

PRIME MINISTER

*Accept it at present. But the
remits largely upon the question
hasn't it? I am not suggesting
the 52 week rule be changed for
those in work. No - do I suggest
that would be measure to*

The scale of the problem is very small,
but it is real. Content to accept Mr Jekin's

PRIME MINISTER

do so. MS.

advice, give the balance between the practical
effect of a change and the political cost (victimising
the poorest families of all and so on)?

You asked for my reactions to your suggestion that payments of
family income supplement (FIS) should cease if the recipient
becomes unemployed.

MS

22/8

I should prefer to keep the present 52 week run-on period as
it is. We have it, as you know, for two reasons. One reason is
that it mitigates the effect of the poverty trap, since it leaves
recipients with an incentive to earn more. It also has the
advantage of providing them with a more stable income. Of course,
the higher earnings are taken into account when the 52 week period
is up and a further claim for FIS made. But our experience has
been that the run-on period works well, part of the reason being
that the annual uprating of FIS means that only with larger than
usual increases in earnings would the FIS award be reduced. The
other reason is that it helps to keep the scheme simple to understand
and to administer. For a means-tested scheme, it is pretty simple
and very economical indeed: only about 120 staff at the FIS office
at Poulton-le-Fylde for nearly 90,000 cases. The run-on rule is
a major factor in keeping the scheme simple: taking account of
changes in circumstances would make a big difference.

Withdrawing FIS from those who became unemployed would not, of
course, mean scrapping the 52 week run-on period altogether. Only
a small minority of cases would be affected. Nonetheless, once
we breached the rule, it would be more difficult to retain it for
all other cases. We should be pressed to review FIS awards, for
example, where earnings dropped. And the more the rule were
breached, the more we should whittle away the valuable simplicity
of FIS and add to administrative costs.

No

Simplicity and economical administration are not, I accept, decisive
considerations. If permitting a FIS run-on for the unemployed were
substantially distorting the incentives picture, then I should
amend the rule. However, that does not seem to be the case.



(a) The numbers involved we judge to be small: we cannot be absolutely precise, but something between one per cent to two per cent of those on FIS seems likely.

(b) Even with FIS, out of work income is significantly lower than in work income, as the attached table shows. (The table takes account of the fact that the earnings related supplement to unemployment benefits is to go.)

(c) Payment of FIS only continues for a limited period. It would not be renewed until the family was back in work.

(d) In practice, only a minority of those unemployed who continue to receive FIS are better off as a result. This is because most of the families we are talking about can be expected, when unemployed, to claim supplementary benefit. If they do, the FIS in payment is deducted from the supplementary benefit otherwise payable. So the family does not finish up with a higher income.

This would not always be the case, because some families with very low earnings would be marginally better off on unemployment benefit plus FIS (and child benefit etc.) than on supplementary benefit. The attached table shows how this could happen. But, as always with hypothetical examples, it depends heavily on family circumstances. For example, with older children, higher rents or a mortgage, all the families on the table could be better off on supplementary benefit.

Altogether, I believe the balance of arguments favours keeping the 52 week run-on rule as it is.

13/8/76

(Approved by the Secretary of State and signed in his absence).

16 August 1976

PATRICK JENKIN

COMPARISON OF IN WORK AND OUT OF WORK INCOME as at November 1980*

	<u>IN WORK</u>		<u>OUT OF WORK</u>			
	Previous earnings £	Total income support** including FIS £	Unemployment benefit*** £	FIS £	Total income support without supp. ben. £	Supp. ben. £
married couple with 2 children aged 4 and 11	55	63.78 (including £9.50 FIS)	33.90	9.50	58.31	57.61
	65	63.45 (including £4.50 FIS)	35.90	4.50	53.31	57.61
	75	60.45 (no FIS)	35.90	Nil	46.56	57.61
lone parent with 2 children aged 4 and 11	55	65.79 (including £9.50 FIS)	21.90	9.50	47.31	44.31
	65	65.61 (including £4.50 FIS)	21.90	4.50	42.31	44.31
	75	62.76 (no FIS)	21.90	Nil	34.40	44.31

Note

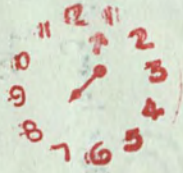
* This table is based on the position as it will be in November 1980 when the higher rates on FIS come into effect. It also takes into account the fact that earnings related supplement will be abolished in 1982.

** after payment of average rent and rates

*** excludes earnings related supplement, because ERS will go in 1982 || *this is a bit of a fiddle, in my view*

MS

9 AUG 1980



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10 DOWNING STREET

From the Private Secretary

26 August 1980

FAMILY INCOME SUPPLEMENT AND THE UNEMPLOYED

The Prime Minister has seen your Secretary of State's minute of 14 August. She is content to accept, for the time being, that the 52 week run-on rule should be kept as it is. She has commented, however, that she does not agree that changing the rule for the unemployed would make it more difficult to retain it for all other cases. She has noted that your Secretary of State's minute is based on the assumption that there would be pressure for further changes, and that it therefore is largely addressed to questions which she did not put.

N. J. SANDERS

Don Brereton, Esq.,
Department of Health and Social Security.

KRF