Impacts of AA and DLA on older people in Wales

Final report for

The Welsh Assembly Government

Prepared by

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Contents

Tables, figures & boxes

Page

Tables, figures & boxes

Page

Glossary

Terminology abbreviations

AA	Attendance Allowance
CPI	Consumer Price Index
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
MobA	Mobility Allowance
NPV	Net Present Value
RPI	Retail Price Index

Executive summary

Despite a long history of provision of Attendance Allowance (AA) and Disability Living Allowance (DLA), there has been little research into the role that these benefits play in meeting the needs of older people, or the impact the benefits have on the demand for social care and individuals' ability to pay for personal care.

Further, whilst research has been undertaken in England and the UK more generally into patterns of take-up and use of AA and DLA, there has been little research into whether results are systematically different for older people in Wales.

This study has sought to address these gaps in the literature, first by considering the current situation on take-up, use of AA and DLA income and links with demand for social care, and second by projecting future demand for these payments under various policy scenarios. The scope of the research is limited to AA and DLA recipients aged over 65 and living in Wales. Findings from research into current and future use of AA and DLA are presented in turn below.

Current take-up and use of AA and DLA in Wales

AA and DLA are tax-free allowances paid to help with the additional costs incurred by people with a disability, such as the extra cost of personal care (for example, for washing, dressing and bathing), supervision or transport. AA is only available to people older than 65, whereas DLA is only available to people who are less than 65 years of age at the time of claiming. Older people can continue to receive DLA as long as they first applied before they turned 65. Allowance payments can vary between £18.95 and £121.25 per week depending on the level of care required, and average just over £60 per week across all recipients in Wales aged over 65.

Take-up of AA and DLA

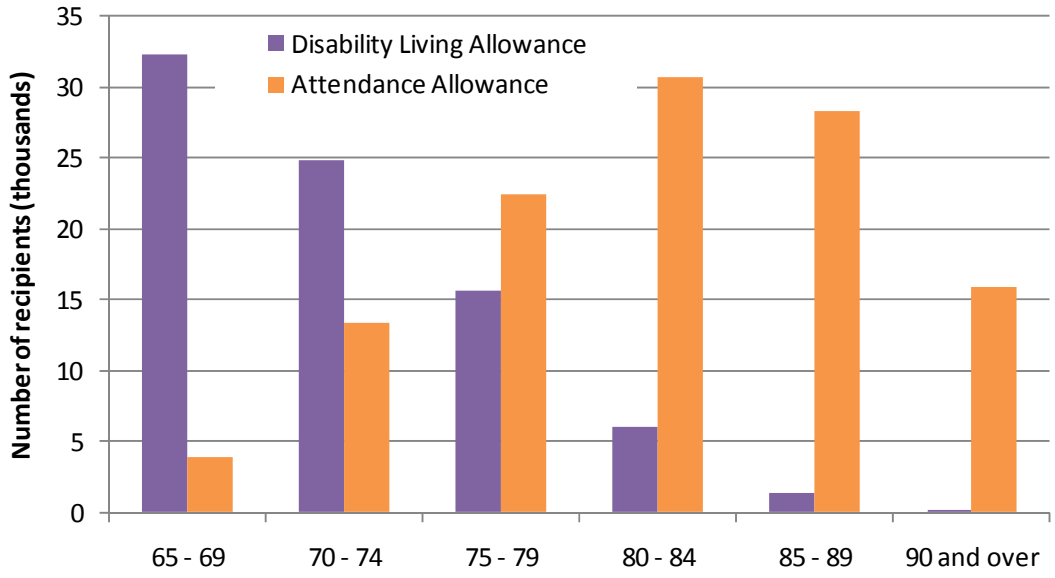
As of May 2010, 195,000 people living in Wales aged over 65 were receiving AA or DLA. Of these, the majority (115,000) received AA, while the remaining 80,000 received DLA. Key drivers of take-up of AA and DLA in Wales include age and disability.

The number of people receiving DLA tends to decrease with age among older recipients, whereas the number of people receiving AA increases with age, peaking for the 80-84 age group (Figure 1). In fact, take-up of AA as a proportion of the relevant population continues to increase for the 85-89 and 90+ age groups: there were only more AA recipients in the 80-84 age group because there were more people aged 80-84 than 85-89 or 90+ in Wales in 2010.

People in Wales aged over 65 who report that they have physical and/or cognitive difficulties are about 15 times more likely than the rest of the older population to receive AA or DLA. However, around half of people with physical or cognitive difficulties do not receive AA or DLA. This suggests that there is scope for take-up to increase in the future. Not all people with a disability are likely to meet the stringent eligibility conditions for AA (in particular, which has tighter eligibility conditions) and DLA, but previous research for the UK has suggested that only around half of the eligible population actually take up these payments.

Barriers to take-up that have been identified include a lack of awareness about benefits, an unwillingness to accept 'disabled' status and perceptions of arduous claims processes. Existing literature, consultations with local authorities and focus group research undertaken for this study all indicate that a lack of knowledge about AA and DLA is responsible for reducing take-up. Participants in the focus groups had often not claimed benefits when first eligible because of a lack of information and (unfounded) fear of losing other benefits. Participants in focus groups also said that they delayed applying for AA or DLA because they wanted to maintain their independence. Participants considered the application process to be onerous and accusatory, which tends to deter potential applicants, corroborating findings from consultation with local authorities. Another factor reducing overall take-up is a lower rate of take-up among people with higher income.

Figure 1: AA and DLA caseloads in Wales, May 2010



Source: DWP (2011)

Use of AA/DLA income

Determining exactly how people use income from AA and DLA can be difficult because people often put additional income into a general 'pot' that they use for all their expenditure. In general, older people in Wales on DLA and AA spend money on similar things to the rest of the population aged over 65. Perhaps surprisingly though, people on AA and DLA spend slightly less on private medical expenses than people who do not receive these benefits, suggesting that AA and DLA recipients generally meet their medical needs through public medical services.

Focus group research undertaken for this study included questions designed to isolate how people used AA and DLA income. This research showed that older people in Wales use AA/DLA income primarily for:

- transport (own vehicle or taxi) to visit shops for food and to visit surgery and hospital;
- transport assistance (petrol money) paid to family and friends, for above;
- heating as a consequence of being at home constantly;

- electricity as a consequence of being at home constantly;
- food of a good quality in order to maintain health (including special diets);
- home maintenance including cleaning, washing, gardening, painting, general repairs; and
- items associated with managing their condition and personal hygiene.

Unlike previous research for the UK as a whole, the focus group research found little evidence of people using AA and DLA income to pay for personal care.

Links with the demand for social care

Survey data and focus group research both suggest that older people in Wales spend little of their payment income on personal care. This tends to limit the extent to which AA and DLA and social care are likely to be substitutable: people would not necessarily need to replace privately funded personal care with social care if they no longer received AA or DLA. However, previous research for the UK has shown that AA and DLA can have a key role in reducing demand for formal services even when AA or DLA income does not go directly towards paying for personal care.

Further, focus group research did indicate the potential for there to be significant indirect links between disability benefits and demand for social care. Participants explained that they would feel a loss of independence and be unable to maintain standards of personal hygiene and home conditions if they did not receive AA or DLA benefits. They saw themselves having to travel less, reduce heating and buy cheaper food. All these effects would be likely to contribute to deterioration in general health and wellbeing, with the potential to increase dependence on social services.

Future projections

Future take-up of AA and DLA benefits until 2030 under a variety of policy scenarios was projected using a cohort analysis. Cohort analysis involves tracking the experience of groups of people of a similar age and is commonly used to assess the effects of ageing.

Projections were estimated for five different scenarios:

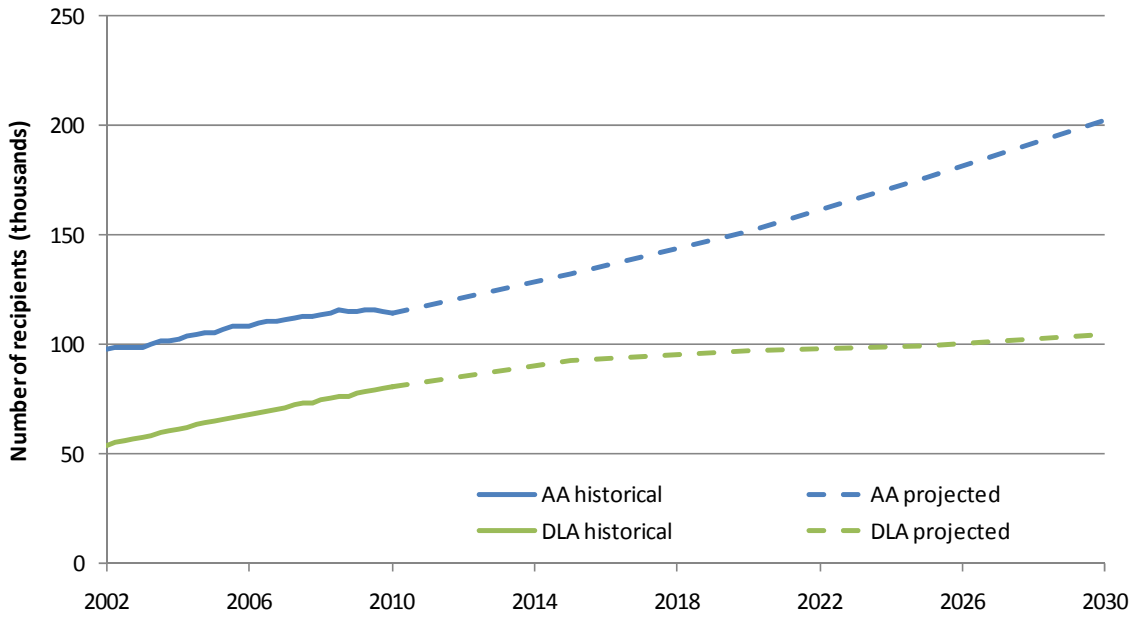
1) Baseline – benefits continue according to current eligibility conditions;
2) AA/DLA removal – no further AA or DLA payments are made to people in Wales over 65;
3) "Lenient" means testing – people in the top income quartile (excluding disability allowances) are no longer eligible to receive AA or DLA;
4) "Strict" means testing – new applicants from the top two income quartiles (excluding disability allowances) are no longer eligible to receive AA or DLA; and
5) AA/DLA reform – reform to DLA as set out in the June 2010 budget, in conjunction with comparable reform to AA after 2015.

Caseloads and expenditure

Under baseline projections, growth in DLA caseloads and expenditure is expected to slow, but AA caseloads are projected to continue to increase rapidly (Figure 2). Growth in uptake of DLA among the Welsh population aged over 65 is likely to slow because the rapid increase between 2002 and 2010 was probably a one-off, driven by 'maturing' of the benefit (introduced in its current form in

1992) and generational differences in attitudes toward benefits. Further, take-up of DLA peaks for people in the 65-69 age group, so is less affected by demographic projections of rapid increases in the future population of Wales aged over 80. For AA, on the other hand, take-up is highest among the very old, so caseloads and expenditure can be expected to continue to increase rapidly.

Figure 2: Projections of AA/DLA caseload for people in Wales aged over 65

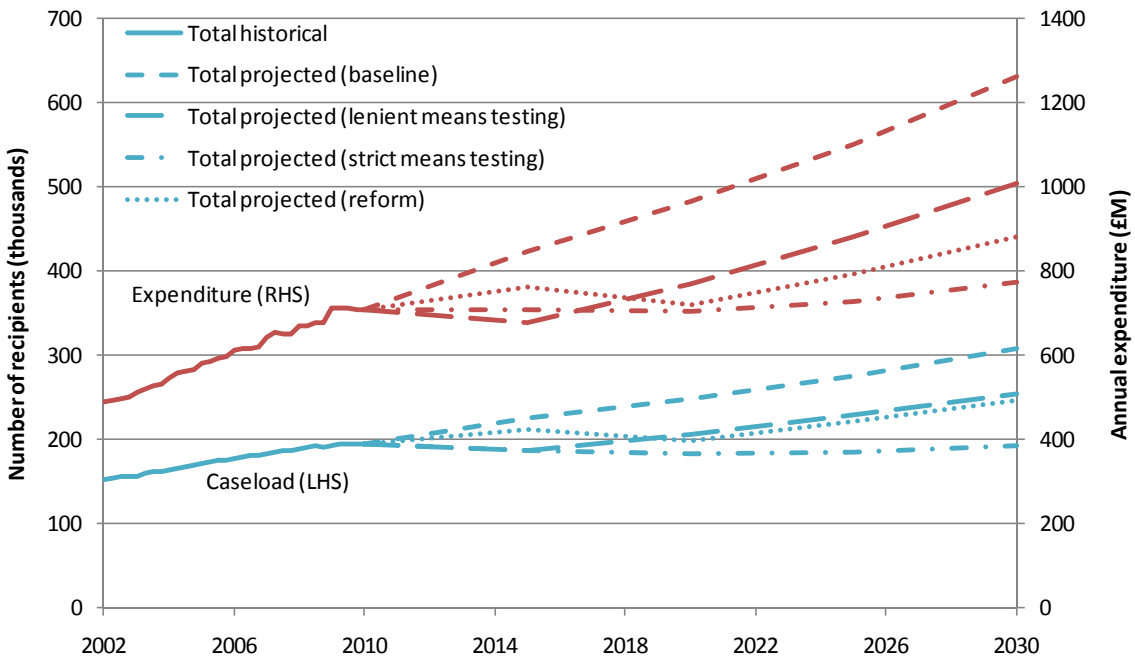


Source: DWP (2011); LE Wales projections

Expenditure on AA and DLA payments is likely to continue to increase at a similar (linear) rate to that experienced between 2002 and 2010 under baseline projections (Figure 28). As in recent years, projected increases in expenditure are slightly higher than caseload increases because they are indexed for inflation using the retail price index (RPI), which typically grows more rapidly than the consumer price index (CPI) used for deflating monetary values to current values.

Of the other scenarios modelled (excluding complete removal of AA and DLA benefits) caseloads and expenditure are projected to grow most slowly under a "strict" means testing regime. There are few AA or DLA recipients in Wales in the fourth (top) income quartile, but many more in the third quartile who will no longer be eligible for new applications after 2010 under this scenario. Caseloads after 2020 are similar under "lenient" means testing and the reform scenario, but expenditure growth is slower under the reform scenario, due to the change from RPI to CPI indexing announced in the June 2010 budget.

Figure 3: Projected caseload and expenditure on DLA and AA for people in Wales aged 65+ (various scenarios)



Note: All figures deflated to 2010 using CPI. Expenditure projections are for Wales and, for DLA, only for people aged over 65.
Source: DWP (2011); LE Wales projections

Costs and benefits

Cost–benefit analysis has been undertaken for each of the four policy scenarios, relative to the baseline (no policy change) scenario (Table 1). The potential for significant costs from impacts that are difficult to quantify means that the different scenarios cannot be easily compared using an overall summary measure. However, some broad conclusions can be drawn.

- Complete removal of AA and DLA allowances would maximise savings to the Exchequer in the short term — both in terms of payment and administrative costs — but carries the greatest risks in terms of worsened health outcomes, increased demand for social health care, adverse distributional outcomes, and hardship for recipients from losing a payment that they have come to depend upon. All these impacts could lead to a need for greater expenditure in other areas, such as in health and social care.
- Means testing is one way to reduce Exchequer costs of AA and DLA payments to recipients in Wales aged over 65, but effects on health care demand need to be considered. Means testing is also likely to entail additional administrative costs.
    - A stricter means test that applies only to new applicants could be used to reduce administrative costs and to avoid high costs from people losing existing payments.
- Reforms that reduce the number of people receiving AA and DLA, based on reforms to DLA in the June 2010 budget, have the potential to reduce administrative costs. However, a full evaluation would need to consider potential increases in the demand for social health care, adverse distributional outcomes, and hardship for recipients from losing a payment that they have come to depend upon.

Table 1: Summary of scenario impacts (net present value 2010–2030, £ million)					
	Accruing to	**Scenario 1: AA/DLA removal**	**Scenario 2: "Lenient" means test**	**Scenario 3: "Strict" means test**	**Scenario 4: AA/DLA reform**
Benefits					
DLA & AA payments	UK Government	13,433	2,054	3,166	2,633
Admin costs	UK Government	388	66	101	60
Moving into work	-	-	-	-	-
Costs					
DLA & AA payments	DLA/AA recipients	13,433	2,054	3,166	2,633
Admin costs	UK Government	-	101	44	40
Health & care	Local Authorities; Welsh Assembly Government; UK Government; NHS; DLA/AA recipients	Potentially significant	Potential for some impact	Potential for some impact	Potential for some impact
Distributional	DLA/AA recipients	Potentially significant	-	-	Potential for some impact
Loss aversion	DLA/AA recipients	Potentially very significant	Potential for some impact	-	Potentially significant

Note: All costs and benefits in 2010 £s and discounted using a discount rate of 3.5% per annum. '-' denotes small or negligible impact.
Source: LE Wales

1 Context and research objectives

LE Wales has been commissioned by the Welsh Assembly Government to undertake research into the potential impact of changes to AA and DLA on older people in Wales, under Contract C-63/2010/11 'Welfare Benefits and Social Care Research Project'.

This is the final report on that research.

1.1 Context

Despite a long history of provision of Attendance Allowance (AA) and Disability Living Allowance (DLA) (introduced in 1971 and 1992, respectively), very little research has been undertaken into the role these benefits play in meeting the needs of older people, or the impact the benefits have on the demand for social care and individuals' ability to pay for personal care.

The corollary of this fact is that it would not be possible to estimate the likely impact on the demand for social care and individuals' ability to pay for personal care should the eligibility criteria for such benefits change in the future (e.g. means-testing).

Whilst research has been undertaken in England and the UK more generally (e.g. Berthoud and Hancock, 2008; Corden et al, 2010), following publication of the Wanless Social Care Review (2006), no research of the patterns of take-up and use of AA and DLA (for continuing eligibility) has been undertaken for older people in Wales. It is not known whether the observed patterns in these research studies are representative for older people in Wales. Hence the motivation for the current research.

1.2 Research aim

The primary objective of this research is to fill the identified evidence gap in the knowledge base as to the how older people in Wales use the income received from welfare benefits (such as AA and DLA), in combination with social care, personal wealth and other income (e.g. pension), to address their care needs.

The Wales-specific evidence base formed in this research could subsequently be used as the basis for assessment of likely impacts of any proposed changes to the benefits regime (on individuals, the social care system and on the wider Welsh economy) and to inform evaluation of any proposals from the UK Government for reforming these benefits.

1.3 Attendance Allowance and Disability Living Allowance

AA and DLA are tax-free disability allowances paid to people living in the UK who need help with personal care, getting around or both. The allowances are intended to help with the additional costs incurred by people with a disability, such as the extra cost of personal care (for example, for washing, dressing and bathing), supervision or transport.

DLA has both a care component and a mobility component. The care component is paid at three different levels: the lowest rate is for people who need help for some of the day or who are unable to prepare a cooked main meal; the middle rate is for people who need help with personal care

frequently or supervision continually throughout the day only or during the night only; and the highest rate is for people who meet both a day and a night condition for the middle rate, or who are claiming under special rules for the terminally ill. The mobility component is paid at a lower rate for people who need guidance or supervision out of doors and at a higher rate for people who have more severe walking difficulties.

DLA is only available to people who are less than 65 years of age at the time of claiming. Conversely, AA is only available to people older than 65. However, there many people older than 65 who receive DLA. This is because anyone who receives either element of DLA before their 65th birthday is eligible to continue to receive it, rather than AA, after 65.

AA has only a care component, paid at two (lower and higher) rates. The eligibility requirements for the lower and higher rates of AA are similar to the requirements to qualify for the medium and highest rates respectively of DLA. People receiving DLA are not eligible for AA. Anyone aged over 65 and not in receipt of DLA would not be eligible for AA if their disability is only equivalent to the requirements for the 'lowest rate' care component of DLA. Current rates of payment available under DLA and AA are summarised in Table 2 below.

Table 2: Weekly payments for AA and DLA (£/week)

	Care component			Mobility component	
	Low	Medium	High	Low	High
DLA	18.95	47.80	71.40	18.95	49.85
AA	47.80	n/a	71.40	n/a	n/a

Note: The 'lower' rate care component of AA has similar eligibility conditions to the 'medium' rate care component of DLA.
Source: Directgov (2011).

2 Older recipients of AA and DLA in Wales

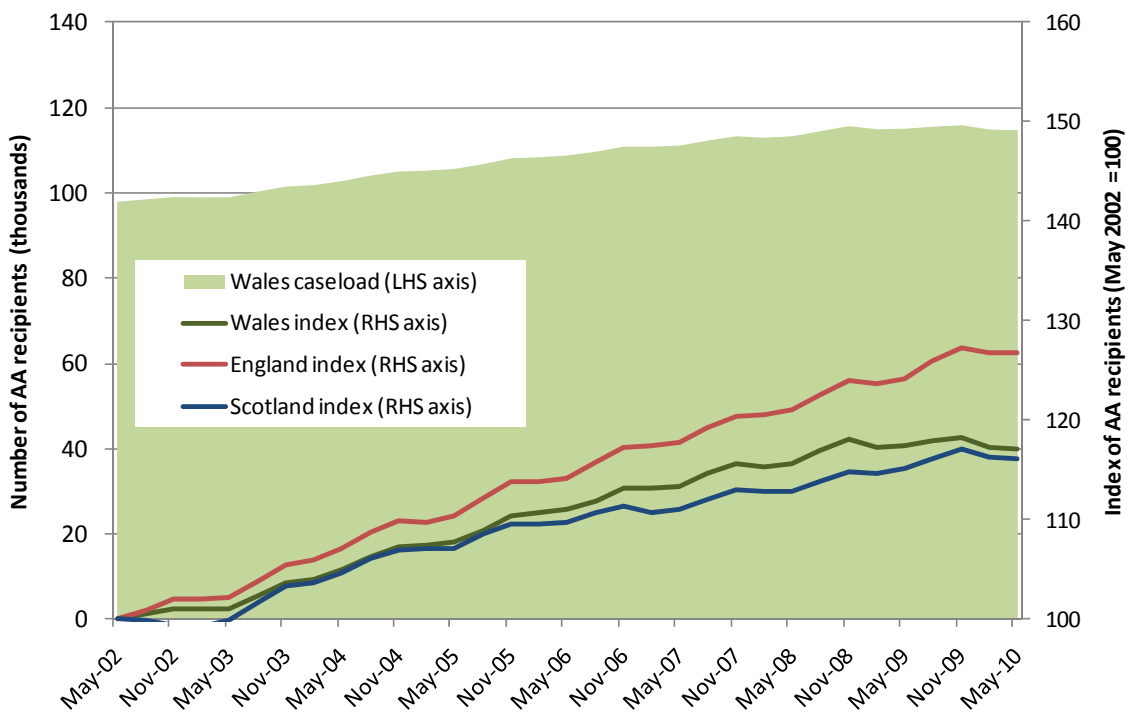
2.1 Trends in AA and DLA recipients and spend

As of May 2010, 195,000 people living in Wales aged over 65 were receiving AA or DLA. Of these, the majority (115,000) received AA, while the remaining 80,000 received DLA.

The number of people receiving AA and DLA has increased over recent years. In Wales, AA cases in payment increased by 17% between 2002 and 2010 (Figure 4). The number of people aged over 65 receiving DLA has increased much more rapidly: there were almost 50% more cases in payment in Wales in 2010 than in 2002 (Figure 5).

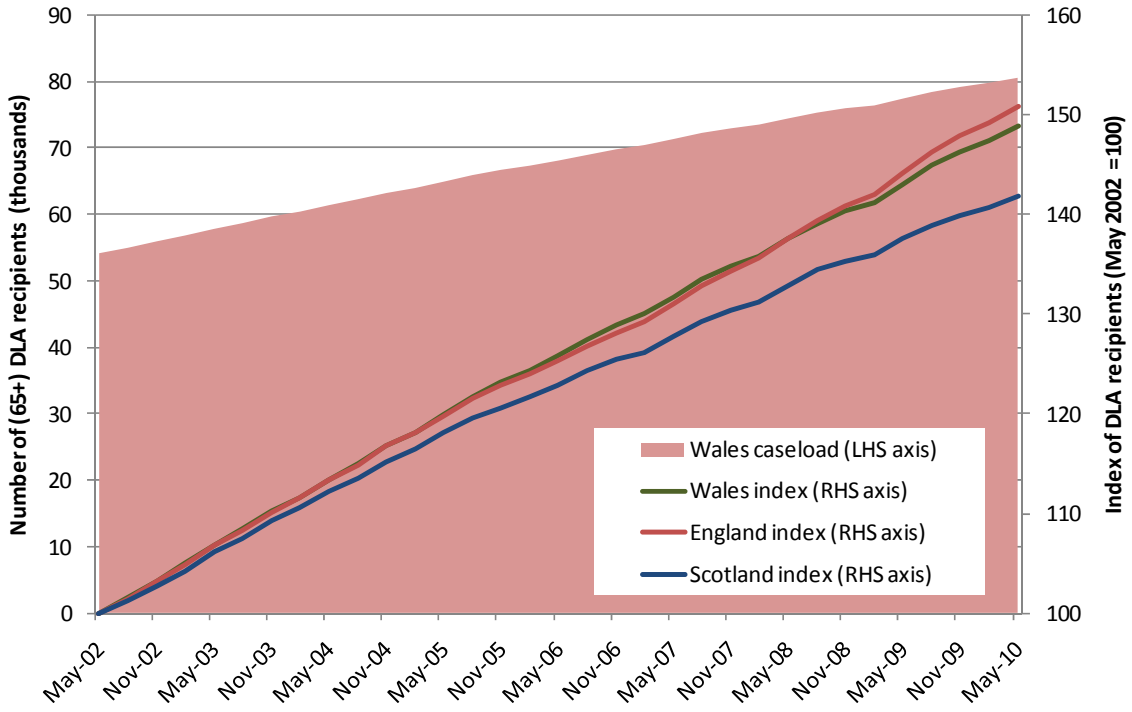
Increases in the number of people receiving AA and DLA in Wales are broadly in line with concurrent increases in the rest of Great Britain. For both DLA and AA, the increase in caseload in Wales was more rapid than that in Scotland between 2002 and 2010, but slower than that in England.

Figure 4: AA cases in payment (65+)



Source: DWP (2011).

Figure 5: DLA cases in payment (65+)



Source: DWP (2011).

Government expenditure to pay for AA and DLA among people in Wales aged over 65 increased by over 70% between 2002 and 2010. This was due to three drivers:

- inflation;
- increases in the number of recipients of AA and DLA; and
- increases in the (real) average weekly payment for each recipient.

Inflation means that government expenditure must increase in nominal terms just to allow payments to keep up with the cost of living. There are various ways of measuring the cost of living, one of the most common being the Consumer Price Index (CPI). Deflating expenditure using the CPI allows a real measure of expenditure to be constructed that abstracts from the effect of inflation. Even adjusting for inflation, real expenditure on AA and DLA among people in Wales aged over 65 increased by over 40% between 2002 and 2010 (Figure 6).

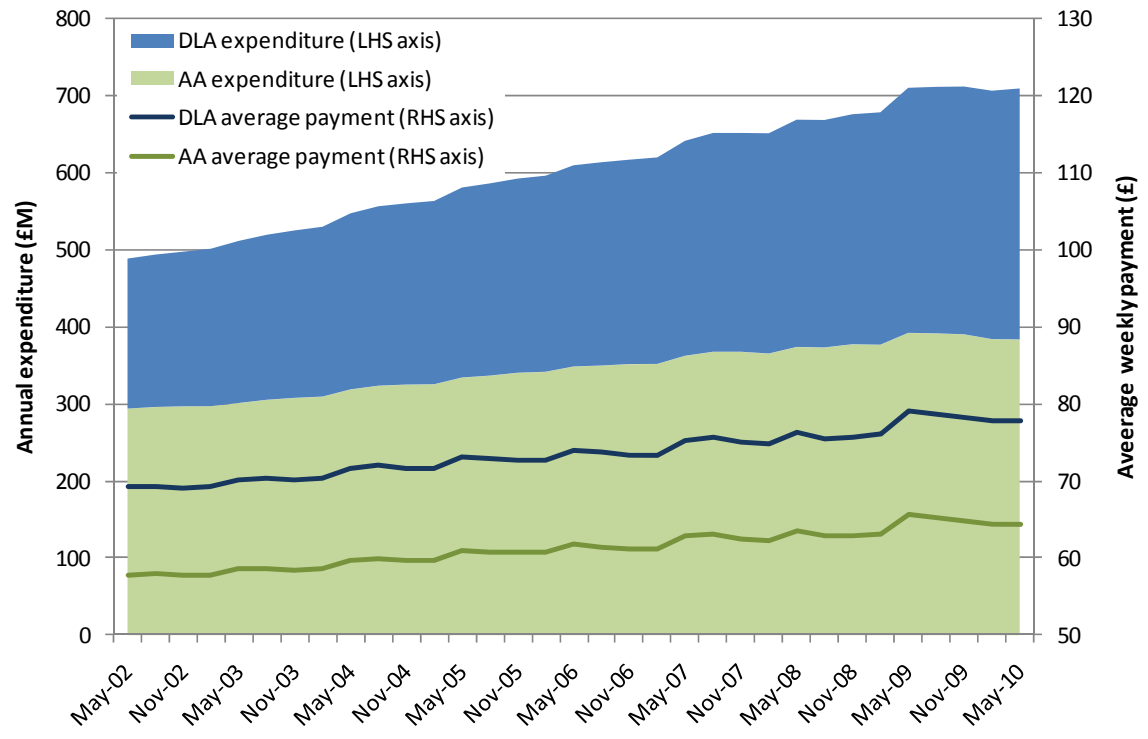
Most of the increase in real expenditure was caused by a rapid increase in the number of recipients, as discussed above. In particular, take-up of DLA increased rapidly among people aged over 65 in Wales between 2002 and 2010. The increase in take-up of AA and DLA explains almost three quarters of the 40% increase in real expenditure.

The remaining increase in real expenditure can be explained by an increase in the (real) average weekly payment to recipients of DLA and AA. Average real weekly payments for people on DLA over 65 in Wales increased from less than £70 per week to almost £80 per week between 2002 and 2010, alongside a corresponding increase in average AA payments from £58 to £64 per week (Figure 6). There are two reasons for these increases. Firstly, the allowance payments have

historically increased according to the retail price index (RPI), which has increased more rapidly than CPI, resulting in real increases in allowance payments when inflation is measured using CPI. Secondly, the proportion of people on higher level allowances has increased. In 2010, 71% of people on AA in Wales received the 'higher' rate payment, compared with 57% in 2002. Similarly, around a quarter of DLA recipients over 65 in Wales were on the higher rate care award in 2010, compared with less than a fifth in 2003 (although the proportion of recipients receiving the higher rate mobility award had declined slightly).

The combined effects of inflation, increases in the number of recipients of AA and DLA and increases in the average weekly payment for each recipient meant that Government expenditure to pay for AA and DLA among people in Wales aged over 65 had reached more than £700 million per year by 2010.

Figure 6: Expenditure on DLA and AA for people in Wales aged over 65



Note: All figures deflated to 2010£ using CPI.
Source: DWP (2011).

2.2 Take-up of DLA & AA by older people

2.2.1 Measuring take-up rates

There are a number of ways in which the take-up rates of DLA and AA could be measured. Receipt of DLA/AA could be compared to (i) the whole population (ii) the population who are disabled and who have a long term illness, as measured by some published indicator (iii) the population who are eligible to receive DLA/AA.

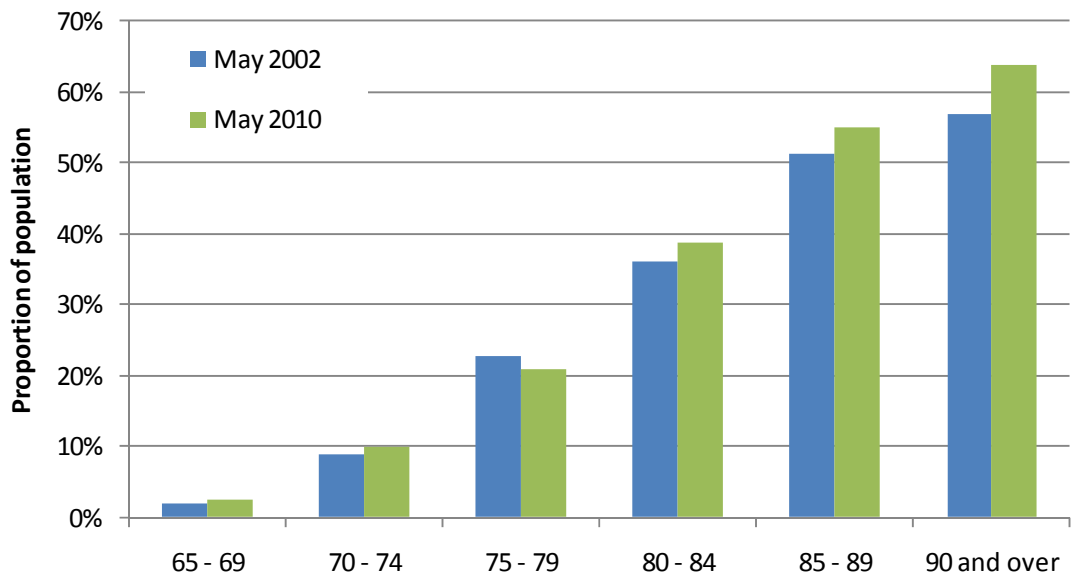
We discuss each of these measures below. For the purposes of policies for encouraging people to take-up the benefits that they are entitled to, it is the third measure above that is potentially the most relevant.

2.2.2 Take-up as a proportion of the population

The Figures below show the proportion of the older population receiving AA and DLA, by age group in Wales. They show a comparison of take-up in 2002 and in 2010.

For recipients of AA the chart shows small increases between 2002 and 2010 in the numbers of recipients for all age groups except for those aged 75-79. There is a clear trend in take-up rates with age among the population aged over 65, with take-up much higher among older age groups. In 2010, there were more people living in Wales aged between 65 and 74 than 75 or over, yet 85% of AA recipients were 75 or older.

Figure 7: Take-up of AA by age group in Wales



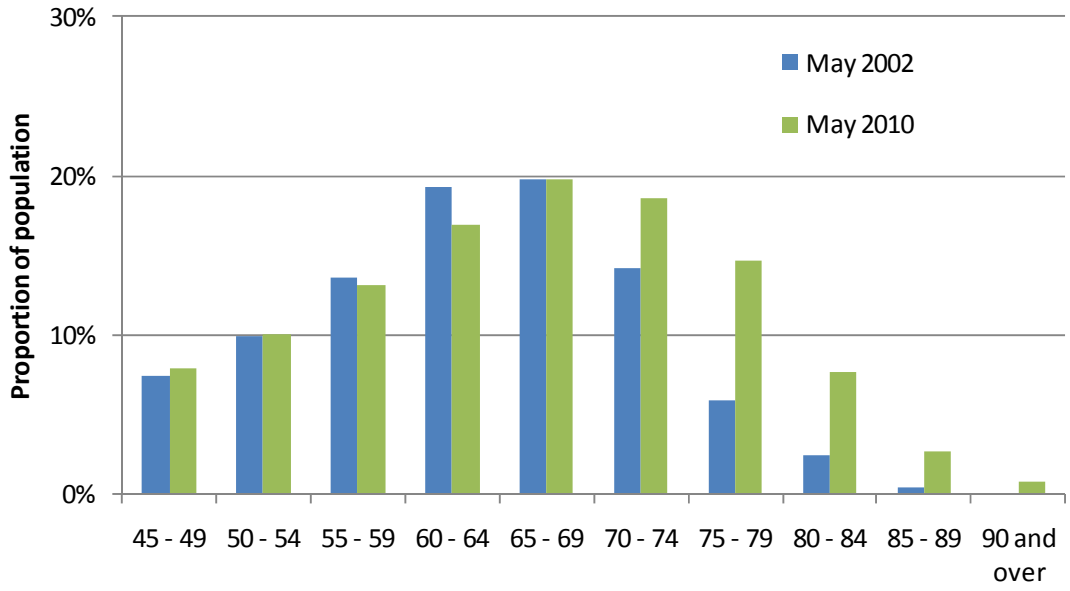
Source: DWP (2011); Welsh Assembly Government (2010).

For DLA, on the other hand, take-up is highest among the 65–69 age group. The number of people receiving DLA declines after 65, as no new applications are permitted from people aged over 65. Between 2002 and 2010 there was a small decrease in the proportion of people aged 45 to 69 receiving DLA, along with rapid increases for older age groups.

The rapid increase in take-up of DLA between 2002 and 2010 among people in Wales aged over 70 can be explained by two factors: 'maturing' of the DLA benefit and differences in attitudes to social benefits across generations. DLA was only introduced in its current form — with broadened eligibility from the AA (care) and MobA (Mobility Allowance) payments that preceded it — in 1992. The relative newness of the DLA payment means that caseloads are still growing (DWP 2009). This is particularly important for take-up among the older population, as they would need to have been aged less than 65 in 1992 to be assessed under the broadened eligibility requirements. Low take-

up rates among the population aged over 70 in 2002 might also be caused by generational effects: evidence from consultation with Local Authorities in Wales for this study suggested that older generations were often reluctant to take-up benefits because they would rather maintain their sense of independence and self-reliance, whereas younger generations tended to regard the payments as a 'right' or entitlement.

Figure 8: Take-up of DLA by age group in Wales



Source: DWP (2011); Welsh Assembly Government (2010).

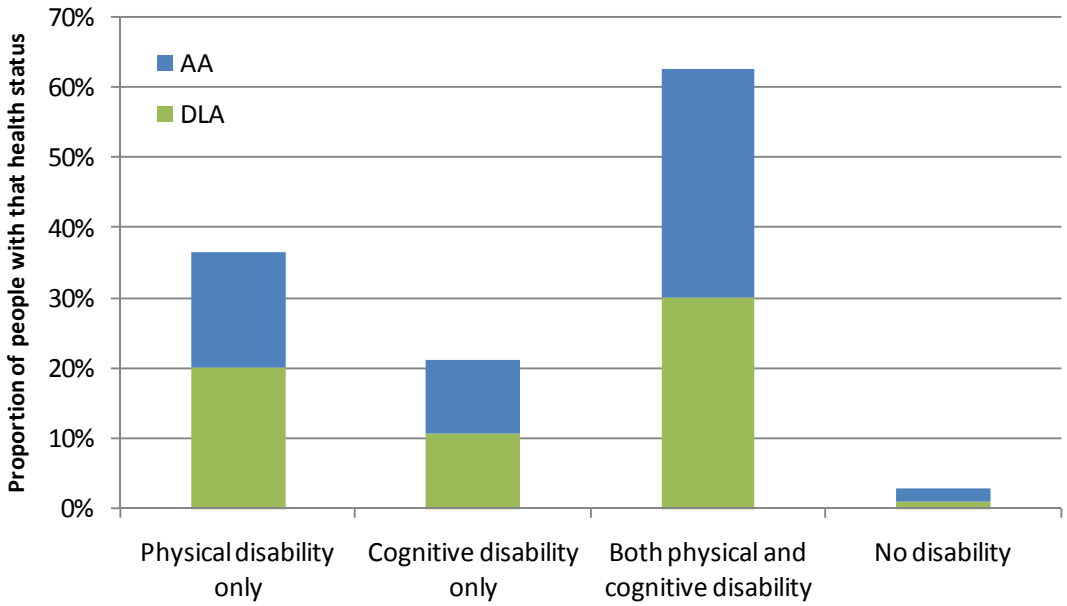
2.2.3 Take-up as a proportion of the population who are disabled

Eligibility requirements for AA and DLA link the receipt of these benefits to difficulties with care or mobility as a result of a long-term disability. Consequently, of people over 65 and living in Wales who report that they do not suffer from some disability, very few receive AA or DLA benefits (Figure 4). Data from the Family Resources Survey (FRS) show that people suffering from both a physical and cognitive disability are most likely to receive AA or DLA payments. People reporting either a physical or cognitive disability are less likely to receive benefits than those experiencing both.

This still leaves many people reporting physical and/or cognitive difficulties who do not receive benefits. In total, just over 45% of people over 65 and living in Wales reporting physical or cognitive difficulties receive AA or DLA. This is a lower rate of take-up than reported for the UK as a whole (Thomas and Griffiths report that approximately half of the UK disabled population received DLA in 2009), but these rates are not directly comparable because of different data sources. For example, differences might be due to the way disability data is collected in the FRS survey, as a self-reported response to questions about ability across a range of physical and cognitive tasks. Self-reported survey responses about health status (as opposed to a medical examination) may be prone to bias due to measurement error, or self-justification by the people surveyed.

The large number (more than half) of people reporting a disability but not receiving AA or DLA suggests that take-up among the disabled population could potentially increase in the future. However, only a subset of people with a disability are likely to meet the stringent eligibility conditions for AA and DLA. This is particularly so for AA, which has stricter eligibility conditions as there is no equivalent payment available to people who would qualify for the 'lowest rate' care component under DLA if they were aged under 65.

Figure 9: Take-up by people reporting a disability, people living in Wales aged over 65



Note: Physical disability measured as difficulty in mobility, lifting or carrying, manual dexterity, or continence; cognitive disability measured as difficulty with communication (speech, hearing or eyesight), learning/understanding, recognising when in danger, or co-ordination, following Pudney (2010).
Source: Family Resources Survey (2002 to 2008).

2.2.4 Take-up as a proportion of the population who are eligible for DLA/AA

Accurate data on the numbers of people eligible for DLA/AA is not available and so it is not possible to directly measure take-up in this way. This issue has been the focus of the debate on take-up in the literature.

In 2007, an assessment of the feasibility of assessing the take-up rates of DLA and AA was published (Kasparova et al. 2007). The research was commissioned by DWP. The research noted that take-up rates were not known because it was not known how many people who were eligible for DLA and AA did not claim, or did not receive, these benefits. It noted however that there were significantly greater numbers of people who had a significant long term illness or disability than the numbers in receipt of these benefits.

This research was viewed as the first of three stages in estimating take-up rates:

- *"Stage one aims to analyse existing data and experience of estimation to date in order to recommend an approach to estimating take-up in principle.*

- *Stage two refines the recommended approach and tests some practicalities of its implementation.*

- *Stage three consists of piloting the recommended approach and developing the final proposal on estimating take-up*." (Kasparova et al. 2007)

Identification of the population who are eligible for these benefits is difficult because eligibility is based on an individual's mobility and care needs, which may change over time, and there is an element of uncertainty/subjectivity about an assessor's judgement on eligibility. The same person might be assessed as eligible by one assessor and ineligible by another assessor, without any errors or frauds being committed by either assessor. As a result, Kasparova e al recommended a preferred method for estimating take-up rates based on a probabilistic approach. It would involve a number of steps, including the development of a new survey instrument and a statistical analysis to estimate the number of people in the population that are likely to be eligible (taking account of the uncertainty in the awards process).[1]

Separately, Berthoud (2009) also emphasised uncertainty over eligibility as the key issue in determining take-up. He concluded as follows:

"*If there is intrinsic uncertainty in the assessment of eligibility, the take-up question can no longer be represented simply as: what proportion of those who are entitled have claimed. That remains the question for those potential claimants whose entitlement is certain. But in the area of uncertainty, the question becomes: what proportion of those who may be entitled have claimed; and what proportion of those claims would have succeeded if submitted. Take-up can still be calculated as a percentage rate (based either on the number of individuals or on the value of payments) even though we cannot assign individuals with certainty to the eligible or ineligible groups.*" (Berthoud, 2009)

Estimates of take-up were made by Craig and Greenslade (1998) based on the results of the Family Resources Survey (FRS) Disability Follow-up Survey, which was commissioned especially to enable estimation of take-up rates for DLA and AA. They estimated take-up rates of 40% to 60% for AA; 30% to 50% for the DLA care component; and 50% to 70% for the DLA mobility component. Kasparova et al describe these results as not being robust because the estimate of the size of the eligible population is not reliable.

More recently, an estimate was made of the take-up rate of DLA and AA for visually impaired people by Douglas et al (2008). They used data from a survey of 884 visually impaired people across Great Britain. In contrast with the other research described above, Douglas et al assert that: "....the rules of who is eligible to apply for both DLA and Attendance Allowance are relatively straightforward (linked to age and presence of a disability).....Pragmatically, it is a relatively easy benefit to investigate because researchers do not need to ask a series of complex questions about eligibility." In effect they assume that all visually impaired people are eligible to receive AA and DLA. Assessing take-up rates using their survey then becomes relatively straightforward – for example, they assume that all respondents aged over 65, and not in receipt of DLA, are eligible to receive AA. Based on this approach they estimate that 65% of those aged 75 and over take-up AA

[1] We were unable to find any mention of any follow up research in the DWP's work programmes for 2008-09, 2009-10 or 2010-11.

and 38% of those aged 65-74 take-up AA. For DLA, they estimate that 53% of those aged over 65 took up DLA before they reached the age of 65, recognising that the severity of the impairment before age 65 was not clear in all cases and so the take-up rate for DLA is less clear.

2.2.5 Barriers to take-up

In the literature two approaches are developed that shed light on the barriers to take-up. The first approach involves aggregate comparisons of the characteristics of the people in receipt of the benefits with the characteristics of the wider population.

In research on Attendance Allowance using the Family Resources Survey, Pudney (2010), for example, notes that:

- recipients are less likely, for a given level of disability, to claim AA if they are on higher incomes;
- there is evidence of a bias in favour of claimants with physical rather than cognitive disabilities, given similar care needs;
- older people are less likely to be receiving the higher-rate payment than similarly disabled younger people;
- owner-occupiers have a much lower propensity to claim AA than people who rent their homes;

Elsewhere in this report, we also provide evidence on the characteristics of older people in receipt of these benefits in Wales.

The second approach involves discussing barriers with recipients and potential recipients using a qualitative approach, usually face to face interviews.

Corden et al (2010), for example, interviewed both recipients of these benefits and people who advised recipients (such as DWP advisers). They report that advisers felt that many people who contacted them had relatively low levels of knowledge about these benefits. Common misunderstandings were the belief that people needed to have someone helping them in order to qualify;[2] that somebody unwanted would be sent to help them if they were in receipt of the benefit; and that there would be consequential reductions in other benefits, particularly housing benefits. Barriers were not a focus of discussions with recipients, but it was noted that many recalled receiving assistance from others with their applications.

Kasparova et al (2007) suggest that some of the main barriers to take up include:

- awareness of the benefit

[2] It may be the name "Attendance Allowance" that is confusing in this respect.

- acceptance of 'disabled' status – many people, even though they may have severe physical impairments leading to care needs, are reluctant to acknowledge that they are 'disabled' and so might be eligible for Disability Living Allowance;
- proper completion of claim forms – this requires a certain level of skill that not everybody has;
- a perception of low probability of award, combined with a view on the high personal costs of going through the claims process.

Research for an evaluation of the Rhondda Cynon Tâf Older Peoples Welfare Rights Project suggests that barriers to claiming a range of benefits, including DLA and AA, included:[3]

- fear of the stigma associated with "handouts";
- uncertainty about eligibility;
- perceptions of arduous claims processes and difficulty in filling in forms.

The evaluation indicated that this project had had considerable success in overcoming barriers to claiming benefits through mechanisms such as home visits to explain rights and eligibility and indicating that significant levels of additional income had been generated.

Our discussions with Welsh local authorities have indicated that other local authorities in Wales have also achieved successes in this area of activity. They suggested that some of the main factors affecting take-up are:

- awareness and ease of finding information;
- ease of application;
- the way in which advice is provided (with face to face advice in the home being best);
- the language used in information provision (e.g. "benefit" can have negative connotations of charity, whilst "entitlement" can have a more positive association with something that the potential recipient has already contributed towards);
- generational attitudes also vary, with older generations being more likely to be concerned about being stigmatised for accepting "handouts".

Focus Groups in Wales

Barriers to taking up DLA and AA were discussed at the focus groups conducted across three locations in Wales as part of this research.

[3] Rhondda Cynon Tâf (2007).

Information barriers

Within the discussion on take-up of AA/DLA there was consistency between all three locations and between men and women on how the respondents first found out about their eligibility for benefits, as follows:

- GP's and hospital doctors
- Family & friends (with prior experience/knowledge of AA/DLA)
- Charities e.g. Age Concern
- Citizens' Advice Bureau
- Local experts (One respondent talked of a neighbour charging "commission" for assistance)

However, within each group the sources of information varied widely within the above list, being inconsistent for particular localities, adding potential stress at a time when people are coming to terms with a disability.

The disparate sources of advice and information were the main reasons that a high proportion of respondents had not claimed as soon as they had become eligible, with a typically quoted delay being 1-3 years and one woman quoting 40 years.

Another factor influencing delay in receiving AA/DLA was people's pride in trying to maintain independence and not applying until their condition or finances dictated.

The third factor quoted among some respondents was a fear of loss of other benefits when applying for additional entitlements. Specific and anecdotal examples were quoted of "reviews" triggered by application for one benefit which resulted in the loss of another, creating an air of risk and reluctance.

A consistent source of information would be welcomed and respondents spontaneously favoured their doctor or the surgery notice board, given the doctor's pivotal role in the application process. Also leaflets issued at the same time as State Pension entitlement together with leaflets and advisors at community meetings were suggested.

The application process

The application process has an influence on current and future patterns of usage. Focus group participants indicated that eligible people hear about AA/DLA from existing claimants and adverse feedback on the application process may discourage deserving applicants.

There was consensus across all three locations and among both men and women that the application process is:

- Onerous (the form is lengthy and complex, needing third party input).
- Accusatory (duplicate questions imply a lack of trust and an aim to catch people out).
- Stressful (there is a perceived risk to existing benefits).
- Ineffective (deserving claimants may regard application as not worth the hassle).
- Potentially abused (those familiar with the system know which answers to provide).

Improvements indicated by this research were that the application process needs to be:

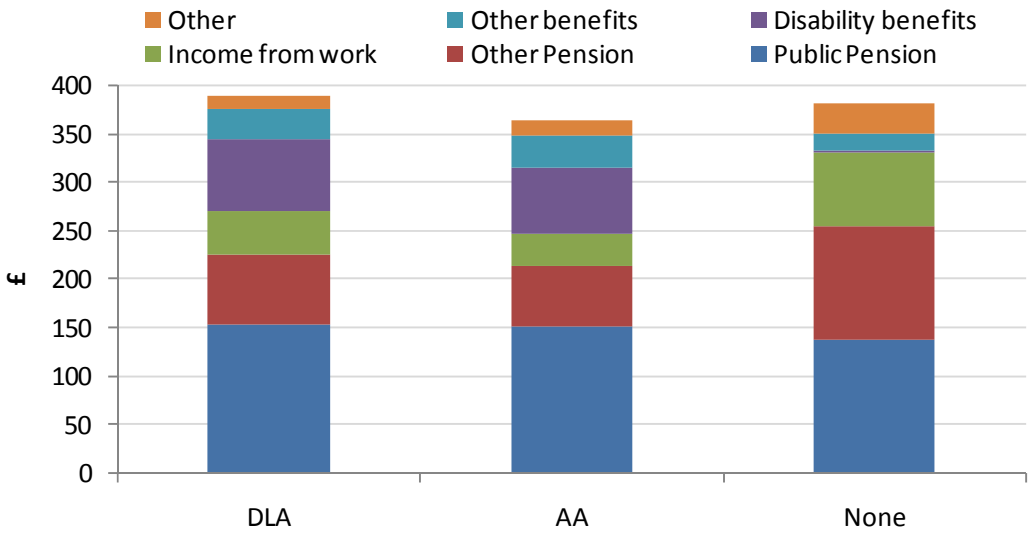
- Appropriate for people in distress
- Consistent availability
- Supported by consistent advice
- Filtered for known abusers

2.3 Profile of recipients

Recipients of AA and DLA payments typically live in households with total income close to the population average for Wales. Data from the Family Resources Survey shows that for households in Wales with at least one person aged over 65 and receiving DLA, household income is just above the average (for households with at least one person aged over 65), while households with at least one person receiving AA are just below the average (Figure 10).

However, disability allowances can form an important part of household incomes, so that without the allowances, these households would have below average incomes. This could be an issue in the light of the additional expenses that disabled people incur, and which disability allowances are intended to cover.

Figure 10:Weekly household income in Wales (at least one over 65)



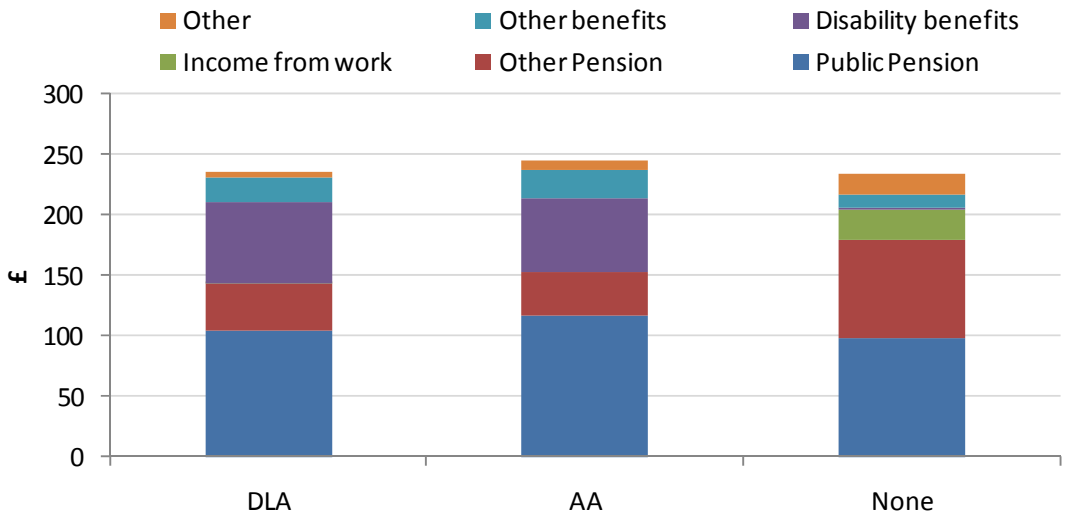
Note: Estimates from several 'waves' of survey data were combined (as in Pudney 2010) by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

Household incomes are the most useful measure of the spending capacity of a household as a whole, and incorporate any loss of earnings by other family members if they are required to take on a caring role. However, insights can also be drawn from analysis of personal income sources of the allowance recipients themselves, as this allows for consideration of individual means without including income from work of other members of the household.

For both AA and DLA recipients, on average personal incomes are close to population averages for people aged over 65, but would be about 25% below population averages if they did not receive these benefits. This is because people aged over 65 and receiving AA or DLA generally earn little or no income from work (Figure 11). They also receive much lower non-public pensions than the population average.

The finding that DLA and AA are important to maintaining personal and household income at close to the population average is consistent with data for the whole of the UK excluding London (tables in Annex 1). Similarly, DLA and AA recipients aged over 65 in the rest of the UK earn little income from work.

Figure 11:Weekly personal income in Wales (over 65)



Note: Estimates from several 'waves' of survey data were combined by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

2.3.1 By age group

As discussed above in section 2.2, the take-up rate of DLA and AA varies with age. Take-up rates of DLA peak in the 65-69 age group and decline with age, as new applications for DLA are not allowed after age 65. On the other hand, take-up rates of AA increase with age, peaking (as a proportion of the population of that age) for the 90+ age group.

For those people receiving disability allowances, the income they receive from these allowances increases gradually with age (Table 3). As discussed previously, disability allowances can be paid at low, medium and high levels depending on care and mobility needs. The level of payment for a given level of care is fixed (for example, at a weekly payment of £71.40 for high level care on AA), so incomes from disability allowances are only likely to vary with age to the extent that there are a greater proportion of recipients of 'high' level payments in certain age groups. Administrative data

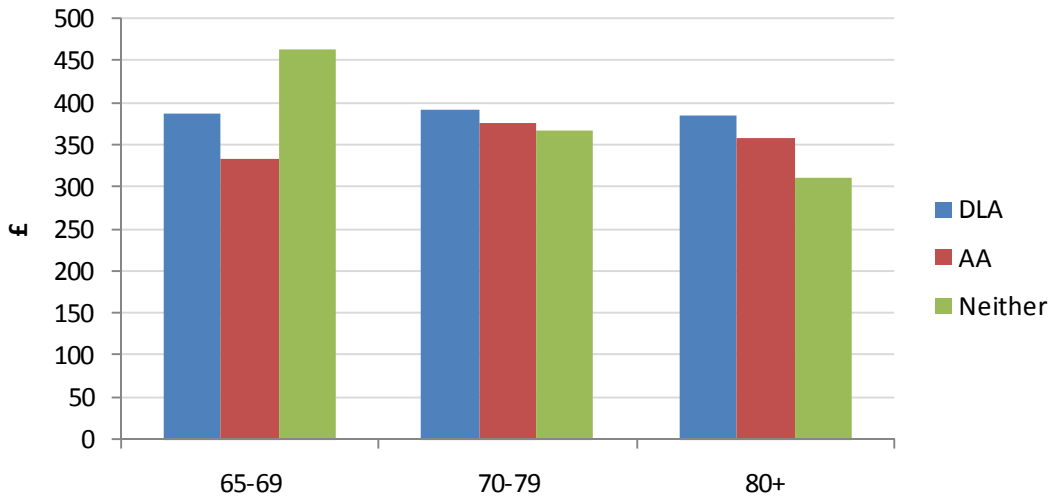
from the DWP shows that the proportion of recipients on higher level payments increases only slightly with age and thus weekly payments for those who receive either DLA or AA also increase only gradually with age.[4]

Table 3: AA and DLA weekly payments for different age groups

		Attendance Allowance			Disability Living Allowance		
		65-69	70-79	80+	65-69	70-79	80+
Care award type (% of all recipients)	Higher rate	66%	70%	71%	22%	26%	33%
	Medium rate	n/a	n/a	n/a	22%	24%	26%
	Lower rate	34%	30%	29%	34%	23%	6%
	Nil rate	n/a	n/a	n/a	22%	27%	35%
	All	100%	100%	100%	100%	100%	100%
Average weekly benefit (£)		63.5	64.4	64.6	75.1	79.0	83.2

Note: Disability Living Allowance also incorporates a high and low rate mobility component. DLA recipients who receive a 'nil rate' care award are receiving some level of mobility rate payment.
Source: DWP (2011).

Figure 12:Total household weekly income (£s) (by age group)



Note: Estimates from several 'waves' of survey data were combined by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

Total household incomes of benefit recipients (including income from work, pensions, disability and other benefits) show little variance across age groups, whereas incomes decline with age for the rest of the population. This means that people aged 65-69 receiving AA or DLA have less household income (on average) to draw from than their peers who do not receive either payment. On the other hand, people aged over 80 and receiving benefits have higher incomes (on average) than their peers (Figure 12).

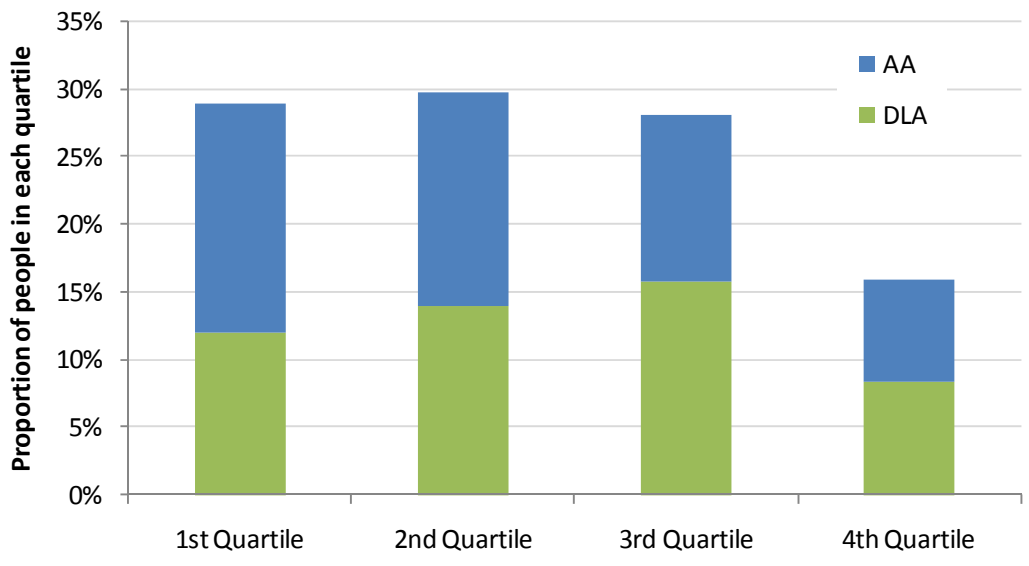
[4] Data from the Family Resources survey suggests there is some decline in AA benefits received with increasing age (see Annex 1) but the administrative data discussed above has a larger sample and does not rely on the responses of the individuals themselves, so is preferred to the survey data.

2.3.2 By income quartile

Take-up of AA and DLA allowances in Wales is highest among the second income quartile (Figure 13). Almost 30% of people aged over 65 and living in households in the second quartile (of all households with at least one person aged over 65) receive either AA or DLA. Income quartiles were defined exclusive of disability allowance payments in order to consider the means profile of recipients without the payments. Take-up might be higher among the second income quartile because they are better informed about allowance payments than people in the first income quartile, but it is difficult to be conclusive without further data. This is consistent with data for the UK as a whole, which shows that take-up is highest for the 3rd, 4th and 5th income deciles (i.e. take-up is lower for the 20% of households with the lowest income and for the 50% of households with the highest income) (DWP 2011b).

Take-up of disability allowances is significantly lower for the fourth (highest) income quartile. This is likely to be due to a combination of factors. First, disability rates are likely to be lower among the fourth quartile, partly because households in the fourth quartile generally have significant income from work (tables in Annex 1) and — as noted earlier — people on disability benefits aged over 65 earn little or no income from working themselves. Second, people who are disabled and in the fourth income quartile are less likely to need additional income from disability allowances, and therefore might be less likely to claim compared with others who have a greater need for additional income. The decline in disability benefits with increasing income is most marked for AA recipients — there are also significantly fewer AA recipients in the third income quartile than in the second.

Figure 13:Take-up of AA and DLA by income quartile for 65+ (per cent of population)



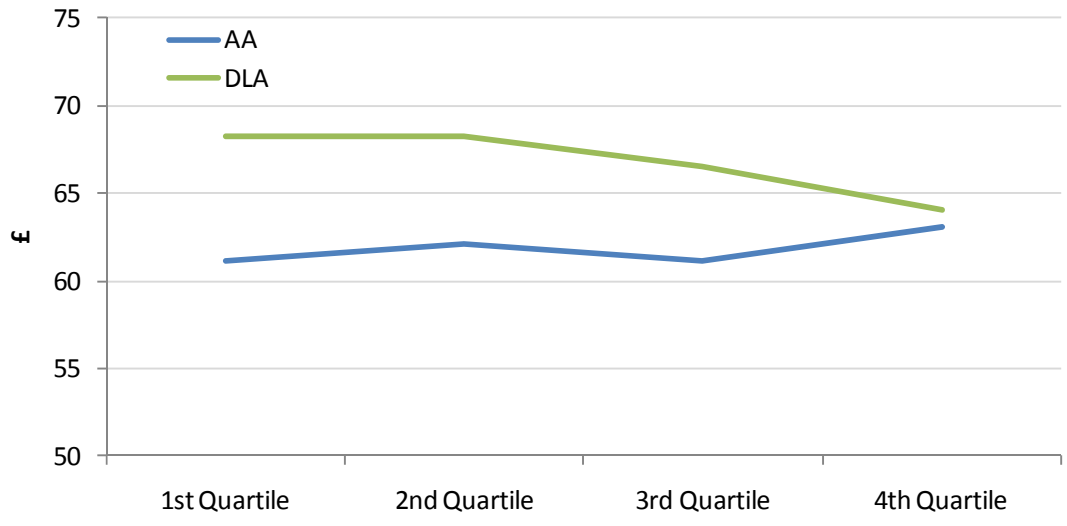
Source: Family Resources Survey (2001 to 2008).

For those who do receive AA or DLA, income from disability benefits shows little variation across income quartiles (Figure 14). This means that a similar proportion of people from higher income quartiles are likely to receive 'higher rate' payments, compared with recipients from the first income quartile. Household (as opposed to personal) income from disability benefits does increase

with income, but this is only because there are, on average, a greater number of people living in each higher income household (Figure 15).

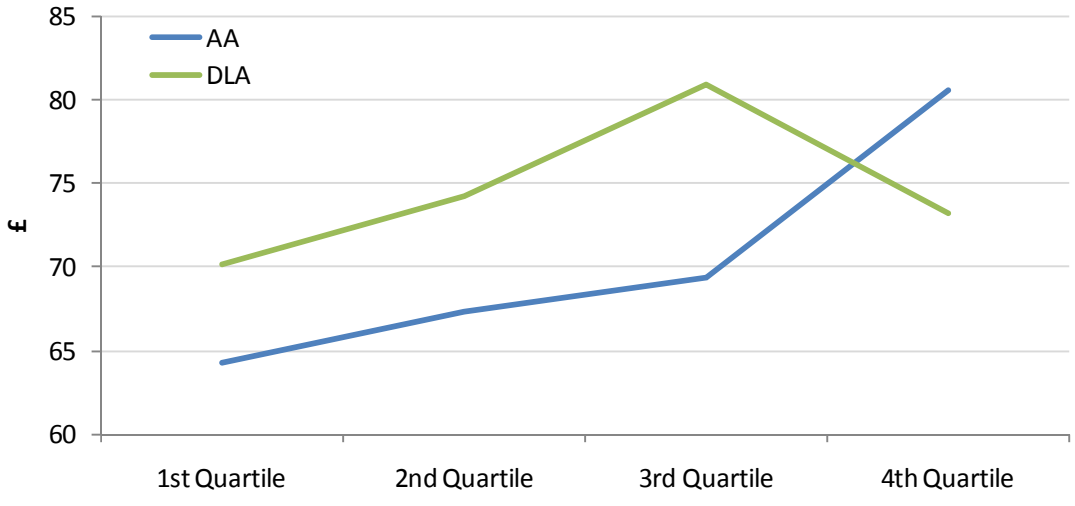
However, the importance of disability allowances to total household income declines markedly with income (Figure 16). Households that are in the top income quartile and have at least one person on AA or DLA receive only about 10% of their total income from disability benefits.

Figure 14:Weekly personal disability benefits in Wales (over 65), by income quartile (£s)



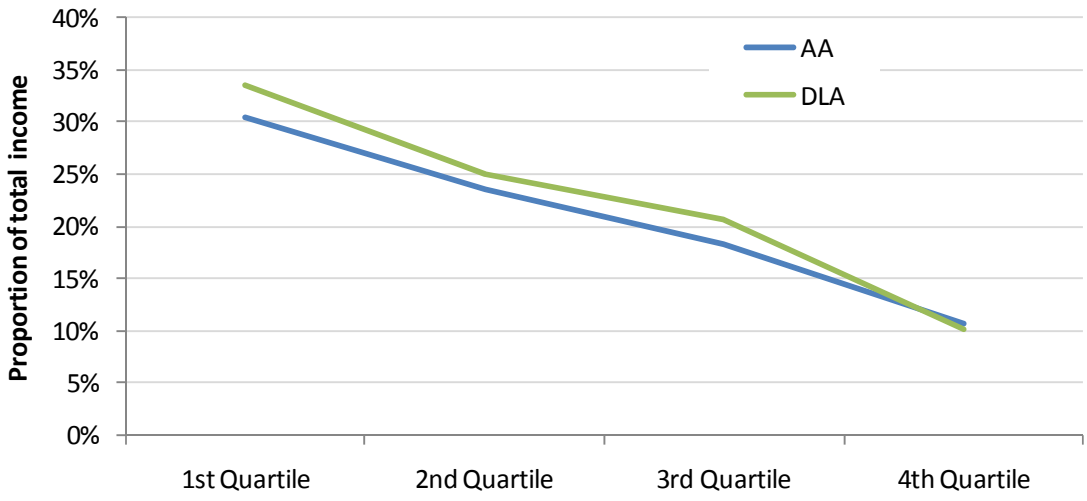
Note: Estimates from several 'waves' of survey data were combined by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

Figure 15:Weekly household disability benefits in Wales (at least one over 65) by income quartile (£s)



Note: Estimates from several 'waves' of survey data were combined by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

Figure 16: Weekly household disability benefits in Wales (at least one over 65) by income quartile (% of total household income)



Note: Estimates from several 'waves' of survey data were combined by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

3 Expenditure and use of AA and DLA allowances

Total household expenditure of AA and DLA recipients in Wales can be compared with the rest of the population to give a broad indication of how AA and DLA allowances are used. People who receive disability allowances often pool their incomes into a general 'pot', so it can be difficult to isolate precisely what expenditure has been funded from the allowance itself (Corden et al. 2010). Analysing total household expenditure patterns for AA and DLA recipients gives some indication of the use of the allowances. More detailed information on the use of AA and DLA allowances follows, drawing from existing literature and focus groups held in Wales during February and March 2011.

The division of household expenditure across a range of broad expenditure classes is broadly similar for the households of people aged over 65 and receiving AA and DLA as for other households with at least one person aged over 65 (Figure 17). People receiving DLA tend to spend more on recreation and culture, but less on restaurants and hotels and on 'other goods and services'.

Perhaps surprisingly, people on AA and DLA spend slightly less on private medical expenses than people who do not receive these benefits (more detail available in tables in Annex 1). This suggests that AA and DLA recipients generally meet their medical needs through public medical services. The use of AA and DLA income for personal care is considered in more detail in the following section.

3.1 Use of DLA/AA income

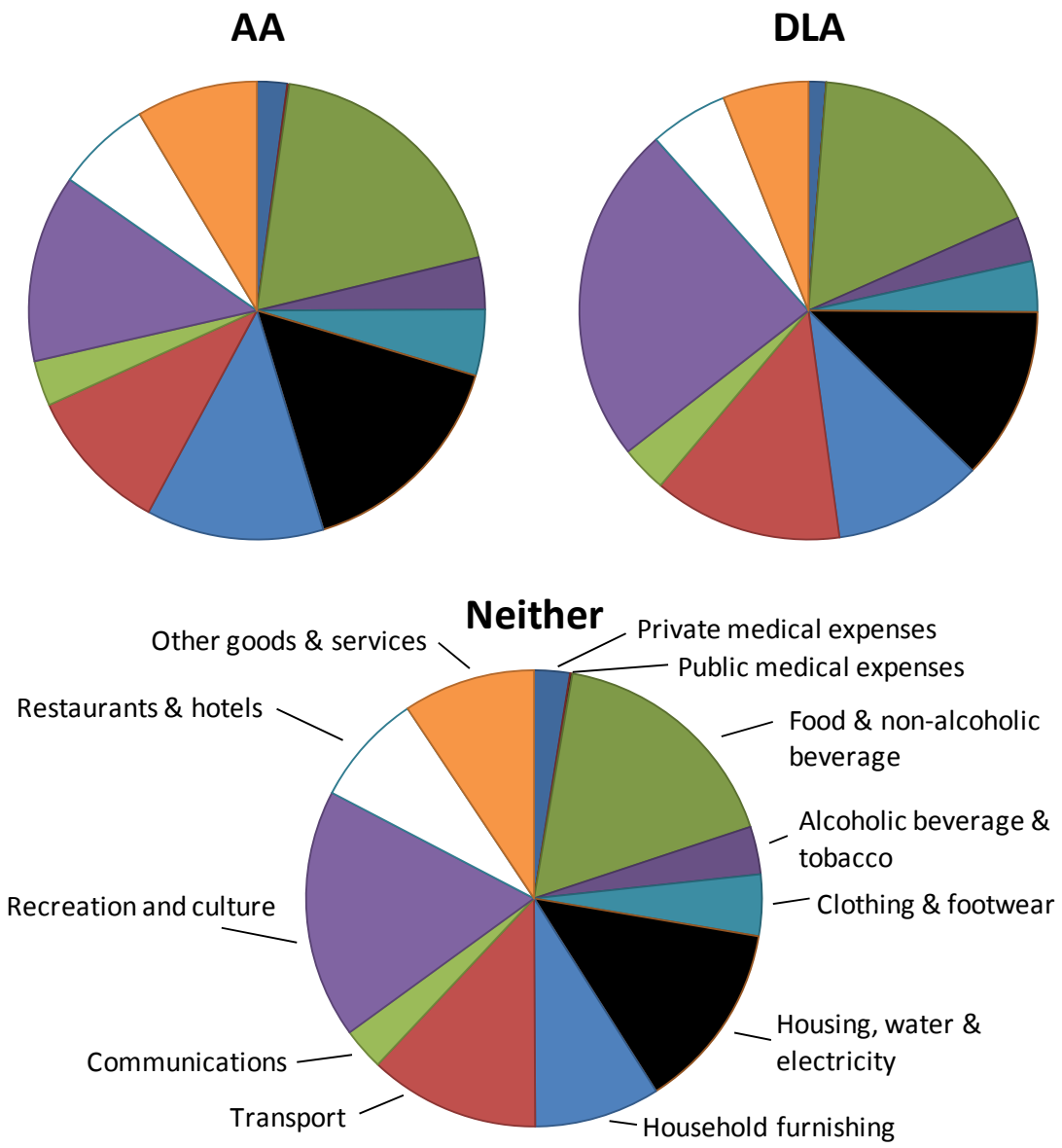
3.1.1 Research methods

One of the issues we are trying to understand is the ways in which recipients of AA and DLA use the additional income from these benefits. We are particularly interested in how they use these benefits to increase their expenditure on personal care.

There are two potential research approaches to answering these questions. First, AA and DLA respondents could be asked about the way in which they spend their additional income from these benefits. Second, the spending patterns of AA and DLA recipients could be compared to the spending patterns of people with similar characteristics but who are not in receipt of these benefits. Differences in spending patterns between these two groups might indicate how receipt of these benefits affected recipient's spending patterns.

Despite a long history of provision of Attendance Allowance (AA) and Disability Living Allowance (DLA) (introduced in 1971 and 1992, respectively), very little research has been undertaken into the role these benefits play in meeting the needs of older people, or the impact the benefits have on the demand for social care and individuals' ability to pay for personal care.

Figure 17:Household expenditure in Wales for households with at least one person over 65



Note: Ordering and colouring of each expenditure category is the same across households receiving AA, DLA and neither AA nor DLA. Expenditure on education for people over 65 is small and consequently has been included in the 'other goods and services' category. Estimates from several 'waves' of survey data were combined by deflating monetary estimates using CPI.
Source: Living Costs and Food Survey (2001 to 2008).

Whilst research has been undertaken in England and the UK more generally (e.g. Berthoud and Hancock, 2008; Corden et al, 2010), following publication of the Wanless Social Care Review (2006), no research of the patterns of take-up and use of AA and DLA (for continuing eligibility) has been undertaken specifically for older people in Wales. It is not known whether the observed patterns in these research studies are representative for older people in Wales. Hence the motivation for the current research.

The DWP have recently been funding a programme of research in the area of the impacts of AA/DLA on recipients. Berthoud (2009) examined the feasibility of various options for assessing impacts, focussing on quantitative analysis. He suggested a major new quantitative survey, which could perhaps make use of new surveys that are being planned. As an intermediate step, some further qualitative research was suggested. The research by Corden et al (2010) was commissioned in response to the latter recommendation and undertook qualitative research and recommended approaches to further, more extensive survey instruments. Separately, the Policy Studies Institute at the University of Westminster are currently undertaking quantitative research on the impact of AA and DLA using both the the English Longitudinal Survey of Ageing (ELSA) and the 1996/1997 Family Resources Survey (FRS) Disability Follow-up survey.

3.1.2 Quantitative approaches

Although it is possible to make simple comparisons between the spending patterns of those in receipt of these benefits and those not in receipt of these benefits (as we have done above)[5] it has not been possible to make robust comparisons between the 'treatment' group and a 'control' group that would enable some inferences to be drawn about the impact of AA/DLA on people's expenditure patterns as sufficient data are not currently available.

There has been some discussion of this issue in the UK literature. In work for the Department of Work and Pensions, Berthoud (2009) concluded that existing UK data sources did not enable a robust quasi-experimental analysis of the impact of DLA/AA on recipients. Since then, the UK Government has been working on a new data source for use in the analysis of disability-related issues. The Life Opportunities Survey is a longitudinal survey for Great Britain. The first data from this survey (interim Phase 1 results) were published in December 2010, with full Phase 1 results expected later in 2011. The data collected in the survey should enable quasi-experimental research of the type discussed above, though in order to assess suitability for analysis of Welsh data, sample sizes in Wales need to be assessed once the full Phase 1 results are available.

3.1.3 Qualitative approaches

UK literature

A number of qualitative surveys of AA/DLA recipients have been undertaken with the aim of better understanding the impact of these benefits on recipients. Very few of these, however relate to impacts for older people – much of the focus is on younger adults and employment (e.g. Beatty, 2009).

The main recent pieces of qualitative research in this area which include older people have been:

- Hawkins et al (2007) undertook four focus groups with professional advisors and 100 face to face interviews with AA, DLA and Carers Allowances recipients across Great Britain and explored a range of issues, including the recipients use of additional income from these benefits.

[5] See also Berthoud (2009).

- Age Concern (2008) reports on a survey they undertook of 650 older people from across the UK who had been in receipt of Age Concern services, providing information on what recipients of a range of benefits (including AA and DLA) spent the extra money on.
- Corden et al (2010) undertook group discussions with advisors in touch with people who might claim AA/DLA and interviews with 45 AA/DLA recipients from across Great Britain. The latter included younger and older adults and parents of children entitled to DLA.

Hawkins et al (2007) and Corden et al (2010) were both commissioned by the DWP and used administrative information from DWP about the identity of benefit recipients as the basis for their samples. Age Concern used their own information about people who had been in receipt of Age Concern services as the basis for their sample.

When people receive additional income, through DLA and AA, it is not always possible for them to be clear about how exactly they spend the additional income. For some people the additional income goes into a general 'pot' that they use for all of their expenditure, whilst for others they allocate income from AA/DLA to specific expenditure items.

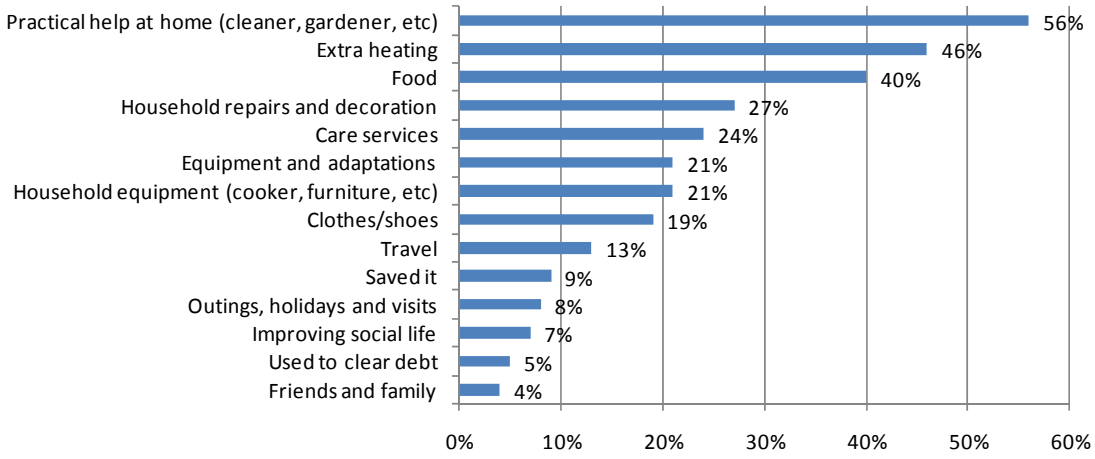
The interviews that Hawkins et al (2007) undertook with AA and DLA recipients suggested that most people merged all of their income and did not allocate income from AA/DLA to specific expenditure items. Of those who did earmark AA/DLA income for specific expenditures, the most common expenditures were transport (especially taxis) and disability/illness-related items such as treatments (including medicines), special foods and mobility aids. There were some examples of people setting aside DLA/AA income to pay for care from a third party, but these were exceptions. Other specific use of DLA/AA income mentioned included payments for cleaners and gardeners and spending on 'little luxuries' – in one example this included having milk and newspapers delivered. There was some evidence that older recipients of DLA and recipients of AA were more likely to feel that they needed to spend their DLA/AA income on something directly related to their disability/illness.

The discussions with DLA/AA recipients reported in Corden et al (2010) also indicated that most recipients did not allocate their DLA/AA income to specific expenditure items, but added it to a general 'pot'. They note however that many of these recipients did nevertheless have a mental picture of what additional goods and services their DLA/AA income enabled them to purchase. These included a wide range of expenditures, including: residential care; personal care at home; transport; food; fuel; home maintenance/cleaning/gardening; medical supplies/equipment; telephones/computers; social activities; giving presents, gifts and 'treating'.

Most of the AA/DLA recipients in the Corden et al study needed help with some aspects of personal care and most of them received unpaid help from partners, relatives or friends. Some did pay for personal care directly. Others, who made no formal payments for care, did make financial gifts to those relatives and friends who cared for them as a way of acknowledging the support that they had received. As in the Hawkins et al research, transport and mobility aids were important expenditure components and, for those who did not own a car, especially taxi use for attendance at the GP, hospital appointments and shopping.

The figure below, using data from the Age Concern survey shows the percentage of respondents who say they have spent their additional income (from a range of benefits, including AA and DLA) on each of a number of expenditure items.

Figure 18:Expenditure from increased benefit income for older people



Note: The survey was of 650 older people who had recently been in receipt of Age Concern services, often related to an increase in benefits income following a new claim. This covered a number of benefits, including AA and DLA. 71% of respondents had claimed for Attendance Allowance and 18% of respondents had claimed for Disability Living Allowance.
Source: Age Concern (2008).

Focus Groups in Wales

To further inform this study with respect to the specific issues facing AA and DLA recipients aged over 65 and living in Wales, six focus groups were held in three different locations during February and March 2011 (Table 4).

Table 4: Qualitative focus groups held as part of this study

Location	Date	Respondents	Moderator
Cardiff	21 February 2011	3 Male, 2 Female	Stewart Dobson
Cardiff	21 February 2011	3 Male, 3 Female	Stewart Dobson
Caernarfon	21 February 2011	2 Male, 6 Female	Robert Lewis
Caernarfon	21 February 2011	6 Male, 4 Female	Robert Lewis
Cwmavon (near Port Talbot)	7 March 2011	2 Male, 6 Female	Stewart Dobson
Cwmavon (near Port Talbot)	7 March 2011	3 Male, 3 Female	Stewart Dobson

Recruiting participants for the focus groups was challenging, which should be taken into account in future research. The inherent state of health and mobility of people eligible for disability benefits was a limiting factor in recruiting participants. There is also the possibility that fear of losing benefits after a review was an inhibiting factor during recruitment.

Nonetheless, a total of 43 people participated in the focus groups, all of whom were over 65 years of age and living in Wales at the time of the research. Specific results relating to the use of income from AA and DLA benefits are discussed below, while evidence on links with social service demand are considered in the following section.

As in the studies for the UK as a whole (Hawkins et al 2007 and Corden et al 2010) the focus groups in Wales found that AA/DLA income is primarily being used within a general 'pot of money'

rather than allocated to specific tasks. Nevertheless, participants were able to indicate that they primarily use disability allowances for:

- transport (own vehicle or taxi) to visit shops for food and to visit surgery and hospital;
- transport assistance (petrol money) paid to family and friends, for above;
- heating as a consequence of being at home constantly;
- electricity as a consequence of being at home constantly;
- food of a good quality in order to maintain health (including special diets);
- home maintenance including cleaning, washing, gardening, painting, general repairs; and
- items associated with managing their condition and personal hygiene.

The pattern of spending of AA and DLA income is consistent with previous studies for the UK, with the key exception of using AA/DLA income for personal care. For the six focus groups held in Wales, virtually no respondents professed to be paying for personal care. This is consistent with evidence for Wales regarding expenditure for medical care by allowance recipients from the Living Costs and Food Survey, but is contrary to the findings of Hawkins et al (2007) and Corden et al (2010) for the UK as a whole. This could possibly be due to widespread subsistence level income in the Wales sample, leaving little money to pay for personal care, or an independent attitude and dependence on nearby family in Wales.

3.2 Links with social service demand

There are a number of factors that have the potential to influence the use of social care services in Wales. They can be considered as supply-side factors and demand-side factors.

The main supply-side factors are the volume of care services available and the quality and suitability of those care services. There is evidence to suggest that both of these factors have influenced the use of social services in Wales. It has been argued that the budgetary pressures faced by local authorities has led them to ration the availability of care services through the mechanism of tightening eligibility thresholds[6]. Care users also emphasise the importance of care services being appropriate for their needs and being of high quality. This was suggested, for example, in recent research on respite care.[7]

The key demand-side factors are the number of people in the population who need care support,[8] the availability to them of alternative informal sources of support (partners, relatives, friends) and their income levels.[9] Income levels are important because many recipients of local authority care services (residential or non-residential) have to contribute towards the cost of the services. The payments are means tested and so the link between income and demand for the service can be

[6] See LE Wales (2008) for a reference to the views of Task & Finish Group members.

[7] See LE Wales (2011).

[8] This, in turn, is determined by the numbers with disabilities, long term illness and also the age profile of the population. The greatest need for long term care is amongst the elderly – see Hancock et al (2007).

[9] In their modelling of demand, Hancock et al (2007) describe housing tenure and whether or not someone is living alone as factors driving demand. Living alone is closely related to the issue of whether informal carers are available

complex. The extent to which income from DLA/AA is taken into account ('disregarded') in the means test varies by local authority, though all fully disregard the mobility component of DLA.[10]

One issue that is of obvious policy interest in the context of this research is the link between receipt of DLA/AA and demand for social services. Do those in receipt of these benefits make more or less use of social services? How might demand for social services change if eligibility for these benefits changes? Existing research, however, provides very limited insights into this issue.

This issue was explored in Corden et al (2010) in discussions with AA/DLA recipients. The policy implications that they drew from their substantive findings were:

"*The benefits have preventive roles in helping people avoid moves into residential care or nursing homes, and maintaining or avoiding deterioration in health. Importantly, while DLA or AA often does not go directly towards paying for personal care, the benefits have a key role in reducing potential demand for formal services. This happens by enabling people to find their own solutions, both in the market place, and in accessing services from voluntary organisations, which are often not cost-free for users. DLA and AA recipients also believed that the gifts and 'treats' they were able to give to relatives and friends who gave practical care and help helped to maintain the channels of informal support within families and communities, on which they depended.*" (page 4).

The number of people aged over 65 in Wales who receive DLA or AA is significantly greater than the number of people in this age group who receive non-residential social care services from local authorities. In May 2008, for example, there were about 75,000 recipients of DLA or AA aged 65 and over, and at the end of March 2008 there were about 46,000 recipients of local authority non-residential care services in Wales aged 65 and over.[11] Using data for the UK from the Family Resources Survey, Berthoud & Hancock (2008) suggest that only 61% of adults in receipt of local authority care are also in receipt of DLA or AA and that only 54% of adults in receipt of these benefits report receiving any care.

Hancock et al (2007), using their model based on UK data, suggest that the costs of formal care services provided to older people in their own homes are met from the following sources:

- Attendance Allowance and care component of DLA - 16%
- Pension Credit Severe Disability Premium – 16%
- Local authorities - 54%
- Recipients' own incomes – 14%

[10] See LE Wales (2008).

[11] See LE Wales (2008).

In order to arrive at these contributions the modellers have assumed that care recipients' income sources are apportioned to care costs in the following order:

1) AA/DLA
2) pension credit
3) other income.

Focus Groups in Wales

Evidence from focus group research commissioned as part of this study also highlighted the role that AA and DLA payments can have in reducing dependence on social care services in Wales. The links between disability payments and social care were probed by considering a hypothetical scenario where current recipients were no longer able to receive disability payments. Further details are available from the topic guide (Annex 2). Under this scenario, participants were asked about what types of personal care they would cut back on, and how they would see this affecting their demand for publicly provided care services.

Although it is difficult to reach quantitative estimates based solely on the focus groups, the discussions highlighted the links between disability allowances and social services. Participants explained that they would feel a loss of independence and be unable to maintain standards of personal hygiene and home conditions if they did not receive AA or DLA benefits. They saw themselves having to travel less, reduce heating and buy cheaper food. All these effects would be likely to contribute to deterioration in general health and wellbeing, with the potential to increase dependence on social services. The NHS and charities such as Age Concern were cited explicitly as facing an additional burden if disability allowances were reduced.

4 Projections of future AA and DLA take-up in Wales

In this section, projections of the take-up of AA and DLA benefits among people living in Wales and aged over 65 are presented, based on a cohort analysis. Estimates are presented until 2030 and can be used to consider future government expenditure and demand for related government services.

The estimates should be interpreted as *projections* of what might happen if current government policy and trends in people's behaviour continue, as distinct from *forecasts* of what will actually happen. The baseline projections would be correct only if governments chose not to change allowances over the next twenty years, and if the behaviour of future groups of people aged 65+ continue to follow recent trends. Scenario analysis in the following section considers what might happen under various changes in government policy.

Cohort analysis involves analysing the experience of groups of people of a similar age, who were born at a similar time and therefore belong to the same birth 'cohort'. The technique is commonly used to assess the effects of ageing (Glenn 2005) and involves tracking groups of people of a similar age over time to yield indications about each group's future characteristics. For example, cohorts that contain a greater number of people on disability allowances now would be expected to continue to do so into the future, as many of these people will continue to receive allowances. Similarly, cohorts with a large number of people (for example, the post World War II baby boomers generation) would be expected to contain a greater number of people claiming disability allowance, simply because of the sheer size of the cohort. This information can be used to make projections about future take-up of disability benefits.

As demonstrated in the illustrative example in Figure 19, projections for future take-up of DLA and AA are built on estimates of:

- 'entry rates' (new cases in each cohort), based on DWP administrative data (DWP 2011) on the age-specific take-up of AA and DLA between 2002 and 2010;
- 'exit rates' (people no longer collecting benefits), based on DWP administrative data on the age-specific exit from AA and DLA between 2002 and 2010; and
- demographic projections for Wales, providing estimates of death and net migration for each cohort until 2030, based on population projections for Wales (Welsh Assembly Government 2010).

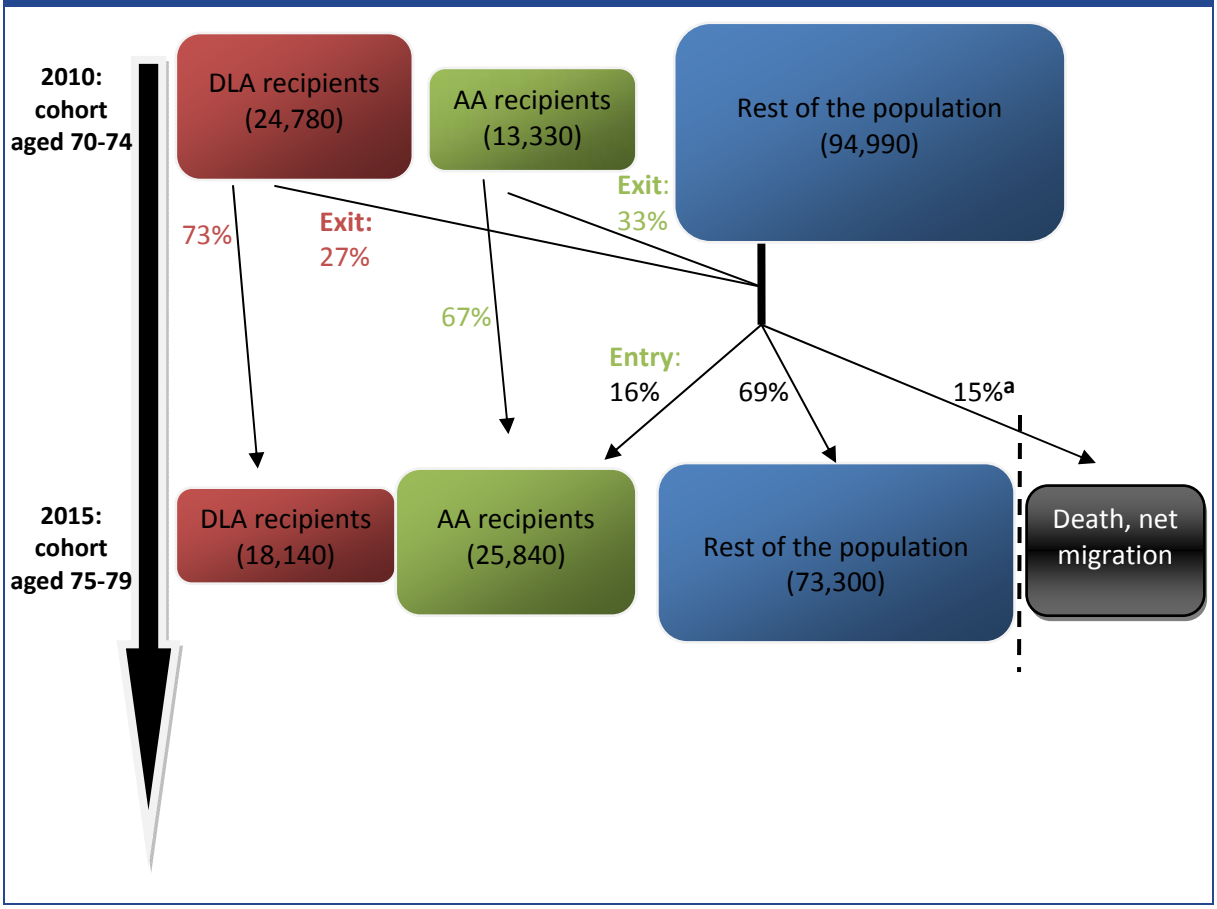
Entry and exit rates were calculated over five-year periods. People who began receiving allowances within a five year period and stopped receiving them within the same period were ignored, as these people have no bearing on estimates of the number of people receiving benefits at the end of the period. The entry rate was calculated as a hazard applying to the cohort population that could potentially start receiving an allowance by the end of the period: i.e. the total cohort population, less people on DLA or AA or who died/migrated during the period. New entrants were distinguished from continuing recipients using data on 'duration of current claim' in the DWP database. The exit rate was calculated proportional to the number of people on the relevant benefits in the cohort at the start of the period.

As such, entry and exit rates were calculated according to the formulas:

$$entry\ rate = \frac{number\ of\ new\ recipients\ (DLA\ or\ AA)}{cohort\ pop.at\ start\ period - existing\ recipients - ceased\ living\ in\ Wales}$$

$$exit\ rate = \frac{number\ stopped\ receiving\ (DLA\ or\ AA)}{recipients\ (DLA\ or\ AA)\ in\ cohort\ at\ start\ of\ period}$$

Figure 19:Example cohort analysis projections for Wales, for people aged 70-74 in 2010



Note: For people aged 65+, 'entry' to DLA over a 5 year period is only possible for the 65-69 age group (at the end of the period), as part of the cohort would have been aged less than 65 during these 5 years. [a] Based on demographic projections for Wales (Welsh Assembly Government Statistical Directorate 2010).
Source: LE Wales projections.

Entry and exit rates were assumed to remain constant over the projection period. On the other hand, demographic projections for Wales vary over time and incorporate forecasts of ongoing increases in life expectancy. The actual number of people exiting and entering benefit payments will vary over time, depending on the number of people in a cohort and future demographic changes.

This approach to projecting future take-up of allowances is limited by the assumptions underlying the analysis. Specifically:

- the projections do not capture any future changes in disability rates or recipient behaviour over time, as changes in take-up are reduced to constant entry and exit rates;
  - this is particularly problematic for projections of the number of AA recipients due to the importance of estimating entry rates correctly: AA take-up is driven by entry rates among people aged over 65, rather than a population of recipients that continue to receive payments, as for DLA.
- for the baseline projections, there is assumed to be no change in government policy, which might not be the case (though possibilities are examined as part of the scenario modelling); and
- there is no socioeconomic information incorporated into the analysis, which could affect projections — for example, if incomes were forecast to increase rapidly, this might be expected to reduce take-up of AA and DLA.

These limitations and assumptions notwithstanding, projecting take-up of allowances using the cohort analysis method provides estimates that are robust and simple to explain. The projections are based on a technique commonly used for analysis of ageing, and supported by rigorous demographic projections rather than questionable forecasts of disability rates or socioeconomic drivers. The assumption of constant entry and exit rates allows the analysis to abstract from any complex (and uncertain) behavioural changes governing future take-up. The projections of AA and DLA uptake incorporate the latest available information about:

- current take-up of DLA and AA among people living in Wales (by age);
- entry rates to DLA and AA over a five year period (by age);
- exit rates from DLA and AA over a five year period (by age); and
- demographic projections of age-specific population in Wales until 2030.

In-sample testing of projections using take-up rates in 2005 yields projected growth rates to 2010 that are accurate to 1 percentage point for AA (10% growth instead of 9%) and to within 0.1 percentage points for DLA.

4.1 Baseline projections

The baseline projections presented in this section are estimates of the future take-up and expenditure on DLA and AA payments under a continuation of current arrangements for eligibility and payment. This means that these projections do not take into account changes to allowances announced in the June 2010 Budget. The impact of changes announced in the June 2010 Budget is considered in the scenario modelling, which follows the baseline projections.

4.1.1 Caseload

The take-up[12] of DLA in Wales among the population aged over 65 is projected to continue to increase, but at a slower rate compared with recent years (Figure 20). Between 2002 and 2010, the caseload of DLA recipients aged over 65 in Wales increased by almost 50%, or more than 5% annually. This rate of increase is projected to more or less continue until 2015, but subsequently the rate of growth is projected to fall to less than 1% annually between 2015 and 2030.

The rapid growth in the DLA caseload between 2002 and 2010 was caused by a much higher take-up rate among people aged less than 70 in 2002 compared with people older than that, combined with a rapid increase in the population aged 65-69 as the post World War II baby boomers moved into the 65+ age group. The lower take-up rate among people aged more than 70 in 2002 appears to be a consequence of 'maturing' of the relatively new DLA payment[13] and generational differences, discussed in chapter 2. As the younger generation began to replace those in the older part of the 65+ bracket by 2010, the number of people on DLA aged 75+ tripled from 2002 levels.

Growth in uptake of DLA among the Welsh population aged over 65 is likely to slow because the rapid increase among the population over 70 between 2002 and 2010 is likely to be a one-off. DWP data shows that take-up of DLA among younger age groups (aged between 50 and 69 in 2010) is no higher than among comparable age groups in 2002 (see Figure 8 in chapter 2). There is also a relatively smaller cohort of people aged 50–59 in 2010 between the two baby booms (post World War II and the 1960s) who are at the peak DLA take-up age of 65–74 in 2025.

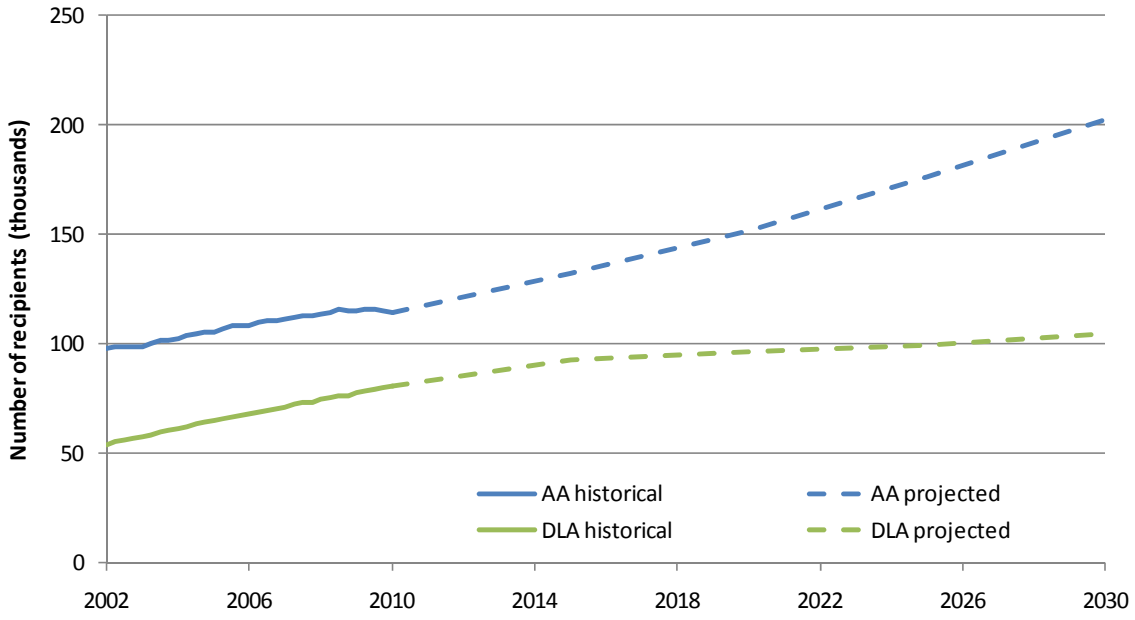
For AA, the story is quite different: slower increases historically are likely to be replaced by a rapid increase in the take-up of AA in Wales between 2010 and 2030. Unlike DLA, take-up of AA is much higher among the older segment of the 65+ age group. For example, in 2010 take-up was just over 10% for 70-74 year olds, compared with over 50% for people aged over 85. As the 'bulge' of people born post-WWII move into these older age groups (and as those reaching these age groups continue to live longer), this is likely to cause a sustained increase in the take-up of AA. As noted previously, the importance of entry rates to AA projections makes these estimates less certain than those for DLA, but the key message of an acceleration in take-up rates is driven by demographics and — absent a change in policy — is likely to be unavoidable.

Whereas recent years have seen a convergence in the number of people receiving DLA and AA among the population aged 65+ in Wales, there is likely to be a significant divergence after 2015, with AA becoming almost twice as important in terms of the total caseload.

[12] When we refer to "take-up" in this Chapter we mean the number of people receiving benefits as a percentage of the total number of people in the relevant age group.

[13] DLA was first introduced in 1992, by combining the earlier AA and MobA payments for people aged under 65 and broadening eligibility.

Figure 20:Projections of AA/DLA caseload for people in Wales aged 65+



Source: DWP (2011); LE Wales projections.

Table 5: DLA caseload projections, Wales (thousands)

	65–69	70–74	75–79	80–84	85–89	90+
2002	27.83	17.80	6.36	1.92	0.15	0.01
2005	30.44	21.14	9.77	2.94	0.52	0.02
2010	32.28	24.78	15.68	6.11	1.41	0.19
2015	35.68	26.16	18.14	9.49	2.89	0.54
2020	32.18	28.91	19.15	10.98	4.49	1.17
2025	33.55	26.07	21.16	11.59	5.19	1.93
2030	37.90	27.19	19.09	12.81	5.48	2.43

Note: Data from 2002 is included as this is the earliest year for which disaggregation by age, within Wales, is possible using DWP administrative data.

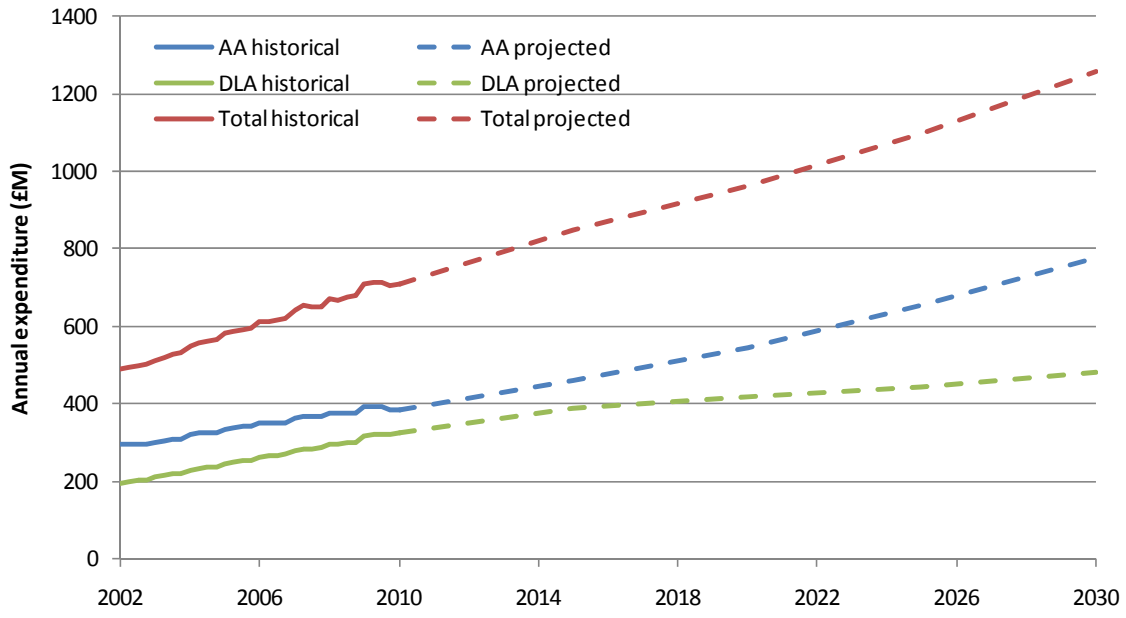
Table 6: AA caseload projections, Wales (thousands)						
	65–69	70–74	75–79	80–84	85–89	90+
2002	2.78	11.22	24.56	27.89	19.90	11.45
2005	3.64	11.49	23.51	31.84	21.81	13.19
2010	3.97	13.33	22.39	30.70	28.27	15.87
2015	5.10	15.65	25.84	33.63	31.26	20.57
2020	4.64	19.31	30.22	38.47	34.79	24.42
2025	4.85	17.77	37.22	45.47	41.30	29.67
2030	5.42	18.64	34.50	56.23	49.65	37.89

Note: Data from 2002 is included as this is the earliest year for which disaggregation by age, within Wales, is possible using DWP administrative data.

4.1.2 Expenditure

Changes in expenditure can be driven by two factors: changes in the take-up of allowances and changes in benefits paid per recipient. Both of these are taken into account in the projections of future expenditure presented in Figure 21.

Figure 21:Projected expenditure on DLA and AA for people in Wales aged 65+



Note: All figures deflated to 2010 using CPI.
Source: DWP (2011); LE Wales projections.

Expenditure on AA and DLA for people living in Wales aged over 65 is projected to continue to increase by about £25 million per year, basically continuing the linear trend between 2002 and 2010. However, the make-up of the increase is projected to change. Whereas increases in expenditure to 2010 were largely the result of a rapid increase in take-up of DLA, the main driver of increases in expenditure between 2010 and 2030 is likely to be the acceleration in the take-up of attendance allowance after 2015. Unlike in recent years, the gap between expenditure on DLA and AA for the population aged over 65 is likely to widen.

Although trends in take-up are the main driver of projected expenditure, there is also some projected increase in real expenditure per recipient due to the difference between the RPI and CPI price indices. As noted above, baseline projections are premised on no change from current arrangement, so do not incorporate changes announced in the June 2010 budget. This means that in the baseline, expenditure per recipient is indexed to account for inflation using RPI, which is typically higher than the CPI index used for the purposes of deflating all figures to real values (based on a 2010 base year). Changes in the mix between people receiving lower and higher level payments could also affect future expenditure per recipient, but in the absence of any clear evidence about the likely future mix, there was assumed to be no change in the proportion of people on higher level payments.

4.2 Scenario modelling

Scenario modelling has been undertaken to consider the impact of changes to AA and DLA payments on recipients in Wales, on the Welsh economy more broadly and on the demand for social care in Wales. For each scenario, future uptake of AA and DLA in Wales among the population aged over 65 has been projected from 2010 until 2030. Five scenarios have been considered:

0) Baseline – benefits continue according to current eligibility conditions;
1) AA/DLA removal – no further AA or DLA payments are made to people in Wales over 65;
2) "lenient" means testing – people in the top income quartile (before including disability allowances) are no longer eligible to receive AA or DLA;
3) "strict means" testing – new applicants from the top two income quartiles (before including disability allowances) are no longer eligible to receive AA or DLA; and
4) AA/DLA reform – reform to DLA as set out in the June 2010 budget, in conjunction with comparable reform to AA after 2015.

4.2.1 Scenario 0: Baseline – benefits continue as present

Caseload and expenditure projections for scenario 0 are described above in section 4.1.

4.2.2 Scenario 1: AA/DLA removal

Scenario 1 involves removing all AA and DLA payments to people living in Wales and aged over 65, effective immediately. Caseload and expenditure on AA and DLA are reduced to zero for the entire projection horizon out to 2030. This scenario is an extreme one, but allows for consideration of the importance of disability allowances to the Welsh economy and care system. These issues are considered as part of the cost–benefit analysis in section 4.3 (below).

4.2.3 Scenario 2: "Lenient" means testing

Currently, neither AA nor DLA are means tested. Anyone who meets the eligibility requirements (primarily relating to disability) is able to claim these allowances irrespective of their income or assets.

A scenario where both AA and DLA were subject to means testing was modelled to investigate the likely impact of such a change in policy. Means testing of disability benefits was considered as part

of a 2009 discussion of changes to care and support services, launched through a Green Paper (HM Government 2009). In discussion at the focus groups held as part of this study, means testing of disability benefits was considered a relatively fair way to exclude people who do not need disability benefits.

To model relatively lenient means testing of AA and DLA benefits, people in households within the top income quartile (excluding income from disability benefits) were assumed to no longer be eligible for the benefits. Household (rather than personal) income was used to determine eligibility because existing means testing of benefits (for example, the pension credit) is typically done based on a person's own income as well as that of their partner. Excluding only the top quartile from eligibility meant that this scenario incorporated a relatively high means-test threshold of about £400 per week per household. This is more lenient than the pension credit threshold of £270 per week for couples. A lower means-test threshold — as considered in the following scenario — would have a proportionally larger impact on caseload and expenditure compared with the scenario modelled here.

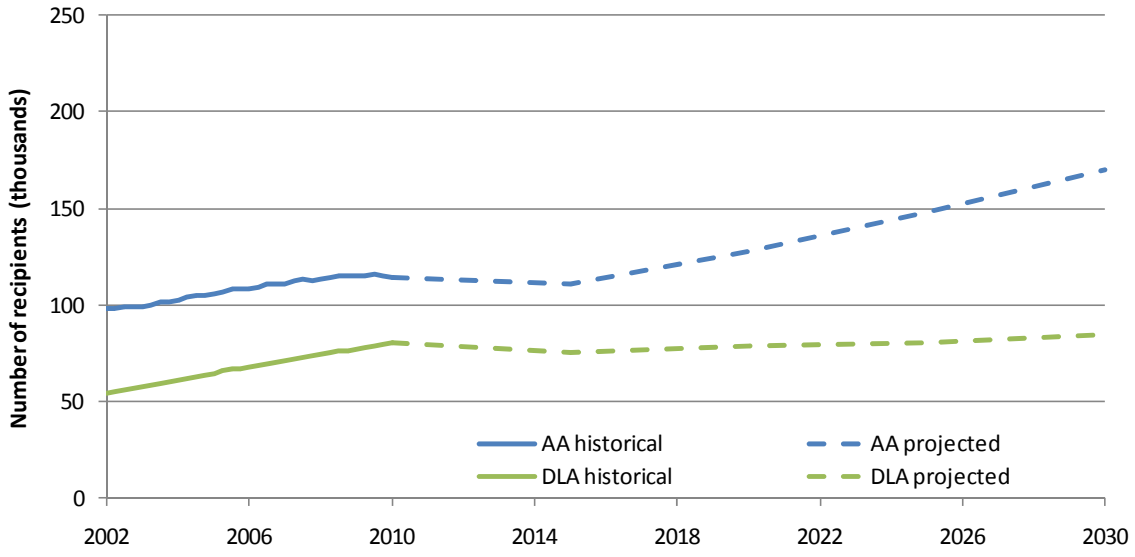
Differences in the weekly benefit received across different income quartiles (discussed in section 2.3.2) were also taken into account in formulating the lenient means-test scenario. This was done by specifying this scenario as follows:

- AA caseload was reduced by 16% compared with baseline projections, effective from 2010. The 16% of recipients no longer eligible for AA (those in the top income quartile) miss out on benefits equal to an average of 102% of the average across all AA recipients, based on data from the Family Resources Survey (and reported in Figure 14 in chapter 2).
- DLA caseload was reduced by 19% compared with baseline projections, effective from 2010. On average, these recipients would have been receiving benefits equal to 95% of the average across all DLA recipients aged over 65, based on data from the Family Resources Survey (and reported in Figure 14 in chapter 2).

The implementation of means testing as detailed above is projected to reduce caseloads between 2010 and 2015 (Figure 22). After this, the number of people receiving AA is expected to increase rapidly, while the number of people receiving DLA increases more slowly, consistent with baseline projections. By 2030, about 30,000 potential AA and just under 20,000 potential DLA recipients in Wales would be disqualified by the means testing.

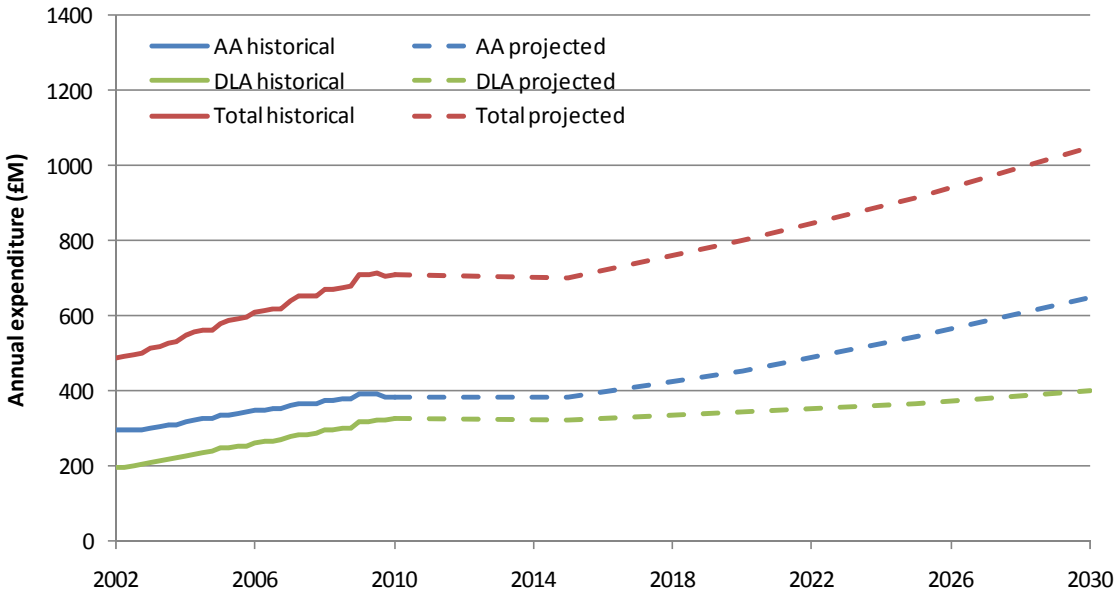
Expenditure on AA is significantly lower than under baseline projections (Figure 23). This is partly due to the decrease in caseload, but also due to a decline in average payment per recipient, since recipients in the top income quartile have historically received above-average payments. Expenditure on DLA is projected to increase slowly, a consequence of the gradual increase in caseload coupled with payment growth above inflation.

Figure 22:Projections of AA/DLA caseload for people in Wales aged 65+ (lenient means test scenario)



Source: DWP (2011); LE Wales projections.

Figure 23:Projected expenditure on DLA and AA (lenient means test scenario)



Note: All figures deflated to 2010 using CPI. Expenditure projections are for Wales and, for DLA, only for people aged over 65.
Source: DWP (2011); LE Wales projections.

4.2.4 Scenario 3: "Strict" means testing

Stricter means testing was modelled to consider a case where the means test threshold for DLA and AA was more consistent with other welfare payments, and further, was introduced incrementally by only applying the means test to new applicants. The threshold for payment was set at a household income of just over £250 per week — comparable to the pension credit threshold of £270 per week for couples. (However, some households are likely to have income from people other than the DLA/AA recipient and their partner, so these figures are not directly comparable).

Again, differences in the weekly benefit received across different income quartiles (discussed in section 2.3.2) were taken into account in formulating the strict means-test scenario. This scenario was specified as follows:

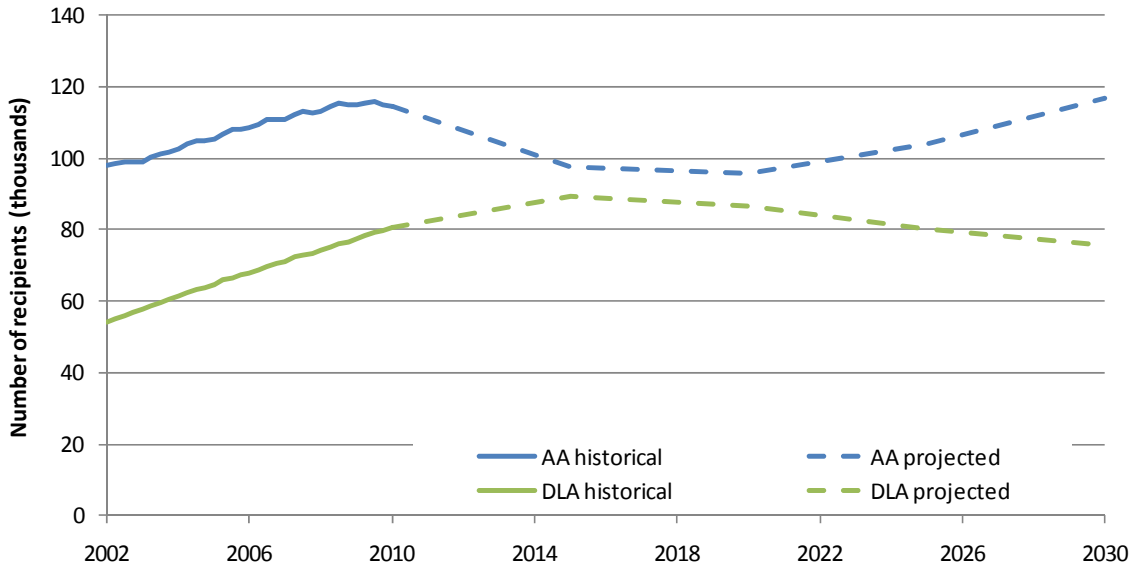
- AA entry rates were reduced by 43% compared with baseline projections, effective from 2010. Recipients no longer eligible for AA (those in the top two income quartiles and applying for AA after 2010) miss out on benefits equal to the average across all AA recipients, based on data from the Family Resources Survey (and reported in Figure 14 in chapter 2).
- DLA entry rates were reduced by 53% compared with baseline projections, effective from 2010. On average, these recipients would have been receiving benefits equal to 98% of the average across all DLA recipients aged over 65, based on data from the Family Resources Survey (and reported in Figure 14 in chapter 2).

A strict means testing regime — introduced gradually through its application to all new applicants — would have a much greater immediate impact on the number of people receiving AA than on the number of people older than 65 receiving DLA (Figure 24). This is despite a greater decrease in entry rates to DLA (as noted above, data from the Family Resources Survey shows that a greater proportion of DLA recipients live in households in the top two income quartiles). The reason is the greater responsiveness of AA caseload to entry rates.

AA caseloads are more responsive to entry rates because people are only eligible after they turn 65 and thus typically receive the allowance for a shorter duration than people on DLA. On average, people receive DLA for a much longer period and thus the long-term 'stock' of recipients is much more important to caseloads than current entry rates. This difference is exacerbated because the current study is focussing only on DLA recipients aged over 65, who by definition cannot be new applicants unless they have just turned 65. For those DLA recipients already aged over 65 in 2010, there is no impact of means testing for new applicants. Caseload numbers only begin to decline in the latter part of the projection period, as a greater number of applicants (and potential applicants) under the means testing regime start to work their way into the 65+ age group.

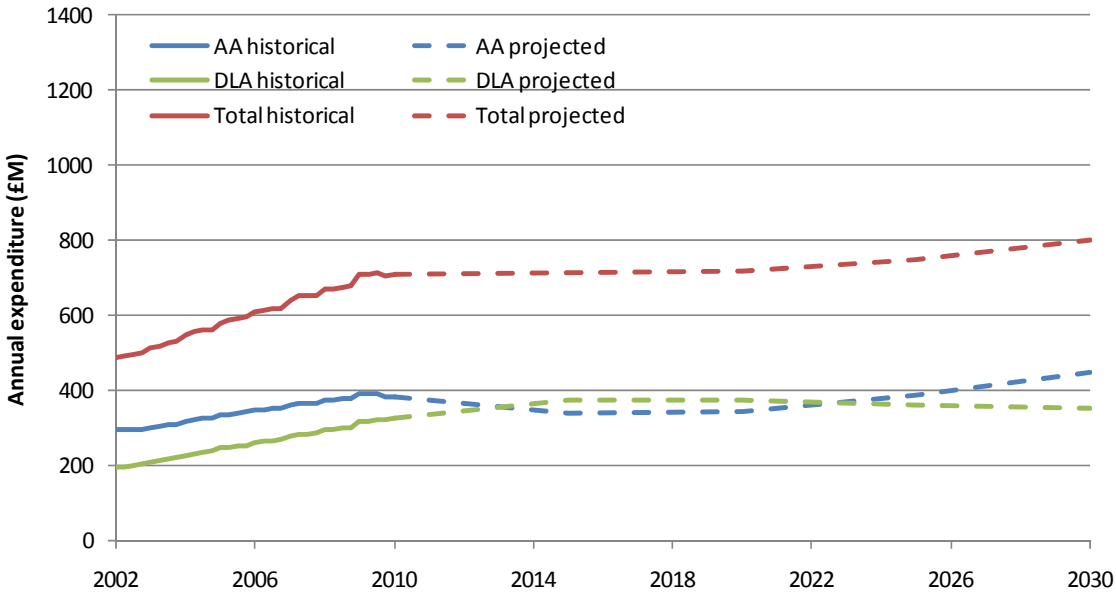
By 2030, there would be a similar number of people in Wales receiving AA as in 2010, which represents a much greater change relative to the baseline than the small decline in DLA caseload. Expenditure on each of the benefits is projected to increase only slightly between 2010 and 2030 (Figure 25).

Figure 24:Projections of AA/DLA caseload for people in Wales aged 65+ (strict means test scenario)



Source: DWP (2011); LE Wales projections.

Figure 25:Projected expenditure on DLA and AA (strict means test scenario)



Note: All figures deflated to 2010 using CPI. Expenditure projections are for Wales and, for DLA, only for people aged over 65.
Source: DWP (2011); LE Wales projections.

4.2.5 Scenario 4: AA/DLA reform

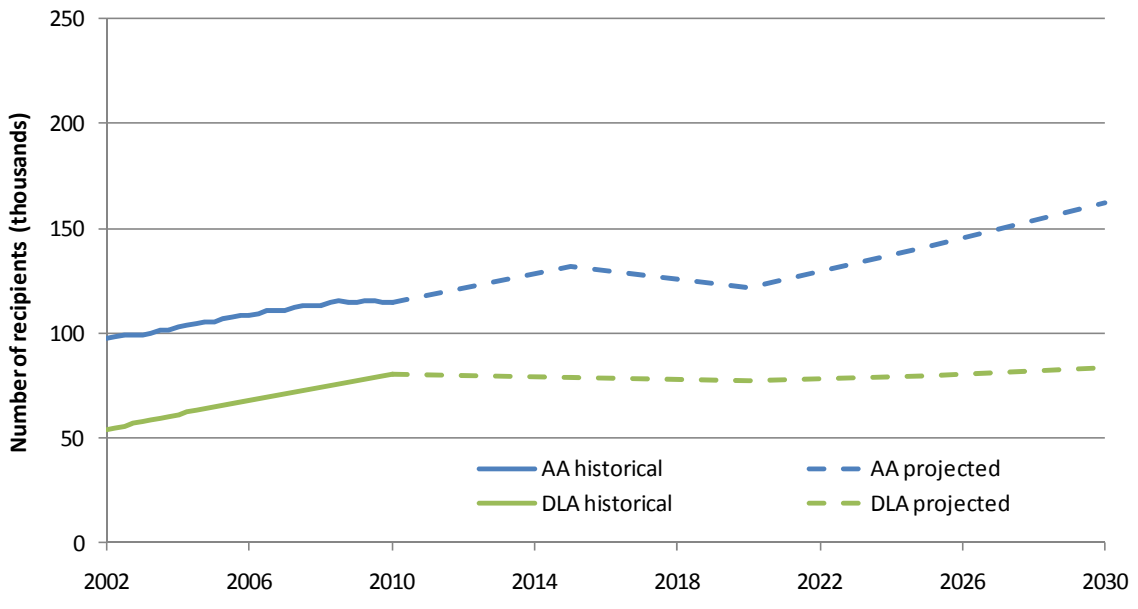
The AA/DLA reform scenario is designed to investigate the impacts of reforms to DLA set out in the June 2010 Budget. These reforms are forecast to result in a '20 per cent reduction in caseload and expenditure once fully rolled out' (HM Treasury 2010b, p.36). Although the proposed reform package does not include changes to AA, for illustrative purposes our scenario also includes similar changes to AA payments, but with a delay of 3 years, so that reductions in caseload do not occur before 2015. For both DLA and AA, expenditure under this scenario is projected to increase more slowly than in the baseline because of the change from indexation based on RPI to indexation based on CPI, also announced in the June 2010 budget (HM Treasury 2010). Historically, RPI has tended to increase more rapidly than CPI, with a compounded average annual difference of 0.7% between 1988 and 2010 (ONS 2011).

As such, for projections using 5-year timesteps, this scenario comprises the following

- reduction in DLA caseload of 20%, phased-in through a 15% reduction in caseload in 2015 and a further 5% reduction in 2020;
- reduction in AA caseload of 20% from 2020; and
- reduction in expenditure per case of 0.7% per annum due to the change from RPI to CPI indexation.

Under the reform scenario, DLA caseloads and expenditure for people over 65 are projected to remain about constant at 2010 levels (Figure 26 and Figure 27). This means that just over 20,000 people living in Wales and aged over 65 who would have received DLA if eligibility requirements remained unchanged (i.e. under the baseline scenario) would be disqualified from receiving benefits by 2030.

Figure 26:Projections of AA/DLA caseload for people in Wales aged 65+ (reform scenario)

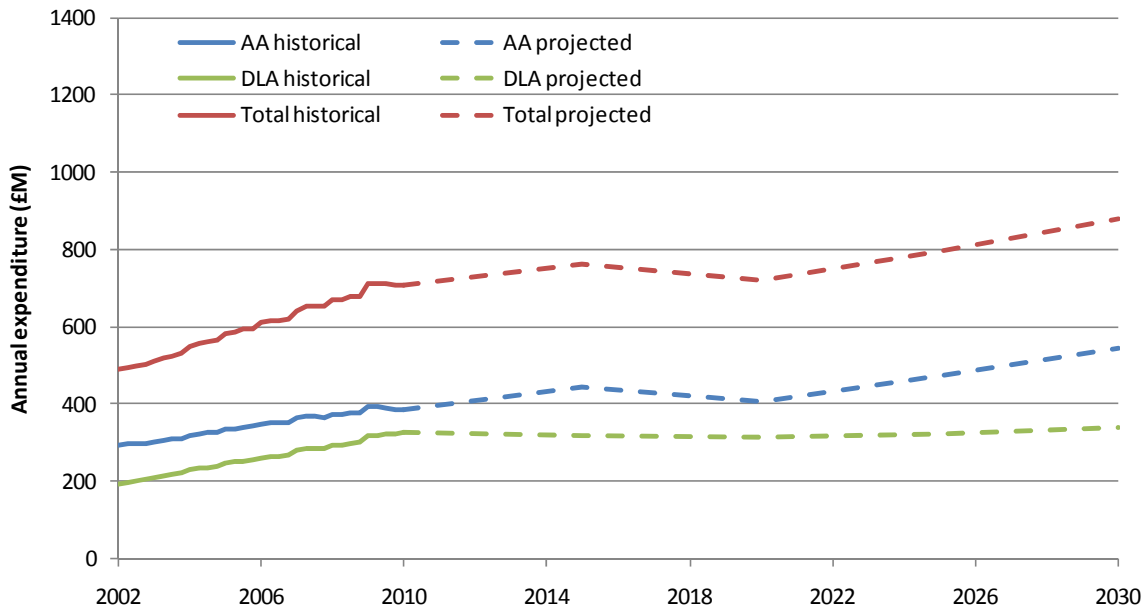


Source: DWP (2011); LE Wales projections.

The change from RPI to CPI indexation — coupled with the assumption for all projections that the mix between high and low level payments do not change over time — means that projections for expenditure follow an identical trend to projected caseloads.

AA caseloads and expenditure are projected to continue to increase to 2030. The introduction of reforms between 2015 and 2020 causes a brief decline in take-up, but the 20% reduction from reforms is outweighed by the strong baseline increase projected for AA caseloads. Nevertheless, more than 40,000 potential recipients in Wales are projected to become ineligible under the reforms.

Figure 27:Projected expenditure on DLA and AA (reform scenario)



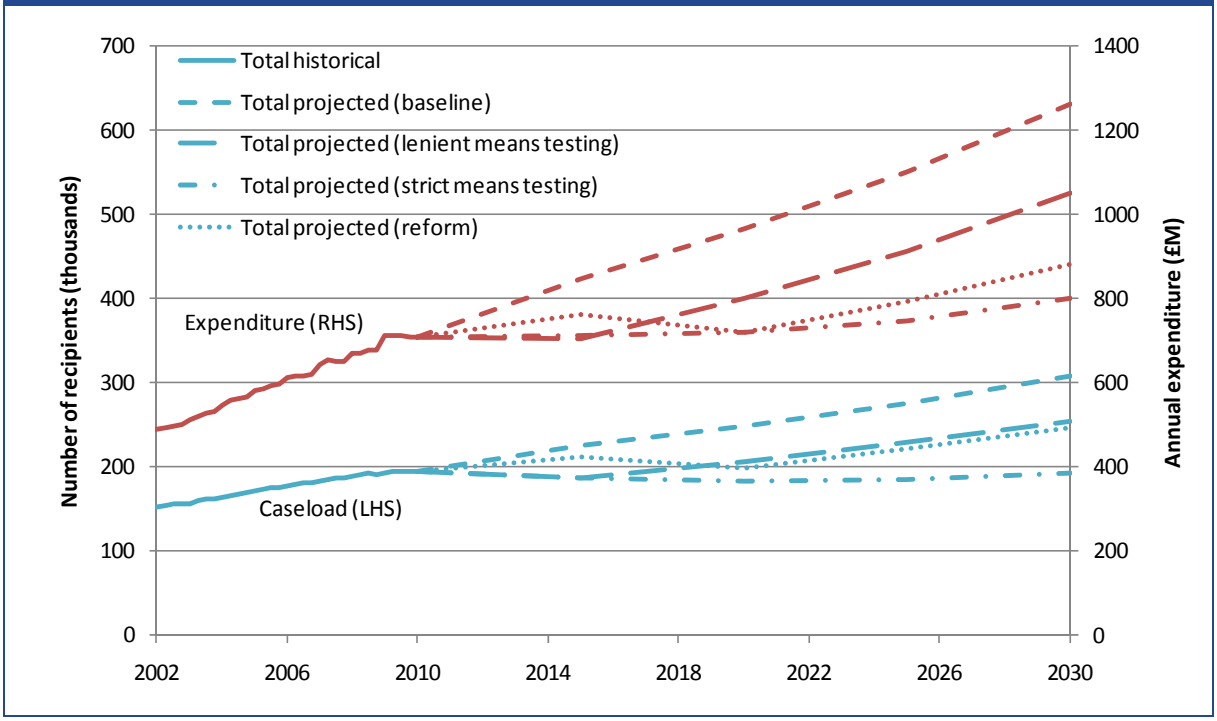
Note: All figures deflated to 2010 using CPI. Expenditure projections are for Wales and, for DLA, only for people aged over 65.
Source: DWP (2011); LE Wales projections.

4.2.6 Comparison of scenarios

Comparing across the baseline, means-testing and reform scenarios, expenditure on DLA and AA for people in Wales aged 65+ is clearly lower in the non-baseline scenarios (Figure 28).

The reform scenario causes a larger reduction in expenditure by 2030 than the lenient means testing scenario. There are two reasons for this: slightly larger reductions in caseload under the reform scenario; and the change from CPI to RPI indexation in the reform scenario, which removes any growth in allowances paid per recipient. The strict means testing scenario leads to the largest reduction in caseload and expenditure by 2030.

Figure 28: Projected caseload and expenditure on DLA and AA for people in Wales aged 65+ (various scenarios)



Note: All figures deflated to 2010 using CPI. Expenditure projections are for Wales and, for DLA, only for people aged over 65.
Source: DWP (2011); LE Wales projections.

5 Costs and benefits

5.1 Approach to cost-benefit analysis

In this section we assess the potential costs and benefits of each of the policy scenarios described above, using Scenario 0 as the baseline for comparison.

Our main approach is based on social cost-benefit analysis, though the main flows of Exchequer costs and benefits are also indicated. Social cost-benefit analysis assesses the resource impacts on society of changes in policy and is the approach recommended in HM Treasury's Green Book guidance.[14] Further guidance of relevance to this context is also provided in a report for DWP on social cost-benefit analysis for appraising employment programmes.[15]

As is commonly the case in applied social cost-benefit analysis, it will not be possible for us to fully quantify all of the potential costs and benefits of each of the policy scenarios. We provide estimates of costs and benefits where possible. Where this is not possible we discuss the impacts in a qualitative way. The main inputs that we have used for the assessment of impacts are the scenario modelling described above, the literature in this area and the focus groups that were conducted as a part of this research.

The main potential costs and benefits of reducing the numbers of older people eligible to receive DLA and AA are outlined in the table below. A more detailed elaboration of these and other, less quantifiable impacts is provided in our discussion of each of the policy scenarios below.

Table 7: Potential costs and benefits of reductions in DLA and AA for older people

Potential Costs	Potential Benefits
■ Reduced income for DLA/AA recipients	■ Reductions in Exchequer costs from reduced benefit payments
■ Increases in administration costs in some options (e.g. if means tests introduced)	■ Savings in administration costs in some options (e.g. if benefits removed)
■ Cost of increased social and health care provision	■ Higher take up of employment opportunities
■ Standard of living of former recipients	

Source: LE Wales

5.2 Scenario 1: AA/DLA removal

Whilst this Scenario is not one that seems likely to happen in the near future, discussion of the scenario provides a useful insight into the key issues around reducing expenditure on DLA/AA for older people in Wales.

[14] HM Treasury (2007).

[15] Fujiwara (2010).

Box 1: Summary of Scenario 1: AA/DLA removal

- Removal of all AA and DLA payments to people living in Wales and aged over 65;
- Effective immediately;
- Caseload and expenditure on AA and DLA are reduced to zero for the entire projection horizon out to 2030.

If DLA and AA for older people are removed altogether and not replaced by any equivalent benefit, then this would lead to significant impacts on public expenditure and also significant impacts on recipients of these benefits and their families.

5.2.1 Benefits

There would be gross savings in public expenditure from the cessation of the payment of these benefits and there would also be a reduction in the cost of administering these benefits for older people.

DLA and AA payments

The reduction in Exchequer costs from the cessation of AA and DLA payments to older people in Wales is estimated at a net present value of just over £13 billion. This is the total (discounted) projected expenditure on AA and DLA for people over 65 in Wales between 2011 and 2030. Savings are comprised of about £7.5 billion in expenditure on AA and just over £5.5 billion in expenditure on DLA.

Administrative costs

Administrative savings were estimated at just over 3% of direct expenditure savings, yielding an NPV of £388 million over the period 2011-30. The estimate of administration costs totalling 3% of direct expenditure is based on data for administration costs (departmental expenditure) and payment costs (annually managed expenditure) for disability benefits between 2004-05 and 2010-11, from the Department for Work and Pensions' most recent Resource Accounts (DWP 2010).[16]

Moving into work

This potential benefit was noted in the DWP (2011b) impact assessment for changes to DLA.

However, since AA and DLA payments are not means tested or based on labour force participation, it is unclear that there would be any direct impact on employment from their removal. There is a perception that DLA in particular is an 'out of work' payment (Thomas and Griffiths 2010) — and employment of recipients is low, even accounting for disabilities — but it does not follow that

[16] Data limitations meant that the range of disability benefits included in this calculation — AA and DLA, but also Disability Work Allowance, Invalid Care Allowance and Vaccine Damage — was broader than the scope of the current study. However, AA and DLA are the most significant of these payments in terms of total expenditure.

there is necessarily a causal link between receiving benefits and not working. Causation could run in the other direction — people who are not working might have more time to devote to applying for benefits — in which case changing the availability of benefits would have no impact on employment.

For the present study, benefits from people moving into work are even less likely to occur, as the focus is on people aged over 65.

5.2.2 Costs

DLA and AA payments

The reduction in incomes from the cessation of AA and DLA payments to older people in Wales is estimated at a net present value of just over £13 billion. This is the total (discounted) expenditure on AA and DLA for people over 65 in Wales between 2011 and 2030 and it exactly offsets the Exchequer savings of reducing these payments as listed in the option benefits above. As discussed in the benefits section, just over half of these payments would have been for AA, and these costs are spread across as many as 200,000 people who would have received the benefits at any one time. The costs of cessation of DLA payments directly affect up to 100,000 people at any one time who live in Wales and are aged over 65. This reduction in incomes has other impacts which are described below.

Longer term health and care impacts

There are likely to be increases in public expenditure on social care provision that could partially offset the gross savings in Exchequer costs described above. These have not been quantified due to a lack of robust quantitative evidence, but there is some qualitative evidence that significant reductions in entitlement to these benefits could lead to increasing demand for social care services provided by local authorities.

Previous research for the UK (Hawkins et al. 2007; Corden et al. 2010) has found that people use disability benefits to pay for items such as:

- personal care;
- gifts for carers or family members;
- transport (especially taxis);
- disability/illness-related items, such as treatments, special foods and mobility aids;
- home maintenance;
- home cleaning; and
- gardening.

With less income to spend on items such as these, former DLA/AA recipients might be forced to rely more heavily on social care provision.

The focus groups held for this study did not find evidence of direct links between benefits and the demand for social care,[17] but recipients said that they would have less access to transport and less independence without the benefits, suggesting that reliance on social provision of services could be expected to increase without the payments.

The impact of increased demand for social care depends on the magnitude of additional demand relative to existing demand for these services. One way of considering potential additional demand is to compare the number of people affected by changes to AA and DLA with the existing number of people using Local Authority social care in Wales. Around 46,000 people aged over 65 in Wales were making use of non-residential social care services at the end of 2007-08 (LE Wales 2008) and around 200,000 people aged over 65 currently receive AA or DLA benefits. This indicates that if AA and DLA were abandoned, it would only require a small proportion of those affected to turn to social care to have a significant impact on total demand for social care. For example, if just 10% of former AA and DLA recipients now required additional non-residential social care, this would increase demand for non-residential social care by approximately 40%.

The outcome from increased demand for social care will also depend on the public sector response to this demand. If resources for the provision of additional services are made available, then this will lead to a shift in public expenditure from other areas. Following on from the example above, a 40% increase in expenditure on non-residential social care services for older people in Wales could cost over £115m.[18] If local authorities do not provide additional resources in response to the increase in demand then this is likely to have significant impacts on the standard of living of former recipients of these benefits. In Section 2.3 we show that, on average, personal incomes for older DLA and AA recipients in Wales are close to population averages, but that their incomes would fall by 25% if they did not receive these benefits. Their relatively low levels of income mean that it is likely that many would not be able to meet any additional care needs through paying for private care.

In the longer term, removal of AA and DLA benefits for people aged over 65 might lead to additional costs by increasing future medical and care demands. Evidence from the focus groups held for this study suggested that people would be likely to need to reduce expenditure on food and heating if they no longer received AA or DLA. Eating poorly and being stuck in a cold house (exacerbated by a lack of mobility) is likely to have long-term health implications, potentially increasing future demand for care and health services. This is consistent with a body of empirical research that typically finds evidence of small but statistically significant causal links between income and health in developed countries (for example, Frijiters et al. 2006; Gunasekara et al. 2010; Lindahl 2005; and Meer et al. 2002). Reducing income for people who already have significant health needs is likely to lead to poorer health outcomes and future additional costs, whether these care needs are paid for by the individual or by governments.

[17] In other words, respondents did not specifically suggest that reductions in these benefits would increase their use of social care services.

[18] This is based on a total spend of £290m on non-residential care services for older people in Wales in 2007-08 (LE Wales, 2008).

Distributional impacts

Removal of AA and DLA payments is likely to bring about an adverse distributional impact, as recipients belong disproportionately to households from the lower part of the income distribution. As discussed in chapter 2, few recipients live in households in the top income quartile. This means that removing AA and DLA payments is likely to lead to greater income inequality. [19, 20]

Costs of "loss aversion"

The direct income effects of AA and DLA recipients losing their benefits have been included in the section on DLA and AA payments above, but there are likely to be additional costs for existing recipients who have become accustomed to the payments and factor them into their future household budgets.

This was apparent in the focus groups, where a sense of despair was apparent among existing recipients at the (hypothetical) suggestion of losing access to disability payments. As one participant put it 'once you're used to it and you lose it, it's an impossibility'. Corden et al (2010) also record older people's responses to a hypothetical cut in income of £50/week as including words such as "disaster", "catastrophic", "massive effect".

This is consistent with behavioural economics literature relating to 'loss aversion', where people tend to value losses from the status quo more highly than equivalent gains (Tversky and Kahneman 1991).

5.2.3 Overview of Scenario 1 impacts

The main resource benefit from this option is a reduction in the costs of administering the benefits (estimated as an NPV of £388 million). We have also noted that we believe that this option is unlikely to lead to any significant numbers of people moving from unemployment into employment. This option leads to a significant reduction in Exchequer costs (an NPV of just over £13 billion), since payment of these benefits will no longer be made. This saving is counterbalanced, however, by the significant loss (of the same size) in income for people formerly in receipt of these benefits.

To set against the resource benefit are a number of potential resource costs that link to the effect that the reduction in income has on former benefit recipients. These costs are difficult to quantify. They include longer term health effects with potential consequential impacts on demand for healthcare and social care services and significant individual hardship from removing a benefit that recipients have become accustomed to. There are also likely to be increases in income inequality.

[19] The ultimate impacts on income inequality will also depend on how any exchequer cost savings are used. If they are used to counteract this gross impact on inequality (e.g. through other expenditure that benefits low income households), there may be no (or limited) net effect on income inequality. Other approaches may even exacerbate the income inequality effect. An across-the-board proportionate reduction in income taxation, for example, would tend to increase inequality as those on higher incomes will gain more from this (many in low income households do not earn enough to pay income tax).

[20] This impact could be included in the cost-benefit analysis using a welfare weights approach (Fujiwara 2010) but doing so would require detailed counterfactual information on how the funding for DLA and AA payments would otherwise be used (including the possibility of reducing taxation).

5.3 Scenario 2: "Lenient" means testing

Under the first means testing scenario, where people from the top income quartile are no longer eligible for AA or DLA, there are also reduced Exchequer costs, changes in administrative costs, and reduced incomes for recipients. The reduction in Exchequer costs is much smaller than if DLA and AA were removed entirely, but again this benefit is offset by the loss to recipients (and potential future recipients) who do not meet the means test. Administrative costs are reduced in proportion to the number of recipients. However, this benefit is estimated to be outweighed by the additional administrative cost of means testing all recipients.

Box 2: Summary of Scenario 2: "Lenient" means testing

- People in households within the top income quartile (excluding income from disability benefits) were assumed to no longer be eligible for the benefits (both existing recipients and potential new recipients).
- Excluding only the top quartile from eligibility implies a means-test threshold of about £400 per week per household.
- Effective from 2010.

5.3.1 Benefits

There would be gross savings in public expenditure from the cessation of the payment of these benefits to people in the top income quartile and there would also be a reduction in the cost of administering these benefits for that group of older people. Both of these benefits are lower than the equivalent benefits under Scenario 1.

DLA and AA payments

The reduction in Exchequer costs from the cessation of AA and DLA payments to older people in the top income quartile in Wales is estimated at a net present value of just over £2 billion. This is the total (discounted) projected expenditure on AA and DLA for people over 65 in the top income quartile in Wales between 2011 and 2030.

This saving is split fairly evenly between expenditure on AA and expenditure on DLA, both of which are reduced by about £1 billion in present value terms. Compared with AA, a greater proportion of DLA recipients live in households in the top income quartile, so there is a greater proportional reduction in DLA recipient numbers under the baseline. Offsetting this, there are a greater number of AA recipients under the baseline, so the proportional reductions are applied to a higher base.

Administrative costs

Direct administrative savings from the reduction in the number of people receiving AA and DLA are estimated at an NPV of £66 million over the period 2011-30. As for Scenario 1, this was based on an estimate of administration costs totalling 3% of direct expenditure, based on data for disability benefits in the most recent DWP Resource Accounts. There are also likely to be additional administrative costs from introducing means-testing, discussed in the cost section below.

Moving into work

As under Scenario 1, we do not believe that there are likely to be significant benefits from former DLA and AA recipients moving into employment. In principle, means testing could introduce additional costs through reduced incentives for employment (if employment would push an applicant's income above the means test threshold) but this is unlikely to be a significant consideration for AA and DLA recipients over 65, the vast majority of whom do not work anyway.

5.3.2 Costs

DLA and AA payments

The reduction in incomes from the cessation of AA and DLA payments to older people in Wales is estimated at a net present value of just over £2 billion. This is the total (discounted) expenditure on AA and DLA for people in the top income quartile of over 65s in Wales between 2011 and 2030 and it exactly offsets the Exchequer savings of reducing these payments as listed in the option benefits above. As discussed above, costs are spread equally across AA and DLA. These costs affect slightly more potential AA recipients (30,000 in 2030) than potential DLA recipients (20,000 in 2030). This reduction in incomes also has other impacts, which are described below.

Administrative costs

Means testing is likely to carry administrative costs not just in initially verifying that an applicant's income is below the means test threshold, but also in monitoring that their income remains below the threshold. The cost of means testing could vary significantly depending on how this was achieved. For example, means testing could be much cheaper if it was based on existing data, such as whether an applicant qualified for the means test for another benefit (for example, the pension credit), or income tax data. As a rough approximation, we estimate that the additional cost of means testing will have an NPV of £101 million. This is based on a means test cost of 1% of total expenditure on DLA and AA payments.[21]

Longer term health and care impacts

As discussed for Scenario 1, there are likely to be increases in public expenditure on social care provision that could partially offset the gross savings in Exchequer costs described above. There is a lack of robust quantitative evidence about the level of these increases, but they would clearly be of a lesser magnitude than the likely change in demand under Scenario 1. Under the lenient means testing scenario, about 50,000 potential recipients would no longer be eligible for payments in 2030. This is similar to the number of people currently receiving social care support from Local Authorities, so could not lead to increased demand of nearly the same magnitude as if AA and DLA were removed altogether. Further, the people no longer receiving DLA and AA under this scenario have high household income, so might not qualify for means-tested social care services on these grounds.

[21] Calculated using an annual cost of means testing of £30 per recipient, based on the cost of means testing the disabled facilities grant program (Office of the Deputy Prime Minister 2005). This yields a lower estimate than used in some other studies that consider means testing of welfare benefits (for example, Baker and Jin Rho use an estimate of 1.7% of total expenditure).

Also, as discussed previously, there are likely to be longer term health implications from reducing payments of disability benefits. Evidence from the focus groups held for this study indicates that people who no longer receive disability payments would be likely to reduce spending on heating and food, potentially compromising their health in the longer term. Empirical research has also found evidence of causal links between income and health and these could be expected to be heightened for people with underlying disabilities.

Distributional impacts

Unlike Scenario 1, changes to income distribution in this scenario are likely to have beneficial distributional consequences, as reductions in income will only affect households in the top income quartile.

Costs of "loss aversion"

As under Scenario 1, there may be significant individual hardship from removing a benefit that recipients have become accustomed to, though the impact under Scenario 2 is likely to be much lower. This is both because fewer people lose their eligibility to these benefits and because those that do lose their eligibility will have higher average incomes.

5.3.3 Overview of Scenario 2 impacts

This option leads to a reduction in Exchequer costs (an NPV of just over £2 billion), since payment of these benefits will no longer be made to those with incomes in the top quartile. This saving is counterbalanced, however, by the loss (of the same size) in income for people formerly in receipt of these benefits. We have also noted that we believe that this option is unlikely to lead to any significant numbers of people moving from unemployment into employment.

There are a number of potential resource costs under this scenario that relate to administrative costs and to the effect that the reduction in income has on former benefit recipients. The main quantifiable resource cost from this option is a net increase in the costs of administering the benefits deriving from the introduction of the means test (estimated as an NPV of £35 million). Follow-on costs related to the impact of reduced incomes are difficult to quantify. They include longer term health effects with potential consequential impacts on demand for healthcare and social care services and significant individual hardship from removing a benefit that recipients have become accustomed to. Unlike Scenario 1, there are unlikely to be increases in income inequality.

The costs and benefits of this option are likely to be significantly smaller than the costs and benefits of Scenario 1, because the number of people who have benefits withdrawn under this option is much lower and because their average incomes are higher.

5.4 Scenario 3: "Strict" means testing

The strict means testing scenario involves means testing all new applicants and rejecting applications from the top two income quartiles — i.e. from the top half of the income distribution. Strict means testing is likely to exclude more potential recipients than lenient means testing, so the reduction in Exchequer costs and administrative costs are proportionally larger. However,

since means testing is only extended to new applicants after 2010, the additional administrative costs from means testing are smaller.

Box 3: Summary of Scenario 3: "Strict" means testing

- New applicants from households within the top two income quartiles (excluding income from disability benefits) assumed to no longer be eligible for the benefits. Existing recipients would not be means tested while they continue to receive DLA or AA.
- Excluding the top two income quartiles from eligibility implies a means-test threshold of about £250 per week per household.
- Effective from 2010.

5.4.1 Benefits

There would be gross savings in public expenditure from the cessation of the payment of these benefits to new applicants from the top two income quartiles and there would also be a reduction in the cost of administering these benefits for that group of older people. Both of these benefits are less than the equivalent benefits under Scenario 1, but greater than under Scenario 2.

DLA and AA payments

The reduction in Exchequer costs from the cessation of AA and DLA payments to new applicants in the top two income quartiles in Wales is estimated at a net present value of £3.2 billion. This is the total (discounted) projected expenditure on AA and DLA for new applicants over 65 in the top two income quartiles in Wales between 2011 and 2030. Most of this reduction in expenditure (£2.5 billion) is on AA payments, with the balance comprising a reduction in DLA payments to people aged over 65. As discussed in section 4.2.4, the impact on AA expenditure is greater than that on DLA expenditure due to the greater responsiveness of AA caseloads to entry rates.

Administrative costs

Direct administrative savings from the reduction in the number of people receiving AA and DLA are estimated at a net present value of just over £100 million for the period 2011–30. This was based on an estimated 3% of direct expenditure savings, derived as described in section 5.2.1. There are also additional administrative costs from introducing means-testing that are discussed in the cost section below.

Moving into work

As under Scenario 2, we do not believe that there are likely to be significant benefits from former DLA and AA recipients moving into employment. In principle, means testing could introduce additional costs through reduced incentives for employment (if employment would push an applicant's income above the means test threshold) but this is unlikely to be a significant consideration for AA and DLA recipients over 65, the vast majority of whom do not work anyway.

5.4.2 Costs

DLA and AA payments

The reduction in incomes from the cessation of AA and DLA payments to older people in Wales is estimated at a net present value of £3.2 billion, exactly offsetting Exchequer savings. This mainly affects potential AA recipients — over 80,000 are projected to be no longer eligible in 2030 under strict means testing — but there are also almost 30,000 potential DLA recipients affected. Reductions in income also have other impacts that are described below.

Administrative costs

Means testing is likely to carry administrative costs not just in initially verifying that an applicant's income is below the means test threshold, but also in monitoring that their income remains below the threshold. These costs could vary significantly depending on how this was achieved. As a rough approximation, we estimate that the additional cost of means testing will have an NPV of £44 million. This is based on a means test cost of 1% (derived as explained above in section 5.3.2) applied to total expenditure on DLA and AA payments to new applicants after 2010. Additional administrative costs to introduce means testing are lower under this scenario than under the lenient means testing scenario because means testing is only extended to new recipients after 2010.

Longer term health and care impacts

Impacts on health and demand for social care under this scenario are likely to be very similar to those for the other means testing scenario, Scenario 2. There might be an increase in demand for social care services among the more than 100,000 potential recipients no longer receiving payments in 2030, but again these people come from households with high income, so might not qualify for social care services. In terms of the magnitude of additional demand for social care services, if 10% of people no longer receiving AA or DLA required social care support, this would lead to about a 20% increase in the total demand for social care.

As discussed for Scenarios 1 and 2, there are likely to be longer term health implications from reducing payments of disability benefits, which could lead to future costs for either governments or the individuals themselves.

Distributional impacts

As in Scenario 2, changes to income distribution in this scenario are likely to have beneficial distributional consequences, as reductions in income will only affect households in the top two income quartiles.

Costs of "loss aversion"

In contrast to Scenario 1 and Scenario 2, there is unlikely to be significant individual hardship from removing a benefit that recipients have become accustomed to. This is because, under this scenario, only new applicants are subject to means testing. However, the standards of living of new applicants who would have received the benefits will still be lower than it would have been under the baseline scenario.

5.4.3 Overview of Scenario 3 impacts

This scenario leads to a greater reduction in Exchequer costs (an NPV of £3.2 billion) than in Scenario 2 because payments are restricted more tightly, excluding potential recipients in the top half of the income distribution. As in the other scenarios, this saving is counterbalanced by the loss (of the same size) in income for people who would otherwise be in receipt of these benefits. We believe that this option is unlikely to lead to any significant numbers of people moving from unemployment into employment — indeed, there might be a lower incentive for employment if this pushes an applicant's income over the means test threshold.

Net resource benefits and costs under this scenario relate to administrative costs and to potential longer term health impacts. The main quantifiable resource benefit from this option is a net decrease in the costs of administering the smaller caseload after the introduction of the means test (estimated as an NPV of £57 million). The costs related to the impact of reduced incomes are difficult to quantify, but there are potentially significant implications for longer term health and consequential impacts on demand for healthcare and social care services. Unlike Scenario 1, but similar to Scenario 2, there are unlikely to be increases in income inequality.

5.5 Scenario 4: AA/DLA reform

The AA/DLA reform scenario is estimated to involve greater benefits than costs when just the easily quantifiable impacts are considered. As in the other scenarios, potentially significant costs in terms of distributional changes, longer term health effects, demands for social care and significant individual hardship from removing a benefit that recipients have come to rely on are also likely to be important in evaluating the full range of costs and benefits from reforms to AA and DLA.

The AA/DLA reform scenario models the impacts of reforms to DLA set out in the June 2010 Budget. These reforms are forecast to result in a '20 per cent reduction in caseload and expenditure once fully rolled out' (HM Treasury 2010b, p.36). Unlike the current UK Government proposals, our scenario also assumes that similar changes affect AA payments, but with a delay of 3 years, so that reductions in caseload do not occur until after 2015. Both AA and DLA expenditure are affected immediately by the change from RPI to CPI indexation of benefit payments.

Box 4: Summary of Scenario 4: AA/DLA reform

- Reduction in DLA caseload of 20% (affecting existing and new applicants), phased-in through a 15% reduction in caseload in 2015 and a further 5% reduction in 2020.
- Reduction in AA caseload of 20% from 2020 (affecting existing and new applicants), phased in gradually from 2016.
- Reduction in expenditure per case of 0.7% per annum due to the change from RPI to CPI indexation.

5.5.1 Benefits

There would be gross savings in public expenditure from the reforms to DLA and AA, as well as savings from administering payments to a smaller number of recipients. Both of these benefits are of a broadly similar magnitude to those under Scenario 2 and Scenario 3.

DLA and AA payments

The reduction in Exchequer costs for AA and DLA recipients over 65 in Wales under reform is estimated at a net present value of £2.6 billion. Reductions in expenditure are divided more or less equally between AA and DLA. There is greater expenditure in Wales on AA than on DLA for people aged over 65, so that a 20% decrease in AA expenditure is larger than a 20% decrease in DLA expenditure; however, the reduction in DLA caseload occurs earlier and thus affects a greater number of people than it would otherwise.

Administrative costs

Direct administrative savings from the reduction in the number of people receiving AA and DLA are estimated at a net present value of £60 million for the period 2011–30. This was based on an estimate of administrative costs equal to just over 3% of direct expenditure, derived as described in section 5.2.1. However, administrative savings are only projected to accrue in proportion to the reduction in caseloads under the reform scenario — no ongoing administrative savings are anticipated from the change from RPI to CPI indexing. There are also additional administrative costs from reforms to eligibility requirements, discussed in the cost section below.

Moving into work

As in the other scenarios, we do not believe that there are likely to be significant benefits from former DLA and AA recipients moving into employment. This possibility was discussed in the DWP's Impact Assessment for reforms to DLA (DWP 2011b) but is much less likely to be important for the purposes of the current study, as the scope is limited to AA and DLA recipients over 65. Given their age and health, these people are unlikely to work with or without disability allowances.

5.5.2 Costs

DLA and AA payments

The reduction in incomes from reforms to AA and DLA payments to older people in Wales are exactly equal to the exchequer benefits of £2.6 billion. These costs are spread across the 20% of baseline AA recipients (about 40,000 people by 2030) and 20% of baseline DLA recipients (more than 20,000 people by 2030) who are no longer eligible for payments under reforms to eligibility.

Administrative costs

Additional administrative costs accrue as a result of one-off costs from reforms to eligibility testing. The reforms set out in the June 2010 budget will involve testing that all existing recipients meet the new requirements and are estimated to carry a net present value cost of about £15 million for DLA for people in Wales aged over 65, based on a pro-rata division of £585 million in costs across all DLA recipients in the UK (DWP 2011b). Reforms to AA are assumed to involve similar administrative costs per recipient in 2015.

Longer term health and care impacts.

As discussed for the other scenarios, there are likely to be increases in public expenditure on social care provision that could partially offset the gross savings in Exchequer costs. Under the reform scenario, about 50,000 potential recipients would no longer be eligible for payments in 2030. As

for Scenario 2, this is similar to the number of people currently receiving social care support from Local Authorities, so would not lead to increased demand of nearly the same magnitude as if AA and DLA were removed altogether. However, this could still lead to a 10% increase in demand for social care services if 10% of people who no longer receive AA or DLA require social care.

Also as discussed for the other scenarios, there are likely to be longer term health implications from reducing payments of disability benefits. This is particularly the case if findings from the focus groups — that people who no longer receive disability payments would be likely to reduce spending on heating and buy poorer quality food — are generalisable to all recipients of DLA and AA.

Distributional impacts

As discussed in Scenario 1, a reduction in AA and DLA payments is likely to bring about an adverse distributional impact, because recipients belong disproportionately to households from the lower part of the income distribution. However, the precise distributional impacts will depend on what is done with Exchequer savings.

Costs of "loss aversion"

As discussed under Scenario 1 and Scenario 2, there may be significant individual hardship from removing a benefit that recipients have become accustomed to. The impact under this scenario is likely to be much lower than under Scenario 1, but higher than under Scenario 2. Compared with Scenario 1, significantly fewer people lose their eligibility to benefits under reforms than under complete removal of the benefits. Impacts are likely to be higher than under Scenario 2 partly because there are a greater number of people affected under reforms than under lenient means testing, and partly because those that lose their eligibility under reforms will not necessarily have higher incomes to fall back on.

5.5.3 Overview of Scenario 4 impacts

This scenario leads to a reduction in Exchequer costs that falls between the two means testing scenarios (an NPV of £2.6 billion). This saving is counterbalanced by the loss (of the same size) in income for people who would otherwise be in receipt of these benefits. We believe that this option is unlikely to lead to any significant movement of people from unemployment into employment as disabled people aged over 65 are unlikely to be working irrespective of what benefits they do or do not receive.

Net resource benefits and costs under this scenario relate to benefits from reduced administrative costs, and costs that are more difficult to quantify. There is an estimated £20 million net present value decrease in the cost of administering the smaller caseload after reforms are introduced. Additional costs include longer term health effects with potential consequential impacts on demand for healthcare and social care services, and significant individual hardship from removing a benefit that recipients have become accustomed to. There are also likely to be increases in income inequality.

5.6 Summary of all scenario impacts

The results of the cost–benefit analysis of the four scenarios, relative to the baseline (no policy change) scenario, are summarised in Table 8. Year-by-year costs and benefits are reported in Annex 3.

Table 8: Summary of scenario impacts (net present value 2010–2030, £ million)

	Accruing to	Scenario 1: AA/DLA removal	Scenario 2: "Lenient" means test	Scenario 3: "Strict" means test	Scenario 4: AA/DLA reform
Benefits					
DLA & AA payments	UK Government	13,433	2,054	3,166	2,633
Admin costs	UK Government	388	66	101	60
Moving into work	-	-	-	-	-
Costs					
DLA & AA payments	DLA/AA recipients	13,433	2,054	3,166	2,633
Admin costs	UK Government	-	101	44	40
Health & care	Local Authorities; Welsh Assembly Government; UK Government; NHS; DLA/AA recipients	Potentially significant	Potential for some impact	Potential for some impact	Potential for some impact
Distributional	DLA/AA recipients	Potentially significant	-	-	Potential for some impact
Loss aversion	DLA/AA recipients	Potentially very significant	Potential for some impact	-	Potentially significant

Note: All costs and benefits in 2010 £s and discounted using a discount rate of 3.5% per annum. '-' denotes small or negligible impact.
Source: LE Wales

The potential for significant costs from impacts that are difficult to quantify means that the different scenarios cannot be easily compared using an overall summary measure. However, a few broad conclusions can be drawn.

- Complete removal of AA and DLA allowances would maximise savings to the Exchequer in the short term — both in terms of payment and administrative costs — but carries the greatest risks in terms of worsened health outcomes, increased demand for social health care, adverse distributional outcomes, and hardship for recipients from losing a payment that they have come to depend upon. All these impacts could lead to a need for greater expenditure in other areas, such as in health and social care.
- Means testing is one way to reduce Exchequer costs of AA and DLA payments to recipients in Wales aged over 65, but effects on health care demand need to be considered. Means testing is also likely to entail additional administrative costs.

- A stricter means test that applies only to new applicants could be used to reduce administrative costs and to avoid high costs from people losing existing payments.

- Reforms that reduce the number of people receiving AA and DLA, based on reforms to DLA in the June 2010 budget, have the potential to reduce administrative costs. However, a full evaluation would need to consider potential increases in the demand for social health care, adverse distributional outcomes, and hardship for recipients from losing a payment that they have come to depend upon.

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Annex 1 Data tables

A1.1 Income profile of AA and DLA recipients

A1.1.1 Household income

Table 9: Weekly household income (at least one person older than 65, £s)

	Wales			UK (excl London)		
	DLA	AA	None	DLA	AA	None
State Pension	153.9	151.7	137.0	156.1	155.3	141.4
Other Pension	71.2	61.9	116.7	56.6	61.0	124.1
Income from work	44.4	33.2	76.1	38.1	38.3	64.8
Disability benefits	75.5	69.1	1.8	73.0	64.9	1.3
Other benefits	31.0	31.9	17.5	38.0	37.0	20.0
Other	13.4	15.6	31.7	15.6	20.6	34.6
Total benefits	389.3	363.3	380.8	377.5	377.1	386.2
Count (number)	497	516	2,189	5,789	7,456	44,430

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

Table 10: Weekly household income (at least one person older than 65, % of total household income)

	Wales			UK (excl London)		
	DLA	AA	None	DLA	AA	None
State Pension	39.5	41.8	36.0	41.4	41.2	36.6
Other Pension	18.3	17.0	30.6	15.0	16.2	32.1
Income from work	11.4	9.1	20.0	10.1	10.2	16.8
Disability benefits	19.4	19.0	0.5	19.3	17.2	0.3
Other benefits	8.0	8.8	4.6	10.1	9.8	5.2
Other	3.4	4.3	8.3	4.1	5.5	9.0
Count (number)	497	516	2,189	5,789	7,456	44,430

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

A1.1.2 Personal income

Table 11: Weekly personal income (older than 65, £s)

	Wales			UK (excl London)		
	DLA	AA	Neither	DLA	AA	Neither
State Pension	104.6	116.5	98	110.2	117.6	101.5
Other Pension	38.8	36.1	82	33.9	38.2	85.8
Income from work	0.1	0	23.9	1.6	0.3	15.8
Disability benefits	67.1	61.8	1.5	66.8	59.6	1
Other benefits	21.2	23	10.9	26.3	27.2	13.2
Other	3.8	7.7	17.2	5.0	10.7	20.2
Total benefits	235.6	245.1	233.5	243.8	253.6	237.5
Count (number)	530	545	3,200	6,116	7,839	62,941

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

Table 12: Weekly personal income (older than 65, % of total personal income)

	Wales			UK (excl London)		
	DLA	AA	Neither	DLA	AA	Neither
State Pension	44.4	47.5	42.0	45.2	46.4	42.7
Other Pension	16.5	14.7	35.1	13.9	15.1	36.1
Income from work	0.0	0.0	10.2	0.7	0.1	6.7
Disability benefits	28.5	25.2	0.6	27.4	23.5	0.4
Other benefits	9.0	9.4	4.7	10.8	10.7	5.6
Other	1.6	3.1	7.4	2.1	4.2	8.5
Count (number)	530	545	3,200	6,116	7,839	62,941

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.
Source: Family Resources Survey (2001 to 2008).

A1.1.3 Household income by age group

Table 13: Weekly household income (at least one person older than 65, £s)

	Wales									UK (excl London)								
	DLA			AA			Neither			DLA			AA			Neither		
Age group	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**
State Pension	138.4	162.7	164.5	141.4	154.5	150.5	138.7	139.9	129.2	150.8	160.6	154.8	156.0	160.7	151.8	143.3	145.8	130.1
Other Pension	72.8	74.9	49.5	42.7	66.9	59.7	130.0	125.5	83.8	58.9	57.1	47.8	73.4	61.9	59.4	144.0	128.6	90.5
Income from work	56.0	38.0	35.2	0.0	38.1	32.0	137.1	58.1	39.1	51.4	28.7	34.5	56.1	38.1	37.1	119.3	47.1	33.8
Disability benefits	72.3	77.8	75.3	94.8	73.1	64.8	2.0	1.5	2.3	70.8	75.6	69.7	74.0	66.8	62.9	1.0	1.2	1.9
Other benefits	31.3	28.5	41.4	42.3	26.1	35.0	17.8	15.0	22.1	40.1	36.0	39.8	37.3	35.2	38.2	18.0	18.6	25.4
Other	16.1	10.5	18.0	12.8	15.8	15.7	36.8	27.6	33.9	17.0	13.3	20.8	32.3	18.3	21.1	39.6	33.6	30.4
Total benefits	386.9	392.3	383.9	334.0	374.6	357.7	462.2	367.6	310.4	388.9	371.2	367.3	429.1	381.0	370.6	465.1	375.0	312.1
Count (number)	184	256	57	19	198	299	625	1,036	528	2,219	2,850	720	334	2,789	4,333	12,789	21,228	10,413

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.

Source: Family Resources Survey (2001 to 2008).

Table 14: Weekly household income (at least one person older than 65, % of total household income)

	Wales									UK (excl London)								
	DLA			AA			Neither			DLA			AA			Neither		
Age group	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**	**65-69**	**70-79**	**80+**
State Pension	35.8	41.5	42.9	42.3	41.2	42.1	30.0	38.1	41.6	38.8	43.3	42.1	36.4	42.2	41.0	30.8	38.9	41.7
Other Pension	18.8	19.1	12.9	12.8	17.9	16.7	28.1	34.1	27.0	15.1	15.4	13.0	17.1	16.2	16.0	31.0	34.3	29.0
Income from work	14.5	9.7	9.2	0.0	10.2	8.9	29.7	15.8	12.6	13.2	7.7	9.4	13.1	10.0	10.0	25.6	12.6	10.8
Disability benefits	18.7	19.8	19.6	28.4	19.5	18.1	0.4	0.4	0.7	18.2	20.4	19.0	17.3	17.5	17.0	0.2	0.3	0.6
Other benefits	8.1	7.3	10.8	12.7	7.0	9.8	3.8	4.1	7.1	10.3	9.7	10.8	8.7	9.2	10.3	3.9	5.0	8.1
Other	4.2	2.7	4.7	3.8	4.2	4.4	8.0	7.5	10.9	4.4	3.6	5.6	7.5	4.8	5.7	8.5	9.0	9.7
Count (number)	184	256	57	19	198	299	625	1,036	528	2,219	2,850	720	334	2,789	4,333	12,789	21,228	10,413

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.

Source: Family Resources Survey (2001 to 2008).

A1.1.4 Household income by income quartile

Table 15: Weekly household income (at least one person older than 65, £s)

	Wales												UK (excl London)											
	DLA				AA				Neither				DLA				AA				Neither			
Income quartile	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
State Pension	100.7	152.5	174.8	176.7	108.2	149.3	179.8	186.4	106.8	134.7	152.8	152.8	110.4	157.7	182.5	172.8	112.8	153.7	183.5	177.0	109.0	139.8	156.9	158.6
Other Pension	11.0	26.7	77.1	193.4	15.7	27.9	63.9	205.7	15.7	45.6	102.5	275.4	10.5	27.0	71.4	164.5	13.0	27.4	68.1	195.2	15.8	43.2	111.9	299.2
Income from work	0.5	0.4	6.5	226.8	0.0	0.0	5.9	201.5	-1.4	2.6	17.0	251.9	0.2	1.0	11.4	234.1	0.2	0.7	8.3	231.4	-2.4	2.9	20.3	214.8
Disability benefits	70.2	74.3	80.9	73.3	64.2	67.3	69.4	80.6	1.7	2.0	1.6	2.0	67.1	72.9	77.7	73.2	61.5	63.2	68.4	67.7	1.7	1.3	1.4	1.0
Other benefits	23.3	36.5	34.9	24.1	16.9	34.0	46.6	29.6	14.8	25.3	18.6	12.8	28.1	41.0	45.7	32.1	20.8	43.9	48.1	29.5	19.3	32.1	19.8	10.9
Other	4.2	6.5	17.6	26.4	5.3	6.6	14.3	53.4	6.3	9.0	27.6	76.0	3.2	5.7	17.6	52.9	5.8	7.0	19.2	74.8	6.8	10.6	26.8	86.2
Total income	209.8	296.8	391.7	720.8	210.4	285.1	379.8	757.2	143.9	219.0	320.1	771.0	219.6	305.3	406.3	729.6	214.0	295.9	395.5	775.6	150.2	229.8	337.2	770.6
Count (number)	101	138	166	92	143	157	135	81	554	507	503	625	1,381	1,814	1,745	849	1,863	2,380	2,060	1,153	11,137	10,252	10,674	12,367

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.

Source: Family Resources Survey (2001 to 2008).

Table 16: Weekly household income (at least one person older than 65, % of total household income)

	Wales												UK (excl London)											
	DLA				AA				Neither				DLA				AA				Neither			
Income quartile	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
State Pension	48.0	51.4	44.6	24.5	51.4	52.4	47.3	24.6	74.2	61.5	47.7	19.8	50.3	51.7	44.9	23.7	52.7	52.0	46.4	22.8	72.5	60.8	46.5	20.6
Other Pension	5.2	9.0	19.7	26.8	7.5	9.8	16.8	27.2	10.9	20.8	32.0	35.7	4.8	8.8	17.6	22.5	6.1	9.2	17.2	25.2	10.5	18.8	33.2	38.8
Income from work	0.2	0.1	1.6	31.5	0.0	0.0	1.5	26.6	-1.0	1.2	5.3	32.7	0.1	0.3	2.8	32.1	0.1	0.2	2.1	29.8	-1.6	1.3	6.0	27.9
Disability benefits	33.4	25.0	20.6	10.2	30.5	23.6	18.3	10.6	1.2	0.9	0.5	0.3	30.6	23.9	19.1	10.0	28.7	21.4	17.3	8.7	1.1	0.6	0.4	0.1
Other benefits	11.1	12.3	8.9	3.3	8.0	11.9	12.3	3.9	10.3	11.5	5.8	1.7	12.8	13.4	11.2	4.4	9.7	14.8	12.2	3.8	12.8	13.9	5.9	1.4
Other	2.0	2.2	4.5	3.7	2.5	2.3	3.8	7.1	4.4	4.1	8.6	9.9	1.5	1.9	4.3	7.2	2.7	2.4	4.9	9.6	4.5	4.6	7.9	11.2
Count (number)	101	138	166	92	143	157	135	81	554	507	503	625	1,381	1,814	1,745	849	1,863	2,380	2,060	1,153	11,137	10,252	10,674	12,367

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.

Source: Family Resources Survey (2001 to 2008).

A1.1.5 Personal income by (household) income quartile

Table 17: Personal household income (older than 65, £s)

	Wales												UK (excl London)											
	DLA				AA				Neither				DLA				AA				Neither			
Income quartile	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
State Pension	62.2	103.6	124.8	148.9	64.3	105.8	129.4	166.2	60.5	103.5	113.9	113.2	62.2	103.6	124.8	148.9	64.3	105.8	129.4	166.2	60.5	103.5	113.9	113.2
Other Pension	3.1	16.3	42.9	138.4	2.7	17.5	34.0	97.7	3.9	21.5	56.4	229.3	3.1	16.3	42.9	138.4	2.7	17.5	34.0	97.7	3.9	21.5	56.4	229.3
Income from work	0	0.2	0	0.2	0.0	0.0	0.0	0.0	-0.8	1.0	2.6	85.1	0	0.2	0	0.2	0.0	0.0	0.0	0.0	-0.8	1.0	2.6	85.1
Disability benefits	68.2	68.2	66.5	64	61.1	62.1	61.1	63.1	0.5	1.4	2.1	1.8	68.2	68.2	66.5	64	61.1	62.1	61.1	63.1	0.5	1.4	2.1	1.8
Other benefits	5.1	19	36	27.8	5.7	12.2	32.6	41.8	4.1	10.2	20.7	9.2	5.1	19	36	27.8	5.7	12.2	32.6	41.8	4.1	10.2	20.7	9.2
Other	1.8	3.7	2.6	10.4	1.9	5.2	7.5	16.8	4.5	7.5	10.0	44.3	1.8	3.7	2.6	10.4	1.9	5.2	7.5	16.8	4.5	7.5	10.0	44.3
Total income	140.4	211.0	272.8	389.7	135.7	202.8	264.6	385.6	72.7	145.1	205.7	482.9	140.4	211.0	272.8	389.7	135.7	202.8	264.6	385.6	72.7	145.1	205.7	482.9
Count (number)	155	140	154	81	120	149	160	116	793	779	756	872	155	140	154	81	120	149	160	116	793	779	756	872

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.

Source: Family Resources Survey (2001 to 2008).

A1.2 Expenditure profile of AA and DLA recipients

A1.2.1 Weekly expenditure

Table 18: Weekly adult household expenditure (at least one person older than 65)

	Wales			UK (excl London)		
	DLA	AA	Neither	DLA	AA	Neither
Private medical expenses	1.7	4.4	4.8	4.1	7.6	2.7
Private medical expenses (other)	1.5	0.1	1.5	1.2	1.7	2.5
Public medical expenses	0	0.3	0.4	0.5	0.7	1
Food & non-alcoholic beverage	43.9	40.1	42.7	45	39.3	42.8
Alcoholic beverage & tobacco	8.1	7.8	8.4	10.8	7.3	8
Clothing and footwear	9.2	9.9	10.8	11.5	11.4	13.5
Housing water and electricity	31.3	33.2	33.1	34.5	32.9	35.7
Furnishing equipment etc.	27	26.5	22.1	26.8	24.6	25.3
Transport	34.2	21.9	30	33	22.7	38.3
Communications	8.4	6.8	7.4	8.4	7.1	7.5
Recreation	61.5	28.1	43.8	44.3	28.8	46
Restaurant & hotels	14.2	14.2	19.8	18.3	14.8	21.3
Other goods & services	15.5	18.1	23.2	20.7	23.2	26.2
Total expenditure	256.5	211.4	248	259.1	222.1	270.8
Count	95	106	518	1,129	1,661	10,585

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.
Source: Living Costs and Food Survey (2001 to 2008).

A1.2.2 Division of total expenditure

Table 19: Weekly adult household expenditure (at least one person older than 65, % of total expenditure)

	Wales			UK (excl London)		
	DLA	AA	Neither	DLA	AA	Neither
Private medical expenses	0.7	2.1	1.9	1.6	3.4	1.0
Private medical expenses (other)	0.6	0.0	0.6	0.5	0.8	0.9
Public medical expenses	0.0	0.1	0.2	0.2	0.3	0.4
Food & non-alcoholic beverage	17.1	19.0	17.2	17.4	17.7	15.8
Alcoholic beverage & tobacco	3.2	3.7	3.4	4.2	3.3	3.0
Clothing and footwear	3.6	4.7	4.4	4.4	5.1	5.0
Housing water and electricity	12.2	15.7	13.3	13.3	14.8	13.2
Furnishing equipment etc.	10.5	12.5	8.9	10.3	11.1	9.3
Transport	13.3	10.4	12.1	12.7	10.2	14.1
Communications	3.3	3.2	3.0	3.2	3.2	2.8
Recreation	24.0	13.3	17.7	17.1	13.0	17.0
Restaurant & hotels	5.5	6.7	8.0	7.1	6.7	7.9
Other goods & services	6.0	8.6	9.4	8.0	10.4	9.7
Count (number)	95	106	518	1,129	1,661	10,585

Note: Estimates from several 'waves' of survey data were combined (in 2008 £s) by deflating monetary estimates using CPI.
Source: Living Costs and Food Survey (2001 to 2008).

Annex 2 Topic guide for focus groups

A2.1 Welcome and initial explanation (allow 15 minutes)

This research is funded by the Welsh Assembly Government. The work is being done by LE Wales and Perspective, who are independent research organisations.

The aim of the focus groups is to find out what difference Disability Living Allowance (DLA) and Attendance Allowance (AA) makes for the people aged 65 and over who receive them in Wales. DLA and AA are tax-free allowances to assist with additional costs that people might have because of disability. They are paid at various rates, depending on the needs of each particular applicant.

[If necessary:

- AA: lower rate of £47.80 per week, or a higher rate of £71.40 per week
- DLA: 'care' component of £18.95, £47.80 or £71.40 per week; 'mobility' component of £18.95 per week for those with lower needs, or £49.85 for those with higher needs.]

Lots of people in different kinds of circumstances get these allowances, and the Welsh Assembly Government is keen to understand what people think about DLA and AA, and in particular what difference they make for them.

The UK Government is responsible for payment of DLA and AA allowances and is currently consulting on changes to the allowances system across the UK. The Welsh Assembly Government is not responsible for payment or changes to DLA and AA, but rather is undertaking this research to understand how possible changes might affect the lives of people in Wales, as well as the demand for social care services in Wales.

We will talk fairly informally in the focus groups, and you will choose how much you want to say about things. We will be trying to understand what kinds of things people spend money on that they might not purchase if they did not receive these allowances and we will also be trying to understand what other impacts the allowances might have, such as contributing to feelings of greater independence and affecting the way in which people use social care services.

Taking part is completely voluntary, and will have no effect on any of your allowances or other income. Nobody in any part of government knows who we talk to in these focus groups. When we have finished the interviews we write a report for the government. Your views will be included there along with other people's, but they will be anonymous. The government is interested in the overall picture of what people generally think and do.

There is a gift of £40 as a token of thanks for taking part. This will be delivered at the end of the focus group, at which time I will ask you to sign a receipt.

A2.2 Introductions (10 minutes)

Ask each participant to introduce themselves to the others in the group (ask their first name, as well as whether and for how long they have received DLA or AA).

A2.3 Take-up of DLA/AA (20 minutes)

- If you look back to when you first received AA/DLA, can you remember what factors affected your decision to claim AA/DLA?

  [*Prompt as necessary:*

  - *How did you find out that you might be able to claim the benefit?*
  - *Do you think you may have been eligible for the benefit for a long time before you actually received it?*
  - *If so, for how long (years?) and why? (for example: didn't know about the allowance/ chose not to apply/ application refused?)*
  - *Did you need someone to help you with the application process?*
  - *Did any aspects of the process put you off claiming? Which ones?]*

A2.4 Uses of AA/DLA income (30 minutes)

- We will start with a broad question: what difference does having the income from AA/DLA make to your life?

  [*Prompt as necessary:*

  - *What does the additional income enable you to do that you might not otherwise do? (for example, pay for personal care, visit friends and relatives, heat the house adequately)*
  - *Does receiving AA/DLA income make a difference to the way you feel (for example, feeling more independent, less reliant on friends and relatives?)*]

- Now I want you to consider a situation where you are no longer able to receive income from AA or DLA.

  [*Reassure that this is only a hypothetical and not something that is actually going to happen: we are simply trying to explore further how people spend their AA/DLA income, and one way to do this is to consider what people would cut back on if they no longer received the allowance.*]

  - The average income received from disability payments for recipients in Wales is just over £60 per week
  - What would you cut back if your income was reduced by £60 per week? Possibilities might include:
    - medical expenses and additional care;
    - food and beverages;
    - clothing and shoes;
    - basic bills, such as electricity and heating;
    - home fittings/domestic appliances;
    - own car/public transport/taxis;
    - community activities/hobbies/recreation; and

- going out to restaurants and hotels.
- How would this most affect your life as it is now?

- Do you think of AA/DLA as covering any of these expenditures in particular, or not like that?

  - For example, do you treat your AA/DLA income as a pot of money that gets spent on something specific (e.g. personal care, transport, food, days out) or does it just go into the general household pot with your other sources of income?

A2.4.1 AA/DLA income and personal care/social care (30 minutes)

We are particularly interested in the way that income from AA/DLA may affect your use of social services or the extent to which you may pay for personal care yourself.

Personal care might include:

- assistance with dressing, feeding and washing;
- assistance with taking medicines;
- assistance communicating;
- advice, encouragement and support.

What types and level of private personal care do you currently pay for (if any)?

If you no longer received income from disability allowances (*again purely hypothetical*),

- Would you need to reduce your expenditure on personal care? By how much? What types of personal care would you need to do without?
- Would you be likely to need reduce your expenditure on aids, equipment or medicines that help address your disability?
- If so, would you need to rely more heavily on public social services if you no longer received income from AA/DLA?
- Are there particular services that you think you would need more of?

A2.5 Close of focus group (15 minutes)

Thank for participation and very helpful contributions.

Remind participants that the focus group responses will be used anonymously.

Deliver gift of £40 to each participant and ask them to sign a receipt to confirm they have received this money.

Annex 3 Annual results of cost-benefit analysis

A3.1.1 Scenario 1: AA/DLA removal

Table 20: Annual quantified costs and benefits under scenario 1 (£)

	Benefits		Costs	
	Reduced DLA/AA payments from Exchequer	Reduced administration costs	Reduced income for recipients	Increased administration costs
2010	0	0.0	0	0.0
2011	737	5.4	737	0.0
2012	764	10.8	764	0.0
2013	792	16.3	792	0.0
2014	819	21.7	819	0.0
2015	847	27.1	847	0.0
2016	870	27.8	870	0.0
2017	893	28.6	893	0.0
2018	917	29.3	917	0.0
2019	940	30.1	940	0.0
2020	964	30.8	964	0.0
2021	991	31.7	991	0.0
2022	1,018	32.6	1,018	0.0
2023	1,045	33.4	1,045	0.0
2024	1,072	34.3	1,072	0.0
2025	1,099	35.2	1,099	0.0
2026	1,132	36.2	1,132	0.0
2027	1,164	37.3	1,164	0.0
2028	1,197	38.3	1,197	0.0
2029	1,229	39.3	1,229	0.0
2030	1,262	40.4	1,262	0.0

Note: All costs and benefits are undiscounted and reported in 2010 £s.
Source: LE Wales analysis

A3.1.2 Scenario 2: "lenient" means testing

Table 21: Annual quantified costs and benefits under scenario 2 (£)

	Benefits		Costs	
	Reduced DLA/AA payments from Exchequer	Reduced administration costs to exchequer	Reduced income for recipients	Increased administration costs from means testing
2010	0	0.0	0	0.0
2011	29	0.9	29	1.4
2012	58	1.8	58	2.8
2013	86	2.8	86	4.2
2014	115	3.7	115	5.6
2015	144	4.6	144	7.0
2016	148	4.7	148	7.2
2017	152	4.9	152	7.4
2018	156	5.0	156	7.6
2019	160	5.1	160	7.8
2020	164	5.2	164	8.0
2021	168	5.4	168	8.2
2022	173	5.5	173	8.5
2023	177	5.7	177	8.7
2024	182	5.8	182	8.9
2025	186	6.0	186	9.1
2026	192	6.1	192	9.4
2027	197	6.3	197	9.7
2028	202	6.5	202	9.9
2029	208	6.7	208	10.2
2030	213	6.8	213	10.5

Note: All costs and benefits are undiscounted and reported in 2010 £s.

Source: LE Wales analysis

A3.1.3 Scenario 3: "strict" means testing

Table 22: Annual quantified costs and benefits under scenario 3 (£)

	Benefits		Costs	
	Reduced DLA/AA payments from Exchequer	Reduced administration costs to exchequer	Reduced income for recipients	Increased administration costs from means testing
2010	0	0.0	0	0.0
2011	27	0.9	27	0.4
2012	53	1.7	53	0.7
2013	80	2.6	80	1.1
2014	107	3.4	107	1.4
2015	134	4.3	134	1.8
2016	156	5.0	156	2.1
2017	178	5.7	178	2.3
2018	200	6.4	200	2.6
2019	223	7.1	223	2.9
2020	245	7.8	245	3.2
2021	266	8.5	266	3.5
2022	288	9.2	288	3.9
2023	309	9.9	309	4.3
2024	330	10.6	330	4.6
2025	352	11.3	352	5.0
2026	374	12.0	374	5.4
2027	396	12.7	396	5.8
2028	418	13.4	418	6.2
2029	439	14.1	439	6.6
2030	461	14.8	461	6.9

Note: All costs and benefits are undiscounted and reported in 2010 £s.

Source: LE Wales analysis

A3.1.4 Scenario 4: AA/DLA reform

Table 23: Annual quantified costs and benefits under scenario 4 (£)

	Benefits		Costs	
	Reduced DLA/AA payments from Exchequer	Reduced administration costs to exchequer	Reduced income for recipients	Increased administration costs from reform
2010	0	0.0	0	0.0
2011	6	0.0	6	0.0
2012	12	0.0	12	0.9
2013	17	0.0	17	1.5
2014	41	0.4	41	5.0
2015	85	1.7	85	9.1
2016	111	2.3	111	6.6
2017	142	3.2	142	8.3
2018	198	5.0	198	12.6
2019	233	6.0	233	6.8
2020	244	6.2	244	0.0
2021	256	6.4	256	0.0
2022	268	6.5	268	0.0
2023	281	6.7	281	0.0
2024	293	6.9	293	0.0
2025	306	7.1	306	0.0
2026	321	7.3	321	0.0
2027	336	7.5	336	0.0
2028	351	7.7	351	0.0
2029	366	7.9	366	0.0
2030	382	8.1	382	0.0

Note: All costs and benefits are undiscounted and reported in 2010 £s.

Source: LE Wales analysis