

Exercise 6: Reforming the benefit cap in the UK

Objectives:

- Understand how the benefit cap policy works in UKMOD
- Understand how exemptions to the policy are defined
- Understand which benefits are capped in the UK and how they are taken into account by UKMOD
- Reform the benefit cap policy in the UK by removing child benefit from the list of benefits that are capped.

Description:

From 15 April 2013, a “benefit cap” may limit the total amount payable to a benefit unit from certain specific benefits. The benefit cap is applied by reducing Housing Benefit (HB) (or Universal Credit (UC) after October 2013). If the benefit unit is not entitled to HB (or UC), the benefit cap does not apply.

The following benefits can usually be capped:

- Child Benefit
- Child Tax Credit
- Employment and Support Allowance (except when in the Support Group)
- Housing Benefit (except for households in Supported Exempt Accommodation)
- Incapacity Benefit
- Income Support
- Jobseeker's Allowance
- Maternity Allowance
- Reduced Earnings Allowance
- Severe Disablement Allowance
- Universal Credit (except the Childcare Costs element)
- Widowed Parent's Allowance
- Widowed Mother's Allowance
- Widow's Pension

For this exercise, you will implement a reform that removes Child Benefit from the list of benefits that is capped. You are asked to implement the reform and analyse its distributive impact, focusing on child poverty.

Directions:

- Open UKMOD and access the UK policy descriptions
- Analyse the 2021 tax-benefit system in the UK (the baseline) and identify where the benefit cap is calculated
- Copy the *UK_2021* system, and call the copy *UK_2021cap_ref*
- Implement the desired reform
 - a. Implementation of the benefits cap requires the total benefits that a family is eligible for ignoring the cap to be evaluated. Taking this into consideration, locate the benefits cap within the spine.
 - b. The existing policy code evaluates two variables to store the benefits reduction under the cap: *brd_s* when the cap applies to HB and *brduc_s* when the cap applies to UC
 - c. There are two income lists relevant for this policy: one containing benefits to be capped (e.g. *il_bencap*) and one containing benefits that prevent the cap to be applied (e.g. *il_bcap_exempt*). Check where they are defined and what they include
 - d. The easiest way to implement the cap is to calculate a ‘negative’ benefit (or a tax) equal to the original total sum of benefits minus the cap. Following this strategy:
 - i. Compute the means tested benefit each family is entitled to before the cap
 - ii. Compute the means tested benefit each family is entitled to after the cap
 - iii. Modify the income list *ils_benmt* subtracting the part of means tested benefit exceeding the cap
- Save your changes
- Run *UK_2021cap_ref*
- Use the Statistics Presenter, Baseline/Reform option, to analyse effects

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Step-by-step solution and further information:

Step 1: Creating a new system

Our first task is to open UKMOD, click on the UK flag to open the country and create a new system using the 2021 system as a base. Give the name *UK_2021cap_ref* to the new system (see exercise 1 for explanation). Furthermore, use *Display>Conditional formatting* to hide all systems but these two: UK_2021 and UK_2021cap_ref.

Step 2: Analysing the current policy

1. Access the Benefit Cap policy in the UK (*bcap_uk*). Consider year 2021.
2. Before implementing a new policy, we should first understand a bit better how the tax-benefit system in UK works – what are the policies, how are they constructed, how are they connected, which income list(s) do they use, which benefits will be affected by the income tax, which tax units are used, what are the output variables, etc. One easy way to do that is by searching for the term “benefit cap” throughout the ‘spine’ and understanding how different elements interact.
3. Next, explore how the *bcap_uk* policy works and how it is calculated. It consists of various *Elig*, *ArithOp*, *BenCalc* and a *DefII* functions. Explore what they do.
4. For the purpose of this exercise we will make our changes on the income list containing the benefits to be capped (this is defined in *ILDef_uk* within income list *il_bencap* “Benefits capped”) – note the difference from modifying the income list containing benefits that prevent the cap to be applied (income list *il_bcap_exempt* defined in policy *bcap_uk*).¹

¹ Try implementing the two reforms and compare the results.

Step 3: Reforming the benefit cap (bcap uk) policy

Figure 1. Components of the income list *il_bencap*

	Policy	Grp/No	UK_2021	UK_2021cap_ref	Comment
8.23	fx Defil		on	on	Gross income from Savings
8.24	fx Defil		on	on	Benefits capped
8.24.1	name		il_bencap	il_bencap	
8.24.2	bfamt_s		+	+	Child Tax Credit
8.24.3	bsa_s		+	+	Income support
8.24.4	bsadi_s		+	+	Income related ESA
8.24.5	bho_s		+	+	housing benefit
8.24.6	bunmt_s		+	+	Income based JSA
8.24.7	bdict01		+	+	Incapacity Benefit
8.24.8	bdict02		+	+	Contributory ESA
8.24.9	bcrdi		n/a	n/a	Invalid care allowance
8.24.10	bdisv		+	+	Severe disablement allowance
8.24.11	bmana		+	+	Maternity Allowance
8.24.12	bmanc_s		+	+	Maternity Allowance
8.24.13	bch_s		+	+	Child benefit
8.24.14	bunct_s		+	+	unemployment benefit (JSA)
8.24.15	bsauc_s		+	+	UC total benefit amount
8.25	fx Defil		on	on	Earnings to which UC disregards applies (il_UC_earns)
8.26	fx Defil		on	on	Universal Credit means : earned income

1. We can see that the current 2021 system caps a range of benefits. Among them *bch_s* which is the simulated Child Benefit (Figure 1).
2. Edit the row in the reform system (*uk_2021_cap_ref*) (Figure 2) by replacing the + value with *n/a*.

Figure 2. Omitting Child Benefit from the income list *il_bencap*

Policy	Grp/No	UK_2021	UK_2021cap_ref	Comment
8.23	fx Defil	on	on	Gross income from Savings
8.24	fx Defil	on	on	Benefits capped
8.24.1	name	il_bencap	il_bencap	
8.24.2	bfamt_s	+	+	Child Tax Credit
8.24.3	bsa_s	+	+	Income support
8.24.4	bsadi_s	+	+	Income related ESA
8.24.5	bho_s	+	+	housing benefit
8.24.6	bunmt_s	+	+	Income based JSA
8.24.7	bdict01	+	+	Incapacity Benefit
8.24.8	bdict02	+	+	Contributory ESA
8.24.9	bcrdi	n/a	n/a	Invalid care allowance
8.24.10	bdisv	+	+	Severe disablement allowance
8.24.11	bmana	+	+	Maternity Allowance
8.24.12	bmanc_s	+	+	Maternity Allowance
8.24.13	bch_s	+	n/a	Child benefit
8.24.14	bunct_s	+	+	unemployment benefit (JSA)
8.24.15	bsauc_s	+	+	UC total benefit amount
8.25	fx Defil	on	on	Earnings to which UC disregards applies (il_UC_earns)
8.26	fx Defil	on	on	Unversal Credit means : earned income (il_UC_earn_earned)

When the policy *UK_2021cap_ref* runs, UKMOD will not include Child Benefit among the list of capped benefits, so that families will be able to keep the full amount of it.

Step 4: Produce and analyse micro-data output

Run UKMOD in order to produce micro-output for the policy *UK_2021cap_ref*. Then use the UKMOD to analyse differences in benefits and disposable income due to the changes (see Exercise 2 for details).

Solution

See Excel file “Exercise 6.xlsx”