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Incentives for work

"We need immigrants to do the work that the British won't do"

1 This paper considers the financial incentives to work for those on low incomes. In particular, it takes account of housing benefits and the impact of incapacity benefit. It examines the net earnings of people living on benefits as compared to those working for the minimum wage. It makes comparisons for single people, couples and families with children.

Summary

2 The effect of benefit levels combined with means testing of benefits for those who are working means that there is little financial incentive for people with families living on benefits to find employment. A family with two children is just 30 a week better off working than not working.

A single person under 25 has more incentive to work but, on the minimum wage of 193 per week, is still only 50 a week better off than a non working person. If he is over 25 the difference is only 43 per week.

A family with two children and one working member receives 79.50 of Working Tax Credit, intended to cushion the impact of means testing of benefits and be an incentive to work. However Working Tax Credit itself is means tested and is also treated as income for means testing Housing Benefit and Council Tax Benefit. Overall this worker keeps only 6.77 of the 79.50.

Even where someone with a family living in private rented accommodation secures work above the minimum wage the means testing of benefits for working people means that the worker keeps only between four and 10 pence in the pound of extra wages. For a family with two children this remains true up to gross earnings of 507 a week. Families living in social housing do considerably better a family living in social housing with two children start keeping more than 10 pence in the pound once they earn more than 200 a week. The higher the gross earnings the greater the difference in take home pay between tenants in private accommodation and those in social housing. For example, a worker on 400 per week gross would have total household income, after paying his rent, of 298 if he lived in social housing and 259 if he lived in the private rented sector.

All non working families with children and living on the maximum Long Term Incapacity Benefit are better off than the equivalent working family on the minimum wage. Indeed, they would be better off, assuming a family with two children, until the working family was earning 430 per week. There would be great benefit in getting our own population into work (paragraph 9).

The sources of the figures

3 The figures for families and single people over 25 whether living on Income Support or working for the minimum wage have been based on the Department of Work and Pensions document titled Tax Benefit Model Tables April 2007. (The DWP does not compile figures for single people under 25). The figures for families on Incapacity Benefit have also been based on the above document, but substituting Incapacity Benefit rates in place of Income Support.

The Benefits covered

4 The following benefits have been taken into account:

Income Support

Paid to people who are unavailable for work.

Jobseekers Allowance

Paid to people who are available for work; the weekly amount is the same as Income Support.

Incapacity Benefit

Paid to people who are incapacitated and have paid sufficient National Insurance contributions to be entitled to Incapacity Benefit. Those with insufficient National Insurance contributions are paid Income Support.

Housing Benefit

This relates to rents paid for private or social housing. People receiving Income Support or Jobseekers Allowance receive Housing Benefit in full. It is means tested for working people so the higher their income the lower their Housing Benefit.

Council Tax Benefit

People receiving Income Support and Jobseekers Allowance receive Council Tax Benefit in full. It is means tested for people in work.

Child Benefit

Both non working and working people receive full Child Benefit.

Child Tax Credit

People receiving Income Support, Jobseekers Allowance or Incapacity Benefit receive the full amount of Child Tax Credit. It is means tested for people in work.

Working Tax Credit

This is only given to working people and is means tested.

Free school meals

Payable only to non working families.

There are further benefits available to non working people, but not to working families, and which have not been reflected in these comparisons.

DETAILED RESULTS

Jobseekers Allowance

5 Two families, one working, one not working and living in private rented accommodation

5.1 Both families receive the same Child Tax Credit and Child Benefit. The crucial difference, is that those in work have their Housing and Council Tax Benefits means tested; those on benefits do not. Thus the figures compare Jobseekers Allowance (or Income Support) plus full Housing, Council Tax Benefit and free school meals for the non working family versus the minimum wage plus means tested Housing Benefit, Council Tax Benefit and Working Tax Credit, minus Income Tax and National Insurance for the working family.

5.1.1 The figures show that, on the minimum wage a working family, living in private rented housing and with one child, is 35 a week better off than the non working family. A two child family is 30 better off and a three child family 25 better off.

5.1.2 The effect of earning more than the minimum wage

If a worker with two children earns 250, 325, or 400 a week (compared with earning the minimum wage of 193 a week) the working family is then 33, 38 or 46 a week better off respectively, compared with a non working family. 5.1.3 The figures are based on the non working family receiving only the lowest benefits either in the form of Income Support or Jobseekers Allowance which are the same amount. Receipt of additional benefits available to non working families but not to working families will directly reduce the above figures.

5.2 Single people

5.2.1 Single people under 25 receive Housing Benefit for shared accommodation, comprising one bedroom and shared kitchen and bathroom facilities.

Single people over 25 are entitled to self contained one bedroom accommodation.

5.2.2 A working single person under 25 renting shared accommodation is 50 a week better off than a non working single person. A working single person over 25 renting self contained accommodation is 43 a week better off than the non working single person.

5.2.3 The effect of earning more than the minimum wage If a single person over 25 earns 250, 325, or 400 a week (compared with earning the minimum wage of 193 a week) he is then 52, 70, 117, a week better off respectively, compared with a single person on benefits.

6 The effect of means testing on the take home pay of working people

6.1 Working Tax Credit

The primary reason the Chancellor introduced Working Tax Credit was as an incentive to get people back to work. However Working Tax Credit is means tested and is also treated as income for the means testing of Housing Benefit and Council Tax Credit.

A worker on the minimum wage with a family receives 79.50 a week Working Tax Credit gross. But after means testing the worker is actually only 6.77 a week better off.

A single person over 25 receives Working Tax Credit of 46.80 a week gross but after means testing is only 4.37 a week better off.

6.2 Earning more than the minimum wage

For working people, their Working Tax Credit, Child Tax Credit, Housing and Council Tax Benefits are all means tested. Once Income Tax and National Insurance paid by working people is also taken into account, a working person with a family only keeps between four and 10pence in the pound of gross earnings over the minimum wage.

For a family with two children this is the case until their earnings reach 507 a week, which is 314 above the minimum wage of 193 for a 35 hour week. It is only above earnings of 507 a week that a working person with two children starts to keep more than 10 pence in the pound of extra earnings.

A single person over 25 does not receive as many means tested benefits as a worker with a family and this means that they do not suffer as much from the withdrawal of benefits as their income increases. They only have to reach earnings of 224 a week before they start to get net earnings more than 10 pence in the pound of extra earnings.

7 Incapacity Benefit

7.1 A single person, couple or family on the lowest rate of Incapacity Benefit The lowest level of payment for incapacity is the same as for Income Support (59.15 for a single person and 92.80 a week for a couple with or without children). At this level the comparisons between non working families receiving Incapacity Benefit and working families are the same as the equivalent comparisons for Income Support.

7.2 A couple, with children, on the highest rate of Incapacity Benefit living in private rented accommodation

7.2.1 Incapacity Benefit is taxable and means tested for Housing and Council Tax Benefit purposes. However the Housing and Council Tax means testing only has an effect when an Incapacity Benefit beneficiary on the maximum Incapacity Benefit rate also works, which they are allowed to do to a limited degree (see footnote 1). The highest Incapacity Benefit rate for a couple with children is 147.10 a week.

7.2.2 All working families with children and with one working member on the minimum wage will be worse off than a family on the highest rate of Incapacity Benefit. An average one child family with one working member would be 14 a week worse off than a non working family receiving the maximum Incapacity Benefit.

A two child working family would also be 19 a week worse off and a three child working family would be 24 worse off than an equivalent family on Incapacity Benefit.

7.2.3 The effect of earning more than the minimum wage

If a worker with two children earns 250, 325, or 400 a week (compared with earning the minimum wage of 193 a week) the working family is still 16, 11 or 3 a week worse off respectively,

compared with a family on the highest rate of Incapacity Benefit.

7.3 A single person with no children, on the highest rate of Incapacity Benefit

7.3.1 The highest Incapacity Benefit rate for a single person over 25 living in self contained accommodation is 98.45 a week.

7.3.2 At this maximum rate a single person on Incapacity Benefit will be just 3 a week worse off than a single working person.

7.4 Comment

The maximum level of Incapacity Benefit has effectively been brought close to the level of the minimum wage. There are good reasons of social equity for this but it does mean there is very little financial incentive for such persons to return to paid employment, especially as they are allowed some earnings (see footnote 1). This means it is particularly important to ensure that claimants are genuine cases.

8 Social Housing

The above analyses relate to families living in private rented housing. This section provides similar analysis for social housing tenants.

8.1 Comparisons of working versus living off benefits

Rents for private accommodation are much higher than for social housing but they are fully covered by extra Housing Benefit for families with two or more children. For these families the comparison between work and benefit is the same as that described above.

However, single people and families with less than two children who are living in social housing have a greater incentive to work because the claw back of Housing Benefit for a working family finishes at a lower income level because their rent is lower, as explained below.

8.2 The effect of earning more than the minimum wage

The Department of Work and Pensions estimate that social sector rents are much lower than private sector rents. For example the weekly social housing rent for a two child family is 62.95 a week compared with 173.30 for private rented accommodation. For working people Housing Benefit is reduced by 65 pence for every extra pound of net earnings, until the Housing Benefit paid gets down to Nil. Therefore for a social housing tenant, once their clawback of Housing Benefit reaches 62.95 they then keep the 65pence of their net earnings whereas the private tenant keeps losing 65 pence of their earnings until their Housing Benefit clawback reaches 173.30. And once this point is reached, the social tenant is paying 62.95 in rent and the private tenant is paying 173.30.

Compared with a working family renting private accommodation, social housing tenants potentially keep more of their gross earnings. As stated in section 6.2 above a family with two children living in private rented accommodation starts to keep more than 10 pence of every pound once their gross earnings reach 507 a week. For an equivalent family in social housing the figure is 200, just 7 above the minimum wage.

9 The benefit of getting the unemployed into work

9.1 The problem of a lack of financial incentives for work is a perverse effect of attempts to lift families out of poverty rather than a direct result of immigration. However, it is made more difficult to tackle by large scale immigration which, according to the Bank of England, has reduced inflationary pressures by holding down the wages of the lower paid. There would be very substantial benefits in policies which encouraged the employment of indigenous workers:

- huge savings on the social security budget
- an increase in GDP per head (i.e. higher production without higher population).
- less pressure on our infrastructure
- less downward pressure on low wages
- a reduction in the non working underclass.

Footnotes

1 Working whilst incapacitated All recipients of Incapacity Benefit are allowed to earn up to 20 a week for an unlimited period without their benefits being affected. They are allowed to work up to 16 hours / 86 a week for up to 52 weeks without affecting their benefits. In a limited number of circumstances they can work up to 16 hours / 86 a week for an unlimited period.

2 January, 2008

Financial statements

Two sets of statements are provided, one set for family units in Private rented housing (Statement numbers suffixed with a P) and a second set for family units living in Social housing (statements suffixed with an S).

The statements provided are:

Statement 1 Summary comparing the total weekly household income for a working family compared with an equivalent family living on Income Support or Incapacity Benefit.

Statement 2 A more detailed statement for the comparison of working versus Income Support.

Statement 3 A more detailed statement for the comparison of working versus Incapacity Benefit.

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