

## THE PROBLEM WITH MEANS-TESTING

November 2019

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Why should we still get het-up about means-testing? Isn't it now such a familiar part of our social security system that there is no longer any point in debating it? Surely new technology can now minimise the complexity and stigma that used to surround it? Evidence suggests it doesn't yet minimise either very successfully and so for this reason alone it is important to rehearse the arguments again for a new generation. And, if it's true that we can't do away with means-testing altogether, what can be done to improve it?

We have always had a mixed social security system. Partly because our national insurance (NI) benefits were never generous enough to start with and also because certain governments have on principle preferred a means-tested approach, seeing it as a way to make social security more cost-effective (some even banning the words, preferring us all to use the sanitised 'income-testing' or 'targeting' instead). This longstanding, subsistence 'safety-net' approach begs the question: why give money to people who don't need it as much? And this apparently common-sense position has, as a result, achieved a good deal of public acceptance. Making the case for the alternative has therefore become harder. This, despite the fact that benefits targeted in another way, based on particular circumstances, such as child benefit and retirement pensions which meet the additional costs of children or the living costs of a pensioner, seem to reach their targets much more effectively without the distraction of means-testing. Child Benefit, for example, had a take-up rate of 97% before it was income tested for higher earners, it has now fallen to 93%.<sup>1</sup> The Basic state pension has a take-up rate of 97% compared to means-tested pension credit at 60%.<sup>2</sup>

Means-testing has not always been acceptable. Beveridge wanted to abolish it because he knew that the memory of mean, discretionary and locally administered unemployment and public assistance rankled long in the minds of people in the first half of the 20th century. And for good reason. Its origins in the poor law and the monstrous treatment of poor people and their dismissal as 'paupers' responsible for their own downfall, had left a nasty taste in the mouth. Means-testing meant shame, humiliation, lack of deservingness and powerlessness – an intended consequence - continued these days in the public shaming through tabloid scrounger stories and 'poverty porn' on TV.

And, although arguably it need not necessarily be the case, it has been means-tested benefits that have continued to be associated with complexity, low take-up, social stigma and social control. Has the latest version of means-testing, universal credit (UC) abolished these? Let's take each in turn.

First, complexity, because by definition, these benefits require huge amounts of personal information about income and outgoings before an assessment can be made. Not to mention personal information about children, liable relatives, living arrangements with partners, savings, housing costs and so on. The detail and verification of it is rarely at people's finger tips and claiming can be exhausting - you must expose the extent of your financial vulnerability to public officials. All this, with the underlying drum beat assumption that everyone is trying to play the system - which presumes a level of comprehension of entitlement which frankly is beyond most people. Tax assessments rarely require this level of detail (yet an industry exists to help supply it for the well-off). Entitlement is then determined by some incomprehensible mathematical formula. Indeed, we have gone from a simple top-up arrangement in income support, to a percentage deduction in UC which many will never understand.

Universal credit's ideological origins most probably date back to the idea of a single means-test or tax-benefit integration, a gleam in the eye of economists of yore. Here, the real simplification intended is to abolish other benefit entitlements leaving only one means-test, rather than a series of different ones. How far this makes things simpler for claimants remains to be seen - early evidence is not good. However, UC is probably better seen as the successor to the idea of a single, working age benefit. Favoured by certain academics and policy advisers in the 1990s, it embodies the idea that gathering together a set of different tests and entry points to benefit under one title is somehow a simplification. It is not. Best understood as a kind of benefit integration, it simply cloaks a high degree of complexity under one banner. It does not do away with complexity, except perhaps for some advisers, administrators and IT consultants. 'Simpler for the DWP' does not translate into 'simpler for the claimant'. The entry point for the claimant is the same - are you sick, unemployed, a carer, a parent? What benefit route follows from that? And, what kind of means-tested top-up will you qualify for? Giving all this the same name, does not really advance us any further down the road of simplicity or away from the main eligibility tests and conditions of entitlement. You have just thrown a blanket over the whole thing and given it a new name. Giving unemployed people unemployment benefit and sick people sickness benefit, as Beveridge did, is a model of simplicity by comparison.

Second, low take-up. In 2009/10, almost one third of those eligible were not claiming the means-tested benefits to which they were entitled - over half of the £10 billion unclaimed benefits could have been claimed by working age families.<sup>3</sup> Means-tested benefits have always had lower take-up rates, particularly the wage subsidy benefits. Since in-work poverty is the main cause of hardship these days, this matters. For example caseload take-up of family income supplement by 1987 was 51%, before it was replaced by family credit with a take-up rate by 1999 of approaching 70%.<sup>4</sup> By 2016/17, its replacement, working tax credit, had a take-up rate of 65%.<sup>5</sup> Support with rent through housing benefit in 2016/17 is 80%, yet it is only 69% for those in the private rented sector and 59% for couples with children.<sup>6</sup> Whilst acknowledging that take-up tends to be higher for lower income households, it is nonetheless clear that these self-proclaimed 'targeted' benefits seem pretty good at missing their target! Heroic assumptions have been made about the improved take-up rates we can expect from UC. But so far, the main success of UC is to make the transition from out of work to in-work benefits a lot smoother. If it turns out to have a higher take-up rate than for example housing benefit, it might pull-up take-up rates for help with housing costs. But that is assuming a lot.

When UC was proposed, it had some clear, stated aims - simplicity, providing incentives to work and reducing poverty/protecting the vulnerable - sadly, on all these it fails. It is not simple, it does not provide great work incentives for many (and particularly not for lone parents and second earners) and is no longer very poverty

reducing. And since UC in practice turns out to be stigmatising, unreliable and changeable month-to-month, there is every chance that claimants will vote with their feet and avoid claiming it. For those in paid work, monthly assessment and payment, the threat of in-work conditionality and the sense that although in work they are being treated in the same intrusive way as out of work claimants, may be enough to put them off altogether. Those pointing out the problems with claiming UC stand accused of discouraging take-up by frightening people off. But UC has already done that job for itself without any outside assistance.

Third, social stigma and social control. The history of social security is littered with examples of this. No other benefits embody ideas of deservingness and stigma quite as well as means-testing. Although not necessary, for some reason income testing gives policy makers the idea that they can interfere in the lives of financially insecure people in the most intrusive and personal ways. Just two examples. First, the role of sanctions and work requirements. Whilst sanctions are not new (there have always been availability for work requirements), today's insistence on completing often arbitrary and pointless work search activity can seem to claimants like the modern day equivalent of breaking rocks. Experience has shown that employment support that is neither compulsory nor punitive can be very effective, such as the voluntary New Deal for Lone Parents which doubled lone parents' chances of getting into paid work. Instead, without much evidence that it works, a more punitive approach has taken hold. Alongside the obsession with correcting people's behaviour is the feeling that claimants are suspected of dishonesty. The sense that you must prove yourself to be deserving. Public reporting and emphasis on fraud detection makes this worse. Claimants report feeling under suspicion - there is a sense hanging around that you are about to get into trouble - simply signing a form can feel frightening just in case you make an honest mistake and get found out.

For women, means-testing can be up-close and personal. Single mothers in the 1970s and 1980s reported being locked in rooms and questioned about 'liable relatives' who, it was believed, should be supporting their children. Once the CSA was created in 1993, women were subjected to the requirement to cooperate – name the father of your child or face a benefit penalty (a 40% benefit cut). This could include questioning about when you had your last period and intimate details of a relationship or sexual violence in order to avoid a penalty. The latest example of this is the 2-child policy which requires evidence of rape if the policy is to be avoided (unless you've had a multiple birth, have adopted or are kinship caring for a third or subsequent child). Questioning about immigration status or cohabitation can similarly be gruelling. There may be surveillance or home visiting to catch you out. There is no other part of the benefit system that tries to invade the most intimate parts of your life like this. Of course, this kind of requirement has a long historical tail, but it is time it was cut off. When the state feels the need to invade people's privacy in this way, there is something wrong with the policy.

The negative features of means-tested benefits have long historical antecedents. None of them is necessary today and if income testing is to continue in any form, these features need to be consciously dumped. Light touch means-testing in the style of tax credits, with the state leaving you alone for long periods and treating you like any other tax payer, has a lot to recommend it. As has pension credit, with its waiving of savings rules. A more generous and less intrusive approach has been shown to be perfectly possible. Not entirely problem free and take-up is still an issue; but before moving to a new system such as UC, these approaches should, at the very least, have been fully evaluated.

And finally, the poverty trap. First identified in the 1970s, it describes the way means-tested wage subsidy makes it hard to feel better-off. For every pound you earn you lose a percentage to the means-test. In the case of UC it is 63 pence in the pound, excluding council tax support. When people talk about feeling trapped in poverty, this is what they mean. Because of the trap, low-income working families struggle to feel any better-off, feel locked into poverty and unable to break free of benefits. Every increase in the minimum wage, or increase in the personal tax

allowance is not a simple net gain or just subject to tax. You are effectively taxed at a much higher marginal rate than the so-called, ordinary tax payer. Whilst wages and other non-means-tested benefits can provide an income platform on which to build earnings, for many this simply moves you nearer to the point where you can entirely break-free of means-tested benefits – which is the ultimate aim for many claimants.

Will we ever be able to do away with means-testing altogether? This requires a bit of honesty. It seems likely that there will always be a role for income top-ups unless we revolutionise the generosity of other benefits. (And, by the way, this is an avenue that is definitely worth exploring.) Without needs-based additions, such as those received by parents for childcare, by disabled people for extra costs, for housing costs and so on, we could inadvertently make some people considerably worse-off. The ability to meet need is also an important principle underlying our social security system. Even proponents of basic income are finding that additional top-ups are necessary at the bottom of the income distribution to avoid making some people poorer. For this reason we need to continue to engage in the debate about the generosity and design of means-tested benefits and the impact of the poverty trap embedded in them - for the foreseeable future.

For policy to succeed however, we will need to consciously dump the negative history of stigma and control and focus full-square on take-up if means-testing is to become functional and acceptable. The level of generosity is also key. A clear government commitment to the principle of treating people with dignity and respect and a take-up obligation that commits governments to maximising family incomes might go a long way towards achieving this. The Scottish government has recently enshrined these principles into its social security legislation and it will be interesting to see whether this gives life to a sea-change in the assessment and delivery of its few, very early, means-tested benefits.

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<sup>1</sup> HMRC (2018) *Child benefit, child tax credit and working tax credit – take-up rates – 2016 to 2017*, London: HMRC, Table A.1.

<sup>2</sup> Finn D and Goodship J (2014) *Take-up of benefits and poverty: an evidence and policy review*, London: CESI/JRF; and DWP (2018) *income-related benefits: estimates of take-up, 2016/17*, London: DWP

<sup>3</sup> Finn D and Goodship J (2014) *Take-up of benefits and poverty: an evidence and policy review*, London: CESI/JRF

<sup>4</sup> See note 1, Table B.2

<sup>5</sup> See note 1, Table B.1B

<sup>6</sup> DWP (2018) *income-related benefits: estimates of take-up, 2016/17*, London: DWP