

## Employment and Support Allowance: the case for change

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## **Reform**

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## Introduction

Improving outcomes for disabled people is one of the UK's key unmet policy challenges. Economic growth and the policy interventions of successive governments have been successful in reducing other benefit caseloads: the number of unemployment claims is well below the peaks of the 1980s and early 1990s, and lone-parent claims have halved since the mid-1990s.<sup>1</sup> In contrast, the out-of-work incapacity-related benefit caseload peaked in the early 2000s and has remained essentially unchanged since.<sup>2</sup> Some 2.4 million people are claiming: fully triple the number claiming at the end of the 1970s.<sup>3</sup>

Unconditional support for those who are deemed, due to incapacity, unable to work or carry out any work-related activity is a key principle of the welfare state. For many of those claiming sickness and disability benefits, however, the evidence suggests the system is doing more harm than good. Given the well-evidenced benefits of work, including for many sick and disabled people, and that labour market detachment increases over time,<sup>4</sup> the high number of people claiming out-of-work incapacity-related benefits long term is bad for individuals, society and the economy.

Like other countries, the UK has taken measures to change this. In 2006, the then Government's green paper *A New Deal for Welfare* stated its aim was to "reduce by one million the number on incapacity benefits."<sup>5</sup> The replacement of Incapacity Benefit (IB) with Employment and Support Allowance (ESA) in 2008 was designed to reduce the number being 'parked' on these benefits. The introduction of the Work Programme in 2011, consolidating almost all welfare-to-work programmes into a single scheme, was designed to help people with a health condition enter and keep jobs. Despite these changes, progress in tackling the high caseload and long-term nature of the benefit has been limited. There are still 2.3 million working-age people claiming ESA, of which 1.3 million are in the support group and therefore not subject to any conditionality or receiving any support. Introduced just seven years ago, there are already more than one million people who have been claiming the benefit for more than two years.<sup>6</sup>

A job brings many important financial and non-financial benefits. Employment not only provides a source of income, but can improve social inclusion, build self-esteem and improve an individual's physical and mental health. In a survey of ESA claimants, 62 per cent of ESA work-related activity group (WRAG) claimants and 52 per cent of ESA support group claimants surveyed said they "currently want to work."<sup>7</sup> Instead, millions of working-age people have been left stranded on benefits, detached from the labour market and the benefits of employment.

The Government has made a commitment to halve the disability employment gap. The Conservative Party manifesto stated: "we will transform policy, practice and public attitudes, so that hundreds of thousands more disabled people who can and want to be in work find employment."<sup>8</sup> This means helping around one million more disabled people into work – a formidable challenge.<sup>9</sup> Crucial to this will be redesigning the out-of-work incapacity-related benefit system to assist more claimants back into sustainable employment.

1 Department for Work and Pensions, 'Benefit and Expenditure Tables 2015, Outturn and Forecast: Summer Budget', 2015.

2 Ibid.

3 Christina Beatty and Steven Fothergill, 'Changes in the Profile of Men Claiming Incapacity Benefit – a Case Study,' *People, Place & Policy* 3, no. 1 (2007): 136–48.

4 Carol Black and David Frost, *Health at Work: An Independent Review of Sickness Absence*, 2011.

5 Department for Work and Pensions, *A New Deal for Welfare: Empowering People to Work*, 2006.

6 Department for Work and Pensions, 'Tabulation tool', Accessed December 2015. In May 2015, there were 2,341,400 people claiming Employment and Support Allowance. Of this, 1,183,200 had claimed the benefit for more than two years. An additional 86,490 people were claiming Incapacity Benefit at this time.

7 Department for Work and Pensions, *A Survey of Disabled Working Age Benefit Claimants*, 2013.

8 Conservative Party, *The Conservative Party Manifesto*, 2015.

9 Rt Hon Iain Duncan Smith, Secretary of State for Work and Pensions, speaking to *Reform*, 24th August 2015.

To inform such structural change, this briefing paper provides an overview of who is claiming out-of-work incapacity-related benefits and how this has changed in the last five years.<sup>10</sup> The paper considers the key UK trends in characteristics of out-of-work incapacity-related benefit claimants and compares the challenges faced in the UK to other OECD countries.<sup>11</sup> This paper is the first of three publications. The next paper will look at the structure of the out-of-work incapacity-related benefit system, and what opportunities are presented by the transition of working-age benefits to Universal Credit (UC). The final paper will look at reforming the employment support available to benefit recipients.

## Definitions

**Incapacity Benefit:** only the benefit type Incapacity Benefit.

**Incapacity-related benefits:** in-work and out-of-work benefits for people with a health condition. This includes Employment and Support Allowance, Incapacity Benefit, Disability Living Allowance and Personal Independence Payment.

**Out-of-work incapacity-related benefits:** only out-of-work benefits for working-age people with a health condition. For the purpose of this report, this refers to the main out-of-work incapacity-related benefits: Employment and Support Allowance and Incapacity Benefit.<sup>12</sup>

<sup>10</sup> Over the past decade there have been a number of changes to the incapacity-related benefit system which mean that it is not possible to look at the trends in characteristics of the total caseload of out-of-work incapacity-related benefit claimants. Following the closure of Severe Disablement Allowance in 2001, and prior to the introduction of Employment and Support Allowance in 2008, income-replacement benefits for those out of work due to a health condition were granted through Severe Disablement Allowance, Incapacity Benefit and the incapacity-related element of Income Support. Income Support can be a single benefit or a top-up benefit. To avoid double counting of claimants, analysis of caseload characteristics has been conducted over five years and includes people claiming Employment and Support Allowance and Incapacity Benefit only.

<sup>11</sup> Countries, including Australia, Denmark, the Netherlands, and Norway, have been selected to represent different types of welfare states, from the comprehensive social welfare states in Nordic countries to the more liberal Australian system. Recent reform of the Dutch incapacity-related benefit system provides an interesting divergence from Norway and, facing similar caseload and expenditure trends, a useful comparison to the UK.

<sup>12</sup> In this report, caseload and expenditure trends over the last 10 years include comparison of the following working-age benefits: Employment and Support Allowance, Incapacity Benefit, Severe Disablement Allowance and the incapacity-related element of Income Support. This is because out-of-work incapacity-related benefit claimants were distributed between these benefits over this time period.

Trends in caseload characteristics over the last five years include claimants of Employment and Support Allowance and Incapacity Benefit only. This is to avoid using duplicative data. Although the Department for Work and Pensions (DWP) provides a non-duplicative total caseload figure for out-of-work incapacity-related benefits, it does not provide non-duplicative caseload data for these benefits individually. For example, the DWP Outturn and Forecast data does not make the distinction between claimants of the incapacity-related element of Income Support only and Income Support claimants in receipt of another out-of-work incapacity-related benefit. Including this in our analysis of caseload characteristics could lead to misrepresentative data if the cohort claiming Income Support are very different to the claimants of other out-of-work incapacity-related benefits.

Claimants of Employment and Support Allowance and Incapacity Benefit, included in our analysis, account for 93.3 per cent of the total out-of-work incapacity-related benefit caseload in 2014-15.

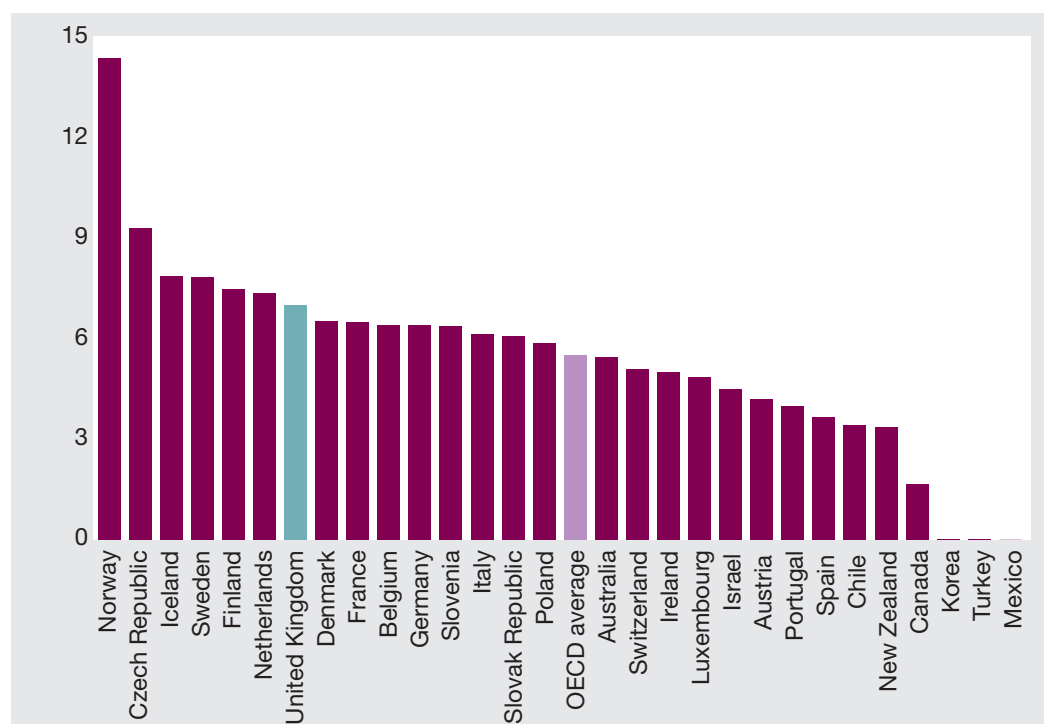
## 1 International comparison

By international comparison, the UK's caseload is above average. In 2012, 7 per cent of the working-age population (aged 16-64) were in receipt of an out-of-work incapacity-related benefit, compared to an OECD average of 5.4 per cent (see Figure 1). This is despite a lower-than-average level of self-reported disability among working-age people.<sup>13</sup> In 2011, 16.6 per cent of the UK working-age population reported a disability compared to the EU average of 18 per cent (see Figure 2). The UK ranks in the top quarter of OECD countries on out-of-work incapacity-related benefit caseloads, behind the Nordic countries, Czech Republic, and the Netherlands.<sup>14</sup>

In line with international trends, a growing proportion of the UK's working-age population is counted as disabled. However, the rise in the proportion of working-age people who self-reported a disability is far more pronounced in the UK than the EU average. Between 2008 and 2011, the level of self-reported working-age disability in the UK rose seven times faster than the EU average.<sup>15</sup>

An increased level of self-reported disability is not in itself an issue. If translated into higher out-of-work incapacity-related benefit caseloads, however, this will lead to increased pressure on an already stretched social security budget and would result in more people trapped on benefits, unable to access the support they need.

**Figure 1: Proportion of the working-age population claiming an out-of-work incapacity-related benefits in OECD countries, 2012**



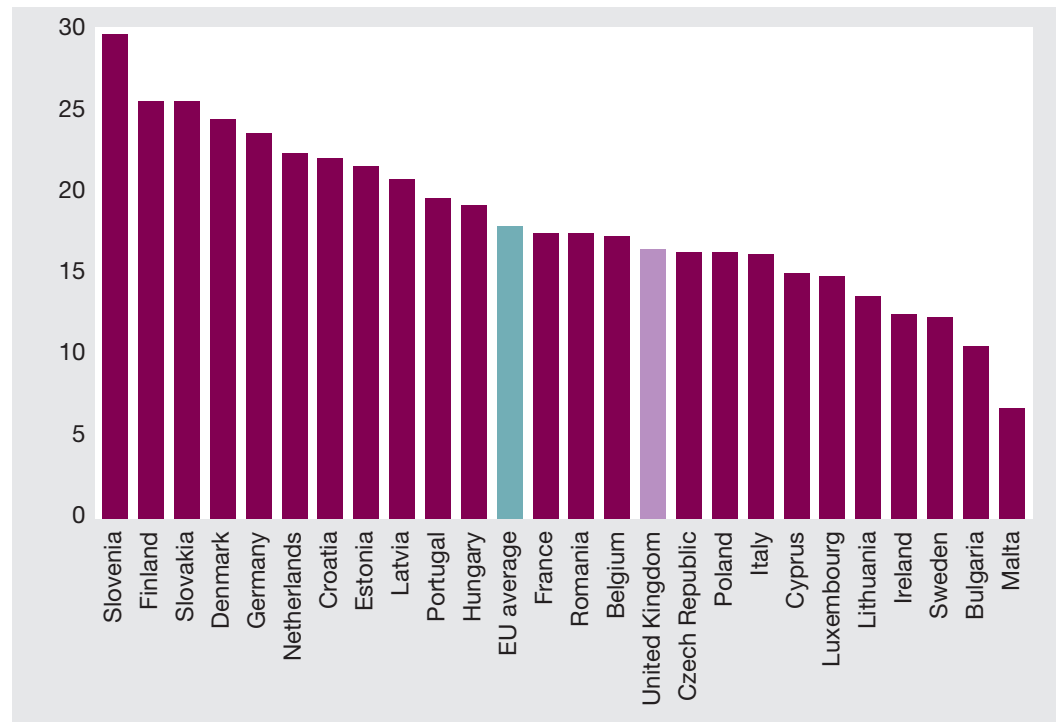
Source: OECD, Social Benefit Recipients Database, 2012.

<sup>13</sup> Stefanos Grammenos, 'European Comparative Data on Europe 2020 & People with Disabilities,' *Cornell University ILR School*, 2013.

<sup>14</sup> Comparable data is not available for the United States, Hungary, and Japan.

<sup>15</sup> Self-reported disability in the UK rose by 14 per cent from 14.6 per cent of the working-age population in 2008 to 16.6 per cent in 2011. Self-reported disability in the EU increased by 2 per cent from 17.7 per cent of the working-age population in 2008 to 18 per cent in 2011.

**Figure 2: Proportion of the working-age population in EU-28 countries who self-reported a disability, 2011**



Source: Stefanos Grammenos, 'European Comparative Data on Europe 2020 & People with Disabilities,' *Cornell University ILR School*, 2013.

## 2 The case for change

**Figure 3: Employment and Support Allowance caseload and claim duration, May 2015**

Phase of ESA claim	Duration							
	Total		Up to 2 years		2-5 years		5 years and over	
	Caseload (thousands)	%	Caseload (thousands)	%	Caseload (thousands)	%	Caseload (thousands)	%
<b>Total Caseload (thousands)</b>	<b>2,341.4</b>	<b>100</b>	<b>1,158.2</b>	<b>49.4</b>	<b>1,064.5</b>	<b>45.5</b>	<b>118.7</b>	<b>5.1</b>
<b>Assessment phase</b>	<b>474.1</b>	100	442	93.2	29.3	6.2	2.8	0.6
<b>WRAG</b>	<b>476.1</b>	100	136.6	28.7	303.7	63.8	36.2	7.6
<b>Support group</b>	<b>1,316.2</b>	100	531.3	40.4	708.7	53.8	76.2	5.8
<b>Unknown</b>	<b>74.6</b>	100	48.3	64.7	22.8	30.6	3.5	4.7

Note: In May 2015, there were an additional 86,490 people claiming Incapacity Benefit.

Source: Department for Work and Pensions, 'Tabulation tool', Accessed December 2015.

### 2.1 The caseload and the cost: stagnation

The out-of-work incapacity-related benefit caseload has remained stubbornly high in the UK over the past decade, despite significant reform. On the latest figures, 2.3 million working-age people are claiming ESA, of which half a million are in the assessment phase – a further 90,000 claimants are due to be migrated from IB to ESA.<sup>16</sup> This compares to 2.5 million individuals claiming ESA's predecessor, IB, a decade ago.<sup>17</sup> The replacement of IB with ESA was designed to help address the high numbers of people 'parked' on out-of-work incapacity-related benefits. Announcing the reform, then Secretary of State John Hutton said: "Nine out of ten people who come on to incapacity benefit expect to get back into work, yet if you have been on incapacity benefit for more than two years, you are more likely to retire or die than ever get another job. That cannot be right."<sup>18</sup>

ESA introduced the WRAG, in addition to a support group. The transition was intended to restrict rates of on-flow through the introduction of a more stringent medical assessment process (the Work Capability Assessment (WCA)) and to increase off-flows through improved back-to-work provision.<sup>19</sup> However, since 2008 when ESA was introduced, the number of people claiming out-of-work incapacity-related benefits has remained largely unchanged. In 2004-05 one in 14 working-age people in the UK claimed an out-of-work incapacity related benefit – today this figure is one in 16.<sup>20</sup> The reforms have failed to make a significant difference to the caseload.

Despite the clear objective to ensure that fewer people were left languishing on out-of-work incapacity-related benefits, there were over one million people in May 2015 – or 45 per cent of the total ESA caseload – who had already claimed ESA for more than two

<sup>16</sup> Department for Work and Pensions, 'Tabulation tool', Accessed December 2015.

<sup>17</sup> Ibid.

<sup>18</sup> BBC News, 'Hutton Unveils Benefits Shake-Up,' January 24, 2006.

<sup>19</sup> Paul Sissons and Helen Barnes, 'Getting back to Work? Claim Trajectories and Destinations of Employment and Support Allowance Claimants,' *Journal of Poverty and Social Justice* 21, no. 3 (2013): 233–46.

<sup>20</sup> Department for Work and Pensions, 'Tabulation tool', Accessed December 2015, Ibid.; ONS, 2014, Mid-1851 to Mid-2013 Population Estimates for United Kingdom; ONS, 2013, 2012-based National Population Projections. Working-age population refers to males aged 16-64 and females 16-60 inclusive. This is to account for changes to the state pension age. From April 2010, the state pension age for women has gradually increased from 60 to reach the male state pension age of 65 by April 2020.



years.<sup>21</sup> 42 per cent of new ESA claimants (i.e. not ex-IB) have been on the benefit two or more years. Just seven years after the benefit was implemented there are in excess of 100,000 claimants who had been in receipt of the benefit for more than five years (see Figure 3).<sup>22</sup> The high caseload, coupled with long durations on the benefit, is not only an ongoing cost that is difficult to sustain in a tight fiscal environment, but is detrimental to the wellbeing of so many of those dependent on it.

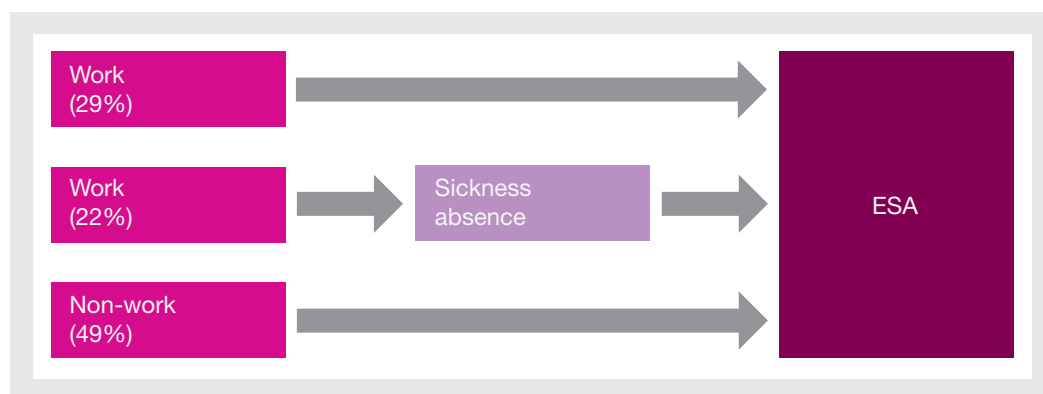
In line with the caseload, expenditure has also remained high over the past decade. In 2004-05 the benefits cost £15.5 billion in real terms, in 2014-15 the figure was £14 billion, equivalent to 0.8 per cent of GDP.<sup>23</sup> The forecast for 2020-21 is around 14.6 billion.<sup>24</sup>

### 2.1.1 On-flows and off-flows

The longer people are out of work, the less likely it is that they will return to work and benefit from the personal, social, and economic advantages of employment.<sup>25</sup> Under the legacy system the average time spent claiming out-of-work incapacity-related benefits was six years.<sup>26</sup> The figures above suggest little will have changed.

There are several routes to making an ESA claim. A person may move directly from work on to the benefit, move on to it following a period of sickness absence, or transition from out-of-work circumstances (see Figure 4). Those out of work move either from another benefit or economic inactivity (e.g. being in study, caring for a family member, or simply not claiming any benefits). For those who are out of work, half of ESA applicants are already claiming Jobseeker's Allowance (JSA) (see Figure 5).<sup>27</sup> It is well evidenced that being out of work for prolonged periods of time has a negative effect on wellbeing, in part explaining on-flow to ESA from other out-of-work benefits. It is concerning, however, that such a large proportion of ESA applicants have already been receiving employment support through JSA. The deterioration in the health of these claimants during their time claiming JSA suggests that the programme of interventions is not effective for these claimants.

**Figure 4: Routes onto ESA**



Source: Paul Sissons and Helen Barnes, *Getting back to work? Claim trajectories and destinations of Employment and Support Allowance claimants*, *Journal of Poverty and Social Justice*, vol. 21 (3) (2013): 233-246.

21 47 per cent of claimants who had claimed the benefit for more than two years were new ESA claimants. (i.e. not ex-IB). In total this refers to 555,000 claimants.

22 Department for Work and Pensions, 'Tabulation tool', Accessed December 2015, Ibid. In May 2015, there were 526,260 claimants with a claim of one to two years. There were 1,064,470 claimants who had been claiming ESA between two and five years and 118,680 individuals who had claimed the benefit for more than five years.

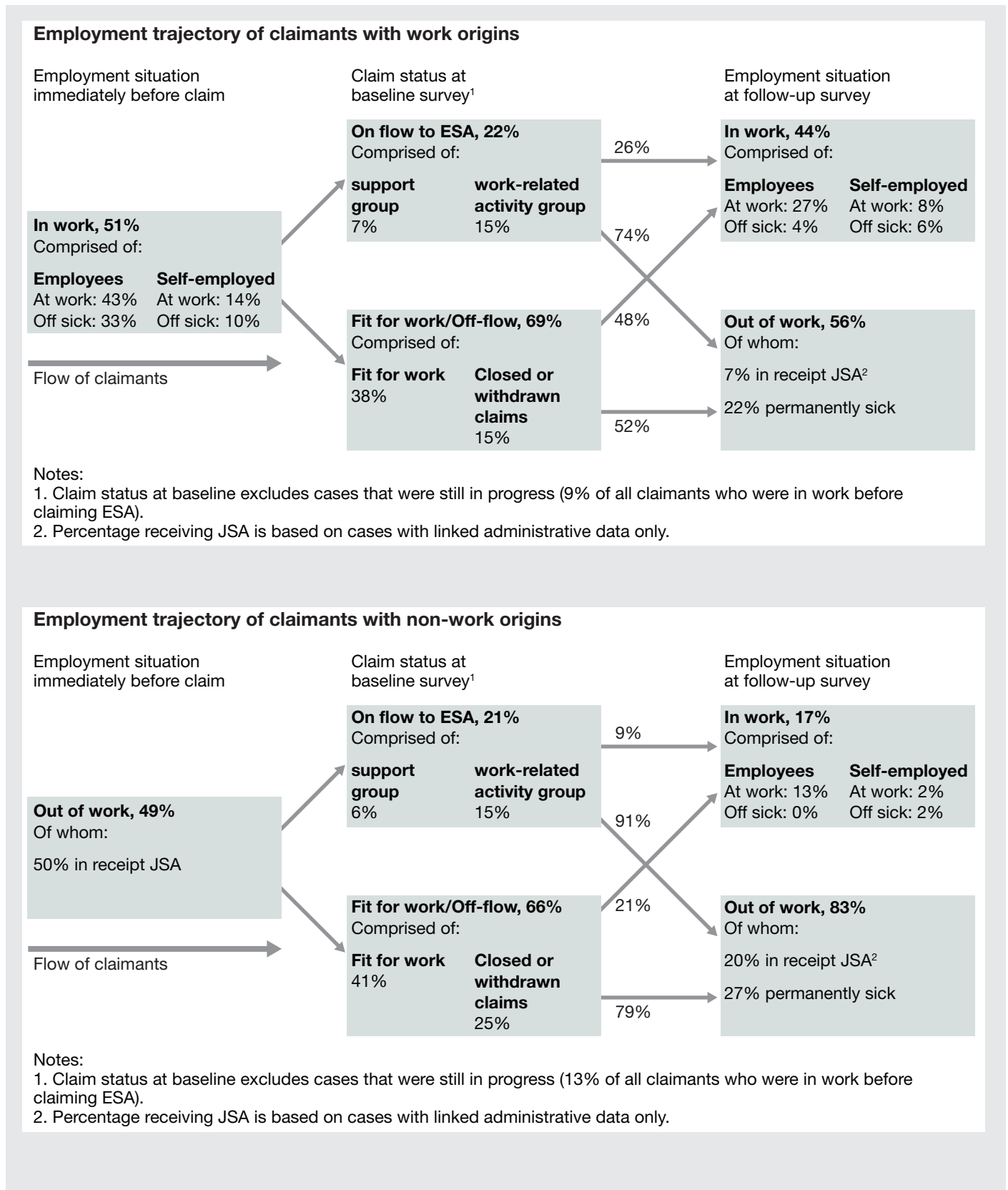
23 Department for Work and Pensions, 'Benefit Expenditure and Caseload Tables 2015, Outturn and Forecast: Summer Budget', 2015.

24 Office for Budget Responsibility, *Economic and fiscal outlook*, November 2015; The OBR calculate expenditure on incapacity-related benefits in 2014-15 to be £14.1 billion. This includes £137 million spent on recipients of pension-age, delivered through the benefit Severe Disablement Allowance. Our figure of £14 billion refers only to expenditure on working-age benefits. SDA is now closed to new claimants so expenditure on this benefit is not expected to increase. We have given a conservative estimate for expenditure on incapacity-related benefits of £14.6 billion (down from the OBR £14.7 billion forecast) for the year 2020-21, assuming that pension-age SDA expenditure at its highest, can be no greater than £137 million.

25 OECD, *Sickness, Disability and Work: Improving Social and Labour-Market Integration of People with Disability*, 2010.

26 Ibid.

27 Paul Sissons and Helen Barnes, *Getting back to work? Claim trajectories and destinations of Employment and Support Allowance claimants*, *Journal of Poverty and Social Justice*, vol. 21 (3) (2013): 233-246. Ibid.

**Figure 5: Employment trajectory of claimants with work and non-work origins**

Source: Paul Sissons and Helen Barnes, *Getting back to work? Claim trajectories and destinations of Employment and Support Allowance claimants*, *Journal of Poverty and Social Justice*, vol. 21 (3) (2013): 233-246.

## An international perspective: on-flows and off-flows

Evidence suggests that very few incapacity-related benefit recipients ever return to the labour market, even if they have a significant capacity to work.<sup>28</sup> Comparable to the UK, many OECD countries face the challenge of long-term benefit dependency and low off-flow rates.<sup>29</sup> For the large majority of countries where data is available, 1-2 per cent of claimants per year leave the benefit for reasons other than retirement or death. Many incapacity-related claimants in Denmark, for example, remain on it until retirement – off-flow from the benefit into work is close to zero.<sup>30</sup>

It is clear that current out-of-work incapacity-related benefit systems are not doing enough to assist claimants with a health condition to transition back into work. The one-way flow of claimants in many countries suggests more needs to be done not only to keep people in the labour force and thereby prevent long-term benefit dependency in the first place, but also to help the significant number of people already in receipt of these benefits from becoming dependent for life.

## 2.2 Geographically concentrated

Regionally, there is wide variation in the proportion of the working-age population claiming out-of-work incapacity-related benefits. In contrast to the significant changes in claimant characteristics over the last decade, the regional distribution of claimants has remained the same: strongly concentrated in the North. In the South East, 4.5 per cent of the working-age population claim ESA or IB compared to almost double, 8.2 per cent, in the North East and North West. Of the 20 local authorities with the highest caseloads in England, 17 are located in the North. Of the 10 local authorities with the highest claimant rates, eight are northern, many in old industrial areas, with Blackpool the highest at 12.6 per cent as of May 2015.<sup>31</sup> Figure 6 presents a comparison of the 10 local authorities in England with the highest and lowest proportions of working-age people on out-of-work incapacity-related benefits. Figure 7 shows the clustering of high benefit caseloads in northern regions and the Midlands.

**Figure 6: Proportions of the working-age population claiming out-of-work incapacity-related benefits, May 2015**

<b>Highest</b>	<b>% of working age</b>	<b>Lowest</b>	<b>% of working age</b>
1 Blackpool (North West)	12.6	1 Isles of Scilly (South West)	1.4
2 Knowsley (North West)	11.9	2 Hart (South East)	2.2
3 Liverpool (North West)	10.9	3 Wokingham (South East)	2.9
4 Hastings (South East)	10.4	4 City of London (South East)	2.5
5 Burnley (North West)	10.3	5 Uttlesford (East)	2.5
6 Middlesbrough (North East)	10.3	6 South Northamptonshire (Midlands)	2.6
7 Stoke-on-Trent (Midlands)	10.1	7 South Bucks (South East)	2.7
8 Hartlepool (North East)	10.0	8 Maidenhead (South East)	2.8
9 Blackburn (North West)	9.8	9 South Oxfordshire (South East)	2.8
10 Rochdale (North West)	9.7	10 Elmbridge (South East)	2.8

Source: Department for Work and Pensions, 'Tabulation tool', Accessed December 2015; ONS, Mid 1851 to Mid-2013 Population Estimates for United Kingdom, 2014; ONS, 2012-based National Population Projections, 2013.

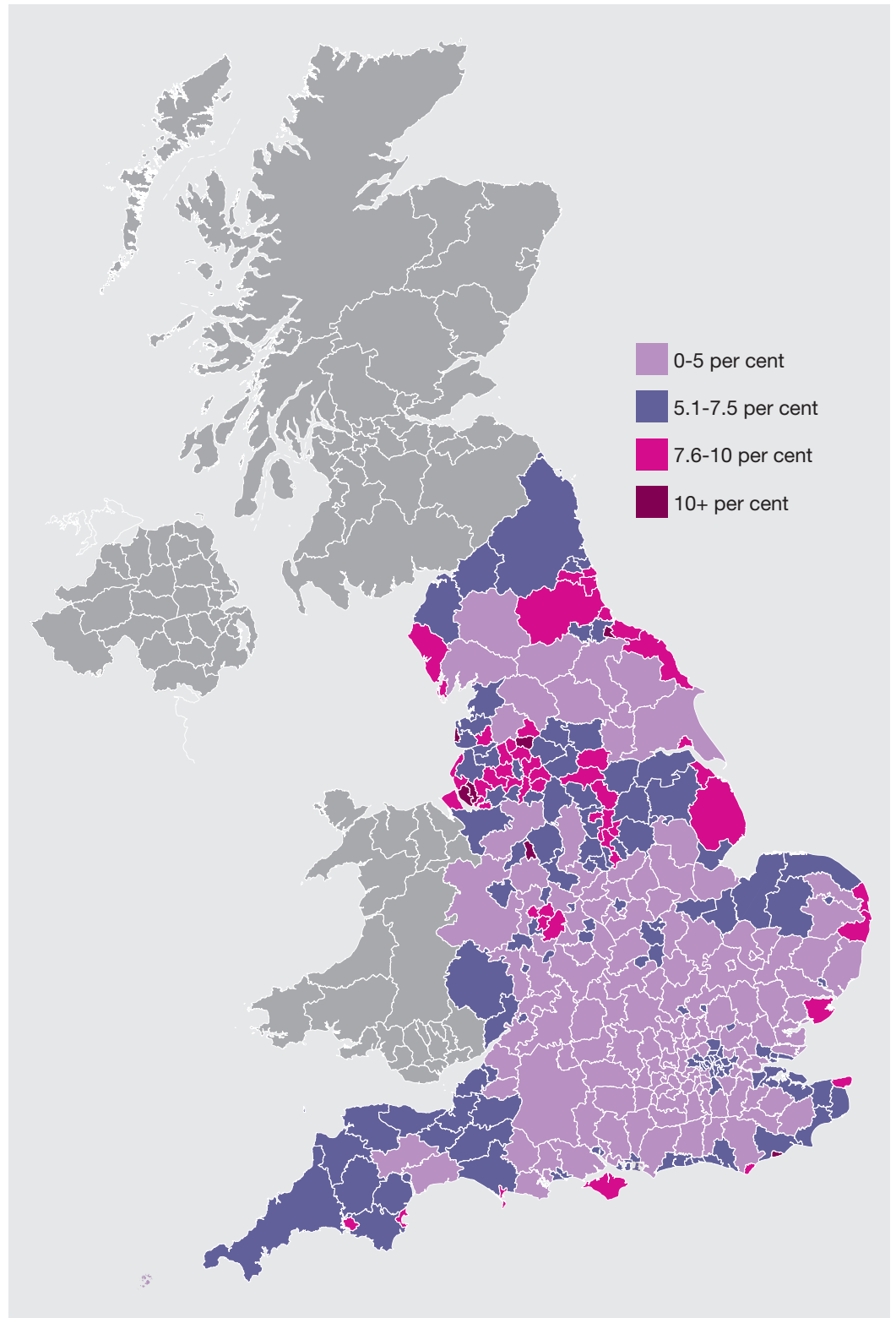
<sup>28</sup> OECD, OECD Employment Outlook, 2009.

<sup>29</sup> OECD, *Sickness, Disability and Work*, 2010. Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Department for Work and Pensions, 'Tabulation tool', Accessed December 2015, Ibid.; ONS, Mid 1851 to Mid-2013 Population Estimates for United Kingdom, 2014; ONS, 2012-based National Population Projections, 2013.

**Figure 7: Proportions of the working-age population who are claiming out-of-work incapacity-related benefits in England, May 2015**



Source: Department for Work and Pensions, 'Tabulation tool', Accessed December 2015; ONS, Mid 1851 to Mid-2013 Population Estimates for United Kingdom, 2014; ONS, 2012-based National Population Projections, 2013.

One argument for the difference between north and south is the development of ‘hidden unemployment’ from the 1980s, with job losses in post-industrial towns registering as economic inactivity, either through early retirement or classification as permanently sick.<sup>32</sup> For example, following large scale industrial job losses in the former coalfields, the main response was not a significant increase in recorded unemployment but a rise in the number of men registered as economically inactive on out-of-work incapacity-related benefits.<sup>33</sup> These job losses, however, took place in the 1980s and early 1990s, yet the pattern of high reciprocity in northern regions persists.<sup>34</sup>

Since 2010, claimant characteristics have changed. The caseload proportion of older men receiving out-of-work incapacity-related benefits has fallen sharply, while the proportion of younger claimants (aged 16-34) has increased. The probability of making a claim is now less related to age, and more related to educational attainment than in the past.<sup>35</sup> Furthermore, the types of health conditions claimants suffer has shifted, with increasingly more people suffering from a mental or behavioural disorder as their primary condition. As the profile of claimants changes, it is important to consider to what extent hidden unemployment still accounts for high caseloads in northern areas.

As noted by several commentators, the highest caseloads are concentrated in parts of England where there has been a continued imbalance between labour demand and supply.<sup>36</sup> Rebalancing the national economy is a core part of the Government’s economic strategy: “Our shared aim is to transform Northern growth, rebalance the country’s economy and establish the North as a global powerhouse.”<sup>37</sup> Creating the ‘Northern Powerhouse’ will depend not only on long-term investment, but on harnessing the people power of northern city regions. There must be an active pool of labour ready to support economic growth.

### 2.3 Shifts in age: increasingly young

Over the last five years, the composition of the out-of-work incapacity-related benefit cohort has shifted towards younger claimants (aged 16-34). The number of younger claimants has increased as a proportion of the benefit caseload in real terms and as a percentage of the respective working-age population. As of 2010, young people (aged 20-34) in the UK were more than twice as likely to be claiming disability benefits as the OECD average, at 4 per cent compared to an OECD average of 1.5 per cent.<sup>38</sup>

In May 2015, there were 560,000 claimants under the age of 35. Since 2010, the number of 16-34 year olds claiming out-of-work incapacity-related benefits has increased by a fifth.<sup>39</sup> As shown in Figure 8, this is reflected by a 20 per cent increase as a proportion of the total ESA caseload. Many of these younger claimants suffer mental ill health and were granted out-of-work incapacity-related benefits on the basis of WCA Regulation 35(2)(b).<sup>40</sup> This regulation allows entry to the ESA support group if there is a substantial risk to the health of the claimant or others if they undertook work-related activities.<sup>41</sup>

32 Edward Fieldhouse and Emma Hollywood, *Life After Mining: Hidden Unemployment and Changing Patterns of Economic Activity amongst Miners in England and Wales, 1981-1991*, *Work Employment & Society* 13, no. 3 (September 1999): 483–502.

33 Christina Beatty and Steven Fothergill, *Changes in the Profile of Men Claiming Incapacity Benefit – a Case Study*, *People, Place & Policy* 3, no. 1 (2007): 136–48. Ibid.

34 Christina Beatty and Steven Fothergill, *Disability Benefits in the UK: An Issue of Health or Jobs?*, 2013.

35 James Banks and Richard Blundell, *The Changing Characteristics of UK Disability Benefit Recipients* (Institute for Fiscal Studies, 2015).

36 Christina Beatty, and Steven Fothergill. *Changes in the Profile of Men Claiming Incapacity Benefit – a Case Study*. Ibid. *People, Place & Policy* 3, no. 1 (2007): 136–48.; Judith Brown, Phil Hanlon, Ivan Turok, David Webster, James Arnott, Ewan Macdonald. *Falling Incapacity Benefit Claims in a Former Industrial City: Policy Impacts or Labour Market Improvement?*, P. Vol. 31. *Policy Studies*, 2010.; Duncan McVicar. *Why Do Disability Benefit Rolls Vary between Regions? A Review of Evidence from the US and UK*. *Regional Studies* 40 (2006): 519–33.

37 HM Treasury, *The Northern Powerhouse: One Agenda, One Economy, One North*, 2015.

38 OECD, *Sickness, Disability and Work: Breaking the Barriers*, 2010.

39 Department for Work and Pensions, ‘Tabulation tool’, Accessed December 2015, Ibid.; ONS, *Mid 1851 to Mid-2013 Population Estimates for United Kingdom, 2014*; ONS, *2012-based National Population Projections*, 2013.

40 Paul Litchfield, *An Independent Review of the Work Capability Assessment – Year Five*, 2014.

41 Department for Work and Pensions, *The Employment and Support Allowance Regulations 2008*, Regulation 35(2)(b), 2008.

The use of Regulation 35(2)(b) more than doubled between 2009 and 2013, despite no amendments to the regulation during that time – some 38 per cent of support group cases now enter on this basis.<sup>42</sup> Dr Paul Litchfield's *Independent Review of the Work Capability Assessment – Year Five* revealed that 86 per cent of claimants assigned to the support group using this regulation were attributed to risk of harm resulting from an identified mental health condition.<sup>43</sup> In addition to most mental illnesses, which tend to develop before adulthood,<sup>44</sup> both risk of suicide and self-harm has a higher prevalence among young people and decreases with age. On this basis, the use of WCA Regulation 35(2)(b) is likely to be disproportionately weighted towards granting access to the benefit to younger claimants, and is identified as a significant driver of the trend towards higher numbers of young people assigned to the support group.<sup>45</sup>

The large growth in the number of young people claiming out-of-work incapacity-related benefits is worrying. Assigning people to the support group at a young age risks permanently detaching them from the labour market, damaging their wellbeing and life chances in the long term. Over 35 per cent of the entire caseload has claimed the benefit for more than two years.<sup>46</sup> The equivalent figure for the support group is 66 per cent.<sup>47</sup> As Litchfield's review commented, without appropriate employment support, assignment of young people to the support group has long term implications for the employability of what could become a "lost generation".<sup>48</sup>

Notwithstanding the increasing proportion of younger claimants, older people still make up the majority of the out-of-work incapacity-related benefit cohort mainly because disability prevalence increases with age.<sup>49</sup> In 2015, people aged 45-54 and 55-64 constituted 30 per cent and 28 per cent of the cohort respectively (see Figure 8). In contrast to the trend seen in younger claimants, the number of claimants aged 55-64 has decreased by 28,000, equivalent to a 4 per cent decline, despite a 10 per cent increase in the number of working-age people in this age group.<sup>50</sup> Over this time period the state pension age for women incrementally increased from 60 years 1 month in 2010 to 62 years 6 months in 2015,<sup>51</sup> widening the population of working-age people. Together with an ageing population, this change might have been expected to result in an increase in working-age benefit claims among older people. The counterintuitive shift towards a lower proportion of older out-of-work incapacity-related benefit claimants has been explained in part by the increased labour force participation of older male workers.<sup>52</sup>

42 Paul Litchfield, *An Independent Review of the Work Capability Assessment – Year Five*, 2014. Ibid.

43 Ibid.

44 Royal College of Psychiatrists, *No Health without Public Mental Health: The Case for Action*, 2010.

45 Paul Litchfield, *An Independent Review of the Work Capability Assessment – Year Five*. Ibid.

46 Department for Work and Pensions, 'Tabulation tool', Accessed December 2015, Ibid.

47 Ibid.

48 Paul Litchfield, *An Independent Review of the Work Capability Assessment – Year Five*. Ibid.

49 OECD, *Sickness, Disability and Work*, 2010.

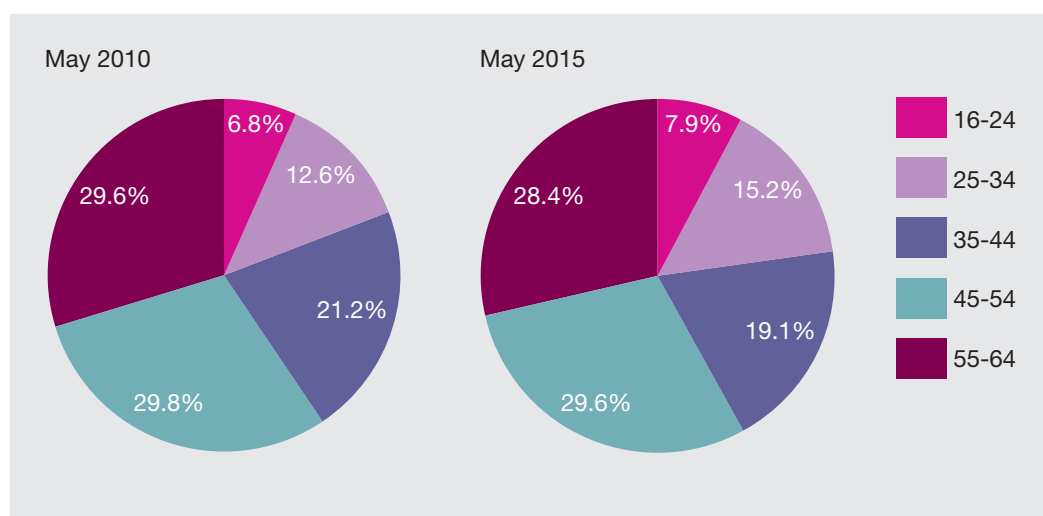
50 Department for Work and Pensions, 'Tabulation tool', Accessed December 2015, Ibid.; ONS, *Mid 1851 to Mid-2013 Population Estimates for United Kingdom*, 2014; ONS, *2012-based National Population Projections*, 2013.

51 mycompanypension.co.uk, *Table of Female State Pension Age*, October 2015.

52 Christina Beatty and Steven Fothergill, 'Changes in the Profile of Men Claiming Incapacity Benefit – a Case Study,' *People, Place & Policy* 3, no. 1 (2007): 136–48. Ibid.



**Figure 8: Proportion of out-of-work incapacity-related benefit caseload by age, May 2010 and May 2015**



Source: Department for Work and Pensions, 'Tabulation tool', Accessed December 2015.

### An international perspective: young people

The trend towards higher representation of younger claimants has extended across numerous OECD countries including the UK, Australia, Norway, Denmark, and Sweden. During the last decade, the disability take up rate for 20-34 year olds has risen from 1.7 to 2.0 per cent in Norway, 1.4 to 1.8 per cent in Denmark and 1.7 to 2.6 per cent in Sweden.<sup>53</sup> At 2.2 per cent of the respective working-age population, young Australians are also now more likely to claim incapacity-related benefits than the OECD average of 1.5 per cent.<sup>54</sup>

Reform in the Netherlands has led to a decline in caseload across all age groups. However, consistent with this trend, the smallest caseload decline has occurred in younger age categories (20-34 year olds).<sup>55</sup> Prior to reform in 2006, the number of 15-19 year olds claiming the benefits almost tripled (between 1999 and 2006) and the number of claimants aged 20-24 increased by more than a quarter.<sup>56</sup>

Among young adults claiming incapacity-related benefits in the OECD, over 70 per cent are related to mental ill health.<sup>57</sup>

<sup>53</sup> Rune Halvorsen and Bjørn Hvinden, *New Policies to Promote Youth Inclusion: Accommodation of Diversity in the Nordic Welfare States*, TemaNord, 2014.

<sup>54</sup> Australian Government, *Australia's Welfare 2015*, 2015.

<sup>55</sup> OECD, *Sickness, Disability and Work*, 2010. Ibid.

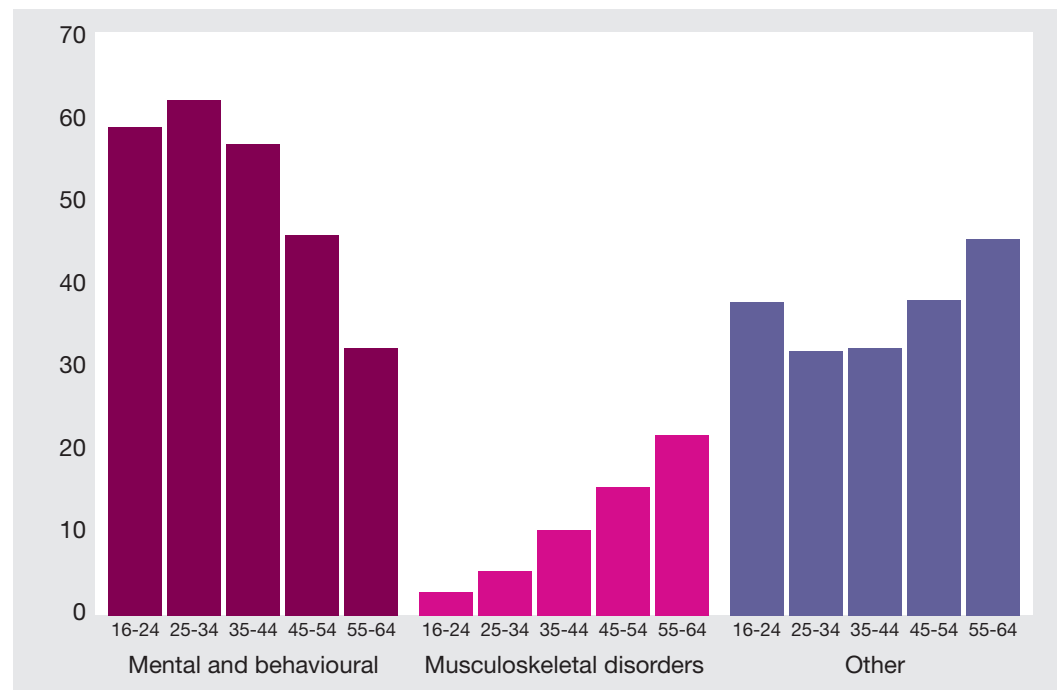
<sup>56</sup> Ibid.

<sup>57</sup> Patrick Loisel, Han Anema, and Johannes Anema, *Handbook of Work Disability: Prevention and Management*, 2013.

## 2.4 Shifts in condition: increasingly mental health-related

For 48 per cent of out-of-work incapacity-related benefit claimants, a mental or behavioural disorder is the primary barrier to employment. The proportion of claimants stating this as their primary health condition has increased by more than 10 per cent in the last five years, a trend which applies to varying degrees across claimants of all ages. Mental illness is particularly prevalent among younger claimants. In May 2015, almost double the proportion of claimants aged 16-24 and 25-34 suffered from a mental health condition compared to older claimants aged 55-64 (see Figure 9).

**Figure 9: Proportion of claimants suffering from different health conditions, May 2015**



Source: Department for Work and Pensions, 'Tabulation tool', Accessed December 2015.

As shown in Figure 9, mental illness makes up a similar proportion of claimants aged 16-24, 25-34 and 35-44. This indicates that mental illness is prevailing at an earlier age and that fewer young people suffer the types of physical illnesses that are seen in older people, such as circulatory and respiratory system problems. Nonetheless, the caseload proportion of younger claimants suffering from mental illness has increased since 2010. Over the five year period, the proportion of 16-24 year olds with mental and behavioural disorders as their primary condition has increased by 6.4 per cent, and 25-34 year olds by 4.3 per cent.<sup>58</sup>

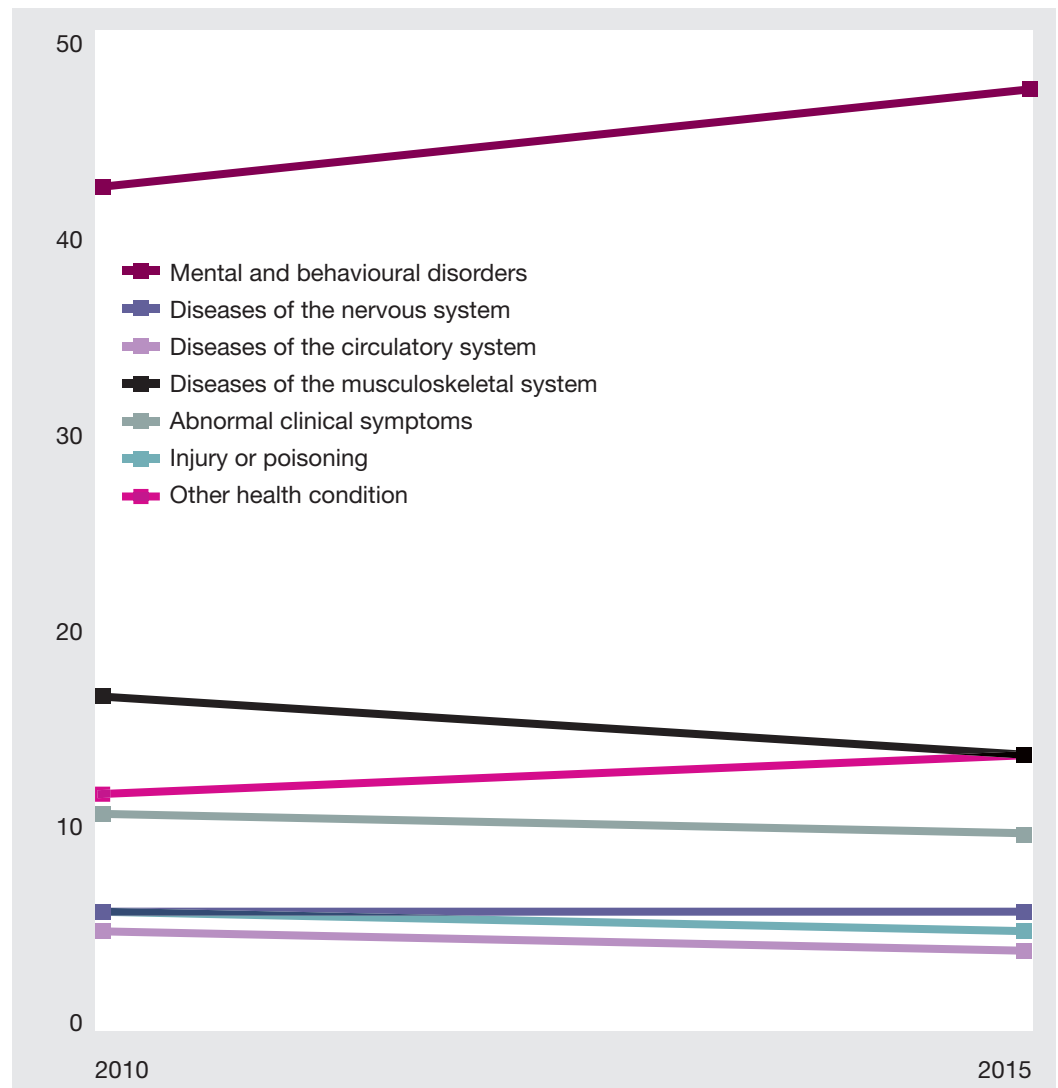
Musculoskeletal conditions, accounting for 14 per cent of claimants, are the second most common claim condition. The proportion of claimants suffering from musculoskeletal conditions has decreased by a fifth since 2010, as shown in Figure 10.<sup>59</sup>

<sup>58</sup> Department for Work and Pensions, 'Tabulation tool', Accessed December 2015, Ibid.

<sup>59</sup> Ibid.



**Figure 10: Proportion of claimants suffering from different health conditions, May 2010 and 2015**



Note: Trend line joining data points for 2010 and 2015 only.

Source: Department for Work and Pensions, 'Tabulation tool', Accessed December 2015

Sadly, relatively little is understood about which mental disorders are driving the increase in benefit recipients and the severity of these disorders. The Department for Work and Pensions quarterly datasets report on a wide range of physical disability categories, but a comparable resolution of data on mental illness is absent. Given the shift towards a higher prevalence of mental illness, which now makes up nearly half of all out-of-work incapacity-related benefit claims, it is essential that the Department collects and uses data on the severity and types of mental illnesses that claimants suffer, in order to inform decisions about support services that better meet claimant needs.

### An international perspective: mental health

In the past decade, the proportion of new incapacity-related out-of-work benefit claims due to mental illness has increased significantly in the majority of OECD countries and across the range of social security systems. Mental illness now represents around one third of new disability benefit claims in OECD countries.<sup>60</sup>

In Denmark the share of claims due to mental ill health increased from 15 per cent to 40 per cent and in Sweden from 25 per cent to over 40 per cent between the years 1990 and 2007.<sup>61</sup> The share of claimants with mental ill health has also increased steadily in the Netherlands, from 35 per cent in 2003 to 39 per cent of claimants in 2012,<sup>62</sup> and in Norway, on-flows due to mental illness increased sharply in the 2000s (from 20 per cent of claimants in 2004 to 28 per cent in 2011), particularly for those aged 18-34.<sup>63</sup>

The total estimated cost of mental ill health in the UK in 2010 was 4.5 per cent of GDP.<sup>64</sup> This compared to 3 per cent GDP in Norway and 3.5 per cent in the Netherlands and Denmark in 2010. The high cost of mental illness is a consequence of its high prevalence in the population and stems mainly from lost employment and reduced productivity.<sup>65</sup> Structural reform of the out-of-work incapacity-related benefit system not only offers a way to improve the wellbeing of people with a disability, but could also bring wider benefits to the UK economy.

Although mental health related disability poses one of the greatest challenges to OECD welfare states, understanding is limited about the underlying drivers and consequently what the appropriate policy responses may be.<sup>66</sup> The widespread trend towards higher prevalence of mental illness may result from a range of overlapping contributory factors. Direct drivers include changes in the family and workplace environment which would lead to increased prevalence in the wider population. Alternatively this trend could reflect an increase in the understanding and diagnosis of mental illness, or a reduced social stigma around mental illness. In 2007, the UK reformed the *Mental Health Act 1983* to include not only mental illness, but also learning disabilities and personality disorders.<sup>67</sup> Mood disorders are the second most common type of mental illness in the EU.<sup>68</sup> This legislative extension of a mental disorder is likely to have contributed to the increased prevalence and awareness of mental illness in the UK. Extending the formal definition of disability may have led to higher rates of diagnosis of these disorders as disabilities.

The disability charity, Shaw Trust, reported an increase in employer awareness of mental health through the 2000s, but a continued persistence of negative attitudes towards mental health in the workplace. In 2009, 40 per cent of employers viewed workers with mental health issues as a 'significant risk'.<sup>69</sup> The significance of this as a barrier to employment for people with mental illness, compared to people with physical disabilities, is evidenced by Labour Force Survey statistics. In 2015, 43 per cent of people with a mental illness were employed, compared to an average 46 per cent employment rate for disabled people.<sup>70</sup> This is significantly lower than the employment rate for people with physical disabilities, which ranged from 52 per cent to 74 per cent across a range of physical disability categories.<sup>71</sup>

60 OECD, *Making Mental Health Count*, 2014.

61 OECD, *OECD Employment Outlook*, 2009.

62 OECD, *Mental Health and Work: Netherlands*, 2014.

63 OECD, *Mental Health and Work: Norway*, 2013.

64 OECD, *Mental Health and Work: Netherlands*. Ibid.

65 Ibid.

66 OECD, *Mental Health, Disability and Work*, 2010.

67 Department of Health, *Mental Health Act 2007*, 2007.

The Mental Health Act 2007 defines mental disorder as "any disorder or disability of the mind". The definition is wide enough to include not only mental illness, but also learning disability and personality disorders. The definition of learning disability in Section 1(4) is "a state of arrested or incomplete development of the mind which includes significant impairment of intelligence and social functioning". Because this definition would place learning disability within the definition of mental disorder, Section 1(2A) provides that learning disability will not constitute mental disorder unless it is "associated with abnormally aggressive or seriously irresponsible conduct" on the part of the patient.

68 Hans-Ulrich Wittchen and Frank, 'The Size and Burden of Mental Disorders and Other Disorders of the Brain in Europe 2010,' *European Neuropsychopharmacology* 21, no. 9 (September 2011): 655-79.

69 Shaw Trust, *Mental Health: Still The Last Workplace Taboo?*, 2010.

70 Department for Work and Pensions, *Labour Force Survey Analysis of Disabled People by Region and Main Health Problem*, 2015.

71 Ibid.

### 3 Conclusion

The above data paints a clear picture of disability benefits in the UK: a high caseload, increasingly mental health related, particularly among young people, and disproportionately concentrated in areas of northern England. While attributing causation is difficult, this evidence presents a strong case for radical reform. This is in the interests of society as a whole and individual claimants. To ensure that the welfare system is legitimate and sustainable, it is important claimants who are able to work do all they reasonably can to do so. It is equally important that the Government provides appropriate and personalised support for them to achieve that end. For individuals parked on these benefits, but with some work capability, their health can worsen, work-related skills and motivation deteriorate, and significant new barriers to work can arise. The current system is failing both the taxpayer and claimants themselves. To address these issues, the next report in this series will consider the structure of the out-of-work incapacity-related benefit system in the UK. The final report will examine the employment support available for these claimants.

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