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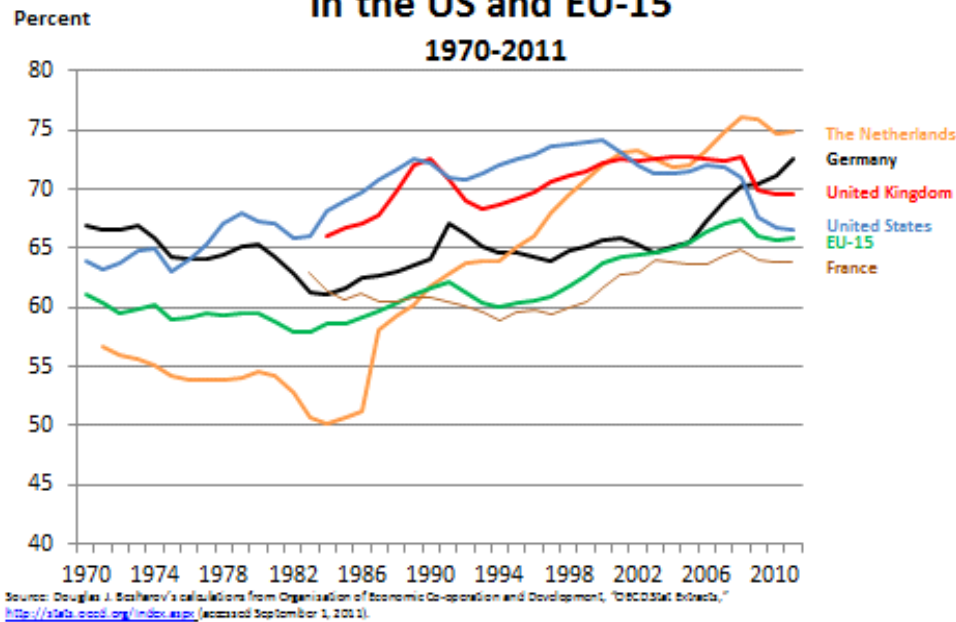
## **Recent Developments in Labor Activation in the United Kingdom**

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Even before the 2007/2008 Financial Crisis and the national recessions that followed, employment and labor force participation rates in many developed countries were in worrisome decline, a trend that began in the 1970s. Across the EU-15, for example, between 1970 and 1982, the percentage of the population employed fell from 61 percent to 57.8 percent (before beginning a slow increase). For men, the decline was much longer and steeper, from 83.7 percent in 1970 to 70.5 percent in 1994. Overall labor force participation increased during this period, but only because more women were entering the labor force. (See figure 1.) At the same time, in most countries, new highs were reached in the percent of the population receiving government benefits (essentially unemployment insurance, disability benefits, and social assistance).

Various factors were at work, of course, including a general weakening in demand for workers (coupled with changes in required skills, in part brought on by automation), demographic shifts (including aging populations and the increasing role of women in the workforce), and more competition from abroad (driven by cross-national manufacturing as well as outsourcing). But, most experts agree, generous social safety net arrangements also contributed, although there is legitimate disagreement about the size of the impact (as with the other factors). The interaction between formal work and safety-net benefits is direct enough: All things being equal, at some point, means-tested benefits become large enough (often coupled with high marginal tax rates) to discourage many lower-wage workers from seeking formal employment—or, at least, to not encourage them to work, especially in times of declining wages as well as high unemployment.

**Figure 1**  
**Employment/Population Ratios**  
**in the US and EU-15**



In response, in a series of slow but steady steps over the past two decades, a growing number of OECD countries introduced policy reforms aimed at “activating” the recipients of safety-net benefits who might be able to work. These changes were both programmatic (such as tightening eligibility, limiting the duration of benefit receipt, and mandating job search and other work-first activities) and administrative (such as consolidating programs, decentralizing authority, outsourcing services, and incentivizing systems of financing and reimbursement). The U.S. welfare reforms of the 1990s were an early part of this movement, but since then, other (but not all) OECD countries have made more fundamental reforms to their labor activation policies, and they can serve as models to other countries (including the U.S.).

Given what will apparently be a long period of persistently high unemployment, many analysts and policymakers are asking whether such labor activation policies should be strengthened to help speed recovery—or whether they should be paused or at least slackened until economies strengthen. On the one side, the need to move safety-net recipients toward work seems greater than ever, and may be a necessary precursor to economic progress. On the other side, it seems an unfair waste of effort to put recipients through the stressful effort of looking for work at this time of lesser job opportunities and high unemployment.

Since the beginning of the global financial crisis (starting in 2007 in the United States and in 2008 in the rest of the world), a number of other OECD countries have continued to modify their safety-net assistance programs in an effort to “activate” those receiving

unemployment, disability, and social assistance. Up to now, however, the U.S. policy discourse has largely ignored these developments, some of which are quite substantial. Instead, recent U.S. policy has gone in the opposite direction: lengthening benefit duration, expanding eligibility, and relaxing activation requirements.

## Key Developments in the UK

Some of the most extensive changes have been made in the UK, and many of its new policies are worthy of consideration by the U.S.—as responses to the immediate economic crisis, and some also deserve consideration as longer-term solutions to chronic unemployment and a continued commitment to “labor activation.” Key aspects are summarized below.

### Unemployment benefits

Starting in 1997, the UK has progressively added activation requirements (such as mandatory job search, work experience, and subsidized employment) to the receipt of unemployment benefits and coupled them with sanctions for nonparticipation.

In 1997, a series of changes (called the “New Deals”) were adopted that sought to move into the workforce the young unemployed, the long-term unemployed, lone mothers, spouses of the unemployed, the disabled, and the unemployed aged fifty and above. Only two of the New Deals had mandatory activation components:

- *The New Deal for Young People:* For youth ages eighteen-to-twenty-four who had been unemployed for at least six months and were receiving Job Seekers Allowance. The first four months of the program was a “gateway period” during which social workers assisted youth in searching for employment. If they had not found employment in the gateway period, they were required to participate in one of four options: subsidized employment, work experience with a nonprofit, working on a government-run environmental project, or enrolling in a full-time education program.
- *The New Deal for the Long-Term Unemployed:* For individuals ages twenty-five and older who had been unemployed for two years or more. The program consisted of compulsory interviews with a “personal advisor” to assist the recipient in finding employment and two voluntary options: subsidized employment or a year of vocational training.<sup>1</sup>

In 2010, the New Deals were replaced by the Work Programme, which imposed activation requirements for those receiving Employment and Support Allowance (for the disabled) or the Job Seekers Allowance (for the unemployed). Participation was made mandatory

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<sup>1</sup>Jane Millar, *Keeping Track of Welfare Reform: The New Deal Programmes* (Yoek: Joseph Rowntree Foundation, 2000), <http://www.jrf.org.uk/sites/files/jrf/1859353436.pdf> (accessed September 3, 2012).

for the long-term unemployed (recipients ages eighteen to twenty-four who have received benefits for nine months and recipients ages twenty-five and above who have received benefits for twelve months) and disability recipients deemed eligible for work.<sup>2</sup>

In addition, a separate program, “Mandatory Work Activity,” was established to provide a four-week work experience program for the recipients of unemployment benefits (under the “Job Seeker's Allowance”) who are not yet required to participate in the Work Programme but who are deemed to not be committed to looking for employment.<sup>3</sup> Failure to participate in the Work Programme or Mandatory Work Activity can lead to a loss in benefits.<sup>4</sup>

Work experience in the Mandatory Work Activity may be performed for the government or a non-profit and must make “a contribution to the community.”<sup>5</sup> Examples of work experience include working at a charity shop, performing maintenance work for public housing, renovating and recycling old furniture, and providing office assistance at a government job training facility.<sup>6</sup> Between May 2011 and February 2012, about 16,800 individuals participated in Mandatory Work Activity out of about 50,000 who were referred to participate. (It is unclear how many individuals who were referred to participate simply dropped off the unemployment rolls and how many received an exemption.)<sup>7</sup> In June 2012, the Department of Work and Pensions announced that the capacity of Mandatory Work Activity would be expanded by 9,000 slots.<sup>8</sup>

The UK also has a voluntary work experience program for unemployed youth ages sixteen to twenty-four who have not yet received benefits long enough to be assigned to the

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<sup>2</sup>Her Majesty's Treasury, *Spending Review: 2010* (London: Her Majesty's Treasury, October 2010), [http://cdn.hm-treasury.gov.uk/sr2010\\_completereport.pdf](http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf) (accessed July 5, 2011).

<sup>3</sup>Department for Work and Pensions, *Mandatory Work Activity – Equality Impact Assessment* (London: Department for Work and Pensions, March 2011), <http://www.dwp.gov.uk/docs/eia-mandatory-work-activity.pdf> (accessed July 14, 2011).

<sup>4</sup>Newcastle City Council, “Welfare to Work Plans and Changes,” [http://www.newcastle.gov.uk/core.nsf/a/wr\\_bbi\\_welfaretowork#Mandatory](http://www.newcastle.gov.uk/core.nsf/a/wr_bbi_welfaretowork#Mandatory) (accessed July 14, 2011).

<sup>5</sup>Department for Work and Pensions, *Mandatory Work Activity: Equality Impact Assessment* (London: Department for Work and Pensions, March 2011), <http://www.dwp.gov.uk/docs/eia-mandatory-work-activity.pdf> (accessed June 14, 2012).

<sup>6</sup>Centre for Economic and Social Inclusion, “Government Work Experience Schemes: What are the Differences?” <http://www.cesi.org.uk/keypolicy/government-work-experience-schemes-what-are-differences> (accessed June 13, 2012).

<sup>7</sup>Department of Work and Pensions, *Mandatory Programmes Official Statistics* (London: Department for Work and Pensions, June 2012), [http://research.dwp.gov.uk/asd/asd1/pwp/mwa\\_may12.pdf](http://research.dwp.gov.uk/asd/asd1/pwp/mwa_may12.pdf) (accessed June 13, 2012).

<sup>8</sup>Department for Work and Pensions, “Mandatory Work Activity Scheme Extended,” <http://www.dwp.gov.uk/newsroom/press-releases/2012/jun-2012/dwp061-12.shtml> (accessed June 13, 2012).

Work Programme or Mandatory Work Activity. Unlike the Mandatory Work Activity, work experience participants may also be placed with a for-profit company. Between January 2011 and February 2012, about 50,000 individuals have been placed in a work experience position.<sup>9</sup>

Since the implementation of the Work Programme in 2010, the number of recipients of Job Seekers' Allowance increased slightly from about 1.4 million in 2010 to about 1.5 million in 2012.<sup>10</sup>

## **Disability programs**

As part of a broader package of changes to its unemployment, disability, and social assistance programs, in 2008, the UK replaced the disability assessment used since 1991 (the Personal Capability Assessment) with a new assessment (the Work Capability Assessment). Still in force, it has fewer categories of exemptions from work and gauges the degree to which an individual's disabilities prevent work.<sup>11</sup>

Of the approximately two million new claimants (under the Work Capability Assessment) between October 2008 and August 2012 (the latest month for which data are available), 73 percent either were found to be fit for work (meaning that they were not eligible to receive benefits) or dropped their disability claim before finishing the assessment. About 16 percent were determined to be eligible for disability benefits, but were also determined to have some work capacity and were assigned to a Work-Related Activity Group (see below). About 11 percent were found to not be able to work and were assigned to participate in support groups.<sup>12</sup> (There are, however, no comparable data from prior years to indicate whether this constitutes a significant change.)

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<sup>9</sup>Centre for Economic and Social Inclusion, "Government Work Experience Schemes: What are the Differences?" <http://www.cesi.org.uk/keypolicy/government-work-experience-schemes-what-are-differences> (accessed June 13, 2012); and Department for Work and Pensions, *Get Britain Working Official Statistics* (London: Department for Work and Pensions, May 2012), [http://research.dwp.gov.uk/asd/asd1/pwp/pwp\\_gbw\\_may12.pdf](http://research.dwp.gov.uk/asd/asd1/pwp/pwp_gbw_may12.pdf) (accessed June 14, 2012).

<sup>10</sup>Department for Work and Pensions, *DWP Quarterly Statistical Summary* (London: Department for Work and Pensions, August 2013), [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/229606/stats\\_summary\\_aug13.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229606/stats_summary_aug13.pdf) (accessed September 9, 2013).

<sup>11</sup>Child Action Poverty Group, "The Work Capability Assessment," <http://www.cpag.org.uk/cro/wrb/wrb204/wca.htm> (accessed July 16, 2011); and Department of Work and Pensions, *Work Capability Assessment: Internal Review* (London: Department of Work and Pensions, 2009), <http://www.dwp.gov.uk/docs/work-capability-assessment-review.pdf> (accessed July 16, 2011).

<sup>12</sup>Department for Work and Pensions, *Employment and Support Allowance: Work Outcomes of Work Capability Assessments, Great Britain* (London: Department for Work and Pensions, April 2013), [http://research.dwp.gov.uk/asd/workingage/esa\\_wca/esa\\_wca\\_summary\\_apr13.pdf](http://research.dwp.gov.uk/asd/workingage/esa_wca/esa_wca_summary_apr13.pdf) (accessed August 25, 2012).

In addition, the UK instituted a reassessment process for those already receiving disability benefits under the prior Personal Capability Assessment. A reassessment pilot program in two cities was initiated in 2010. About 32 percent of recipients who were reassessed were found fit to work.<sup>13</sup> After the pilot program, limited reassessments began nationwide in February 2011, and reassessments were expanded to about 11,000 claimants a week beginning in May. Recipients of Incapacity Benefit and Income Support are being reassessed first, followed by recipients of Severe Disablement Allowance.<sup>14</sup> As of August 2012, about 700,000 incapacity benefit recipients had been reassessed; 29 percent were found to be “fit for work” and, hence, no longer entitled to receive benefits.<sup>15</sup> The remainder were found to be eligible for Employment and Support Assistance, that is, partially disabled (see below).

Prior to 2001, the UK had separate programs for the long-term disabled who had not made enough payroll contributions to the insurance fund (“Severe Disablement Allowance”) and the short- and long-term sick and disabled who had made sufficient contributions to the insurance fund (“Incapacity Benefit”).<sup>16</sup> In 2001, Severe Disablement Allowance was discontinued and all new claimants received the Incapacity Benefit. In 2011, the Incapacity Benefit for new claimants was replaced by the Employment and Support Allowance (ESA). (As mentioned above, current claimants of Incapacity Benefit are being reassessed; if found to still be eligible for benefits, they are to be transferred to ESA).

ESA requires that new claimants be assessed using the Work Capability Assessment (described above) to determine if their disability limits their ability to be employed. Claimants who are deemed able to work are assigned to one of two groups: The Work-Related Activity Group (WRAG) and the Support Group. Claimants in the WRAG are required to participate in Pathways to Work. Claimants attend six mandatory “job-focused interviews” where they create a plan for returning to work, report on progress made toward obtaining employment, and receive assistance in preparing to return to work.<sup>17</sup>

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<sup>13</sup>Department for Work and Pensions, *Interim Results of Work Capability Assessments for IB Reassessment Trial Areas* (London, Department for Work and Pensions, April 2011), [http://research.dwp.gov.uk/asd/asd1/adhoc\\_analysis/2011/ib\\_reassessment.pdf](http://research.dwp.gov.uk/asd/asd1/adhoc_analysis/2011/ib_reassessment.pdf) (accessed July 13, 2011).

<sup>14</sup>Newcastle City Council, *Being Reassessed If You Get Incapacity Benefits*,” <http://www.newcastle.gov.uk/wwwfileroot/socialservices/welfare/IBReassessmentjune11.pdf> (accessed July 13, 2011).

<sup>15</sup>Department for Work and Pensions, *Employment and Support Allowance – Incapacity Benefits Reassessments: Outcomes of Work Capability Assessments by Duration of Claim* (London: Department for Work and Pensions, April 2013), [http://research.dwp.gov.uk/asd/workingage/esa\\_wca/esa\\_wca\\_summary\\_apr13.pdf](http://research.dwp.gov.uk/asd/workingage/esa_wca/esa_wca_summary_apr13.pdf) (accessed June 7, 2012).

<sup>16</sup>Mara Killoughery, “Disability and Incapacity Benefits: The Role that Doctors Play,” *The Psychiatrist* 23 (1999): 260–263, <http://pb.rcpsych.org/content/23/5/260.full.pdf> (accessed June 7, 2012).

<sup>17</sup>Department for Work and Pensions, *Support to Incapacity Benefits Claimants Through Pathways to Work* (London: Department for Work and Pensions, May 2010).

Since the implementation of the Work Capability Assessment in 2008, the average number of working-age disability recipients has declined from about 2.6 million in 2008 to about 2.5 million in 2012.<sup>18</sup> (By comparison, the number of working-age disability recipients in the US increased from about 11 million in 2008 to about 12.7 million in 2012.)<sup>19</sup>

### **Program consolidation**

As part of the 2010 package of changes to its unemployment, disability, and social assistance programs, the UK created the “Universal Credit.” As an integrated working-age credit, starting in October 2013, it will provide a basic allowance with additional elements for children, disability, housing, and caring to support people both in and out of work. As such, it will replace the working tax credit, the child tax credit, the housing benefit, income support, income-based Jobseeker’s Allowance, and income-related Employment and Support Allowance. The purpose is to create a single phase-out rate for benefits, reduce the high marginal tax rate for workers, and reduce the duplication and complexity of previously existing benefit programs. The government estimates that combining these programs will result in a maximum marginal tax rate of 65 percent, compared to the previous rates of between 75 and 96 percent.<sup>20</sup>

Facilitating the Universal Credit is the simplified payroll reporting system that the UK implemented nationwide in April 2013. UK employers are required to withhold employees’ income taxes and National Insurance taxes and transfer them to the national government each month. At the end of the year, Her Majesty’s Revenue and Customs (HMRC) calculates the amount of tax owed versus the amount of tax paid for each individual and then either issues a tax bill or refund. (This end-of-year process is called “reconciliation.”)<sup>21</sup>

In 2013, HMRC implemented a new payroll system called the Real-Time Information (RTI) system that links with employer payroll software to automatically transfer employee payroll information and taxes each pay period (either bi-weekly or monthly). All employers are required to report via the RTI. The Department of Work and Pensions links the payroll

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<sup>18</sup>Department for Work and Pensions, *DWP Quarterly Statistical Summary* (London: Department for Work and Pensions, August 2013), [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/229606/stats\\_summary\\_aug13.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229606/stats_summary_aug13.pdf) (accessed September 9, 2013).

<sup>19</sup>U.S. Social Security Administration, “Table 1. Number of people receiving Social Security, Supplemental Security Income (SSI), or both, December 2012,” [http://www.ssa.gov/policy/docs/quickfacts/stat\\_snapshot/2012-12.html](http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/2012-12.html) (accessed September 9, 2013).

<sup>20</sup>Department for Work and Pensions, *Universal Credit: Welfare That Works* (London: Department for Work and Pensions, 2010), <http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf> (accessed May 20, 2011) and Department for Work and Pensions, *21<sup>st</sup> Century Welfare* (London: Department for Work and Pensions, 2010), <http://www.dwp.gov.uk/docs/21st-century-welfare.pdf> (accessed July 5, 2011).

<sup>21</sup>Chartered Institute of Taxation, “PAYE Reconciliation: Questions and Answers,” [http://www.tax.org.uk/media\\_centre/blog/Technical/PAYE+QAs](http://www.tax.org.uk/media_centre/blog/Technical/PAYE+QAs) (accessed July 16, 2012).

information from the RTI to the Universal Credit system to calculate automatically the amount of the claimants' UC benefits when employers automatically submit monthly earnings. (Claimants are also required to report any additional income.)<sup>22</sup>

### **Outsourced “activation” services**

In 2010, the UK created a national bidding system (“Invitation to Tender”) for private vendors (non-profit and for-profit) to provide Work Programme services in eleven regions of the country.<sup>23</sup> Forty contracts were awarded in April 2011, with two or three vendors in each region, based on their size, financial strength, and ability to deliver services (including working with smaller local sub-contractors).

The contracts are a form of “pay-for-success” contracting, that is, vendors receive payments only if they successfully place their clients into jobs and the clients stay employed. The “pay-for-success” format is being phased in over time to give vendors operating or start-up capital. In the first three years of the contract, the government makes small up-front payments for new clients (in addition to payments for successful placements and longer-term employment). The up-front payments will be discontinued after the third year. After that, payments to vendors will be made only when clients have been employed for between three months (for more difficult-to-serve clients) and six months (for less-difficult-to-serve clients). Vendors also receive payments for the additional months that clients stay employed (up to two years, depending on the type of client).<sup>24</sup> For example, vendors will receive the highest compensation for clients who had been receiving disability benefits for longer than a year and who remain employed for more than two years after receiving services.<sup>25</sup>

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<sup>22</sup>Department for Work and Pensions, *Universal Credit: Welfare that Works* (London: Department for Work and Pensions, 2010), <http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf> (accessed July 16, 2012).

<sup>23</sup>UK Parliament, Work and Pensions Committee, *Work Programme: Providers and Contracting Arrangements* (London: UK Parliament, 2011), <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/71806.htm#note47> (accessed July 15, 2011).

<sup>24</sup>Department of Work and Pensions, *The Work Programme* (London: Department of Work and Pensions, 2012), <http://www.dwp.gov.uk/docs/the-work-programme.pdf> (accessed June 7, 2012).

<sup>25</sup>Department of Work and Pensions, *The Work Programme Prospectus* (London: Department of Work and Pensions, November 2010), <http://www.dwp.gov.uk/docs/work-prog-prospectus-v2.pdf> (accessed May 20, 2011).