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

Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland
3 / 22

EUROMOD

iSER
INSTITUTE FOR SOCIAL
& ECONOMIC RESEARCH

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 <u>rates of Income Tax</u> and the <u>thresholds</u> at which these are paid for the non-savings and non-dividend income of Scottish taxpayers...'*

- *'.. power to vary the <u>housing cost</u> elements of Universal Credit...'*

- *'.. complete autonomy in determining the structure and value of [..] <u>Winter Fuel Payment</u>'*

Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland
4 / 22

EUROMOD

iiSER
INSTITUTE FOR SOCIAL
& ECONOMIC RESEARCH

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

Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland
5 / 22

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

iSER
INSTITUTE FOR SOCIAL
& ECONOMIC RESEARCH

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

Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland
7 */ 22*

EUROMOD UI starting page

Ribbon bar

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

Working environment

Built-in help

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

Save UK_2015 as Scotland

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

Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland
***13** / 22*

Switch-off and copy boaht_uk in SCT_2015_refWFA …

WFA is calculated by policy *boaht_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

Link benefit calculation to eligibility condition specifying *"who_must_be_elig"*

▸ ● bsa_uk		on		on	"BEN: Social Asistance (Income based JSA, Income Support and
▸ ● bsadi_uk		on		on	BEN: Social Asistance (income-related Employment Support
▾ ● boaht_sct		n/a		on	BEN: means-tested pensioner's annual heating allowance (Winter Fuel Allowance)
▾ *fx* 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	▾ *fx* 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	boaht_s	
	TAX_UNIT		n/a	tu_household_uk	
	ocate		n/a	on	
	share		n/a	boaht_s	
	share_be...		n/a	{dag >= $SPAfem}	par169
	share_all...		n/a	yes	
25.3.4	output_var		n/a	boaht_s	
25.3.5	TAX_UNIT		n/a	tu_household_uk	
26	▸ ● bucelig_uk		n/a	n/a	DEF: UC eligibility rules
27	▸ ● bsanc_uk		n/a	n/a	BEN: Social Asistance

EUROMOD

iSER
INSTITUTE FOR SOCIAL
& ECONOMIC RESEARCH

Results

Reforming a Policy in EUROMOD:
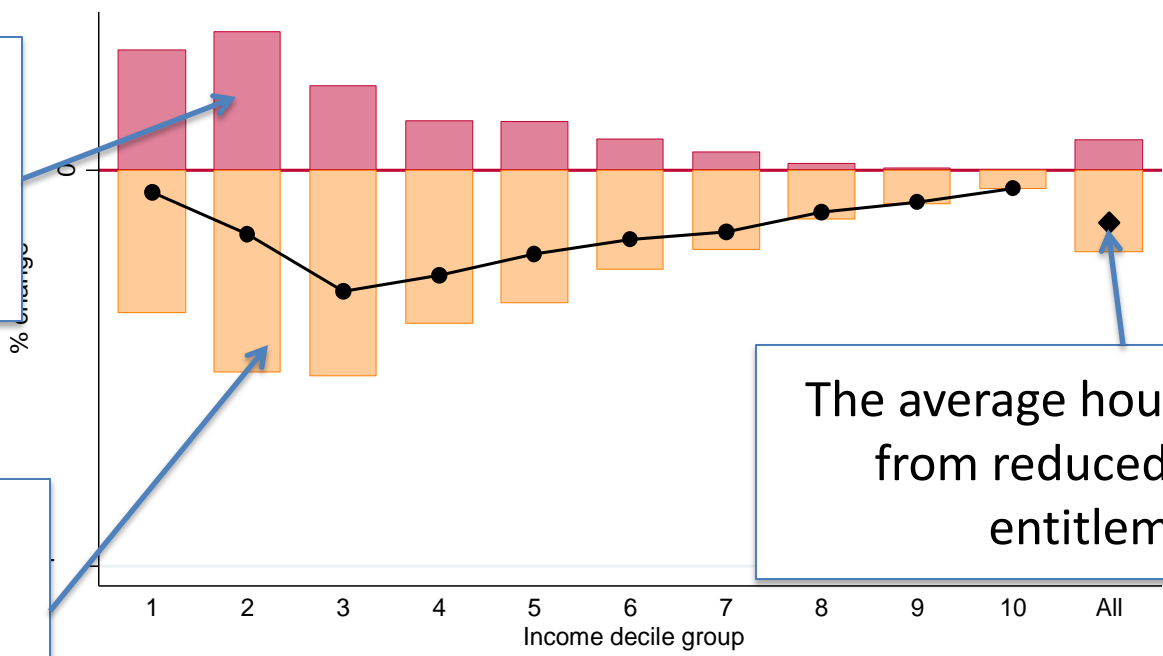*Means-testing the Winter Fuel Allowance and increasing its amount in Scotland*
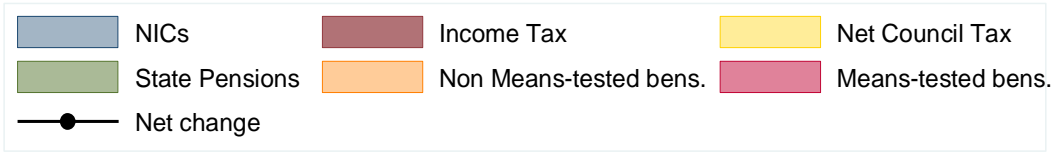*16 / 22*

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

Legend:
- NICs
- Income Tax
- Net Council Tax
- State Pensions
- Non Means-tested bens.
- Means-tested bens.
- Net change

Income decile group: 1 2 3 4 5 6 7 8 9 10 All

% change

Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland
17 / 22

EUROMOD

iiSER
INSTITUTE FOR SOCIAL
& ECONOMIC RESEARCH

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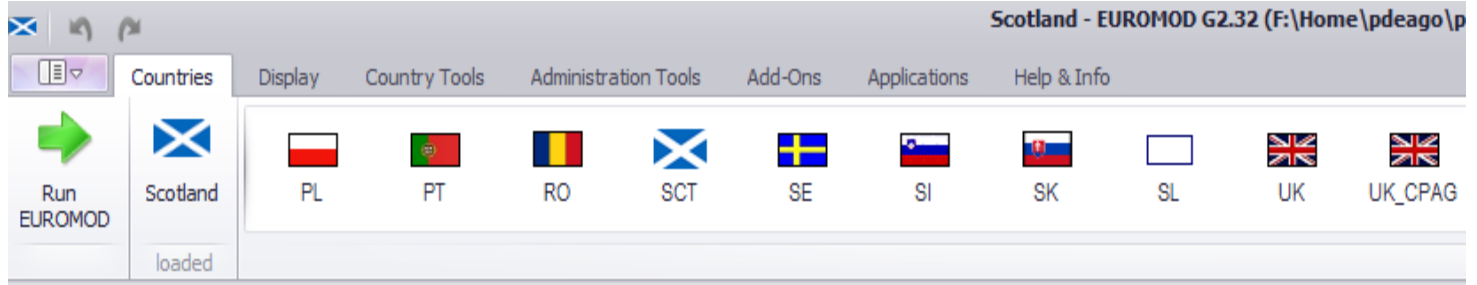

Switch ON "Benefit take-up adjustment"

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

% change

Income decile group

NICs	Income Tax	Net Council Tax
State Pensions	Non Means-tested bens.	Means-tested bens.
Net change		

Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland
19 / 22

EUROMOD

iiSER
INSTITUTE FOR SOCIAL
& ECONOMIC RESEARCH
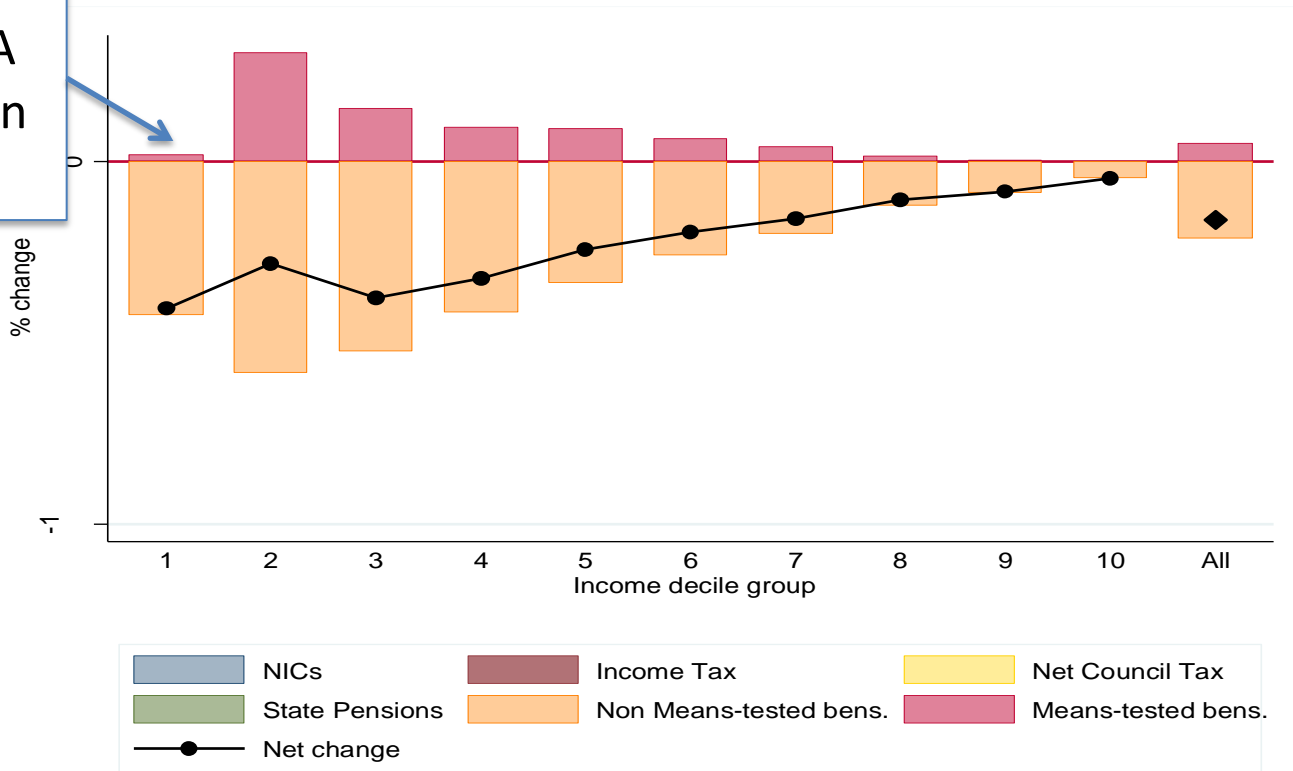
Create a new policy system SCT_2015_refWFA…1

Increase the WFA amount by £392

Change in net income by income decile

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

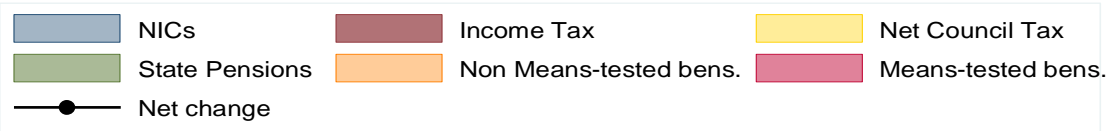Policy reform is revenue neutral: similar changes in MT and non-MT benefits
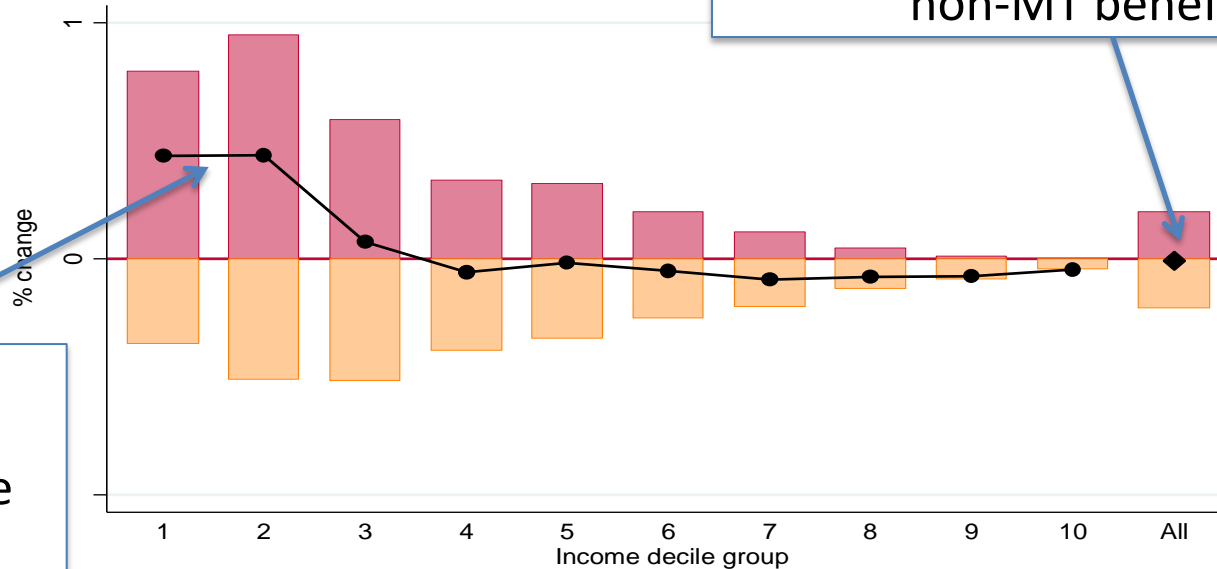
Gains at the bottom of the distribution

Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland
***21* / 22**

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

Legend:
- NICs
- State Pensions
- Income Tax
- Non Means-tested bens.
- Net Council Tax
- Means-tested bens.
- Net change

X-axis: Income decile group (1, 2, 3, 4, 5, 6, 7, 8, 9, 10, All)
Y-axis: % change

Reforming a Policy in EUROMOD:
Means-testing the Winter Fuel Allowance and increasing its amount in Scotland
22 / 22

EUROMOD

iSER
INSTITUTE FOR SOCIAL
& ECONOMIC RESEARCH

Thank you!

www.euromod.ac.uk

euromod@essex.ac.uk