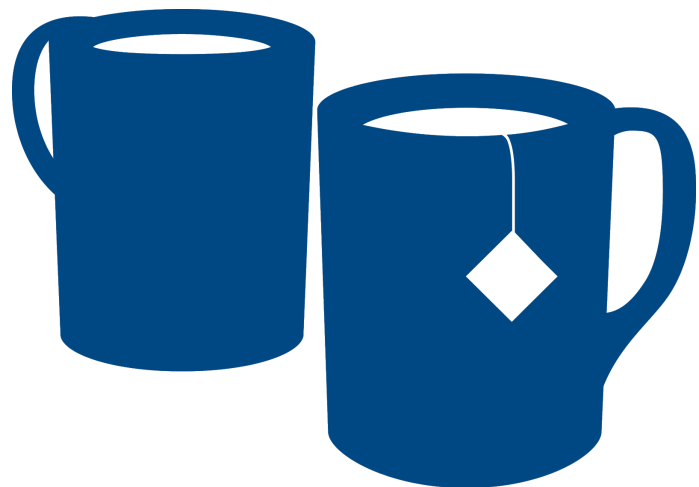


Universal Credit for single disabled people

What Universal Credit means for
single people who are disabled
or have health conditions



**citizens
advice**

Afzal Rahman

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Summary

Supporting disabled people and those with health conditions has to be at the core of any welfare benefit system. The introduction of Universal Credit is one of the biggest changes to disability benefits in recent decades, bringing six means-tested benefits into one. 58% of households with a disabled adult will receive UC once it is fully rolled out.¹ Disability benefits are our most common advice issue at Citizens Advice and 2 in 5 of the people we help are disabled or have a long-term health condition. As we see more disabled people and those with health conditions moving onto UC, it is crucial that the benefit provides appropriate and adequate support.

The government believes in a benefit system which “supports those who can work and cares for those who cannot”.² UC aims to improve work incentives and smooth the transition into employment. The government wants to see a million more disabled people in work by 2027.³ Alongside this, UC has a financial element to support those who may not be able to work.

We identify two areas where UC offers significant improvements for some single disabled people and those with health conditions:

1. Universal Credit smooths the journey into work by removing the transitions between benefits and removing cliff edges at 16 hours.

The previous system requires people to switch between different benefits when circumstances change - most notably if they move into work. UC removes this friction, ensuring people do not face cliff edges which leave them worse off in work.

2. Universal Credit increases awards for some who are unable to work

Universal Credit increases financial support for some of those who are least able to work, by boosting the Support / Limited Capability for Work and Work Related Activity (LCWRA) component. This is welcome as these disabled people often have no other means to increase their income. It is worth noting, however, that some will still receive lower overall awards because of the removal of disability premiums.

¹ Citizens Advice analysis, based on Family Resources Survey (FRS) 2014-15.

² Work and Pensions Secretary, [House of Commons](#), 23 November 2017,

³ DWP, [Improving lives: the future of work, health and disability](#), 2017

The report also identifies four principles that existed in the legacy system that the government should consider fully integrating into Universal Credit:

1. Working people should receive additional in-work financial support if they are disabled or have a health condition.

Additional in-work financial support recognises that disabled people and those with health conditions are likely to work fewer hours overall and can be more limited in their choices in the labour market. These needs are not covered by other support provision such as through Access to Work which helps fund adjustments and practical support.

While Universal Credit does provide targeted in-work financial support for disabled people through the Work Allowance, many will struggle to get the Work Allowance because it is not available to disabled people who are assessed as fit for work.⁴ Working disabled people who do not get the Work Allowance can be over **£300 a month** worse off on UC compared to somebody getting the Disabled Worker Element that existed in Tax Credits.

This could be overcome by **making Personal Independence Payment (PIP) and other qualifying benefit criteria give access to Work Allowances in UC**. PIP supports disabled people and those with health conditions whether or not they are in work. It already acts as a passport to the Disabled Worker Element in Tax Credits. People could also be given access to the Work Allowance if they have previously claimed an LCW or LCWRA element in the same way Tax Credits looks at prior ESA claims⁵.

It is also important to consider the level at which in-work support is set for single disabled people in UC. Even if they get the Work Allowance, working disabled people without children can be **over £200 a month worse off** on UC than on Tax Credits and legacy benefits. This has been a problem since UC was first introduced but cuts and freezes to the Work Allowance mean UC now provides even less support than originally intended. No matter how many more hours some disabled people work in UC they will struggle to achieve the level of income they would have got working under the legacy system.

⁴ Unless they have children. In this case they get a Work Allowance to reflect their needs as a parent but no additional support related to their disability or health condition.

⁵ The disability elements of Tax Credits can be passported from PIP and other qualifying benefit conditions such as prior receipt of ESA or Statutory Sick Pay. HMRC, [How to qualify for disability elements of Tax Credits](#), 2018

2. People with Limited Capability for Work should be able to trial part-time work without facing a significant penalty in their benefit award.

Universal Credit smooths the journey into work by removing the transitions between benefits and removing cliff edges at 16 hours. However, it also reduces the support available to disabled people who are attempting smaller amounts of work.

The amount of money someone can earn each month with no penalty has been significantly weakened from the Legacy System - to the equivalent of £46 per week⁶ - or around **6 hours a week** at the National Living Wage (NLW).

Permitted Work rules in Employment Support Allowance (ESA) allow disabled people to earn up to £125.50 per week without facing any reductions in benefit. In practice, this means somebody earning NLW can work up to **16 hours a week** without being affected. In practice, this change means somebody working 12 hours a week at the National Living Wage can be over £100 a month worse off on UC than they would be on legacy benefits.

Work Allowances and Permitted Work provide reassurance that people can trial small amounts of work and keep the full value of their earnings. They could play a critical role in helping the government achieves its objective to have a million more disabled people in work by 2027.

3. People with Limited Capability for Work (LCW) should get employment support which helps them move towards work and financial support which recognises how long they are likely to be out of work.

The government has removed the Limited Capability for Work (LCW) element, worth just over £29 a week. This element recognised that people with Limited Capability for Work will typically spend longer out of work than somebody who is unemployed and fit for work. The LCW element also helped boost in-work support because it also increases UC amounts for disabled people trying out work. The removal of the LCW element has been accompanied by investment in a Personal Support Package which provides additional practical support for claimants with Limited Capability for Work.⁷

⁶ This calculation assumes they have housing costs met by Universal Credit. The Work Allowance is set at £192 per month.

⁷ Minister for Employment, [Written Answer](#), February 2016

This is not strictly a change brought about through UC. It also applies to those currently making new legacy claims. It does, however, need to be considered for its impact on UC claimants into the future. The changes should be evaluated robustly and reviewed against their intended aims for work outcomes, and for whether they provide appropriate care for those who cannot work.

4. There should be targeted financial support available for disabled people who live alone without an adult carer.

Universal Credit removes the Severe Disability Premium (SDP) which went to disabled people who live alone without an adult carer. This puts people without a carer at a disadvantage despite the unique costs they may face. While the government has taken welcome steps to improve financial security for many existing claimants of legacy benefits, it should now look to establish support for new claimants in similar circumstances. Under current plans, people will not benefit from the announced protections if they have a change of circumstances which leads to them newly becoming disabled without an adult carer.

There have been a number of expansions and reductions to disability components and premiums that existed in the legacy system. However, the net impact for somebody who would qualify for the SDP and LCWRA element is that they can be over **£180 a month** worse off than they would have been in the legacy system. Many people in this position will be unable to make up the reduced income through work.

A Self-Care element could be introduced to UC of at least **£156.45 a month** - the same value as the Carers element. This would go to those who live alone and who satisfy the criteria for the Severe Disability Premium, helping them cover additional costs such as paying somebody to help with household tasks such as cleaning. Although this is currently lower than the SDP it would ensure severely disabled people who live alone are treated at least comparably to those who have a carer.

Background

The welfare system is going through one of its biggest set of changes since it was introduced. The government is rolling out Universal Credit (UC) which replaces six means-tested benefits. It is crucial that the new system is able to meet the challenges of supporting disabled people and those with health conditions in a range of circumstances. 58% of households with a disabled adult will receive UC once it is fully rolled out.

There are number of things to consider when designing a benefit system, especially one that successfully caters for the diverse needs of disabled people and those with health conditions. Decisions have to be made about the level of financial support for those who cannot work, how work is incentivised, and how disabled people can be supported with extra costs. The government's key aims are to create a welfare system which supports those who are able to work and provides secure financial support for those who cannot work. It has committed to making work pay and to supporting one million more disabled people into employment by 2027. A number of reforms have also been introduced which seek to ensure the benefits system focuses on those with the greatest needs.

The legacy benefit system developed over several decades to meet some of these challenges. It has evolved through practical application and case law, and has seen significant political reforms throughout this time. Legacy benefits and Tax Credits all support people in diverse circumstances and have rules which provide additional support to disabled people based on their particular needs. The legacy system, however, also has a number of flaws. It is complicated and requires people to switch between different benefits when circumstances change - most notably if they move into work. The system can have very high overall effective taper rates and sometimes people are worse off if they increase how much they work.

The introduction of UC was intended to address some of these problems. Reform at this scale is always challenging and, as the new system rolls out, it is crucial that we understand and monitor what the changes mean. This report explores how the design of the new system compares to the legacy system for single disabled people in different circumstances. It sets out to understand how the design of UC helps achieve the government's aims for disabled people, and where it may hinder them.

The government should look to make the most of the advantages of UC, particularly the simpler and smoother journeys into work. Where established

areas of support are not yet integrated into UC, the government should make improvements to UC or provide policy reasons for weakening this support for disabled people.

Our modelling finds significant reductions in support for some groups of single disabled people. Those moving from legacy benefits to UC will receive transitional protection if they transfer through managed migration, but will not get this protection if they migrate due to a change in circumstances. This means that everybody currently moving over from the legacy system is doing so without transitional protection. The government recently recognised this is causing problems for one particular group which gets substantially less support in UC - those who get the Severe Disability Premium. It has, therefore, stopped moving them onto UC until they qualify for transitional protection. This is a welcome move and the government should extend this approach to all disabled people who face losses moving onto UC.

Research method

This report explores how the design of Universal Credit compares to the legacy system for single disabled people without children. We worked with advisors and stakeholders to roughly categorise single disabled people based on their needs. We then modelled benefit awards and total incomes for some illustrative examples of people in these different groups. We did this for both the legacy system and UC.

Using this method, we have been able to identify where support has improved for single disabled people without children and where the new system has weakened support or may produce unintended negative consequences. We have corroborated these findings through workshops with disability organisations, our advisers and qualitative insights from cases submitted by our national network of local Citizens Advice offices.

Our analysis builds on our previous work on UC and disability which covers some of the impacts on single disabled people as well as children, lone parents and pensioners⁸. To understand the full impact of UC for disabled claimants further analysis is needed covering the various groups affected.

Which benefits are included in this analysis?

This analysis compares the legacy benefit system to UC for working age people who are disabled or have a health condition. We look at UC and the six benefits it replaces. We also factor Personal Independence Payment (PIP) into our calculations. For the purposes of this analysis, we do not look at other benefits such as Council Tax Reduction and we do not address the move from DLA to PIP. It is worth noting that both of these changes can lead to additional losses for disabled people.

Universal Credit combines housing support, in-work income top ups and out-of-work income replacement. It aims to simplify the benefits system, make transitions into work easier, and make every hour of work pay. It replaces six means-tested legacy benefits which currently provide support to people in and out of work: income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Housing Benefit, Income Support, Child Tax Credit and Working Tax Credit.

⁸ Citizens Advice, The Children's Society, Disability Rights UK, [Disability and Universal Credit](#), 2012; Citizens Advice, [Rebalancing universal credit: Making it work for disabled people](#), 2014

Personal Independence Payment (PIP) helps towards extra costs faced by disabled people and those with health conditions. As PIP deals with extra costs the benefit is not means tested against income. PIP is available to people in and out of work. PIP replaces Disability Living Allowance for people of working age. It was introduced to 'deliver a more sustainable benefit and ensure support continues to be focused on those who face the greatest challenges to taking part in everyday life'⁹.

Grouping claimants by needs

We worked with Citizens Advice advisers and other disability charities to identify broad groups of disabled people and those with health conditions. We identified four key groups that the benefit system needs to support, based on their ability to work:

1. Can work although this work may be limited or require adjustments or support
2. Cannot work but can prepare for work and could work in the future
3. Cannot always work due to a fluctuating condition
4. Cannot work or prepare for work

We then looked at how UC works for each of these groups.

Benefit and income calculations

The analysis in this report is based on modelling of the legacy system and UC. We ran benefit and income calculations for a single childless person in each of the groups above. We assumed they earned the National Living Wage and pay rent of £100pw. We compared the support people would have received under the legacy system to the support they will get under UC. We used this analysis to isolate the most significant changes for each of these groups. To enable us to do this modelling we made the following assumptions:

- 2018/19 benefit rates are used throughout.
- Claimants are assumed to be of working age and older than 25.
- Hourly wages are assumed to be the National Living Wage for over 25s at £7.83 unless otherwise stated. Working claimants are assumed to be employees.
- Housing is assumed to be social rent costing £100pw.
- Claimants are assumed to live alone without carers or dependents.

⁹DWP, [PIP policy briefing note](#), 2011

This report looks at outcomes if the system is administered and delivered as designed. Although we focus on policy design in this report, we want to stress the importance of delivery too. For the people we help effective delivery is just as important as good policy.

The report compares UC as it works in 2018/19 to legacy benefits as they are in 2018/19. This means it doesn't measure the impact of multiple reforms to the legacy system taken since 2010, and to UC since it was first designed. These changes have already diminished support for disabled people. We do, however, discuss the recent cut to the Limited Capability for Work element, which affects both UC and legacy benefits.

1. Disabled workers and those working with health conditions

Universal Credit is designed to incentivise work for those that can work. The benefit will need to play a key role in helping the government achieve its aim of supporting a million more disabled people into work. To this end, UC removes some of the harshest taper rates and smooths cliff edges that existed for some disabled people in the legacy system. A Work Allowance is also included to boost work incentives and in-work support for workers who are disabled or have a health condition. This allows disabled people to keep more of their earnings when they are working.

However, as it is currently designed, the Work Allowance is not available to all disabled workers and provides less in-work support for disabled people than available under Tax Credits. Our analysis shows that working disabled people without children are likely to struggle to get additional in-work support through the Work Allowance. This can leave them over **£300 a month** worse off on UC compared to somebody getting the Disabled Worker Element that existed in Tax Credits.

The Work Allowance for disabled workers can only be accessed through a Work Capability Assessment (WCA). It is not passported from PIP or other qualifying benefit conditions¹⁰. The WCA is not designed to assess eligibility for in-work support. It gives awards to people who are unable to work because they are disabled or have a health condition. This creates the situation where a disabled worker needs to be assessed as not fit for work in order to receive the in-work support meant for them.

If they are able to access the Work Allowance, they can still be over **£200 a month** worse off due to reductions in the level of in-work support it provides in comparison to Tax Credits. The Disabled Worker Element in Tax Credits is worth £3,090 per year and goes to disabled people working more than 16 hours per week¹¹. In-work support for disabled people is significantly weaker in UC. A Work Allowance of £198 per month can only provide just under £1,500 a year of additional in-work support when a 63p taper is in place. As a result many

¹⁰ The disability elements of Tax Credits can be passported from PIP and other qualifying benefit conditions such as prior receipt of ESA or sick pay. HMRC, [How to qualify for disability elements of Tax Credits](#), 2018.

¹¹ There is also a Severe Disability Element in Tax Credits worth an additional £1330 per year for those who get the Enhanced Daily Living Component of PIP and work 16 hours or more. Losses are even greater for single disabled people who would have qualified for this.

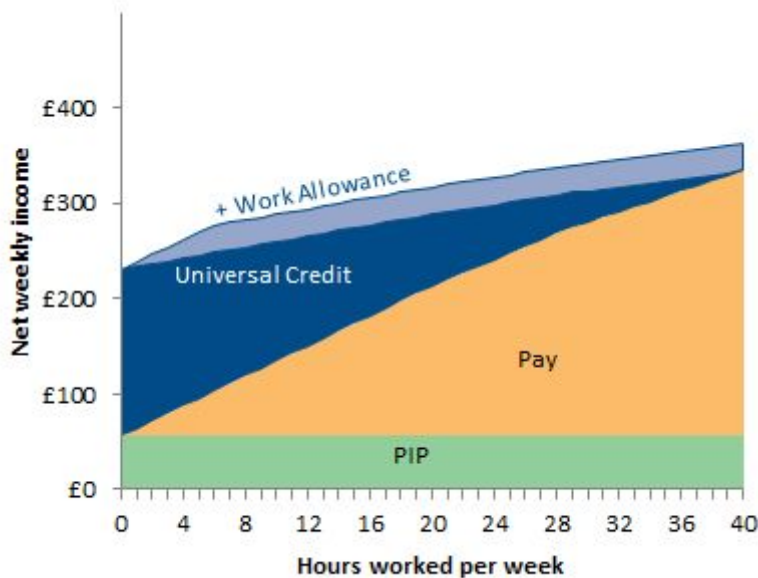
working disabled people will not be able to reach the income they would have received in the legacy system. No matter how many hours they work under UC they are likely to be worse off compared to the legacy system.

The Work Allowance

The Work Allowance in UC is currently targeted at those who face greater barriers and costs to working. It is available to those who are deemed to have limited capability for work because they are disabled or have a health condition. It also goes to those who have children. As UC brings together out-of-work and in-work benefits, this Work Allowance can boost work incentives in two key ways. It provides work incentives for those on low earnings by allowing them to keep more of what they earn. It also gives people a higher level of in-work financial support by pushing up the value of their overall UC award.

The chart below shows how the Work Allowance boosts work incentives and financial support for working people. It shows the weekly income for a single person against how many hours they work.

Figure A - The Work Allowance for a single disabled person increases the financial support available to them from Universal Credit¹²



Those who get UC but no Work Allowance have their UC payments reduced as soon as they start earning. Every pound they earn leads to a 63p reduction in their benefit. In contrast, somebody who gets the Work Allowance keeps all of

¹² Single person, paid NLW (£7.83ph), UC inc. rent of £100pw, no LCW or LCWRA, PIP awarded at Standard Daily Living rate

their UC until they reach earnings of £198pcm¹³ - equivalent to £46pw. Beyond that they are subject to the same 63p taper. Disabled people with the Work Allowance see higher returns to entering work and increasing their earnings and they receive more support when in work.

The Work Allowances in UC have been subject to freezes and reductions since they were introduced. For those with housing costs who have limited capability for work, Work Allowances were frozen between April 2014 and April 2018. Cuts announced in the 2015 Summer Budget¹⁴ mean that those without housing costs but with limited capability for work have seen Work Allowances reduced from £647 a month to £409 a month now.

Access to the Work Allowance in Universal Credit

The Work Allowance is currently not reaching all the working disabled people it could help. At present, it is only awarded to those who are deemed to have limited capability for work. This means access is linked to the Work Capability Assessment only and there is no passport from PIP or other qualifying benefit conditions¹⁵. Many working disabled people will struggle to access the Work Allowance because they need to take a Work Capability Assessment and - despite being in work - be assessed as 'not fit for work'. In reality, being in work makes it unlikely that they will even be referred for a Work Capability Assessment. Those who do not get the Work Allowance can be over **£300 a month** worse off on UC compared to somebody getting the Disabled Worker Element that existed in Tax Credits.

In Tax Credits disabled workers could qualify for additional in-work support if they got PIP or had prior ESA or sick pay claims in place for specified lengths of time. For example, somebody can qualify for a disability element in Tax Credits if they received ESA or Statutory Sick Pay for at least one of the 182 days before they claimed a disability element and entitlement had existed for a period of 28 weeks immediately preceding that day. UC oversimplifies here and means you can only get in-work support for disability if you currently have Limited Capability for Work.

Adding a passport to the Work Allowance from PIP and applying other qualifying benefit conditions would help remedy this problem. PIP can be awarded to people who are in or out of work. In the legacy system it is already used as a

¹³ This assumes they have housing costs met by Universal Credit.

¹⁴ House of Commons Library, [Universal Credit changes from April 2016](#), 2016

¹⁵ The disability elements of Tax Credits can be passported from PIP and other qualifying benefit conditions such as prior receipt of ESA or Statutory Sick Pay. HMRC, [How to qualify for disability elements of Tax Credits](#), 2018

passport to the Disabled Worker Element in Tax Credits. People could also be given access to the Work Allowance if they have previously claimed an LCW or LCWRA element in the same way Tax Credits looks at prior ESA claims¹⁶. This change would help ensure the Work Allowance reaches more of the people it is intended to help. This would help strengthen work incentives in UC for disabled people and contribute to the government's aims of supporting a million more disabled people into work.

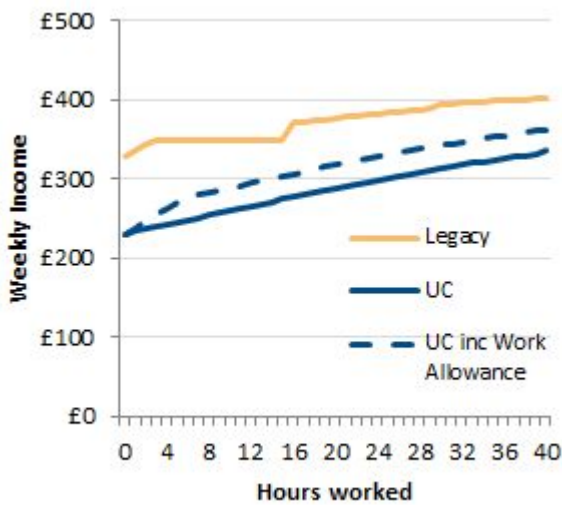
Case Study: Struggling to access the Work Allowance

Sophie works 12 hours a week in a supermarket. She has found that working more hours than this has a negative impact on her mental health condition.

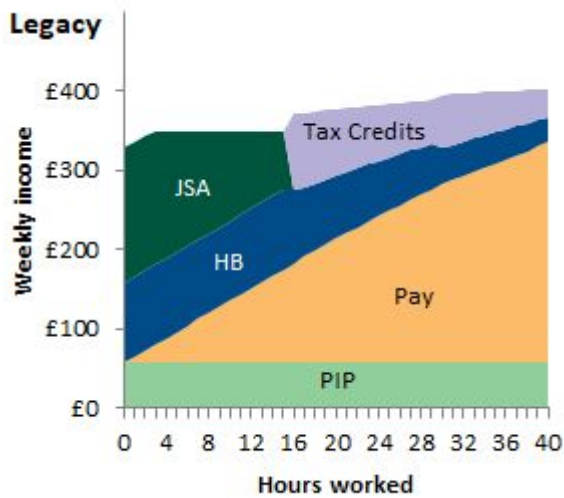
She would be entitled to extra support through a Work Allowance if she could have a Work Capability Assessment and satisfy the descriptors for Limited Capability for Work. She has not been able to get a referral to a Work Capability Assessment as she has been working. Her Work Coach has advised her she does not need to provide any fit notes. She is trying hard to work these 12 hours but in doing so she is reducing her chances of getting extra support to reflect her condition.

¹⁶ HMRC, [How to qualify for disability elements of Tax Credits](#), 2018

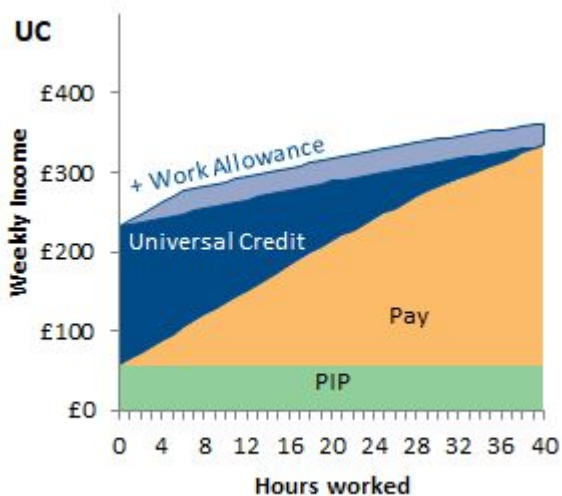
Figure B: Disabled workers are over £200 a month worse off



Disabled workers get less in-work support from UC than they would have been entitled to under Tax Credits in the legacy system. Figure B compares the income for a single disabled worker in the legacy and new systems. It assumes they earn the National Living Wage (NLW) of £7.83ph and have housing costs of £100 a week. In legacy benefits they qualify for a Severe Disability Premium. We show their weekly net income against how many hours they work per week.



Assuming they get the Work Allowance, our modelling shows that a single disabled worker on UC will be £64 a week worse off if they work 16 hours at NLW, and £52 a week worse off if they work 30 hours. These are reductions in net income of more than **£200 a month** compared to legacy benefits.



Looking more closely at the legacy system, we can see that a disabled worker is entitled to claim Tax Credits if they work more than 16 hours a week. This gateway is lowered from the usual 30 hours for those who are not disabled and don't have children. Within their Tax Credits they are entitled to a **Disabled Worker Element** worth £59pw or £3090pa. 121,000 families got the Disabled Worker Element in 2016/17¹⁷.

Tax Credits use this lowered hours

*The Work Allowance is not available to somebody with no Limited Capability to Work

¹⁷ HM Revenue and Customs, [Child and Working Tax Credit Statistics](#), June 2018

threshold and the DWE to ensure disabled people have strengthened work incentives and are supported financially if they are in work. They recognise that disabled people are likely to work fewer hours overall and face barriers related to the types of work they can do.

Looking now at UC, the Disabled Worker Element is not replicated directly but the Work Allowance is used for some of the same purposes. It is targeted at disabled people and aims to boost work incentives. However, many working people will struggle to access the Work Allowance as they do not satisfy the descriptors for Limited Capability for Work. The Work Allowance also provides a much lower level of support than the Disabled Worker Element in Tax Credits. No matter how much some single disabled people without children work on UC they will not be able to achieve the net income they got from the legacy system.

Conclusions

The support provided for disabled workers through Tax Credits recognised the additional costs of working if you are disabled or have a health condition. It also recognised that some people may not be able to increase their hours of work. While this recognition continues through the Work Allowance in UC, the support it provides is harder to access and reduced in scale. As a result many working disabled people will be around £200 a month worse off.

A targeted method of improving in-work support for disabled workers in UC would be to increase the Work Allowance and make sure it is passported from PIP.

2. People who may be able to work if condition improves

Some people are not working at the moment but may be able to work if their condition improves. People in these circumstances need a secure income to cover basic costs so they can focus on their wellbeing and making progress towards work. They also need to be supported by strong work incentives so that they are better off if they do try some work. Some will need to build their confidence after being out of work for a long time. It is critical that this group is supported if the government is to achieve its goal of getting one million more disabled people in work by 2027.

Universal Credit smooths the transition into full-time work for this group so there are no cliff edges, as there can be when people leave out-of-work benefits in the legacy system. However, financial support is reduced in two key ways for disabled people preparing for work.

Firstly, work incentives are weaker if you are doing small amounts of work. In ESA, Permitted Work allows people to earn up to £125.50 a week without any reductions in the benefit. In UC, the Work Allowance acts in a similar way but only disregards the equivalent of around £46 of earnings per week. This weakening of work incentives contrasts with the government's intentions laid out in its UC guidance¹⁸: "Universal Credit has been designed to encourage people who are not working, and especially those with health conditions or disabilities, to take their first steps into employment by increasing the incentives to do even just a few hours of work."

Secondly, out-of-work financial support is being reduced for this group. This is because the Limited Capability for Work (LCW) element and disability premiums are not available to new UC claimants. The LCW element provided financial support worth £29.05pw in UC and in Employment Support Allowance (ESA)¹⁹. It supported those with limited capability for work as they are likely to be out of work for longer periods. It has now been removed for new claimants to both benefits. Disability premiums provided additional support beyond this depending on circumstances.

¹⁸ DWP, [Guidance: Universal Credit if you have a health condition or disability](#), 29 November 2017

¹⁹ In ESA it was known as the Work Related Activity Group (WRAG) component.

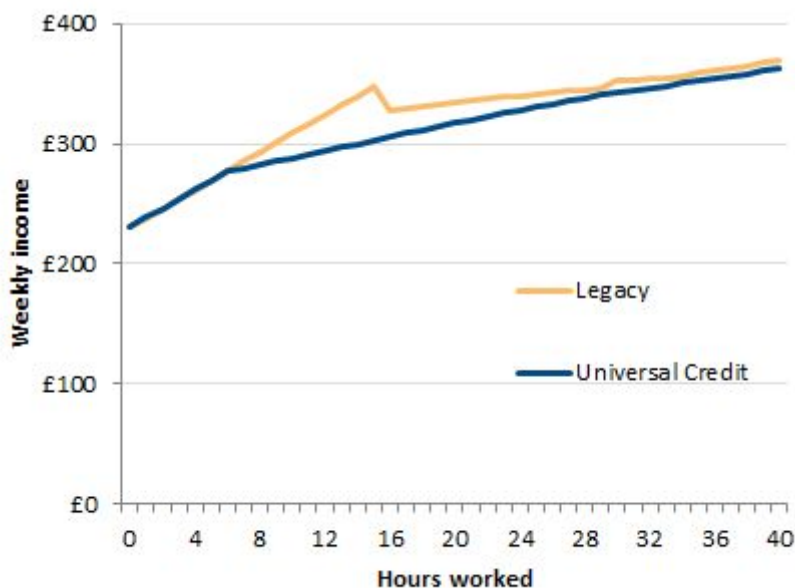
Progressing into work

Some people who are currently unable to work may be able to progress into work in the future. The government wants to support people to do this in order to achieve its goals on the disability employment gap.

One of the significant flaws in the legacy benefit system was that disabled people could end up worse off if they moved beyond 16 hours of work. At this point people lose entitlement to out-of-work benefits and could face a significant cliff edge.

Universal Credit makes improvements here. It removes the transition between benefits and has a single taper which removes cliff edges. Figure C gives an example of a situation in which somebody in the Legacy system receiving ESA would be worse off if they moved beyond 16 hours of work. The journey through increased hours of work is a smoother one in UC.

Figure C: Universal Credit removes cliff edges which meant disabled people could end up worse off in work²⁰



²⁰ Weekly income includes: pay at £7.83ph, PIP standard daily living at £57.30pw, Housing costs of £100pw, Assessed as LCW/WRAG but with £0 element, Receives Work Allowance in UC. Does not get Enhanced Disability Premium or Severe Disability Premium in legacy benefits.

Incentivising small amounts of work

Universal Credit aims to improve work incentives, particularly for those taking their first steps into work. People in this situation may only be able to trial some part-time work at first. In the example above, however, a disabled person who can do up to 16 hours a week of work has weaker work incentives in UC. This is because Permitted Work rules in ESA disregard more income than the Work Allowance in UC.

ESA has Permitted Work rules which allow disabled people to work up to **16 hours a week** and earn up to £125.50pw without facing any reductions in the benefit or any of the disability premiums attached to it. These rules provide reassurance that people can attempt small amounts of work and keep the full value of their earnings.

Like Permitted Work, Work Allowances in UC disregard some earnings in order to incentivise work. For disabled people with housing costs the Work Allowance is £198 a month, equivalent to **just 6 hours a week** for somebody earning NLW. Somebody trialling 10 hours a week of work would be over £100 a month worse off as a result of this.

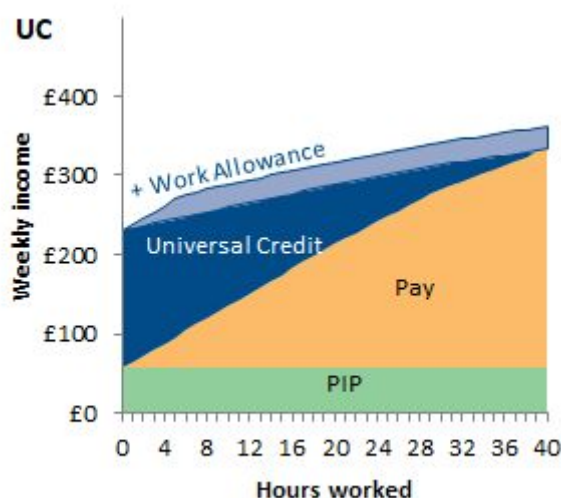
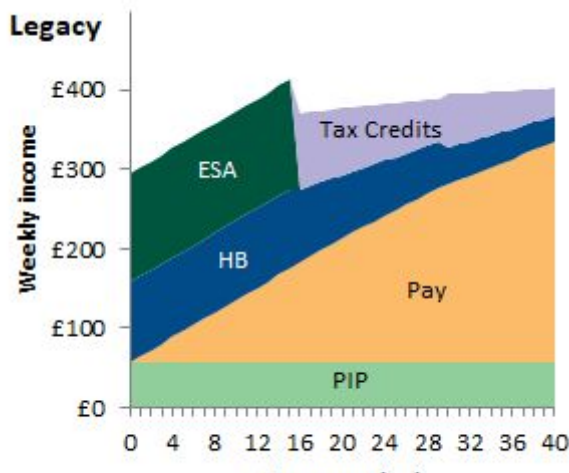
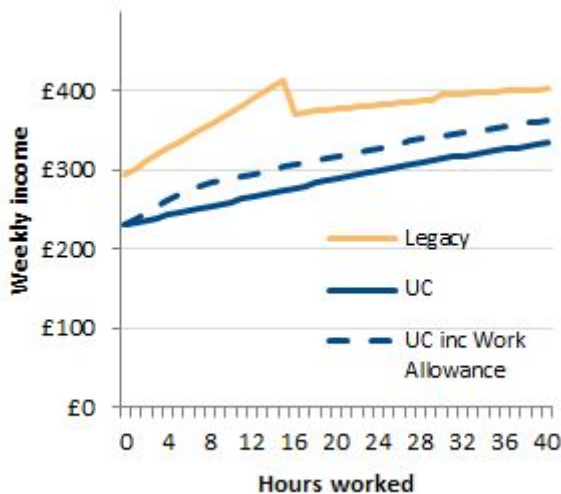
In Figure C, we can see that work is more strongly incentivised beyond 6 hours for those with LCW who are claiming legacy benefits. This means that UC weakens work incentives for disabled people preparing for work and looking to try some part-time work.

Case Study: Loss of Permitted Work

Richard has paranoid schizophrenia and finds that working a low number of hours each week is good for him. He has been doing some Permitted Work as part of an ESA claim but would struggle to work more than he currently does.

He has recently moved house and needs to claim UC to help him with his housing costs. When he is on UC he will receive less support because the Work Allowance provides less support than Permitted Work rules. He is worried that a drop in income will cause him hardship and make it difficult for him to see his children.

Figure D: Work incentives are weakened for those with Limited Capability for Work who may want to trial small amounts of part-time work



These charts compare weekly net income in the legacy system and in the new system for somebody with Limited Capability for Work (LCW). UC makes improvements to the journey progressing beyond 16 hours of work. The design of the benefit means a cliff edge is removed at the transition between ESA and Tax Credits. This ensures, unlike the legacy system, that every additional hour of work leads to an increase in income.

However, work incentives are weakened significantly for those with Limited Capability for Work who are able to trial small amounts of part-time work. In the legacy system, as this person's hours are increased to 16 per week, their ESA and Housing Benefit awards are kept at the same level. This means their net income increases at the same rate as their pay - an effective tax rate of 0% while they trial some work. This strongly incentivises work for those furthest from the labour market. They can keep every pound that they earn up to 16 hours or £125.50pw.

The same person receiving UC keeps every pound they earn up to the equivalent of only £46pw. This means somebody on NLW only has their income for their first 6 hours a week of work disregarded. Beyond this, they

experience a 63% marginal effective tax rate as their UC is tapered away. This leaves them worse off than a disabled person trying out up to 16 hours of work under the legacy system.

Out-of-work financial support

Limited Capability for Work element / Work-related activity component

People who claim ESA are assessed to determine whether they have limited capability for work and whether they are able to prepare for work. If they can do some preparation for work they are assigned to the Work-Related Activity Group (WRAG). Until April 2017, claimants in this group used to receive a WRAG component worth £29.05pw in ESA. Similarly, if they claimed UC they would have got the Limited Capability for Work (LCW) element, also worth £29.05pw. Since April 2017, new claimants are no longer entitled to these elements. This reduces the level of financial support for this group to the same level as a non-disabled jobseeker.

The removal of the LCW element is designed to “remove the financial incentives that could otherwise discourage claimants from taking steps back to work.”²¹ However, it means substantially reduced financial support for disabled people who are looking to make a return to work in the future. If people are struggling to meet their costs it will make it more difficult for them to focus on preparing for work. The LCW element / WRAG component recognised that people with limited capability for work will typically be out of work for longer than a non-disabled jobseeker. 88% of ESA-WRAG claimants²² have been on the benefit for more than a year, compared to 40% of JSA claimants.²³ This group with Limited Capability for Work are now at risk of facing extended periods of time on very low incomes.

These changes have been accompanied by investment in a Personal Support Package which provides additional practical support for claimants with limited capability for work.²⁴ This is currently being rolled out and is subject to testing and evaluation. The removal of the LCW element / WRAG component and introduction of the Personal Support Package should be evaluated robustly and reviewed against their intended aims for work outcomes and whether people are provided with enough income to live on.

²¹ House of Commons Library, [Abolition of ESA Work-Related Activity Component](#), March 2017

²² DWP, Stat-Xplore, Q1 2018

²³ DWP, NOMIS, August 2018

²⁴ Minister for Employment, [Written Answer](#), February 2016

Disability premiums

Support is reduced further for those who would be entitled to Disability Premiums in legacy benefits. Disability Premiums can be awarded on top of Jobseeker’s Allowance, Income Support or Employment Support Allowance when people meet certain eligibility requirements. They are also used to increase Housing Benefit awards. UC, however, does not replicate this provision. This means in some cases people will be substantially worse off than they would have been in the legacy system.

The government has recognised that this can result in significant losses for some disabled people moving onto UC and has announced protections for some of those affected. However, while these welcome measures will protect those moving over from legacy benefits, it will not protect people making a new UC claim. We discuss disability premiums in more depth in Chapter 4, looking in particular at the Severe Disability Premium.

The illustration below shows how the combination of loss of the LCW/WRAG element and Disability Premiums has more than halved the amount of financial support available for some new claimants.

Figure E: The removal of the LCW / WRAG element and disability premiums can lead to large reductions in financial support

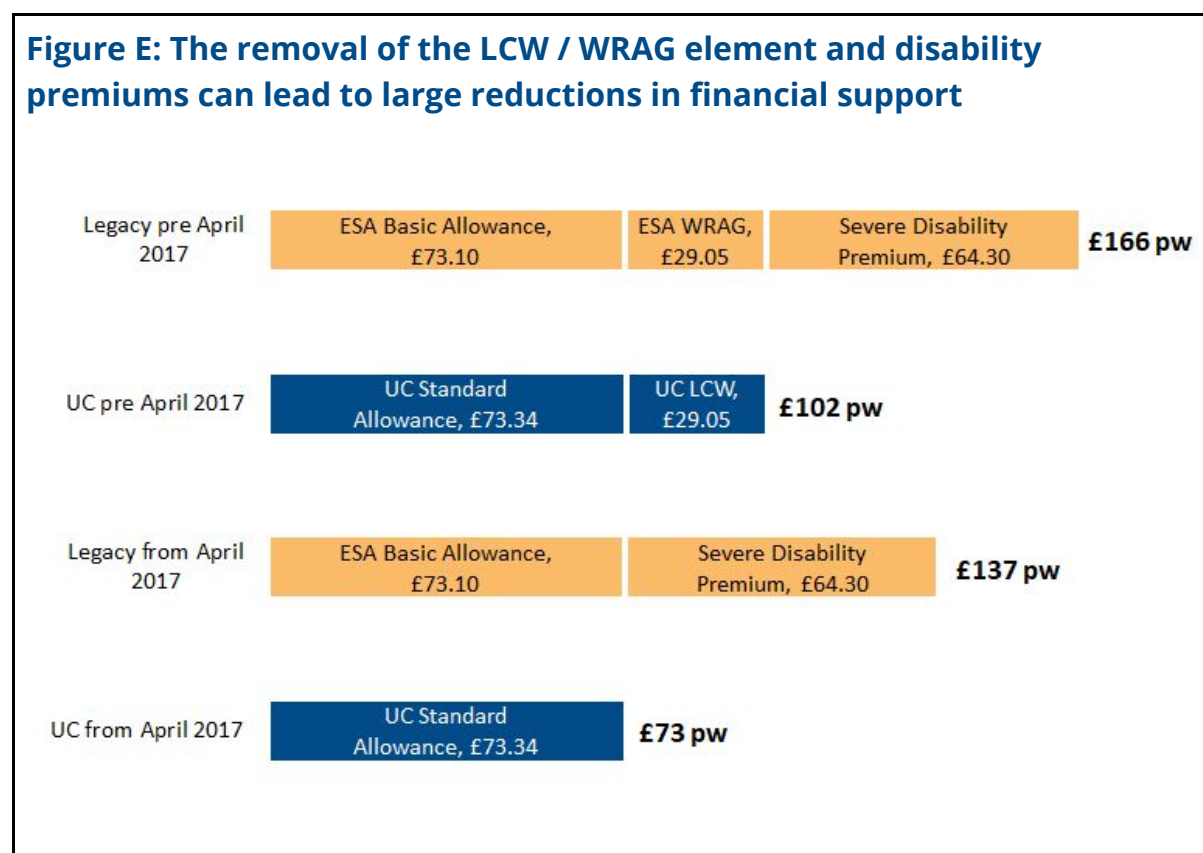


Figure E shows how a basic benefit award has changed for a single claimant who lives alone and is in the Limited Capability for Work (LCW) group. The WRAG / LCW element was removed from both ESA and UC in April 2017. The Severe Disability Premium (SDP) has been removed in the move from ESA to UC. People would be eligible for the SDP if they are in receipt of PIP and live alone without an adult carer. For ease, PIP, Housing Benefit and UC housing costs are not shown.

In the pre April 2017 legacy system they would be eligible for £166 per week of support. If they now claim Universal Credit they get £73 per week. Removal of the WRAG/LCW component and disability premiums means a single claimant who lives alone and can prepare for work will be **£93 per week** worse off on UC than on pre-2017 legacy benefits. This substantially reduces the out-of-work financial support available to them. It can also create additional barriers to work if people struggle to afford the care they need and additional costs they face as a disabled person living alone.

Conclusions

Supporting those who have Limited Capability for Work (LCW) is critical if the government is to reduce the disability employment gap. UC aims to improve work incentives and smooth the journey into work for this group. It does this by removing the cliff edge and the transition between different benefits for those moving beyond 16 hours of work.

Although this is a welcome improvement, UC also reduces support for this group in two key ways. Changes to Permitted Work reduce work incentives for those who are only able to work up to 16 hours. The removal of the LCW/WRAG element and of Disability Premiums substantially reduces the amount of financial support people can get while they are unable to work. Government needs to reassess these reductions to ensure people have enough income to live on and to fulfill the aim of increasing work incentives.

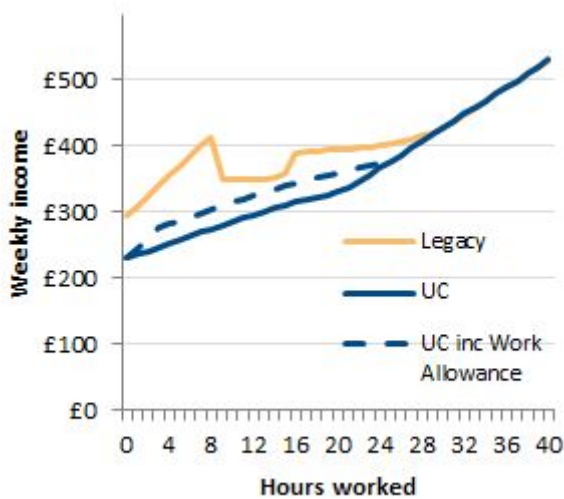
3. Moving in and out of work

The benefit system needs to be able to support people with fluctuating conditions - particularly when they have to temporarily reduce the amount of work they are doing. If somebody has to stop working for a period, the benefit system should be able to step in and support them as they return to work. The legacy system and UC take different approaches to supporting people who need to decrease and increase their hours because of fluctuating impairments or health conditions.

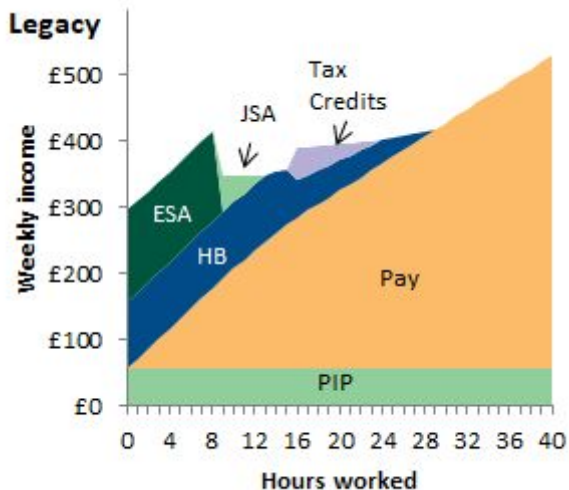
If somebody has a period of ill health it can often be useful to take a phased approach to returning to work. This can often be a good way of easing back into work when people are recovering from treatment or poor periods of health. Somebody may begin, for example, on 8 hours a week before increasing their hours in stages as they become able to do more work. In order to help people stay in work, the benefit system should support this. It needs to ensure people have strong work incentives and that they have adequate financial support in place when their income from work is reduced.

Although the legacy system provides greater financial support for those only able to work fewer hours, it also requires people to move between several different means-tested benefits as the amount of work they can do changes. UC makes sure people with fluctuating conditions don't have to change benefits and that they do not face any cliff edges as they increase their hours. We demonstrate some of this in the example below looking at the support available to a single average earner (£15 per hour). All other assumptions are kept the same as the rest of the analysis in the report.

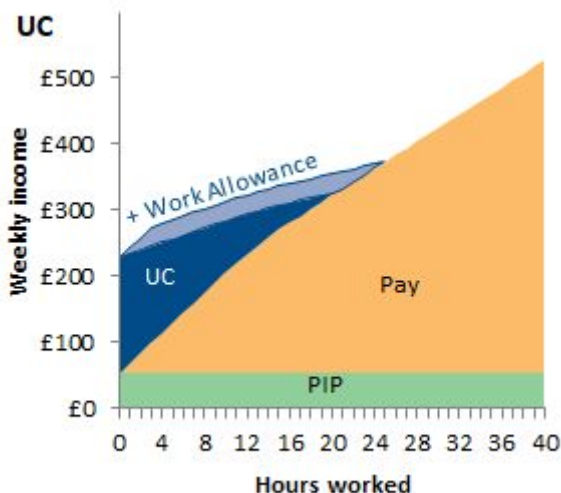
Figure F: Universal Credit smooths the journey in and out of work but weakens support for those who can only do smaller amounts of work



For these calculations we assume a wage of £15 per hour approximately in line with average earnings in the UK. All other assumptions are kept the same as in the rest of the analysis. In the legacy system and in UC, this single average earner gets all of their income from their wages and from PIP if they are working 30 hours a week or more. If they have to reduce their hours they become eligible for means tested benefits.



These charts demonstrate how UC prevents cliff edges and removes transitions between several benefits. However, the legacy system provides stronger absolute levels of financial support when somebody is only able to work a lower number of hours.



The higher amounts of financial support in the legacy system are driven by Permitted Work for those earning below £125.50 a week, and by the Disabled Worker Element for those working 16 or more hours a week.

In this example, somebody working 8 hours a week as part of a phased return to work would have a net income of over £400 a week on legacy benefits which include ESA with Permitted Work. UC would give them just over £300 a week even with the Work Allowance. If they move to 16 hours a week and claim Tax Credits, they are £46 per week better off in the

legacy system. This is because the Disabled Worker Element provides more support than the Work Allowance.

However, the legacy system has a significant cliff edge when income from work exceeds the Permitted Work threshold. The ESA claim comes to an end and they need to either claim Jobseeker's Allowance or push up to 16 hours to get access to Tax Credits. The legacy system disincentives people from progressing above the Permitted Work limits. These problems are resolved in UC which removes the cliff edge and smooths the journey making sure every additional hour of work leads to an increase in income. It is worth noting, however, that Tax Credits take account of prior ESA or sick pay receipt when determining eligibility for in-work support²⁵. UC does not replicate this which means some people will not get in-work support as they would have in the legacy system.

Universal Credit introduces a significant shift in how a return to work is incentivised and how people are supported if they make a phased return to work. It removes the need to apply for several different benefits as people move in and out of work. However, the current design also weakens financial support for those who can only do smaller amounts of work. The Work Allowance is substantially reduced in comparison to Permitted Work and the Disabled Worker Element so people find it more difficult to maintain their income when their need to work fewer hours. Some people who would have got the Disabled Worker Element because they have been claiming ESA or sick pay will not get the Work Allowance. These changes disproportionately reduce financial support for those with more limited capability for work.

Conclusions

Universal Credit makes some improvements to the journey and work incentives for people moving in and out of work, especially as it removes the need to move between several different benefits and prevents any cliff edges. However, UC also reduces the levels of absolute financial support available to people who have had to reduce their hours.

For those currently only able to do smaller amounts of part-time work, financial support remains stronger in the legacy system. Keeping this group in touch with the labour market is key to the government's aims of increasing disability employment by a million people by 2027. This group is set to receive less support because the UC Work Allowance disregards significantly less income

²⁵ The disability elements of Tax Credits can be passported from PIP and other qualifying benefit conditions such as prior receipt of ESA or Statutory Sick Pay. HMRC, [How to qualify for disability elements of Tax Credits](#), 2018

than Permitted Work and does not provide as much in-work support as the Disabled Worker Element. Increasing the Work Allowance would keep the improvements UC brings but also help improve work incentives at the point where people begin moving back into work following periods of sickness.

4. People who cannot work

The final group of single disabled people we identified are those who cannot work or do any work preparation. These are the people who should be in the Support Group of ESA or the Limited Capability for Work & Work Related Activity (LCWRA) group of UC. Some people in this situation cannot prepare for work at this current time, and others will never be able to work. They need a secure and reliable income from the benefit system that places as little administrative burden as possible on them.

For many with severe conditions, UC and PIP will be their only sources of income. The government acknowledges the importance of supporting this group financially. Over recent years a number of significant changes have been made to benefits for disabled people with the aim of focussing financial support on those with the greatest support needs.²⁶ The Minister for Disabled People recently stated that “unlike the previous system, Universal Credit is more targeted, and support is focused on those who need it most”.²⁷

For many in the LCWRA group, UC improves the financial support they get. The LCWRA component is increased in comparison to the Support Group component that it replaces. However, disability premiums which were present in the legacy system have been removed in UC. Whether those unable to work are better or worse off (and by how much) is determined by which combination of disability premiums they would have received in the legacy system.

The government has acknowledged that the removal of the Severe Disability Premium (SDP), in particular, can create large reductions in financial support for people with high support needs. The SDP provided £64.30 a week of support to disabled people who live alone without an adult carer. Because of the large losses this group could face, the government has announced that it will not migrate people with existing SDP claims to UC until transitional protections are in place. This is hugely welcome and the government should use this opportunity to consider what alternative support can be put in place for those who are making completely new claims or would have become newly eligible for SDP support in the future.

²⁶ This includes the replacement of DLA with PIP, the expansion of the support component under UC, and the removal of the WRAG in ESA and UC.

²⁷ Minister for Disabled People, [House of Commons](#), 5 February 2018

Increase in the Limited Capability for Work Related Activity (LCWRA) element means higher incomes for many who cannot work

In the legacy system, a single disabled person who cannot work would claim ESA as an out-of-work benefit. They would get an ESA basic allowance of £73.10pw and, if they cannot prepare for work at all, an ESA support component of £37.65pw. Everybody receiving the support component would also get the Enhanced Disability Premium worth £16.40pw. This comes to a total of **£127pw** as demonstrated in the chart below.

Universal Credit has the same standard allowance as ESA, worth just over £73pw. However, the Enhanced Disability Premium (£16.40pw) is removed and the Support/LCWRA component is expanded to £75.77pw. This means a UC award for somebody in the LCWRA group is worth a total of **£149.11pw** excluding housing costs.

Figure G: The LCWRA element in UC is bigger than the Support component and Enhanced Disability Premium that it replaces²⁸



Looking at the very basic building blocks of a benefit claim, it is clear that UC can be more generous than ESA for people with simple claims in the Support/LCWRA group. This additional £22pw is very welcome particularly for this group which cannot raise income through work.

However, this basic calculation does not include the removal of the Severe Disability Premium which currently goes to over 500,000 people, 84% of whom are in the Support group of ESA.²⁹

²⁸ This compares a basic ESA/UC claim for a single disabled adult with limited capability for work and work-related activity and with no housing costs or PIP

²⁹ DWP, [Ad-hoc statistics: People on Income-related Employment and Support Allowance with Enhanced Disability Premium and/or Severe Disability Premium](#), June 2018

Loss of the Severe Disability Premium means less support for disabled people who live alone without an adult carer

Disabled people who live alone without an adult carer can be over £180 a month worse off on UC than they would have been in the legacy system. This is because of the removal of the Severe Disability Premium which currently goes to over 500,000 people, 84% of whom are in the Support group.³⁰ The government has acknowledged that these are some of the most significant reductions in support in UC. It has put in conditions that prevent those currently getting the SDP from migrating to UC without protection. This is hugely welcome and will protect many people with high levels of support need. However, it will not protect people making new claims.

Figure H: The removal of the Severe Disability Premium means that a single disabled adult who cannot work and lives alone without an adult carer will be worse off if they claim Universal Credit



In the legacy system, if a single disabled person lives alone without an adult carer they can become entitled to the Severe Disability Premium (SDP). This is worth £64.30pw and can be added to JSA, ESA or Income Support and used to increase a Housing Benefit claim. In this example, the SDP is added to an ESA award in recognition of the costs faced by a severely disabled person who does not live with a carer. This support is not replicated in UC. This leaves claimants £42 a week worse off, equivalent to more than **£180 a month** across the year.

³⁰ DWP, [Ad-hoc statistics: People on Income-related Employment and Support Allowance with Enhanced Disability Premium and/or Severe Disability Premium](#), June 2018

Those who live with an adult carer are not affected

The removal of the SDP for single people is in contrast to some improvement in how severely disabled people are treated if they live with an adult carer such as a partner. The Carers element worth **£156.45 per month** means many severely disabled people in couples can get additional support from UC.

If a severely disabled person has a partner who cares for them over 35 hours a week they can claim Carer's Allowance worth £279.93 per month. Carer's Allowance is not one of the 6 benefits being replaced by UC so it can be claimed in the legacy system or alongside UC. A carer can also receive a Carer Premium in the legacy system which can be applied to out-of-work benefits and housing benefit. This premium is worth £156 per month but is only available to those who care more than 35 hours per week. The rules also create a cliff edge as they place limits on how many hours a carer can work and how much they can earn before they lose these benefit entitlements.

Under UC, a carer would receive a Carers element worth **£156.45 per month** - but crucially there is no earnings limit. This means the Carers element remains part of the UC calculation no matter how much the partner earns as long as they are regularly and substantially engaged in caring. As they work more hours and increase their earnings their UC is gradually reduced, rather than being removed all at once at a cliff edge.

This means that, in some ways, UC brings improvements for severely disabled people who live with an adult carer, particularly if the carer is working. This contrasts to a reduction in support for severely disabled people who live alone without an adult carer.

Conclusions

The government has recognised that the loss of the Severe Disability Premium creates some of the biggest losses for disabled people in UC. It has announced that those with existing SDP claims will be held back from migrating to UC until they can be moved over with transitional protection. The welcome measures do not, however, provide alternative support for those making new claims or those who would have newly become eligible for the SDP.

The SDP recognises the additional costs faced by severely disabled people who live alone without a carer. People who make new claims to UC or lose their transitional protections will be over **£180 a month worse off** than they would have been in the legacy system. If a severely disabled person lives with a partner, however, they can sometimes be better supported in UC. This is

because UC contains a Carers element worth £36 per week which is not subject to an earnings limit.

To rectify this a self-care element could be introduced to UC of at least **£156.45 per month** - the same value as the Carers element. This could go to those who live alone and would satisfy the criteria for the Severe Disability Premium. It could be paid alongside other UC elements such as the LCWRA element. This would ensure severely disabled people who live alone are at least treated comparably to those who live with a partner or carer. The current design of the system puts single people at a disadvantage despite their higher support needs.

Next steps needed

Universal Credit is a huge change to the benefit system. It makes changes which simplify the system and smooth cliff edges and transitions into work. While this gives it potential, our analysis shows that more can be done to align UC with the government's aims for single disabled people and those with health conditions. Work incentives could be improved for disabled people in a variety of circumstances, and support could be enhanced for those who live alone without an adult carer.

Currently, depending on their circumstances, UC could leave many single disabled people with weaker in-work financial support and facing weaker work incentives than if they had claimed legacy benefits. It is important the government tackles this in order to meet its own commitments on disability employment. In-work support and work incentives for disabled people can both be improved in UC by making adjustments to how the Work Allowance operates. The Work Allowance could be passported from PIP and other qualifying benefit conditions so working disabled people are more able to access it. The Work Allowance could also be increased to strengthen work incentives and in-work support for working disabled people. This could help bring support back in line with UC as originally intended, and with Permitted Work and the Disabled Worker Element in the legacy system.

Further action also needs to be taken to ensure there is adequate support in UC for people with higher support needs both in and out of work. The government recently recognised that the current design of UC is causing problems for one particular group - those who get the Severe Disability Premium. It will therefore stop moving them onto UC until they qualify for transitional protection. This is a welcome move which will protect those with existing claims. The government should use this opportunity to also put in place comparable support for new claimants and those who have a change in circumstances. This could come in the form of a Self-Care element of at least £156.45 a month in line with the value of the Carers element.

These policy and design issues come on top of the delivery issues disabled people face when claiming UC such as poor payment timeliness, inappropriate conditionality and poor quality assessments. UC needs to work for everyone, including disabled people in a variety of circumstances. It is clear that for many disabled people there is more to do to ensure it delivers support for those who can work and care for those who cannot.

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