

Pathways to Work from Incapacity Benefits: A study of experience and use of Return to Work Credit

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Introduction

The Pathways to Work pilot was introduced in October 2003 to increase the number of incapacity benefit recipients who move towards and into paid work. The package of measures that comprise the reforms was initially introduced in seven Jobcentre Plus districts, and extended to a further fourteen areas from October 2005.

This report presents findings from a focused study of Return to Work Credit (RTWC) and is based on qualitative research conducted in 2005/6 by the Social Policy Research Unit (SPRU), the National Centre for Social Research (NatCen) and the Policy Studies Institute (PSI). This study is one of several being undertaken to inform the overall evaluation of Pathways to Work.

Return to Work Credit is an innovative component of the 'Choices' package – a range of existing Jobcentre Plus services and new interventions on offer in Pathways pilot areas. RTWC is an earnings supplement available to incapacity benefit recipients who move into paid work. The aim of RTWC was to provide '*clearer returns from working*' and '*to ensure a firm transition back to employment*' (DWP, 2002). Payable at £40 per week for a maximum of 52 weeks, it is available to those who have been receiving benefits for at least 13 weeks, have found a job of not less than 16 hours, and do not receive earnings in excess of £15,000 per annum. Recipients must reapply at 26 weeks to continue entitlement for a further 26 weeks.

Findings reported here draw on 35 depth interviews with current or recent RTWC recipients in the seven original pilot areas. Discussions

with people at different stages of receipt help us to understand experiences during the early and later stages of a claim; reasons for and effect of withdrawal of RTWC before expiry, and people's responses to loss of RTWC after a full year in receipt.

Key findings

- Most people found out about RTWC from a Jobcentre Plus Personal Adviser. Some had been surprised that this financial help was available, but generally pleased.
- In general, people understood that RTWC was paid at £40 per week, and could last 12 months. There were some misunderstandings about other rules, and some confusion with tax credits.
- People who learned about RTWC while thinking about work were encouraged to make plans, consider ways of working to suit them such as shorter hours, and sometimes to return to work more quickly. It was helpful to see calculations about their likely financial situation in work.
- People who found out about RTWC after making arrangements to work felt relieved that they would be helped financially, and more confident and positive about returning to work.
- It was generally quick and easy to apply for RTWC. Any problems were mostly to do with providing evidence of earnings, or delay and misunderstanding at renewal. The amount, duration and delivery arrangements were generally acceptable.

- The money was used in various ways. It made a difference by making work financially worthwhile, or helping people feel financially more secure.
- Those whose RTWC had expired had been expecting this and some had taken steps in anticipation, such as clearing bills. The financial impact varied, but by the time of the research interviews nobody whose RTWC had expired had left work.
- People whose RTWC ended before the expiry date had generally returned to benefits due to effects of health conditions. Those who lost RTWC while still working, through Jobcentre Plus decisions about their hours or earnings, were sometimes surprised but planned to continue working.
- Those currently receiving RTWC expected to go on working when it expired. People most concerned about possible impact were those with outstanding debts or high travel expenses, and people who did not receive Working Tax Credit.

Summary of research

Knowledge and understanding of RTWC, and influence on decisions to work

RTWC was designed to encourage movements into paid work. Some people learned about RTWC when thinking about work, but in this study group it was more common for people to find out after making arrangements for work.

In general, people knew from the beginning that RTWC would be paid at £40 per week for 12 months. There were some misunderstandings about other rules, including the hours requirement, and some confusion with tax credits.

People described a number of influences on their decisions about work. Those who learned about RTWC while thinking about working and took it into account said they would not have gone to work, returned so quickly, or been confident about being financially better off without

seeing a better-off calculation. Some realised they could work shorter hours or take lower paid work. Those who knew about RTWC but did not take it into account had already found jobs that suited them and said they would have gone back to work anyway, or were not influenced by RTWC because they were uncertain about their eligibility.

People who learned about RTWC after making arrangements for work were pleased but surprised that such help was available to them and wondered if there was some kind of catch. Knowing they would have an extra £40 each week helped to boost people's confidence and positive feelings about going back to work, and reduced concerns about managing financially in work.

What difference did RTWC make?

There were two main ways in which RTWC made a difference. Firstly, RTWC helped to make work financially worthwhile for people who needed it for day-to-day budgeting. RTWC was especially useful during early weeks at work while waiting for wages and adjusting to extra financial demands. Most of those who had responded to the incentive of RTWC found they were indeed financially better off in work with RTWC, and sometimes WTC. Some people relied less on RTWC as they got used to budgeting with earnings, while some became more reliant in periods of uncertainty, for example during sickness absence from work.

The second way RTWC made a difference was in helping generally to improve financial security and freedom in spending. For those who felt better off just through their earnings, lived in households where others contributed income or had other sources of income including valuable WTC, RTWC gave new opportunities for spending and saving, thereby improving living standards and overall financial security.

When people talked about these ways in which RTWC made a difference, they perceived RTWC as, for example, providing an element of reassurance; raising living standards; helping the transition into work; preventing creation or worsening of debt, encouraging financial

independence; encouraging sustained working and sustaining improvement in general health and well being.

A small group of people for whom RTWC did not make a significant difference said they had other income sources such as partners' earnings and tax credits, or had been able to preserve healthy financial positions while claiming incapacity benefits, with occupational sick pay or a relatively short period away from work. Not everybody felt better off financially in work; some such people were in the earlier months of RTWC receipt.

Elements of RTWC

Applying for RTWC was generally remembered as easy and quick, although there were some problems in providing evidence of earnings to ensure continued receipt. The renewal procedure was not always perceived as a distinct process. Some people described problems when reminder letters were not received in advance of reapplication dates and payments stopped.

In general, £40 per week was considered to be a fair amount, although there were some suggestions that RTWC should be calculated according to need. Amounts of less than £40 were thought insufficient to provide enough of an incentive, and not worth the costs of administration, although some felt any amount would have been a bonus. Having payments for 12 months brought some financial certainty into what was otherwise an uncertain period, gave time to adjust budgeting to wages, provided an initial boost to finances and was thought to be a cost-effective use of resources. People who felt financially secure after 12 months in work thought it would be wasteful for RTWC to continue longer, but those who felt less well off would have liked further support.

Weekly payments of RTWC were well liked and eased the management of tight budgets, especially when earnings and tax credits were paid monthly. Overall, RTWC was considered a good way of supporting transitions into paid work.

Expectations and experiences of the end of RTWC

Everybody whose RTWC had expired by the time of the interviews had known their income would drop. Some had prepared by clearing bills, taking opportunities to increase earnings, or looking for better paid work. In the event, some people felt only slightly better off financially than when receiving incapacity benefits. Responses among those who missed RTWC included moving to or looking for better paid jobs, taking a second job, and changing patterns of spending and saving.

Most people whose RTWC ended short of 12 months saw their claim end because they stopped working as a result of their health condition and returned to benefits. The financial impact of loss of both earnings and in-work supplements including RTWC was greatest for people living alone, or in households with no other earner. People facing financial penalties for knowingly failing to report change in circumstances also experienced financial problems. The financial impact was less for people who had not been reliant on RTWC in meeting day-to-day expenses, and some were relieved that there had been no financial disadvantage in trying work. In thinking about the prospect of working again, people who had returned to benefits were influenced by their health, experiences of working and financial situation. Having once received RTWC and knowing what difference it could make encouraged some to seek work again.

Losing RTWC before 12 months was up and while still working was often unexpected. Even where basic rules of entitlement were understood, it was sometimes a surprise to learn how Jobcentre Plus interpreted the rules, or to discover that time limits had been missed. Among people who continued to work, the impact of losing RTWC varied. Some said losing the supplement made no difference because they had relatively secure financial positions without it. However, one person who struggled without the extra £40 per week had to cut spending and was seeking higher earnings.

Turning to people still receiving RTWC when interviewed, all expected to continue working after expiry of RTWC. Most expected the loss of RTWC to make some financial impact, and some thought this would be considerable. Concern about loss of RTWC was linked with perceiving few alternative opportunities for enhancing income, having outstanding debts or high travel expenses, and not wanting to increase working hours. Some felt they would manage the loss of RTWC by budgeting more carefully. No one expected to stop working.

Discussion and conclusions

This study showed that paying RTWC for 12 months does support lasting transitions to work from incapacity benefits for some people. It does this not only by enabling people to manage day-to-day budgeting with earnings, but also by enabling people to clear debts, start saving, and extend spending to increase living standards and enhance future job prospects. There was also evidence that knowing about RTWC in advance of making decisions about work did act as an incentive for some people. On the other hand, there was strong evidence that people keen to move off incapacity benefits often find and move into suitable work without knowing about RTWC. There was also evidence that for some people, the extra £40 per week was more of a bonus or reward, and was welcome but generally not significant in terms of overall household income.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84712 030 X. Research Report 353. May 2006).

It is available from Paul Noakes at the address below.

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