LEAVING INCAPACITY BENEFIT

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A report of research carried out by the Policy Studies Institute on behalf of the Department of Social Security
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Gerry Zarb and Michael White are senior members of the Policy Studies Institute specialising, respectively, in research on the social and financial aspects of disability, and in research on labour market transitions.
Incapacity Benefit (IB) was introduced in April 1995, when it replaced Invalidity Benefit (IVB) and Sickness Benefit. The Department of Social Security commissioned the Policy Studies Institute to carry out research to help evaluate the introduction of the new benefit and effects of the changes it brought.

The research is intended to form part of the overall assessment of the impact of the change to Incapacity Benefit, particularly the inclusion of a new All Work test, which was expected to increase the numbers leaving benefit. Thus, interest focused on three outcomes,

- what happens to people after they leave Incapacity Benefit; particularly who found paid work and who did not;
- what factors influenced their destinations following exit from Incapacity Benefit;
- how peoples’ incomes changed after leaving IB, both in amounts and its sources.

This last aim was associated with a need to estimate longer term what might be the net effect on expenditure of the changes accompanying the introduction of the new benefit.

The study interviewed a ‘flow sample’ of people leaving Incapacity Benefit in two ‘waves’ between June and November 1996, drawn from DSS records. The sample included both voluntary leavers and those who were disallowed by the All Work Test. The main features of the sample were these:

- Disallowed leavers included both short and long term recipients but voluntary leavers with spells of less than 23 weeks were excluded from the sample.
- The sample were interviewed between March and June 1997, typically between 5 and 10 months after leaving Incapacity Benefit when completed interviews were obtained with 2,263 leavers, - an overall response rate of 53 per cent.
- New information was obtained at the end of 1997 from a postal follow-up of the March-June interview respondents; 63 per cent of these replied.

Two-thirds of respondents had been disallowed Incapacity Benefit by the All Work Test but the remaining third had left voluntarily. Compared to those remaining on benefit, both voluntary and disallowed leavers were much younger, on average, and more likely to be women.
The most common medical conditions that formed the basis for their spell on Incapacity Benefit were musculo-skeletal, specifically problems affecting the back and neck. Overwhelmingly, respondents reported some continuing health problems at the point of leaving benefit, even those who left voluntarily. The majority reported experiencing continuing disadvantage in the labour market which they linked to their condition, either in the type of work they could do, or the amount of work and hours of attendance they could supply.

Throughout this report, it is crucial to distinguish both between:

- first, those who left Incapacity Benefit voluntarily and those who were disallowed; and
- second, between those who appealed against their disallowance and those who did not.

Table S.1 summarises the main destinations, in terms of their main activity and their main source of income, reached by Incapacity Benefit leavers by the time of their interview and then a few months later at the follow-up survey, by which time:

- More than a quarter had returned to Incapacity Benefit - 13 per cent of voluntary leavers and 35 per cent of the disallowed.
- More than a third were in full time work (16 hours a week or more) - 66 per cent of voluntary leavers but only 21 per cent of the disallowed.
- More than a fifth continued to rely on other social security benefits - 11 per cent of voluntary leavers and 27 per cent of the disallowed.

The remainder had a mix of arrangements, some were relying on their own or a spouse’s income, a few were mixing part-time work and other income – typically a pension of some kind; others again were reporting neither work nor other income, those these were quite a small minority.

**Table S.1 Destinations of 1995/96 Incapacity Benefit leavers**

<table>
<thead>
<tr>
<th>(Column percentages)</th>
<th>Interview</th>
<th>Follow-up survey</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All %</td>
<td>Disallowed %</td>
</tr>
<tr>
<td>Returned to Incapacity Benefit</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>No work, receiving other social security benefits</td>
<td>36</td>
<td>47</td>
</tr>
<tr>
<td>No work, relying on own resources or spouse</td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>In full-time work (16 or more hours per week)</td>
<td>33</td>
<td>16</td>
</tr>
<tr>
<td>In part-time work, usually with other income</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>No work, no income</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
A number of factors influenced these destinations: Older people and those with no qualifications, for example, were less likely to report any spell in economic activity or paid employment since leaving Incapacity Benefit. Self-assessed improvement in health was associated with greater subsequent economic activity and work. Time out of paid employment and length of incapacity also had a significant impact on people's chances of employment post-Incapacity Benefit. An important finding was that, whereas only 23 per cent of disallowed leavers had any kind of paid job by the end of 1997, 39 per cent had worked at some time since leaving benefit and the majority had been 'economically active' in one form or another, even if the majority of these had yet to find lasting work (Table S2). On the other hand, much of the reported economic activity was, in terms of active job search, rather slight.

Table S.2 Economic activity and paid work post-IB by appeals status at interview

<table>
<thead>
<tr>
<th></th>
<th>Voluntary leaver</th>
<th>Disallowed - no appeal</th>
<th>Disallowed - lost appeal</th>
<th>Disallowed - appeal pending</th>
<th>Disallowed - won appeal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any economic activity</td>
<td>96</td>
<td>92</td>
<td>92</td>
<td>86</td>
<td>92</td>
</tr>
<tr>
<td>Any paid work</td>
<td>87</td>
<td>59</td>
<td>38</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td>Base</td>
<td>582</td>
<td>510</td>
<td>140</td>
<td>286</td>
<td>154</td>
</tr>
</tbody>
</table>

Those who had moved into work following their spell on Incapacity Benefit reported shorter Incapacity Benefit durations and shorter periods of time out of the labour market. Subsequent multivariate analysis, on the other hand, showed that this apparently important difference was due to difference in 'human capital' resources and health, rather than to the time spent on benefit itself.

Voluntary leavers were mostly moving into employment from Incapacity Benefit, half returning to a previous employment and others to previous self-employment, which was an important form of re-employment for them. Their earnings, whether hourly or weekly, were considerably greater than those of the (rather fewer) disallowed leavers who got jobs, especially for those who returned to earlier jobs. This advantage was only to a small extent attributable to their better qualifications or experience.

The employment of the much smaller proportion of disallowed leavers to enter work was primarily influenced by the process of appeal against disallowance in which half of them were, or had been, involved. Those who had appealed were far less likely to be in employment than those who had not appealed. In addition, chances of re-employment were influenced by

- Age: the under-25s having the best prospects and the over-55s the worst.
- The presence of an employed spouse or partner (which raised employment rates).
Housing tenure, with fewer social renters getting into work.

Employment status prior to the reference period of Incapacity Benefit, with employed people (including those on sick leave/SSP) having better prospects of returning to employment.

Recent job search activities were if anything negatively related to employment but this could be a remedial response to difficulties experienced or expected in finding a job. Subjective improvement in health was positively associated with employment, but little can be read into this on its own, especially as a health rating derived from the All Work Test (AWT) was unrelated to employment outcomes.

Low earnings were a recurrent problem, with many working for benefit-level wages. The earnings of disallowed leavers entering employment were confined within a low and narrow range, overlapping considerably with their recent entitlement levels under Incapacity Benefit. Earnings, like employment, appeared unresponsive to qualifications and experience.

Multivariate analysis of the job-entry of disallowed leavers up to the follow-up survey emphasises the role of appeals in placing appellants in non-employed 'limbo' for considerable periods of time. Work entry was also increased by the effects of lower out-of-work income, having working partners, finding training while on benefit, and improved health.

When they were interviewed, only 15 per cent felt they had recovered from the condition associated with their spell on benefit, while the majority of the rest felt unchanged or worse. By the follow-up study those saying they had recovered had risen to 25 per cent. Nearly all these recoveries were limited to those who had left voluntarily or who had decided not to appeal. Only a handful of appellants later agreed they had recovered, most felt they were unchanged or, in many cases, worse.

There was a close correspondence between the nature of the disability (its anatomical site, for example) that prompted the first awards of benefit and the nature of their continuing disability reported at interview. Among those not recovered, a wide range of continued difficulties with daily activities were reported by nearly all respondents.

There was not a very close correspondence between the scores awarded by examining physicians and respondents' own judgements about their condition, hence the earlier finding that AWT scores did not predict a return to work while leavers' subjective estimates of their health did.

Still the overwhelming majority of respondents interviewed felt that their condition prevented them from doing as much or quite the kind of work they would otherwise be able to do, usually both. They went on to cite problems with heavy work, doing enough hours, taking time off and generally being as productive as employers might fairly expect them to be. Predictably,
voluntary leavers took a more sanguine view of their health that those disallowed, who reported many persisting difficulties, but still substantial minorities of them experienced difficulties with daily living.

Even those who had paid jobs still reported considerable difficulties - only 18 per cent of workers denied any health effects on their capacity to work. On the other hand, and this is an important finding, their reports of experiences of the barriers placed in the way of work did not emphasise their disability, or even an employer’s likely view, as much as problems associated with their age, qualifications and local competition of jobs. Even the unemployed felt that other barriers to work were more significant than their disability; only those among the large numbers still classifying themselves as being sick and disabled placed their disability to the fore among reasons that make looking for work more difficult than it might be.

Among the majority of disallowed leavers, those still without jobs, seven out of ten classified themselves as sick or inactive rather than as unemployed, and undertook little job search activity compared to the (self-classified) unemployed, who were far more active. Search activity among the disallowed sample not in employment was strongly associated with the appeals process: those who were actively seeking work were the least likely to have appealed.

Those actively seeking work were those more likely to have engaged in search activity while still on Incapacity Benefit, and they were more likely to be men.

Amongst the disallowed sample who classified themselves as unemployed, and had not appealed against disallowance, a wide range of search channels or methods was in use, indicating both familiarity and contact with the job market. Family and friendship networks were used by the majority of this group, while direct approaches to employers were used by more than four in ten of the active group. Nearly one in five had approached former employers.

Far fewer of the group defining themselves as sick or inactive were exploring job opportunities through any channel. (For those who were doing so, the channels used were varied). Training was rare: only three per cent of the disallowed sample not in employment had entered a formal training programme or job search scheme after leaving Incapacity Benefit (including those currently in a training programme at the time of interview.)

Among those wholly inactive in the current period (a group constituting 44 per cent of the disallowed leavers as a whole), about four in ten expressed a hope of returning to work in the future. Few of these were ready to take up work immediately, but they could be said to have a residual attachment to employment despite current lack of search activity. Overall, those with residual attachment to employment were more similar in their characteristics to those actively seeking work than to those who expressed no hope for future employment.
One of the aims of the study was to examine the effects of different kinds of job search assistance that might come the way of IB leavers still looking for work, but unprompted reports of assistance received from the Employment Service were relatively few; 10 per cent or so of those who now classified themselves as unemployed reported each form of assistance. Amongst those not expressing the hope of returning to work, few said they would change their minds if given help to do so. However, amongst those under 45, a substantial proportion were unsure what their response would be.

Active job search or a residual attachment to employment was associated with a number of characteristics:

- Those with educational qualifications below degree or equivalent level were more likely to search actively, or to have residual attachment to employment. Degree-level qualifications were linked to a particularly low likelihood of active search.

- Age was a powerful influence on job search, with the youngest being the most likely to search actively, or to have residual attachment, while the over-55s were least likely.

- Men in this sample were more likely than women to be active job-seekers.

- Family circumstances were important influences, with some systematic differences between men and women. Both were less likely to seek actively, or have residual attachment to paid work if their partner was not employed, but women were more motivated towards seeking work if they had an employed partner, and men were more motivated towards seeking work if they had a dependent child.

- Those who had started their Incapacity Benefit claim after the 1995 change in benefits were more likely currently to be seeking work actively or to have residual attachment to employment, than those whose claim started before that date. This effect was independent of the length of time the claim continued before being disallowed.

- Search activity during the Incapacity Benefit claim was associated with a higher current likelihood of active search or of residual attachment to employment.

This section tracks changes in the leavers’ income composition over several points from benefit to the follow-up survey. Nearly all respondents reported that they stopped receiving Incapacity Benefit in the month following the end of the reference claim, and average benefit unit income dropped 12 per cent in this month. Incapacity Benefit income was replaced in a fifth of households by earnings, and for smaller proportions of the sample by Income Support, Unemployment Benefit or Job Seekers’ Allowance. Small numbers supplemented low earnings with Family Credit or Disability Working Allowance. By the date of interview, over a third were in paid work and just six per cent were claiming Incapacity Benefit. At the time of interview, one in six was in receipt of a private or occupational pension.
By the date of interview, average incomes had recovered to the level reached before exit from Incapacity Benefit. But this average recovery conceals a divergence of incomes between those with jobs and those relying on other income. In this way, just under half (44%) of Incapacity Benefit leavers then had incomes exceeding what they received when on Incapacity Benefit. Those who left Incapacity Benefit voluntarily were more likely to leave to a higher income, and more likely to achieve further gains in their income, than those who were disallowed. Those who did not appeal recovered their incomes more quickly than those who did appeal, averaging a better income than when claiming Incapacity Benefit. These final income differences are summarised in Table S.3.

Table S.3 Summary table: net weekly benefit unit incomes by type of departure from Incapacity Benefit

<table>
<thead>
<tr>
<th>Type of exit from IB</th>
<th>Net weekly income at end of IB claim</th>
<th>Net weekly income at time of interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary leaver</td>
<td>175</td>
<td>234</td>
</tr>
<tr>
<td>No appeal</td>
<td>163</td>
<td>157</td>
</tr>
<tr>
<td>Lost appeal</td>
<td>161</td>
<td>130</td>
</tr>
<tr>
<td>Appeal pending</td>
<td>175</td>
<td>136</td>
</tr>
<tr>
<td>Won appeal</td>
<td>182</td>
<td>152</td>
</tr>
<tr>
<td><strong>ALL BENEFIT UNITS</strong></td>
<td><strong>171</strong></td>
<td><strong>177</strong></td>
</tr>
</tbody>
</table>

Only respondents with complete income data at both time points are included in the table.

8 Conclusions

The main destinations summarised in Table S.1 above proved to be two widely divergent paths from Incapacity Benefit. This divergence describes the strong bias towards work and independent income shown successively by voluntary leavers and disallowed non-appellants, by the new flow sample who had recent work experience, by those who have recovered their health, and by those with stronger attachment to the labour market who had greater 'human capital' resources. It describes the contrasting bias away from work and towards benefit dependent incomes of the disallowed leavers and the appellants, the old stock sample who had little recent work experience, those who reported continued disability, those whose attachment to the labour market had decayed and who had little to offer employers.

This evidence indicates that there are two sharply divergent routes - a 'twin-track' exit from benefit.

* The first track is for those who retained a strong attachment to work and for whom their spell on Incapacity Benefit coincided with a period of temporary disability. They tended to recover their health, or to recover it enough, and to recover their place in the labour market together, and so
a large proportion of this group returned to work or to other forms of economic activity after leaving the benefit.

- The second track captures in its path people with a strikingly lower attachment to work and consequently low levels of economic activity after leaving Incapacity Benefit.

The second follow-up of the sample suggested that even a minority of disallowed leavers continued to edge their way into work as the months passed, but the data did not suggest that the net return to work would ever grow significantly larger. The second track is one whose destination is still more clearly marked by the goal of retirement than by the goal of returning to significant full time work. Continuing disability alone does not place people on this track. But a combination of what they themselves are able to describe as continuing lowered capacity to work, together with poor education, increasing years and only distant experience of work, stacks up decisively against their prospects in the labour market. This was true, it seems, even in the increasingly favourable labour market of the 1996 to 1997 period. While Incapacity Benefit itself may no longer provide a bridge between work and retirement for this second-track group, other social security benefits will provide this bridge for them, though at lower cost.

Disallowing people from Incapacity Benefit and then leaving them to find their own way into employment does not chime well with the active case management approach being developed for other groups who suffer clear labour market disadvantages, such as lone parents, young unemployed or even continuing disabled people. Paradoxically, disallowance is likely to tag them with a disadvantage in the eyes of employers who may not see them as suitable people to trust as workers. The appeals process itself, while necessary, acts as a barrier to positive approaches to job seeking and does so for too long.

The evidence of the research shows that disallowed IB leavers have equivalent disadvantages, especially low wage potential, little recent work experience and few modern skills, compared to other groups found suited to a New Deal approach. An active case management approach for disallowed IB leavers, a Managed Return To Work, perhaps, that involves employers and individual caseworkers, could set many leavers onto a far more promising path away from benefit and towards work.