KNOWLEDGE ORGANISER LIBF Unit 3 Topic 2 – How the state can help?

What is state welfare?

The state provision of a package of health care and education, low-cost social housing, and a comprehensive system of contributory and non-contributory pensions and social security benefits. The establishment of the National Health Service (NHS) was perhaps the most radical change, meaning that people no longer had to pay for medical treatment when they needed it: as taxpayers, they had already paid for it

The Advent of State Welfare

The Poor Law Act of 1601 established the principle that money raised through taxation should be used to provide food and clothing to the 'deserving' poor, ie those who were sick, disabled or elderly. State welfare provision developed further with the introduction of the Old-Age Pensions Act 1908 and the National Insurance Act 1911. The 1908 Act introduced a national state pension – paid for out of general taxation – which was paid to those over the age of 70 who were 'of good character', had lived in the UK for at least 20 years and had worked throughout their lives. The principle of contributing towards the cost of welfare benefits was later extended to state pensions under the Pensions Act 1925; the whole system was then radically reformed after the Second World War (1939–45) by the Labour government. In 1948, two new pieces of legislation – the National Insurance Act and the National Assistance Act – brought in what became known as the 'welfare state', which was based on a promise that the state would take care of people 'from the cradle to the grave'.

Who is the benefit system designed for?

The system of benefits payable to people who are temporarily or permanently in need of financial help is designed to be a financial 'safety net' to help those who:

◆ have unexpectedly lost their main source of income; or

◆ have a low level of income, eg from a minimum wage or part-time job; or

◆ are not able to earn an income at all.

People typically find themselves in these situations because they have been made redundant.

Contributory Benefits

Contributory benefits are paid to eligible claimants provided that they have paid the required number of National Insurance contributions (NICs). Employers automatically deduct NICs (and income tax) from employees' salaries, but self-employed workers have to make arrangements to pay their own NICs.

Non-Contributory Benefits

Non-contributory benefits are paid to those eligible claimants who either have not paid enough NICs to claim contributory benefits or who need a 'top-up' payment because the contributory benefits that they receive do not meet their income needs.

Contributions-based JSA

If you were employed (not self-employed) for the two tax years (6 April – 5 April) before you claim and you paid NICs throughout that period, you might be entitled to claim contributions-based JSA if you are out of work.
however, only if you are:

◆ aged between 18 and retirement age;

◆ not a full-time student;

◆ work on average less than 16 hours a week;

◆ able to work and fully available for work;

◆ able to demonstrate that you are actively seeking work;

◆ willing and able to attend a JSA interview every two weeks (or when asked) to
show what you have been doing to find work.

Income-based JSA

Income-based JSA is available to unemployed people who have not paid the required amount of NICs. The main differences between this and contribution based JSA are that:

◆ while contributions-based JSA is paid only for six months, income-based JSA is not subject to a time limit;

◆ to be eligible for income-based JSA, you (and your partner, if you have one) must have less than £16,000 in savings; and

◆ your partner (if you have one) should be working less than 24 hours a week (on average).

Income-based JSA is also means-tested, which means that the amount of benefit you receive may be reduced if your household income is above a certain level or if you have more than £16,000 in savings. The benefit can also be claimed by those who were previously self-employed if they can show that the business is no longer trading.

Statutory Sick Pay (SSP)

f you are employed, your employer has to pay you at least SSP if you have been off sick for four or more days. The benefit is a fixed weekly amount that is paid for a maximum of 28 weeks (although many employers build much more generous sick pay arrangements into their contracts of employment, such as six months' full pay, followed by six months' half pay). If you are self-employed or not working at all, you cannot claim SSP.

Employment Support Allowance

If you have been getting SSP for the maximum 28 weeks or if you are self employed, you may be eligible to claim ESA in the event that illness or disability prevents you from working. Like JSA, ESA is either contributions-based (for those who paid sufficient NICs) or income-based. It is paid at a standard weekly benefit for the first 13 weeks for all claimants aged 25 or over and at a lower rate for those under the age of 25. After 13 weeks, claimants are assessed and allocated to one of two categories.

◆ The work-related activity group includes those whose illness or disability is not considered too severe to prevent them from returning to work (although the work may not be the same work as that which they did before they became ill). These claimants have to attend regular meetings with advisers, who offer help and advice, and who arrange work-related activities. The benefit can be temporarily reduced (known as 'sanctioned') if a claimant fails to attend a meeting with an adviser. Claimants are allowed to work part-time (for no more than 16 hours per week) and yet still claim, provided that their earnings are below a weekly limit.

◆ The support group includes those whose illness or disability seriously limits the work that they can do. They are not required to attend adviser interviews, but can talk to an adviser if they need to. Claimants in this group are also allowed to work for up to 16 hours a week, but doing only 'supported permitted work', supervised by someone from the local council or one of the voluntary organisations that arrange work for people with disabilities.

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Personal Independence Payments

It is payable to those aged between 16 and 64 who have a long-term illness or disability that means they are unable to perform basic daily living activities or have limited mobility. Anyone over the age of 65 who is in a similar situation can claim Attendance Allowance instead. This benefit replaced Disability Living Allowance (DLA) from April 2013 for those aged 16–64.

Housing Benefit

If they pay rent, they may be eligible for Housing Benefit, but single people under the age of 35 will be able to claim Housing Benefit only if they live in a 'bedsit' or a single room within a house or flat that they share with other people.

Housing Benefit will often cover the full monthly rent, but it can be reduced if:

- ◆ you are paying an 'unreasonably' high rent to a private landlord; or
- ◆ you are in social housing (ie housing supplied by a council or housing association) and are assessed as having more bedrooms than you need; or
- ◆ your household income is above a certain threshold; or
- ◆ you have savings of more than £6,000.

Other factors that may affect how much Housing Benefit you receive include your age, the number and ages of any children that you may have, and whether any family members are disabled.

Claimants may receive no Housing Benefit if their savings are over £16,000.

As Housing Benefit is being replaced by Universal Credit, from 15 May 2019 couples who are new applicants are only eligible for Housing Benefit if they have both reached state pension age, or if one of them has reached state pension age and started claiming Housing Benefit before 15 May 2019.

Support for Mortgage Interest

Someone making a claim for certain qualifying benefits, and who needs help with interest payments on their mortgage or loans taken out to make certain repairs and improvements to their home, may also be able to claim SMI. The benefit will cover only the interest due on the mortgage (calculated at a standard rate) and not any capital repayment (ie repayment of the amount originally borrowed), insurance policy payments or mortgage arrears (ie missed payments). The benefit is subject to a time limit.

Additional Benefits

Those eligible for JSA, ESA and / or Housing Benefit may also be able to claim a variety of additional benefits and discounts, such as Council Tax Reduction and Cold Weather Payments (an extra payment of £25 a week paid to people already receiving benefits when the temperature in the local area drops to an average of 0°C or below over seven consecutive days).

Income Support

For someone who is not working or who is working less than 16 hours per week – because they are pregnant, because they are a full-time carer or because they are a single parent with a child under the age of 5 – and who is not eligible to receive JSA or ESA, there is a final catch-all 'safety net' called Income Support. Income Support provides a weekly cash benefit, the amount of which varies depending on the claimant's age and circumstances, including their income and whether or not they have savings of more than £5,999.

Help for those in retirement

Basic state pension is a non-means-tested (ie not income-related) contributory benefit paid to everyone who has reached state pension age and who has paid (or has been credited with) sufficient NICs. People who reach state retirement on or after 6 April 2016 receive the new state pension. This scheme requires people to have 10 qualifying years of NIC contributions or credits to get any state pension, and 35 qualifying years to get the full new state pension.

Help for those who work full-time

Working Tax Credit and Child Tax Credit (which can include an amount to help with childcare) can be claimed by eligible low-paid workers and each provides an additional income designed to top up wages to an amount that ensures that claimants are better off working than being unemployed and claiming other benefits. Couples make joint applications for these credits. The partner who works the most hours each week normally receives the Working Tax Credit payment, but the Child Tax Credit is paid to the one who spends the most time caring for the child (known as the 'main carer').

Statutory Maternity Pay (SMP) and Statutory Paternity Pay (SPP)

SMP works in a similar way to SSP: if a woman is employed (full-time or part time), her employer must pay SMP (up to 90 per cent of her average weekly earnings for the first six weeks) for up to 39 weeks so that she can take maternity leave to look after the baby.

Child Benefit

This is a flat-rate cash benefit paid to all families or single parents with dependent children. Like SMP and SPP, it is generally not means-tested, so everyone receives the same amount regardless of how much they earn or how wealthy they are. There is, however, an additional tax charge (the High Income Child Benefit Charge) that any individual earning over £50,000 a year will have to pay if they or their partner receives Child Benefit. The amount of Child Benefit payable is higher for the first child than for subsequent children.

Help for those in exceptional circumstances

From the late 1980s until April 2013, a government-funded Social Fund provided additional grants and interest-free loans to claimants in 'exceptional circumstances'. Community Care Grants, Crisis Loans and Budgeting Loans were available as one-off assistance in emergency situations. The Welfare Reform Act 2012 largely abolished the Social Fund, although the government has since given some money to local councils with the intention that they will use it to provide their own grants, loans and practical assistance to people who would have been eligible for a Community Care Grant or Crisis Loan. It has been left to the discretion of each local council, however, to decide how to use this money in its own local area. Budgeting Loans are also being replaced by a provision in the new Universal Credit that allows claimants to get an advance benefit payment that they can use to cover the costs of occasional 'big ticket' items, such as furniture or kitchen appliances.

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Benefits Cap

Since April 2013, benefit claimants aged 16–64 (ie those of working age) have been subject to a payment 'cap' (ie a maximum limit) on the total amount of income that they can receive from benefits. At the time of writing (early 2019), that cap is £257 per week for a single person with no children and £384 per week for a couple or a lone parent (regardless of the number of children in the household). Any household previously receiving benefits higher than that cap saw their benefits reduced. The cap is higher for claimants who live in London.

Spare Room Subsidy

Since 1 April 2013, households entitled to Housing Benefit have seen their benefit cut if they are renting council-owned or housing association properties that are larger than they need. The rules allow a property to have one bedroom for each adult or couple. Up to two children under the age of 10 must share a bedroom, and the same applies to same-sex children aged between 10 and 16.

Universal Credit

Benefits to be replaced by Universal Credit:

- Income Support
- Housing Benefit
- Income Based JSA
- Child Tax Credit
- Working Tax Credit
- Income Related ESA

The term 'universal benefit' has traditionally been used to describe a flat-rate benefit paid to all those who met the eligibility requirements, regardless of their income. The new Universal Credit, however, will be means-tested (ie income-related).

Sources of financial advice:

Money Advice Service

In the wake of the 2007–08 financial crisis, politicians from all parties agreed that there was an urgent need to improve the general public's knowledge and understanding of personal finance. It was felt that, when it came to handling their finances and making the best use of appropriate financial products, too many people were 'financially illiterate' (ie knew very little about personal budgeting, about the range of financial products and services available to them, or about how to avoid getting into unmanageable debt), which led them to make the wrong financial decisions and choices. The Financial Services Act 2010 introduced measures designed to improve financial literacy. The Act required the Financial Services Authority (FSA) to promote consumer financial education; the FSA consequently established the Consumer Financial Education Body (CFEB) to fulfil this role. In 2011, the CFEB was renamed the Money Advice Service (MAS) and is now funded by a special levy (tax) on financial service companies.

Citizens Advice

The government part-funds two national debt and money advice charities, the first of which is Citizens Advice.
The first local Citizens Advice Bureaux (CAB) were set up in 1939, a few days after the outbreak of the Second World War, in accordance with a pre-war plan to enable volunteers (eg bank or building society branch managers) to offer free, impartial financial advice to people whose financial situation had been seriously disrupted by the war.

Money Advice Trust

The second money advice charity that the government part-funds, alongside a large number of financial services providers, is the Money Advice Trust (MAT). The Money Advice Trust helps people across the UK to tackle their debts and manage their money with confidence. Since 2000, the Trust has been responsible for operating the National Debtline, an online and telephone advice service that helps people to sort out their debt problems. Online at www.nationaldebtline.co.uk, National Debtline offers financial information and debt management advice, which can sometimes be all that someone needs to solve their problems themselves. In partnership with Barclaycard, the Trust has also developed an interactive website, which offers free, personalised debt management advice to help individuals to deal with their debt problems.

Local council debt counselling services

It is not only the national government that funds money and debt advice services; many local authorities (county councils, district and borough councils, city councils) also provide their own local services. Birmingham City Council, for example, has a Debt Advice Team: experienced debt advisers, who are available to meet face to face to discuss residents' financial problems and give them advice on how to maximise their income (ie earnings from employment and / or eligible benefits), help them to draw up a realistic budget and cash-flow forecasts, and help them to prepare a debt management plan and get the plan agreed with creditors.

StepChange

StepChange is a national charity offering free debt advice. It started life as the Consumer Credit Counselling Service in 1993, but changed its name to StepChange Debt Charity in 2012. Unlike Citizens Advice and the MAT, StepChange does not receive any government funding, relying instead on contributions from the banks and building societies.
StepChange offers a personal debt advice and debt management service, both online and by telephone, which is very similar to the help provided by the National Debtline. Talking to advisers by phone or using the interactive 'Debt Remedy' facility on its website will help you to draw up a debt management plan and establish an agreed payment schedule with your creditors (who will then, in most cases, stop charging interest, missed payment fees, etc).

Payplan

Payplan is a free, online debt management service that operates in a similar way to National Debtline and StepChange. It is not a charity, but, rather than charging clients a fee for managing their debts, it receives donations from all of the lenders with which it arranges debt management plans.

Money Charity

Another national charity, the Money Charity offers educational personal finance information, advice and guidance online. It also offers a range of publications and training workshops. It does not, however, arrange individual debt management programmes.

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Provider Debt Advice

As well as helping to fund the MAS, Citizens Advice and the MAT, many banks and building societies have now set up their own advice services specifically aimed at helping customers who have debt problems. Barclays, Nationwide, Bank of Scotland and Lloyds Bank, for example, all have sections on their websites that provide information and advice to people whose debts are getting out of hand. Each features step-by-step guidance on how to manage debts and includes links to the free debt management services.
Making a variety of money and debt advice services available to their customers across the country is not, of course, something that financial providers offer entirely unselfishly. Borrowers who default on their loans or mortgages are a costly problem for lenders, because these borrowers may never repay the money that they owe. Making sure that customers have access to advice that will guide them towards ways in which they can repay most, if not all, of the money that they have borrowed means not only that the provider will not be wholly out of pocket, but also that it can avoid the time-consuming and expensive process of pursuing defaulters through the court system.

Corporate Social Responsibility

In recent years, the public has come to expect all businesses to demonstrate a social conscience – ie to avoid behaving unethically and to care as much about providing high-quality services to their customers as they do about maximising profits for the benefit of their shareholders. Most providers therefore now publish a detailed corporate social responsibility (CSR) report each year.

Corporate Social Responsibility – continued

And these will include information on the donations that the business has made to debt and money advice charities, as well as how it is directly helping customers who get into financial difficulties.
Lloyds Banking Group, for example, has webpages dedicated to corporate responsibility which include pages of articles detailing how the Group helps its customers, businesses and communities.

Key ideas in this topic

◆ The history of welfare benefits in the UK
◆ The need for state welfare provision to support those in need
◆ The range of help available under the benefits system in the UK to those out of work or unable to work full-time, those in retirement, those who work fulltime, families and those in 'exceptional circumstances'
◆ Sources of financial advice available from government-funded and other providers to help those on low incomes and others to plan their finances to avoid getting into debt problems
◆ Sources of help available from government-funded and other providers to help those in financial difficulty to arrange debt management plans and other solutions to debt problems