Equality impact assessment

Social Security Benefits uprating 2011

February 2011

Department for Work and Pensions

Equality impact assessment for Social Security Benefits uprating 2011

Introduction

1. The Department for Work and Pensions (DWP) has carried out an equality impact assessment on policy changes regarding the uprating of social security benefits for the 2011/12 tax year, assessing the proposals in line with the current public sector equality duties.

2. This process will help to ensure that:

   - the Department's strategies, policies and services are free from discrimination;
   - the Department complies with current equality legislation;
   - due regard is given to equality in decision making and subsequent processes; and
   - opportunities for promoting equality are identified.

Scope of this assessment

3. The existing public sector equality duties require the Department to show due regard when developing new policies or processes to the impact of the proposals on race, disability and gender (including gender reassignment).

4. This assessment looks at the available evidence to determine the extent to which the effect of the proposed change differs between persons sharing a protected characteristic and persons who do not.

5. As a matter of good practice, the Department also aims to assess the impacts of its policy changes against the extended duties ahead of the coming into force of the Equality Act 2010 in April 2011, as far as this is possible.

6. Accordingly, this Equality Impact Assessment also looks at the impact of the proposals on age and on maternity. Insufficient data were available to assess the impact on the additional protected characteristics of gender reassignment, sexual orientation, religion and belief, marriage and civil partnership, and pregnancy. See section 'Groups for which insufficient data are available'.

Brief outline of the policies

7. ‘Uprating’ is an annual procedure which fulfils the statutory duty on the Secretary of State for Work and Pensions to review the rates of social security benefits and provide for the increase of certain benefits if they have lost their value against rising prices or, in some cases, average earnings. This statutory duty has been in place since the mid-1970s.

8. The ‘Social Security Benefits Up-rating Order 2011’, laid in draft before Parliament on Thursday 3 February, is the legislative instrument which will provide for new rates of benefits once approved by Parliament.

9. At the June 2010 Budget and the October 2010 Spending Review several changes to uprating policy were announced. This assessment looks at the combined effect of those policy changes on the income of the protected groups in the 2011/12 tax year, comparing the estimated outcomes for families under those policy changes with the outcomes under the (expected) previous policy. Those policy changes are described below in sections 1 to 4.

1. Change in price inflation measurement used

10. Under the state benefit and pension uprating legislation, the Secretary of State for Work and Pensions has discretion over how to estimate the general level of prices when reviewing the rates of benefits each year.

11. The Secretary of State has decided to use the Consumer Prices Index (CPI) to measure the change in the general level of prices in Great Britain, instead of the RPI that was used previously, because he believes that it is the most appropriate index for that purpose. The reasons for this include the facts that:

    a. it ensures consistency with the measure used by the Bank of England for inflation targeting.
    b. the formula used to calculate CPI reflects the way consumers change their consumption patterns in response to price changes, substituting away from goods which have become relatively more expensive towards cheaper goods;
    c. the CPI excludes the majority of housing costs faced by homeowners, which is appropriate given that low income households are subsidised separately through housing benefits, the majority of pensioners own their home outright, and many other benefits are not intended to support housing costs; and

12. The growth in the CPI will be used to increase those benefits which are subject to a mandatory increase in line with price inflation. The growth in the CPI will also be used to increase those benefits over which the Secretary of State has discretion.

Previously, the “Rossi” index (the RPI minus housing costs) was generally used for that purpose.

13. The policy intention of benefit uprating is to protect the value of benefits against rising prices, as is the legislative requirement for many benefits. The Secretary of State takes the view that CPI is an appropriate measure of price inflation, and thus increases in line with that index fulfil this aim.

14. The review period for determining price growth is the 12 months to the September preceding the start of the tax year. Therefore, for uprating for the 2011/12 tax year, the annual inflation rate for the 12 months to September 2010 has been used. For the CPI, this was 3.1 per cent. This means that most benefits, except those mentioned in further sections below, will receive a lower increase than if they had been increased in line with the relevant RPI (4.6 per cent) or Rossi (4.8 per cent) figure. For those benefits this assessment compares an increase of 3.1 per cent under the proposed changes to an increase of 4.6 per cent or 4.8 per cent, depending on which index each benefit was previously uprated by.

15. The Government proposes to maintain the increase in the basic State Pension by the RPI in April 2011, to fulfil a commitment made at the June 2010 Budget. Therefore there is no policy change for basic State Pension uprating in 2011/12 to consider.

2. The 1.5 per cent advance applied to some benefits in April 2010

16. In April 2010, despite negative growth in the RPI[1], certain benefits were given an increase of 1.5 per cent. These were:
    - Attendance Allowance
    - Carer’s Allowance
    - Disability Living Allowance
    - Additional amounts for disability
    - Industrial Injuries Disablement Benefit
    - Maternity Allowance
    - Statutory Adoption Pay
    - Statutory Maternity Pay
    - Statutory Paternity Pay

17. The intention of the previous administration was that this 1.5 per cent was to be treated as an advance, and recovered in April 2011. This was to be achieved in the April 2011 uprating by applying the September 2010 price inflation figure less the 1.5 per cent increase from April 2010.

[1] The annual change in the Retail Prices Index for the 12 months to September 2009 was -1.4 per cent.

18. The Government has decided not to pursue this policy. Instead, an increase of 3.1 per cent will be applied to the 2010 rates of those benefits in line with the growth in the CPI. In practice, this means that there is no difference in these rates between the old and new policy.[2]

3. The standard minimum guarantee (SMG) in Pension Credit

19. The SMG in Pension Credit is the level of income guarantee for pensioners and those with income below this level will be eligible for Guarantee Credit. The legislative requirement is that the SMG is increased at least in line with the growth in earnings. For uprating in April 2011, the relevant earnings figure was 1.3 per cent.[3]

20. At the June 2010 Budget, the Government announced that it would ensure that most pensioners in receipt of Pension Credit saw the full cash rise in the basic State Pension, by increasing the standard minimum guarantee by at least that cash amount. In order to implement this, it is proposed that the SMG is increased by 3.6 per cent. Therefore, the change considered here is an increase by 3.6 per cent of the SMG rather than by 1.3 per cent.

4. The Savings Credit in Pension Credit

21. At the Spending Review in October 2010, the Government announced that the maximum possible award of Savings Credit would be frozen in cash terms for the next four years, in order to concentrate resources on the lower end of the income scale (for example, by giving an above-earnings increase to the SMG, as described above).

22. Therefore the policy change considered is a freeze in the maximum Savings Credit award, rather than an increase of 1.3 per cent in line with average earnings growth.

5. Out of scope

23. The planned phased increase in Non-Dependant Deductions in housing benefits is covered by a separate Equality Impact Assessment and is not taken into

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[2] This is due to the similarity between up-rating the 2009 rates by 4.6 per cent (RPI, September 2010) and up-rating the 2010 rates (which had been uprated by 1.5 per cent in 2010) by 3.1 per cent (CPI, September 2010).

[3] The relevant Average Weekly Earnings (AWE) statistic figure showed annual growth of 1.3 per cent for the quarter ending July 2010. The Average Earnings Index (AEI) was used in previous years but was replaced by the AWE as the lead measure of short-term earnings growth in January 2010 and has now been discontinued by the Office for National Statistics.

account as part of this assessment.

24. Benefits which are not administered by DWP or amounts in DWP benefits which are linked to non-DWP benefits are out of scope, except for Statutory Adoption Pay and Statutory Paternity Pay, which are the responsibility of the Department for Business, Innovation and Skills (BIS) but maintain parity with Statutory Maternity Pay. Child Benefit, Tax Credits, occupational pensions and public pensions are excluded from the assessment.

25. Proposed benefit rates are set on an annual basis. The legislation specifies the minimum level of increase for certain benefits. It does not preclude rates being set above the minimum level (as, for example, has been the case for 2011/12 for basic State Pension and the standard minimum guarantee in Pension Credit). The Social Security Benefits Uprating Order 2011 sets benefit rates for 2011/12 in accordance with recent decisions on uprating policy, and therefore the assessment considers impacts only for 2011/12. To assess future years would entail pre-empting future decisions. Furthermore, there are proposals to radically restructure the social security system, which will affect outcomes for future years.

26. DWP is bringing forward further proposals for the reform of the benefit system. Assessments of the equality impacts of those proposals will be carried out in due course.

Consultation and involvement

27. The policy decisions described above were taken by Ministers with advice following discussions between DWP, HM Treasury and other Departments prior to the June 2010 Budget and the October 2010 Spending Review.

28. With respect to the change to the Consumer Prices Index, information on price inflation indices made available by the Office for National Statistics was drawn upon in the formation of that advice.

29. Delivery partners, including Jobcentre Plus and the Pension, Disability and Carers Service, were consulted on the feasibility of implementing the policy changes.

Impact of the uprating policy changes

Methodology

30. The Department has analysed the impacts on families' incomes of the uprating policy changes detailed above. Estimates of DWP benefit income[4] that families will receive in 2011/12, under the policy changes outlined, were compared with estimates of the DWP benefit income they would have received had the uprating policy not changed, taking into account the interaction between the effects on

[4] Including the income from DWP benefits where the uprating policy has not changed.

different benefits. The analysis relates to the impact on the weekly income of families in the Great Britain.

31. The estimated impact on different groups of people was then compared, where the data allowed this comparison, in order to analyse whether and why some groups of people are affected more than others. The results of this analysis are shown below.

32. The analysis was done using the Department's Policy Simulation Model (PSM). The PSM is a model of the tax and benefit system, based on cross-sectional survey data which is representative of the population of Great Britain. Using the PSM allows us to analyse the impact of the uprating changes. The current version of the PSM is based on data taken from the 2008/09 Family Resources Survey (FRS). Further information about this model is contained in **Appendix 1**.

33. The analysis has been carried out at the benefit unit level (see paragraph 36 for a definition) because this is the basis upon which the DWP benefit system works. This is a standard DWP term used in the FRS, on which the analysis is based.

34. The analysis was based on estimated benefit receipt rather than benefit entitlement, meaning that the estimates have been adjusted to capture the fact that not everyone claims the benefits they are entitled to. This was deemed a suitable approach to estimate the impacts of uprating policy changes because it looks at families' estimated actual incomes before and after the changes.

35. It is important to note that the figures presented in this assessment are modelled estimates which aim to gauge the possible impacts of changes to uprating policy on benefit income for people of different protected groups, to see whether these groups are disproportionately affected in any way relative to benefit recipients overall. They are not intended to be precise forecasts of numbers or proportions of people who gain or lose, or the amount by which they gain or lose.

Definitions

36. The term **'family'** in this publication refers to a **'benefit unit'**, which is defined as a single adult or a married or cohabiting couple and any dependent children; from January 2006 same-sex partners (civil partners and cohabitees) are included in the same benefit unit'.[5]

37. A '**gainer**' is a family whose weekly income is estimated to be higher than it would have been without the policy changes, in 2011/12.

38. A '**loser**' is a family whose weekly income is estimated to be lower than it would have been without the policy changes, in 2011/12.

[5] More information on the definition of a benefit unit can be found in the latest FRS publication, available at the following link: http://research.dwp.gov.uk/asd/frs/2008_09/index.php?page=intro

39. A family experiencing '**no change'** is a family whose weekly income is estimated to be the same as it would have been without the policy changes, in 2011/12.

40. **"All benefit recipients"** are all families receiving at least one DWP benefit, including those benefits for which the uprating policy has not changed.

Age impact

41. The estimated impact of the changes on pensioner families, working age families, and all benefit recipients is shown in the charts below.

Chart 1a: Estimated proportions of pensioner families, working age families, and all benefit recipients who lose, gain, or see no change to their DWP benefit income in 2011/12, as a result of the changes to uprating policy.

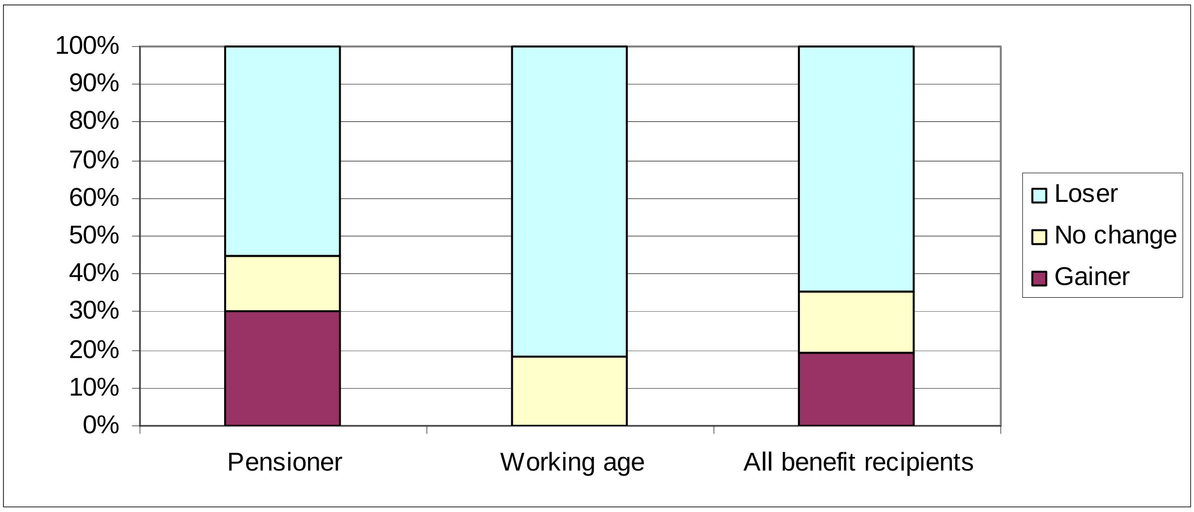
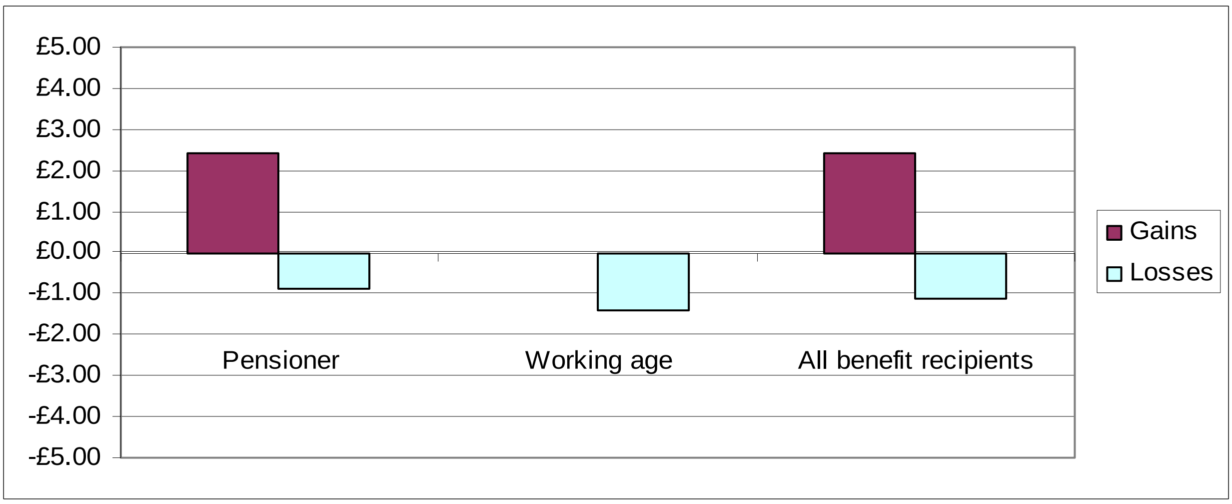


Chart 1b: Estimated change in average amount of DWP benefits received as a result of the changes to uprating policy, for pensioner families, working age families and all benefit recipients, £ per week



Note: ’Working-age’ refers to men aged between 16 and 64 and women aged between 16 and 59. ‘Pensioner’ refers to men aged 65 and over and not in receipt of Pension Credit, men aged between 60 and 65 who are in receipt of Pension Credit, and women aged 60[6] and above.

42. The “all benefit recipients” bar in Chart 1a shows the impact of the change on all families receiving DWP benefits. It shows that around 65 per cent of families receiving DWP benefits are estimated to see a lower weekly benefit income as a result of the policy changes. Around a fifth of families are estimated to see a higher weekly benefit income, and around 15 per cent are estimated to see no change.

43. Chart 1b shows that the average loss for families who lose is estimated to be around £1.10 per week. The average gain for families who gain is estimated to be around £2.40 per week.

44. Only pensioner families are estimated to gain as a result of the uprating policy changes (Chart 1a). This is likely to be because Pension Credit is receiving an increase above the baseline policy (see paragraphs 19 and 20), and only families over women’s state pension age can receive Pension Credit.[7] Furthermore, the prevalence of disability increases with age, and a number of disability benefits are unaffected by the uprating policy changes (see paragraphs 16 to 18). The receipt of those benefits does not offset potential gains in the way that the receipt of other benefits does.

[6] In line with the Government's plans for State Pension age equalisation, the State Pension age for women will increase gradually from 60 starting from 6th April 2010. During the financial year 2011/12, the State Pension age for women will rise gradually from 60 years and 7 months to 61 years.

[7] This may include couples with partners below the Pension Credit qualifying age.

Disability impact

Chart 2a: Estimated proportions of different families with or without disabled members and all benefit recipients who lose, gain, or see no change to their DWP benefit income in 2011/12, as a result of the changes to uprating policy.

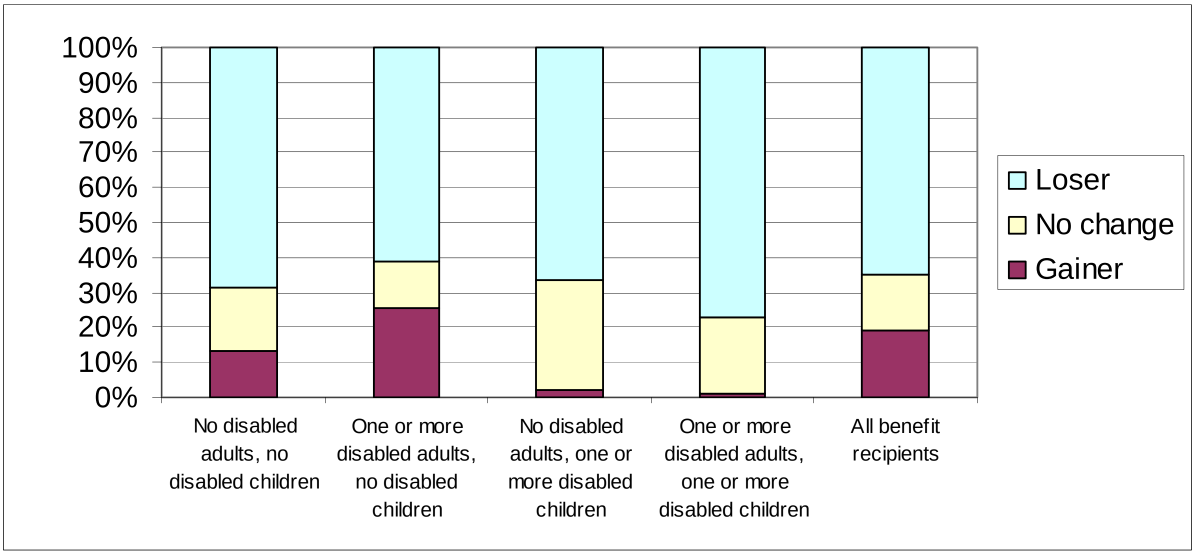
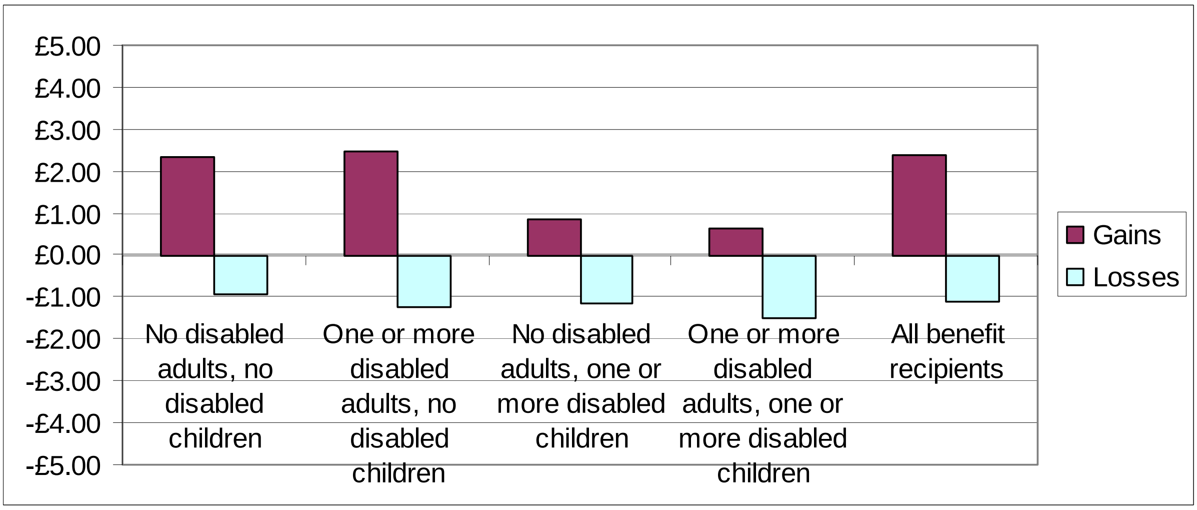


Chart 2b. Estimated change in average amount of DWP benefits received as a result of the changes to uprating policy for different families with or without disabled members and all benefit recipients, £ per week



Note: The definition of disability for the purposes of equality impact assessment is now that contained in the Equality Act 2010, and was previously that defined by the Disability Discrimination Act.

45. Families containing no disabled adults and no disabled children are estimated to be less likely to gain, and more likely to lose, than the average family receiving DWP benefits. This could be because they are less likely to be receiving disability benefits unaffected in the first year of the uprating policy change. Receipt of

certain benefits helps to mitigate overall losses as a result of all of the uprating policy changes.

46. Families where there are one or more disabled adults and no disabled children are the most likely to gain of the family types shown. These families are more likely to be pensioners living without dependent children, and therefore more likely to see gains from Pension Credit as a result of the uprating changes. Additionally, the receipt of certain disability benefits (listed in paragraph 16) helps protect against overall losses, as explained above, and the prevalence of disability increases with age.

47. Families where there are no disabled adults and one or more disabled children, and families with one or more disabled adults and one or more disabled children, are unlikely to gain relative to other family types. This could be because the adults in these families are less likely to be of pension age (given that they have dependent children) and so less likely to experience gains in Pension Credit, but may be receiving some disability benefits that help to protect against overall losses. Chart 2b shows that, where these families gain, the gains are much lower than average, because they are less likely to be receiving gains in Pension Credit.

Ethnicity impact

Chart 3a: Estimated proportions of different ethnic groups and all benefit recipients who lose, gain, or see no change to their DWP benefit income in 2011/12, as a result of the changes to uprating policy

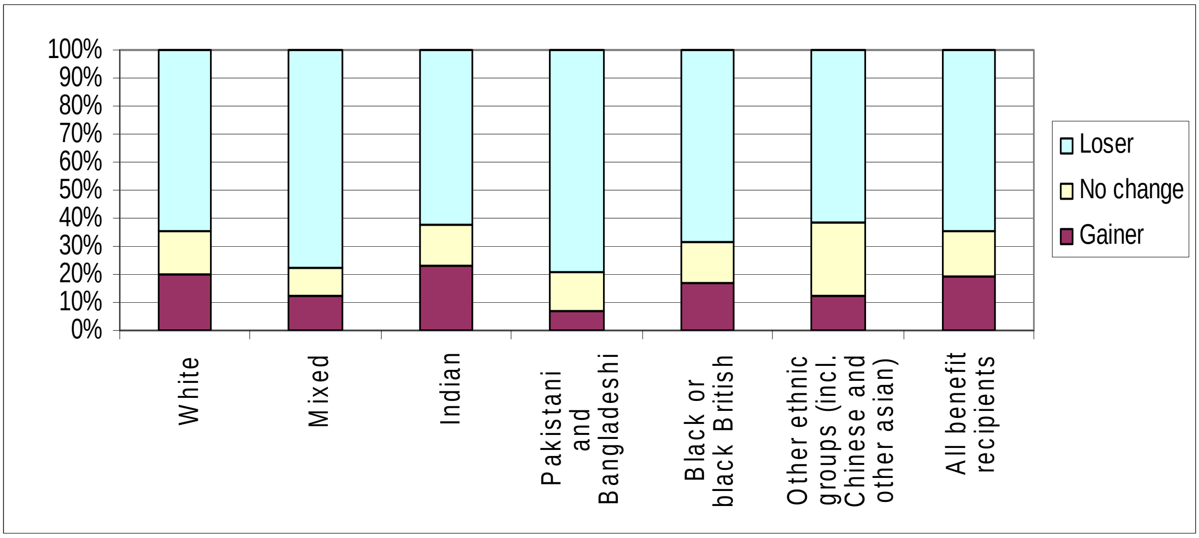
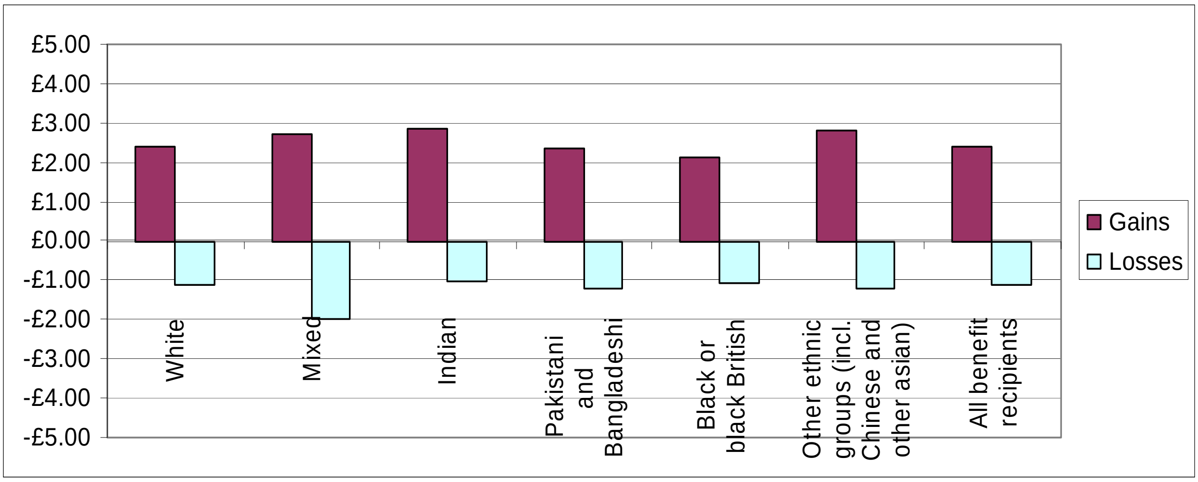


Chart 3b. Estimated change in average amount of DWP benefits received as a result of the changes to uprating policy for different ethnic groups and all benefit recipients, £ per week



Note: The ethnic group classifications presented here are those used in the Family Resources Survey and are in line with National Statistics guidance on harmonisation of concepts and definitions[8].

48. Lower than average proportions of families from Pakistani and Bangladeshi communities are estimated to gain as a result of the policy changes (Chart 3a). Although it should be noted that these findings are based on much smaller samples than the findings for white people (because white people make up the majority of the Great Britain population and the benefit recipient population), this could be because people from Pakistani and Bangladeshi communities are less likely to be of pension age than the other ethnic groups shown, and so less likely to be in receipt of and thus experience gains in Pension Credit.

49. Families from mixed ethnic communities are also estimated to be more likely than average to lose as a result of the changes to uprating policy, and losses are estimated to be higher than average. This result is also based on a small sample. It is likely to be due to the benefits received by this group – for instance they may be more likely to receive benefits that have received lower increases as a result of policy changes.

[8] Further information on harmonisation can be found in the 'Methodology' chapter of the latest Family Resources Survey publication, available at:
http://research.dwp.gov.uk/asd/frs/2008_09/index.php?page=intro

Gender impact

Chart 4a: Estimated proportions of single males, single females, couples and all benefit recipients who lose, gain, or see no change to their DWP benefit income in 2011/12, as a result of the changes to uprating policy.

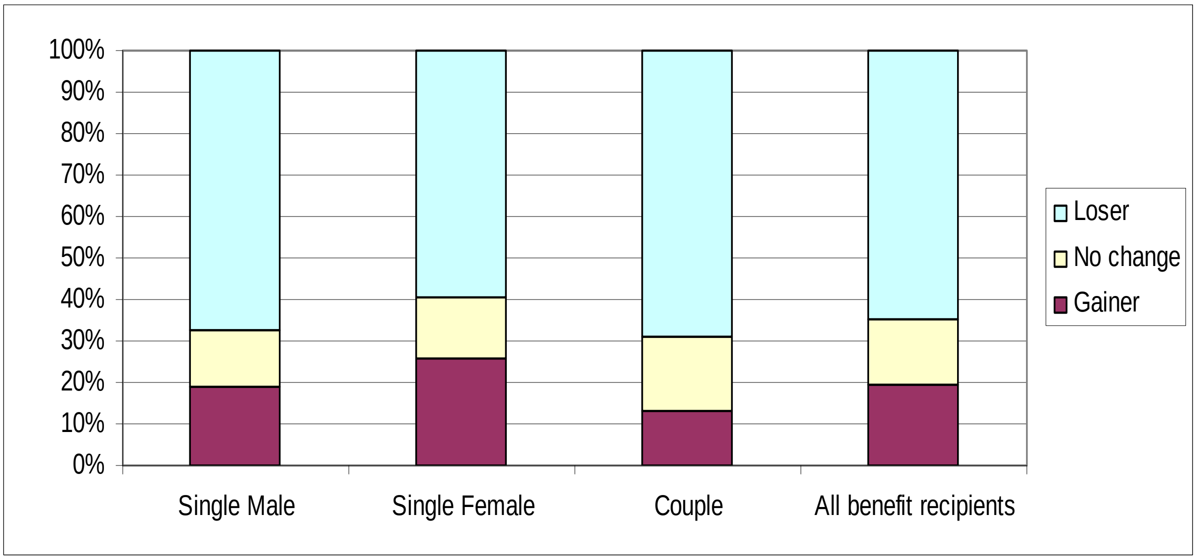
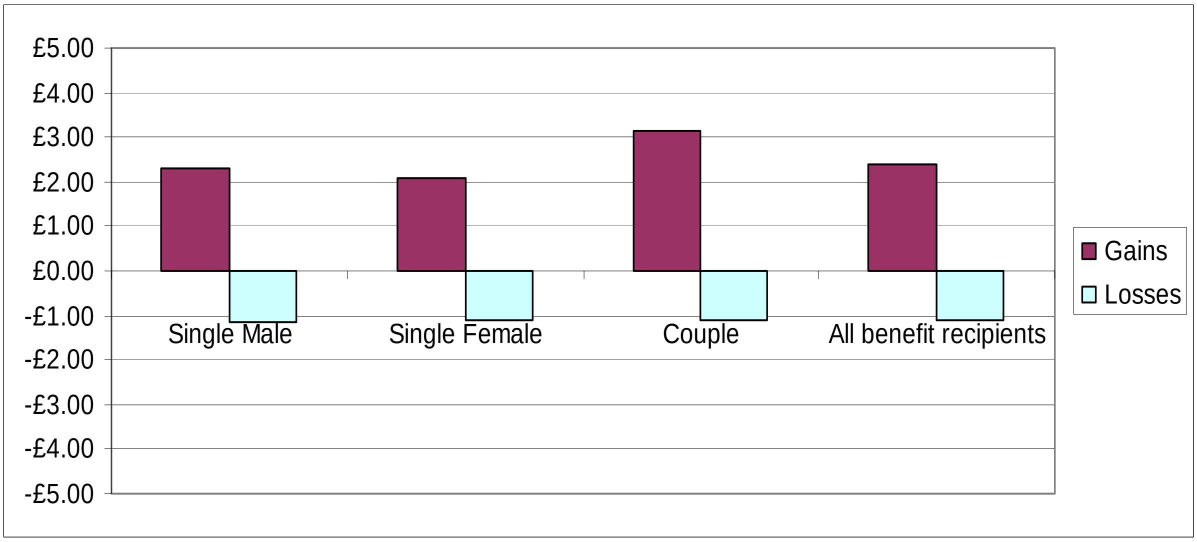


Chart 4b. Estimated change in average amount of DWP benefits received as a result of the changes to uprating policy for single males, single females, couples and all benefit recipients, £ per week



Note: Single males and single females include widowers and widows. Whilst they are not part of the protected group, couples are included because the analysis has been done at the benefit unit level, since this is the basis upon which the DWP benefit system works (see paragraph 33).

50. Couples are estimated to be less likely to be gainers than single males and single females. One factor behind this is that couples are more likely to be of working age than single males and single females (which include widowers and widows).

More working age benefits will receive a lower increase as a result of the policy changes than pension benefits (see “Age impact” section above).

51. Where couples do gain, they are estimated to gain higher amounts than the average gain for all families, because the gains are likely to be driven by gains in Pension Credit, and the amount of Pension Credit gain for couples is higher than for singles.

52. Looking at single people, single females are more likely to be gainers than single males. The likely reason for this difference is primarily that single females are more likely to be receiving Pension Credit, which has received an increase significantly above the baseline policy.

Results – pregnancy and maternity

53. At present, the Department does not have data that allow comparison of the impacts of the changes in uprating policy on people who are and are not pregnant. However, it is possible to compare the impact on families who receive benefits including either Maternity Allowance (MA) or Statutory Maternity Pay (SMP) with families receiving only other DWP benefits.

Chart 5a: Estimated proportions of families receiving / not receiving maternity benefits and all benefit recipients, who lose, gain or see no change to their DWP benefit income in 2011/12, as a result of the changes to uprating policy.

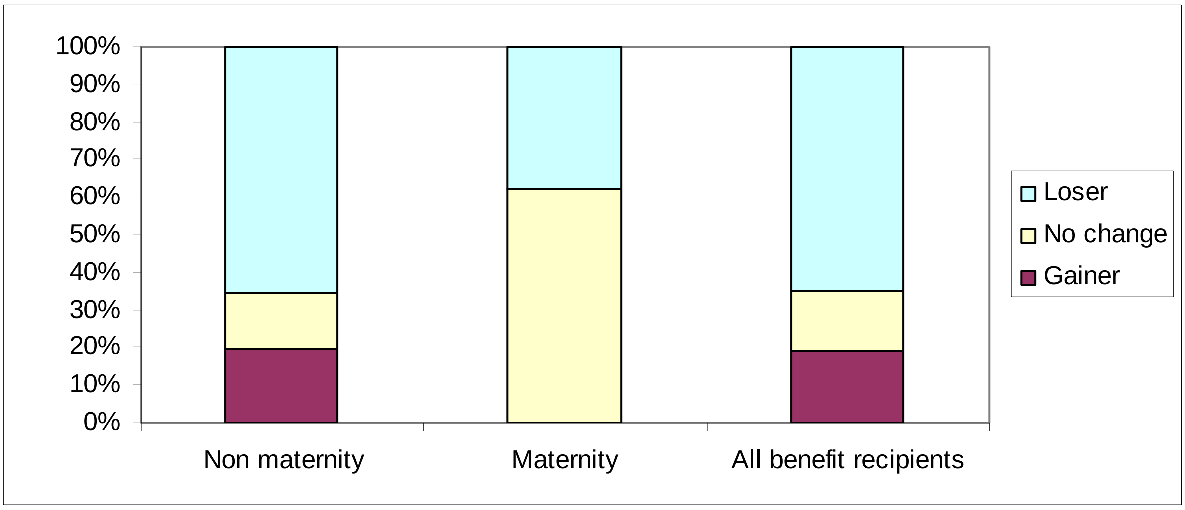
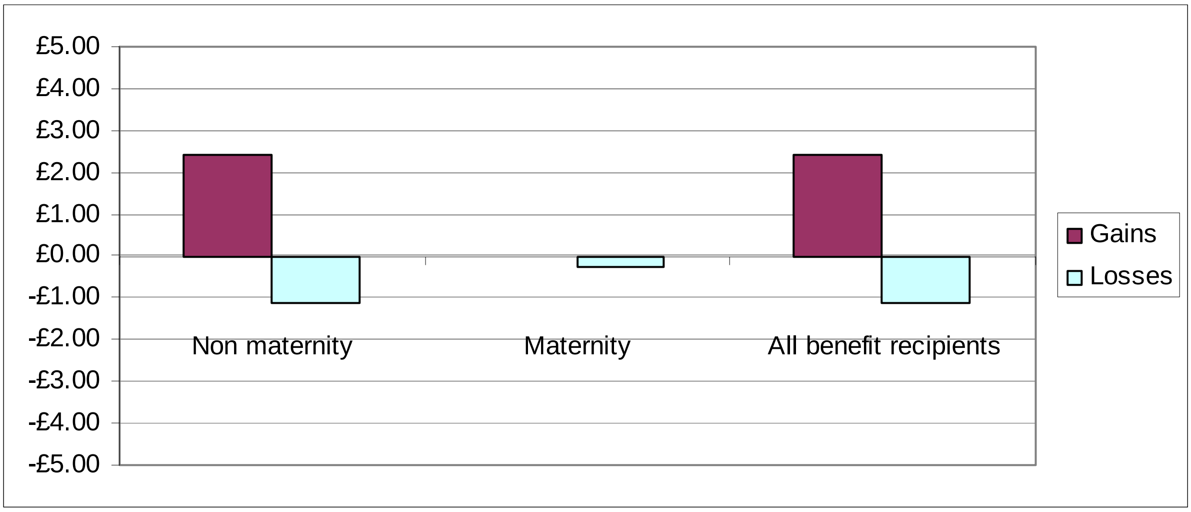


Chart 4b. Estimated change in average amount of DWP benefits received as a result of the changes to uprating policy for families receiving / not receiving maternity benefits and all benefit recipients, £ per week



Note: 'Maternity' means families receiving DWP benefits including either MA or SMP. 'Not maternity' means families receiving only other DWP benefits.

54. The charts indicate that families receiving maternity benefits are not estimated to gain from the uprating policy changes. This is because these families are likely to be of an age which makes them ineligible for Pension Credit, in which case they do not experience gains in Pension Credit income.

55. However, families receiving maternity benefits are estimated to be more likely not to see any change in income as a result of the policy changes. Where they are estimated to lose, losses are estimated to be lower than average. This is influenced by the fact that they are receiving maternity benefits, and the rates of these benefits have not changed as a result of the policy changes (see paragraphs 16-18).

Groups for which insufficient data are available

56. Insufficient data were available to analyse the impact of the changes in uprating policy on some of the additional protected characteristics soon to be brought in by the Equality Act 2010.

57. However, there is no reason to believe that the policy changes discussed above would be discriminatory towards the additional protected groups, because the decisions do not target or exclude those groups in any way.

58. In advance of the new public sector duty taking effect from 6 April 2011, the Department has not routinely collected certain data – for example on customers' religion or beliefs or sexuality. The Department is currently exploring what information it can collect on the additional protected characteristics of age, gender reassignment, sexual orientation, religion or belief, marriage and civil partnership and pregnancy and maternity. Where these data have not been recorded by the

Department, policy makers will look at using alternative sources of data as well as consultation and involvement to examine the potential and real impacts of its policies.

Overall summary and conclusion

59. The Department's Policy Simulation Model was used to estimate the impact in 2011/12 of the changes to uprating policy for DWP benefits announced in the June 2010 Budget and October 2010 Spending Review. Estimates of families' weekly income from DWP benefits, before and after the policy changes, were compared. The impact for different groups of people was considered.

60. Overall it was found that, where one group of people is estimated to be more likely to gain or lose income as a result of the policy change, this is due to the propensity of the group to be receiving certain benefits.

61. The main driver of gains is the increase to the standard minimum guarantee in Pension Credit. While the income replacement of working-age benefits is in most cases intended to be temporary, pensioners who are receipt of Pension Credit are far more likely to be so for life and are unlikely to have options for increasing their retirement income, for example through work. Pension Credit is one of the ways in which the Government ensures that pensioners have a decent income in retirement.

62. The different impacts for different groups arising from the policy changes are a function of the benefit caseload characteristics. The policy changes discussed do not alter the underlying structure of the benefit system which causes this. Therefore we consider that the particular changes discussed in this Equality Impact Assessment have no adverse equality impact.

Monitoring and evaluation

63. DWP has no plans to undertake a formal evaluation of these changes. It will continue to monitor feedback from stakeholders and others and consider whether to take any action.

64. Through analysis of administrative data, surveys and other sources, DWP will continue to monitor:
    - state benefit and pensions caseload and take-up;
    - the level and distribution of pensioners' and benefit recipients' total incomes; and
    - the level of understanding of the state benefit and pensions systems.

65. DWP will also continue to report on progress against its performance in its annual and Departmental reports.

66. The Secretary of State for Work and Pensions has the statutory duty to review the rates of social security benefits each tax year.

Next steps

67. The Social Security Benefits Uprating Order 2011 will provide for the new rates of benefits once it has been approved by Parliament. The rates of social security benefits are subject to annual review, and further Equality Impact Assessments will be carried out as appropriate.

Contact details

68. If you have any further questions on this Equality Impact Assessment, please contact:

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Email: STATE.PENSIONS@DWP.GSI.GOV.UK.

Appendix 1: The Department's Policy Simulation Model

1. The Policy Simulation Model (PSM) is the Department for Work and Pension's static microsimulation model of the Great Britain tax and benefit system. The PSM can be used to estimate the impact of changes in these systems on a representative sample of families and, therefore, on total government spending. The model gives results based on the "next-day" effect of policy changes and does not enable the analysis of behavioural responses.

2. The PSM has two underlying elements: a base dataset and the GB tax and benefit system encapsulated in computer code.

3. The base dataset provides the micro-level data used within the model to represent the population. It is derived from the Family Resources Survey (FRS), combined with administrative data on rents, benefit receipt and pension entitlements. The FRS is a cross-sectional survey of the UK population, covering around 25,000 households. It is available from http://research.dwp.gov.uk/asd/frs/index.php?page=intro. Where possible, administrative data are used to compliment the FRS data and improve the overall accuracy of the model. The resulting data include a wide range of information on the individuals in the model, covering demographic, personal, financial and economic characteristics.

4. The FRS is conducted each year and normally becomes available around 8 months after the end of the financial year covered by the survey. To enable the PSM to cover the current (and future) financial year, the data are uprated. This process includes inflating financial amounts by the relevant indices, accounting for demographic changes in the population over time and also for the draw-down of old benefits and cohort effects relating to an individual's pension entitlements.

5. The code representing the tax and benefit system simulates the policy rules in force during the year being modelled. These rules can be altered to produce a hypothetical tax and benefit system to, and the results compared with the base system. This allows the analysis of:
   - income and distributional effects, including changes in relative poverty across the Great Britain population
   - total cost to government; and
   - statistical measures of financial work incentives.