







Housing costs, housing benefits and work disincentives

Recent changes in housing, social security arrangements and the labour market have led to suggestions that work disincentives are becoming more widespread and pronounced. Qualitative research by Janet Ford of the Centre for Housing Policy (CHP), University of York, Elaine Kempson of the Policy Studies Institute and Jude England of CHP, indicates that a substantial proportion of households do not make decisions on whether to take work or remain on benefit purely on economic grounds. They found:

-  Approximately half of all respondents made an economic calculation based on their outgoings and adhered to it when assessing employment opportunities. Just under a quarter made a similar calculation but then overrode it. Just over a quarter did not make any financial assessment of earnings in relation to outgoings.
-  Three factors influenced the adoption of one form of decision-making over another: the commitment to work; financial circumstances and aspirations; and the experience of, and attitudes to, benefits.
-  For the majority of respondents, the commitment to work was strong, so strong in some cases that the economic calculation was overridden or played no part at all in the decision.
-  Wage aspirations were modest. In most cases the desired net income only just covered bills, food and clothing, and was no more than that which Income Support and associated benefits could provide.
-  Housing costs influenced the wages people sought. Mortgagors knew they had to meet all their housing costs once in work. Many tenants also assumed this - incorrectly - and only a minority took Housing Benefit into account when calculating their requirements.
-  For certain respondents, in clearly defined circumstances, the availability of in-work benefits did aid the transition from claiming to working. But for others, the administrative operation of the benefit system and their reluctance to rely on benefits once in work discouraged them from taking low-waged jobs.

Introduction

The traditional approach to understanding the interaction of costs, benefits, wages and work disincentives is an economic one. This assumes that individuals make a rational financial calculation about whether or not to take employment or remain on benefit. As a consequence, people who would be financially no better off in employment than on benefit will be reluctant to work (the unemployment trap), while those in work might be unwilling to increase their earnings through additional hours where the withdrawal of in-work benefits is steep (the poverty trap).

However, the decision-making process may be influenced by social and cultural factors as well as economic considerations. In these cases, individuals may knowingly take work that means they are worse off than they would have been by remaining in receipt of benefit. This research set out to identify just how individuals made their employment decisions and which factors were of paramount importance. It also looked at what role, if any, housing costs and housing benefits played in the decisions made by owners and tenants.

Recent changes in housing and social security policy may have significant implications for decisions about employment. The key change for all tenants is the shift from bricks and mortar subsidies to higher rents and providing help to low income households through Housing Benefit. For mortgagors, there has been a reduction in the payment of mortgage interest to those on Income Support. There is no housing-related means-tested in-work benefit for mortgagors.

The calculation

Three broad models of decision-making were identified. Respondents either:

- made a 'better-off calculation' and adhered to it when assessing employment opportunities (just under half);
- made a better-off calculation, but then overrode it, typically taking a job which at best matched their benefit income, but which often meant they were worse off than they would have been had they stayed in receipt of benefit (just under a quarter);
- did not make a better-off calculation at all. The decision about whether to work or remain on benefit was determined by non-economic factors (just over a quarter).

There were some differences in the decision-making processes by tenure and household type:

- tenants were more likely to make a better-off calculation than owners;
- more owners than tenants made but then overrode their better-off calculation, typically working for less than they would have received as claimants;
- owners were also more likely to make no calculation at all, but these were predominantly women in couple-based households, where any extra income added in full to that earned by their partners;

- in contrast, men in couples, who were owners, were most likely to make but then override a better-off calculation;
- all but one of the single respondents undertook a better-off calculation, and none of them were prepared to override it;
- lone parents were more evenly distributed among the three types of decision-making than any other household type.

Three main influences structured the different forms of decision-making identified:

- the extent of the commitment to work;
- financial aspirations, expectations and behaviour;
- experience of, and attitudes to, both in-work and out-of-work benefits.

The commitment to work

Overall, the commitment to work was strong, especially among main breadwinners. This was demonstrated by the dedication to job search, where the majority of respondents had applied for many jobs, often travelling around a wide geographical area and calling on employers in person. In addition, most said that they were willing to take temporary, insecure jobs.

The desire to work was so strong that in some cases the better-off calculation was overridden. For this group, work itself was an important source of self-esteem and, for a number of respondents, the attachment to work was so strong that financial calculations played no part in their decision.

For others, self-esteem was derived from the amount a job paid. This meant they were unwilling to take low-waged jobs as they felt they were worth more. In these cases all had done a better-off calculation and were not prepared to compromise.

A small number of respondents had a much weaker attachment to work. These were mainly women with care responsibilities, either lone parents or women who primarily worked to top-up the overall household income. In such instances, no financial calculation was made.

Barriers to employment such as age, limited skills, child care costs and the availability of suitable jobs were common experiences. Some aspects of the 'flexible' labour market also created a barrier - few of the main breadwinners were willing to consider part-time employment, even as a way of gaining experience or as a potential pathway to a full-time job. Their better-off calculations indicated that part-time employment would not provide them with enough money to cover their outgoings, especially their housing costs.

However, most of the main breadwinners were prepared to take temporary and/or insecure jobs. In fact, they were often resigned to this given their awareness of the type of jobs that were available to them. Those considering the option of temporary work as their first move back into employment had some reservations: mortgagors were concerned about the impact short-term temporary work would have

on their subsequent eligibility for Income Support Mortgage Interest (ISMI); tenants were concerned about the time lag between claiming and receiving Housing Benefit.

Some breadwinners were also prepared to take low-paid jobs initially (in some cases giving them less than their Income Support and associated entitlements) because they thought it might lead to a better paying job. Occasionally this was an effective strategy.

Financial aspirations and circumstances

The overall level of a household's outgoings played a major part in the financial calculation. And since housing costs were usually a major part of household outgoings, they were also of importance. But this was not invariably so, and some respondents were prepared to work for less than they in reality needed to cover their household expenses.

Wage aspirations tended to be modest. Most of the main breadwinners were either looking for net earnings of between £130 and £160 a week or had taken jobs at that level. In most cases, this net income only just covered their bills, food and clothing, and was no more than they were eligible to receive in Income Support and associated benefits. Indeed, this tended to be how required earnings were determined.

A small minority of respondents who were not working when interviewed wanted more from work than their outgoings and their Income Support eligibility. Of the 18 full-time earners, 11 worked for incomes that were lower than their Income Support entitlement and associated benefits. Eight of them earned less than their outgoings.

The level of housing costs affected the level of wages sought. Mortgage holders knew they had to cover their costs in full once in work, but tenants also tended to assume the same. Thus only a minority of tenants took Housing Benefit into account when calculating their required income.

Formal advice on money matters was an important factor in determining the desired wage. Where such advice had been sought it had led respondents to make fairly accurate calculations of the wages they needed to earn, which they were then not prepared to override.

The approach taken to managing the household budget was also important. Those who were careful managers, keeping detailed accounts of both their anticipated and actual expenditure, usually made better-off calculations even if they subsequently overrode them. Those who adopted a pay-as-you-go approach often made no calculation at all.

The fear of arrears on household bills was common among respondents who were careful money managers and made better-off calculations. Indeed some already had arrears. These circumstances prohibited them from overriding their calculation to take a job on a lower wage, often because they anticipated extra demands on their income once they returned to work. Arrears were also common among

those who made no better-off calculation, but here they seemed to occur as a result of taking a low-paid job without assessing the financial implications.

The role of benefits

The experiences and views of the households who took part in the study suggest that the strength of the commitment to work provides the main impetus to employment. Responses to the benefit system - both out-of-work and in-work benefits - were primarily made within the context of this wish to work.

Of those in employment, a minority were receiving in-work benefits. Just under half of those not receiving in-work benefits were, however, eligible for them.

In-work benefits were more likely to be claimed where people were employed in the flexible labour market and had fluctuating incomes. In-work benefits therefore smoothed income fluctuations, and did so to a considerable extent. For example, three of the six households in receipt of in-work benefits were receiving Family Credit ranging from £40 to £117 a week.

In contrast, those who were eligible for, but not claiming, in-work benefits had regular employment, usually full-time but low-paid, and had a very strong commitment to work. Crucially, they all had past experience of claiming benefits which had been difficult and which deterred them from claiming again.

Among those receiving Income Support, the extent of knowledge and understanding of the benefit system, and attitudes to claiming in-work benefits, were important influences on whether people were willing to move into employment. Approximately half of those on Income Support were unwilling to claim in-work benefits, which in turn meant that their better-off calculation did not take any potential eligibility into consideration.

Key reasons influencing the reluctance to claim were the desire to be free from benefit once in work, the perceived 'hassle' of claiming, and the belief that jobs should pay a wage that precluded the need to claim. In addition, accurate advice on potential entitlement to in-work benefits was reportedly difficult to obtain, even when a respondent asked for an assessment in connection with a specific wage.

Conclusions

The findings support the suggestion that the economic model of decision-making does not always prevail, and that other social and attitudinal factors play a crucial part in the decision-making process.

Of critical importance was the strength of the commitment to work, which played a major part in the way individuals responded to the labour market. But the commitment to work was itself mediated by a range of factors, including:

- the availability of jobs and their associated wage rates;
- the extent and accuracy of people's knowledge of in-work benefits;

- attitudes toward claiming and receiving in-work benefits;
- household structure and level of outgoings.

There were a number of important outcomes from these influences:

- a proportion of households were in receipt of incomes from employment that were lower than they could be receiving;
- among breadwinners, the move into work was made more difficult because of tenants' belief that they must cover all of their housing costs, and mortgagors' lack of eligibility for in-work housing costs, plus the general unwillingness to claim in-work benefits;
- for those tenants in work, the tapered withdrawal of in-work benefit as income rose played a limited role in their employment decisions. This was particularly marked with respect to Housing Benefit as tenants believed they must cover all of their housing costs once in work.

These conclusions indicate that it cannot be assumed that increasing housing costs and benefits will always or necessarily constitute an enhancement of work disincentives, or certainly not for all those seeking work. Rather, in the face of such changes, the researchers found that a proportion of households (particularly owners) are likely to work but at greater risk of poverty and so of housing arrears. Nevertheless, for the half of respondents making a better-off calculation and sticking to it, current policy on housing costs and benefits enhances work disincentives.

About the study

The study involved in-depth interviews in 40 households and provided 44 individuals who met the criteria for inclusion in the study. It was carried out in two areas - Luton and Coventry. Respondents were identified by a doorstep screen questionnaire, administered by PAS, a professional fieldwork organisation. The emphasis on decision-making and work disincentives required respondents who were:

- either in the process of assessing the wage they required in order to take employment (i.e. currently unemployed but with recent experience of employment);
- or who were in work but had had a recent spell of unemployment (within the last two years).

As the study also focused on the role of in-work benefits, any households with an income well above the level at which benefit take-up would have been an issue were screened out.

Further information

Further information can be obtained from Janet Ford and Jude England at the Centre for Housing Policy, University of York (tel: 01904 433691) or Elaine Kempson at the Policy Studies Institute (tel: 0171 468 0468).

The full report of the study, *Into work? The impact of housing costs and the benefit system on people's decision to work*, is published by York Publishing Services for the Joseph Rowntree Foundation (price £9.95 plus £1.50 postage and packing).

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- 134** Unemployment and housing tenure (Dec 94)
- 144** Private tenants and restrictions in rents for housing benefit (May 95)
- 154** Housing associations: Private finance and market rents (Sep 95)
- 164** Household formation and tenure decisions among the 1958 birth cohort (Nov 95)

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