



Information about welfare in the United Kingdom

During the first day, we discussed the future of the welfare state in the United Kingdom, and the key issues / challenges the UK faces for the future. The group selected five issues (in this particular order):

1. Immigration
2. Lack of money / resources
3. Unemployment
4. Overcrowding / ageing population
5. Lack of / access to education.

You also asked for additional information in order to prepare the second day. This document offers some answers to the main questions raised throughout the day. Next Saturday, you will be asked to formulate policy priorities for the UK government in 2040. We hope this document will help you preparing for this meeting. You will also have the opportunity to ask additional questions next Saturday morning.

We look forward to seeing you again next Saturday!



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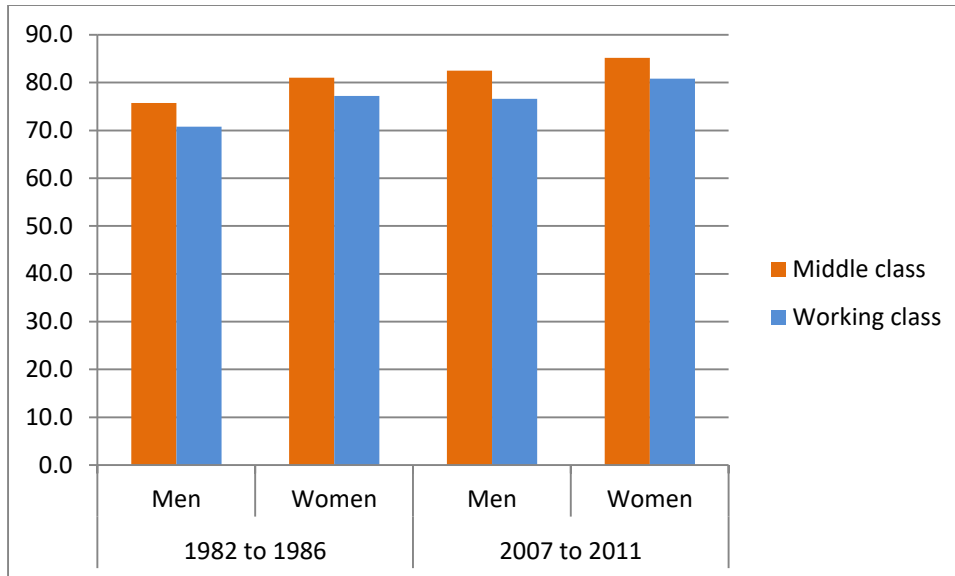
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1. Income inequality

Does life expectancy vary depending on socio-economic position?

Table 1. Life expectancy and social class for men and women



Source: Trend in life expectancy by socio-economic position, Office for National Statistics

Middle class means 'professional and managerial'; working class means 'routine workers'

People born in richer areas live longer than people born in poorer areas.

- On average, men and women born in the richest areas can expect to live about 8 years longer than those born in the poorest areas;
- Perhaps more important, they can expect to have about **18 more** years of healthy life.



Table 2. Life expectancy and healthy life expectancy by area of birth: men

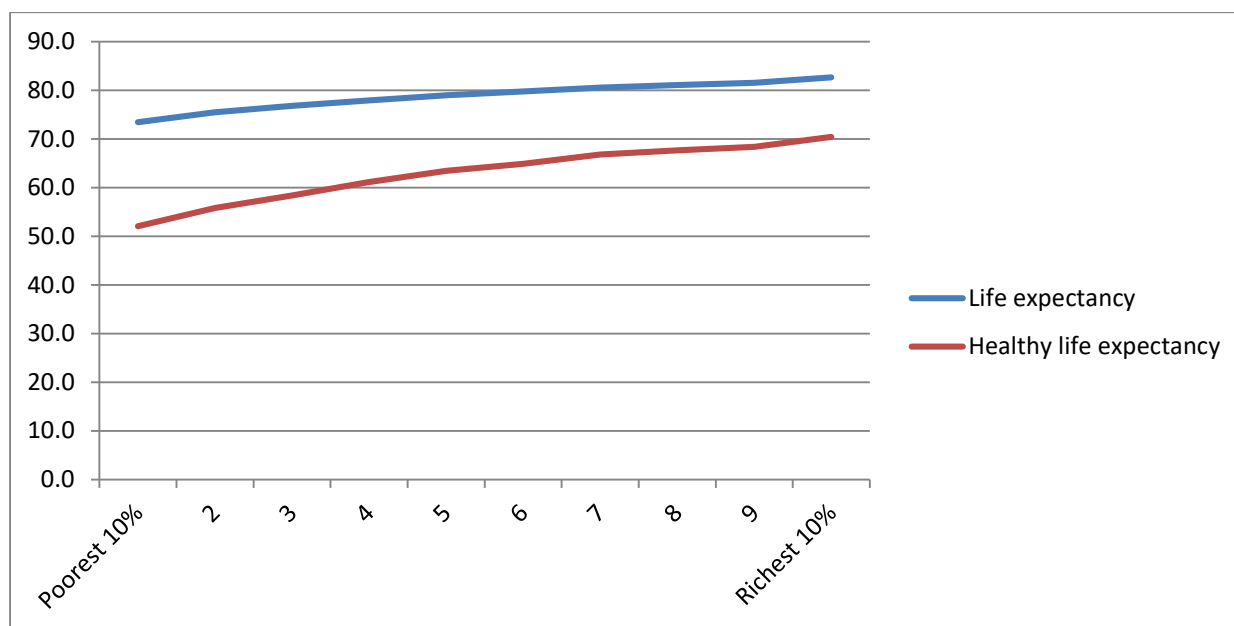
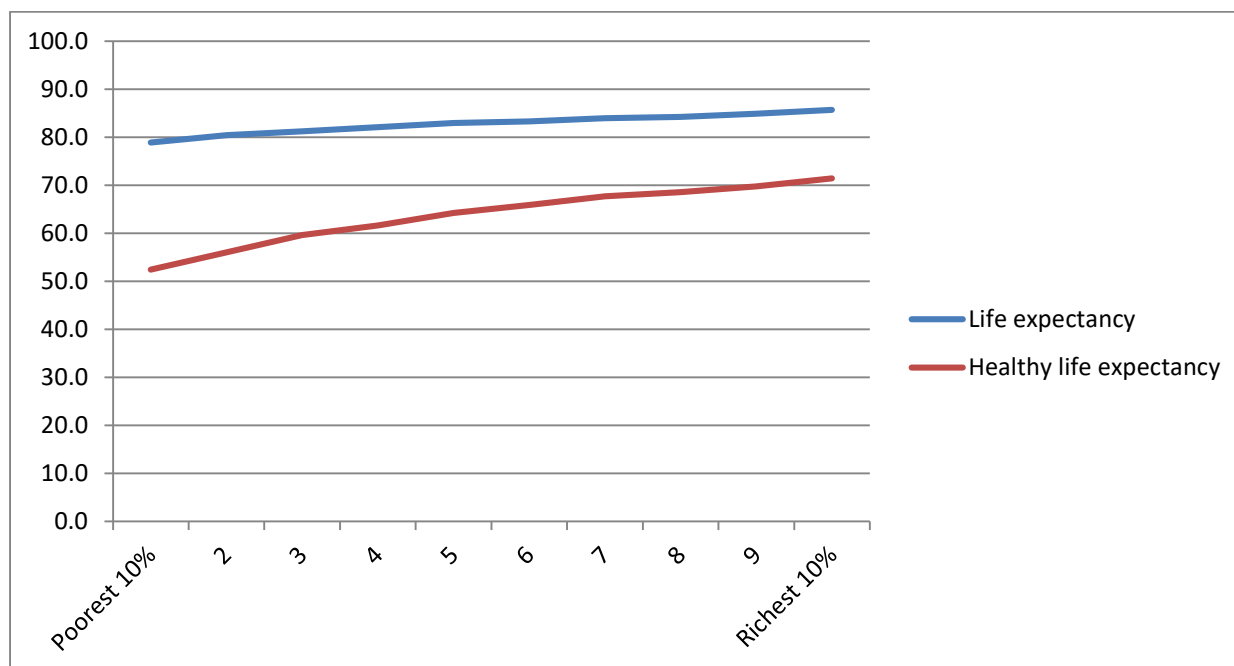


Table 3. Life expectancy and healthy life expectancy by area of birth: women



Source: Inequality in Healthy Life Expectancy (HLE) at birth by national deciles of area deprivation: England, 2009-11, ONS



How many people get social benefits from the government?

In 2013 a total of 20.3 million families received benefits from the government. This corresponds to about two thirds of families in the United Kingdom.

- The most important benefit is the old age pension. Over 13 million people get pensions. Pensions account for nearly half of all spending on benefits;
- The next most important area is benefits for families with children: child benefit goes to nearly 8 million families and child tax credit to over 4 million of them. Family benefits account for nearly a fifth of all benefit spending;
- Benefits for disabled people (the most important is Disability Living Allowance) go to nearly another fifth;
- A bit less goes to about five million people on low incomes, just over half of them in work. The most important is housing benefit;
- Only two per cent of benefit spending goes to people who are unemployed because they are unemployed;
- In all, £205 billion was spent on all the different kinds of social benefits in 2014.



Table 4. Percentage of benefit spending in the United Kingdom

	Percentage of total benefit spending	Numbers claiming the benefit
Benefits for families with children		
Child benefit	5.48%	7,279,100
Child tax credit	11.21%	4,120,700
<i>Total: families</i>	18.0%	
Benefits for unemployed people		
Income-based jobseeker's allowance	1.88%	1,054,000
<i>Total: unemployed people</i>	2.0%	
Benefits for people on low incomes		
Income support	1.77%	959,000
Working tax credit	3.08%	2,465,000
Housing benefit	11.65%	5,028,000
<i>Total: people on low incomes</i>	17%	
Benefits for older people		
Basic state pension	12,823,000	
Pension credit	2,382,000	
<i>Total: older people</i>	45.0%	
Benefits for sick and disabled people		
Employment and support allowance	5.06%	1,797,000
Disability living allowance	6.69%	3,278,000
Attendance allowance	2.64%	1,497,000
Carer's allowance	1.02%	645,000
<i>Total: sick and disabled people</i>	18.0%	

Source: A Survey of the GB Benefit System, IFS.



How can we afford the NHS?

The NHS is the most costly social service in the UK. Most experts think costs will go up in the future. The number of older people who are more likely to need health care will go up. Also new treatments that are discovered tend to be more expensive than old ones. The NHS estimates that it needs at minimum £30 billion by 2020. Some of this could be met through greater efficiency but we will need at least £15 billion by 2020.

After 2020 costs will continue to rise. If you are an optimist you may think the economy will have recovered enough to produce much of the money without painful new policies. Most experts believe that the economy will not grow fast enough for this, but that economic growth help after 2020. We will still need to find extra new sources of money or cut the service between 2020 and 2040.

There are various suggestions for how to get more money:

- Increase existing taxes. We would need to put an extra 3p on income tax to produce the £15 billion (or 1p extra every year for three years).
- Bring in a new 'NHS tax' – but it would have to at a realistic rate to raise the money: as above or 3p on VAT.
- Bring in charges for visits to the GP and/or a hotel charge and charges for meals in hospitals but they can only raise part of the money.
- Ask better-off people to pay towards NHS treatment – but if you wanted to raise enough money you would have to ask people on something like £40,000 a year plus to pay.

Otherwise we can:

- Cut back on services, so that the NHS becomes more of a service for emergencies and life-threatening conditions and you have to go private for things like hip replacements
- Ration treatment more, so waiting lists get longer
- Try to make the NHS more efficient. There are always efforts to do this and there are real savings every year but they are much smaller than the rise in costs.
- Contract out to private providers who say they can do the job more cheaply. This is being done, but in practice it is very difficult to get large savings.



- Promote healthier lifestyles. This does have an effect but as people live longer they are likely to need expensive treatments towards the end of their lives.
- Try to reduce the number of hospitals and use much more day surgery and clinics and treat people in the community. This is being done and many conditions that once needed long and expensive hospital stays now can be treated at home with drugs. Whether the 'new care model' is enough to stop costs rising is unclear.

In practice it is likely that there will be a combination of these approaches.¹

What about inequalities in access to education?

- *Middle-class children do better in the education system than working class children*
- *They are much more likely to go on to university and to high-status better-paid jobs.*
- *Pupils from independent schools are much more likely to go to the best universities than pupils from state schools.*

GCSEs: Four out of five children at the schools with the smallest proportion of pupils getting free school meals get A* to C grades in maths and English, compared with about two out of five for those with the highest proportion.

(The proportion of children on free school meals is a convenient way of measuring low income.)

A-Levels: Thirty-seven per cent 19-year olds who weren't entitled to free school meals got two or more A-levels (or equivalent). That's two and a half times as many compared with those who were.

Going to University: about 40 per cent of 19 year-olds who weren't entitled to free school meals go on to university, compared with about 20 per cent of those who were.

Careers: almost exactly half of those who came from managerial or professional backgrounds were themselves employed in managerial or professional jobs by age 30, compared with less than a third of those from lower social groups.

¹ Source: Kings Fund website: Productivity and Finance



About 70 per cent of pupils with A-levels from independent private schools go on to high status universities compared with about a quarter of those with A-levels from state schools.

Source: Social mobility indicators, 2015, Deputy Prime Minister's Office



2. Immigration

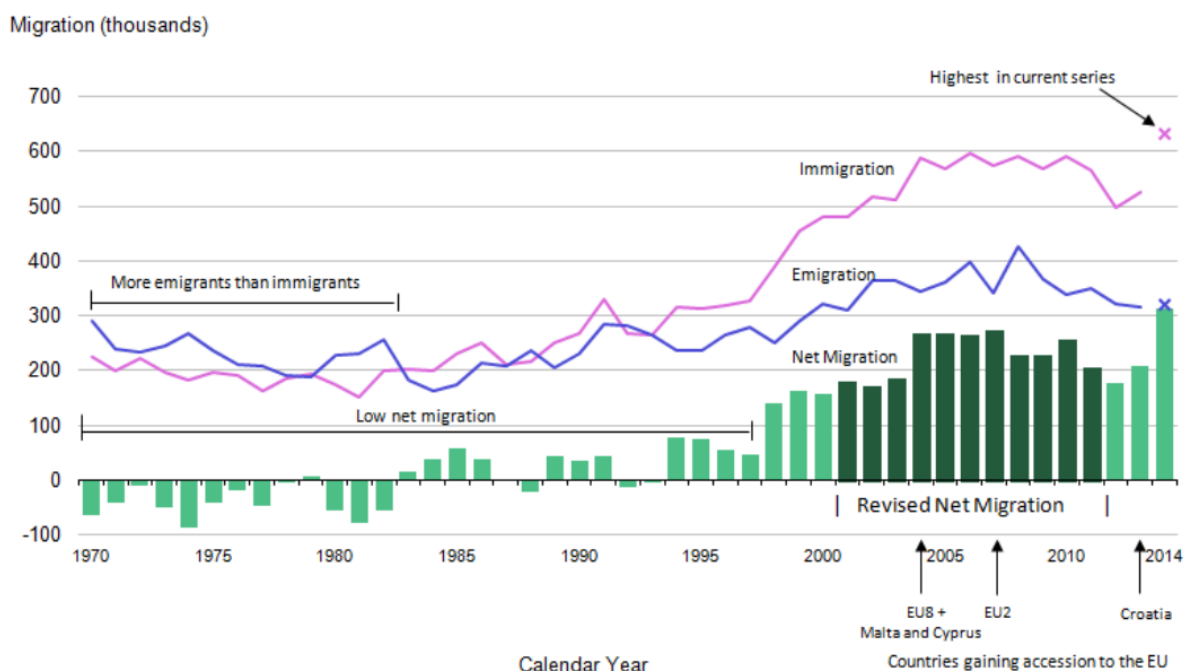
What is the foreign-born proportion of the UK population?

Around 13% of the UK population are born abroad. Most of these foreign citizens are born in Poland, India and Ireland.² In total, around 5% of the UK population are born in other European Union countries.

The UK's migrant population is concentrated in London. Around 37% of people living in the UK who were born abroad live in the capital city. Similarly, around 37% of people living in London were born outside the UK, compared with 13% for the UK as a whole.

How did net migration evolve over the past decades?

Table 6. Evolution of net migration in the United Kingdom, 1970-2014



Source: Long-term International Migration - International Passenger Survey (IPS), Office for National Statistics

² Source: University of Oxford Migration Observatory.



- *Between 1970 and the early 1990s, the level of immigration in the UK was relatively stable;*
- *Between 1995 and 2004, the gap between immigration and emigration increased;*
- *Between 2004 and 2013, the levels of immigration and emigration remained stable and even decreased in 2012;*
- *In 2014, net migration reached its highest level.*

Net migration is the number of people moving to live in a particular country (immigration) minus the number of people moving out of that country to live elsewhere (emigration).

If more people are arriving than leaving, net migration is a positive number, which means net immigration. If more people are leaving than arriving, net migration is a negative number, which means net emigration. Since the mid-1990s, there has been an increasing level of net immigration in the United Kingdom, as the above graph shows.

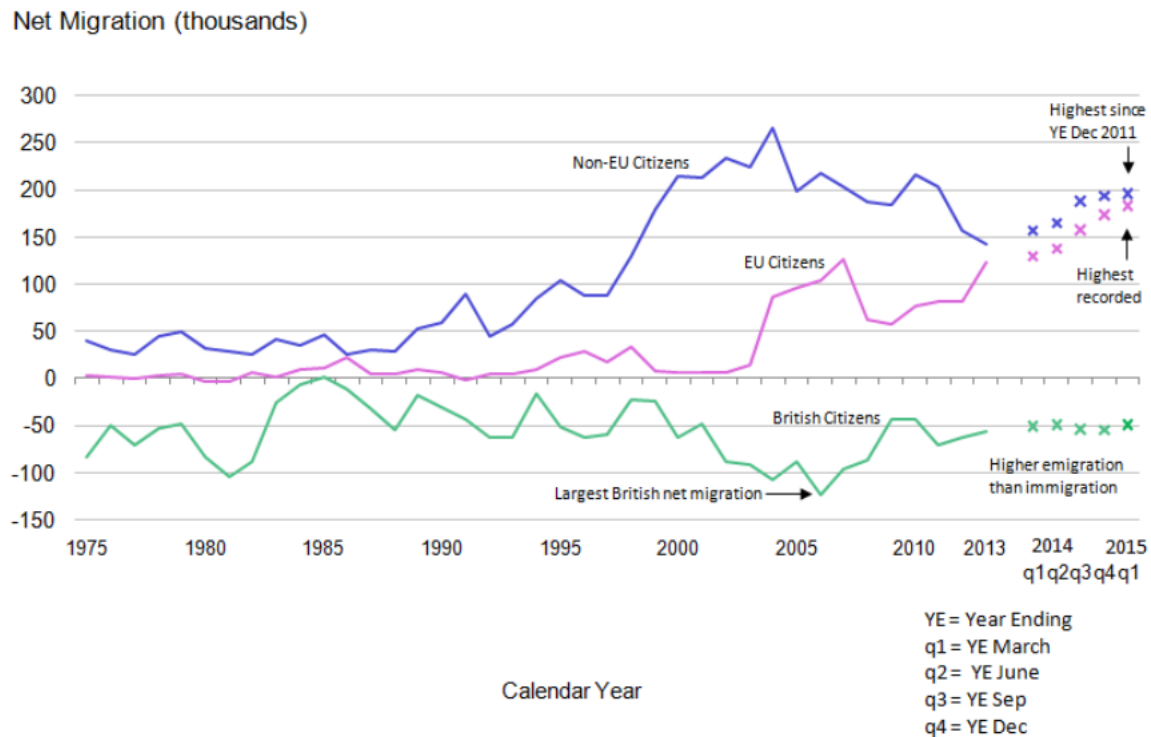
It is important to recognise that net migration does not by itself indicate the full extent of population change. It is only a part of the picture. If immigration and emigration are roughly equal, net migration will be low irrespective of how many people arrive and leave.

In 2014, 636,000 people (+84,000 compared to 2013) came to live in the United Kingdom, while 307,000 (-9,000) people left the country. As such, the level of net immigration in 2014 was 329,000 (+ 94,000). This is the highest level of net immigration ever recorded in the United Kingdom.



How many immigrants come from other European Union countries?

Table 7. Evolution of net migration by citizenship in the United Kingdom, 1975-2015



Source: Long-term International Migration, Office for National Statistics

- *Most immigrants come from non-EU countries;*
- *The level of EU immigration has been on the rise since 2012 and now the numbers from EU and non-EU countries are nearly equal*

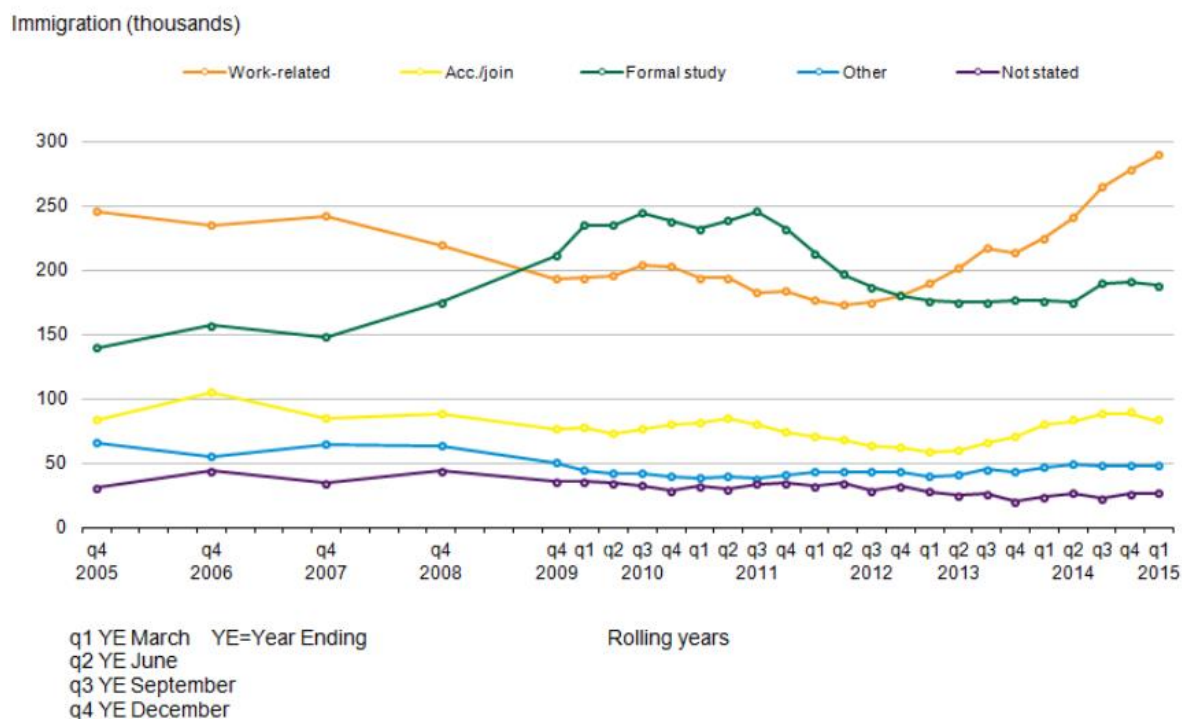
In 2013, 14% of people migrating to the UK were British nationals, 38% were nationals of other EU countries, and 47% were nationals of non-EU countries.

Net migration of EU citizens was 183,000 in 2014 (+53,000 compared to 2013), the highest level ever recorded. Non-EU net migration has also increased to 196,000 in 2014 (+39,000), but remains lower than in 2004, when it reached more than 250,000. Since 1975, there have been more British nationals leaving the United Kingdom than entering it.



Why do people migrate to the United Kingdom?

Table 8. Long-Term International Migration estimates of immigration to the UK, by main reason for migration



Source: Long-term International Migration, Office for National Statistics

- *The main reason for immigration is to work in the UK*
- *The next most important reason is to study*

Since 2012, work has been the main reason for migrants to come and live in the United Kingdom. Study was the most common main reason for immigration during the period 2009-12, and the reduction in the number of people migrating to the UK to study since then reflects a reduction in the number of student visas issued to students from outside the European Economic Area³ and Switzerland.

Of those whose main reason for migration was work-related, the majority (59%) were EU citizens; whereas of those whose main reason for migration was study, the majority (72%) were non-EU citizens. Changes in flows of people migrating for these reasons are affected by the differing rights of EU and non-EU citizens to migrate to the UK and by the impact of government policy.

³ Countries from the European Economic Area include all European Union member states, as well as Norway, Iceland and Liechtenstein.



Can immigrants claim benefits?

The rules are complicated. Most non-EU nationals who are subject to immigration control are not allowed access to “public funds” (such as jobseekers’ allowance or tax credits), although they can use public services like the NHS and education.

EU citizens who are working have similar access to the benefits as UK citizens. For jobseekers or people not working, the rules for determining eligibility can be complex and vary depending on the type of benefit in question.

The government has introduced various restrictions on European Economic Area (EEA) citizens’ access to benefits. Their impacts on total welfare spending are hard to quantify but are not likely to be large.

Foreign born people are less likely to be receiving key Department for Work and Pensions (DWP) out-of-work benefits than the UK born, but more likely to be receiving tax credits.

It is unclear whether current or proposed welfare restrictions would reduce future immigration.

Do foreigners use the NHS?

‘Deliberate’ use of the NHS —use by those who come here specifically to receive free treatment or who come for other reasons but take advantage of the system when they’re here— is hard to quantify. It is thought to be very roughly between £110 million and £280 million a year.

‘Normal’ use of the NHS —by foreign visitors who have ended up being treated while in England— is estimated to cost about £1.8 billion a year.

The majority of these costs aren’t currently charged for. Only about £500 million is thought to be recoverable or chargeable at the moment.

The cost of the NHS is about £138 billion, so use by foreigners accounts for about one and a half per cent of NHS spending. British people use health services in other countries some of which is free.



Is immigration likely to increase in the future?

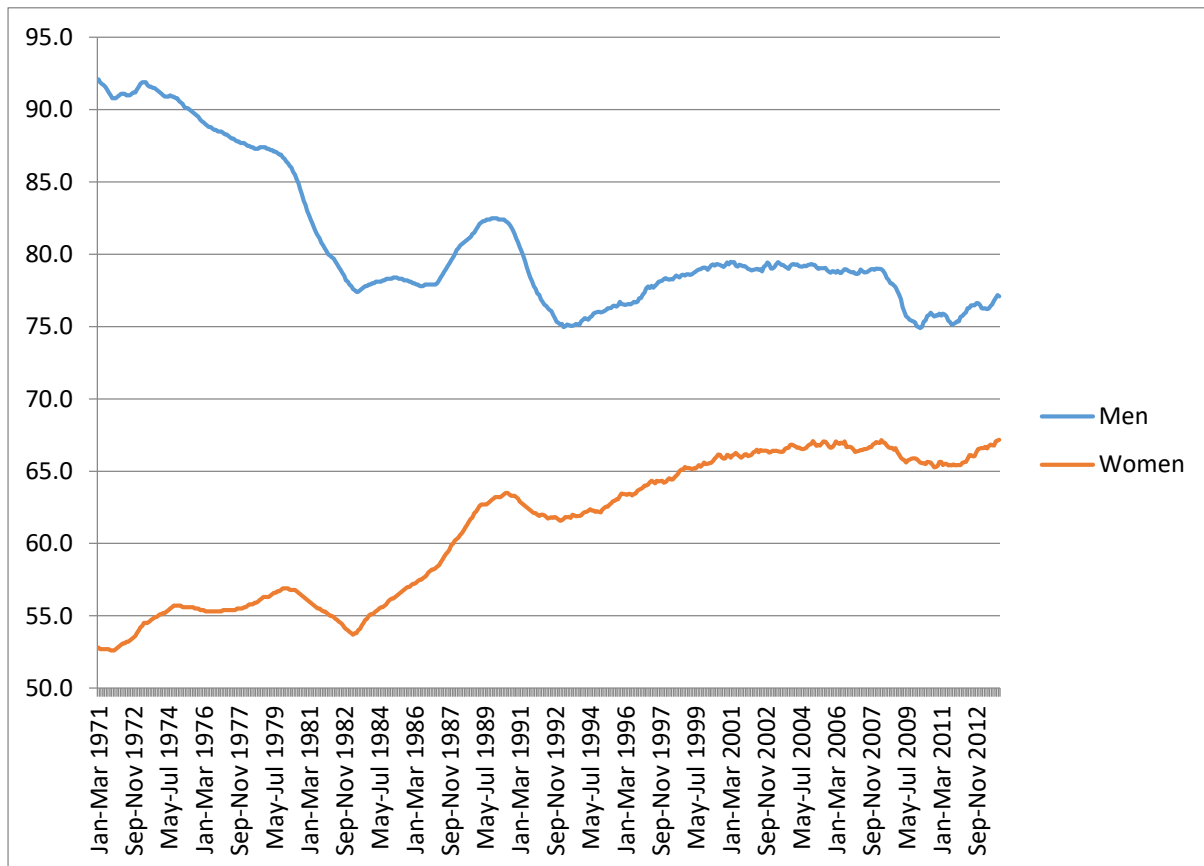
It is difficult to predict how migration flows are going to evolve in the future, as there are many factors that can influence this including government policies, geopolitical changes and job creation/opportunities. Recent attempts to predict the evolution of net migration in the United Kingdom did not reflect the current reality. For instance, the Office for National Statistics predicted higher levels of emigration and lower levels of immigration in the United Kingdom.



3. Gender

Is there a big difference between the proportion of men and women in employment?

Table 9. Women's labour market participation rate vs men. 1971-2012



Source: ONS 2014

The percentage of women in employment rose from 55 to about 65 per cent between 1982 and 1998. Since then it has remained at roughly the same level.

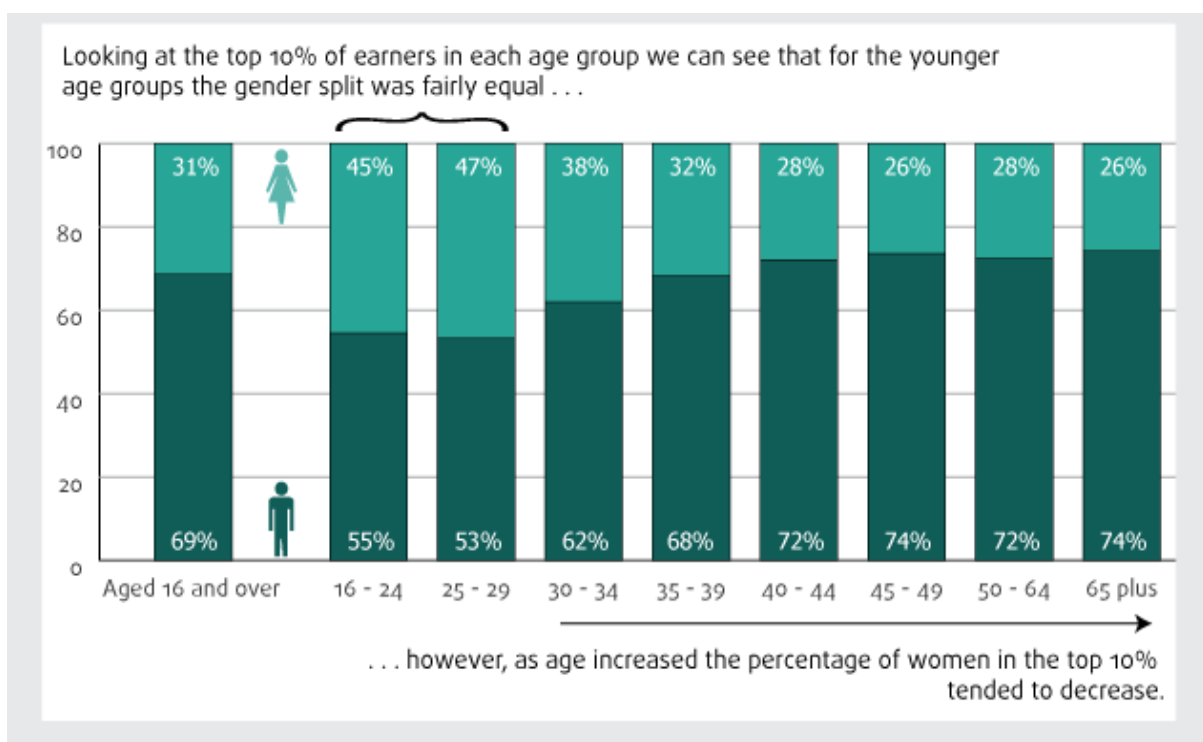
The proportion of men working fell from about 90 per cent in the mid-1970s to about 75 per cent by 1993 and has varied between 75 and 80 per cent ever since. Men's and women's involvement in paid work are now much closer than they were 35 years ago.



Do men and women earn similar salaries?

- *On average, women earn 19.1% less than men;*
- *The situation has improved in recent years: in 1997, women earned 27.5% less than men;*
- *This difference in pay is greater among workers who are 40 or older.*

Table 10. Proportion of women among high earners in the United Kingdom



The percentage of men and women in the top 10% of earners by age band, April 2012, UK.

Source: Office for National Statistics

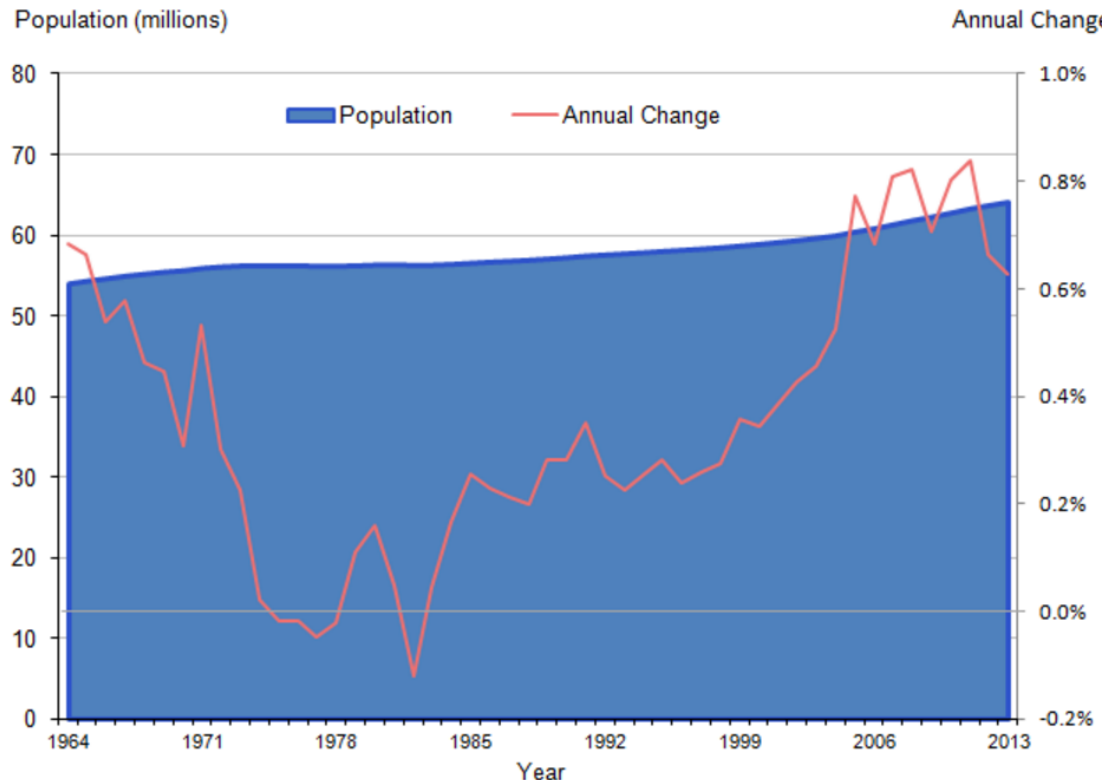
The proportion of the population earning the most in the United Kingdom is made up roughly one third women and two thirds men. To put it another way, men workers are roughly twice as likely as women workers to fall into this group. However, among those under 30 there are roughly equal proportions of men and women. In older age groups men outnumber women among high earners. Men make up about three quarters of high earners among those over 40.



4. Intergenerational issues

What is the trend in terms of population growth in the United Kingdom?

Table 11. Population growth in the United Kingdom, 1964-2013



Source: Office for National Statistics

- *The current population in the UK is around 64.9 million, and predicted to rise to 74.2 million in 2040, according to the Office for National Statistics;*
- *Between 1964 and 2001, population growth was mostly related to the number of births;*
- *Since 2001, migration has been an important factor in explaining population growth.*

Since 1964 the population of the UK has grown by over 10 million people (18.7%). About half of this growth has occurred since 2001.

Over the earlier part of this period population change was driven mainly by variation in the number of births. Population grew throughout the 1960s up until the early 1970s mainly as a result of the 1960s baby boom; while over the rest



of the 1970s growth was much slower, reflecting falling fertility. When the very large birth cohort of 1960s ‘baby boomers’ began to have children births increased again. As a result the population grew in the 1980s, but births declined again through the 1990s.

Since 2001 there have been high levels of net inward migration, adding to the population at younger working ages. In part this was driven by the expansion of the European Union in 2004 and 2007. This period has also seen an increasing number of births, driven by both the immigration of women of childbearing age (15-44) and rising fertility among UK-born women.

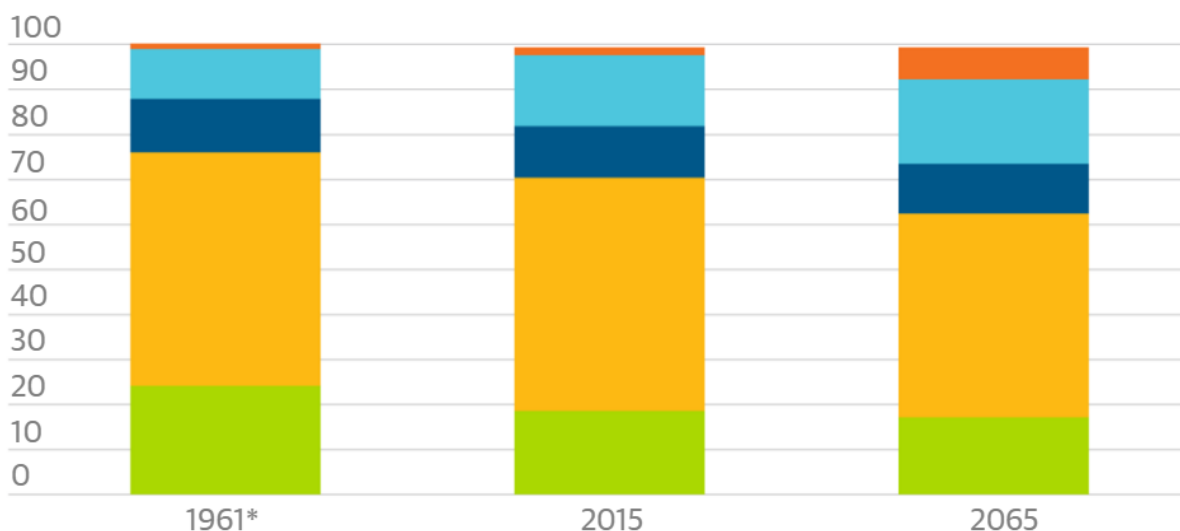
Is the UK population getting older?

According to the Office for Budget Responsibility, by 2065, 26% of the population of England and Wales would be more than 65 years old, up from 18% today, increasing the cost of pensions, health and social care.

Table 12. Age of the UK population, 1961, 2015 and predictions for 2065

Percentage of UK population

85+ | 65 - 84 | 55 - 64 | 16 - 54 | 0 - 15



Source: Office for National Statistics and The Guardian

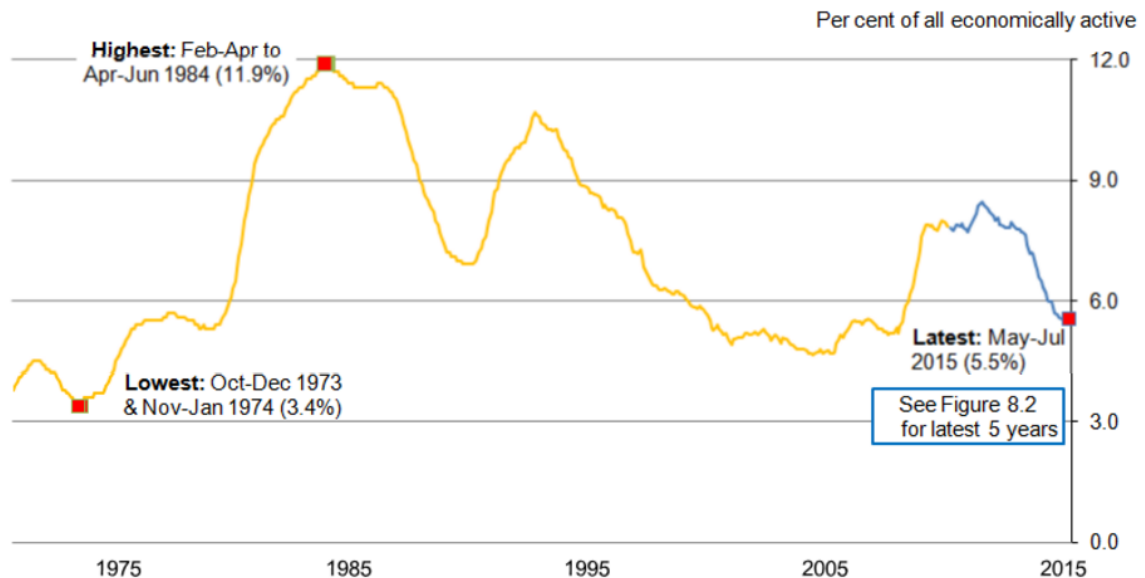


5. Labour Market

What is the current unemployment rate in the United Kingdom?

Table 13. Unemployment rate in the United Kingdom, 1971 to July 2015

January to March 1971 to May to July 2015



Source: Labour Force Survey - Office for National Statistics

- *The unemployment rate reached an all-time high in April-June 1984 (11.9 per cent);*
- *Since January 2013, the unemployment rate has decreased to reach 5.5 per cent of the population*

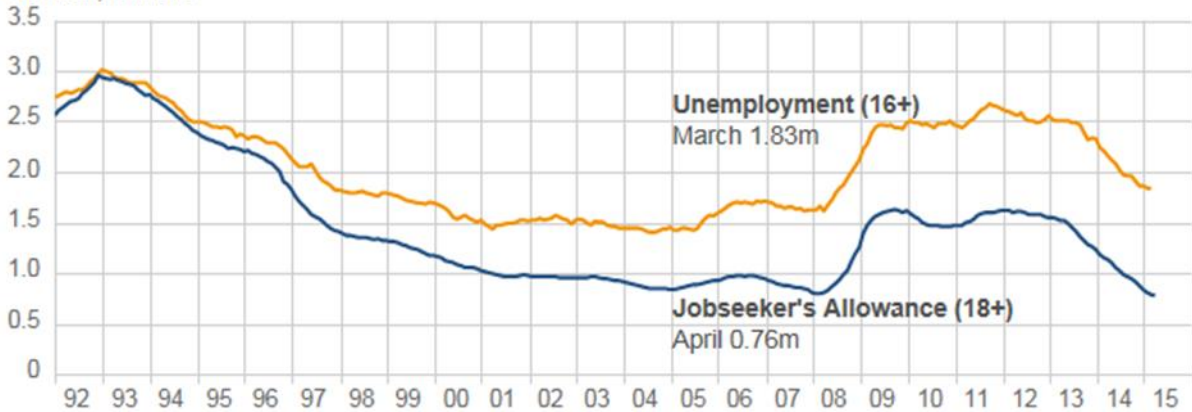


How many people receive unemployment benefits?

Table 14.

Unemployment and Jobseeker's Allowance in the UK 1992-2015

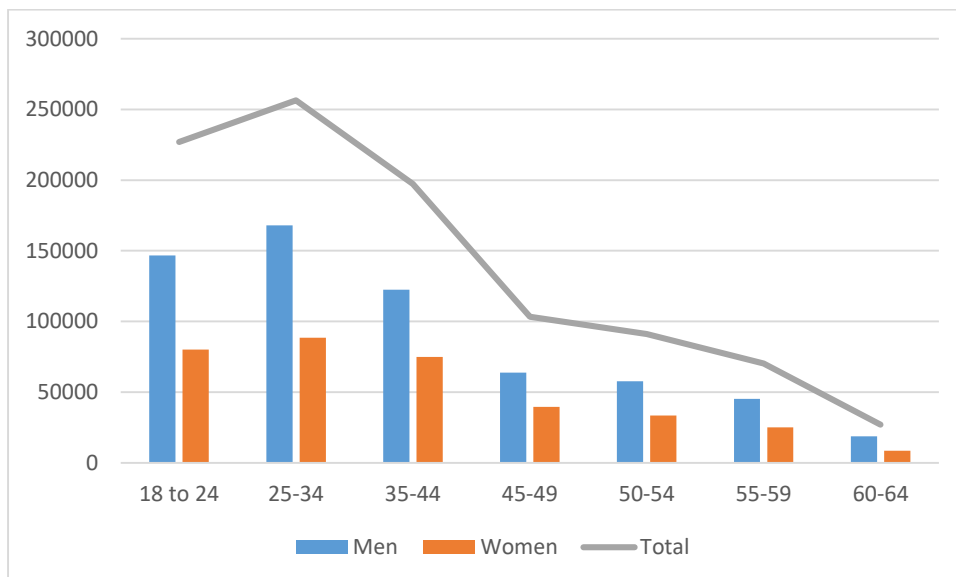
Number, millions



Source: ONS

- *The number of jobseekers' allowance claims is now less than half the total of unemployed people*

Table 15. Job Seeker's Allowance claimant count by age and gender in 2014



Source: Claimant Count, Office for National Statistics

In May 2014 there were 970,000 people claiming Job Seeker's Allowance in the UK, up from 765,000 in 2004. The number of claimants increased across most age groups, and especially so for women.



There were 256,000 JSA claimants aged 25 to 34 in 2014, much higher than any other age group.

Overall women made up 36% of all JSA claims in 2014 up 9 percentage points since 2004. Although most JSA claimants continue to be men, the growth rate in claims by women has been greater. For some age groups the number of women claiming JSA more than doubled between 2004 and 2014.



6. Other issues

What is the Government budget and what is the welfare bill in the United Kingdom?

The government spends about 40 per cent (two-fifths) of the total British GDP every year. The welfare accounts for more than half of that spending.

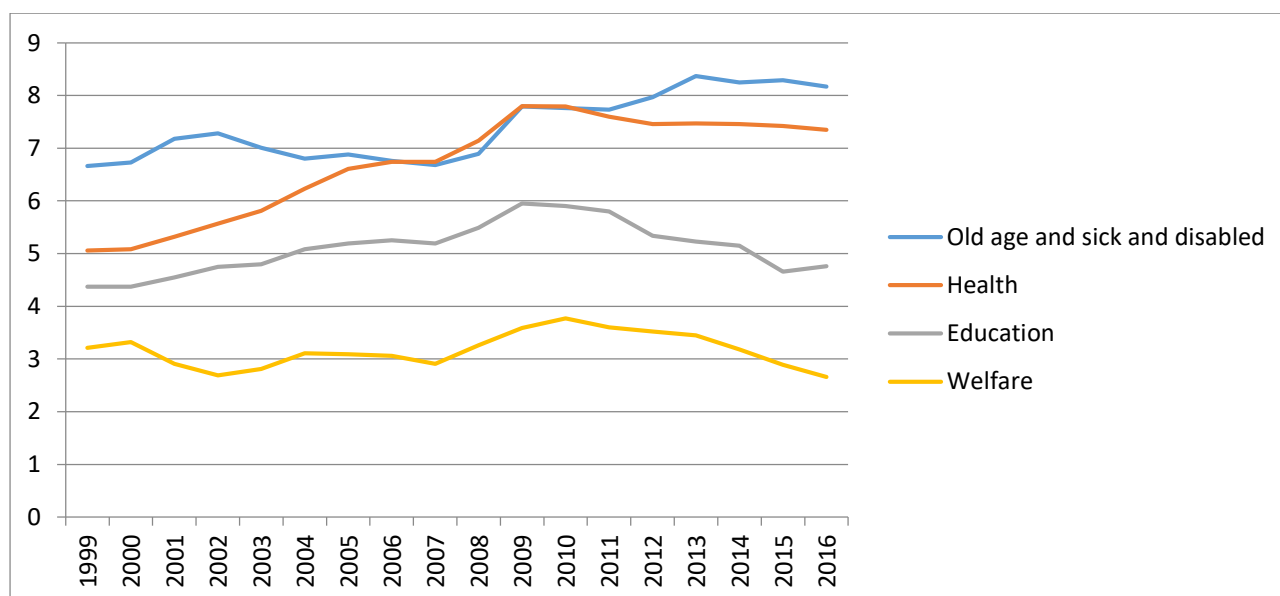
Pension and sick and disabled benefits are the biggest single area, now about 8 per cent of GDP. Pension spending has gone up as the number of pensioners increases and as the level of pensions rises.

The next biggest area is the NHS – nearly as much as pensions. NHS spending also goes up every year as the numbers of older people (who are much more likely to need treatment) goes up and as new expensive drugs and treatments become available.

Education accounts for rather less – about 4 or 5 per cent of GDP. Education spending has been cut back since 2010.

Welfare (child benefit and all the means-tested benefits for people of working age) accounts for two or three per cent of all spending. It is now falling.

Table 16. Spending on the main areas of the welfare state 1999-2016 as % GDP



Now we take a closer look at benefits – old age pensions, benefits for sick and disabled people, child benefit and the means-tested benefits such as housing benefit, tax credit and job seekers' allowance.



Pensions account for much more spending than all the other areas, over twice as much as sickness and disability. Unemployed benefit and housing benefit are less than one per cent of GDP.

Family and children's benefits were over two per cent in 1999, but have now fallen to one per cent.

Table 17. Spending on remaining areas of the welfare state 1999-2016 as % GDP

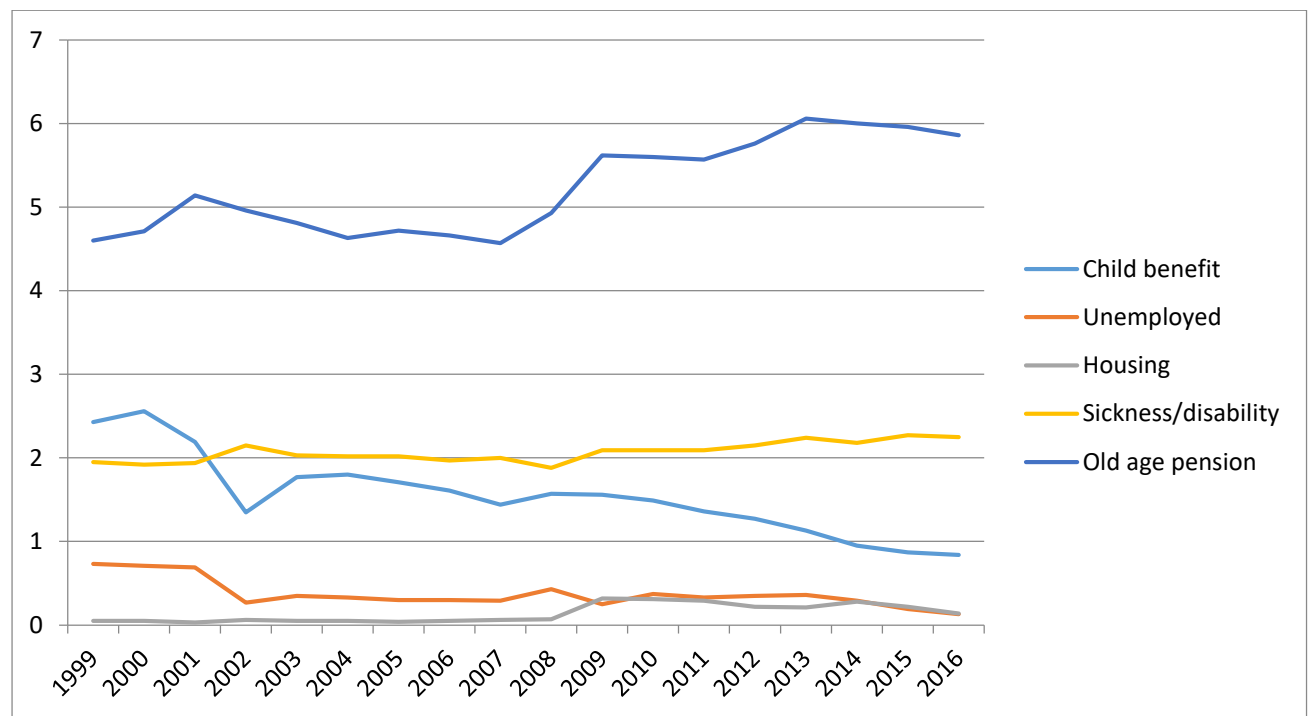


Table 18 gives long-term future projections of welfare spending in the United Kingdom. It is estimated that old age pensions will cost more (due to an ageing population), while spending on other areas of the welfare state will remain at the current level or slightly decrease over time.



Table 18. Long-term projections of welfare spending

	Per cent of GDP						
	2014-15	2019-20	2024-25	2034-35	2044-45	2054-55	2064-65
State pensions ¹	5.5	5.1	5.4	6.2	6.8	7.0	7.3
Housing benefit	1.4	1.2	1.2	1.1	1.2	1.1	1.1
Personal tax credits	1.7	1.5	1.5	1.5	1.4	1.4	1.4
Disability benefits ²	1.2	1.0	1.0	1.0	1.1	1.1	1.1
Incapacity benefits ³	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Income support	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Unemployment benefits ⁴	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Child benefit	0.7	0.5	0.6	0.5	0.5	0.5	0.5
Other welfare benefits	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Total welfare spending	12.1	10.6	10.9	11.8	12.4	12.7	12.8

¹ Basic state pension, state earnings related pension scheme, state second pension, single-tier pension, other elements of state pension, pension credit and other pensioner benefits.

² Disability living allowance, personal independence payments and attendance allowance.

³ Incapacity benefit, employment and support allowance, severe disablement allowance and income support (incapacity part).

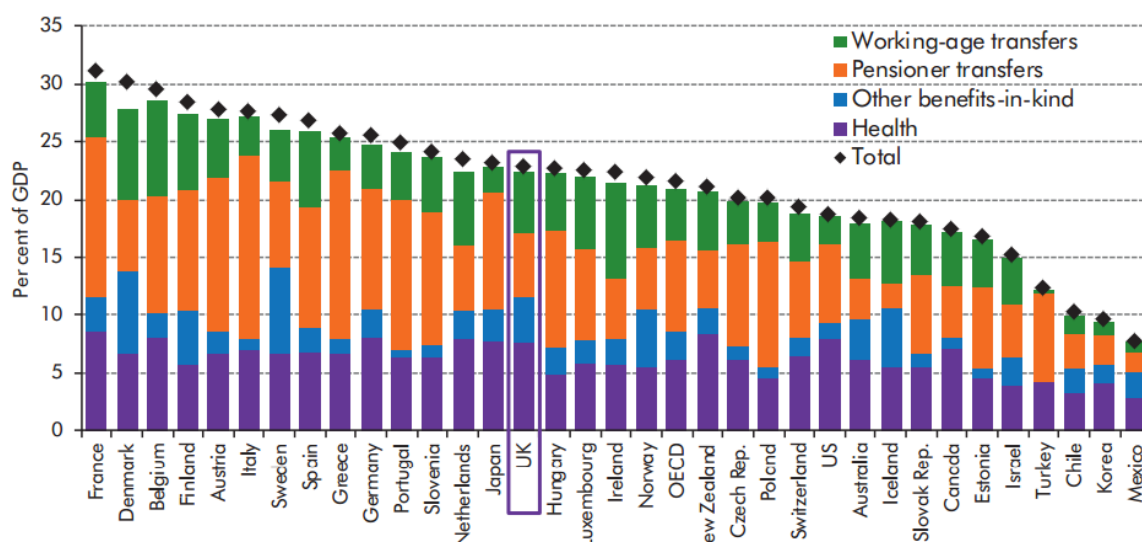
⁴ Jobseeker's allowance.

Note: Figures for 2014-15 and 2019-20 presented on a UK-basis, consistent with our 2015 *Fiscal sustainability report* projections.

Source: Office for Budget Responsibility

Finally, as shown in Table 19, the current level of welfare spending in the UK is lower than in many European countries (such as France, Germany, Sweden and Denmark) but higher than the average and countries such as Norway, Czech Republic and Ireland.

Table 19. Estimated public expenditure on welfare/social protection



Note: The total is greater than the components shown because spending on active labour market policies is not allocated to any of the individual areas. Australia, Canada, Chile, Israel, Korea, New Zealand and the US refer to 2012 data, otherwise they refer to 2011.

Source: OECD

Source: Office for budget responsibility

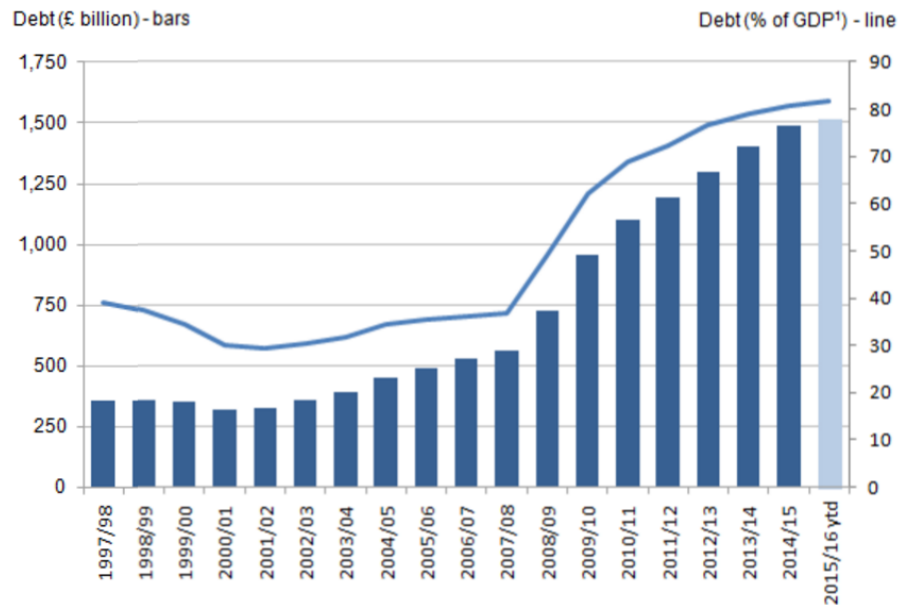


What is the current level of the UK public debt?

Table 20. Evolution of the UK public debt, 1997/1998 to 2015/2016

Public sector debt increased rapidly following the banking crisis in the financial year ending March 2008

UK public sector debt, March 1998 to June 2015



Source: Office for National Statistics

- *Public debt increased when spending went up and tax receipts fell after the 2007-8 financial crisis. It has now stabilised.*
- *The pattern is similar to that in most comparable countries.*