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## Squaring the Circle? Means Testing and Individualisation in the UK and Australia

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*As means-tested benefits have come to occupy a more central place in the UK system of income transfers, so the goal of an individualised system seems to have receded. However, there is also a developing policy interest in the situation and status of the individual in the social welfare system. Individual assessment of labour market circumstances is central to the New Deal programmes, and the 'partners' of those receiving social security benefits have become a target group for policy in their own right. This article outlines the policy issues, describes the measures that have been introduced so far, compares these with the Australian moves towards 'partial individualisation', and discusses some key issues in the reform agenda.*

Although the tax system has recognised married women as individuals since the late 1980s, means-tested benefits are based on the income of the couple, not the individual. It is hard to see how they could be otherwise, without either undermining the purpose of means-testing or introducing unacceptably intrusive questioning about income sharing between partners. (Commission on Social Justice, 1994: 249)

As means-tested benefits have come to occupy a more central place in the UK system of income transfers, so the goal of an individualised system seems to have receded. In Britain, means-tested social security benefits account for over a third of all social security spending, and over half for people of working age (DWP, 2003). These benefits are based on assessing the needs of the family unit – parents and dependent children – and not on any individual assessment of need. In addition, the new child tax credit will extend a form of means testing to nine in ten families with children, and must be jointly claimed by both parents in a couple (HM Treasury, 2002). However, at the same time as means testing is on the increase, there is also a developing policy interest in the situation and status of the individual in the social welfare system. Individual assessment of labour market circumstances and need is at the centre of the New Deal programmes, with their emphasis on case-working with individually tailor-made provision. And this approach goes beyond the claimant to the 'partners' of those receiving social security benefits, who have become a target group for policy in their own right. Individualisation has thus re-emerged as a policy issue in the context of government concern about high levels of worklessness among families with children and the current policy commitment to 'work for all'. This article outlines the policy issues, describes the measures that have been introduced so far, compares these with the Australian moves towards 'partial individualisation', and discusses some key issues in the reform agenda. The focus here is on individualisation

in the context of means testing; see McLaughlin *et al.* (2002) for a wider discussion also covering social insurance benefits and tax.

### **Individualisation: the current UK policy agenda**

A fully individualised means-tested social security system would have four main aspects (Roll, 1991; McLaughlin *et al.*, 2002):

1. Each person would have an individual right to claim financial support, and no-one would be able to claim support simply as an adult dependant of another claimant;
2. Assessments of financial need would take place on an individual basis, without taking into account the needs or resources of other adults in the family or household;
3. The award would cover the needs of that individual only and would not include any payments for adult 'dependants';
4. Payments would be made to the individual, so that each individual adult would receive money in their own right.

In technical terms, this means that the individual becomes the assessment unit, the resource unit and the payment unit. The Beveridge report, which provided the model for the post-war British social security system, took the family, not the individual, as the basic unit for social security and assumed a clear gender division of responsibilities within the family. Male wages covered the needs of the family as a whole and, if these were lost through unemployment or sickness, they would be replaced by social security benefits – claimed by the man, and paid to him, but covering the needs of the family as a whole. Married women had no access to most national insurance benefits in their own right. The tax system also treated married couples as one, with the man reporting not just his own but also his wife's income, and receiving an extra tax allowance as a married man. Tax and benefit reform has since removed these gender inequalities, and both tax and national insurance have now become largely individually based systems. But means-tested support remains the 'citadel of jointly assessed benefits... the needs of the husband, wife and children are added up; their incomes are also aggregated; and benefit is determined by the difference between the two' (Esam and Berthoud, 1991: 59).

Why does this matter? Individualisation has often been discussed in the context of changing gender roles and in respect of promoting gender equality in the family and in the labour market (Roll, 1991; Commission on Social Justice, 1994; Esam and Berthoud, 1991; Duncan *et al.*, 1994; McLaughlin *et al.*, 2002). An individualised system, it is argued, would better reflect the actual situation of many women, who are increasingly the sole or joint breadwinners for their families and not the stay-at-home housewives of the Beveridge system. Individualisation would also give women the right to an independent income, thereby reducing dependency on partners, reducing women's rates of individual poverty, and reducing family poverty by ensuring that women directly receive at least a portion of the total family income.

These are all important arguments in favour of individualisation. However, it is labour supply and employment participation issues that have been particularly central to recent discussions, not just in the UK but also in the rest of Europe and elsewhere (McLaughlin *et al.*, 2002). For families receiving means-tested benefits while out of work, the earnings of the partner lead to a reduction in benefits (above a small disregard) and thus there is only a small financial gain from a partner's working. In most cases it is the man who is the

claimant and the woman who is the partner, so in effect this means that women married to men receiving means-tested social security benefits have little financial incentive to take, or to stay in, paid work. Unemployed men are less likely to have wives in employment than employed men and, although this is not solely the result of these benefit rules, they do seem to play a part (see Millar and Ridge, 2001 for a summary of the evidence). Furthermore, there is also a potential impact on the man's labour supply decision because, with his partner not in work, he would need a sufficiently high wage to cover all the family needs. The most common job search strategy among couples receiving means-tested unemployment-related benefits is for the man to seek full-time work and the woman not to seek work at all (McKay *et al.*, 1999). Thus family-based means testing helps to perpetuate the existing gender division of paid and unpaid work.

As McLaughlin *et al.* (2002) discuss, concern about these incentives issues and about the distribution of paid and unpaid work has been important in influencing international agencies such as the International Labour Office (ILO) and the Organisation for Economic Cooperation and Development (OECD) to argue for more individualised systems of social protection. The European Commission has also promoted the equal treatment of men and women and individualisation through various Equal Opportunities Programmes and Directives. Labour supply issues are also at the centre of the UK government's interest in this area. The second paper in the Treasury's series, *The Modernisation of Britain's Tax and Benefits System*, was the report on 'work incentives', by the then Chief Executive of Barclays, Martin Taylor (HM Treasury, 1998). This included a chapter on the 'partners of the unemployed', which analysed the problem as follows:

Currently only one partner in an unemployed couple has to be available for work, has to actively seek work, and is liable to lose benefit if, except in limited cases, he or she does not take any job offered. That person – the claimant – is paid all the benefit to which the family is entitled. Their partner does not have to look for work, does not have to be available for work, and receives none of the benefit . . . The existing rules seem to be left over from the days when it was assumed that all men worked and their wives did not . . . If the partners of the unemployed were required to look for work, that would increase effective labour supply, which should in return increase the level of sustainable employment and reduce worklessness. Less poverty and benefit dependency should be the result.

However, Taylor also argued that it would not be fair to impose such a requirement immediately on older women with little employment experience, nor on women with children. These ideas were reflected in two policy developments.

The first was the establishment in 1999 of the New Deal for Partners as a voluntary programme offering information and advice to the 'partners' of those receiving certain benefits (initially just jobseeker's allowance but later including income support, and the non-means-tested benefits, incapacity benefit, severe disablement allowance and invalid care allowance, now called carer's allowance). There were almost half a million people potentially within the remit of the New Deal for Partners, about 85 per cent of them women (Bennett, 2002).

The second development was the introduction in 2001 of 'joint claims' for income-based jobseekers allowance. The terminology of 'joint claim' is perhaps a little misleading; more accurately these are concurrent individual claims to a joint benefit. The rules require both partners in a couple to be available for work and actively seeking work, both have

to sign 'jobseekers' agreements' and both can be sanctioned if they break the agreement. These rules were first applied to childless couples with at least one partner aged between 18 and 24, but since 2002 they have been applied to all childless couples with at least one partner aged under 45. Women are the 'partners' in nine out of ten families receiving income-based jobseeker's allowance, so again it is mainly women who have been affected by these new rules. In addition, from April 2004, partners of those receiving income support, incapacity benefit and severe disablement allowance will be required to attend regular 'work-focused' interviews, to discuss their employment plans and aspirations. This could affect over one million people, including a significant group who are the partners of incapacity benefit recipients.

These new measures are thus all focused upon labour supply and employment obligations. They are mainly justified by reference to improving work incentives and reducing worklessness, although the Treasury's 2002 Pre-Budget Report also points to the gender equality issue:

Even in the 1990s, more than 50 years after Beveridge's original proposals, the benefit system treated partners of unemployed people – overwhelmingly women – as 'adult dependants' of the claimant – overwhelmingly men. The Government has sought to modernise the benefit system, extending the rights and responsibilities of Jobseeker's Allowance claimants to partners on an equal basis. (HM Treasury, 2002b, para. 4.37)

In relation to the four aspects of individualisation outlined above, this joint claims procedure meets the first but not the other conditions: it requires the partners individually to fulfil the eligibility conditions, but retains the family means test to determine the level of support required and who the award covers, and the benefit is not individually paid. The Taylor report did consider the latter point, noting that such a change had been introduced in Australia, but made no specific recommendation:

The extension of availability requirements to both partners may strengthen the case for separate benefit payments. It would be consistent with the modernisation of the welfare state if payments of Jobseekers' Allowance were made to both members of a couple, rather than one partner as now. Such a change would emphasise that the benefits systems was moving towards treating a couple as equal partners, while retaining assessment on joint household income. (A similar change was introduced in Australia.) (p. 27).

The reference to Australia is interesting because Australia had already gone down a somewhat similar road, but with some important differences (Millar, 1998; McLaughlin *et al.*, 2002). The Australian reforms were mainly driven by concerns about work incentives, which was one of the key problems identified by the 1994 *Working Nation* White Paper (Commonwealth of Australia, 1994; Saunders, 1995). But these measures were also part of wider reforms aimed at addressing issues of gender equity and reducing women's financial dependency within the family (Whiteford *et al.*, 2001). Other changes included the phasing out of widows' benefits and the raising of women's pension age to the same as that for men (Pech and Innes, 1998). The Australian reform of means-tested benefits took on all four aspects of the individualisation agenda, with individual claims, a partially individualised means test, covering just the claimant, and with individual payments. The process works as follows:

First, all adults wanting to claim income support benefits and pensions have to do so in their own right as either a jobseeker (available for and seeking work), a parent (caring for children aged under 16), or a partner (born before 1955 and without recent employment experience). Thus everyone must establish his or her own entitlement. The 'partner' status offers protection for older women who may have had little work experience. The 'parent' status now applies to lone as well as married mothers, and is a form of carer's benefit. The 'jobseeker' is subject to the usual work requirements.

Second, the joint income test for couples was abolished and a partner income test introduced. This involves applying the income test in sequence rather than in combination. Each person is first assessed on his or her own income. Income above a 'free area' reduces benefit, first by 50 per cent, and at a higher level by 70 per cent. If their partner is receiving an allowance, this is fully disregarded. If the partner is employed, then an amount equivalent to their own benefit 'cut-out point' (i.e. the point at which benefit entitlement would be lost) is disregarded, and any income above that amount is taken into account, reducing the award to the claimant by 70 cents for each dollar (Whiteford and Angenent, 2001). The means test thus excludes those with moderate or high earning partners but not those with partners themselves receiving allowances or who are in low-paid work.

Third, each person receives their own benefit payment, paid per fortnight and usually by automatic credit transfer into bank accounts (which may mean that it is often paid into joint accounts).

This system was introduced in 1995. At that time the Australians had already introduced an integrated child payment, which was paid to both working and non-working families (rather like the UK's child tax credit), which was usually paid directly to the mother, as the main carer. Taken together, these changes meant a significant transfer of payments from men to women. Previously a male claimant would have received the full benefit payment for all the family himself. After these reforms the man would receive only his individual benefit entitlement, while the woman would receive her own individual payment as well as receiving the child tax payments. For example, for a beneficiary couple with two children under 13 years old, this would have meant that before 1993 the mother would have received only 6 per cent of the total income transfers in her own right. When all the child payments became payable to the principal carer, this proportion increased to 25 per cent, and after 1995 this increased again to 62 per cent (Bradbury, 2003). This is a very substantial change, but there seem to have been few problems with implementation, with no evidence of major criticisms, and with the effect of redistributing income within families (Whiteford *et al.*, 2001). The changes also seem to have had some of the desired impact on employment, with more income support recipients reporting income from paid work than previously (Warburton *et al.*, 1999; Whiteford and Angenent, 2001). In their analysis of trends in women's financial independence in Australia since the 1980s, Burke and Redmond (2002) conclude that independence – as measured by personal gross and net income – did increase, and that this policy change played some part in this. However they also note that subsequent policy developments, in particular the introduction of family tax payments for single-earner families, may work in the opposite direction.

The Australian example thus shows that it is possible to introduce some element of individualisation into the means test used for assessing financial need, as well as into the payment system (payment splitting is also possible in some other countries, McLaughlin *et al.*, 2002). But before considering the issue of further reform in the UK, we need

to consider the structure of tax credits and the nature of the 'light touch' means test developed for these (HM Treasury, 2002a).

The tax credits means test has a number of features that are new to the UK (Millar, 2003; Whiteford *et al.*, 2003). These include assessments of entitlement based on annual incomes, awards for 12 month periods, assessment and delivery by the Inland Revenue, the separation of support for children from support for adults, the integration of support for children of working and non-working parents, and the extension of wage supplements to a wider selection of those with low in-work incomes, not just those with children and disabled people as before. Although the working tax credit and the child tax credit are technically separate instruments, each with different policy objectives, in practice these are claimed together on a single claim form. We can again assess these with reference to the four main aspects of individualisation outlined above. First, this is a joint claim and both partners in a couple must sign the form. Second, the means test is based on annual taxable income in the year preceding the claim, with the income of both partners in a couple added together. Third, the tax credits are intended either to contribute to the needs of the couple (working tax credit) or the child(ren) (child tax credit). Finally, the credits are paid to the person in paid work (working tax credit) or to the main carer (child tax credit and the childcare element of working tax credit). The tax credits are, however, jointly 'owned' by both partners, which means that both are responsible for ensuring that the information is accurate and both are liable for any overpayments.

These tax credits can be seen as posing a threat to independent taxation, based as they are upon joint taxable income (Bennett, 2002). However, the government argues that this is not the case because people will continue to retain their own tax allowances and will be taxed on their own income. The tax credits are using the information from the tax system to determine incomes but are simply adding the two separate incomes together. This is also how the family means tests for tax credits for children are perceived in Canada and Australia (Battle and Mendelson, 2001). But the UK has two tax credits – one for children and one for low-waged adults. In respect of children, the principle that both parents are liable to support their dependent children is an established part of the social security and tax system (if rather difficult to enforce when parents have separated). It makes sense therefore for both parents to form the assessment unit for benefits for children, with the child being the payment unit (i.e. the person(s) whose needs the tax credit is contributing towards). This logic does not apply, however, to the working tax credit, in which a couple-based assessment is used to calculate a payment that is then made to just one person.

### **Towards further reform?**

Thus far, the UK has made some steps towards individualisation in the eligibility requirements for benefits, but not in the actual income calculations and payments. As Bennett (2002: 566) notes, there are 'potential tensions between this increased emphasis on individualisation in labour market policy . . . and the promotion of the couple rather than the individual as the unit of assessment for benefits and tax credits'. Where we are now – with 'partners' increasingly required to fulfil the work and other requirements of benefit recipients, but without any independent entitlement to support – does not seem to square very well with Labour's 'rights in return for responsibilities' rhetoric. However there may be further reforms on the way, with the government 'considering whether

the benefit system can be further modernised to provide additional support to workless households' (HM Treasury, 2002b, para. 4.51), which could imply further steps towards individualisation. There are various options that could be considered. A revitalised national insurance system could reduce the need for means testing (Commission on Social Justice, 1994); but it seems more likely that any reforms will be focused on changing the way in which means tests operate, rather than seeking to reduce the use of these. Full individualisation also seems unlikely, however, not least because it would both be costly and bring many more people within the scope of means testing.

Some combination of individual and family means tests therefore seems the most likely option. Esam and Berthoud (1991) suggest a rather complex approach in which personal needs are assessed against personal income, while benefits for 'common needs' – housing, household and children's costs – are assessed on a family basis. Another option would be to have out-of-work benefits on an individualised basis for a fixed time period, so that couples are not immediately faced with the work disincentives of the joint means test (Gregg, 2003). Or the joint means test could be applied, and then payments split between both partners in a couple, as suggested by Duncan *et al.* (1994), and as available in Ireland and the Netherlands (McLaughlin *et al.*, 2002). However, there seems to be little support for this option among benefit recipients with children (Goode *et al.*, 1998). Focusing on tax credits, McLaughlin *et al.* (2002) suggest a variant of the Australian approach, in which the means test for working tax credit is partially individualised and a 'care or home responsibilities credit' is introduced to give those with caring responsibilities an individual income (similar to the parenting payment in Australia).

There are thus a number of possible reform options, which need careful assessment against some clear criteria and policy goals. This is beyond the scope of this article. But, to return to where we started, means testing need not mean that the aspirations for a more individualised system are completely lost. Some combination of individual- and family-based system may be the best way to recognise both independence and interdependence in people's lives.

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