



## 2011 Benefit Upating

Standard Note: 5805

Last updated: 20 December 2010

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Section Social & General Statistics Section

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### Summary

From April 2011 rates of many benefits and Tax Credits will increase; this will mainly be in line with the 3.1% annual increase in the CPI to September 2010. Exceptionally, this year the basic state retirement pension will be increased by the 4.6%.

The Government is committed to a “triple lock” for uprating the basic state pension, which means in future it will be increased by the highest of the increase in earnings, prices (as reflected in the CPI increase) or 2.5%. This year, to ensure the basic state pension is in line with the previous uprating rules, the increase in the RPI is being used. There is a requirement for Pension Credit to be increased in line with earnings. However, to ensure the least well-off pensioners benefit from the triple guarantee, the standard minimum income guarantee in Pension Credit will increase in April 2011 by the cash rise in a full basic State Pension.

This note sets out the basis for the April 2011 uprating. It focuses on the Retirement Pension and Pension Credit but also contains a summary of the main benefit and tax credit rates before and after the uprating.

Child Benefit is frozen until April 2014.

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# 1 Benefits

## 1.1 Introduction

The uprating of social security benefits from April 2011 is based on inflation in the year to September 2010. For most benefits the factor used is the annual increase in the CPI. This year the Basic State Pension is to be increased in line with the change in the RPI to September 2010.

Previously the indicator of price inflation used was the RPI, for pensions and other non-means-tested benefits, the "Rossi" index<sup>1</sup> for means tested benefits except the guarantee part of Pension Credit which was increased in line with average earnings.

The Government remains required to increase the rates for the guarantee part of Pension Credit in line with earnings, which is usually more than if they had been linked to prices. However this year earnings were rising more slowly than prices and the Government decided to increase the Guarantee part of Pension Credit in line with the cash increase in the basic state pension.

This year the relevant factors for uprating are:

Change in RPI 12 months to September 2010	4.6%
Change in CPI 12 months to September 2010	3.1%

Changes in other indicators over the relevant period are:

Change in Average Weekly Earnings to July 2010	1.3%
Change in Average Earnings Index 12 months to July 2010 <sup>2</sup>	2.0%
Change in Rossi 12 months to September 2010	4.8%

The Average Weekly Earnings Index for 3 months ended September 2010 was 2.0% higher than a year earlier.

## 1.2 Retirement Pension

An increase in the basic state retirement pension of 4.6% in line with the September 2010 RPI results in the single rate rising by £4.50 pw and the married rate by £7.20pw. The single

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<sup>1</sup> RPI less certain housing costs, namely less rents, mortgage interest payments, council tax and depreciation

<sup>2</sup> there is no statutory definition of exactly how earnings growth is to be measured. Uprating provisions allow to the Secretary of State to determine how much prices and earnings have risen over the last year in "in such manner as he sees fit, the basis of earnings uprating for the Minimum Income Guarantee was set out in 2000 as follows:

**Mr. Flynn:** To ask the Secretary of State for Social Security what methods he uses to measure the annual increase in earnings for the purpose of uprating the minimum income guarantee. [124393]

**Mr. Bayley:** In line with the Government's commitment to provide security in retirement for the poorest pensioners, the minimum income guarantee has been increased by 4.6 per cent., in line with the increase in average earnings. This measure of earnings growth reflects the 12-month headline rate and is based on a three-month average up to July 1999, published in The Stationery Office's "Monthly Digest of Statistics".

HC Deb 6.6.2000 c223W

The earnings measure to be used for future Pension Credit uprating or the BSP triple lock has yet to be specified.

The indicator used in the Monthly Digest is the annual percentage change in the 3-month average earnings index for the whole economy (ONS Series Reference LNNC). This is seasonally adjusted and includes bonuses. This series was discontinued in July 2010 and has been replaced by the Average Weekly Earnings Index.

weekly pension rate increases from £97.65 to £102.15 and the couple rate from £156.15 to £163.35.

**Table 1 Basic state pension 1997 to 2011**

<b>Basic State Pension: £pw</b>		
April	Man or women	Man plus wife
1997	62.45	99.80
1998	64.70	103.40
1999	66.75	106.70
2000	67.50	107.90
2001	72.50	115.90
2002	75.50	120.70
2003	77.45	123.80
2004	79.60	127.25
2005	82.05	131.20
2006	84.25	134.75
2007	87.30	139.60
2008	90.70	145.05
2009	95.25	152.30
2010	97.65	156.15
2011	102.15	163.35

Note: Age under 80 rates

Additions to the basic pension, such as Additional Pension (SERPS/S2P) and increments, are increased by 3.1%, in line with the September 2010 CPI.

### **1.3 Minimum Income Guarantee/Pension Credit**

Under provisions in the Pensions Act 2007, the Government is required to increase the standard minimum guarantee by the increase in earnings. This year the relevant factor is 1.3% or 2.0% (the increases in the headline rate of average earnings and average weekly earnings to July 2010). In his June 2010 Budget, the Chancellor announced an increase for the standard minimum guarantee in Pension Credit equal to the cash rise in the full basic State Pension. This amounts to an increase of 3.6% increase in the minimum credit.

**From April 2011 the weekly rate for Pension Credit minimum credit will be £137.35 (single) and £209.70 (couple).**

The basic level of the MIG was related to age in April 1999 and April 2000, as Income Support for pensioners had done previously. However, from April 2001 the MIG was simplified into one rate for all those over 60. The level of the guarantee from April 1999, to April 2011 and the previous rates of IS for pensioners are shown in the following table:

**Table 2 Income Support/Minimum Income/Pension Credit Guarantee – 1997 to 2011**

	Single £pw			Couple £pw		
	60-74	75-79	80+	60-74	75-79	80+
April						
1997	68.80	71.00	75.70	106.80	109.90	115.15
1998	70.45	72.70	77.55	109.35	112.55	117.90
1999	75.00	11.30	82.25	116.60	119.85	125.30
2000	78.45	80.85	86.05	121.95	125.35	131.05
2001		92.15			140.55	
2002		98.15			149.80	
2003		102.10			155.80	
2004		105.45			160.95	
2005		109.45			167.05	
2006		114.05			174.05	
2007		119.05			181.70	
2008		124.05			189.35	
2009		130.00			198.45	
2010		132.60			202.40	
2011		137.35			209.70	

### **Savings Credit**

The savings elements of the credit had previously risen in line with the Retirement Pension (ie. generally in line with prices) but the 2006 Pensions White Paper<sup>3</sup> announced the Government's intention to limit the expansion of savings credit eligibility that would eventually result from this.

From 2008, the Pensions White Paper said that the savings credit threshold would rise in line with earnings. This year the increase in average earnings (1.3/2.0%) is lower than the change in prices so the Savings Credit threshold might have been expected to increase in line with this. However, the Basic State Pension was increased by 4.6% and, in order to preserve the differential between the Savings Credit threshold and the state pension, a similar factor has been used to increase the threshold. The Saving Credit threshold rises by 4.8% (single) and 4.6% (couple) from £98.40 to £103.15pw (single) and £157.25 to £164.55pw (couple).

The comprehensive spending review announced that the savings credit maximum would be frozen in cash terms from April 2011 to April 2014. The maximum Savings Credit therefore remains at £20.52 (single) and £27.09 pw (couple).

### **1.4 Child Benefit**

This is administered by HM Revenue and Customs. There is no statutory requirement for Child Benefit to be increased but, usual practice was to link it to the change in the RPI. The

<sup>3</sup>Security in Retirement Cm 6841 [Hhttp://www.dwp.gov.uk/policy/pensions-reform/security-in-retirement/white-paper/](http://www.dwp.gov.uk/policy/pensions-reform/security-in-retirement/white-paper/)

June 2010 Budget however announced that Child Benefit would be frozen for three years from April 2011. It therefore stays at £20.30 pw for the eldest/only eligible child and £13.40 pw for other children.

## **1.5 Incapacity Benefit / ESA**

Since 27 October 2008 there have been no new claims for Incapacity Benefit. Instead, new claimants who cannot work due to ill-health or disability are able to claim Employment and Support Allowance (ESA). The Government had previously announced this would be increased by the ROSSI index. This meant that the rates were increased by 6.3% in April 2009 and by 1.8% from April 2010. From 2011, the Government has said that ESA will be one of the benefits to be linked to the CPI. The increase is therefore 3.1% (compared to 4.8% had the Rossi index continued to be used)

**Table 3 Social Security Benefit rates 2011-12**

£ per week	Apr-10	Apr-11
<b>Attendance Allowance</b>		
Higher rate	71.40	73.60
Lower rate	47.80	49.30
<b>Child Benefit</b>		
Only/elder/eldest child	20.30	20.30
Subsequent child(ren)	13.40	13.40
<b>Disability Living Allowance</b>		
<b>Care component</b>		
Highest	71.40	73.60
Middle	47.80	49.30
Lowest	18.95	19.55
<b>Mobility component</b>		
Higher	49.85	51.40
Lower	18.95	19.55
<b>Employment &amp; Support Allowance</b>		
Single		
Under 25	51.85	53.45
Over 25	65.45	67.50
<b>Incapacity Benefit</b>		
Long term	91.40	94.25
Short term		

£ per week	Apr-10	Apr-11
Lower	68.95	71.10
Higher	81.60	84.15
<b>Income Support</b>		
<b>Personal allowances</b>		
Single 18-24	51.85	53.45
Single 25+	65.45	67.50
Couple		
both 18+	102.75	105.95
Dependent child	57.57	62.33
<b>Carer's Allowance</b>		
	53.90	55.55
<b>Jobseeker's Allowance</b>		
<b>Contribution based</b>		
Under 25	51.85	53.45
25+	65.45	67.50
<b>Pension Credit</b>		
<b>Standard minimum guarantee</b>		
Single	132.60	137.35
Couple	202.40	209.70
<b>State Pension</b>		
Single	97.65	102.15
Couple	156.15	163.35

## 2 Tax Credits

Under the *Tax Credits Act 2002* the Treasury is required to review the levels of tax credit elements on an annual basis 'in order to determine whether they have retained their value in relation to the general level of prices in the UK as estimated by the Treasury in such a manner as it considers appropriate'<sup>4</sup> For those elements being uprated, the CPI 3.1% prices increase is being used this year (use of this uprating factor from 2011/12 onwards for tax credits was announced in the June 2010 Budget. Previously, the expectation was that the basic working tax credit will be reviewed in line with prices and the child tax credit in line with earnings.<sup>5</sup> The childcare element was not linked so directly as these costs did not necessarily follow the same trends.

**Table 4 Working and Child Tax Credits rates April 2010 and 2011**

<b>£ per year (unless stated)</b>	<b>Apr-10</b>	<b>Change £ or % points</b>	<b>Apr-11</b>
<b>Working Tax Credit</b>			
Basic element	£1,920	£0	£1,920
Couple and lone parent element	£1,890	£60	£1,950
30 hour element	£790	£0	£790
Disabled worker element	£2,570	£80	£2,650
Severe disability element	£1,095	£35	£1,130
50+ Return to work payment (16-29 hours)	£1,320	£45	£1,365
50+ Return to work payment (30+ hours)	£1,965	£65	£2,030
<b>Childcare element of the Working Tax Credit</b>			
Maximum eligible cost:			
One child (per week)	£175	£0	£175
Two or more children (per week)	£300	£0	£300
Percentage of eligible costs covered	80%	-10%	70%
<b>Child Tax Credit</b>			
Family element	£545	£0	£545
Family element, baby addition	£545	Withdrawn	£0
Child element	£2,300	£255	£2,555
Disabled child element	£2,715	£85	£2,800
Severely disabled child element	£1,095	£35	£1,130
<b>Income thresholds and withdrawal rates</b>			
First income threshold	£6,420	£0	£6,420
First withdrawal rate	39%	+2%	41%
Second income threshold	£50,000	-£10,000	£40,000
Second withdrawal rate	6.67%	+34%	41%
First threshold for those entitled to Child Tax Credit only	£16,190	-£330	£15,860
Income disregard	£25,000	-£15,000	£10,000

Exchequer Secretary Written Ministerial Statement 2 Dec 2010

<sup>4</sup> Section 41

<sup>5</sup> Committee Stage of the Tax Credits Bill in the Lords 23 May 2002 c CWH 143



The June 2010 Budget and October Comprehensive Spending Review included a number of changes affecting tax credits. These mean that some elements are being frozen or uprated by more than expected.

***Budget changes affecting tax credits in 2011/12:***

- Switch to CPI indexation
- Second income threshold reduced to £40,000
- First and second withdrawal rate increased to 40%
- Child tax credit: baby element removed
- Income disregard reduced from £25,000 to £10,000
- Child tax credit: child element increased by £150

***CSR changes affecting tax credits in 2011/12:***

- Working tax credit: freeze in basic and 30 hour elements
- Working tax credit: reduce % of eligible childcare costs from 80% to 70%
- Child tax credit: increase child element by £30 in 2011/12
- Working tax credit; increase working hours requirement for couples with children to 24

There were further changes in the June Budget and CSR that will affect tax credits in 2012/13 and beyond.<sup>6</sup>

### **3 Links**

DWP table for all benefits before and after the 2011 uprating:

<http://www.dwp.gov.uk/docs/benefitrates2011.pdf>

Uprating statement House of Commons Debate 8 December 2010 c309-

<http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm101208/debtext/101208-0001.htm#10120866000004>

HMRC Rates and Allowances Library, includes *Value added tax, income tax allowances, national insurance contributions, child and working tax credit rates 2011-12 and other rates*  
<http://www.hmrc.gov.uk/rates/index.htm>

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<sup>6</sup> [Hhttp://cdn.hm-treasury.gov.uk/sr2010\\_completereport.pdf#page=13H](http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf#page=13H) & [Hhttp://www.hm-treasury.gov.uk/d/junebudget\\_complete.pdf#page=47H](http://www.hm-treasury.gov.uk/d/junebudget_complete.pdf#page=47H) for a list of policy decisions

### 3.1 Earlier notes:

This note is the latest in an annual series since 1999; Earlier editions are as follows:

Upgrading taking place in April (clickable link)	Library Standard Note Number:
<a href="#">1999</a>	195
<a href="#">2000</a>	300
<a href="#">2001</a>	577f
<a href="#">2002</a>	1715
<a href="#">2003</a>	1969
<a href="#">2004</a>	2781
<a href="#">2005</a>	3275
<a href="#">2006</a>	3819
<a href="#">2007</a>	4177
<a href="#">2008</a>	4537
<a href="#">2009</a>	4901
<a href="#">2010</a>	5198

## **4 Upating Policy**

Section 150 of the Social Security Administration Act 1992 requires the Secretary of State to review the level of benefits annually to determine whether they have retained their value relative to the general level of prices. The Act provides that certain benefits must be upated in line with prices. Although the SoS must review the level of income related benefits he is not required to increase them in line with prices.

### **4.1 Benefits with statutory requirement for uprating**

Attendance Allowance  
Child Special Allowance  
Disability Living Allowance  
Industrial Death Benefits (Existing cases only)  
Industrial Injuries Disablement Benefit  
Carer's Allowance  
Incapacity Benefit  
State Pension (including SERPS and Graduated Pension)  
Severe Disablement Allowance  
Widowed Mother's/Parent's Allowance  
Widow's Pension (including child and dependency additions) which was replaced by Bereavement Benefit

Standard Minimum Guarantee Pension Credit (in line with general level of earnings, Pensions Act 2007)

### **4.2 Benefits without a statutory requirement for uprating**

Child Benefit  
Council Tax Benefit  
Housing Benefit  
Income Support  
Jobseeker's Allowance  
Maternity Allowance  
Pension Credit (other than Standard Minimum Guarantee)  
Statutory Maternity Pay  
Statutory Sick Pay