

REFORMING A POLICY IN EUROMOD:

Means-testing the Winter Fuel
Allowance and increasing its
amount in Scotland

European Microsimulation Modelling for Policymaking

28 May 2015



Reforming a policy



*Reforming a Policy in EUROMOD:
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2 / 22



Which policy reform?

Winter fuel allowance (WFA) is an annual payment made to UK households containing at least one person aged over female state pension age, with a supplement paid for the presence of anyone aged over 80

In 2015, the yearly amount per household is £200 which increases to £300 for a household with anyone aged over 80. The payment is not taxable and not means-tested.

Policy reform: substitute the universal WFA in Scotland in 2015 with a means-tested one and analyse the outcomes

Context

Following the Smith Commission's report in November 2014, the UK Government published draft legislation in January 2015 to deliver more powers to the Scottish Parliament, including:

- *'.. power to set the rates of Income Tax and the thresholds at which these are paid for the non-savings and non-dividend income of Scottish taxpayers...'*
- *'.. power to vary the housing cost elements of Universal Credit...'*
- *'.. complete autonomy in determining the structure and value of [..] Winter Fuel Payment'*

Proposed reform

The reform is structured in two phases:

- First, means-test the WFA restricting access to families receiving Pension Credit (PC), which is the means-tested benefit for people over pension age
- Second, increase the WFA amount by £392 per year, making the reform revenue neutral

Implementing a policy reform in EUROMOD



*Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland*

6 / 22



EUROMOD user interface (UI)

- Stand-alone piece of software - Windows OS
- Mostly point and click but some hot keys are available (standard and specific)
- Key features:
 - ribbon bar with tabs
 - context menus
 - IntelliSense (suggestion of parameter values)
 - drag and drop
 - bookmarks and comments
 - built-in help



EUROMOD UI starting page

Run EUROMOD

Countries Country Tools Administration Tools Add-Ons Applications Help & Info

AT BE BG CY CZ DE DK EE EL ES FI FR HU IE IT LT LU LV MT NL PL PT RO SE SI SK SL UK



Ribbon bar



Country files can be accessed by clicking on the corresponding flag on the tab *Countries*

Working environment

Comments

Run EUROMOD

Countries Country Tools Administration Tools Add-Ons Applications Help & Info

UK AT BE BG CY CZ DE DK EE EL ES FI FR HU IE IT LT LU LV MT NL PL PT RO SE SI SK SL UK

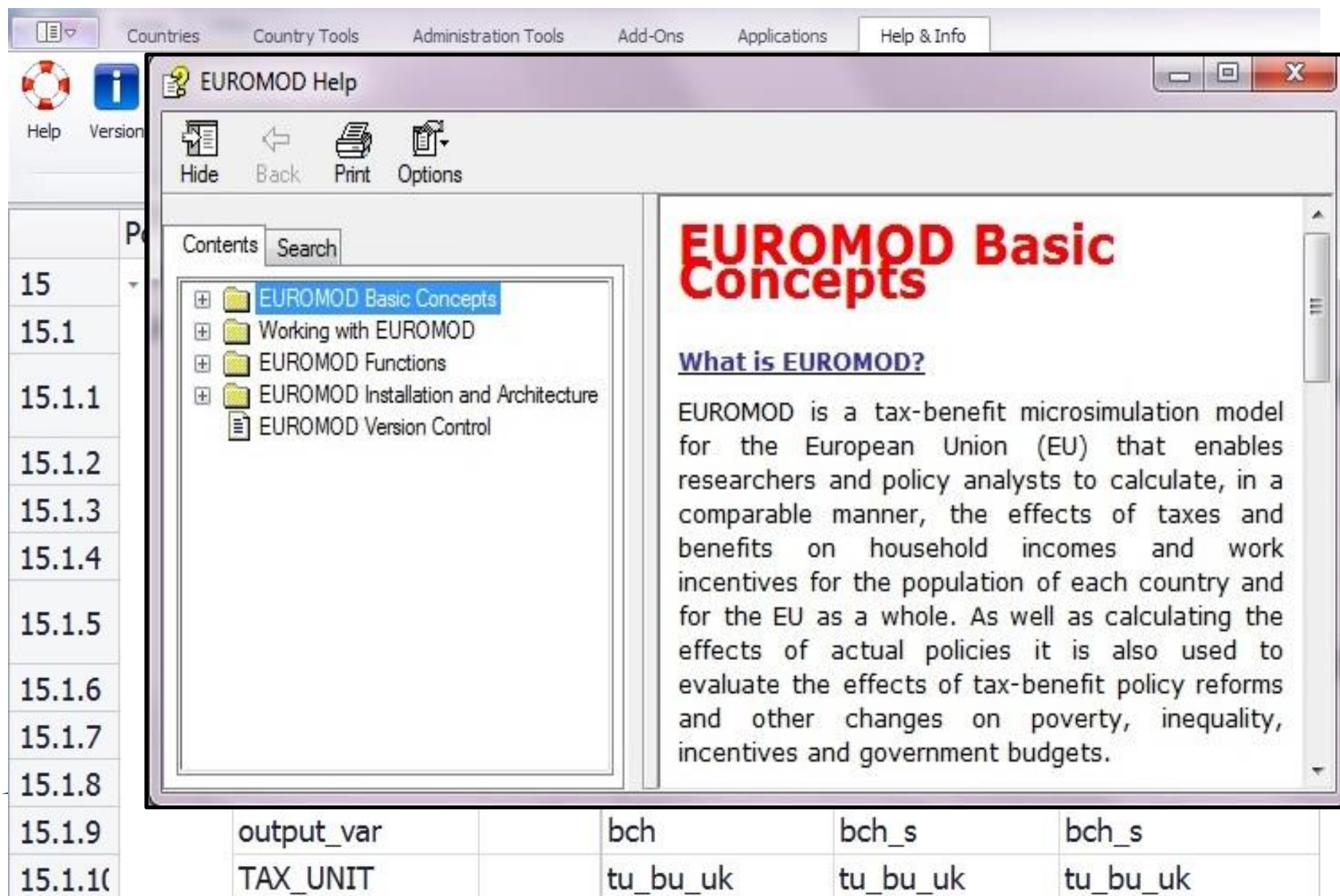
	Policy	Grp/No	UK_2012	UK_2013	UK_2014	Comment
5	• TUdef_uk		on	on	on	DEF: ASSESSMENT UNITS
6	• taken		on	on	on	DEF: settings for modelling benefit non take-up (switch
7	• poad		on	on	on	BEN: changes in earnings and pensions due to increase in female state pension age
8	• yse_uk		on			DEF: recode to 0 negative self employed income
9	• yem_uk		off			DEF: Minimum wage
10	• bdisc_uk		off			BEN: DLA test (post 2011)
11	• tscee_tscse_uk		on	on	on	SIC: employee and self employed national insurance
12	• tscer_uk		on	on	on	SIC: employer national insurance contribution
13	• bunct_uk		on	n	on	BEN: contributory unemployment benefit (Job
14	• boaht_uk		on	on	on	BEN: pensioner's annual heating allowance (Winter Fuel
15	• bch_uk		on	on	on	BEN: child benefit
16	• tin_uk		on	on	on	TAX: personal income tax
17	• bwkmt_bfamt_uk		on	on	off	BEN: tax credits (Working Tax Credit and Child Tax Credit)

Open country

Policy system

Policies

Built-in help



The screenshot shows the EUROMOD software interface with the built-in help window open. The help window is titled "EUROMOD Help" and contains a table of contents on the left and a main content area on the right. The main content area displays the "EUROMOD Basic Concepts" section, which includes a table of variables.

15				
15.1				
15.1.1				
15.1.2				
15.1.3				
15.1.4				
15.1.5				
15.1.6				
15.1.7				
15.1.8				
15.1.9	output_var		bch	bch_s
15.1.10	TAX_UNIT		tu_bu_uk	tu_bu_uk

EUROMOD Basic Concepts

What is EUROMOD?

EUROMOD is a tax-benefit microsimulation model for the European Union (EU) that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU as a whole. As well as calculating the effects of actual policies it is also used to evaluate the effects of tax-benefit policy reforms and other changes on poverty, inequality, incentives and government budgets.

Phase 1: Means-test WFA restricting access to families receiving Pension Credit in Scotland



*Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland*

12 / 22



Create a new policy system based on UK_2015 – we can call it SCT_2015_refWFA

The screenshot shows the EUROMOD software interface. A 'Select Base System' dialog box is open, listing various UK policy systems from 2005 to 2015. 'UK_2015' is selected and highlighted in blue. The background shows a table of policy definitions for various UK systems, including BTA_uk, random_uk, Paa_uk, and yem_uk.

System	Switch	Comment
BTA_uk	switch	DEF: CONSTANTS
		DEF: Initialise
		DEF: INCOME CONCEPTS
		DEF: ASSESSMENT UNITS
		DEF: settings for modelling benefit non take-up (switch on/off to apply)
random_uk	on	DEF: Generate random number for bdisc_uk
Paa_uk	switch	DEF: Pension Age Adjustment - changes in earnings and pensions due to increase in female state pension age (switch on/off to apply 2011-onwards)
yem_uk	off	DEF: Minimum wage (switch on/off to apply)

Save UK_2015 as Scotland

Select existing system on which to base your simulation for the reform



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Means-testing the Winter Fuel Allowance and increasing its amount in Scotland



Switch-off and copy boakt_uk in SCT_2015_refWFA ...

	Policy	Gr...	UK_2015	SCT_2015_refWFA
11	▶ yem_uk		off	off
12	▶ neg_uk		on	on
13	▶ bdisc_uk		on	on
14	▶ tscee_tscse...		on	on
15	▶ tscer_uk		on	on
16	▶ bunct_uk		on	on
17	▶ boakt_uk		off	off
18	▶ bch_uk		on	on
19	▶ tin_uk		on	on
20	▶ bctc_uk		n/a	n/a
21	▶ bwkmt_uk		on	on
22	▶ bwfmt_uk		n/a	n/a
23	▶ bsa_uk		on	on

WFA is calculated by policy *boakt_uk*

Switch policies ON/OFF here

Open the policy context menu and select the menu item *Copy Policy*

... and paste it after Pension Credit calculation in bsadi_uk

Condition eligibility set to receiving Pension Credit

	bsa_uk		on	on	"BEN: Social Assistance (Income based JSA, Income Support and
	bsadi_uk		on	on	BEN: Social Assistance (income-related Employment Support
	boamt_sct		n/a	on	BEN: means-tested pensioner's annual heating allowance (Winter Fuel Allowance)
1	Elig		n/a	on	
25.1.1	Elig_Cond		n/a	{boamt_s > 0}	
25.1.2	TAX_UNIT		n/a	tu_individual_uk	
25.2	BenCalc		n/a	on	Benefit calculation
25.2.1	Who_Mu...		n/a	one	
25.2.2	comp_Cond	1	n/a	{nPersInTu >= 1}#1	
25.2.3	comp_pe...	1	n/a	\$WFA	amount if anybody in hh aged 60 or over par67
25.2.4	#_AgeMin	1	n/a	\$SPAfem	par169
25.2.5	comp_Cond	2	n/a	{nPersInTu >= 1}#2	
	comp_pe...	2	n/a	\$WFAAdd80	additional amount if anybody in hh aged 80 or over par68
	#_AgeMin	2	n/a	80	
	output_var		n/a	boamt_s	
	TAX_UNIT		n/a	tu_household_uk	
	ocate		n/a	on	
	share		n/a	boamt_s	
	share_be...		n/a	{dag >= \$SPAfem}	par169
	share_all...		n/a	yes	
	output_var		n/a	boamt_s	
	TAX_UNIT		n/a	tu_household_uk	
26	bucelig_uk		n/a	n/a	DEF: UC eligibility rules
27	branc_uk		n/a	n/a	BEN: Social Assistance

Link benefit calculation to eligibility condition specifying "who_must_be_elig"

Results



*Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland*

16 / 22

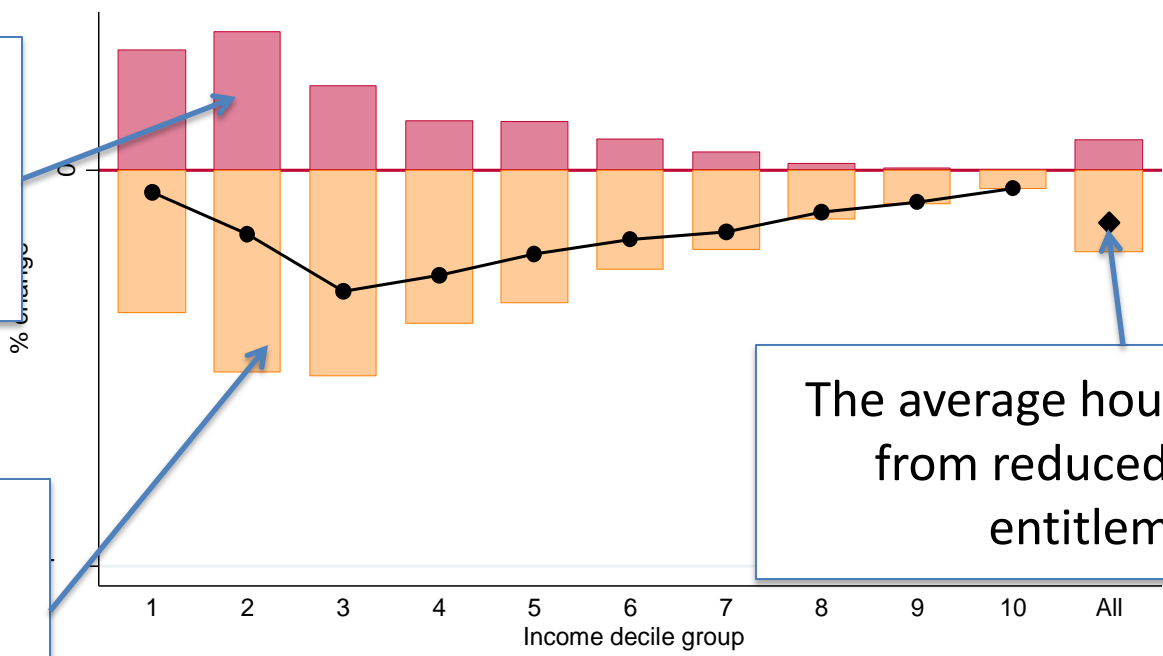


Change in net income by income decile

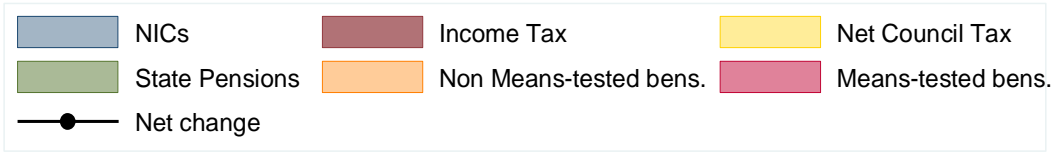
WFA is **means-tested** (all Pension Credit entitled hh)

PC recipients gain from means-tested benefits increase

Non means-testing benefits decrease



The average household loses from reduced benefits entitlement



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Change means-tested benefits take-up assumption from full to partial take-up

Switch ON
“Benefit take-up
adjustment”

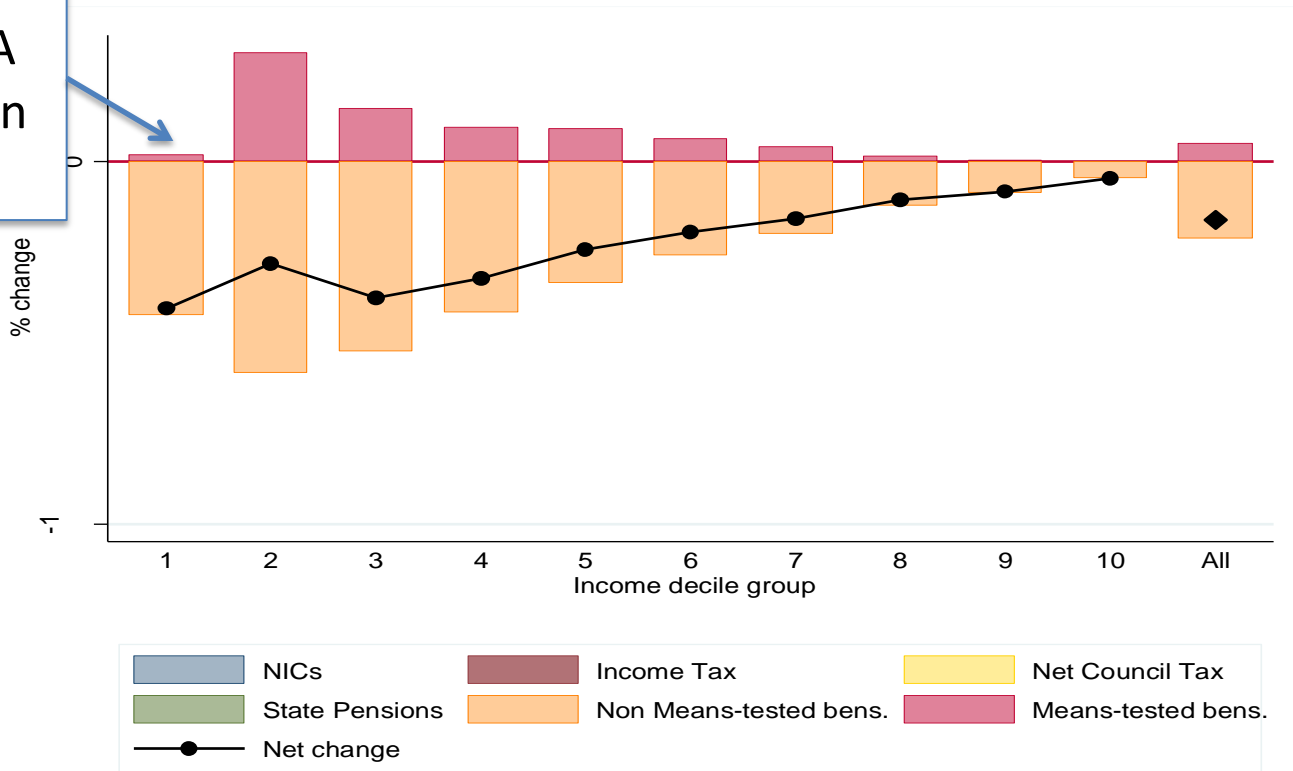
The screenshot shows the 'Run EUROMOD' window in the EUROMOD software. The window title is 'Scotland - EUROMOD G2.32 (F:\Home)'. The interface includes a menu bar with 'Countries', 'Display', 'Country Tools', 'Administration Tools', 'Add-Ons', 'Applications', and 'Help & Info'. Below the menu bar, there are country flags and labels for AT, BE, BG, CY, CZ, DE, DK, EE, and EL. The 'Scotland' country is selected and labeled as 'loaded'. The 'Run EUROMOD' window has a 'Main' tab and a 'View / Filter / Add-Ons' sub-tab. The 'Advanced Settings' section includes checkboxes for 'Show separate run options' (checked), 'Show selected HH options' (unchecked), 'Filter Datasets' (checked), and 'Filter Systems' (unchecked). There are also input fields for 'Filter Datasets' and 'Filter Systems', a 'Best Match Only' checkbox (unchecked), and buttons for 'View Add-Ons' and 'View Policy Switches'. The main area contains a table with the following columns: 'Run', 'Country', 'System', 'Dataset', 'Separate Run', and 'Benefit Take-up Adjustments'. The table lists various runs for Scotland (SCT) with different systems and datasets. The 'Benefit Take-up Adjustments' column shows buttons for 'on (default)' for most runs, and a button for 'off' for the 'SCT_2015_refWFA' run. A blue callout box with the text 'Switch ON "Benefit take-up adjustment"' has an arrow pointing to the 'off' button.

Run	Country	System	Dataset	Separate Run	Benefit Take-up Adjustments
<input type="checkbox"/>	SCT	UK_2005	UK_2003_a3 (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2006	UK_2008_a4 (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2007	UK_2008_a4 (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2008	UK_2008_a4 (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2009	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2010	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2001	UK_2008_a4 (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2011	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2012	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2014uc	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2013	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2014	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2015	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	UK_2015uc	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input type="checkbox"/>	SCT	SCT_2015	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	on (default)
<input checked="" type="checkbox"/>	SCT	SCT_2015_refWFA	sct_2009_a2.txt (Best Match)	<input type="checkbox"/>	off

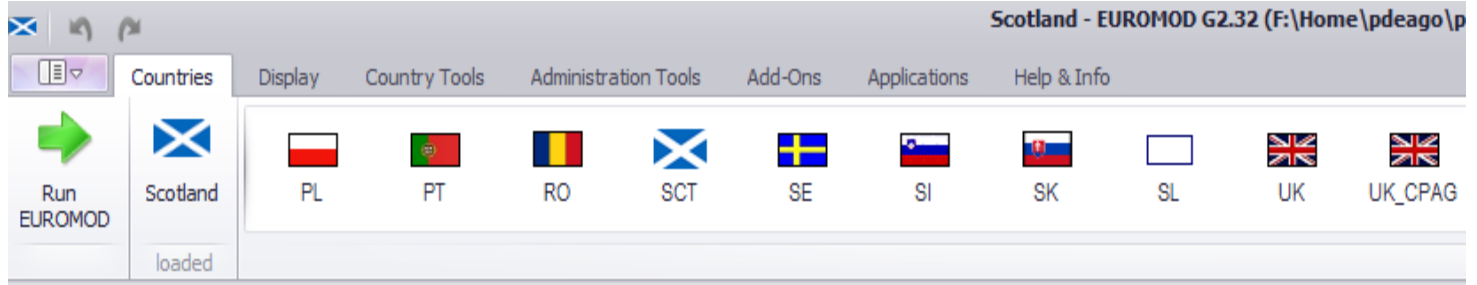
However taking into account partial take-up

WFA is **means-tested** (only PC recipient hh entitled)

Fewer hh receiving WFA because of non take-up



Create a new policy system SCT_2015_refWFA...1



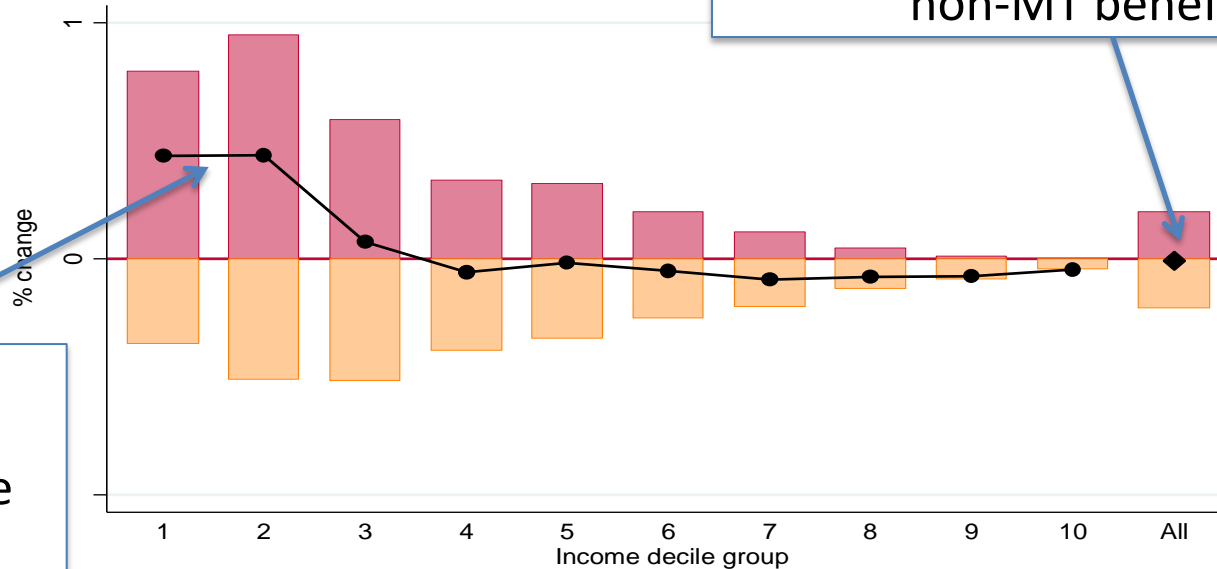
Increase the WFA amount by £392

	Policy	Gr...	UK_2015	SCT_2015_refWFA	SCT_2015_refWFA1	C
	\$WTCCTCI ncdisSMP		100#w	100#w	100#w	p
	\$WTCCTCI ncdisPen		300#y	300#y	300#y	p
	\$IBlongter m		105.35#w	105.35#w	105.35#w	p
4.1.53	\$CBFirst		20.7#w	20.7#w	20.7#w	p
4.1.54	\$CBOther		13.7#w	13.7#w	13.7#w	p
4.1.55	\$WFA		200#y	200#y	592#y	p
4.1.56	\$WFAAdd8 0		100#y	100#y	100#y	p
4.1.57	\$SPAfem		62	62	62	p
4.1.58	\$SPAmale		65	65	65	p
4.1.59	\$ISSing161 7		57.9#w	57.9#w	57.9#w	p
4.1.60	\$ISSing182 4		57.9#w	57.9#w	57.9#w	p
4.1.61	\$ISSing25		73.1#w	73.1#w	73.1#w	p
4.1.62	\$ISLp18		73.1#w	73.1#w	73.1#w	p

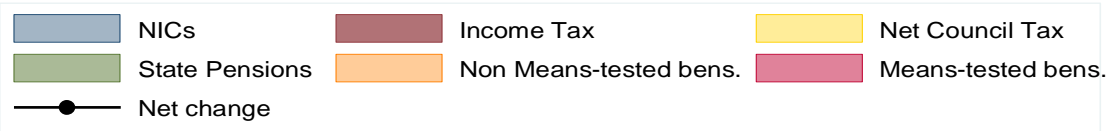
Change in net income by income decile

WFA is **means-tested** and **increased** (by £392),
Assuming full take-up

Policy reform is revenue neutral:
similar changes in MT and
non-MT benefits



Gains at the bottom of the distribution



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Change in net income by income decile

WFA is **means-tested** and **increased** (by £392),
Assuming partial take-up

Non take-up affects mostly the bottom of the distribution ..

... but not revenue neutral when taking into account non take-up: some hh lose from the reform

.. resulting in losses mainly for the poorer



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Thank you!

www.euromod.ac.uk
euromod@essex.ac.uk

