Resolution Foundation

The good, the bad and the messy

Responding to the Pathways to Work Green Paper consultation

30 June 2025

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This week marks an important moment for this Government's welfare reform plans: as Parliament prepares to vote on major legislation to make cuts to PIP and UC-Health, the consultation on longer-term changes to the benefits system, set out in the Pathways to Work Green Paper, also closes.

There are some good proposals included in the Green Paper: most notably, the Government plans to introduce a new unemployment insurance scheme. If properly implemented, this would improve income protection for workers who experience unemployment, while also boosting dynamism and growth. But the Government should think carefully about its plans to create a single benefit for both jobseekers and those out of work due to poor health: this would significantly reduce support for people who have to leave work due to ill health.

On the other hand, the proposal to remove UC-Health from under-22s is poorly thought through. While the prevalence of ill health, and claims for disability benefits like PIP, are rising among young people aged 16-21, claims for incapacity benefits like UC-Health are not. Rather than cutting UC-Health support for this age group, the Government should prioritise boosting access to employment and educational support.

Finally, putting the wide-ranging suite of benefit changes included in the Green Paper into practice is likely to become messy. Scrapping the Work Capability Assessment would be a generational change to the health-related benefits system, not just a change to the way that assessments are carried out. The problems it throws up are not ones that can be patched over by making exceptions for a small group of claimants, and it deserves greater attention.

As well as making changes to PIP and UC-Health via Primary Legislation, the Government is also consulting on a package of longer-term welfare reforms

As the Universal Credit and Personal Independence Payment Bill continues its rocky journey through Parliament, the focus has understandably been on the changes to the eligibility for and rates of health- and disability-related benefits that it introduces. The Government will be hoping that the latest concessions allow it to progress that legislation through Parliament tomorrow.

But at the same time, the Government's consultation on other aspects of its 'Pathways to Work' Green Paper closes today. In this Spotlight, we focus on the elements of the Green Paper that the Government is formally consulting on and that are outside the scope of this week's Bill: these are a range of longer-term changes to the benefits system that the Government could enact later this Parliament.[1]

The good: introducing a new Unemployment Insurance scheme

The Government is consulting on reforming the few remaining contributory benefits and introducing a new 'Unemployment Insurance' scheme instead, replacing contributory Jobseeker's Allowance (JSA) and Employment and Support Allowance (ESA). The proposals would lead to a more generous system of unemployment insurance, but a less generous form of sickness insurance, and I consider both below.

As set out in previous Resolution Foundation work, the current social security system fails to offer adequate income protection to workers across the income distribution, in the most part because the flat-rate Contributory JSA and the basic allowance in Universal Credit are both worth just £92.05 a week in 2025-26. This problem has gotten worse over time: these unemployment benefits are now worth just 14 per cent of average weekly earnings, down from 24 per cent four decades ago. The replacement rate in the UK for a single earner on an average wage who experiences unemployment is among the lowest in the OECD.

Creating a more generous, but time-limited, form of unemployment insurance would be a good move. This would better protect workers' living standards if they are hit by unemployment, but it could also contribute to greater dynamism and therefore growth. More generous unemployment insurance schemes tend to support workers to find better-paid and longer-lasting jobs, and by reducing the fear of not being able to meet financial obligations in the event of unemployment, workers can feel more confident in taking risky job moves.

There are two key design parameters for an unemployment insurance scheme: generosity, and duration.[2] The Government has proposed setting this new benefit at the current level of benefits for those not working due to ill health (in 2025-26, this is £140.55 per week). This would be an improvement on the current system, and would mean that jobseekers would see their level of support increase by half (an increase of £48.50 per week, or 53 per cent). But we recommend that the Government goes further and introduces a form of unemployment insurance that is linked to workers' previous wages: in our view, this should follow the old Job Retention (furlough) Scheme, and be paid at 65 per cent of previous wages, up to a cap set at median earnings. This would lead to a maximum payment of £378 per week in 2025-26.

Second, we suggest that this new unemployment insurance should only be paid for short durations of time: in normal economic times, we recommend a duration of three months. This strikes a balance between protecting workers' living standards while they look for a job, and minimising the 'moral hazard' issue – where reduced work incentives lead to unduly long spells of unemployment.[3] And a new unemployment insurance system should be designed flexibly: during recessions, or other times when it would be unreasonable to expect workers to find employment within three months, unemployment insurance should be paid for a longer time.

Introducing a more generous, but time-limited, unemployment insurance scheme would be relatively inexpensive at the moment, reflecting current patterns of low unemployment, and the fact that the benefit would only be paid for periods of three months. Our previous estimate was that such a scheme would cost £0.4 billion per year in spells of low unemployment, rising to £1.1 billion per year in a period of high unemployment (or £2.6 billion if the payment duration was extended to six months), all in 2024-25 prices.

But, as mentioned above, the Government appears to be proposing adopting the same benefit for people who are *unemployed* and those who have to stop working *due to ill health.* It seems to be little understood that moving to a unified, time-limited, 'unemployment' insurance scheme for those who are both unemployed and out of work due to ill health would be a cut to the amount of contributory benefits paid to ill and disabled people (continuing the erosion of the role of contributory benefits in insuring people against illness). Currently, contributory ESA can be paid indefinitely for those with severe barriers to work who are place in the 'Support Group'. There are 671,000 people in this category at present, two-fifths of whom (257,000) are *only* receiving contributory ESA, rather than getting income-based ESA or Universal Credit as well. This group would lose support under the Government's proposals to create a time-limited unemployment insurance scheme, which would be a major change to what the state offers people from middle-and-higher-income families who have to leave work due to ill health. The current system is sensible in treating people who are unemployed differently from people who cannot work through ill health – for example, the evidence that leads us to favour a short duration of unemployment insurance does not apply to providing sickness insurance – and so it is not clear that moving to a single benefit providing income insurance in these very different circumstances is necessarily a positive step.

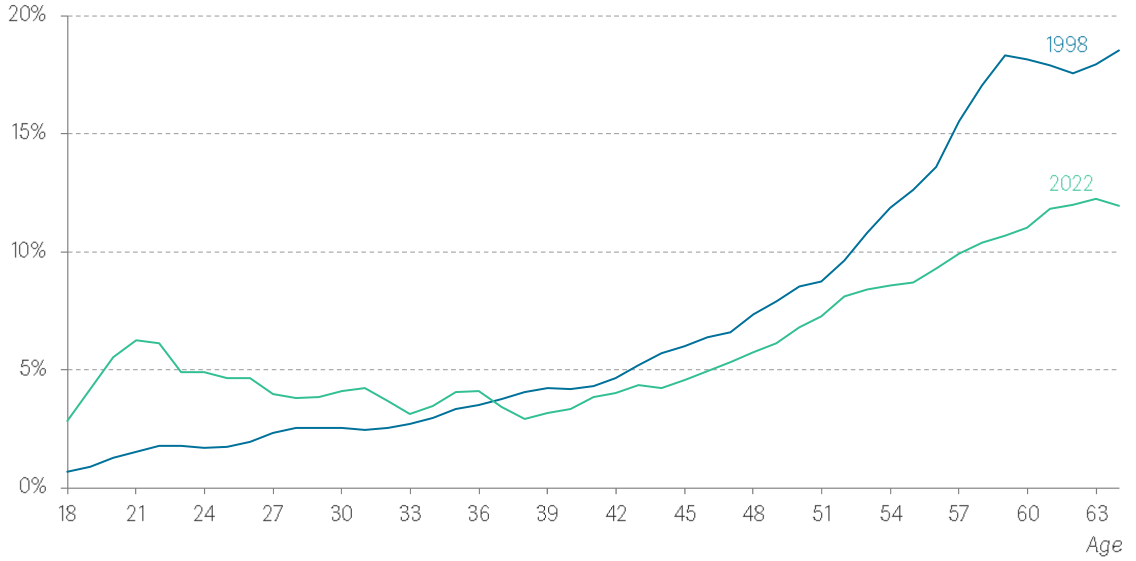
The bad: removing access to the health element of Universal Credit for adults aged under 22

The Government is also consulting on delaying access to the health element of Universal Credit (UC-Health) until people turn 22, meaning that young people aged 16-21 would lose access to this health top-up. In the latest data from March 2025, there were 72,000 young people aged 16-21 receiving the UC-Health top-up (the 'LCWRA' element). For young people like these making claims from next year, their UC income would be reduced by 39 per cent, or £217 per month, if they were no longer eligible for the LCWRA element.

The Government is right to acknowledge that there is a particular problem of rising ill health among young people which is feeding through to adverse educational and employment outcomes. The number of young people aged 18-24 who are economically inactive due to ill health has doubled in the decade between 2013 and 2023, reaching 190,000 people. Those in their early twenties are now more likely to be economically inactive due to ill health than those in their early forties (see Figure 1).

Figure 1 **People in their early twenties are now more likely to be out of work due to ill health than those in their early forties**

Proportion of the working-age population who are economically inactive due to ill health, by single year of age: UK



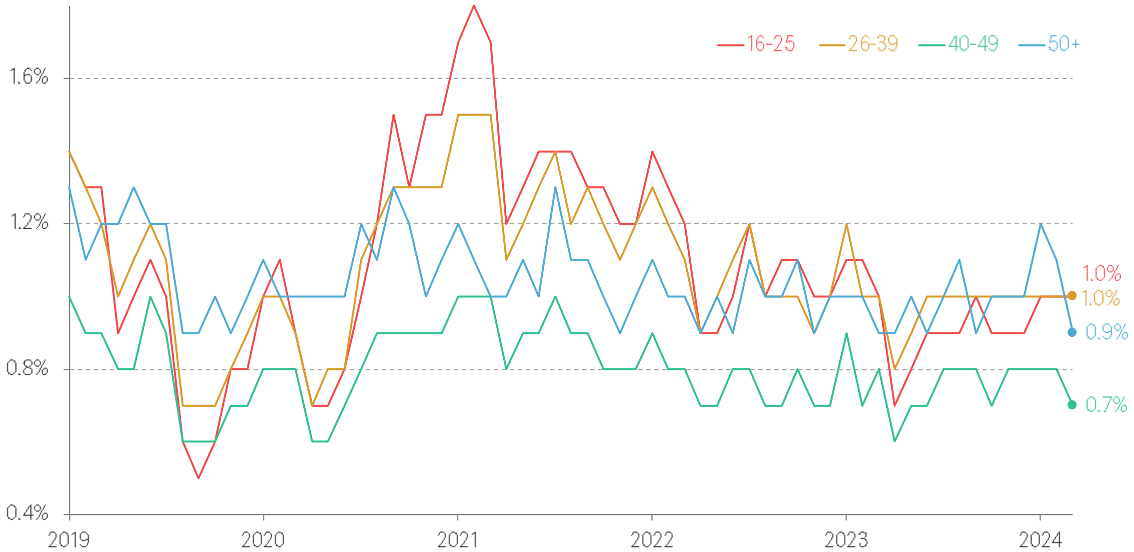
Notes: Data presented as three-year averages of each single year of age
Source: C McCurdy & L Murphy, We've only just begun: Action to improve young people's mental health, education and employment, Resolution Foundation, February 2024.

The Government's proposal attempts to address this legitimate issue, but does so in the wrong way.

First, there are improvements to the UC system that could benefit young people, but removing their entitlement to UC-Health entirely is not the right way forward. Other policies such as the Youth Guarantee should, if properly enacted, reduce the number of young people who are not in work or education, in turn reducing the number who are in receipt of UC-Health. Furthermore, the Government is already legislating to reduce the gap between the basic rate of UC and UC-Health: this will reduce the financial incentive for young people (as well as older people) to be in the UC-Health group. A concerted effort to improve employment outcomes for young people in receipt of UC-Health would focus on enhancing the employment and educational support offered to them (for example, by offering more frequent 'support conversations', or making it easier for young people to undertake training while receiving UC), rather than cutting their benefit entitlement. As Figure 2 shows, the rates at which young people flow off of UC-Health and into employment are woeful: in the most recent data from November 2024, only 1 per cent of 16-25-year-olds in the UC LCWRA group enter employment each month, no higher than among 26-39-year-olds, and barely different to adults aged 50+ (0.9 per cent). The decision to change support, and even conditionality, for under 22s can be made without changing the rate of UC they are eligible for. These young people deserve better support to get good qualifications and find a good job, rather than simply being made poorer.

Figure 2 **Only 1 per cent of young people in the UC LWCRA group move into work each month – barely higher than those aged 50+**

Monthly into-work rates for Universal Credit claimants with Limited capability for work and work-related activity (LCWRA), by age group: UK

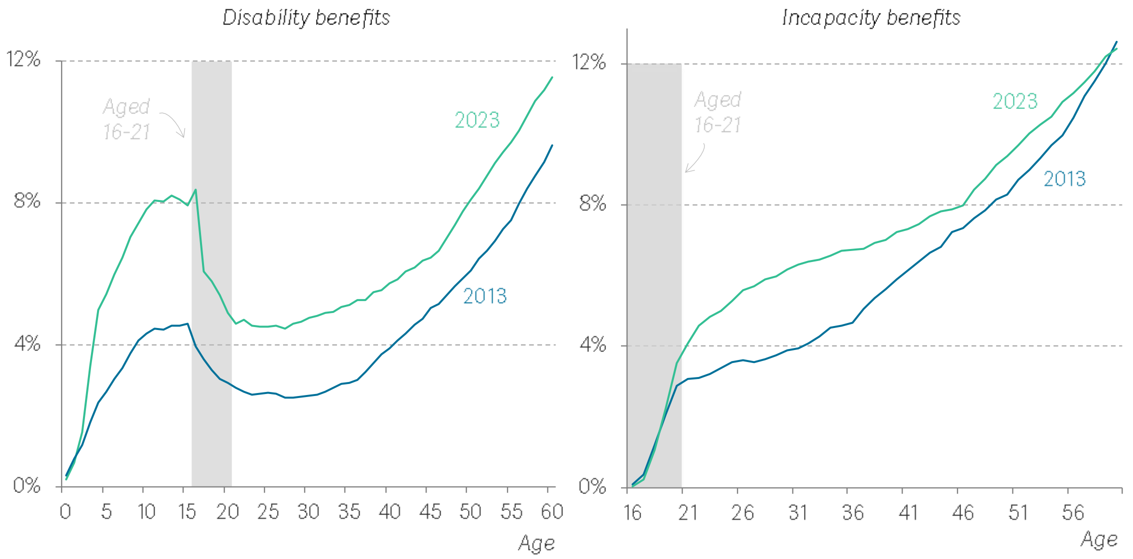


Notes: The into-work rates account for claimants who were not in work in the month immediately preceding the base month but were in work in the base month. The rates are calculated as a sustained measure. This means that only those claimants who enter work in the base month and sustain work for at least two months are included within the scope of these rates as a flow into work in the base month. In addition, these rates also cover those claimants who have already satisfied this criterion in a month earlier than the base month and have remained in work alongside staying on UC-Health. Rates are rounded to 1 decimal place.
Source: RF analysis of Freedom of Information request to DWP, FOI2025/41433, May 2025.

Second, when we look at trends in the benefits system – rather than in the world of work - for young people aged 16-21, it is claims for disability benefits (largely PIP) that have increased, not incapacity benefits like UC-Health. As Figure 3 shows, the proportion of young people aged 16-21 who are in receipt of incapacity benefits is largely unchanged over the last decade (at 2 per cent in both years). On the other hand, there has been a large increase in 16-21-year-olds in receipt of disability benefits: this has risen from 3 per cent of 16-21-year-olds in 2013, to 6 per cent in 2023.

Figure 3 **It is *disability* benefits – not incapacity benefits – where there has been a marked increase in claims among young people aged 16-21**

Proportion of the population who are in receipt of disability benefits (left) and incapacity benefits (right), by single year of age: England and Wales



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

It is this trend – and the related increase in children receiving Disability Living Allowance (which we will refer to as Child DLA) – that deserves more policy attention. Over the last decade, the number of under-16s in receipt of Child DLA in England and Wales has doubled, reaching 682,000 in 2023. This has knock-on impacts on PIP spending: in 2023, more than four-fifths of initial Child DLA-to-PIP reassessments led to a PIP award. It is right that the Government is consulting on changing the age at which children and young people transition onto PIP. Improvement could include aligning the DLA to PIP transition age with the cut-off age used in benefits such as Child Benefit, so that young people make this transition between the ages of 16 and 19 when they leave education or training, rather than at their 16th birthday. Or the Government could adopt a similar approach to that in Scotland, where young people aged 16-18 can choose to stay on Child Disability Payment (equivalent to Child DLA) or apply for Adult Disability Payment (equivalent to PIP).

The messy: putting wide-ranging policy changes to health and disability benefits into practice

The Government is also consulting on how to put its wide-ranging suite of benefit changes into practice. This is likely to become messy.

In particular, the Government plans to scrap the Work Capability Assessment (WCA) which is used to determine eligibility for UC-Health, and replace it with the PIP assessment, with the aim being to "de-couple access to the health element in UC from work status". This does not come as a surprise: it follows on from the last Government's intention to remove the WCA, and builds on the Labour Party manifesto statement that "the Work Capability Assessment is not working and needs to be reformed or replaced".

If this reform happens, then those who qualify for both PIP and UC – that is, those who have a long-term health condition or disability that makes it difficult doing certain day-to-day tasks or getting around, and who are also from a low-income family – will receive the UC-Health element. But those who are *out of work due to ill health,* who may not have a long-term health condition or disability, will no longer receive a health top-up within UC. This is not a small change: in the latest data from November 2024, one-third (33 per cent) of those in receipt of the UC LWCRA element were not also receiving a disability benefit like PIP.[4] In essence, the Government is proposing to transform UC-Health from a work-capacity-related benefit into 'PIP top-up' for people in low-income families (although the Government has said it is "considering" how this change will affect people with certain conditions, such as cancer, or women with high-risk pregnancies).

Scrapping the WCA would have widespread implications for different parts of the social security system. First, without a WCA that puts people into the LCWRA group, the DWP will have to decide how to set work-search expectations for people with health conditions and disabilities. This is far from straightforward: assuming that the Government does not want to apply the same level of conditionality to everyone in the UC-Health group, it will have to move to a more personalised and discretionary system of work-search conditionality. The risk is that this could make people *more* risk-averse when thinking about taking steps towards employment, since they will have little certainty about how entering work or upping their hours will impact their benefit award. Second, it is possible that this change will push *up* on benefit caseloads, if people currently in receipt of PIP find it easier to claim UC-Health than is currently the case. Finally, the Government must grapple with how to implement these changes in an era of increasing devolution of social security policy. While UC is reserved to the UK Government, PIP has been replaced in Scotland with the Scottish Government's Adult Disability Payment. This means that the proposed changes to UC-Health will apply across the UK, while the changes to PIP will not apply in Scotland – this adds another layer of complexity to the Government's plans to use the PIP test as the gateway to receiving UC-Health.

Scrapping the WCA would be a generational change to the health-related benefits system, not just a change to the way that assessments are carried out. The problems it throws up are not ones that can be patched over by making exceptions for a small group of claimants, and it deserves greater attention.

Recent arguments over cuts to PIP and UC-Health remind us that reforming social security needs to be done carefully

Taken together, the policy changes being consulted would represent significant changes to the benefits system. The consultation is welcome, and it is important they get the attention they deserve despite controversies around the cuts to PIP and UC-Health that are already being enacted. The introduction of unemployment insurance is a good step which could boost growth as well as provide enhanced support to workers. The policy rationale for removing UC-Health from under 22s is not clear, since 18-21-year-olds are no more likely to claim incapacity benefits than they were a decade ago, and the impact on those young people's living standards could be severe. If the Government has learnt anything from the last few weeks, let's hope it is that welfare reform needs to be well explained and targeted appropriately on the underlying issues. Scrapping UC-Health for young people fails both those tests.[5]

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[1] We do not cover the part of the consultation about supporting employers and reforming Access to Work, but forthcoming Resolution Foundation work – to be published this summer – will cover these topics.
[2] Of course, other design parameters, such as eligibility criteria and conditionality, are important too. These are explored in detail in: M Brewer & L Murphy, From safety net to springboard: Designing an unemployment insurance scheme to protect living standards and boost economic dynamism, Resolution Foundation, September 2023.
[3] For a summary of the academic literature on unemployment insurance schemes, including this 'moral hazard' issue, see Box 2 in: M Brewer & L Murphy, From safety net to springboard: Designing an unemployment insurance scheme to protect living standards and boost economic dynamism, Resolution Foundation, September 2023.
[4] RF analysis of DWP, Stat-xplore.
[5] Data citation: Office for National Statistics. (2024). Labour Force Survey. [data series]. 11th Release. UK Data Service. SN: 2000026, DOI: http://doi.org/10.5255/UKDA-Series-2000026.