

## The Better-off in Work Credit: Incentives and experiences

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The Better-off in Work Credit (BWC) was introduced on a pilot basis, to run for a year, on 27 October 2008 in the Yorkshire and Humber Jobcentre Plus region. Under BWC, individuals leaving out-of-work benefits after a continuous period of 26 weeks or more to enter employment of 16 or more hours a week may qualify to receive a regular credit of an amount sufficient to raise their in-work income to at least £25 a week above the income they receive on benefit. Entitlement lasts for 26 weeks and the credit is received either as a single lump sum at the start of the period or as a series of payments throughout the period, according to its amount. The objective of this credit is to encourage employment and to provide financial support during the transition into work. In doing so, it also aims to reinforce the message that work is the best route out of poverty.

In the course of its year-long pilot period, very few customers were entitled to a BWC. This report looks at why this was the case and what we have learnt from the pilot that is of relevance to the wider consideration of work incentives. First, it examines the interaction of BWC with other available support in order to better understand the incentives for moving into work and whether the BWC was a useful addition to this support. It then uses nationally representative data to simulate how large the BWC eligible population might be in Britain as a whole. Second, qualitative analysis involving Jobcentre Plus staff and customers examined questions relating to the delivery and administration of BWC, attitudes towards it and whether it influenced individuals' job search. As qualitative research, this explores themes and issues but does not enable us to quantify their importance.

### The effect of BWC on work incentives

Consideration of the range of credits available to those in work quickly identifies the core group for which BWC might be expected to have an effect. Among those potentially eligible for BWC, lone parents, people with disabilities and those aged over 50 qualify for Working Tax Credit (WTC) on entering work of 16 hours a week. Consequently, in-work income for these groups will often be too high relative to out-of-work income to be entitled to BWC. Furthermore, lone parents and people with disabilities are likely to also receive In-Work Credit (IWC) and Return to Work Credit (RWC), respectively, raising their in-work income further still. For other customers, WTC is only payable for work of at least 30 hours a week (and under-25s are ineligible at any hours). So, it is among Jobseeker's Allowance (JSA) customers under the age of 50 and who have no children that BWC is likely to be concentrated. Furthermore, the calculation of BWC is such that it is further concentrated among those receiving a low rate of pay and working relatively few hours.

The main exception to this is among individuals who have a mortgage. In such cases, their JSA or Income Support (IS) amounts include interest payments on the mortgage while out of work, but such assistance is only provided for a short, transitional period on entering work. This can mean that in-work income is substantially less than out-of-work income, resulting in a large BWC entitlement for those entering employment.

## BWC eligibility

Because of the availability of other in-work payments, potential entitlement to BWC is concentrated among JSA customers under the age of 50 without children entering low pay, low hours work. Of this group, few take low hours jobs. The qualitative evidence suggested that many JSA customers without children only wanted jobs of at least 30 hours a week. Some viewed full-time jobs as 'proper' jobs, others confused 'part time' with 'temporary', and others still had a firm idea of a particular income they wished to achieve. Another factor was that full-time jobs would enable individuals to meet the costs of travel to work and other employment costs that do not feature in the BWC calculations. Some Jobcentre Plus staff appeared to encourage JSA customers without children to find full-time work, only encouraging younger customers to consider jobs offering 16 hours of work a week because they considered that younger people could manage on a smaller income.

## Knowledge of BWC

The qualitative evidence suggested that very few customers were aware of the BWC. Most commonly, customers' awareness stemmed from finding a job which would result in them being eligible for BWC, although some had been encouraged by BWC to search for such jobs. The lack of awareness may mean that customers miss out, although, in some cases, customers gaining work may have been identified as eligible for BWC through them seeking information on other in-work benefits. Often, JSA customers who find work do not report to Jobcentre Plus so there is no opportunity to assess whether they might be eligible for BWC.

This low level of awareness is despite efforts to promote BWC. According to Jobcentre Plus staff, all customers coming to the Jobcentre Plus office during the two-week launch period had received information about BWC. This

should have covered nearly all JSA customers, the most relevant group. Thereafter, Advisers should have provided information to all new customers and at review meetings. However, some Advisers reported only providing information if they thought BWC was relevant and others were reluctant to provide BWC information routinely. This might be to avoid information overload, particularly since BWC was not seen as relevant to most customers.

This suggests that the information may not have been delivered as fully as possible. As a result of this, lack of awareness may have reduced BWC numbers, through reduced impact on customers' job search and reduced BWC claims by those securing jobs.

One way of communicating tailored BWC advice was through the use of the Better Off Calculation (BOC). This shows how much better off a customer would be in work than out of work. However, the BWC was not calculated directly within the BOC. Instead, where the result of the BOC showed customers to be less than £25 better off, Advisers would tell them about BWC and might write this on the BOC print-out. Advisers thought this was confusing and not an effective way of communicating the BWC amount, because the print out would then show two different amounts.

## Benefits of BWC

Even with low numbers receiving BWC, it may still have beneficial effects. For example, as with other credits, it might raise expectations of the returns from working, thus intensifying job search, and it might widen job search to include jobs with lower pay and hours. For those who receive it, BWC provides welcome and often important support, perhaps enabling customers to make the first step on a progression to higher earnings in employment. As with other credits available for long-term benefit customers entering work (such as IWC or RWC), BWC can thereby help bridge the gap between leaving benefit and receiving wages. The qualitative research suggested

that customers expected that they would be better off in work. Although this could have been the result of BWC, this seemed unlikely. This expectation was sometimes conditional on hours: some customers expected to be better off in work because they restricted their job search to those with hours which would unquestionably make them better off. The qualitative research suggested that BWC had not reduced the hours that would be considered acceptable for many customers. However, due to BWC, some had increased and widened their job search and some had accepted job offers they would have otherwise rejected. There was also evidence that BWC may have led some customers to take a job with low hours and then increase these hours. However, the small number of people receiving BWC and the results of the qualitative interviews suggests any such effects could only have been felt for relatively few people.

Irrespective of whether BWC encourages employment entry, it may be beneficial through providing support to those who enter work and thereby aiding retention. Certainly, it was seen as beneficial by BWC recipients and other customers. In particular, the assistance it provided in the early stages of employment, including helping cover transition costs and repaying debts, was appreciated. There was some evidence of BWC recipients increasing their earnings to compensate for the loss of BWC after 26 weeks. Some recipients seemed to have sought increases early on, whilst others were only prompted by the ending of payments. Still others did not seem to think about improving their earnings. Thus, whilst BWC may have helped some customers to move into higher earnings, others moved onto lower income than when they had been on benefits. Irrespective of whether a person was better off or not, a recipient might see BWC as helpful, for providing additional income for a period.

## BWC processes

The BWC claiming process was seen as simple by most recipients interviewed. Most were assisted by Advisers in the claiming process. However, some recipients found their income in work lower than they had expected. This may have been due to recipients' misunderstandings. It may have also been due to errors in the calculation either because, according to some of the Advisers, the BOC did not calculate income identically to the calculation for a BWC claim or because of errors in the data provided for the BOC (e.g. rent). Greater clarity over the size of payments prior to taking a job would be useful. Recipients were not always aware of when their payments would end and would have liked to receive prior notification of this. This may have helped them to budget accordingly.

A general aspect of the process with implications for other in-work benefits is the triggering of claims. Making a claim for in-work benefits is dependent on either the customer being aware of potential benefits or them maintaining a contact with Jobcentre Plus after finding a job (when Jobcentre Plus staff might inform them about credits). It seemed that some would miss out on credits and benefits and it would be useful if there were further ways to try to ensure that former customers received the in-work credits and benefits to which they were entitled. According to Advisers, the problem of lack of contact was largely for JSA customers.

## Other aspects of BWC

Customers appeared to take into account various costs of working, particularly travel costs. The lack of inclusion of such costs in the BOC may make some customers somewhat sceptical about its validity. Moreover, some BWC recipients had encountered unforeseen costs on becoming employed (e.g. legal costs) and had encountered difficulties. The BOC does allow costs other than those specified (e.g. rent) to be included in the calculation (under a miscellaneous heading). However,

which costs were included was not consistent, and expanding the costs which are specified might increase the accuracy of the BOC. This would be helpful to customers and increase the credibility of the BOC.

The limitation of the payment of BWC to 26 weeks was seen as a problem by some Advisers. They were unhappy about encouraging customers to take jobs when they might find themselves worse off after six months. Some Advisers could not see why BWC should not be on-going, like WTC. This also caused problems for some BWC recipients, although others (including some who had not been able to increase their earnings) felt that BWC was useful.

It was clear that some customers were confused about the benefits and credits for which they might be eligible. With such confusion, incentive effects may be problematic. Some Advisers felt that the introduction of a new credit added to this confusion (as well as to the time required to explain credits and benefits). It may be helpful to reduce the number of named benefits and credits. This need not mean that eligibility has to be uniform for all groups. Such an adjustment might also improve take up of lesser known credits and benefits.

## Lessons from the evaluation

In principle, BWC filled a gap in the range of support available to those entering work. In particular, it filled a gap for young people. However, few claimed the credit. This may be for a number of reasons. First, the timing of the pilot coincided with a period of sharp economic contraction during which unemployment grew rapidly. It may simply be that reduced job entry resulted in fewer claimants, since it was only available to those moving into work. Another possibility is that BWC provided an incentive to work 16 hours a week since the maximum entitlement would usually be achieved at this level, yet the number of hours a week that most young JSA customers wanted to work was considerably higher and would result in

them being more than £25 a week better off in work and therefore not entitled to BWC. The incentive provided by BWC was insufficient to overcome the preference for higher hours. Were BWC available at a flat rate, along the lines of IWC or RWC, it would be available to those working higher hours (and consequently earning more) and could therefore offer an incentive to work at all levels. This may be more effective in encouraging job entry. Alternatively, the credit could be larger, perhaps by ensuring the full costs of employment, including costs associated with travel and child care, were taken into account. This would also increase its effectiveness as a work incentive.

Customer awareness of BWC was low – this obviously reduces its effectiveness as a work incentive. Advisers have to communicate a large amount of information and ways of improving communication are needed. Advisers themselves were aware of the potential for information overload and also conscious that the timing of information provision is important since individuals are most likely to retain information that is directly relevant to their current situation.

The fact that BWC was new and a pilot may also have contributed the small number of BWC recipients. Ideally, a pilot would trial a new policy under the same circumstances that would prevail were it an established part of national policy. Publicity for BWC was not as extensive as it might have been were it a national policy. It is only to be expected that a new policy – particularly one from which relatively few people are likely to benefit – is going to take some time to achieve widespread recognition. In a similar vein, using national infrastructure to trial a local intervention may be problematic. In this case, the BOC could not be altered to reflect the existence of BWC. Consequently, the central message of BWC was not automatically communicated to customers. In any event, using the BOC only allowed the Adviser to make an estimate of the amount of BWC entitlement

Regardless of the timing and manner of communication, the problem remains that Jobcentre Plus customers are often expected to absorb a large amount of information. Introducing payments such as BWC only adds to the complexity of the benefit and tax credit system, creating further potential for confusion. Were there a fresh attempt to incentivise a return to work among young JSA claimants, it may be appropriate to consider using the existing infrastructure, principally the WTC. This would also provide a convenient means of delivering time-limited support in a similar way to the time-limited WTC premium available to people over the age of 50.

Overall the evidence suggests that the BWC as piloted has not been a significant addition to the range of back-to-work support. The research does not address the questions of whether a modified credit might be more effective in encouraging people back to work. More work is needed to understand how best to design such a credit. For example, is a period of 26 weeks sufficient or is 52 weeks (as provided under IWC and RWC) preferable? The answer to this depends on factors such as whether and at what rate earnings progression takes place, how long it takes for individuals to acquire the habit of working and whether the costs of entering employment are one-off costs rather than ongoing costs. Understanding these and other points would help in refining the design of this and other credits designed to support employment entry.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 718 1. Research Report 637. January 2010).

You can download the full report free from: <http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

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