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SOCIAL SECURITY (NO. 2) BILL

Members may find the following notes helpful for the Second Reading of the Social Security (No. 2) Bill on Tuesday 15th April 1980.

MAIN CHANGES

The Bill will implement a number of important and controversial changes which have recently been announced by the Government.

1. De-indexation

The Government is proposing to "de-index" certain benefits so that it will no longer be obligatory to raise them in line with prices. These benefits include the so-called "short-term" benefits (i.e. unemployment benefit, sickness benefit and maternity allowances) as well as industrial injury benefit and invalidity pensions.

2. The earnings rule

The earnings rule limit (currently £52 per week) is the amount a retired pensioner can earn without having his pension reduced and there is a statutory duty to raise the limit each year in line with the increase in earnings. The Government intends not to increase the earnings rule limit this year and amending legislation is therefore required.

3. Earnings-related supplements

An earnings-related supplement is paid to a minority of people in receipt of unemployment benefit, sickness benefit, injury benefit and maternity allowances, and a corresponding benefit is paid with the widows' allowance.

The supplement will be reduce in January 1981 and abolished entirely from January 1982.

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#### 4. Occupational Pensioners

At present a person who is unemployed may, in addition to his unemployment benefit, be drawing an occupational pension.

The Bill would reduce unemployment benefit by 10p for each 10p of occupational pension above £35 per week as from April 1981 (the £35 figure can be raised to a higher level before this date).

#### 5. Striker benefits

The Bill provides for a strikers' family to have their supplementary benefits reduced by £12 per week and will ensure that tax refunds will be taken fully into account, instead of up to £4 being disregarded as at present.

#### 6. Linking periods

The Bill includes some rather technical changes about the "linking periods" for spells of incapacity, of which the most important is that spells of incapacity or unemployment will be able to be run together where the gap between them is not more than 6 weeks as against 13 weeks at present.

#### B. INDEXATION

Under the Social Security Act 1973 almost all national insurance benefits had to be received annually and the increase had to be at least in line with the increase in prices.

The Government is proposing to increase the short-term benefits (i.e. unemployment and sickness benefits and maternity allowances) and the invalidity pension and industrial injury benefits by 11½% in November 1980 against an expected price increase of 16½%.

#### Short-term benefits

The following points may be noted:

- \* despite the cut in their real value, the levels of unemployment and sickness benefits will still be slightly higher in real terms than at the time of the September 1971 uprating.
- \* supplementary benefits are being increased fully in line with prices (although there is no legal obligation to do so) and this means that the "safety net" is being fully safeguarded.

This is particularly important for the unemployed, because

some 60% of the unemployed who draw state benefits rely wholly or partly on supplementary benefits. These include school-leavers who have not paid the necessary NI contributions; the long-term unemployed, for whom flat-rate unemployment benefit runs out after one year; and a number of low-income families whose NI benefits are topped-up by supplementary benefits.

- \* unemployment benefit and sickness benefit and maternity allowances are all tax-free and this confers an unexpected bonus on the recipients.
- \* retirement pensions, widows pensions and the mobility allowance are all taxable and it is accepted in principle (by both major Parties) that unemployment benefit and sickness benefit should be taxed as well.
- \* Mr. Stanley Orme stated in 1976, writing about the short-term benefits, that:

"there is little doubt that in principle all such benefits should be taxed". (Hansard 23/12/76 WA Cols 333-4)

and Mr. Sheldon, then Financial Secretary to the Treasury said in 1977:

"Not only do I agree with the taxation of short-term benefits but I think everyone who has ever been concerned with these problems has agreed with it". (Hansard Standing Committee D 23rd June, 1977)

More recently Mr. Joel Barnett, formerly Chief Secretary to the Treasury, asked why socialists should not discuss among themselves.

"Taxing all benefits (what's anti-socialist about taxing all income whatever the source?) to finance better benefits?". (Guardian 25/9/79).

### Invalidity pensions

The 5% cut in invalidity pensions will affect some 650,000 people. The following points may be noted.

- \* the invalidity pension will still be higher in real terms than at the time of the November 1976 uprating.
- \* the invalidity pension is non-taxable and, as explained above, this confers a bonus upon its recipients. It is interesting that Mr. Robert Sheldon, Financial Secretary to the Treasury under Labour, said in 1978 that:

"Sickness benefit, which should in principle be taxable, is exempted because of the practical difficulties of collecting tax on short-term benefits. Invalidity benefit which is payable when entitlement to sickness benefit runs out, is exempted because it would give rise to anomalies if it were treated differently from sickness benefit". (Hansard 26/5/78 WA Col. 742).

In other words, Mr. Sheldon excluded invalidity pensions from tax not because he disagreed in principle but because (quite understandably) it would be anomalous to tax invalidity pensions and not sickness benefit. As the Government intends to tax sickness benefit this obstacle is now removed.

Indeed Mr. Orme referred specifically to invalidity pensions as well as unemployment and sickness benefit when he said that:

"in principle all such benefits should be taxed".  
(Hansard 23/12/76 WA Cols 333-6).

- \* the non-contributory invalidity pension will be increased by  $16\frac{1}{2}\%$  (a Research Department brief for the debate on 31st March 1980 stated, wrongly, that this was being raised by only  $11\frac{1}{2}\%$ ) and the supplementary benefit rates are also being raised by  $16\frac{1}{2}\%$ .

#### THE EARNINGS RULE

The Conservative Manifesto committed the Party to "phase out the 'earnings rule' during the next Parliament" and Mr. Jenkin has stressed that

"we remain firmly committed to ending the earnings rule, as soon as circumstances allow". (Hansard 27/3/80 Col1661).

At present a pensioner can earn £52 per week before his pension is reduced and, under current legislation, this must be increased each year in line with the percentage increase in earnings. The Government wishes to hold down the limit to £52 this year because, as Mr. Jenkin explained:

"At a time when other people are having to make sacrifices, we believe it right to hold the earnings rule limit at its present level of £52 per week for the time being". (ibid).

It may be emphasised that pensioners have benefitted in other ways - from the increase in the retirement pension by  $19\frac{1}{2}\%$  last November: (as against a price increase of  $17\frac{1}{2}\%$ ) from the protection currently afforded to pensions against prices and from payment of the £10 Christmas Bonus last year as well as this year. The poorest pensioners dependent on supplementary benefit will also gain from the considerable extra help on heating costs, amounting to the continuance of £20m of last year's special measures and an extra £80m of new measures in 1980.

#### D. EARNINGS-RELATED SUPPLEMENTS

The introduction of earnings-related supplements is a comparatively modern phenomenon, and derives from the

National Insurance Act 1966.

It is interesting to note that Labour's original intention was to introduce a major new scheme of national superannuation. According to Richard Crossman the then Social Security Minister, Peggy Herbison,

"spoke with great passion, explaining that this whole idea (i.e. earnings-related supplements) was something she detested".

Peggy Herbison had wanted the full superannuation scheme but had been overruled by the economic Ministeries and had had to fall back on a minor scheme of earnings-related supplements. ("The Diaries of a Cabinet Minister", Volume 1, 1975).

The following points may be useful:

- \* the number of people receiving earnings-related supplements at any one time is comparatively small. For example, in May 1979 176,000 unemployed people were receiving the supplement although registered unemployment was in the order of 1,247,000 (Hansard 1/4/80 WA Cols 139-40 and Dept. of Employment Gazette).
- \* the Government's proposal to shift the first eight weeks of sick pay to the employer (effectively abolishing the NI scheme over this period) means that the supplement to sickness benefit would have to be abolished anyway. (vis. "Income During Initial Sickness: A new Strategy" Cmnd 7864 April 1980).
- \* the savings would be substantial:

<u>Earnings-related supplements</u>	<u>£million</u>
Sickness benefit	185
Injury benefit	15
Maternity allowance	35
Unemployment benefit	110
Widows allowance	15
	—
	£360
	—

Against this, there would be estimated extra expenditure of £75m on supplementary benefit (i.e. more people would need their NI benefits to be topped up) so that the net saving would be just under £300m. (Hansard 1/4/80 WA Cols 139-40.)

- \* one of the main reasons why some people are better-off out of work is because the combinations of flat rate plus earnings-related unemployment benefit gives them too great an income. The removal of the earnings-related supplement will therefore substantially ease the "why work?" problem.

#### D. OCCUPATIONAL PENSIONERS

The problem of occupational pensioners in their mid-50s or early 60s who draw on occupational pensions and then register as unemployed has long been a source of concern to Government.

Richard Crossman remarked in 1969 that:

"I have one other intractable problem, the payment of unemployment benefit for occupational pensioners. Cars line up outside the labour exchanges at Worthing or Southport because the people who have just retired on their Civil Service pensions, even a Permanent Secretary at £3000 a year are for six months able to draw a tax-free earnings-related benefit while they are, so they say, trying to become the Secretary of the local Golf Club or something of the sort. Titmuss, who is on the National Insurance Advisory Committee, agrees that we really must stop this abuse because unemployment benefit is for the genuinely unemployed". (Crossman Diaries, Volume 3).

In 1969 the Government announced that new draft regulations would be presented to means-test unemployment benefits for occupational pensioners (Hansard 15/12/69 Col 932) but they never come into force.

In 1976 the Labour Government came forward with a similar proposal in the Social Security (Miscellaneous Provisions) Bill to reduce unemployment benefit by 5p for every 5p by which an occupational pension drawn by a person aged 60 or over exceeded £25 a week. This was successfully opposed by the Conservatives and was dropped by the Government.

As Mr. Jenkin explained to Parliament:

"The House has, on no less than three occasions, rejected this change and I myself have spoken and voted against it. Yet, when economies in the social security budget must be made, it is not now reasonable to protect entitlement to a year's unemployment benefit for people who have retired and are in receipt of significant occupational pensions (Hansard 27/3/80 Col 1661).

It is estimated that this change will save the Government some £25m on unemployment benefit in a full year at current benefit rates (Financial Memorandum to the Bill).

E. STRIKERS BENEFITS

The Government is proposing three main steps:

1. To reduce supplementary benefit for strikers families by £12 per week, irrespective of whether the strike is a trade unionist.
2. To ensure that tax funds are taken into account in full, instead of up to £4 being disregarded as at present.
3. To tax such supplementary benefit payments (This proposal will of course, be dealt with in a Finance Bill).

The following points may be of interest:

- \* payment of supplementary benefit (or national assistance as it was called) to strikers and their families was comparatively small in the early 1960s. For example it totalled £75789 in 1960 and £127,588 in 1966.
- \* under Section 10 of the Ministry of Social Security Act 1966 a striker was given the right to draw supplementary benefit for his dependents, in place of the discretionary payment which previously existed. Subsequently payment rose rapidly to £377,100 in 1967, £334,471 in 1968 and to £748,542 in 1969.
- \* there is a growing public concern on this issue and, as the Chancellor pointed out, the £8m paid so far this year on strikers benefits could have been used instead to raise the mobility allowance by £1 per week.
- \* the number of non-trade unionists on strike in any one year is probably very small, although no official figures are available.
- \* there was a clear Manifesto commitment to require unions to take greater financial responsibility for wages.
- \* some unions pay little or no strike pay even though they have large funds at their disposal. On average only about 2.4% of trade union income is used for strike pay.
- \* in the EEC countries (except UK and Eire) unions contribute more to strike pay and the state less.
- \* if strikers have to rely on the union pay (rather than automatic state benefits), this may give the union greater control over unofficial strikes.
- \* children will be largely protected because child benefit is paid automatically to all mothers, irrespective of whether the father is in work or on strike, and is therefore unaffected.
- \* a Sunday Times opinion poll showed that, by a margin of 63 to 31, the electorate approve of the decision to reduce payments to strikers families.

## SOCIAL SECURITY (No 2) BILL - BACKGROUND NOTE

Social Security Expenditure

Social Security costs £20 billion a year; about a quarter of public expenditure. Grown in real terms by £7 billion over past 10 years (see\* below) 3 times as fast as national income.

Equivalent to £1,000 for every household in land. After current proposals implemented will still be going up slightly in real terms as well as cash terms, even without allowing for any increase in child benefit in future years,\* (including an allowance for the switch to child benefit from child tax allowances and family allowances).

Costs and Savings

1980 uprating more than £3 billion in full year. Number 2 Bill savings: of the order of £270m in financial year 1981/82 of the order of £480m 1982/83 in cash terms.

## CLAUSE 1: LOWER UPDATING OF UNTAXED BENEFITS

Purpose

Certain untaxed benefits will be uprated in November 1980 by 11.5% instead of 16.5%, the latter being the amount necessary to restore their value. But:

- a full price protection for supplementary allowance from November 1980;
- b clause does not apply to uprating of child dependency increases;
- c retirement and widows' pensions, attendance allowance, mobility allowance, war pensions and industrial disablement pensions, all price protected.

Comment

Agreed by both main Parties that benefits which replace earnings should be taxable. (Previously frustrated by the anticipated high administrative costs.)



Government plans to make benefits paid to the unemployed (Unemployment Benefit and Supplementary Benefit) taxable from 1982. Also plans to introduce taxable employers' statutory sick pay from same date. Tax other benefits as soon as possible thereafter.

5% uprating reduction an interim measure pending taxation. Saves about £130m net in 1981/82. Savings from taxation about £450m a year.

Will there be further 5% reductions in 1981 and 1982 upratings?

Government will consider the content of future upratings at the appropriate times. Approval of Parliament (affirmative resolution) needed before 5½ cuts in upratings could be applied.

Will the cuts be restored when taxation introduced?

The Government has stated clearly that it will look at the benefits again before they become taxable and consider what is the right level in the light of the economic circumstances at the time. In answer to a Question about invalidity benefits, the Secretary of State has given an assurance that when they become taxable, and subject to the availability of resources, they will be restored to the level of retirement pensions.

Some of those affected by the proposal would not have had to pay any tax had the benefits been taxable.

Interim measure prior to taxation. Not practical to take account of individual circumstances as actual taxation would. Overall savings much less than tax clawback. Tax refunds not affected.

CLAUSE 2: TEMPORARY FREEZING OF LEVEL AT WHICH RETIREMENT PENSIONS EARNINGS RULE STARTS

Purpose

Level at which Retirement Pensions earnings rule starts is to remain at £52 - set in November 1979. Cost of increasing the limit - £1m in a full year for each 1% increase in the limit.

Real value of £13 limit, which applied before Conservative amendment began rapid increases in the level in April 1975, would be at about £33 November 1980 (assuming 16½% increase in RPI

November 1979-80)

### Manifesto Commitment

The Government still intend to phase the rule out as soon as possible. Revised costings based on more up-to-date assumptions likely to show a lower cost for this. But not an overriding priority.

Cost still substantial and would benefit those with substantial earnings as well as pension.

### How long will freeze last?

The Government hope that it will only be for one year - it will depend on the economic situation.

## CLAUSE 3: LINKING RULE CHANGES

### Purpose

Two changes:

a ending payment for very short spells of incapacity

COMMENT: Only a minority of these, those that link with earlier spells, get benefit at present. Half a million claims - high administrative costs but very little benefits costs. Little financial need for these short periods.

b Reduction in the linking period from 13 to 6 weeks

COMMENT: This will help to concentrate invalidity benefit on the chronic sick for whom it was intended by excluding limited spells of minor illnesses. Gives some extra protection to a person with recurrent unemployment.  
Net benefit savings from both changes £20m in 1981/82.

## CLAUSE 4: EARNINGS RELATED SUPPLEMENT

### Purpose

The earnings-related supplement payable with unemployment benefit, sickness benefit, maternity allowance and in certain circumstances injury benefit and the earnings related addition to widows' allowance will be reduced in January 1981 and abolished in January 1982.

COMMENT:

Main aim public expenditure savings: net savings from abolition after extra supplementary benefit, about £285m in first full financial year.

Also relevant:

- a real value of maximum supplement halved since 1966 and value in relation to flat rate more than halved;
- b when benefit savings have to be made better that they should fall on provision made for higher benefits for the higher paid;
- c since the supplement was introduced occupational sick pay schemes have been developed, maternity protection legislation has been introduced and statutory and non-statutory redundancy payments have become more generous;
- d at a point in time only 16% of registered unemployed claimants receive ERS;
- e of those in receipt of ERS at a point in time half get it with sickness benefit and one third with unemployment benefit.

Breach of contractual obligation based on contributions.

National Insurance System funded on a 'Pay as you go' basis. Contributions for 1980/81 relate to 1980/81 benefit expenditure.

Scheme not run on a commercial basis of people paying in advance for benefit they get later; if it were, current contributions would have to be higher or benefits lower.

Shouldn't the 'self-financing' element of ERS be retained?

'Self-financing' presumably refers to the income to the National Insurance Fund from employer and employee contributions.

It is not practicable to operate the Fund in this way. There is no separate contribution for ERS. Nor for any other benefit. Treasury supplement is 18% of total contribution income not of benefit outgo.

It is far too early to indicate the effect of the abolition of ERS on contribution rates in 1982/83. The decision on those rates will be taken in the Autumn of 1981 in the light of

advice from the Government Actuary. He will take a number of factors into account, of which the abolition of ERS will be one, and of course the intended introduction of an Employers' Statutory Sick Pay Scheme another.

Extra Burden on Supplementary Benefits?

Holding back the 1980 uprating for certain benefits and abolish ERS is estimated to result in 110,000 extra claims. This is only 4% of total claimants. Extra expenditure on benefits and administration taken into account in savings shown above.

Will contribution levels be reduced to take account of the changes?

Benefit savings will be taken into account for future contribution rate calculations. Effect of ERS reduction in 1981 too small to affect contribution levels.

The increase in Supplementary Benefit claimants resulting from the changes will mean that Supplementary Benefit will no longer be 'just a safety net'.

Supplementary Benefit already a major benefit - some 5.2 million claims in 1979.

Long recognised that scheme not playing role Beveridge originally intended. Hence Review of the scheme set up by previous Government and Social Security (1) Bill to simplify scheme and fit to mass role.

Estimated 110,000 additional Supplementary Benefit claimants as a result of reduced uprating and reduction and abolition of ERS. Increase of only 4%.

ERS for the unemployed helped to promote mobility of labour?

ERS only one of several measures introduced to help (among other things) mobility of labour - others, Redundancy payments and Employment Protection Legislation.

CLAUSE 5: OCCUPATIONAL PENSIONERS

Purpose

Reduced payments of Unemployment Benefit will be made to those aged 60 or more in receipt of an occupational pension of over £35 per week.

COMMENT:

Entitlement to unemployment credits will not be affected.

An unemployment benefit claimant has to be 'available for work' but difficult to test the availability of occupational pensioners especially in retirement areas. In a recent survey 56% of those with substantial occupational pensions also receiving unemployment benefit admitted that they were not looking for work.

Numbers

About two-thirds of unemployed claimants aged 60-64 get an occupational pension - 50% of these have pensions over £35 per week.

Amount

A married man receiving flat rate benefit only in 1981 will not lose all his unemployment benefit unless his occupational pension exceeds £68.40 per week.

Other countries; exclude occupational pensioners from unemployment benefit.

Savings: £25 million.

CLAUSE 6 STRIKERS

Purpose

Where someone is out of work as a result of his involvement in a trade dispute at his place of employment, no supplementary benefit will be paid in respect of the requirements of his family unless these exceed £12 per week.

COMMENT:

This fulfils the Manifesto commitment - to review the question of financial support for strikers.

The provision will lead to a better balance between support by the community and individual strikers and their unions.

Hardship

There is provision in the Bill for making regulations to deal with individual cases of hardship and the Government is currently

Considering the types of cases and situations which need to be covered.

These hardship provisions will be strictly limited in application. To do otherwise would defeat the purpose of the clause.

#### Non-Unionists

The Government believe that it is reasonable to assume that all strikers - whether or not they are union members - will have made, either through their unions or individually, provision to cover themselves in the event of a strike. Strikes by non-unionists account for only about 1% of days lost due to stoppages.

#### Strikers families treated worse than those of prisoners?

Not a valid comparison. World of difference between someone who is removed from his family by due processes of law, generally for long period and someone who voluntarily relinquishes his main source of income for a few days or weeks.

#### Lockouts

Lockouts are very rare and where they do take place they are usually a management response to strike action.

The existing trade dispute disqualification is well established and to depart from it could make the new scheme very complicated to operate and create scope for prolonged arguments about the reasons for particular days of lost work.

#### Can unions afford to increase their strike pay?

The Government believes they can. In 1978 the proportion of union income spent on strike pay was only 2.4%.

#### Provision in other countries

With the exception of the Republic of Ireland and the USA social assistance is not paid automatically to a striker or his family. Elsewhere it is paid usually by local authority discretion only under exceptional circumstances where there is particular hardship.

Additional Points:

Will disproportionate cuts be made in the rate of Injury Benefit as a result of the Bill?

No. Injury Benefit comprises the normal rate of sickness benefit plus an increase, commonly called the industrial injuries preference. This preference has been fixed at a rate of £2.75 per week since 1966. The sickness benefit will be uprated by 11½% in line with other non-taxable benefits.

Is a money resolution needed?

Whether or not a money resolution is required is a matter for the House authorities who would take advice from Parliamentary Counsel. The view was taken that the money resolution adopted for the Social Security (No 1) Bill was sufficient to cover the new Bill.

Paymaster General's Office  
Privy Council Office  
68 Whitehall  
London SW1

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