LEARNING AND WORK INSTITUTE

The benefit trap

Better support for disabled people and people with long-term health conditions

Stephen Evans

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Learning and Work Institute
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Executive summary

3.5 million people receive incapacity benefits because they are too ill to work, up 37% since the pandemic. Many want to work, but too few are offered help to find work and not enough workplaces offer suitable employment opportunities. We can help 500,000 more people into work over ten years by inviting claimants to regular Work Support Conversations, expanding and improving employment support, and working with employers to offer better opportunities and support job retention.

The cost of disability benefits to support people with the extra costs of a disability and incapacity benefits to support those too ill to work has risen 40% in real terms since 2013 and is set to reach £100 billion by 2029-30. There are 3.5 million receiving incapacity benefits, up one million or 37% since the pandemic, the result of more claims, which are more likely to succeed, and few people leaving incapacity benefits.

Explaining the rise in the number of incapacity benefit claimants

Only one third of the rise can be explained by the rising state pension age (meaning more older people who are more likely to have health problems are still expected to work), an aging population, and the rollout of Universal Credit (which brings people who would previously have received other benefits into the system).

Declining health can't explain the rest of the rise. Trends in population health don't match changes in the number of incapacity benefit claimants. An increased prevalence of, or openness about, mental health conditions may be part of the answer: they are a growing reason for claiming incapacity and disability benefits. Only one in three people economically inactive due to long-term sickness were previously in work or temporarily sick: health is not the only reason they are out of work.

People can be trapped by the benefit system and lack of suitable jobs

Incapacity benefits for those with the greatest limits on their ability to work are £5,000 per year higher than unemployment benefits. For those who qualify, Personal Independence Payment (the key disability benefit) is up to £9,583 per year. Unemployment benefits are low by international and historic terms, falling short of the minimum estimated to be needed to cover the cost of essentials. This increases the incentive for people that qualify to claim disability and incapacity benefits.

Once on incapacity benefits, people get little support to find work. Only one in ten out-of-work disabled people get help to find work each year, and only 1% of people economically inactive due to long-term sickness are in work six months later, compared to 33% of unemployed people.

Yet many want to work, either now or in the future. One in five people economically inactive due to long-term sickness say they want a job, and one in three health and disability claimants say they might be able to work now or in the future.

The combination of financial incentives created by a safety net set too low, insufficient and inadequate support to prepare for or look for work, and the need for more jobs and workplaces that can flex to meet the needs of people with health problems and disabilities have created a benefit trap.

The answer is better incentives and support, not just cuts

To build a better system, the Government should:

- **Improve and decouple financial support.** Move toward Universal Credit (UC) covering the costs of essentials, consider abolishing the Work Capability Assessment to make a reformed Personal Independence Payment the main help with the extra costs of disability or incapacity, with transitional protection so current claimants are not affected.
- **Introduce a Benefit Passport**, reducing the risk of trying work by guaranteeing people can automatically return to their previous benefit status if they leave work within six months, and consider extending Work Allowances to 16 hours per week.
- **Invite people to regular Work Support Conversations**, to hear about support and opportunities available but with take up voluntary. These should take place quarterly for new incapacity benefit claimants and be initially linked to a rehabilitation plan where appropriate, and annually for current claimants, with proactive engagement of up to 800,000 Employment and Support Allowance (ESA) claimants transferring to UC.
- **Expand employment support**, doubling the number of places to 300,000 per year by 2030 and hardwiring join-ups between work, health and skills support, including guaranteed help with literacy, numeracy and digital skills.
- **Work with employers**, to help with recruitment, job design and retention, promote healthy workplaces, and expand and speed up Access to Work.

This could mean 500,000 more people in work over ten years, meeting the needs of people, employers and the economy

Regular Work Support Conversations and expanding employment support would cost an extra £450 million per year, with support ramped up to this level over the next three years. This could mean an extra 500,000 people in work over ten years once change is scaled up, contributing one quarter of the growth in employment needed for the Government's 80% employment rate goal. This could boost the economy by £8 billion and reduce the projected costs of incapacity benefits by £4 billion.

Any reforms should be approached with caution and developed in partnership with disabled people and other stakeholders. But done right, this has the potential to be a win-win-win for people, employers and the economy.

Introduction

The cost of disability benefits (helping people with the costs of a disability) and incapacity benefits (helping people who are out of work due to health) have risen over time, and are set to reach almost £100 billion by the end of the decade as claimant numbers rise. This puts pressure on the public finances. But the system is also not working well for disabled people either: too many feel poorly treated and too few get help to find work even when they want a job.

The cost of all disability-related benefits is £63 billion, up 40% in real terms since 2013.[1] It is projected to rise to £100 billion by 2029-30. Disability-related benefits consist of:

- **Disability benefits** aiming to provide help for those in and out of work (though 83% of recipients are out of work) with the extra costs of having a disability.[2] This is predominantly through Personal Independence Payment (PIP), received by three million working-age people. PIP has two rates (higher and lower) for two elements (mobility and daily living). An assessment determines whether people are entitled to PIP and at what rates. The maximum amount someone can receive (with the higher rates of both the mobility and daily living elements) is £9,583 per year.
- **Incapacity benefits** for those who are too ill to work. This is largely provided through Universal Credit (UC) health element (2.1 million people) and Employment and Support Allowance (ESA) (1.4 million people, though 800,000 of these will need to open a claim for UC in the next year as income-based ESA will close).[3] A Work Capability Assessment (WCA) determines whether people are either fit to seek work, able to prepare for work (Limited Capability for Work, LCW) or unable to do either (Limited Capability for Work and Work-Related Activity, LCWRA). People in the LCWRA group receive an extra £5,000 per year.

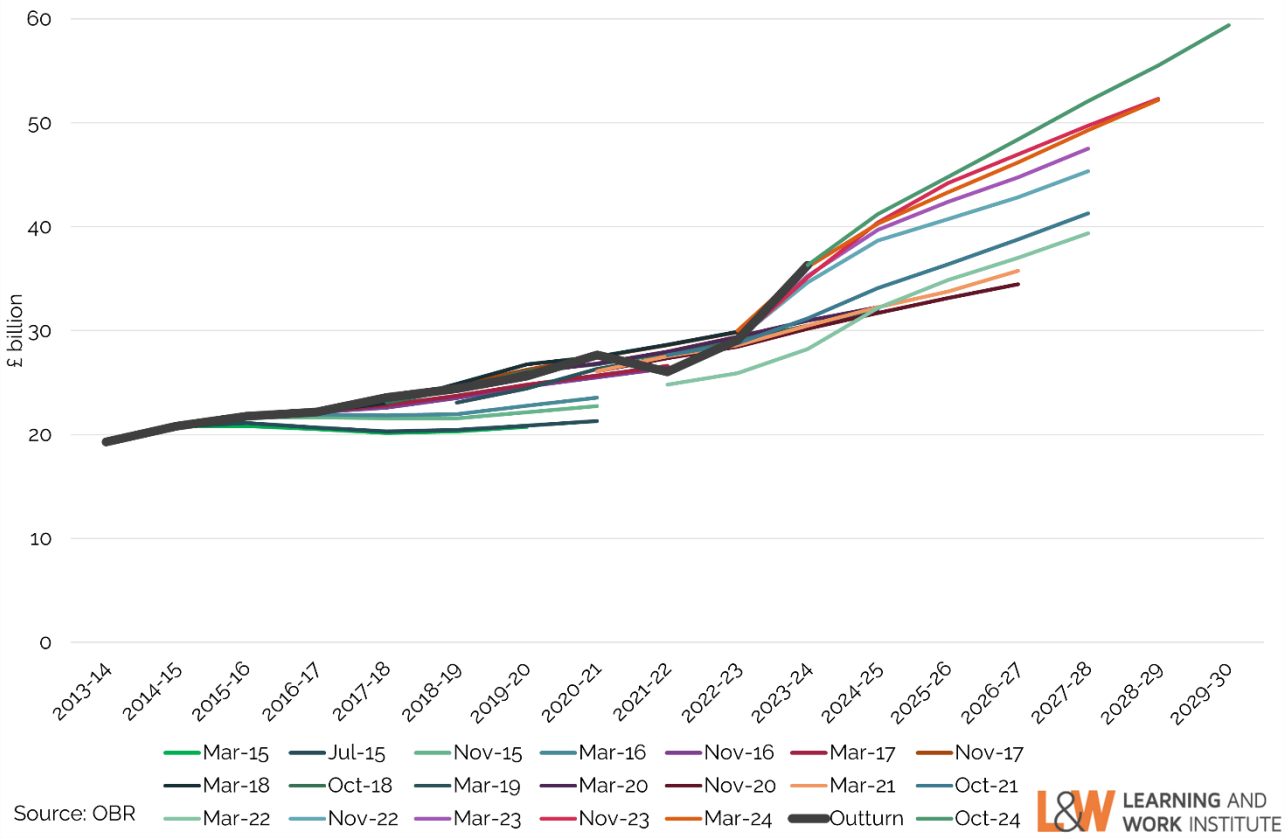
The Government is keen to limit the projected rise in health and disability benefit costs. The tight state of the public finances coupled with low economic growth mean the projected further rises would limit resources available for public services or tax cuts.

The Government also needs to support more disabled people into work to help grow the economy and meet its ambitions for an 80% employment rate. That ambition requires an extra two million people in work, and halving the disability employment rate gap would contribute 1.2 million toward it. Done right, this could also help to meet the needs and aspirations of disabled people: two in five people economically inactive due to long-term sickness say they want a job but only one in ten get help to find work each year.[4]

[1] House of Lords Economic affairs committee letter to DWP Secretary of State, January 2025.
[2] Trends in working-age disability benefit onflows, Welfare trends report, OBR, 2024.
[3] The remainder will retain an entitlement to ESA through their National Insurance contribution record.
[4] Towards full employment: how the UK can increase employment by widening opportunity, L&W, 2022.

Yet many disabled people don't feel the current system is too lenient or that benefits are easy to get. And there have been a range of reforms to disability benefits over recent decades, most aimed at reducing the cost and caseloads and none really succeeding in doing so. In 2015 disability benefits were expected to remain broadly flat in real terms at £21 billion by 2020; in fact they rose by 30% (£6.5 billion).[5] The cost is expected to be 32% (£13 billion) higher in 2027-28 than projected in November 2020.

Figure 1: Disability benefit cost forecasts

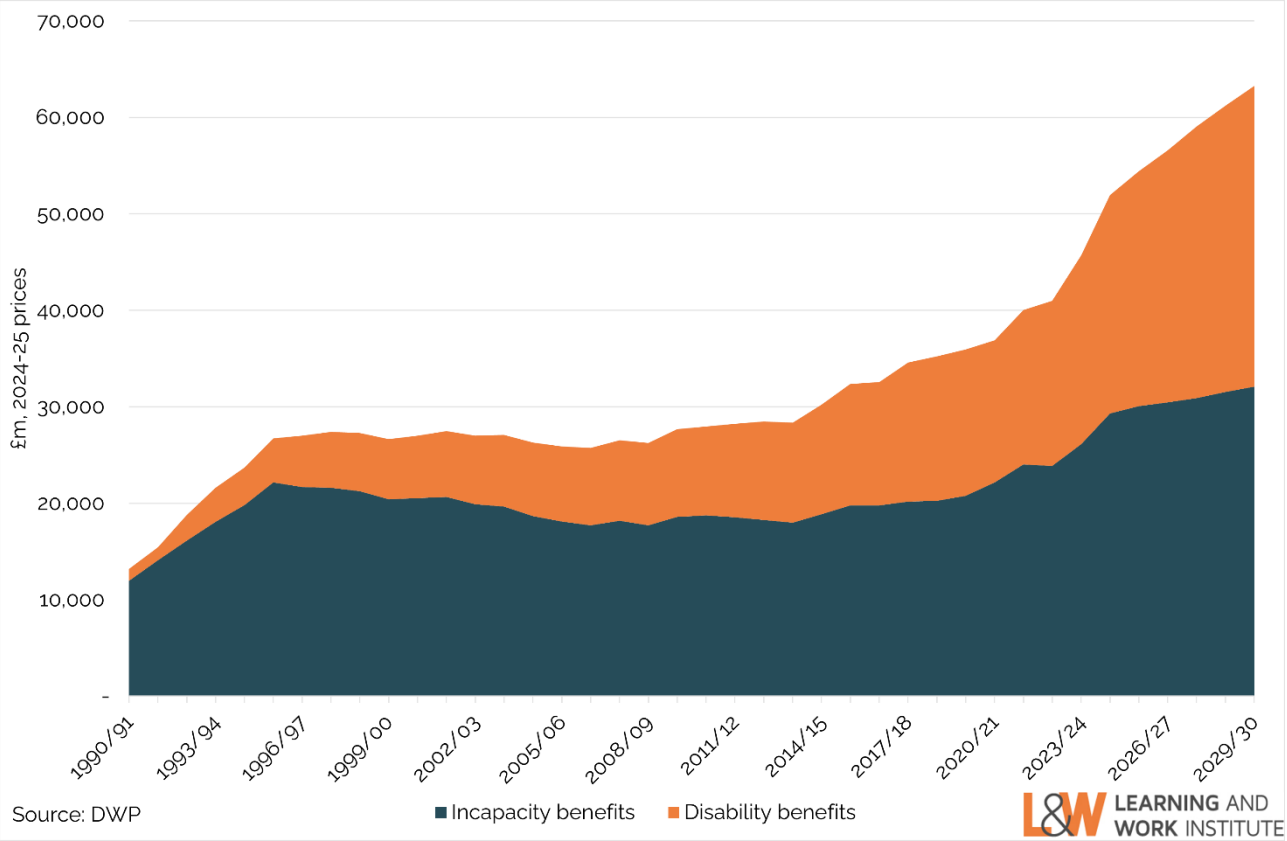


Taken together, this means total spending on disability-related benefits (disability benefit and incapacity benefits) stayed broadly flat in real terms from the mid-1990s to the pandemic, falls in spending on incapacity benefits offsetting rises in disability benefits. Since 2020-21, however, spending has risen £13 billion (25%): disability benefits up £4.8 billion (33%), incapacity benefits up £3.9 billion (18%).[6]

Spending is projected to rise by a further £14.4 billion (20%) in real terms by 2029-30: disability benefits by £8.5 billion; incapacity benefits by £2.8 billion (9%). In nominal terms, spending on disability and incapacity benefits for working-age people is poised to reach almost £100 billion by the end of the decade. Note this includes the impact of savings measures already planned to PIP and the WCA by the previous government.

[5] OBR disability benefits forecasts, OBR, 2024.
[6] Benefit expenditure and caseload tables 2024, DWP, 2024.

Figure 2: Spending on disability-related benefits



This makes the path of reform even more challenging. Past efforts have had limited success, many disabled people feel the system is not supportive now, but the Government is worried about both the increasing cost of the system and the lack of success in narrowing the disability employment rate gap. Plus, an aging population might be expected to lead to a growing number of disabled people.

Disability benefits

As noted above, spending on disability benefits has risen faster than on incapacity benefits. 3.2 million people of working-age receive disability benefits (mostly PIP), up 840,000 (8%) since the start of the pandemic.

Figure 3: Number of working-age disability claimants over time

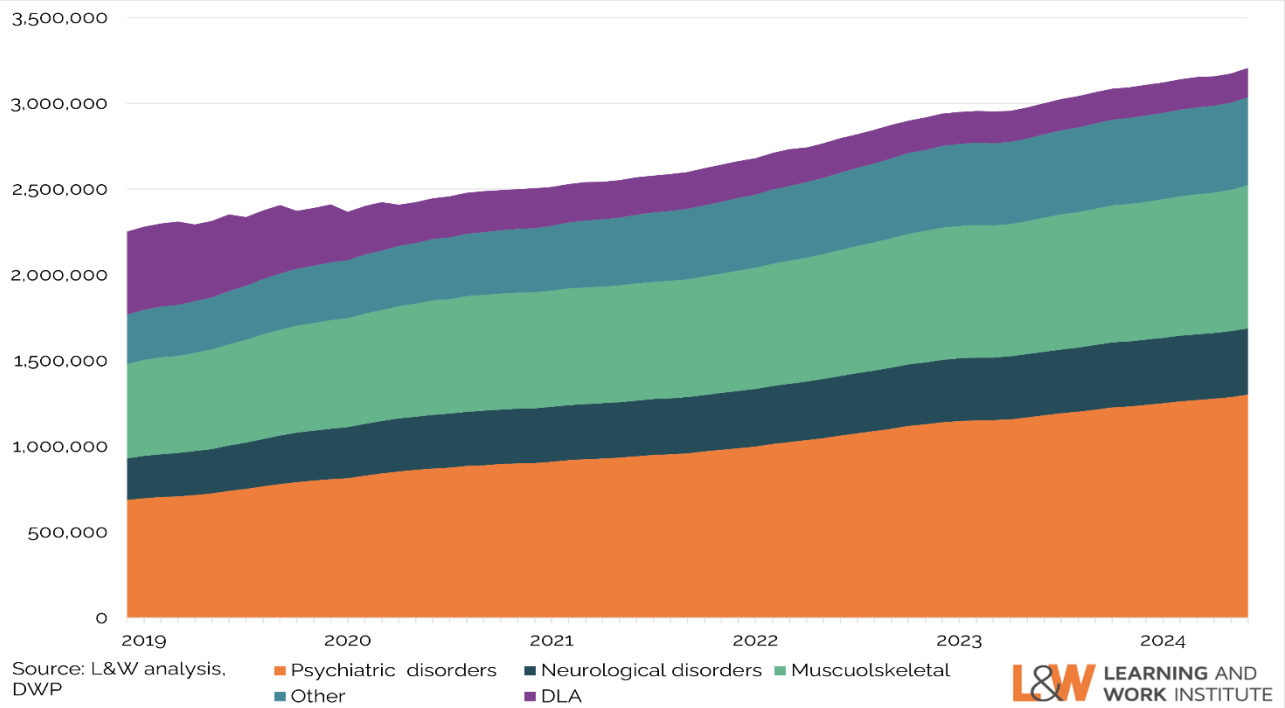
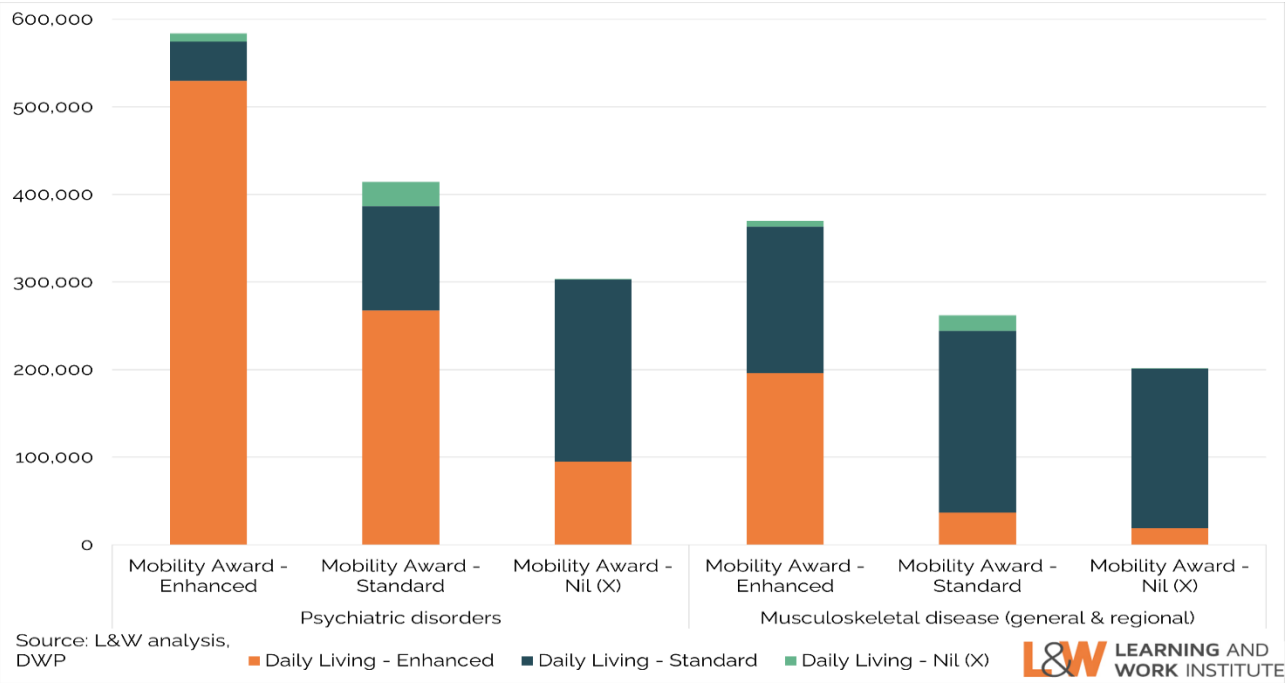


Figure 4 shows the number of people receiving the different elements and levels of Personal Independence Payment (the main disability benefit) for psychiatric disorders and musculoskeletal conditions (the two main reasons for receipt).

Figure 4: Personal Independence Payment receipt by component and award level



This report is mainly focused on incapacity benefits, and in particular Universal Credit, and on the requirements and support to look for work. However, the interaction of these with disability benefits is important and so considered throughout.

Understanding health and employment

Concern about rising economic inactivity may be overstated: we estimate employment could be around 300,000 higher than official estimates. But employment remains well below the Government's 80% employment rate ambition and there are 3.5 million people on incapacity benefits. This is up 37% since the pandemic, much larger than any estimated change in population health and the result of a range of factors explored in the next chapter.

After falling in recent decades, debate has been concerned about rises since the pandemic in the number of people economically inactive due to long-term sickness. The Labour Force Survey (LFS), a survey of UK households, suggested this was the key driver of the employment rate not recovering back to pre-pandemic levels, marking the UK out internationally as a poor performer.

However, the Workforce Jobs survey of employers (noting people can have more than one job) and HMRC count of jobs in the Pay as You Earn system (noting this excludes self-employment) show a stronger picture and suggest employment has more than recovered since the pandemic. With LFS estimates affected by falling response rates since the pandemic, as well as stronger population growth than previously projected, this suggests it is the LFS that is out of line. The Office for National Statistics (ONS) is working to resolve these problems, but that is taking longer than anticipated.

To help fill this gap, we estimate an alternative measure of employment, taking the approach developed by the Resolution Foundation and based on administrative sources.[7] The components of this measure have their own flaws (see Box 1) but they are intended to give an indicative picture of what the employment rate might be based on these data sources, until the ONS resolves the issues with the LFS. For this reason, it should be taken as an indicative measure and guide to levels and trends, rather than a specific and precise estimate.

On this alternative measure, 75% of 16–64-year-olds are in work. This is on a downward trend and now just back below pre-pandemic levels. This would mean up to 300,000 more people are in work than official estimates suggest. But the employment rate seems relatively stalled since the pandemic and employment would need to rise by two million to reach the Government's 80% employment rate ambition.

This is an uncertain estimate that is dependent on the assumptions made. The 'true' employment rate may be between the current LFS estimate and this alternative measure.

[7] Get Britain's stats working: exploring alternatives to Labour Force Survey estimates, Resolution Foundation, 2024.

Figure 5: Alternative 16-64 employment rate estimate

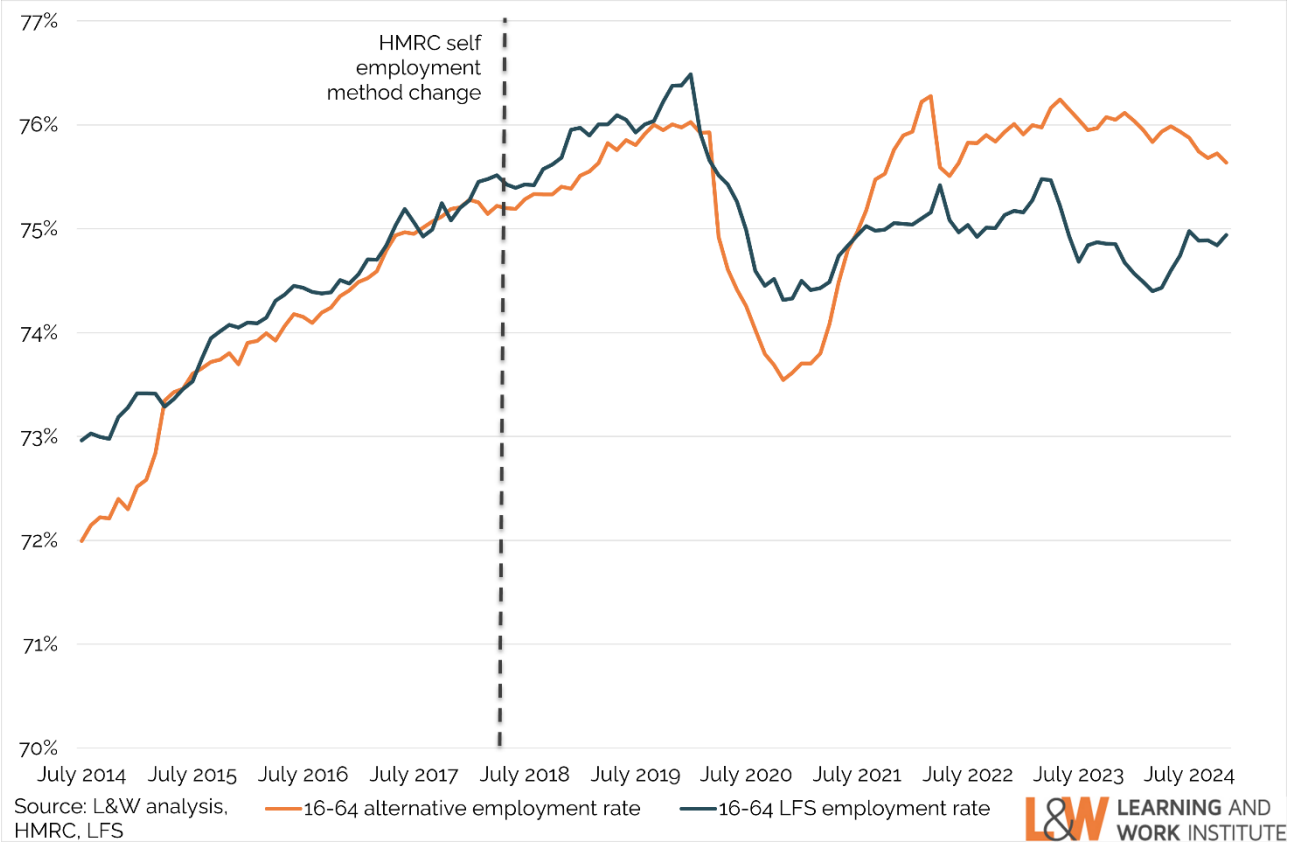
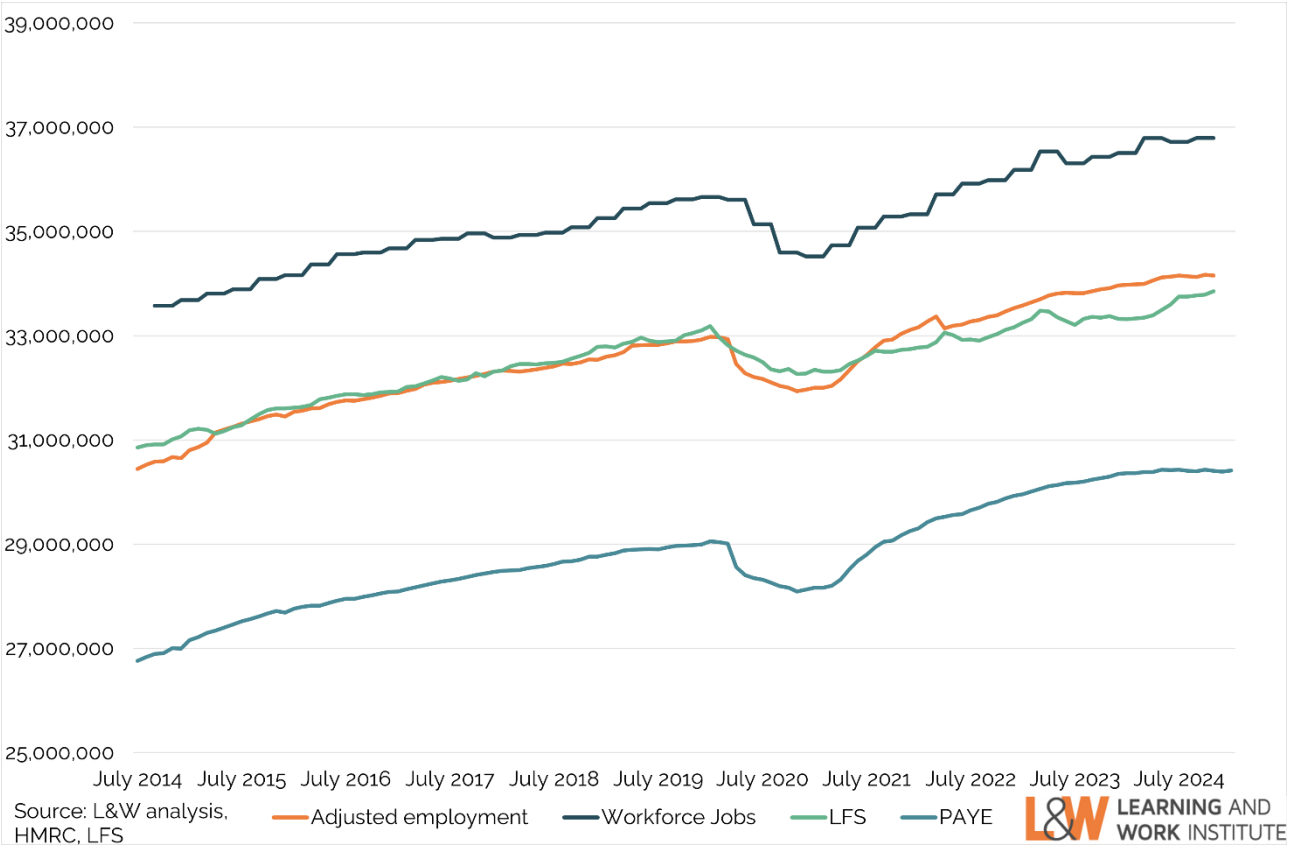


Figure 6: Comparing estimates of employment



Box 1: Estimating an alternative employment rate

The alternative employment rate estimate has the following components:

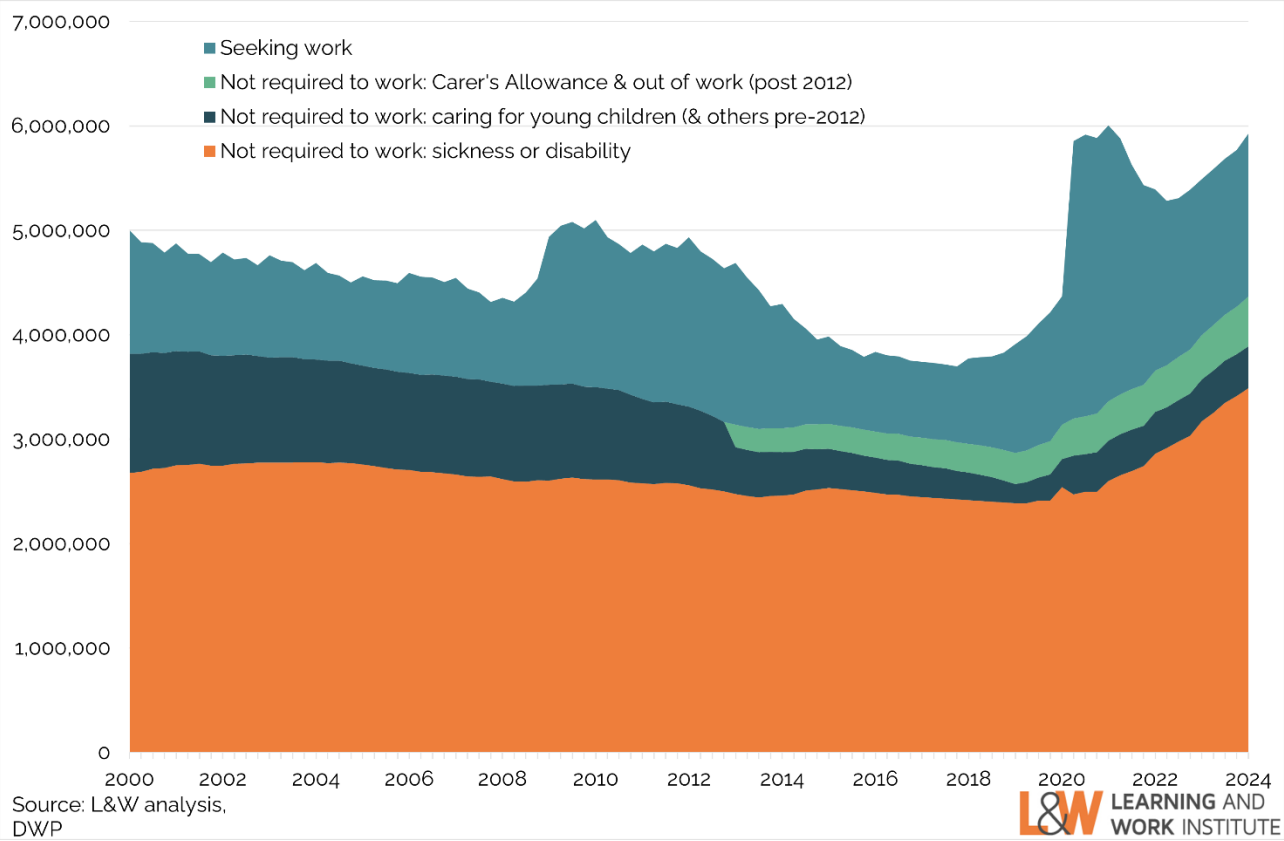
- **HMRC payroll employment.** This is a monthly measure of the number of people employed and using the PAYE system. As such, it excludes self-employment and employment not using PAYE.
- **HMRC self-employment.** The number of people reporting income from self-employment but not from employment, available annually. We use the number of people with income from self-employment minus the number of people who also have income from employment. This gives a lower estimate than the LFS, but some people who tell the LFS they are self-employed may be enrolled in PAYE. Data is available up to 2021-22; thereafter the trend in LFS self-employment is used.
- **Other adjustments.** LFS measures (which will be affected by the wider LFS issues) of unpaid family workers and those on government training schemes (who are included as employed in the LFS but not in the sources above) are added,
- **Population adjustment.** The measures above are all 16+. To move from this to a 16-64 employment rate, we adjust our alternative employment estimate by the LFS ratio of 16+ to 16-64 employment.

Benefit data is consistent with a rise in economic inactivity due to long-term sickness

The analysis raises the question of whether the problem of rising economic inactivity due to long-term sickness is really as big as it seems. After all, if employment is higher than we think, then economic inactivity must be lower than estimated (given unemployment is already low and there are limits to how much lower it could realistically go). Of course, it could be that economic inactivity due to long-term sickness is as high as estimated, in which case other reasons for economic inactivity (such as being a student or looking after family/home) would be lower.

One way to consider this is to look at the number of people claiming incapacity – this is an administrative measure and so not subject to the same response rate and population estimate challenges of surveys like the LFS (though benefit eligibility and rules affect take-up). Our estimate is that 3.5 million people are claiming incapacity benefits, up almost one million (37%) since the pandemic.

Figure 7: Out-of-work benefits by category



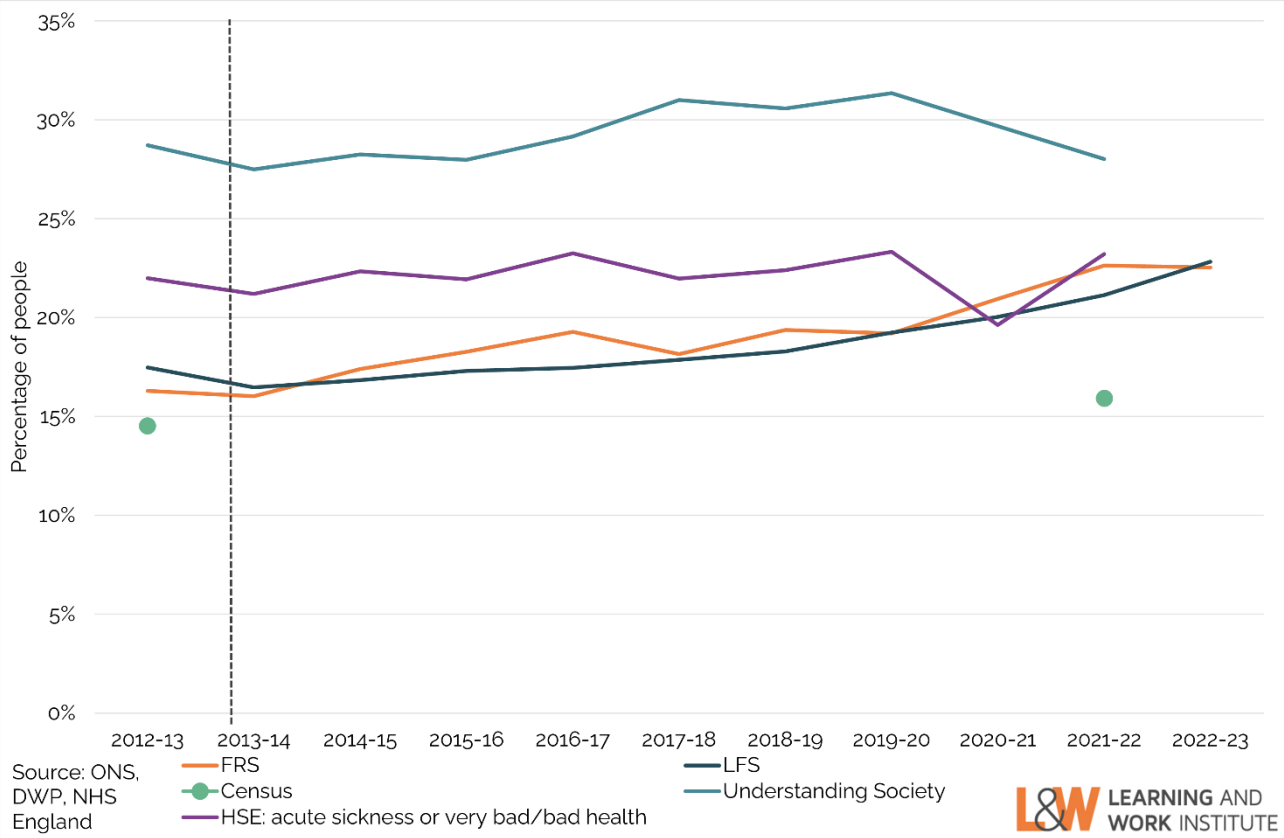
On this measure, the rise in the numbers out of work due to ill health looks real. After all, people have to undertake a rigorous Work Capability Assessment (WCA) to qualify for these benefits (or a GP signed Fit Note in the initial period before their WCA).

Other surveys suggest a mixed picture on overall population health

But does this benefits picture match our wider knowledge on population health – has health declined since the pandemic as much as the number of people on benefits would suggest?

The answer is that different data sources give a more mixed picture. The Family Resources Survey (a household survey) gives a similar picture to the Labour Force Survey, with a one third rise in the proportion of people saying they are disabled over the last decade (though this rise is smoother over time than the benefit data above, with little sign of a post-pandemic spike). However, the Census, Understanding Society (a longitudinal survey of people) and Health Survey for England (a survey of individuals), show little if any increase in long-term sickness or bad health.

Figure 8: Comparing measures of disability, sickness and ill health

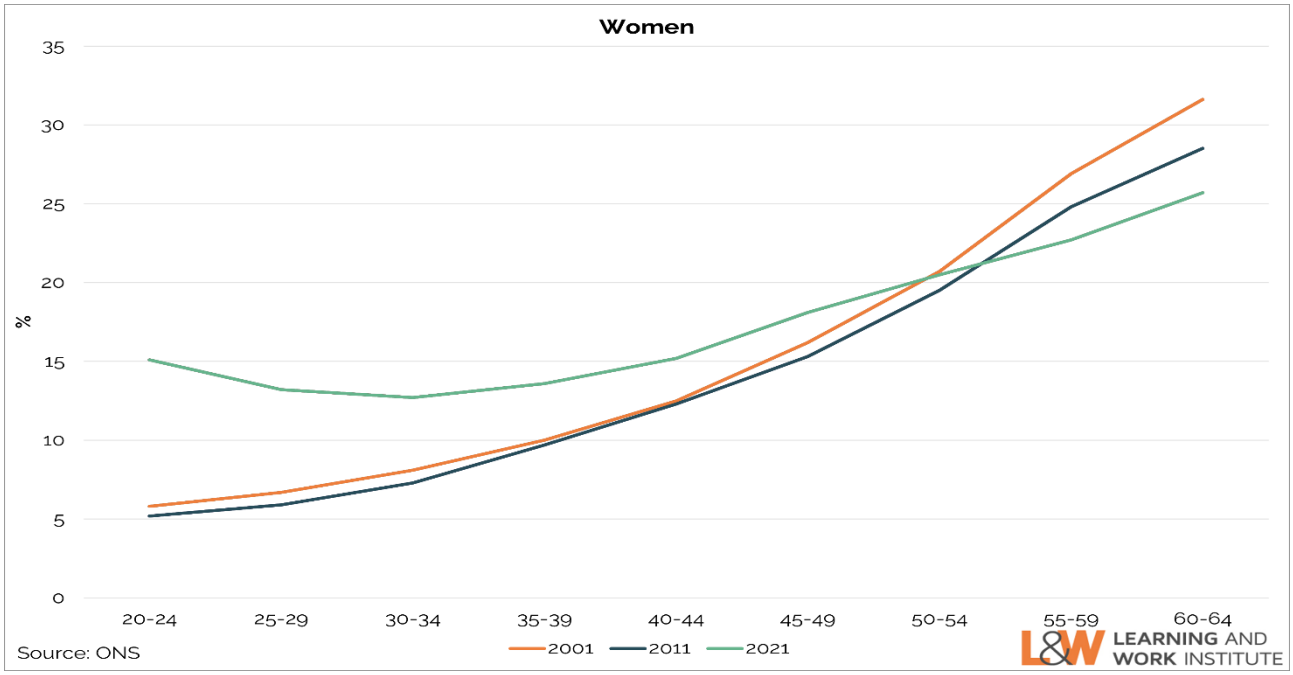


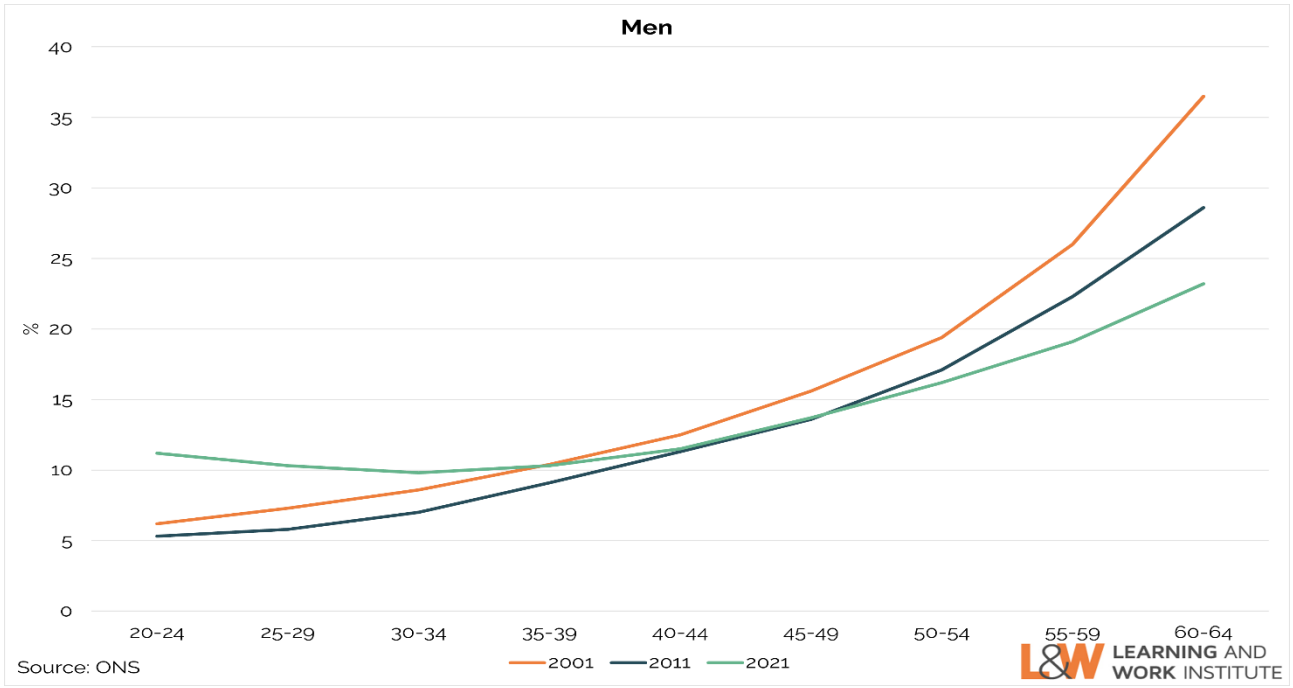
Each of these surveys is measuring different things in different ways, and there are also some changes to questions over time (for example in the Census) which might affect responses. But it is certainly the case that not every measure is suggesting a significant worsening of health over time or a large spike following the pandemic.

Beneath the headlines

The Census suggests (with the caveat above about the change in wording of the question asked) that a higher proportion of young people (particularly women) are reporting themselves as disabled than before, with the proportion of older people saying they are disabled falling. Indeed, a higher proportion of women and men aged 20-24 reported being disabled in the 2021 Census than did those aged 25-40. In general, the prevalence of disability and long-term health conditions rises with age.

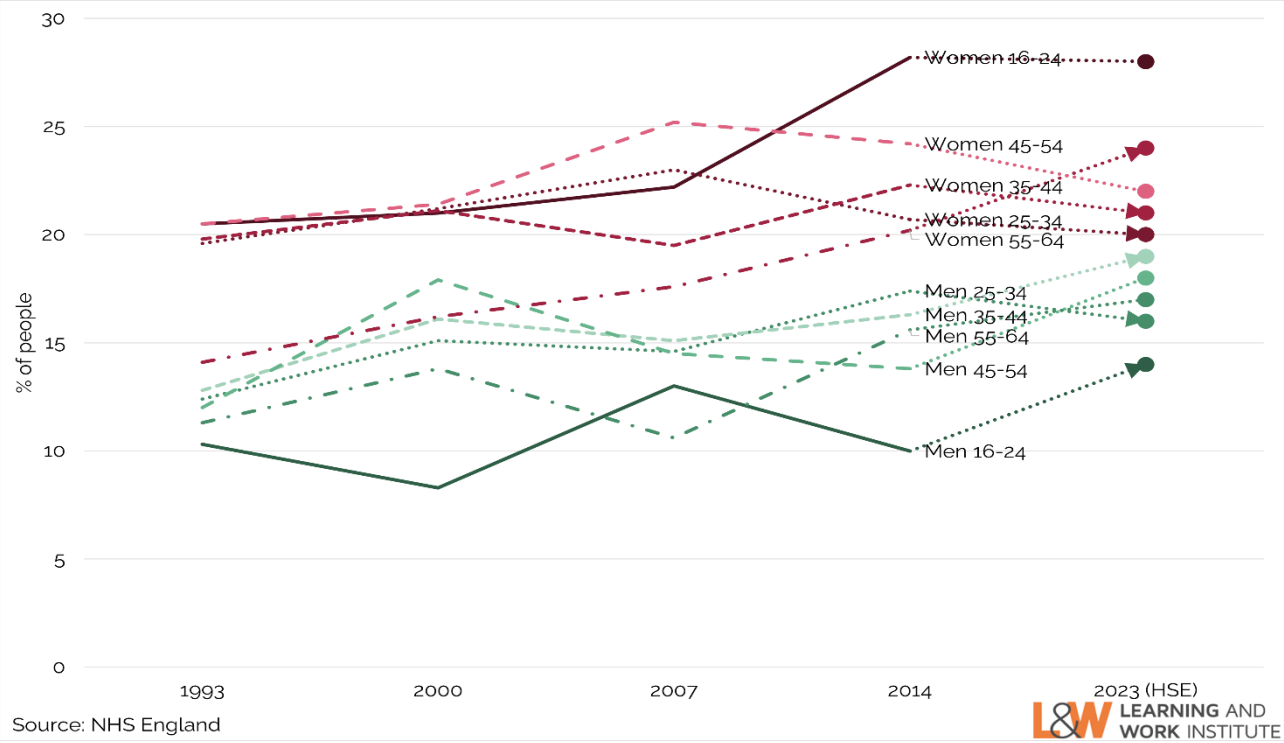
Figure 9: Census-reported disability by age and sex





Mental health appears to be a key driver of this changing age picture. The NHS in England runs a survey (the APMS) every seven years assessing mental health. Figure 10 below shows the results of this over time by age and sex. The latest results are due in June 2025. To give an indication of post-pandemic trends, the chart includes 2023 results from the Health Survey for England (these are not directly comparable as use different methodologies, but are intended to provide an indication only).

Figure 10: Common mental disease in the last week



The general picture is that women are more likely to report having a mental health condition than men, with particular spikes during the 2010s and beyond for both younger (16-24) and older (55-64) women. Outside of those age groups, the results were generally relatively flat up to 2014, but with younger people generally more likely to say they have a mental health condition than older people. The latest stats due later in 2025 will more clearly show if there has been a sustained rise after the pandemic, but many studies suggest at least some worsening in mental health.[8]

Within this, the APMS shows that the biggest rises in mental health conditions experienced are generalised anxiety disorder and 'not otherwise specified' (which generally relates to symptoms that indicate a general diagnosis of condition, but don't meet the criteria for specific diagnosis within that).

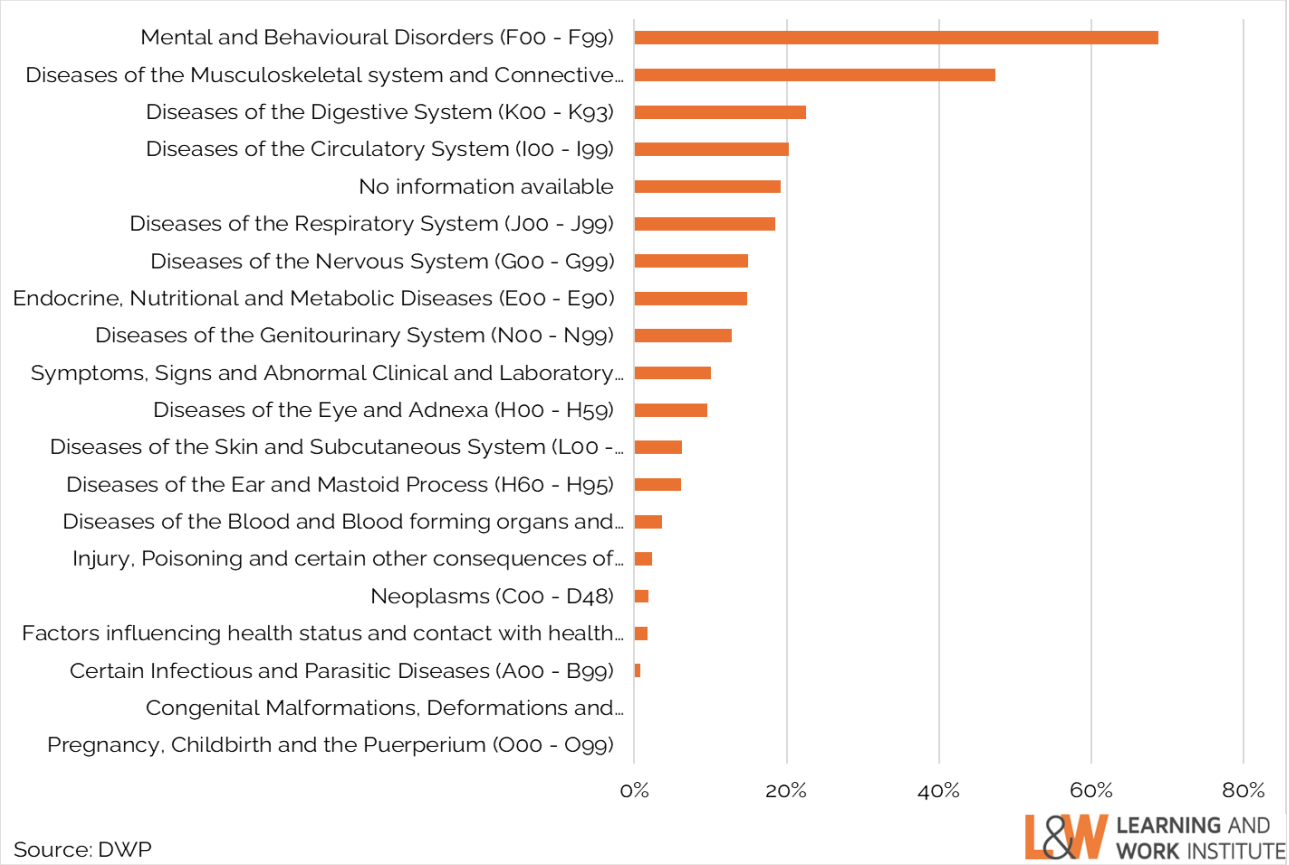
This picture correlates with the picture shown by the Health Survey for England and Understanding Society: both show a rise in the proportion of people in all age groups reporting a mental health condition, with higher rates generally among young people.[9] The Health Foundation notes that the biggest rise is in non-work limiting conditions.[10]

[8] Changes in secondary school students' mental health during the Covid-19 pandemic, Oxford University, JAMA network open, 2023.
[9] Mental health trends among young people, Health Foundation, 2025.
[10] Mental health trends among young people, Health Foundation, 2025.

These headline stats also don't tell us the extent to which any change over time is due to increased prevalence of mental health conditions, or increased awareness / reduced stigma (which then can enable more people to get the help they need).

This also maps across to the main conditions which people cite in their Work Capability Assessment (people can cite more than one condition): 69% cite a mental and behaviour disorder (13% of which are found to have no limited capability for work); 57% cite a musculoskeletal condition (20% of which are found to have no limited capability for work).

Figure 11: Conditions cited in Work Capability Assessments

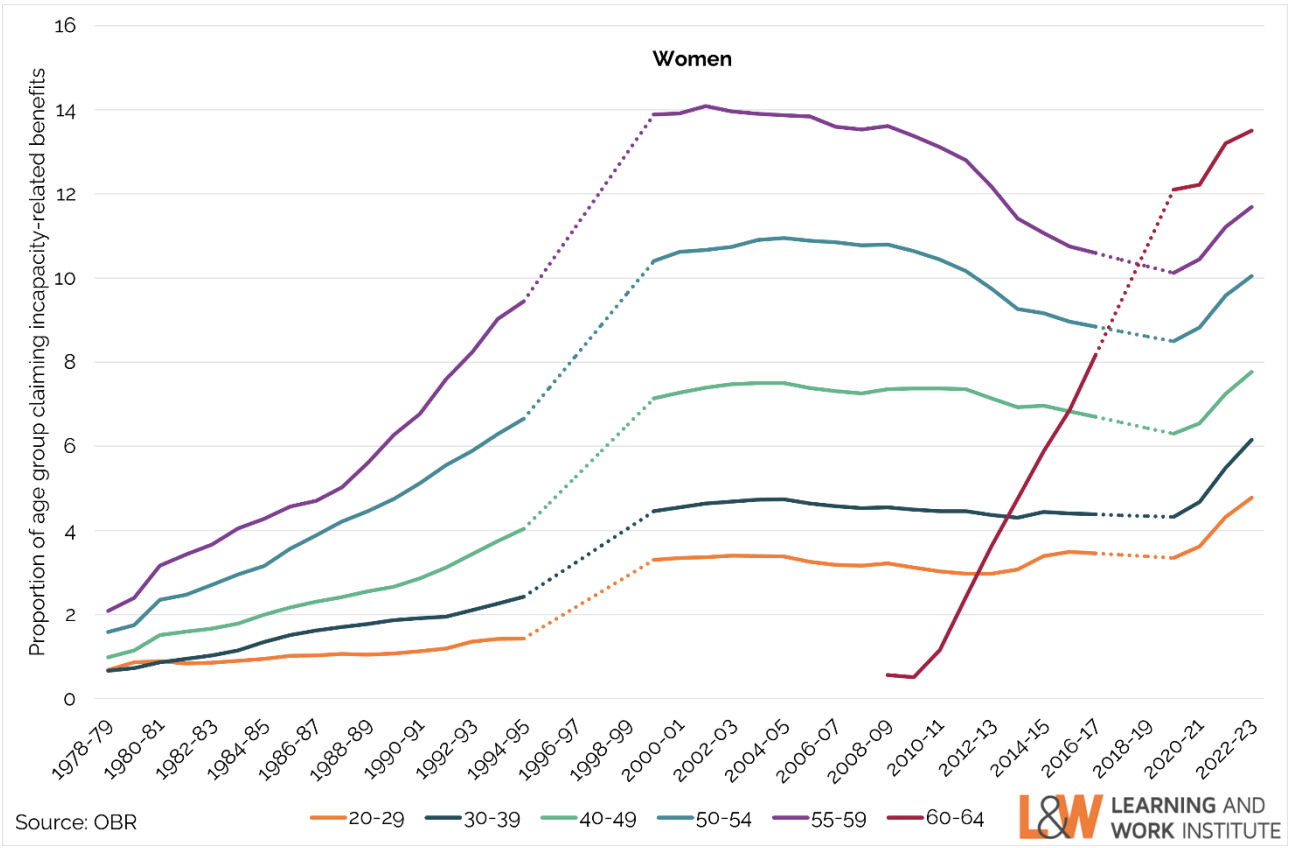


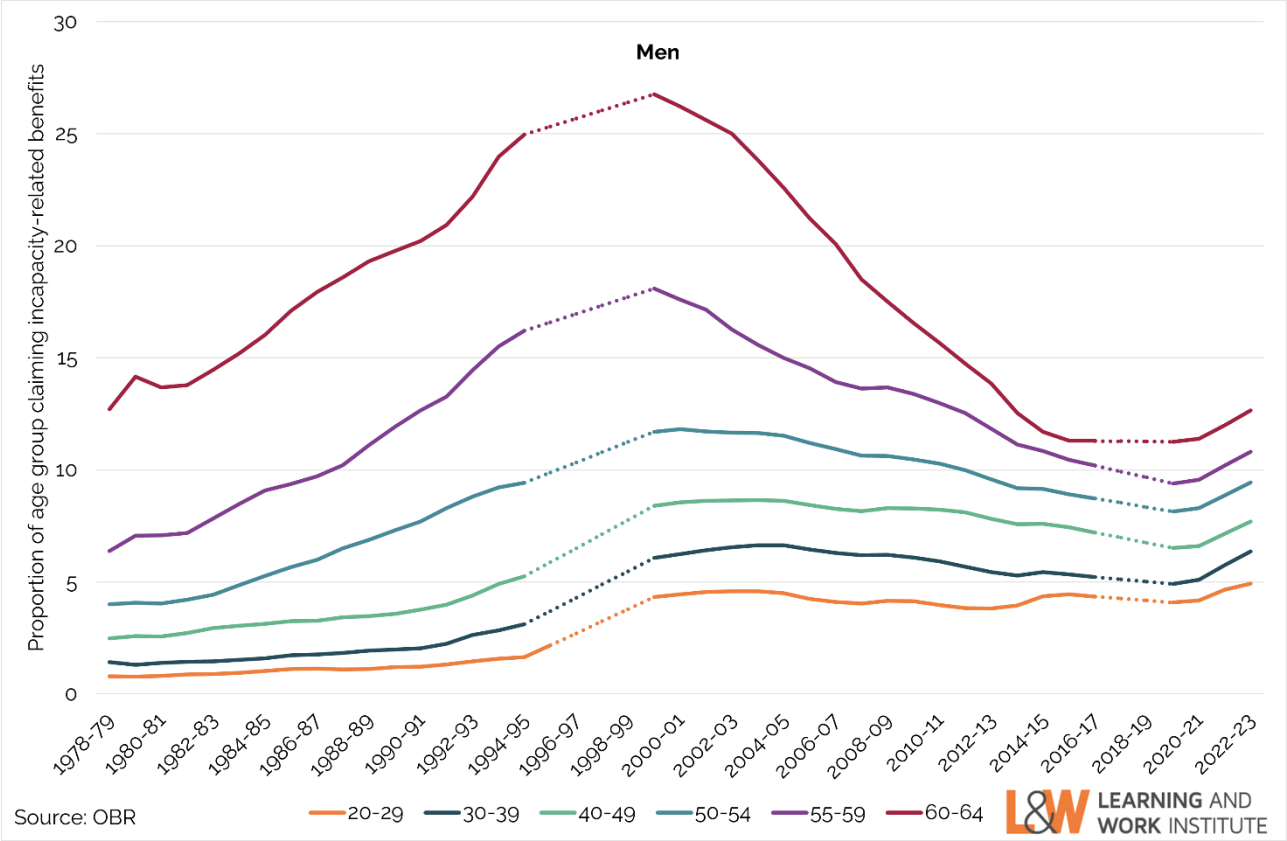
Why has the number of incapacity benefit claimants risen?

Recent rises in the number of people receiving incapacity benefits are driven by more people claiming, more of these claims succeeding, and few people leaving benefits each year. Benefits have not become significantly easier to claim and population health is unlikely to have declined sufficiently to explain all the rise. Incentives including increased toughness of unemployment benefits, increased openness to discussing health, and lack of support to find work once on incapacity benefits are likely key factors.

The proportion of people in each age group that are in receipt of incapacity benefits have varied over time driven by a combination of: changing health and understanding of health; economic and societal conditions including the availability of work; and the workings of the benefit system. The latter includes the relative 'push' factor of the 'toughness' of the unemployment benefit system and the relative 'pull' factor of the extra financial support and reduced conditionality of the incapacity benefit system.

Figure 12: Incapacity benefit claims as a proportion of age group by sex





There were seven times the proportion of women receiving incapacity-related benefits in each age group in the late 1990s compared to 20 years later. Only some of that will be down to worse health on average. Key drivers are likely to be economic conditions (including fewer employment opportunities in the 1980s), societal changes (including greater female participation in the labour force and reduced numbers looking after family/home), and benefit rules (including expansion of disability-related benefits and policy that moved people from unemployment to incapacity benefits). The rising state pension age from 2010 also led to the growth in claims among women aged 60-64, previously they would have retired and been in receipt of pensions.

Similarly, the halving in rates of incapacity benefit claims by men aged 55-64 from 2000 to the pandemic was not solely driven by a dramatic improvement in health over that period. Rather, the economy was growing and employment opportunities rising, real wages were rising until 2008. Thereafter the rising cost of living coupled with benefit freezes may have incentivised more people to work, and employment support was (to an extent) extended to more people on incapacity benefits. In addition, previous rises in that age group were in part a result of deindustrialisation but by the pandemic most in that group had retired.

Over time, health is one driver of the number of incapacity-related benefit claims but far from the only one. Benefit rules, societal attitudes, economic conditions, and the

availability, knowledge of and support to find good employment opportunities are all key factors.

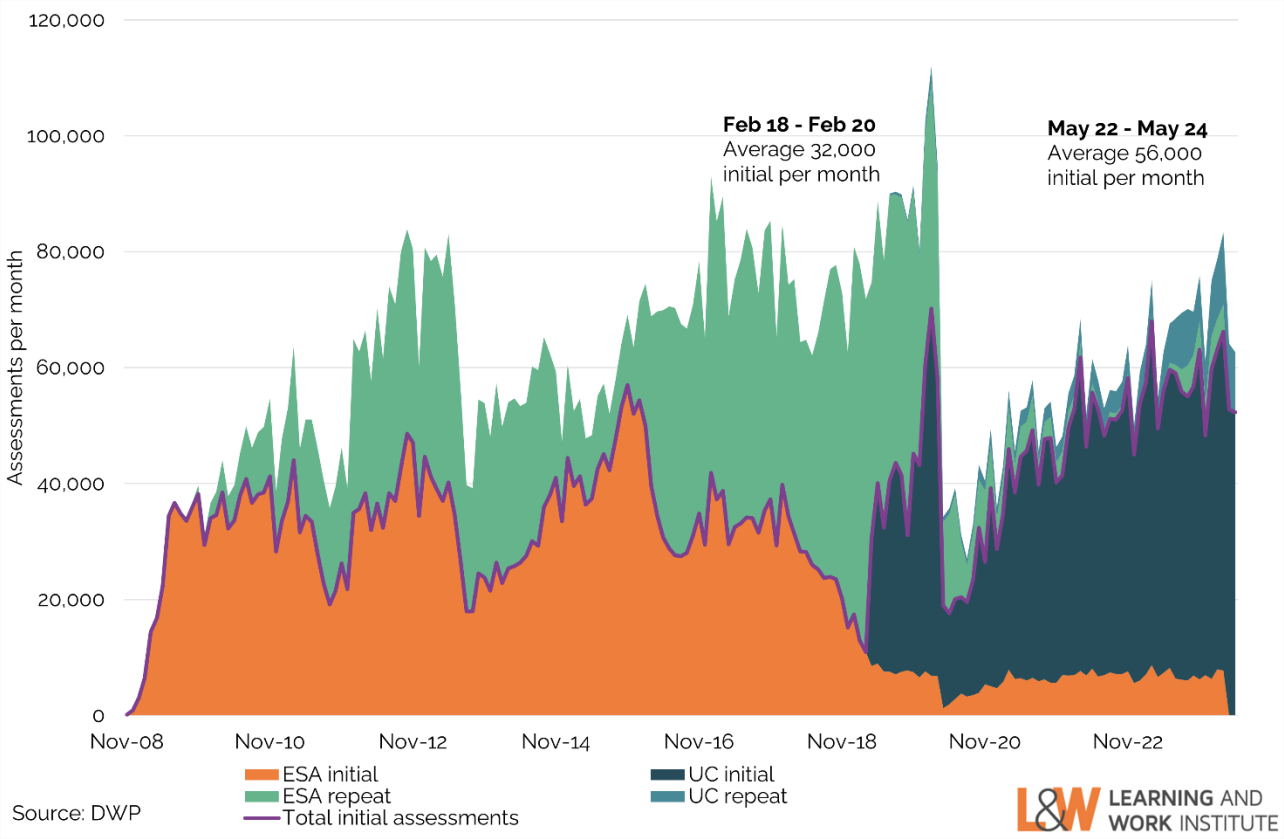
The previous chapter showed there is little evidence of a sufficiently large worsening of health since the pandemic to fully explain the rise in the number of incapacity benefit claimants. So which other factors might explain it?

Making it easier to claim?

Some suggest that Personal Independence Payment (PIP) and Work Capability Assessments (WCA) have got laxer, including through the use of online or phone assessments, or that people have got better at knowing how to 'pass' them. Coupled with the greater financial benefit from receiving incapacity benefits, this could mean a greater volume of claims and these claims being more likely to succeed.

The number of initial WCAs rose by 75% from 32,000 per month February 2018-20 to 56,000 May 2022-24. Some of that may reflect a backlog stored up during the pandemic. However, the number of assessments during the pandemic wasn't far below levels over the previous decade so this can only be a partial explanation (although reassessments have been at low levels since the pandemic).

Figure 13: Work Capability Assessments per month, initial and repeat

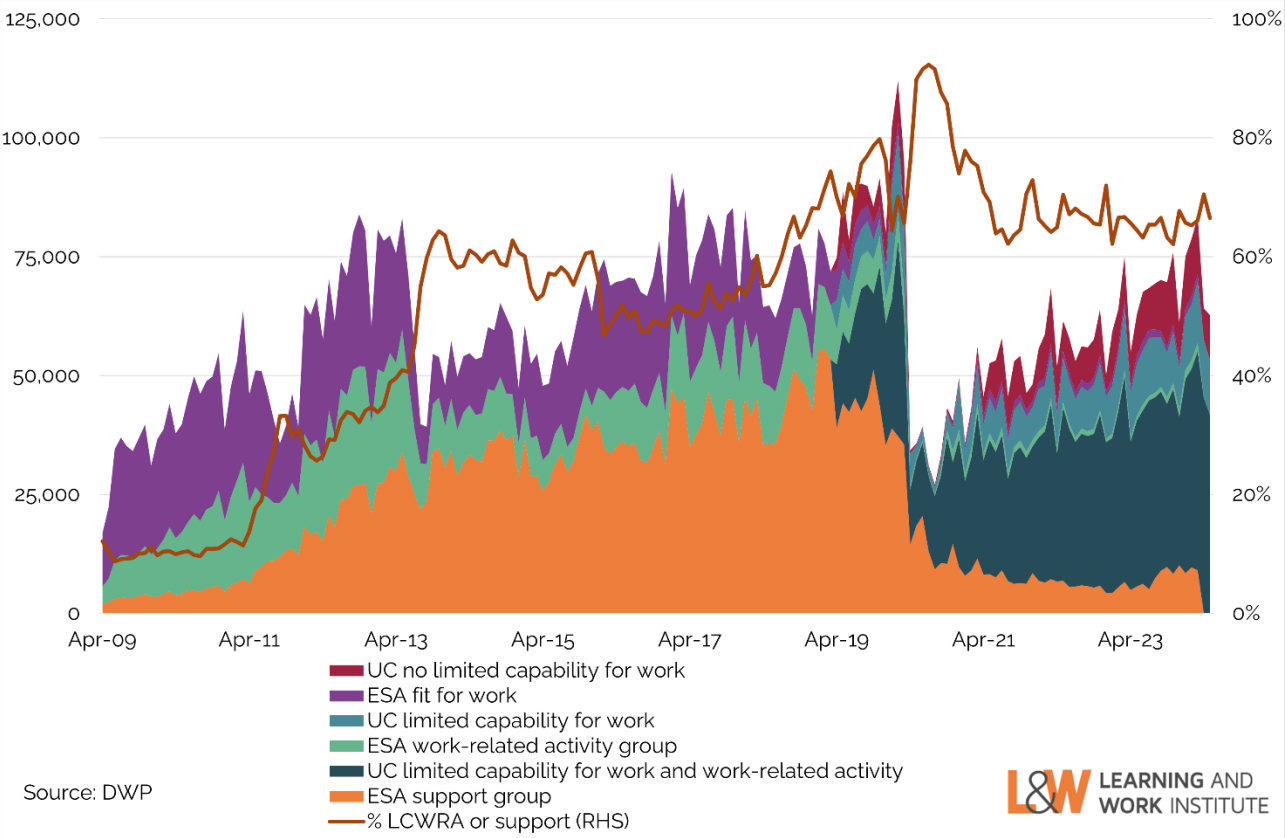


Not only has the number of WCAs risen, a higher proportion are resulting in people being assessed as being in the most severe category of Limited Capability for Work or

Work-Related Activity (LCWRA). Some 70% of initial and repeat WCAs result in people being assessed as LCWRA (or support group for Employment and Support Allowance (ESA) claimants), up from 60% from 2013-19 and 40% earlier in the decade.

The proportion of claimants judged fit for work has halved from one in three to one in six in the last decade. This could reflect people being less likely to claim if they are not eligible than before: there is little evidence that the bar for being assessed as too ill to work has been lowered. This proportion has also varied over time as new benefits are rolled out, rules are changed, and the balance between initial and repeat WCAs has varied.

Figure 14: Outcome of initial and repeat WCAs



The drop in claimants judged fit for work may be linked to the decision to remove additional financial payments for those in the intermediate category of Limited Capability for Work (LCW). People in the LCW category have reduced conditionality requirements compared to someone in the searching for work UC group, but can be expected to undertake some work preparation activity and no longer get any additional benefit payments. Whereas those in the LCWRA category have no conditionality and an additional £400 per month.

Taken together, the OBR estimate that 20% of the rise in incapacity-benefit onflows is due to increased numbers of claims, 30% is due to lower drop out rates (claims ending

before a WCA decision), and 50% due to a rise in claim approval rates.[11] Off flows have also risen, but not by as much as onflows. The result is the rise in the number of people receiving incapacity benefits.

It is definitely the case that claims have risen and are more likely to succeed. Some of the ways the system operates, including the switch to more online and phone assessments during and after the pandemic, may have contributed to this. But there is little hard evidence that an easing of the system and people knowing how to play it are big drivers of the rises seen since the pandemic. It is worth noting that the OBR assess much of the fall in incapacity benefit caseloads during the 2010s was due to a rise in off flows related to reassessment of people on Incapacity Benefit; reassessments have remained very low since the pandemic.[12]

Incentives in the benefit system?

The unemployment benefit system has become tighter, more restrictive and less generous. Benefits have been subject to a range of caps and cuts since 2010 meaning they represent a much smaller proportion of average earnings than many other countries. There has been an increase in requirements (such as having to accept a job outside of someone's previous career more quickly, having to accept jobs that are further away from home) and the use of sanctions. From a claimant's perspective, the unemployment system has become harsher.

By contrast, incapacity benefits are paid at a higher rate (an extra £5,000 per year) and do not generally come with conditionality requirements (that is, the need to search for work and the risk of sanctions if the DWP judges you haven't been doing this sufficiently).

Therefore, if you do have a health condition, you may be more likely to claim for that than previously – judging that the unemployment system will not give you enough to cover your living costs, that you are at greater risk of sanction, and that you may not get the support you need to find work if you feel able to anyway. This is perhaps made more likely by the (absolutely right and important) greater openness, particularly among young people, to discuss mental health. Previously hidden conditions are now articulated and more often diagnosed.

These rationales were also given for previous benefit reforms. The introduction of ESA was intended to tackle problems with the previous Incapacity Benefit system where you got more if you proved you couldn't work and then got insufficient help to find work when you were ready. The WCA was intended to help people find what they could do, rather than prove what they couldn't. Similar debates came around the introduction of UC.

[11] Welfare trends, OBR, 2024.
[12] Welfare trends, OBR, 2024.

The fact that the same challenges that previous reforms said they aimed to address are still a factor today should give pause for thought and reflection. It shows there are not easy or simple fixes, and that we need to carefully consider any lessons we can learn from previous benefit changes.

The impact of poverty and poorer public services?

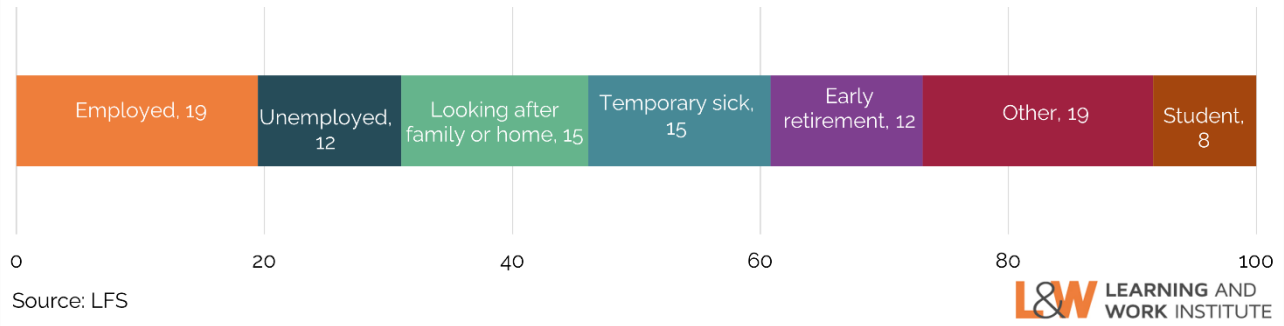
Poor health is associated with poverty and lower incomes. The increase in child poverty, flatlining of real wages since the 2008 financial crisis, and cuts to public services (including local authorities, youth clubs, rising NHS waiting lists etc) are likely to have had an impact on poorer communities and those most likely to be out of work. Therefore, any reduction in health is likely to have been concentrated in poorer areas.

As noted above, the low real value of unemployment-related benefits plus cuts and caps to other benefit elements (including Local Housing Allowance) increases the incentive to claim incapacity-related benefits where people are eligible but may not have claimed before. For the same reason, people may also be more likely to claim PIP given low out-of-work benefits and the rising cost of living (though there has not been research to establish this).

In other words, a rising proportion of people with health problems or disabilities isn't necessary for a rise in claims for disability and incapacity benefits. People can have greater incentives to claim for conditions they already had if they believe they would otherwise receive insufficient financial or other support.

In support of this, and the previous section about incentives in the benefit system, most people who are economically inactive due to long-term sickness were previously economically inactive for another reason. Only one in three people now economically inactive due to long-term sickness were previously either in work or temporarily sick. That is, it is clearly not just their health that is the issue, there are other reasons they are out of work and not seeking work too.

Figure 15: Previous status of people economically inactive due to long-term sickness



Insufficient job opportunities and support to find and retain work?

Employers can help by ensuring roles are designed to be open to people with health problems and disabilities, and helping those who become disabled or develop health problems to stay in work. Many employers do this and most want to do as much as they can.

But not all employers know how they can recruit or retain people with health problems or disabilities and may face financial challenges to do so. There is a gap in employer knowledge of the practical steps they can take in job design, recruitment and retention. Take-up of occupational health support can be patchy, particularly for small firms, and there is a backlog of applications for Access to Work funding to support workplace adjustments.

Our research shows that only one in ten out-of-work disabled people get help to find work each year: 150,000 through employment programmes and 250,000 through Jobcentre Plus.[13] Out-of-work young people are three times more likely to get help to find work each year.

Partly as a result, only 1% of people economically inactive due to long-term sickness are in work six months later; by contrast 33% of unemployed people are in work six months later.[14]

This is because most employment support, both Jobcentre Plus and contracted employment programmes, focuses on those who are unemployed, missing out most people who are economically inactive or receiving incapacity benefits. However, a number of programmes, including the current rollout of Connect to Work, are in place. And the Government is testing additional Work Coach time for incapacity benefit claimants who volunteer for help, at a cost of around £200 million per year.[15]

Yet many want to work. Two in ten people economically inactive due to long-term sickness say they want to work.[16] In a survey, 5% of claimants (200,000 people) said they are ready to work now, and 27% (1,000,000) said they might be able to work in future if their health improves.[17]

That means around one in three health and disability claimants say they might be able to work now or in the future, and that proportion could of course rise if the right help is offered and if people are confident suitable jobs are available. Similarly, 69% of

[13] Towards full employment: how the UK can increase employment by widening opportunity, L&W, 2022.
[14] Understanding benefits, L&W, 2023.
[15] Spring Budget 2023, HM Treasury, 2023.
[16] Labour force survey, ONS, 2025.
[17] Work aspirations of health and disability claimants, DWP, 2025.

claimants were open to receiving offers of help to find work or other support, but wanted this to be joined-up, personal and supportive rather than coercive.[18]

However, the proportion of people economically inactive due to long-term sickness who say they want to work has fallen since 2016 (to one in four), whereas it has risen for other reasons for economic inactivity.[19] Similarly, the proportion of people economically inactive due to long-term sickness who are in work six months later has fallen since 2016, whereas it rose for other reasons. This could be related to the limited amount of contact and support people receiving incapacity benefits receive.

Summary

The rise in incapacity benefit claims recently is likely driven by push and pull factors in the benefit system and labour market factors like suitable job availability and lack of support to find work.

In the benefit system, greater stringency and lower generosity of the unemployment system is a push factor towards the incapacity system. The higher financial support and lower conditionality of the incapacity system are pull factors to that part of the system. This is particularly the case where people don't feel there are good jobs that suit their skills and ambitions available and/or don't get the support that they need to consider work (the demand-side factors). Once in the incapacity system, too few people are offered the support they need to find jobs that would suit them.

The result is a benefit system that traps too many people without the help they need to find work, and a wider society that offers insufficient opportunities.

[18] Work aspirations of health and disability claimants, DWP, 2025.
[19] Understanding benefits, L&W, 2023.

Toward a better system

A better system would: have financial support that covers the essentials and separates the extra costs of disability from help to find work; reduce the risk of trying work through a Benefit Passport so people can return to the same benefits in six months if work doesn't work out; engage people to talk about help available through regular Work Support Conversations and expanding voluntary employment support; and encourage employers to ensure healthy workplaces.

One way to reduce the cost of disability and incapacity benefits is to restrict eligibility or lower levels of funding:

- **Personal Independence Payment.** Some conditions or impacts on mobility or living costs could be removed from help, or funded at a lower rate, or support provided directly (rather than a financial payment to claimants).
- **Universal Credit.** The extra payment to people in the LCWRA category totals around £8 billion (£5,000 per year to 1.6 million people). This could be removed (as it was for those in the LCW group). The likely saving would be lower than £8 billion, depending on whether mitigating support or transitional protection were offered and also whether it led to an increase in successful PIP claims.

Both these options have the potential to save money, but they do so by removing it from people without changing their circumstances. The result would be an increase in hardship and poverty, and potentially significant extra costs in other parts of the system. Instead, the better option is to reform the system so more people are in work, reducing the costs of benefits while helping ensure people are better off. The challenge is that this is difficult to do, and the savings both accrue over time and recover upfront investment.

Improving and decoupling financial support

The benefit system creates a financial incentive to claim incapacity benefits if you are eligible, rather than unemployment benefits. One part of the answer is to stop making the unemployment system ever 'tougher' and less generous. This is not acting to encourage people to find work quickly, rather leaving them concerned about being able to pay the bills and with a greater financial incentive and need to claim incapacity benefits if eligible.

Joseph Rowntree Foundation estimates Universal Credit is £35 per week below levels needed to cover the essentials for a single person, and £66 below what a couple needs.[20] Closing this gap would cost at least £22 billion. This should be a long-term

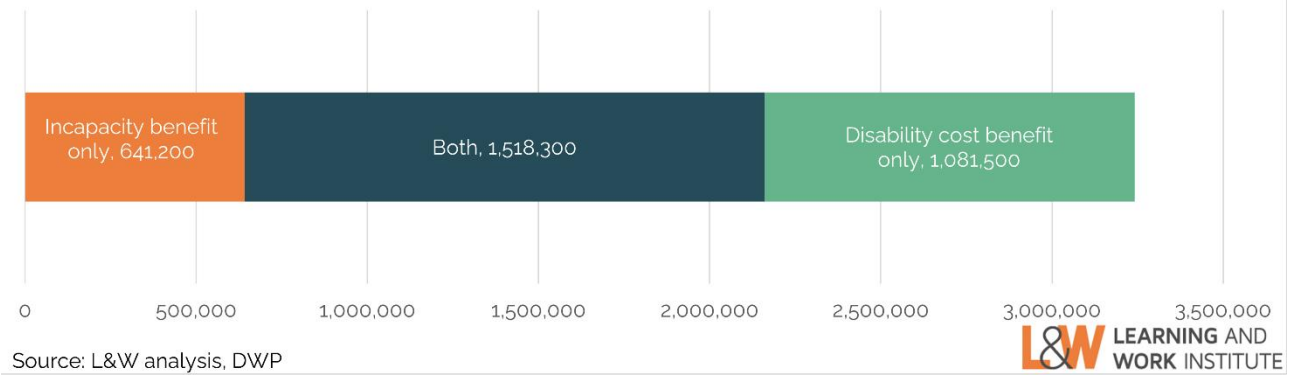
[20] An essentials guarantee: reforming Universal Credit so we can all afford the essentials in hard times, JRF, 2023.

goal, but economically and politically it is unlikely to happen in the near term. At the least, the Government should ensure this 'essentials' gap doesn't get any wider.

Beyond this, at present the Work Capability Assessment (WCA) is both the gateway to extra financial support and the decision about whether people need to undertake work-related activity. The previous Government consulted on removing the WCA. PIP would be the only source of extra financial support for disability, and Work Coaches would determine with people what work-related activity they needed to undertake.

This would remove the perverse incentives in the current system which ends up too focused on what people can't do. But it risks people missing out on important financial support. Around one million people currently receive UC health payments, but not PIP. They could lose £5,000 per year under this system, though some may now claim PIP and find they're eligible. In practice, transitional protection would likely be offered so existing claimants would not be affected, but future similar claimants would miss out.

Figure 16: Overlap of incapacity benefit and disability benefit claimants



It is important to remember why there is extra financial support for those too ill to work, beyond PIP which helps with the ongoing extra costs of disability. The extra support is there because Universal Credit rates are low (below that required for essentials) and those too ill to work are expected to be out of work for longer than unemployed people. Closing the essentials gap would change this, but is unlikely to happen soon.

In the meantime, if the Government were to proceed on this basis it would need to look at eligibility for PIP. It could add in extra categories or levels of support for those out of work. But it would need to do this without effectively recreating the WCA. This is complex and would need to be consulted on, with disabled people closely involved in the design process. The issue about how to decide what people are asked or required to do relating to work is addressed below.

The Government will in any case be considering eligibility for and levels and type of support available through PIP. Disability benefits such as PIP are the main source of projected growth in benefit costs, rather than incapacity benefits. The focus of this report, however, is on incapacity benefits.

Reducing the risk of trying work

Some people are worried that if they take a job and it doesn't work out, they will have to go through the WCA process again. This could leave them worse off financially (both losing the extra out-of-work payment they get and also their Work Allowance, which allows them to earn a certain amount without losing any benefits[21]) and may end up worse off as a result. This can be a particular challenge where out-of-work benefits are gateways to other forms of financial support.

We need to de-risk trying work. We should introduce a **Benefit Passport**, guaranteeing people can return to their previous benefit status if their job doesn't work out within six months. We should better publicise the existing Work Allowance, which allows many incapacity benefit claimants to work 8 hours per week without losing any benefit, and consider increasing this to 16 hours per week.

Regular engagement with people

Only one in ten out-of-work disabled people get help to find work each year. Compelling people to take part in help, sanctioning their benefits if they refuse, is unlikely to work or be the best way to proceed for this group. Instead, we need to engage people and work with them to find the best approach for them.

Everyone receiving incapacity benefits should be invited to a **regular Work Support Conversation, focused on positive engagement, people's aspirations, and the support available**. These could be led by devolved administrations and mayoral authorities in England, allowing them to test the best ways to engage including through community-based provision and outside Jobcentre Plus. Elsewhere, they could be led by specialist Jobcentre Plus Work Coaches.

These conversations would be focused on the benefit claimant, their needs and their aspirations. Holding them regularly would allow people to consider how their condition or ability to access job or training opportunities had changed (noting that WCA reassessments have not recovered since the pandemic). They would be a chance to discuss the help and support available to improve skills, prepare for work and look for work. But take up of this help would be voluntary.

For new claimants, conversations should take place quarterly for the first year, aiming to agree a rehabilitation plan where appropriate with people (where people had been in work previously, this could follow on from any occupational health support received while in receipt of Statutory Sick Pay), and six monthly thereafter (or more regularly if benefit claimants agree).

[21] Parents and disabled people can earn up to £404 per month without losing any benefits if get help with housing through Universal Credit, or £673 if they don't. Beyond this, or if they aren't judged to have limited capability for work, their Universal Credit payments are reduced by 50p for every extra £1 they earn. This is in addition to the usual National Insurance and income tax rates, and any other deductions.

Around 50,000 people per month complete their WCA and are assigned to one of the limited capability for work groups. If this continues (changes in eligibility or process could alter this number), it would mean up to 100,000 Work Support Conversations per month. If 50% attend (the remainder choosing not to or exempted), 10% of those take-up support and one in four then find work, this would mean 15,000 people per year moving into employment.[22] These are small numbers but, given the low levels of people leaving such benefits today, would represent a significant increase. They should be treated with caution: they are uncertain and driven by assumptions made.

For existing claimants, they should initially be annually. There are around 3.5 million current claimants. Data on the number of people leaving the health group each year is limited, but is likely low given the low numbers who move into work from this group. A reasonable assumption might therefore be that around three million Work Support Conversations would be needed each year for existing claimants.

This would need to be phased in. Over a five-year period this would mean around 600,000 invites per year. A relatively arbitrary assumption that perhaps one half would take this up and that each conversation requires 2-3 hours staff time (including preparation and follow up) suggests a cost of up £50 million for existing claimants.[23] Should 10% of this group take up support and one quarter of them find work, that would mean an extra 7,500 people finding work each year. This is small, but relatively few are likely to find work without this intervention suggesting high additionality.

The Government should consult on which groups of people and conditions should have an exemption. It should also expand approaches which co-locate employment advisors in health services, schools and colleges, social housing and in the community.

In total, this means that an extra 100,000 people move into work over five years, at a cost of up to £200 million per year for the Work Support Conversations, with the cost of employment support taken up on top of this (covered below).

Between autumn 2024 and December 2025, the DWP will inform 800,000 ESA claimants that their claims are closing and that they can make a claim UC if they wish. They should receive support to make those claims, and also be proactively offered support to look for work if they are able to. The DWP should ensure it is informing local government, housing associations, and employment support providers of the rollout plan for letters, so they can approach claimants with the offer of support.

We also need a **large expansion of voluntary employment support**, both to engage disabled people and those with long-term health conditions and have help available to

[22] These are rough assumptions, broadly based on previous experience of similar approaches for lone parents but with additional caution included given the different target group.
[23] Based on an average Work Coach salary of £30,000 and assumed costs on top of this for pensions and employers' National Insurance of one third.

take up if they wish. A number of programmes are due to end: the Work and Health Programme has already closed to new referrals; UK Shared Prosperity Fund provision ends in March 2026; and the Restart programme for long-term unemployed people is due to close to new referrals in June 2026. Connect to Work is rolling out and aims to help 100,000 people per year so would replace many of these lost places, but may not reach the same groups and offers a different kind of support.

The Government should double the number of employment support places, creating an extra 150,000 places per year by 2030. This should be phased up between now and then, to an eventual extra cost of £300 million per year.

Funding for this should be included in devolution settlements for mayoral authorities in England and for devolved administrations in other parts of the UK. Provision should be open to everyone who is economically inactive, targeted at those who have been out of work for a longer period of time or at risk of becoming so.

This should include those receiving Universal Credit health element (including those who choose to take up help following a Work Support Conversation), but it should not be mandatory for people to take part. Instead, local government, Jobcentre Plus, housing associations and civic society should look to engage people and support those who want to and are able to work. Plans for doing so could be included as part of Get Britain Working plans that areas are being asked to develop.

The new support could be a mix of employment programmes delivered by contracted organisations including the voluntary sector, and extra Work Coach time building on existing pilots costing around £200 million per year that allocate more time to people in Universal Credit health groups that want support to prepare for or look for work.[24]

The evidence shows that these approaches can work. Evaluation of Work Choice (helping disabled people to find work) showed a £1.67 return to the Exchequer and £2.98 return to society for every £1 spent.[25] Evaluation of European Social Fund, which support programmes to help people improve their skills and economically inactive people to find work, showed a £1.50 return for every £1 spent with participants spending fewer days on benefits.[26] However, the Exchequer returns were only £0.69 in part reflecting a focus only on DWP outcomes, excluding things like criminal justice.

If 90,000 of these places are for people voluntarily engaged (with a further 60,000 taking up support through a Work Support Conversation, based on the assumptions above), this could mean an extra 30,000 people per year finding work.

[24] Spring Budget 2023, HM Treasury, 2023.
[25] Work Choice impact evaluation, DWP, 2025.
[26] Impact evaluation of the European Social Fund 2014-20 programme in England, DWP, 2025.

Improving and aligning work, health and skills support

Good work can be good for people's health where they are able to work. A range of pilots have looked at ways to join up work and health support. But we need further testing of what works where the evidence base is weak. This could be through an **innovation fund**, with some of this determined nationally, some by mayoral authorities, some by providers and others putting forward ideas based on emerging evidence or international best practice. We should look to grow existing efforts by many **health services** to offer help to find work to people with long-term health conditions.

The Government should also consider how to 'hard wire' in joined up support. For example, up to one in two people out of work have low literacy or numeracy.[27] This holds back their job prospects, but also future careers and ability to access public services among other things. An **essential skills guarantee** could ensure everyone who is out of work for two years or more, or who is participating on an employment programme, is offered help with essential skills like literacy, numeracy and digital.

Role of employers

Employers need to be encouraged and supported to promote healthy workplaces, think differently about approaches to recruitment and job design so they reach disabled people and offer jobs flexibly (in all senses) wherever feasible.

The Government, along with local government and devolved administrations, has a role in supporting and encouraging, as well as leading from the front as employers. That includes working with employers to set out the business case including the talent pool that many are missing out on, giving practical examples and support, and encouraging roles to advertised as available flexibly by default.

We should also encourage greater retention of people in work when they develop a health problem or disability. The planned extension of **Statutory Sick Pay** may help and encourage employers to work with employees who are ill to support their return to work.[28] The Government should also work with employer groups and trade unions to consider other measures that might help, such as help for smaller firms to use **occupational health** services, and an expansion of and shorter approval times for **Access to Work**, which provides support with workplace adjustments. It could also include considering building a greater focus in the **Fit Note** system on what people can (rather than can't) do, whether GPs (who are already busy) are best placed to do this, and how to better integrate with occupational health support for a return to work.

The DWP's upcoming employer strategy offers an opportunity to do this in a joined-up way with the skills system and local government.

[27] Survey of adult skills: national report for England, Department for Education, 2023.
[28] Making work pay: strengthening Statutory Sick Pay, UK government consultation, 2024.

Delivering change

Over ten years, reforms could mean an extra 500,000 people in work, boosting the economy by £8 billion and saving the taxpayer £4 billion per year. To do this right, the Government needs to work with disabled people so that change benefits them, offering more help to those that want to work and can do so. This should be about raising opportunity, not cutting costs.

The chance of change

There will inevitably be a rise in the number of people out of work and with health problems or disabilities, the product of a growing and aging population. However, the current system writes too many people off. When combined with a society that offers too few opportunities and healthy workplaces, the result is a constrained economy, rising benefit bill, and lost potential.

Many people who are out of work and disabled or have a long-term health condition want to work. But they are simply not offered help or support to do so. Many more may want to do so if offered help and if suitable opportunities were available, but again that happens only sporadically at present. And more still may be able to stay in work when develop a health condition or disability if they and their employer are offered the right support.

Change isn't easy. Previous attempts have not always had the hoped for impact. But the opportunity is there. Many people who want to work and could work either now or later don't get help to do so. Changing that, in the right way, can save taxpayers money, boost the economy, and help people to fulfil their potential.

This isn't just about benefit reform, though that's an important component. It's also about a step change in support available, a step change in joined-up public services, and a step change in working with employers to promote healthy workplaces. Taken together, the aim should be to reduce the number of people dropping out of work due to a health condition or disability, and support more people who are out of work to find a job and progress at work.

Ways of working

All of this requires radical change. This needs to be done in an inclusive way that is about improving support and outcomes for people. That means developing and implementing change in partnership with disabled people and other stakeholders. That need not mean an unnecessary delay in making change, but it will increase the likelihood of change working (helping to learn the lessons of previous reforms which have fallen short of their stated ambitions). An upfront commitment to and clear plan for doing this should be set out.

Size of the prize

Taken together, these reforms aim to help more disabled people and people with long-term health conditions to find and retain work, limit the expected rise in the cost to the taxpayer, and boost the economy by helping employers find more of the people they need.

The total additional cost of Work Support Conversations and expanded employment support would be £450 million per year once fully rolled out. Investment should be phased up to this level over the next three years as part of a rollout plan to carefully test approaches and build capacity over time.

It is difficult to precisely estimate the impacts, as they depend on how and over what timeline change is implemented, as well as how people respond and how changes interact with other policy, economic and social changes.

However, we estimate that an additional 50,000 people could find work per year. Over ten years, this would mean 500,000 more people in work, delivering one quarter of the increase needed to achieve the Government's 80% employment rate ambition. This would boost the economy by £8 billion per year and save the taxpayer £4 billion per year compared to current projections.

We assume that the switch to PIP as the gateway to extra financial support with the costs of disability and incapacity, removing the WCA and UC health payments, doesn't save any money. Instead, we assume that the Government would add extra categories of support in PIP for those out of work, and that the change would increase PIP claims. We also make no assumptions of tighter eligibility or lower payments in PIP. The Government could make savings if it wished, but would need to carefully consider the impact on individuals.

Our focus is on the fiscal and economic benefits from helping more people into work. In line with our previous approach, we relatively cautiously assume people move into work of an average of 20 hours per week at the minimum wage.[29] This gives an annual salary of around £12,700. We assume employers capture productivity benefits of 50% over an above this, giving a total economic contribution from each job of £15,600.

For the fiscal benefits, we make the simplifying assumption that people face an effective marginal tax rate (National Insurance, income tax, reduced Universal Credit) of 55%. This may be too low (the UC taper rate alone is 55%), but aims to account for the fact the Government may want to offer some additional financial incentives to people, that they may be eligible for other benefits and other factors.

This is consistent with our previous finding that achieving an 80% employment rate (increasing employment by two million rather than the 500,000 assumed through

[29] Towards full employment: how the UK can increase employment by widening opportunity, L&W, 2022.

these reforms) would boost the economy by £23 billion and save the taxpayer £8 billion per year. Since that analysis, wages (and therefore potential economic benefits) have risen.

For comparison, the GMCA cost-benefit analysis tool suggests that an increase in employment among this group of 500,000 would bring fiscal benefits of £7.1 billion and economic benefits of £8 billion over ten years.[30] Any wider benefits to health, education and communities would be on top of this.

In practice, these assumptions may well be too cautious, as they assume no impact from efforts to improve retention at work or widen employer recruitment and job design practices, nor potential improved outcomes from better integrating work, health, skills and other public services. But they could also prove to be too optimistic. It is right to be cautious given the history of previous reforms and significant uncertainty.

Done right, this can be a win-win-win for people, employers and the economy.

[30] Greater Manchester cost benefit analysis tool, GMCA, 2023.