dependent children have the same income disregards irrespective of their level of housing support. As older people can be found in large numbers in these household types (single without children, couples without children) they will receive lower disregards than under WTC. Any changes to disregards should try to increase the level of support for those without housing support to reflect these differences.
- Impact on work incentives: a change to disregards for older people needs to significantly raise their income so as to affect their work decisions;
- Balance: the system should not be heavily skewed to benefit one group over another. Therefore the disregards for older people should not be disproportionate to those of other groups; and
- Cost: any changes to the system should not incur unreasonable costs to the Treasury.

Bearing these considerations in mind we model three scenarios in which the current set of disregards for single adults over 55 are amended. The three scenarios seek to take the above conditions on board in order to develop some options for the reform of disregards under UC. They do so as follows:

[31] The vast majority (78%) of families with one or more adult aged over 55 do not have any dependent children living with them.

- Household type: under this scenario a 1.6 ratio is applied to reflect the different needs of single and couple households thereby providing more generous disregards for couples;
- Housing support: under this scenario the maximum disregard is increased. This applies to all claimants but will affect those receiving little or no housing support. The minimum disregard, which affects those receiving a significant amount of housing support, remains unchanged. Therefore, under this scenario the generosity of the system is increased for those with little or no housing support;
- Household type and housing support: a combination of both scenarios above.

The impacts of these scenarios on households' annual awards are shown in Table 2. The results make clear that changes to income disregards of the kind outlined above increase the average UC award for a single adult over 55 by between £10 and £200 per year (averaged across all UC recipients, including those who see little benefit). It also highlights that additional older people – ranging from 5,000 to 70,000 – are brought within the remit of the UC system for the first time as a result of these modifications. As can be seen, expenditure is under £0.2 billion for all three scenarios.

Table 2: Impact of changes in disregards

Scenario	Details of system change from baseline (all disregards monthly)	Average annual award for all older families on UC (Difference from baseline)	Older families in receipt of UC (Difference from baseline)	Total annual UC expenditure on older families (Difference from baseline)
Increase taking into account household type	Single: unchanged Couple: Both min and max disregards increased from £111 to £174	£10	5,000 households	£0.02 billion
Increase taking into account housing support	For single and couples: Minimum unchanged from £111 (applicable to those with significant housing support), Maximum increased to £528 (applicable to those with no housing support)	£200	70,000 households	£0.2 billion
Combination of both of the above scenarios	Single: Minimum unchanged from £111, maximum increased to £336 Couples: Minimum increased to £174, maximum increased to £528	£140	50,000 households	£0.1 billion

Notes: Analysis at Benefit Unit level. Older households are those with one or both adults aged over 55. Numbers have been rounded.
Source: Resolution Foundation analysis of DWP, Family Resources Survey 2009-10

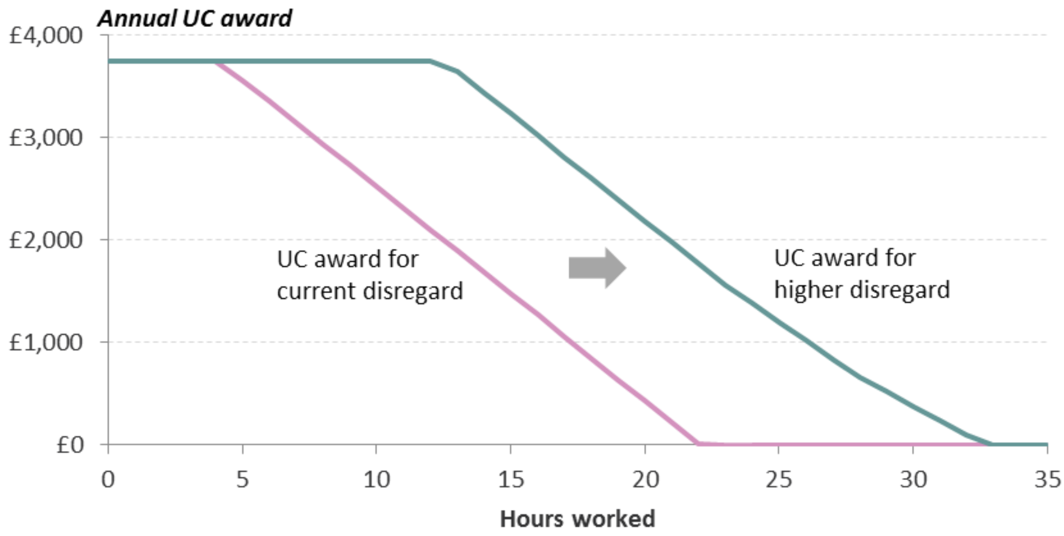
Figure 5 illustrates the impact of a higher income disregard on the final UC award for someone in receipt of no housing support (the second scenario above). The chart shows the final UC award under the current disregard (£110) and a higher disregard (£340). A higher disregard increases the amount of UC a household receives and the amount of households eligible for a UC award. For those that were already receiving a UC award, their award will increase by two thirds of the disregard boost.[32] For example, someone working 16 hours per week on a low wage would receive an award of £1,300 under the current

[32] This is due to income taper of 65 per cent.

disregards. Under the disregard increase displayed in Figure 5 this person would receive an award of £3,000 (an increase of £150 per month).

As Figure 6 suggests, increasing disregards to this degree would have a number of effects on work incentives for older people. First, it would boost the incentive to move from unemployment into work of 5 to 13 hours by making work at these hours relatively more attractive than unemployment. Second, for people working between 5 and 13 hours, the increased disregard would also reduce marginal tax rates, increasing the marginal incentive to take on more work or to seek better pay. However, an increased disregard would also pull more workers into the UC system, in this case increasing marginal tax rates for people working 22 to 33 hours a week, reducing the incentive for these workers to take on more hours or seek better pay.

Figure 5: Effect of a disregard increase on final UC award



Notes: This example is for a single person aged over 55 on a wage of £6.50 per hour. They have no specialist needs or eligible housing costs.
Source: Author's analysis

Potential upsides of boosting employment among older workers

The above analysis shows one way in which age-related incentives for older people could be incorporated into UC. The costs we outlined do not take into account the upsides of reduced benefit expenditure or additional tax revenue flowing from increased employment. For a sense of the scale of these upsides, an unemployed single adult who remains out of work for a year will receive £3,400 in UC and a further £1,900 in contributory jobseeker's allowance. The direct saving to HM Treasury from such an individual moving from unemployment to working 25+ hours per week (at which point he receives no UC or JSA) would be £5,300. Even if such an individual only took work of 16 hours per week the gain to HMT would still be £4,000. These upsides would likely net out some of the costs of an increase in disregards for the older group.

Conclusion

There is an urgent need to increase levels of employment among older people. As a major welfare reform, the introduction of UC presents a big opportunity to encourage work among this group. The system already incorporates some commendable features. These include increased incentives to save into a pension as well as increased flexibility. The latter is particularly helpful for older workers who may want to retire gradually or who may be unable to work full-time due to caring duties or poor health. These are welcome benefits and there remains scope to improve upon them further by increasing awareness about the financial advantage of saving into a formal pension scheme under UC and the risks of alternative methods of saving, ensuring that carers can benefit from enhanced flexibility and designing an in-work conditionality regime with older workers in mind.

However, in moving to an age-blind design UC also risks missing an opportunity to boost employment rates among older people by increasing the incentives for this group to remain in work for longer or to re-enter the labour market if they are inactive. We have looked at one way in which UC could be modified by introducing age-related measures to make work more attractive for older people. Such investments would need to be weighed up against other priorities but may warrant further consideration given the economic and social importance of employment rates among low income older people.

The Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing people on a low to middle income;
- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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