

**FABIAN
SOCIETY**

SECURITY FOR EVERYONE

THE PUBLIC CASE FOR
NON-MEANS-TESTED BENEFITS

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SUMMARY

This report examines the future of non-means-tested benefits for working-age adults and children. We present findings from an online citizens' jury, a survey of 1,647 British adults, microsimulation modelling of policy reforms and a consultation with experts.

Our evidence indicates that consensus can be built to strengthen non-means-tested benefits as a supplement to an adequate means-tested system. In particular, we show that following the Covid-19 pandemic there is new interest in improving payments when people stop working.

The citizen's jury recommended a new system of earnings-related unemployment insurance modelled on the Covid-19 furlough scheme. We also propose increases in non-means-tested benefits for people who are sick, disabled or caring; and a review of benefits paid to cover the extra costs faced by disabled people.

Should we rely less on means testing?

The Covid-19 crisis has triggered a re-evaluation of social security. Developments such as the April 2020 universal credit uplift and the non-means-tested furlough scheme have generated a debate on both the generosity of social security and the balance between means-tested and non-means-tested parts of the system. Those debates take place in the context of a working-age system currently dominated by means testing. Means-tested social security has become more prevalent over time, and it accounts for a larger proportion of total spending on non-pensioner benefits than in other European countries.

The report discusses two categories of non-means-tested social security. **Earnings replacement** entitlements are designed to provide income for people not able to work, regardless of their savings or whether they have a partner in work. Eligibility is often based on evidence of a recent employment relationship. The main existing earnings replacement benefits for working-age adults are: jobseeker's allowance (JSA); employment and support allowance (ESA), maternity allowance and carer's allowance. Statutory pay schemes for sickness, maternity, paternity and adoption perform a similar earnings replacement function.

Extra costs benefits are designed to help equalise living standards between people who face higher living costs – such as disabled people and parents raising children – and people who do not face these costs. Eligibility for these payments tends to be universal, meaning that they are paid to any claimant in a given set of circumstances regardless of their income, savings, or any work/contribution record. The main extra costs benefits for children and working-age adults are child benefit, personal independence payment and disability living allowance.

There are a number of good reasons for considering shifting the balance within social security away from means testing, towards these earnings replacement and extra costs allowances:

The case for non-means-tested benefits overall

- Expanding non-means-tested benefits will increase the number of people with a stake in social security, potentially broadening support for the whole system.
- Expanding non-means-tested entitlements is likely to reduce the stigma associated with claiming benefits and in turn lead to increased take-up and reduced social division.
- Personal benefits paid to the eligible adult and unrelated to any means-tested household payment support financial independence and security for partners in couples, especially women.
- When funded by progressive taxation, non-means-tested benefits redistribute income between people on higher and lower incomes, and across the life of an individual.

The case for earnings replacement benefits

- Earnings replacement benefits can prevent large, sudden drops in an individual's income. If sufficiently generous, they give people a cushion without having to deplete their savings or rely on a partner's income.
- Benefit entitlements that arise from social insurance contributions or recent employment offer protection for people who have paid into the system, reflecting widely held views on fairness.
- Better earnings replacement benefits may improve labour market outcomes by giving people more time to find new work, enabling better job matching that should help both workers and employers.

The case for extra costs benefits

- Extra costs benefits help to equalise living standards for people with and without high essential living costs. Restricting such benefits only to those on low incomes means society fails to deliver 'horizontal' equality

between people with similar income but different personal circumstances, whether they are rich or poor.

- Paying extra costs benefits on a universal rather than means-tested basis improves work incentives and reduces the problem of people being left hardly better off when their earnings increase.

However there are also reasons for maintaining a predominately means-tested social security system:

- Means-tested benefits target resources at those on the lowest incomes, reducing poverty as cost-effectively as possible. Currently in the UK, safety-net benefits leave many people far below an acceptable living standard and the least expensive, most realistic way of addressing this crisis is to increase the generosity of means-tested benefits significantly.
- Means-tested benefits reduce income inequality more efficiently than non-means-tested benefits, by increasing the incomes of the poorest without increasing the incomes of households higher up the distribution.
- The current landscape of means-tested social security in the UK has the potential to evolve into a broad and inclusive system. Payments are already available to many people in work and close to half of children are in families eligible for universal credit.

Weighing up these arguments, means-tested benefits should remain the bedrock of working-age social security in order to tackle poverty and boost living standards. But there are distinct policy objectives that will be better achieved if we have stronger non-means-tested social security as well.

Can consensus be built for stronger non-means-tested social security?

We sought to answer the question: after the Covid-19 pandemic, is it possible to build consensus for non-means-tested social security to play a greater role?

Prior studies suggest that the public favours targeting resources to those on low incomes, but at the same time values the principles of reciprocity and universality. This supports the case for a mixed system – of adequate means-tested benefits to tackle poverty supplemented by strong non-means-tested benefits which achieve a range of other objectives.

We carried out an online citizens' jury, a representative survey of 1,647 British adults, and a consultation with social security experts. These revealed scope for consensus on strengthening non-means-tested benefits by:

- Improving extra costs benefits for disabled people

- Raising the payment levels of existing, flat-rate earnings replacement benefits
- Introducing a new earnings-related, time-limited unemployment insurance scheme that prevents a sudden drop in income when people first leave work.

Flat-rate earnings replacement benefits

Our citizens jury supported the continuing role of non-means-tested earnings replacement benefits and the contributory principle. They wanted to see better earnings replacement benefits.

In both the jury and the survey there was high support for raising payments for carers and disabled people (two groups covered by earnings replacement benefits). Our questions did not explore in detail whether these payments should be means-tested or not.

Most of our expert advisory group wanted to see increases to the level of non-means-tested JSA and ESA (at least to match the 2020 uplift to universal credit). Some members also supported proposals to increase payments including statutory sick pay and carer's allowance. A minority in the group disagreed and believed that means-tested universal credit should take on the earnings replacement function of existing working-age national insurance benefits.

Earnings-related unemployment insurance

Our citizens' jury was briefed on the difference between the UK's flat-rate JSA and continental earnings-related unemployment schemes which resemble the Covid-19 furlough scheme.

Subsequently the jury recommended that flat-rate JSA should be replaced by an unemployment insurance benefit that mimics the Covid-19 furlough (i.e. paying up to 80 per cent of previous earnings for six months). The jurors maintained their support for the policy after being told it might cost £5bn per year which could be funded by a 1p increase in national insurance. A number of the jurors wanted any new earnings-related unemployment insurance to be optional rather than compulsory.

In our survey almost as many people supported a new earnings-related unemployment payment as the current model of flat-rate JSA (even though the question explained that the reform could lead to higher national insurance – see figure 1). Of those who expressed a preference 49 per cent supported the reform proposal and 51 per cent supported the status quo. This indicates significant potential support for the policy, given that the idea of earnings-related unemployment insurance was barely discussed in the

UK before the pandemic. With political advocacy and debate, support for this reform might well increase over time.

Most of the members of our expert group were cautiously supportive of a new furlough-inspired unemployment benefit. Within this, a minority of the experts wanted to see an earnings-related scheme adopted on a voluntary basis, using auto-enrolment principles.

FIGURE 1: THE PUBLIC IS FAIRLY EVENLY DIVIDED BETWEEN SUPPORTING A NEW EARNINGS-RELATED UNEMPLOYMENT INSURANCE AND KEEPING TODAY'S SYSTEM

“Jobseeker’s allowance is a benefit for people who have made national insurance contributions and then become unemployed. It is paid at a flat rate of £74 per week for up to 6 months, regardless of previous earnings. The Covid-19 furlough scheme currently pays most employees 80 per cent of their salary if they are unable to work because of the pandemic.

Thinking about after the Covid-19 pandemic is over, which of the following would you prefer to happen if someone becomes unemployed after they have made regular national insurance contributions?”

Jobseeker’s allowance should continue as it is, so people who become unemployed get a modest flat-rate payment for up to six months and national insurance rates stay the same.	37
An earnings-related benefit similar to the furlough scheme should be introduced so people who become unemployed get 80 per cent of their previous earnings for up to six months, even if national insurance rates might have to increase to pay for this.	35
Neither of these	8
Don’t know	19

Source: Fabian Society YouGov poll, February 2021

Extra costs benefits

A small majority of the citizens’ jury supported the principle of extra costs benefits being available to everyone. There was however little appetite for increasing child benefit: more than half of the jurors wanted to maintain the existing level of the benefit. The jury did not discuss non-means-tested extra costs benefits for disabled people in detail but generally they wanted social security to be more generous to disabled people.

Our survey found majority support for extra costs benefits for disabled people, regardless of their income. There was not the same support for universal payments to parents to help with the extra costs of children (see figure 2).

Every advisory group contributor who expressed a view agreed that universal social security for disabled people should be reviewed or improved. Some of the experts argued that child benefit plays a vital role in entrenching support for social security and therefore benefits children on

low incomes – although they recognised there is limited public appetite for stronger universal benefits for children at this time.

FIGURE 2: A MAJORITY FAVOUR UNIVERSAL SOCIAL SECURITY FOR DISABLED PEOPLE BUT NOT FOR CHILDREN (EXCLUDING PEOPLE WHO SAID ‘DON’T’ KNOW)

For each of the following, please say whether you think social security benefits should be paid to everyone who faces these extra costs, or whether payments should only be made depending on people’s income.

Percentage of adults	Social security benefits should be provided to everyone with these costs	Social security benefits should only be made depending on people’s income
Disabled adults with costs linked to their extra needs	59	41
Parents of disabled children with costs linked to their extra needs	58	42
Parents with costs from bringing up children	20	80

Notes: Figures exclude those who said ‘don’t know’.
Source: Fabian Society YouGov poll, February 2021

Reform proposals

In light of these findings we propose three key recommendations for strengthening non-means-tested social security.

Extra costs benefits

We propose that the government should initiate a **full review of non-means-tested disability benefits designed to meet extra living costs**. There is evidence that these benefits are not sufficient to equalise living standards between disabled people and non-disabled people. The administration and assessment procedures for these benefits are also frequently criticised. A review should examine how extra costs benefits for disabled people can be made more adequate and operate in a fairer way.

Flat-rate earnings replacement benefits

The payment levels of existing non-means-tested earnings replacement benefits should be increased, at least for the initial period of each claim. There are two options to consider:

- **Extend the £20 per week uplift introduced in 2020** to the key non-means-tested earnings replacement benefits paid below the basic level of universal credit: JSA, ESA and carer’s allowance.

- **Match the value of the best earnings replacement benefits** by increasing the value of JSA, ESA, carer's allowance and statutory sick pay to the level of maternity allowance/statutory maternity pay (or to the new state pension).

The costs of these reforms would vary considerably by benefit. Increasing JSA to match maternity payments would cost around £150m-£200m per year on current caseload, and the costs of raising SSP would be low for employers and very low for taxpayers.

The cost of a significant increase in ESA and carer's allowance would be much higher because many more people receive these benefits. Raising both these entitlements to match maternity payments or the state pension would cost more than £6bn (though around half of this would be clawed-back through reduced spending on universal credit). The costs would be greatly reduced if the higher payments were available during the initial period of a claim only, for say one or two years.

Earnings-related unemployment insurance

With respect to unemployment, we propose an alternative option to a higher flat-rate payment: **an earnings-related unemployment insurance scheme**. This would deliver on a key principle of social protection, that disruption to one's earnings should not mean a sudden, dramatic fall in living standards.

Under the model we examined, people with a sufficient record of national insurance contributions who became unemployed would be entitled to receive 80 per cent of their previous earnings in social security payments for up to six months. Maximum payments would be capped at the equivalent of £30,000 per year.

Modelling the benefits and costs of this proposal, we expect the number of recipients to be 390,000 (up from a projection of 80,000 recipients under current JSA). Including the families of beneficiaries 800,000 people would benefit. The average unemployment insurance payment would be £250 per week (up from £71 under the current system). The additional annual public spending required is modelled to be £4.8bn (roughly equivalent to a 1p increase on the main rate of employee national insurance).

Our modelling shows that the reform would be redistributive. Around 700,000 of the 800,000 beneficiaries are in the bottom half of the income distribution. The policy does not have a significant impact on poverty as conventionally measured (because it raises median incomes). But it would lift 430,000 people out of poverty using a fixed-line poverty measure (sometimes called 'absolute' poverty).

1. INTRODUCTION

Relying less on means testing

This report considers whether, and how, non-means-tested social security for children and working-age adults could be strengthened over the next decade. It proposes a significant boost to earnings replacement benefits. This should consist of higher flat-rate benefits for people who leave work because of sickness, disability or caring responsibilities; and better help for the first six months of unemployment, either through a higher flat-rate jobseeker's allowance or a new earnings-related unemployment insurance scheme modelled on the Covid-19 furlough. We also call for a full review of non-means-tested benefits designed to meet the extra costs faced by disabled people.

The Covid-19 crisis has triggered a re-evaluation of social security. The government's decision in April 2020 temporarily to increase the generosity of universal credit was an acknowledgement that the level of benefit payments was too low, as millions began to lose their jobs or see their incomes plummet.

In addition, the government implemented the furlough scheme in March 2020. For 18 months the state has stepped in to pay a large proportion of the wages of millions of people, to protect incomes and enable workers to remain on payrolls despite being temporarily unable to work. Employees have been eligible for earnings-linked payments without any means test of their family's income or savings. Self-employed workers have received comparable support through the self-employment income support scheme (SEISS).

These developments have generated debate on both the generosity of social security, and the extent to which means testing should determine eligibility.

Our project has asked whether the experience of the last 18 months could lead to a better social security system. Building on previous studies of policy and public opinion, we sought to determine whether a new consensus on social security can emerge – both broadly within society and across the political spectrum.

To this end we consulted with social security experts; convened a citizens' jury in November-December 2020; conducted an in-depth nationally representative poll in February 2021; and worked with Landman Economics

to produce detailed micro-simulation modelling analysing the costs and impacts of potential reforms.

We explore public attitudes towards the non-means-tested parts of the social security system: ‘earnings replacement’ payments and ‘extra costs’ payments. We ask whether there is scope to build consensus on expanding the role these benefits play; discuss policy options that might be politically viable; and set out the potential impacts of reforms.

The report considers the ways in which the pandemic may have opened-up space for a new settlement on social security, but its focus is reform in the medium term – thinking about the start of the next parliament up to 2030. We therefore consider the social security system and labour market we can expect in the mid-2020s, by assuming current benefit reforms underway have been implemented in full and that unemployment has returned towards its pre-crisis levels.

The report only considers social security for working-age adults and children (i.e. households containing anyone up to the age of 66, rising to 67 by 2028). This is because it is the non-pensioner part of the social security system for which generosity has declined and means testing has increased in the last few decades. By contrast, the system for older people has broadly speaking become more adequate in recent years – and social security for pensioners is dominated by non-means-tested payments in the form of the state pension.

The report is a companion to *Going with the Grain: How to Increase Social Security with Public Support*, which was published in May 2021. That work examined public views on the adequacy of means-tested social security payments for children and working-age adults. Alongside this report we also publish *Fair to All*, which presents the findings from our citizens’ jury in depth.

The current landscape

Debates about social security often place payments into one of three categories, distinguished by how eligibility for benefits arises:

- **Means-tested.** Eligibility is based on an assessment of income and savings, with payments awarded if a claimant’s income and/or savings are below a certain threshold. Assessments are based on household not individual financial circumstances.
- **Contribution-based.** These payments are awarded if a claimant has a sufficient record of social insurance contributions or meets conditions related to their employment (or sometimes the term is used narrowly to only refer to national insurance-based benefits). Contribution often

determines eligibility for **earnings replacement benefits and statutory pay schemes**, which each provide a non-means-tested income for claimants not able to work. These payments are not always based on contribution, however – carer’s allowance is a non-contributory earnings replacement benefit.

- **Universal.** Universal benefits – i.e. non-means-tested, non-contributory – are those paid to any claimant in a given set of circumstances, regardless of their income/savings or their contribution record. They often reflect the **higher living costs** particular households face – e.g. from raising children or having a disability.

Discussing non-means-tested benefits in this report, we opt to use a typology that relates to the *purpose* of the benefits, rather than their eligibility criteria. The categories we therefore refer to going forward are ‘earnings replacement’ benefits and ‘extra costs’ benefits. These roughly line up with the ‘contribution-based’ and ‘universal’ categories respectively – but not perfectly.

Earnings replacement benefits are designed to provide a non-means-tested income for people not able to work, regardless of their savings or whether they have a partner in work. Eligibility is often based on evidence of a recent employment relationship – but this is not always the case, as we have seen with carer’s allowance.

Extra costs benefits are designed to help equalise living standards between people who face higher day-to-day costs – such as disabled people and parents raising children – and people who do not face these costs. Eligibility for these payments tends to be universal, meaning that they are paid to any claimant in a given set of circumstances regardless of their income, savings, or a work/contribution record.

Earnings replacement benefits

Jobseeker’s allowance (JSA): JSA is a contribution-based unemployment benefit to support people looking for work. The DWP refers to it as ‘new style’ JSA to distinguish it from pre-universal credit JSA which had a means-tested and contribution-based version. It is available for up to six months for claimants who have worked as an employee and paid national insurance contributions in the last 2-3 years. It is not available to people who were self-employed. Receipt is conditional on undertaking ‘reasonable steps to look for work’ as agreed with a work coach. Claimants aged under 25 are eligible only for a reduced payment (£59.20 per week in 2021/22). The full rate is £74.70 per week.

Employment and support allowance (ESA): ESA is a contribution-based benefit to support people with a health condition or disability that limits their

ability to work. The DWP refers to it as 'new style' ESA to distinguish it from pre-universal credit ESA which had a means-tested and contribution-based version. Claimants assessed to be in the 'work-related activity group' (those who cannot work now but can prepare to work in the future) are entitled to payments for up to a year; claimants assessed to be in the 'support group' (who are not expected to work now or in the future) are entitled to payments indefinitely. ESA is available for people who have been working in the last 2-3 years and have made national insurance contributions through employment or self-employment. Claimants in the support group are paid more (£114.10 for those aged over 25) than those in the work-related activity group (£74.70 for those aged over 25).

Carer's allowance: Carer's allowance is a payment to support people aged over 16 caring for someone for at least 35 hours per week. The person being cared for must themselves be in receipt of one of several specified disability benefits. It is paid at £67.60 per week. Carer's allowance is a non-contribution-based, non-means-tested payment (although as it is intended for people who cannot work significant hours because of care, people are ineligible if they earn more than £128 per week after tax and expenses).

Statutory sick pay (SSP): Statutory sick pay is a payment made by employers to people who are too ill to work. To be eligible, a person must be classed as an employee and have done some work for their employer; they must earn at least £120 per week on average; and they must have been ill for at least four consecutive days. The maximum duration for which SSP can be paid is 28 weeks. It is paid at £96.35 per week.

Parental leave payments: There are a number of payments made by employers or the government for when people in work take time off as they become new parents (statutory maternity pay, maternity allowance, statutory paternity pay, statutory shared parental pay, statutory adoption pay). Eligibility criteria vary. Maternity allowance is based on national insurance contributions. Each statutory pay scheme requires a connection to work and, for employees, a minimum duration of service with an employer. The maximum duration of payment also varies between these entitlements. We largely do not address these payments in this report as they are more generous than other earnings replacement benefits (statutory maternity pay provides 90 per cent of previous weekly earnings for 6 weeks and then £151.97 per week). However these payments serve as an important benchmark against which to assess other entitlements.

Extra costs benefits

Child benefit: All parents responsible for a child aged under 16 (or under 20 if the child remains in education) are eligible to receive child benefit. Reforms introduced in 2013 means that the benefit is no longer strictly universal; where at least one parent has an income above £50,000, child benefit is withdrawn gradually through income tax. If a parent's income reaches £60,000, the full amount is clawed-back. The weekly rate for the first child is £21.15. The rate for each additional child is £14.

Personal independence payment: Personal independence payment (PIP) is a benefit paid to disabled adults to help with extra daily living costs and costs associated with mobility needs. Eligibility is based on assessment by a health professional, whose report informs a decision about how much PIP a claimant should receive and for how long. There are two components of PIP – the daily living component and the mobility component. Depending on the assessment, claimants may receive either the standard or enhanced rates for each component. The minimum weekly payment is £23.70 (the standard mobility component rate only); the maximum is £152.15 (the enhanced rates of the daily living and mobility components combined).

Disability living allowance: Disability living allowance (DLA) is a benefit to support those looking after disabled children aged under 16. Decisions on eligibility are normally made after parents' or guardians' completion of an application form, rather than assessment by a health professional as is the case with PIP. There are two components of DLA – the care component and the mobility component. Different rates are paid to families depending on the amount of support or help with mobility the child needs. As with PIP for adults weekly payments range from £23.70 to £152.15.

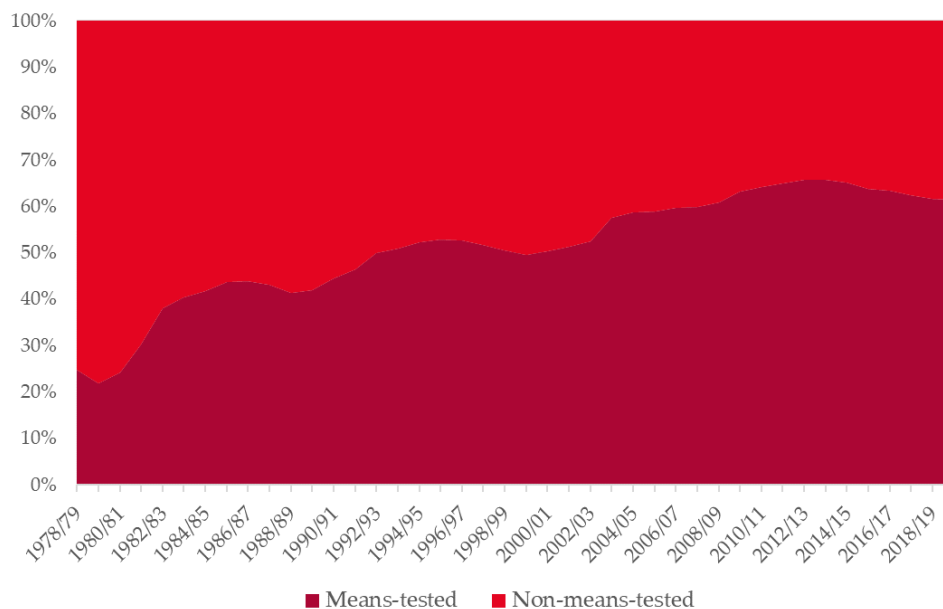
Just before the pandemic non-means-tested payments accounted for approaching four pounds in ten spent on social security for working-age adults and children (see figure 3).

FIGURE 3: SPENDING ON SOCIAL SECURITY IN GREAT BRITAIN, 2019/20

	Means-tested	Non-means-tested: earnings replacement	Non-means-tested: extra costs
Children and working age	£60bn (62%)	£11bn (12%)	£26bn (27%)
Pensioners	£11bn (9%)	£100bn (82%)	£12bn (9%)

Notes: 2019/20 outturn in nominal terms. Percentages may not add up to 100 due to rounding
Source: Benefit expenditure and caseload tables, Spring Budget 2021, Department for Work and Pensions, 2021

FIGURE 4: THE CHANGING DIVIDE BETWEEN MEANS-TESTED AND NON-MEANS-TESTED SOCIAL SECURITY FOR WORKING-AGE ADULTS AND CHILDREN, 1978/79 TO 2019/20



Source: Benefit expenditure and caseload tables, Spring Budget 2021, Department for Work and Pensions, 2021

Over the long term, means testing has become more dominant. Figure 4 shows that, at the end of the 1970s, spending on means-tested benefits as a proportion of all non-pensioner social security spending was far lower than it is now.

There are a number of reasons for this shift. The post-war contribution-based social insurance system was never sufficient to alleviate poverty and a separate means-tested system was always needed alongside it. Subsequent governments expanded the role means-testing played in order to reduce poverty and provide support for work.¹ Alongside this, after 1979 the contribution-based components of the system were reduced. One notable instance was the abolition of a short-lived earnings-related supplement to unemployment benefit during Margaret Thatcher's premiership.² From 1997 the Labour government increased the value of benefits for children but largely ignored earnings replacement benefits, allowing most of them to lose value against wages.

After 2010 reforms were again introduced to restrict access to many non-means-tested benefits, including ESA, disability benefits and child benefit.³ But recent spending trends have varied for different benefits. Child benefit has declined as a proportion of total social security spending. This is because its value was frozen in cash terms between 2016 and 2020 (the most extreme cut to any benefit during austerity); child benefit eligibility was also

effectively tightened by clawing its value back in taxes from households with someone earning over £50,000.

In contrast, the share of total social security spending accounted for by non-means-tested benefits for disabled adults has grown. The key reason for this is that DLA and PIP were not included in successive benefit freezes. The government has also consistently underestimated the extent of eligibility for disability benefits. When PIP was introduced to replace DLA for adults it was forecast to reduce spending by 20 per cent through changes to assessment methods and rates. In practice many more PIP claims were successful than predicted – and average awards were significantly higher than expected, causing spending to rise sharply.⁴

This helps to explain why spending on non-means-tested benefits has grown as a share of overall social security since around 2013 (see figure 4). The other main reason is the suppression of spending on means-tested benefits through cuts and freezes as well as improvements in the labour market.

Despite this growth, in policy terms, the centrality of means testing has increased since 2013 with the advent of universal credit, which has been gradually rolled out over this time. Universal credit integrates six ‘legacy’ benefits and tax credits into a single payment and is, like those legacy benefits, means-tested. Consequently a significant proportion of debate on social security in recent years has focused on universal credit – its design, its rollout, its operation, and the generosity of the benefit.

In turn, non-means-tested benefits have received comparatively less attention. It is the government’s clear preference that people claim universal credit not national insurance benefits, with the number of contribution-based JSA claims falling sharply since the early 2010s. The present lack of consideration of non-means-tested social security was reflected in the fact that the April 2020 £20 uplift was restricted to universal credit and working tax credit – with no corresponding uplift to any earnings replacement or extra costs benefits.

Universal credit itself contains a disincentive to claim non-means-tested social security. The benefit is designed to gradually reduce in value as a claimant’s earnings from work increase, so that when you earn an extra pound you only lose 63p in benefit. This applies to income from statutory pay schemes but does not apply to earnings replacement benefits like JSA or maternity allowance. The result is that for every £1 a universal credit claimant receives in JSA, exactly the same amount is withdrawn from their universal credit payment. This is a significant disincentive for people on low incomes to claim non-means-tested earnings replacement benefits, even if they are entitled to receive them. In 2020 the government successfully

defended a high court case challenging the legality of this arrangement with respect to maternity allowance.⁵

The primacy of means testing is not a feature of all advanced economies' social security systems. In many European welfare states claimants are entitled to more payments regardless of their income or savings – either because they have made sufficient social insurance contributions or because their circumstances automatically confer eligibility. According to the European Commission in 2018 means-tested benefits accounted for 17 per cent of total social security expenditure in the UK (including pensions), while across the EU-27 means-tested benefits accounted for only 11 per cent. Of particular note are the contribution-based, earnings-related unemployment benefits that play a large role in the systems of Germany (where means-tested benefits make up 12 per cent of total expenditure), Sweden (where means-tested benefits account for only 2 per cent of the total) and other continental countries.⁶

The case for and against non-means-tested social security

Means-tested benefits play a crucial role in achieving the aims of the social security system. They target resources on the people most in need, directly redistributing income between people on higher and lower incomes. By doing so, they reduce poverty and inequality. However, the social security system aims to meet other objectives too, which non-means-tested benefits are well placed to help achieve.

There are two crucial aims that non-means-tested payments typically aim to meet. First, **protecting people against loss of income caused by unforeseen events like illness or redundancy**; and second, **supporting the living standards of those who face unavoidable extra costs, such as parents and disabled people**. Strengthening non-means-tested social security is important if we want the system to meet these objectives. The following arguments point in favour of an increased role for non-means-tested benefits.

Non-means-tested benefits in general

- Expanding non-means-tested benefits will **increase the number of people with a meaningful stake in social security, potentially broadening support for the system as a whole**. With such a large proportion of social security spending going towards means-tested provision, working-age beneficiaries outside of lower income groups receive comparatively little from the system. Strengthening non-means-tested payments can broaden the base of people who see it as relevant to

them and have an interest in ensuring the system is well-resourced and sufficiently generous. It has been argued that, in some countries, well-established non-means-tested social security systems increase the political acceptability of redistribution.⁷

- More non-means-tested entitlements are likely to **reduce the stigma around claiming** and, in turn, lead to increased take-up and reduced social division. Means-tested benefits in particular are often associated with stigma.⁸ In turn, there is evidence that stigma is a direct cause of the non-take-up of benefits by people who are entitled to them.⁹ Expanding the non-means-tested parts of the system can be a valuable policy lever if we want to ensure that everyone who needs support gets it.
- There are strong practical arguments for **personal benefits** separately earned by and paid to each eligible adult. Personal benefits are unrelated to the main household means-tested payment, and therefore support the financial independence and security of each partner in a couple, which especially benefits women. There is also a case for several sources of benefit income, paid at different times, in case anything goes wrong with a single monthly benefit payment.
- **Non-means-tested benefits can redistribute income** – between people on higher and lower incomes, and across the life of an individual. When funded by progressive taxation, earnings replacement benefits like JSA and extra costs benefits like child benefit are redistributive overall; while higher income individuals are eligible to receive them, those individuals also pay more in tax. Similarly, non-means-tested benefits enable people to ‘smooth’ their incomes over their lives, by ‘paying in’ when they are able to work (or do not face extra costs) and ‘taking out’ when they cannot work (or are facing extra costs).

Earnings replacement benefits

- Earnings replacement benefits can **prevent large, sudden drops in an individuals’ income**. They grant people a better degree of protection without having to deplete their savings or rely on a partners’ income. Improved non-means-tested benefits would ensure that individuals can maintain a similar living standard in the immediate wake of shocks like illness, redundancy or needing to care for someone.
- Benefit entitlements linked to social insurance contributions or recent employment provide **protection for people who have paid into the system**, reflecting widely held views on fairness. While most people receive a very significant amount of support from social security across their lifetimes,¹⁰ the design of working-age social security currently means that many taxpayers often feel they are entitled to little. Strengthening the role of non-means-tested payments would help to

establish social security as something from which everyone knows they can benefit, in a similar way to the NHS.

- More adequate earnings replacement benefits could **improve labour market outcomes** by enabling better job matching, helping both workers and the economy. The low replacement rate of contribution-based unemployment insurance in Britain encourages people to find a new job as quickly as possible – at the expense of this necessarily being the right job for the worker or the employer. Evidence instead suggests that more adequate non-means-tested benefits improve job matching and, in turn, the functioning of the labour market.¹¹

Extra costs benefits

- Improving extra costs benefits will help bring us closer to **equalising living standards between people facing extra costs and people who do not, regardless of where they are in the income distribution**. The objective of social security is not just to prevent poverty amongst people who face extra costs from disability and raising children (something that good means-tested benefits can achieve). Non-means-tested benefits are necessary to ensure ‘horizontal’ inequalities are addressed across society – for example, between a disabled person earning £30,000 and a non-disabled person earning £30,000.
- Paying extra costs benefits on a universal rather than means-tested basis **improves incentives and reduces the problem of people being left hardly better off when their earnings increase**. If extra costs benefits were means-tested, they would be withdrawn as recipients entered work and their earnings increased. This would provide a disincentive to work for those with the extra costs faced by disabled people and those raising children.

Although there are good reasons to shift the balance somewhat from means-tested to non-means-tested benefits, there is also a clear case for maintaining the predominance of means testing in the social security system.

- Means-tested benefits target resources at those on the lowest incomes, **reducing poverty and creating a safety-net as efficiently as possible**. This is especially important in a context in which political constraints on social security spending are greater than in the past or in other countries. With a limited pool of expenditure from which to fund different benefit types, there is an intuitive case to prioritise spending on the lowest income groups through means-tested benefits. There is also evidence that doing so does reduce poverty relatively effectively: in the UK, where social security is more targeted on low-income households

compared to other countries, it has been shown that the poverty-reduction effect of spending is higher than in other OECD countries.¹²

- Means-tested benefits directly **reduce income inequality more efficiently** than non-means-tested benefits. The mechanism here is clear: means testing increases the incomes of the poorest without increasing the incomes of households higher up the distribution. At the same time, higher-income households pay significantly more in direct taxes than lower-income households. Empirical studies back this up, showing that means-tested benefits reduce inequality (as measured by the Gini coefficient) more than non-means-tested benefits like child benefit and disability living allowance.¹³
- The current landscape of means-tested social security in the UK means that **a larger number of people benefit from means-tested benefits than in the past** – with many recipients now in work. Social security reform under Labour from 1997 implemented ‘progressive universalism’, expanding the base of those entitled to means-tested benefits (primarily through the introduction of working tax credit and child tax credit). Tax credits have subsequently been integrated into universal credit and provide payments for people in work but on low incomes. This means that, while they are still targeted transfers, means-tested benefits are available to a broader group of working-age adults and children than traditional out-of-work safety-net benefits. This also reduces the work disincentives associated with means testing.

Examining these arguments together, it is clear that social security for children and working-age adults should comprise both means-tested and non-means-tested benefits. The two forms of entitlements are geared to achieving different aims.

Attaining a robust and sufficiently generous means-tested element of the system should remain the central focus for reformers concerned with reducing poverty. But there are distinct policy objectives that can be better achieved by strengthening non-means-tested social security. Earnings replacement and extra costs benefits have been diminished to an extent that they are failing to meet these objectives.

Adequate means-tested benefits should therefore be supplemented with an enhanced role for non-means-tested payments.

Non-means-tested social security – key debates

Flat-rate vs. earnings-related benefits. In the UK, earnings replacement benefits are now almost entirely ‘flat-rate’, which means that payments are the same for each claimant regardless of previous income.* In many European countries, some income replacement benefits are ‘earnings-related’, with benefit payments paid at a rate proportional to the claimant’s previous income. This almost always includes unemployment insurance, which tend to be restricted to those who have a record of contribution to a social insurance fund. The key argument in favour of flat-rate earnings replacement is that it is cheaper and more redistributive (i.e. those on lower incomes receive proportionately more from such systems). The key argument in favour of earnings-related benefits is that they replace more of previous earnings when people stop working, enabling claimants to better maintain their standard of living when their earnings are disrupted.

The role of ‘contribution’. Many earnings replacement benefits are contribution-based, requiring a previous work record or evidence of contribution to a social insurance fund (i.e. national insurance in the UK). Those advocating against contribution-based social security argue that it can exclude and punish disabled people and women in particular, as people in these groups are less likely to have a sufficient record of contribution (although over the years mitigating policies have been introduced to reduce this problem).¹⁴ The case in favour of contribution is that it can be a mechanism to fund and justify higher payments, and that people value the principle of ‘reciprocity’ that it reflects. Options for making earnings replacement social security more inclusive include reforming contribution rules to widen access (e.g. the eligibility requirements for maternity allowance are easier to meet than those for jobseeker’s allowance) or removing social insurance requirements altogether.

Universal basic income. Some people suggest that most tax allowances and benefits should be replaced by a universal basic income (UBI). A UBI is a non-means-tested, unconditional payment available to everyone regardless of income, savings, contribution or circumstances (it is therefore neither an ‘earnings replacement’ nor an ‘extra costs’ benefit). Different proposed versions of UBI would result in significant variations in how much such a system might pay recipients, how much it could reduce (or increase) poverty for different groups, and the public spending implications. A full-scale UBI is not a practical proposition, as it would be very expensive while having little impact on poverty. A modest UBI could be introduced in place of tax allowances but this is essentially a tax reform and for that reason we do not cover it in this report.

* The only exception for working-age benefits are statutory maternity and adoption pay (see page 11). Parents receive 90 per cent of their earnings for the initial six weeks of the claim.

2. CAN CONSENSUS BE BUILT FOR STRONGER NON-MEANS-TESTED SOCIAL SECURITY?

Public support for adequate social security is crucial to see reforms implemented and improvements maintained into the future. Policymakers and politicians need to understand and shape the state of public opinion on social security.

Here, we explore the evidence on public attitudes to non-means-tested social security. We draw on new Fabian Society research, as well as existing evidence, to seek to answer the question: in light of experiences of the Covid-19 pandemic, is it possible to build consensus on a greater role for non-means-tested benefits?

This chapter considers previous literature, the outcomes of our citizens' jury, our survey of 1,647 adults weighted to be representative of Great Britain, and our consultation with social security experts drawn from across the political spectrum.

We found that there is scope for consensus, in particular on strengthening earnings replacement social security. Support for expanding extra costs entitlements is more mixed – as evidenced by all of our research methods. We conclude that consensus can be built in favour of:

- Raising the payment levels of existing, flat-rate earnings replacement benefits, at least in the first period of each claim.
- Introducing a new earnings-related, time-limited unemployment insurance benefit that prevents a sudden drop in income when people first leave work.

- Reviewing extra costs disability benefits to ensure that they are sufficient to equalise living standards and treat disabled people fairly.

In contrast, we found little support for strengthening child benefit. Our YouGov survey found limited backing for universal payments to support the extra costs associated with children. The deliberation amongst our citizens' jury participants suggested most people wanted to keep child benefit broadly unchanged.

Attitudes to means testing

It is often asserted that means testing is unpopular. But there is actually little existing research that specifically focuses on public attitudes to means testing in social security, either among the UK public or internationally. Some recent studies have begun to reverse this scarcity, while broader research on social security can be used to help us infer public opinion about means testing.

A recent study conducted by researchers from KU Leuven analysed a survey question posed to European respondents in 2016, asking whether they would favour the government restricting *all* social security provision to those on the lowest incomes.¹⁵ Strikingly, 50 per cent of UK respondents in the nationally representative sample expressed a preference for this hypothetical shift to a radically means-tested system – compared to a European average of 45 per cent. This echoes findings from qualitative research from Shelter, also conducted in 2016. Their focus groups and in-depth interviews found that people tended to believe social security should be targeted to prevent poverty, rather than reward contribution or compensate for high living costs.¹⁶

Other research indicates a different view on means testing among the public, however. A report from Demos published in 2011 involved qualitative research with participants who earned between £16,000 and £50,000. It found that a significant grievance with the social security was that it lacked 'reciprocity' and was therefore unfair. Participants resented the £16,000 savings threshold for means-tested benefits, suggesting that it punishes financial responsibility.¹⁷ In 2014 Bright Blue research on the attitudes of Conservative voters towards social security identified a preference for contribution-based benefits over means-tested benefits, again drawing explicitly on the reciprocity principle.¹⁸

To add to this there is direct evidence that the public simultaneously holds views that point in both directions on means testing. A 2013 report examining generational differences in attitudes to benefits found consensus across age groups that the system should focus on supporting those most in need *and* should entail a sense of reciprocity.¹⁹ And a recent study of social

security attitudes in Scotland found majorities in favour of several conflicting ideas: that social security should only be a safety net; that those who have paid more in through tax and national insurance should receive more help; and that social security should be universal.²⁰

In sum, the existing evidence points to mixed and ambivalent attitudes to means testing. This lack of clarity perhaps supports the case for maintaining and strengthening a mixed system – with adequate means-tested benefits to reduce poverty, supplemented by strong non-means-tested benefits that achieve a range of other objectives. We now examine attitudes towards flat-rate earnings replacement benefits, earnings-related unemployment insurance and extra costs benefits in turn.

Flat-rate earnings replacement benefits

The existing evidence

The key earnings replacement benefits in the UK – ‘new style’ JSA and ESA, carer’s allowance, statutory sick pay and parental leave payments – are almost all paid at a flat rate and, as discussed in chapter 1, have diminished as a proportion of total social security spending over time.

Previous research has tended to focus on different types of recipients but has not asked respondents to think separately about means-tested and earnings replacement benefits. Broadly speaking, this evidence suggests public support for improving benefits varies by recipient group. The evidence indicates public opinion is conducive to better earnings replacement for sick or disabled people and for carers. There is less support for increasing payments for unemployed people.

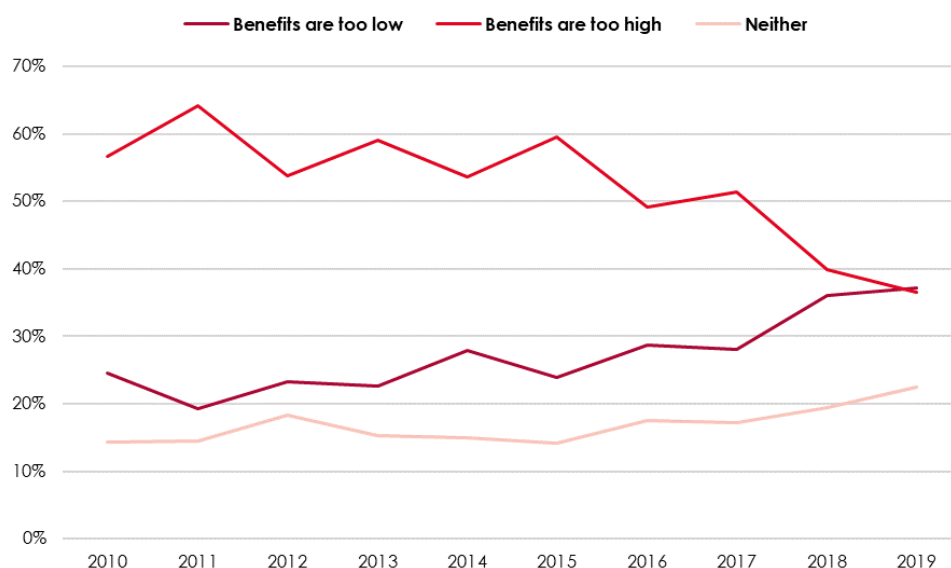
A regular tracker question by YouGov shows that around half of British adults think people who have a disability need more support from the benefits system. Only one in five people believe support for disabled people is too high.²¹ While this result does not allow us to tell whether people would prefer an increase in means-tested or non-means-tested support, it suggests that the public would at least be open to more generous ESA. Turning to short-term illness, earlier in 2021 the RSA found that 76 per cent of people favour increases in sick pay in the context of the pandemic.²² Recent polling also indicates that the public would like to see increases to carer’s allowance, at least temporarily – with more than half of Conservative voters favouring such a change.²³

Unemployed people attract less public support, although attitudes have been shifting slightly. In the most recent YouGov polling on whether people out of work receive enough from social security, 35 per cent of adults said

that they receive too little, while 13 per cent said they receive too much.²⁴ This gap is somewhat wider than just before the pandemic.

Similarly, survey evidence from the British Social Attitudes study demonstrates that opinion on social security for the unemployed had been softening in the years before the pandemic. Figure 5 shows that a clear majority of survey respondents in 2010 felt that unemployment benefits were too high. By 2019, more respondents believed that they were too low. Again, while this evidence does not allow us to determine preferences on means-tested vs. non-means-tested support, it suggests that an opportunity now exists to argue for better earnings replacement for the unemployed.

FIGURE 5: PUBLIC VIEWS ON HOW MUCH UNEMPLOYED PEOPLE SHOULD BE PAID IN BENEFITS WERE SOFTENING IN THE YEARS LEADING UP TO THE PANDEMIC



Question: "Which of these two statements comes closest to your own view ... benefits for unemployed people are too low and cause hardship, OR benefits for unemployed people are too high and discourage them from finding jobs?", 2010 to 2019

Notes: Excludes 'don't know' and other answers

Source: British Social Attitudes surveys, 2010-2019

Despite all the recent pandemic-induced unemployment, a tendency remains for people to attribute unemployment to individual rather than structural factors. A survey commissioned by King's College London in November 2020 showed that 47 per cent of people attributed job loss during the pandemic to individual performance at work – and only 31 per cent to luck.²⁵ While this result may be partially explained by the fact that the government has done a lot to protect jobs during the crisis, it is still a surprising result given the UK was in the midst of a labour market crisis beyond any individual's control. This shows that public attitudes towards unemployed people remain quite negative.

Background to the citizens' jury

The Fabian Society carried out an online citizens' jury with a group of 22 working-age participants drawn from across Great Britain. The citizens' jury took place across four two-hour evening sessions on Zoom from 30th November to Friday 11th December 2020. Jurors heard presentations from expert speakers and deliberated on the design and generosity of social security. They completed online surveys between each session, to quantify the group's attitudes, steer subsequent discussions and shape the jury's emerging proposals. By the end of the final session, the jurors arrived at a set of proposals for change in the social security system which they presented to Stephen Timms MP, chair of the House of Commons work and pensions committee.

The jurors were recruited to be broadly representative of the country – with an even gender split, a mixture of ages between 18 and 65, a range of different ethnicities, roughly proportional numbers of people from each region and nation in Great Britain, and a mixture of people with and without children. To give weight to the perspectives of people with personal experiences of social security we 'oversampled' people receiving social security benefits (excluding child benefit), with 9 of the 22 jurors in receipt of a benefit or tax credit. Accordingly, the group had a higher proportion of people who were not working (5 out of 22) and people who were in the C2DE socio-economic groupings (13 out of 22) than there are in the working-age population.

The jurors were asked to think about the system they wanted in five years' time and answer two questions: (1) how much money should people be paid by social security in different circumstances? (2) should social security become less based on means testing households' income and savings? In this chapter we report on their response to the second of these questions (our companion report *Going with the Grain* looks at the first question).

A detailed paper reporting insights from the jury is published alongside this report.

The citizens' jury

Our citizens' jury was asked to determine whether the role of non-means-tested benefits should be expanded.

The jury supported the continuing role of non-means-tested earnings replacement benefits and the contributory principle. More than two thirds of the jurors agreed that people who had paid into the system by making regular National Insurance contributions should receive more in benefits than those who had not. When answering a different question, fewer than a third said the government should always spend money on means-tested benefits rather than non-means-tested benefits. And when asked to consider specific policy options, only three jurors wanted to scrap non-means-tested

earnings replacement benefits and rely on universal credit. Another three supported the status quo and 16 wanted more generous earnings replacement benefits (even when reminded that this could increase taxes).

We asked the jurors these questions after a briefing and deliberation on models of earnings replacement benefits, which included discussion of earnings-related benefits like the furlough scheme and many continental social insurance systems. Almost all of those who wanted a more generous system supported these models rather than better flat-rate benefits (see next section). We focussed subsequent discussion of proposals for a new earnings-related benefit, rather than improving flat-rate benefits. Therefore the jury did not make recommendations on the level of flat-rate benefits.

The survey

Following the citizens' jury's steer on earnings-replacement benefits, we chose not to include specific questions on raising the level of flat-rate earnings replacement benefits in our quantitative survey.

Our survey did, however, find support for higher payments for groups that tend to receive these non-means-tested flat-rate benefits. Figure 6 shows that clear majorities favoured paying higher payments to sick or disabled people and full-time carers who are not able to work. While we did not specify whether the benefits payments in question would be means-tested or not, the results indicate scope for improvement to earnings replacement provision for these groups.

Our survey also indicated plurality support for the view that unemployed people receive too little support from the social security system. We asked respondents a version of the BSA question discussed in chapter 2 and found that 41 per cent of people with a view said benefits for unemployed people were too low – while 32 per cent said that they were too high.

FIGURE 6: A MAJORITY WANT HIGHER BENEFIT PAYMENTS FOR DISABLED PEOPLE AND CARERS WHO ARE OUT OF WORK (EXCLUDES PEOPLE WHO SAID 'DON'T KNOW')

For each of the following types of household without work, please say whether you think they should receive more or less in benefit payments than they do currently, or do you think the current amount is about right?

Percentage of adults	A lot more	A little more	Current amount is about right	A little less	A lot less	TOTAL MORE	TOTAL LESS
An adult who is severely disabled and may not work again	43	34	20	2	1	77	3
An adult who is caring full-time for a disabled relative	37	40	20	4	1	77	5
An adult who is sick or disabled but may be able to work in 1 or 2 years' time	19	37	37	5	2	56	7

Notes: Figures exclude those who said 'don't know'
Source: Fabian Society YouGov poll, February 2021

Agreement across demographic groups

Identifying whether there is consensus for stronger non-means-tested social security requires examining the extent to which views are shared across different demographic groups.

The views of 2019 Conservative voters are particularly relevant for those seeking reform. They tend to be the social group that is most sceptical about improving social security. They also form the support base for ministers currently overseeing the social security system and include voters that the opposition Labour party must seek to appeal to if it wants to win a majority at the next general election.

For similar reasons, we also examine the attitudes of people aged 65 and over. Although we are concerned with social security for working-age adults and children, older people are a politically significant group because of their large number and high propensity to vote.

It is also important that we understand the attitudes of those who would be most affected by reforms to non-pensioner social security. We therefore look in detail at the views of current social security recipients (aged under 66 and excluding people only receiving child benefit).

2019 Conservative voters: in all our survey questions relating to non-means-tested benefits and the groups receiving them, there was less support for improvements among 2019 Conservative voters than among the general population. However a majority, or a large minority, of 2019 Conservative supporters (excluding those who said ‘don’t know’) backed raising benefit levels for:

- adults who are severely disabled and may not work again (67 per cent);
- adults caring for disabled relatives (64 per cent);
- adults who are sick or disabled but may be able to work again in one or two years’ time (42 per cent).

By contrast as many 2019 Conservative voters think benefits for unemployed people should be decreased as increased.

People aged 65 and over: the same share of people over and under the age of 65 wanted higher benefits for unemployed people. But people aged over 65 were less likely to support cuts to unemployment benefits, as opposed to keeping payments as they are. Respondents aged 65 and over gave strong majority approval for improved benefits for disabled people and carers:

- 81 per cent thought payments should be higher for adults who are severely disabled and may not work again.
- 80 per cent thought payments should be higher for adults caring for disabled relatives.
- 59 per cent thought payments should be higher for adults who are sick or disabled but may be able to work again in one or two years’ time.

Current social security recipients: On all measures, there was more support for improvements to social security among respondents currently in receipt of benefits than among the population as a whole. A majority of social security recipients with a view supported:

- higher payments for unemployed people (61 per cent).
- higher payments for disabled people (83 per cent for severely disabled people; and 66 per cent for those who may be able to work again).
- higher payments for carers (85 per cent).

The appendix summarises the views of each of the key demographic groups explored here. From the level of agreement demonstrated, we can see that there is scope for wide-ranging consensus on improving earnings replacement for sick or disabled people and carers. There is also reasonable support for increasing payments for unemployed people, albeit not amongst 2019 Conservative voters.

The views of experts

Most of our advisory group wanted to see increases to the level of the main non-means-tested out-of-work benefits JSA and ESA (so as to at least match the 2020 increase in universal credit). Some members also supported proposals to increase other earnings replacement payments including statutory sick pay and carer's allowance.

Some of those backing higher payments favoured very significant reform, bringing payment levels much closer to (or beyond) the amounts needed to give recipients a reasonable minimum standard of living, or at least to match the level of statutory maternity pay. Others favoured an incremental approach, with only modest reform in the short term, mirroring the £20 uplift to universal credit in 2020.

But there was also opposition within the group to these non-means-tested earnings replacement benefits. On this view, which is mainly associated with the political right, there is no longer a case for working-age national insurance benefits and they should be left to wither, with means-tested universal credit taking on the earnings replacement function they once played (albeit at a more generous level over time ideally).

Earnings-related unemployment insurance

The existing evidence

The idea of earnings-related social security for working-age people has been largely absent from UK debate in recent years. However, there have been a series of research findings over the last decade which indicate latent support for an earnings-related insurance-style system. Qualitative evidence from a 2011 Demos report suggested that people in the middle of the income distribution felt worried that they could not sustain their standard of living if they had to use social security. Participants in the research referenced other countries' welfare systems – where out-of-work claimants received an earnings-related payment for a limited time – as fairer. The Demos participants supporting this view felt that those earning more would have paid more tax, and would therefore deserve a higher 'reward' if they fell on hard times; and that the impact of disrupted earnings would be more dramatic for those with higher incomes and living costs.²⁶ Quantitative research from IPPR in 2013 also found that many people felt social security provides too little support in the face of a financial shock, and that the system does not do enough for those who have contributed to it.²⁷

There are signs that, following the pandemic, the example of the earnings-related furlough scheme and grants for the self-employed may have made the public more receptive to earnings-related unemployment insurance. In

Autumn 2020 the RSA conducted a poll asking what temporary measures people would support to assist recovery from the pandemic. Half of respondents said they would support a scheme paying workers who are made redundant 70 per cent of their previous salary in benefits for at least six months, paid for by a temporary rise in national insurance. Only 20 per cent opposed the idea.²⁸

The citizens' jury

The jurors were briefed on the difference between the UK's flat-rate jobseeker's allowance and continental earnings-related unemployment schemes, which mirror the furlough scheme. The jury was struck by the contrast and many jurors strongly recommended that contributory jobseeker's allowance should be replaced by an unemployment insurance benefit that mimics the Covid-19 furlough scheme (i.e. paying up to 80 per cent of previous earnings for six months).

This was by far the most popular of four policy options put to the jury: (a) scrapping non-means-tested earnings replacement benefits; (b) keeping the status quo; (c) higher flat-rate payments; and (d) an earnings-related system that pays more than current benefits. When directly asked to support or oppose the proposal, 14 out of the jurors gave support and only four opposed.

Although this conclusion was reached after a briefing and detailed discussion, some jurors spontaneously proposed similar ideas near the start of the citizens' jury:

"In Germany and Holland, don't they have a system so that the more you put into it then if you are out of work you actually get a premium and it goes down the longer you're on it? ... That seems like a much fairer system than the system we have." – Woman not in receipt of benefits, 32, South West

Once the detailed conversation on earnings replacement benefits began, jurors pointed to the operation of the furlough scheme as evidence that such a reform was both desirable and possible.

"They've obviously done it far better with the furlough and actually, for me, I would like that kind of system in place ... they wouldn't have introduced that if it wasn't going to be possible." – Man not in receipt of benefits, 55, Scotland

However, a number of jurors wanted any new earnings-related unemployment insurance to be optional rather than compulsory (those who were opposed to the policy in the first place were more likely to hold this view). The jury was roughly divided as to whether people should be able to

opt out of the scheme or whether it should be compulsory. There was not detailed debate on the operation or feasibility of an optional version of the policy, but this suggests there might be merit in debating an unemployment benefit modelled on pensions auto-enrolment.

In the final session of the citizens' jury the jurors were presented with a costing for an earnings-related unemployment insurance. They were told the policy might cost approaching £5bn per year that could be funded by a 1p increase in national insurance. The jurors maintained their support for an earnings-related system following discussion of these costs and included the policy in their final recommendations.

The survey

In our citizens' jury, we found clear support for a 'furlough-like' earnings-related unemployment benefit. By contrast, when we polled a representative sample of the public views were mixed. Almost equal numbers preferred the current model of flat-rate jobseeker's allowance and a new earnings-related system (see figure 7 for the detailed wording of the question). Of those who expressed a preference 49 per cent supported the reform proposal and 51 per cent supported the status quo.

The difference between the citizens' jury and the poll is likely to be the result of the jurors being provided with a briefing and having the opportunity to ask questions and deliberate. The jurors received information about social insurance in other countries and had the opportunity to discuss the details of what a new scheme might entail. The survey respondents only had access to the limited information presented in figure 7.

Having said that, the survey still indicates significant potential support for the policy. The idea of an earnings-related unemployment insurance was barely discussed in the UK before the pandemic, so it is striking that almost as many people backed this policy as the status quo. With political advocacy and debate, support for the policy might well increase over time. Importantly, our question was carefully balanced. It presented a choice between two policy options rather than asking people if they supported or opposed the proposal (something that can artificially inflate responses). We also mentioned in the question that national insurance might need to rise to pay for the reform.

FIGURE 7: THE PUBLIC IS FAIRLY EVENLY DIVIDED BETWEEN SUPPORTING A NEW EARNINGS-RELATED UNEMPLOYMENT INSURANCE AND KEEPING TODAY'S SYSTEM

Jobseeker's allowance is a benefit for people who have made national insurance contributions and then become unemployed. It is paid at a flat rate of £74 per week for up to 6 months, regardless of previous earnings. The Covid-19 furlough scheme currently pays most employees 80 per cent of their salary if they are unable to work because of the pandemic.

Thinking about after the Covid-19 pandemic is over, which of the following would you prefer to happen if someone becomes unemployed after they have made regular national insurance contributions?

Jobseeker's allowance should continue as it is, so people who become unemployed get a modest flat-rate payment for up to six months and national insurance rates stay the same.	37
An earnings-related benefit similar to the furlough scheme should be introduced so people who become unemployed get 80 per cent of their previous earnings for up to six months, even if national insurance rates might have to increase to pay for this.	35
Neither of these	8
Don't know	19

Source: Fabian Society YouGov poll, February 2021

There was some divergence between demographic groups, on their enthusiasm for this proposal. Of the groups examined in our survey, people who voted Conservative at the 2019 election offered least support. However, a third of this group, who expressed a view, did support earnings-related unemployment insurance which is not an insignificant level of initial support on which to build a case for reform.

People aged over 65 were more supportive of the policy than other age groups, with half of those who expressed a view backing the policy. They were almost as likely to support the policy as people aged 18 to 64 in receipt of benefits (see appendix). This finding reflects previous research that has shown that older people are often supportive of a stronger welfare state (even when they are not direct beneficiaries). In this case, their views may derive from the greater role non-means-tested social security has played in previous decades compared to today. It is obviously important that a politically influential segment of the population is potentially supportive of the policy.

The views of experts

There were a range of views among the experts we spoke to, but in general people were cautiously supportive of a new furlough-inspired unemployment benefit.

While several contributors unreservedly backed the idea, others emphasised that it would have to be implemented carefully to prevent entrenching inequality or social division. They wanted to ensure the reform did not lead

to means-tested benefits becoming less generous, and also stressed that the policy needed to be designed to ensure eligibility was inclusive.

A minority of the experts wanted to see an earnings-related scheme adopted on a voluntary basis, potentially making use of an auto-enrolment mechanism and delivered by private providers. On this view universal credit should remain at the centrepiece of the social security system.

Extra costs benefits

The existing evidence

In examining attitudes to extra costs benefits for disabled people, our starting point is the finding that the public broadly believes this group needs more support from social security overall.²⁹ As referenced above, the YouGov tracker polling on this issue does not ask respondents whether they would prefer this additional support to be provided with a means test or not.

However, in other polls in recent years people have opposed cuts to personal independence payment (PIP) which is the main 'extra costs' benefit for disabled people. In 2016, a YouGov poll found that 70 per cent of British adults felt that cuts to the benefit were the wrong priority.³⁰

There is also evidence that some people favour reform to the process of assessment for disability benefits. Recent work from Bright Blue on attitudes to social security in Scotland found that almost half of Scottish adults believe it is too hard to apply for disability benefits. Notably, the research also found that six in 10 Scots support reducing the use of face-to-face assessments for disability benefit decisions – and, further, that there was majority support for this across demographic groups.³¹

Turning to extra costs benefits for children, evidence from recent years suggests there is a degree of public scepticism about both the level and universality of child benefit. Polling conducted in 2015 found that child benefit was a priority for future social security cuts amongst the public.³² There is also evidence of support for the introduction of partial means testing of child benefit; a YouGov poll found that 64 per cent of people supported the Conservative party's 2010 decision to abolish child benefit for households with a higher rate taxpayer.³³ At the time of these polls politicians were stressing that cuts were inevitable, so these views may reflect what the public saw as the 'least bad' cuts. Views on where to spend extra money if spending were growing in the future could be different.

The citizens' jury

There was not a strong consensus within the jury for universal extra costs benefits.

A small majority of the jury supported the principle of extra costs benefits being available to everyone: after a discussion 12 of the 22 jurors said they were in favour of non-means-tested benefits to help with the extra costs of children and disability, while six were opposed. This is a similar split to our broader question asking whether jurors backed money being spent on non-means-tested benefits (see pages 24-25).

With regard to child benefit specifically, there was little appetite for improving the benefit. Six jurors wanted more generous child benefit, compared to two who wanted it scrapped and replaced by means-tested support. However a clear majority, 14 of 22 participants, said the rate of child benefit should stay as it is. In its final conclusions the jury decided not to recommend extra spending on universal children's benefits.

There was no detailed discussion of extra costs benefits for disabled people, although the jury were in general supportive of spending on people with disabilities. They supported the principle that all disabled people should be able to meet their reasonable minimum needs which implies adequate extra costs benefits. However the jury did not deliberate and come to conclusions on this area of policy.

The survey

Our survey indicates public backing for extra costs benefits for disabled people, regardless of their income. Figure 8 shows that a majority of those expressing an opinion supported universalism for disabled adults and parents of disabled children. However we did not find the same majority for the principle of all parents receiving money to help with the extra costs of children.

FIGURE 8: A MAJORITY FAVOURED UNIVERSAL SOCIAL SECURITY FOR DISABLED PEOPLE BUT NOT FOR RAISING CHILDREN (EXCLUDES PEOPLE WHO SAID 'DON'T' KNOW')

For each of the following, please say whether you think social security benefits should be paid to everyone who faces these extra costs, or whether payments should only be made depending on people's income.

Percentage of adults	Social security benefits should be provided to everyone with these costs	Social security benefits should only be made depending on people's income
Disabled adults with costs linked to their extra needs	59	41
Parents of disabled children with costs linked to their extra needs	58	42
Parents with costs from bringing up children	20	80
Working parents who need to pay for childcare	26	75

Notes: Figures exclude those who said 'don't know'.

Source: Fabian Society YouGov poll, February 2021

This stark difference in attitudes to universalism for disabled people and children was reflected across demographic groups. Just under 50 per cent of people who voted Conservative in 2019 who expressed a view supported the idea that extra costs benefits should be paid to disabled adults and the parents of disabled children, regardless of their income. A sizeable majority of people aged over 65 and of social security recipients were in support (see appendix).

The views of experts

Every advisory group contributor expressing a view agreed that universal social security for disabled people should be reviewed and improved. However most contributors were more exercised by the fair and effective operation of disability assessments rather than the amounts disabled people are paid when their eligibility for extra costs benefits is established.

Some of the experts consulted represented groups with a longstanding commitment to universal benefits for children. They maintained the view that universalism is in principle important because it helps entrench support for social security and therefore helps children on low incomes. However they recognised that our study is not alone in finding little public appetite for large increases to child benefit and accepted that there is not public consensus for stronger universal benefits for children.

3. PLANS FOR REFORM

Our public attitudes findings indicate there is scope for consensus on expanding non-means-tested social security for earnings replacement and the extra costs of disability. This chapter details specific proposals that follow from the conclusions of our evidence review, citizens' jury, national survey and expert consultation.

We outline three key recommendations for strengthening non-means-tested social security.

First, we propose that the government should initiate **a full review of universal disability benefits** designed to meet extra living costs. There is evidence that these benefits – personal independence payment (PIP) for adults and disability living allowance (DLA) for children – are not sufficient to equalise living standards between disabled people and non-disabled people. A review should examine how extra costs social security for disabled people can be made more adequate and operate in a fairer way.

Second, the **payment levels of existing non-means-tested earnings replacement benefits should be increased**. There are two options to consider:

- enhance earnings replacement benefits by around the same amount as the 2020 universal credit uplift; or
- provide large increases to earnings replacement benefits (including statutory sick pay), to match the level of maternity payments or the state pension (possibly for the initial period of a claim only)

Third, we propose introducing **earnings-related unemployment insurance similar to the furlough scheme**, so people who become unemployed get 80 per cent of their previous earnings for up to six months. This would be a major extension of the protection available from the British welfare state.

These measures should be considered as supplementary to significant reform of means-tested social security. Our companion report, *Going with the Grain*, argues that there is scope for consensus on improving the generosity of universal credit (see box on page 36).

The proposals in that report bring about a massive reduction in child poverty but they are expensive. The measures recommended in this report could be much cheaper. However they would still require some billions in additional public spending – for this reason, we see our proposals as recommendations for reform in the medium term, to be implemented over the course of a full parliament from 2023 or 2024 onwards.

Going with the Grain: proposed reforms to universal credit

Our companion report recommends two options for improving the generosity of means-tested benefits to improve living standards and reduce poverty.³⁴

The ‘incremental’ approach: This includes keeping the April 2020 £20 uplift to universal credit, raising amounts for under-25s and adding small extra payments for disabled people, carers, parents caring for 0-2 year-olds and the first child in each family. It also entails increasing the amount that claimants can earn from work before universal credit starts to be withdrawn.

The ‘start from scratch’ approach: This includes redesigning payments from scratch to bring them much closer to the amounts required to meet people’s reasonable minimum needs (with reference to the Joseph Rowntree Foundation’s minimum income standard). Payments would ensure workless households in different circumstances could secure incomes of between 50 per cent and 100 per cent of the minimum income standard.

In addition, we proposed removing the two-child limit as a policy option for politicians to explore (although this measure divides the public).

With the two-child limit removed, **the incremental package** is modelled to cost £17bn and lift 2.6m people out of poverty including 1.3m children. **The ‘start from scratch’ approach** is modelled to cost £36bn and lift 3.8m people of poverty including 1.9m children (halving child poverty). Both these costings include retaining the £20 per week uplift.

Reform proposals

Extra costs benefits

While we found no consensus in favour of better social security to support the extra costs associated with bringing up children, we did find strong support for (a) universalism in social security for disabled people and (b) more generous payments for disabled people.

This leads us to propose **a full government review of extra costs disability benefits**. Previous research commissioned by Scope reveals that current extra costs benefit payments for disabled people are not sufficient to equalise living standards between disabled people and non-disabled people.³⁵ This is true regarding both disabled adults and families with

disabled children. Scope used a 'standard of living' approach to measure the financial impact of extra costs on disabled peoples' lives. After controlling for other socio-economic factors, the approach assumes that differences in standards of living for people with the same incomes are due to the extra costs that disabled people incur in daily life. Their results show that, on average, both disabled adults and parents of disabled children face extra costs of almost £600 each month, far more than the value of the benefits they receive to help meet these costs. For both groups the extra costs the households face is equivalent to almost half of their income.

We also heard evidence from our expert stakeholders that demonstrates dysfunction in the assessment system for PIP claims. Claimants face an average 15 week wait between application and decision; and while only 46 per cent of claims are initially successful, 43 per cent of negative decisions that are then challenged are overturned under 'mandatory reconsideration'. When taken to appeal stage, 76 per cent of decisions are overturned.³⁶

A review of the future design and generosity of universal social security for disabled people should be informed by further research on disabled people's essential costs, and the present impact of disability benefits.

Flat-rate earnings replacement benefits

The next category of reforms to consider are **increases in the payment levels of existing flat-rate benefits**. When the government decided to temporarily increase the level of universal credit and working tax credit in April 2020, there was no parallel increase to other out-of-work benefits (both means-tested and non-means-tested). While the uplift was very welcome, it had the effect of further reducing the relative importance of earnings replacement benefits in the social security system.

There are two options to consider:

- **Extend the £20 per week uplift** to the key non-means-tested earnings replacement benefits now paid below the basic level of universal credit: jobseeker's allowance (JSA), employment and support allowance (ESA) and carer's allowance
- **Match the value of the best earnings replacement benefits** by increasing the value of JSA, ESA, carer's allowance and statutory sick pay to the level of maternity allowance/statutory maternity pay or to the new state pension. We propose that ESA for severely disabled people should match the state pension and other earnings replacement payments should match maternity payments.

Matching these existing payments would massively increase the non-means-tested income protection cushion available when people are unable to work.

The costs of these reforms would vary considerably by benefit (see figure 9). As things stand a significant increase in JSA is a fairly cheap policy because the numbers claiming the benefit are very low (outside of recessions when temporary spending is funded by borrowing). The cost would be around £150-200m on current caseload. Similarly, the costs of raising SSP are low for employers and negligible for taxpayers (options for reforming SSP are explored in detail in a recent Fabian Society paper for the TUC, Statutory Sick Pay: Options for Reform). Raising JSA and SSP to match statutory maternity pay is therefore an affordable proposition.

FIGURE 9: ESTIMATED 'HEADLINE' COST OF HIGHER FLAT-RATE INCOME REPLACEMENT BENEFITS (BEFORE MEANS-TESTED CLAW-BACKS AND BEHAVIOURAL EFFECTS), 2020/21

Non means-tested benefit	Recipients	Estimated annual cost of £20 uplift	Estimated annual cost of matching SMP (or SP)	Recipients also claiming means-tested DWP benefits
Jobseeker's allowance	40,000 (outside recession)	£40-50m (+25%)	£150-200m (+100%)	Very low
Employment and support allowance	800,000	£850-900m (+19%)	£2.8bn (+60%)	40-50%
Carer's allowance	850,000	£900m (+30%)	£3.8bn (+120%)	60%
Statutory sick pay			£300m (funded by employers)	n/a

Notes: All payments are increased to the level of maternity payments except for ESA for people in the 'support group' which are increased to the level of the new state pension.

Sources: statxplora.dwp.gov.uk, DWP; Expenditure and caseload forecast, Spring Budget 2021, DWP, 2021; Andrew Harrop, Statutory sick pay: Options for reform, Fabian Society, 2021

There is an important caveat to our costing of the JSA increase because it is based on caseload under current policy (excluding the short-term effects of the pandemic recession). However, only around 5 per cent of unemployed people claim JSA and raising the value of the benefit would be expected (and intended) to increase take-up.³⁷ If the number receiving JSA doubled to 80,000 as a result of raising the benefit to match maternity payments this would increase the cost of the policy by a further £300m per year.

Demand for higher JSA would however be constrained if current rules on the interaction of JSA and means-tested benefits were retained. As things stand every pound of JSA is clawed-back through a pound less of universal credit (which means there is no point in claiming JSA if a household is also receiving means-tested benefits). It would only be in people's interests to claim if the household's total means-tested entitlement was either zero or less than their improved rate of JSA. This would apply to unemployed people with good savings or a working partner with decent wages, and also

to people entitled to less in UC than the new higher rate of JSA (e.g. people without entitlement relating to children or rent).

Existing contribution rules would also restrict take-up (by excluding the self-employed and people with little or no recent employment). Although there is significant uncertainty regarding the possible caseload, we can be confident that this major enhancement to social protection in the labour market could be delivered for comfortably less than £1bn per year.

The cost of a significant increase in non-means-tested ESA and carer's allowance would be much higher, because many more people receive these benefits. The 'headline' cost of raising both these benefits by £20 per week would be around £1.8bn. The cost of raising the benefit to match maternity payments (or the new state pension in the case of ESA for severely disabled people) would be even higher: the 'headline' cost would be more than £6bn.

In both cases perhaps half these costs would be clawed-back through a reduction in means-tested benefits (which would be reduced pound-for-pound as ESA and CA payments increased). This is because, unlike with JSA, very large numbers of people receive non-means-tested ESA and CA alongside DWP means-tested benefits.

On the other hand, with ESA and CA there is little risk of a big rise in demand in the event of payments becoming more generous. Eligibility for both benefits is linked to a health assessment and there is no evidence of a large pool of people who are eligible but not claiming.³⁸

The costs of increasing the value of ESA and CA may be judged prohibitive. A cheaper way to improve earnings replacement for carers and disabled people would be to introduce higher payments for a limited period, of say 1 or 2 years. The 'headline' cost of raising ESA and CA to match maternity payments (or the state pension for the most disabled) would be £900m per year with one year of entitlement or £1.6bn per year with two years of entitlement. Again, some of this money would be clawed back through means testing and the net cost would be significantly lower. This is a much more affordable proposition.

Introducing a time-limited higher rate of ESA and CA would reflect the idea that earnings replacement payments are particularly important as a financial cushion in the initial period after leaving work. However, long-term recipients (who are likely to have significant needs) would not benefit. For this reason a time-limited increase to these non-means-tested benefits should only be considered alongside a parallel enhancement in means-tested support for carers and disabled people (along the lines outlined in *Going with the Grain*).

FIGURE 10: NUMBER OF BENEFICIARIES AND 'HEADLINE' COSTS FROM RAISING ESA AND CARER'S ALLOWANCE FOR THE FIRST 1 OR 2 YEARS OF ENTITLEMENT, 2020/21

	1 year		2 years	
	Recipients	Estimated cost of matching SMP/SP	Recipients	Estimated cost of matching SMP/SP
Employment and support allowance	80,000	£300m	110,000	£400m
Carer's allowance	140,000	£600m	270,000	£1.2bn

Sources: statxplora.dwp.gov.uk, DWP; Expenditure and caseload forecast, Spring Budget 2021, DWP, 2021

Our public attitudes research did not explore people's detailed views on proposals along these lines. But we think it is likely that campaigners and politicians could make a successful case for reforms that would significantly increase financial protection, at a cost that is modest compared to the overall social security budget – i.e. raising the value of JSA and SSP to match maternity payments and doing the same for ESA and CA for 1 or 2 years.

Integration with universal credit

A complementary or alternative approach to improving flat-rate non-means-tested benefits would be to recognise them within universal credit, to avoid the situation today where people see all their non-means-tested earnings replacement benefits clawed-back through lower means-tested payments. Rewarding non-means-tested benefits in UC matters because it will ensure that reforms benefit low household incomes. Without this, any proposals to increase non-means-tested benefits would mainly assist more affluent households not receiving UC: most low-income means-tested benefit recipients would lose the additional money pound-for-pound in UC deductions.

One approach would be to treat earnings replacement benefits as earned income when determining UC payments. UC works by allowing people to keep 37p in each pound of their extra net earnings (including statutory sick pay and maternity pay). By contrast unearned income including ESA, JSA, carer's allowance and maternity allowance is clawed-back pound for pound. If these payments were treated as earned income UC recipients would gain by up to £25 per week in the case Carer's Allowance, £28 for JSA and the lower rate of ESA and £42 for the higher rate of ESA. Obviously, the gains would be higher still if the value of the benefits were increased in value as discussed in this chapter: under UC rules a benefit paid at the rate of maternity allowance and treated as earned income would increase household income by up to £56 per week. Designating benefits as earned income would be relatively cheap in the case of maternity allowance and JSA because the caseloads are low (and only a proportion of claimants would be eligible for UC). For ESA and CA the costs would be high because so many people are in receipt of these benefits and many of them are eligible for UC (the cost would be more than £1 bn for each of ESA and CA).

An alternative approach would be to create a reward within universal credit to recognise entitlement to non-means-tested payments. This is effectively what happens in the case of Carer's Allowance, where a CA claim is one way to trigger the £38 per week UC carer's premium. A similar payment to reward eligibility for JSA, ESA and maternity allowance might be created.

Rewarding earnings replacement benefits within UC would lead to a rise in take-up of non-means-tested benefits, as there would now be a point to claiming them alongside UC (there is little data available to help model this and we have not attempted to cost the impact of these behavioural changes).

Alongside rewards for earnings replacement benefits it would make sense to introduce the digital integration of UC and non-means-tested benefits (probably for new claims only due to the limitations of DWP IT systems). A single online portal should be used to generate and update claims for both non-means-tested earnings replacement benefits and for universal credit.

Earnings-related unemployment insurance

With respect to unemployment, we also propose an alternative option to a higher flat-rate payment: **an earnings-related unemployment insurance scheme**.

Our public attitudes findings indicated significant scope for building on the Covid-19 furlough programme to create permanent unemployment insurance. This would deliver on a key principle of social protection, that disruption to one's earnings should not mean a sudden, dramatic fall in living standards.

A scheme could be designed with a variety of permutations. Under the model we examined people with a sufficient record of national insurance contributions entering unemployment would be entitled to receive 80 per cent of their previous earnings (their level of entitlement could be determined using PAYE data, using data either from their last month of employment or averaged over a longer period). Eligibility would be time-limited, lasting for a maximum of six months.

As with the furlough scheme, there would be a cap on the amount payable equivalent to an annual salary of £30,000 (unemployed people previously earning above that amount would be entitled to this maximum rate only). In cases where 80 per cent of a claimant's previous earnings would be less than the level of flat-rate JSA (increased to the level of statutory maternity pay), they would receive this rate. UC rules would also be reformed so that entitlement to the new unemployment benefit would appropriately rewarded when entitlement was being calculated (see box on page 41).

We used the Landman Economics tax transfer model to estimate the benefits and costs of this proposal. We modelled the reform in isolation – as if it was introduced on top of the social security system as it currently exists (though treating unemployment insurance payments as earned income for the calculation of universal credit entitlement). The model used data from the Family Resource Survey 2018/19 and looked at people currently unemployed. It predicted whether they would be eligible for the scheme, and what their prior earnings might have been, by comparing their profiles with similar data in the longitudinal Understanding Society study, which records transitions from work to unemployment.

As we were interested in the long-term future of social security our modelling assumed that the labour market has returned to pre-pandemic conditions with respect to employment and earnings. We also looked at a scenario where universal credit has been fully rolled out. All our results are for the UK (and assume that decisions taken for Scotland and Northern Ireland mirror those in the rest of the UK).

We report the number of households and individuals that gain from the reform and the cost to the exchequer. We examine impacts on key household types that will be particularly affected by changes to unemployment insurance.

The model assumes that 390,000 people would receive the new benefit, an increase from a projected 80,000 recipients expected to claim current JSA. This represents a very significant increase and comprises around half of people unemployed for six months or less. The average payment is projected to be £250 per week, up from £71 under the current system. Including the families of recipients, the model projects that 800,000 people would benefit from the policy.

With these caseload assumptions the additional annual public spending required for the reform would be £4.8bn. This is roughly equivalent to increasing employee's national insurance by 1p in the pound.

FIGURE 11: IMPACTS OF NEW EARNINGS-RELATED UNEMPLOYMENT INSURANCE FOR DIFFERENT HOUSEHOLD TYPES – INTRODUCED ON TOP OF CURRENT SOCIAL SECURITY SYSTEM

Household type	Households benefiting	Individuals (adults and children) benefiting	Additional public spending on household type
All households	380k	800k	£4.8bn
Households with adults aged 18-24	70k	81k	£520m
Households with adults aged 25-60	290k	690k	£4.1bn
Households with adults aged 61-65	17k	31k	£220m
Households with no children	250k	330k	£3.2bn
Households with children	130k	470k	£1.7bn
Households with no one in work	250k	410k	£3.1bn
Households with at least 1 person in work	130k	390k	£1.8bn
Households with no disabled adults	260k	510k	£3.4bn
Households with at least 1 disabled adult	110k	290k	£1.4bn
Poorest income decile	100k	200k	£1.5bn
2 nd income decile	84k	190k	£880m
3 rd income decile	47k	86k	£570m
4 th income decile	56k	120k	£700m
5 th income decile	34k	100k	£470m
6 th income decile	23k	52k	£320m
7 th income decile	9k	12k	£80m
8 th income decile	7k	9k	£81m
9 th income decile	10k	20k	£156m
Richest income decile	1k	3k	£10m

Source: Landman Economics

Figure 11 shows the different types of household that would benefit. We see that more of the additional spend would go toward households without

children rather than those with children (although overall 240,000 children would benefit from the reform). The bulk of the spending would be on households with no one in work (£3.4bn per year, benefiting 410,000 people at any time). Almost all of the remainder would go towards two-adult households where only one person was in full-time work. This group would receive £1.4bn, benefiting 330,000 people. And while most beneficiaries live in households with no disabled adults, 290,000 beneficiaries are in families with a disabled adult.

Crucially our modelling shows that the reform would be redistributive. Around 700,000 of the 800,000 beneficiaries live in households in the bottom half of the income distribution; and £4.1bn of the total spend required would be directed toward the bottom half. The poorest income decile would receive £1.5bn of this spending.

The policy does not have a significant impact on poverty as conventionally measured, lifting just 40,000 people out of poverty (i.e. people living in households with incomes below 60 per cent of the contemporary median income, adjusted for housing costs and size of household). The effect is modest because, as well as giving more money to some low-income households, the policy also increases median household income by £4 per week which raises the poverty line. So, while some beneficiaries of the policy are lifted out of poverty, other households who are unaffected by the measure and see no change in their income dip below the revised poverty line.

We can disregard this statistical oddity by using a fixed-line measure of poverty. This reveals the true impact of the policy as it would be felt by low-income families. Under the fixed-line measure (sometimes called 'absolute' poverty) the policy lifts 430,000 people out of poverty. This is made up of 310,000 adults and 110,000 children. This suggests earnings-related unemployment insurance could play an important part in the fight against poverty.

Our total spending estimate of £4.8bn is much higher than the £1.9bn cost of a different version of this policy modelled in a recent paper by the Resolution Foundation.³⁹ The key reason for this is that we assume the reform would result in significant behavioural change, and model an increase in JSA take-up from the current level (less than 5 per cent of unemployed people) to around 50 per cent of those in the first six months of unemployment. The Resolution Foundation do not assume an increase in caseload, which is a key objective of our policy.

Earnings replacement benefits for the self-employed

Self-employed people are currently entitled to claim several of the key non-means-tested earnings replacement benefits. Eligibility for carer's allowance is neither means-tested nor contribution-based, so self-employed people can claim if their circumstances fit the criteria. Self-employed workers who face disruption to their earnings because of sickness or disability can also claim ESA as long as they have made sufficient national insurance contributions.

JSA is currently for employees only. Those who move into unemployment from self-employment are not eligible to receive it, even if they have paid national insurance contributions. Our proposals for both flat-rate JSA and an earnings-related unemployment insurance assume that this model of eligibility continues. However, policy makers could consider reforms to enable self-employed people to access non-means-tested unemployment benefits.

One option is to make flat-rate JSA available to previously self-employed claimants. This would need to be considered alongside reform of national insurance contribution rates for the self-employed, which are lower than for employees (in most cases 9 per cent of profits rather than 12 per cent of wages). In addition, employers also pay national insurance for each employee. This is an important issue because equalising JSA rules would mean there would be no difference in social security entitlements between employees and the self-employed.

Policymakers could also consider including the self-employed in a new earnings-related unemployment insurance scheme. Calculation of previous earnings could be modelled on the PAYE-based system that has been used to determine grants for the Covid-19 self-employment income support scheme. As with flat-rate JSA, access to earnings-related unemployment insurance for the self-employed should be considered alongside reform to national insurance contribution rates.

In thinking about self-employment, policy makers would need to consider how to prevent abuse of the system because it would be difficult to establish why a self-employed worker's earnings had stopped in each case. As with employees, self-employed people would need to establish eligibility by demonstrating they were seeking work and had a sufficient record of national insurance contributions. For the self-employed the rules could also include a time restriction, with a new claim only being permitted once every two or three years.

Eligibility for earnings replacement benefits

We have not explored in detail the question of how eligibility for non-means-tested earnings replacement benefits should be established. Presently there are three mechanisms:

- Circumstances only – carer’s allowance
- National insurance contributions – ESA, JSA and maternity allowance
- Employment relationship – statutory pay schemes, furlough

Future policies could be based on any of these arrangements or a combination. Policies that are seeking to improve benefits to offer better earnings replacement need to establish some link to recent earnings, whether through employment contract, income tax record, national insurance contributions, or a time-based restriction (ie up to six months of entitlement available only every 2 or 3 years).

National insurance remains an important part of UK social security. While the details of the link between NI contributions and entitlements are not well understood by the public, the ‘national insurance’ brand helps capture the sense that benefits are earned and ‘something for something’. National insurance rules vary between benefits, with entitlement easier to establish for maternity allowance, then ESA, then JSA. In the past national insurance rules have been criticised for being too restrictive, excluding people with low or intermittent earnings (often women). On the other hand, eligibility restrictions also make any particular level of payment more affordable for taxpayers.

HMRC income tax records could provide an important alternative option for establishing entitlement to earnings replacement benefits. Real time payroll information now drives the operation of universal credit, and the Covid-19 self-employment income support scheme successfully used tax records from previous financial years to pay earnings-related grants. In the future real time HMRC payroll data could offer more flexibility and inclusivity than current National Insurance records. They could also be important for determining eligibility and payment levels for an earnings-related benefit where information on past income would be needed.

In the long run there is a case for simplifying and integrating the operation of income tax and national insurance, using ideas proposed in 2016 by the Office for Tax Simplification.⁴⁰ National insurance and income tax could still be retained as separate brands and legal entities even if they were combined in operational terms.

APPENDIX

Survey results: differences between demographic groups

Percentage of those expressing an opinion ('don't know' excluded)	All adults	2019 Conservative voters	People aged 65 and over	Benefit recipients aged 18-65
Which of these two statements comes closest to your own view? ('Benefits are too low' option only – full text figure 5)				
Benefits for unemployed people are too low and cause hardship	41	20	40	61
Group specified should receive more in benefit payments than they do currently (full text figure 6)				
An adult who is severely disabled and may not work again	77	67	81	83
An adult who is caring full-time for a disabled relative	77	64	80	85
An adult who is sick or disabled but may be able to work in 1 or 2 years' time	56	42	58	66
What would you prefer to happen if someone becomes unemployed after they have made regular national insurance contributions? (full text figure 7)				
An earnings-related benefit similar to the furlough scheme should be introduced so people who become unemployed get 80 per cent of their previous earnings for up to six months, even if national insurance rates might have to increase to pay for this.	43	34	50	52
Everyone in group specified should be provided with social security benefits (full text figure 8)				
Disabled adults with costs linked to their extra needs	59	49	58	72
Parents of disabled children with costs linked to their extra needs	58	48	57	65
Parents with costs from bringing up children	20	11	13	32
Working parents who need to pay for childcare	26	16	14	34

Source: Fabian Society YouGov poll, February 2021

Endnotes

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