



## SOCIAL & GENERAL STATISTICS SECTION

### 1999 Benefit Up-rating

Last Updated 26 January 1999

[sgs/note/1999-Up-rating]

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#### Introduction

The up-rating of social security benefits from April 1999 is based on inflation in the year to September 1998. This means that most National Insurance benefits are to be up-rated by 3.2% (the increase in the RPI) and means tested benefits by 2.1% (the increase in the “Rossi” index – the RPI less certain housing costs).<sup>1</sup>

#### Policy changes

Some benefits are being up-rated by more than the up-rating factors as a result of policy changes. These are:

- Child Benefit for the first child – the up-rating incorporates an additional £2.50 for the first child. The post-up-rating rate will result in an increase of £2.95 pw as result of adding £2.50 to the old rate and then up-rating by 3.2% (a 26% rise) (the family premium for Income Support incorporates the additional £2.50 but because of the lower up-rating factor for means tested benefits is being increased by £2.85 pw). While poor families benefit fully from the £2.50 pw they are losing out to the extent of the difference in the two up-ratings, equivalent to 10p per week.
- In addition there has been a £2.50 pw increase incorporated in the IS allowance and other means-tested benefits for children aged under 11 in families. (This was announced last June and paid from November 1998).<sup>2</sup> [Many of the papers from the DSS compare the April 1998 and 1999 rates, and the £2.50 increase appears in the second but not obviously the first. It is not, however, part of the April 1999 up-rating]
- Pensioner Income Support premiums are being increased by more than the up-rating factors. The couple rate of Income Support (aged 60-74) will increase by £7.25 (6.6%) to implement the Government’s minimum income guarantee for pensioners.

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<sup>1</sup> In practice, because of rounding, the rates of some individual benefits will not change by exactly these factors.

<sup>2</sup> HC Deb 24 June 98 c552W

## Benefits not being changed

A number of benefits are not being uprated, but will retain their cash value. These include:

- Child benefit for the first child of lone parents (applicable to “pre-July 1998” lone parents only). This has effectively been frozen in cash terms since April 1996. Since April 1997, the former One Parent Benefit/Child Benefit increase was subsumed into mainstream Child Benefit for the eldest qualifying child of a lone parent. The freezing of the overall Child Benefit package for this group will eventually result in Child Benefit for all claimants overtaking the value for “pre-July 1998” lone parents.
- Capital limits for means tested benefits remain unchanged. Many have done so since 1988. (Prices have gone up by around 50% since 1988)
- Earnings and other disregards for means tested benefits are unchanged. Similarly the earnings rule threshold for ICA remains at £50.00 pw.
- Service charges for fuel, heating etc in Housing Benefit remain unaltered. (This is to the advantage of claimants. The service charges are the amount deducted from the rent of claimants where fuel etc is included and cannot be separately identified – not uprating these amounts therefore increases the amount of rent that is likely to be “eligible” for Housing Benefit.)
- The lump sum widow’s payment of £1,000 is unchanged (and has been since its introduction in 1988)

## National Insurance Contributions

The 1999 uprating coincides with major changes to the structure of National Insurance contributions for both employers and employees. These were introduced by the *Social Security Act 1998*, following recommendations in the report by Martin Taylor *The modernisation of Britain’s tax and benefit system*. This abolished the NI “entry-fee” for employers and employees and an employee earnings threshold above which contributions are made at the level of the single person’s tax allowance. Although these changes were to be revenue neutral for employers contributions overall, the GAD reckons that in the light of the latest economic assumptions they result in a reduction of around £700 million in revenue to the National Insurance Fund in 1999/2000.<sup>3</sup>

## Future upratings

It would appear that the Government does not intend to increase the Retirement Pension by any more than price inflation. However, the Pensions Green Paper<sup>4</sup> stated that in respect of

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<sup>3</sup> GAD Cm 4199 Para 11 & Appendix 5

<sup>4</sup> *A New Contract for Welfare: Partnership in Pensions* Cm 4179

the minimum income guarantee a long term aim would be that it should rise in line with earnings. Various PQs have subsequently used working assumptions of earnings uprating for this part of Income Support from April 1999 onwards, but there is no firm commitment to earnings uprate from now on. The obvious implication of doing so is to raise the threshold of income at which pensioners become entitled to means tested assistance relative to the NI Retirement Pension and make more pensioners entitled/dependent on means tested benefits. This could have serious disincentives to save or make own pension provision if the resultant capital or income is seen as simply disintitling individuals to the minimum income guarantee. This point was the subject of consultation in the Green Paper, but no government proposals have been forthcoming as yet.

### **Cost of the uprating**

The total cost of the uprating in 1999/2000 is forecast at £3.7 billion.<sup>5</sup> Of this, £1.4 billion is as result of increases in contributory benefits.<sup>6</sup>

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<sup>5</sup> DSS Press Notice 98/268 *Benefit Uprating shows commitment to provide more security for the most vulnerable*, 28 Oct 1998

<sup>6</sup> *GAD Report by the Government Actuary on the drafts of the Social Security Benefits Up-rating Order 1999 Cm 4199*