

# Analysing the impact of the UK Government's welfare reforms in Wales – Stage 3 analysis

Part 1: Impacts on those with protected characteristics



Llywodraeth Cymru  
Welsh Government

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## Summary of key findings

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### **Audience**

This report has been produced primarily for the Welsh Government's Ministerial Task and Finish Group on Welfare Reform (the group includes the Minister for Communities and Tackling Poverty; the Minister for Local Government and Government Business; the Minister for Housing and Regeneration; the Deputy Minister for Tackling Poverty; and the Deputy Minister for Social Services) and relevant policy and analytical officials.

(Since the Cabinet reshuffle and a revision of Ministerial responsibilities in March 2013, the Minister for Education and Skills no longer chairs, or forms part of, the Ministerial Task and Finish Group on Welfare Reform. The new chair of the Group is the Minister for Communities and Tackling Poverty as Welfare Reform now falls within this Ministerial brief.)

### **Overview**

This report includes a summary of the analysis that has been undertaken internally by Knowledge and Analytical Services (Welsh Government) as part of Stage 3 of the Welsh Government's programme of research to assess the impact of the UK Government's welfare reforms in Wales.

### **Action required**

None – for information only.

### **Further information**

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# **Contents**

<b>Introduction</b>	<b>1</b>
<b>Key findings</b>	<b>2</b>

## Introduction

The Welsh Government's Ministerial Task and Finish Group on Welfare Reform has commissioned a programme of research to analyse the impact of the UK Government's welfare reforms in Wales, with the aim of providing evidence to assist with policy decisions. The findings from the Group's earlier research (Stage 1 and Stage 2) have already been used to help target the Welsh Government's efforts to mitigate (where possible) any negative implications of welfare reform, and to continue to prioritise resources to reduce poverty in Wales, thereby contributing to the commitments made in the Programme for Government and the Tackling Poverty Action Plan.

The aim of this part of the research is to provide an evidence base (where possible) on the potential impacts of the UK Government's welfare reforms on those with protected characteristics in Wales, building on the findings identified as part of Stage 1 and Stage 2. 'Protected characteristics' is a term used in the Equality Act 2010 and refers to people who are protected from unlawful discrimination on the grounds of age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, gender and sexual orientation. Households that include someone with a protected characteristic tend to be affected by the welfare reforms according to other characteristics such as their work status, position in the income distribution, and family structure.

Each welfare benefit change<sup>1</sup> is scrutinised for its impact on four of the protected characteristics (gender, disability, age and race). Unfortunately, due to a lack of information, it has not been possible to accurately assess the impact of the welfare reforms on the following equality groups: transgender, religion, sexual orientation, pregnancy/maternity, marriage and civil partnerships. The availability of such information will continue to be monitored.

The ideal would be to establish the cumulative impact of the reforms on each group, but data at this point generally does not permit such an assessment. Where possible, impacts on numbers affected, household income, poverty, work incentives and employment, work-related requirements and online access have been assessed.

The changes that have already been implemented and the future changes are numerous and complex and in some instances counter each other in terms of likely impacts on income and employment incentives. Whilst this summary provides an overview, only close reading of the full report will offer a detailed understanding of the likely impact welfare reforms will have on people in Wales who have protected characteristics.

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<sup>1</sup> Knock-on effects on passported benefits that are administered by the Welsh Government have not been considered in this report as this is outside of the research scope.

## Key findings

- The Welsh Government's Ministerial Task and Finish Group on Welfare Reform has commissioned a three-stage programme of research to analyse the impact of the UK Government's welfare reforms in Wales.
- This summary report forms part of the Stage 3 research and aims to provide an evidence base (where possible) on the potential impacts of the UK Government's welfare reforms on those with protected characteristics in Wales. It looks at the numbers affected, impacts on income, poverty and work incentives<sup>2</sup>, and wider effects such as online access. The key findings from this research are outlined below and summarised in the table on pages 7–15.
- The benefit rules do not distinguish between different genders and ethnic groups. However, it may be the case that some groups lose more than others from the UK Government's benefit changes because other characteristics such as income, skill levels, qualifications, time use (e.g. hours worked) and family structure may differ between these groups.
- With regards to disability and age, benefit rules differ on the basis of need. For example, it is likely that a disabled claimant will receive different amounts of benefit as a result of their disability status compared to an otherwise identical non-disabled claimant. Similarly, there are age-related rules in the benefit system. Therefore, whether the claimant is disabled/non-disabled or younger/older will have an impact on the extent to which they are affected by the welfare reforms. Other influential characteristics (as mentioned above) also differ between these groups.

## Gender

- Overall, this analysis suggests that women are more likely to be affected by the welfare reforms and tend to lose the most/gain the least compared to men.
- Some of the main reforms that will adversely affect more women than men are the:
  - 1 per cent cap on most working-age benefits, tax credits and Child Benefit (CB)
  - size criteria in the Social Rented Sector (SRS)
  - household benefit cap

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<sup>2</sup> The incentive to be in paid work at all (as opposed to not working) can be measured using the participation tax rate, which is the proportion of total gross earnings lost in the form of tax and withdrawn benefits. The incentive for those in work to increase their earnings (whether by working more hours, seeking promotion or moving to a better-paid job) can be measured by the marginal effective tax rate, which is the proportion of a small increase in earnings lost in tax and withdrawn benefits. In both cases, higher numbers mean weaker work incentives. Non-financial work incentives include, for example, the simplification that is aimed for under the Universal Credit system and the extension of work search requirements to more people.

- knock-on effects of the Disability Living Allowance (DLA) reforms on Carer’s Allowance (CA) claimants
  - the extension of Lone Parent Obligations (LPO).
- However, there are some reforms, such as those relating to Incapacity Benefit (IB) and Employment and Support Allowance (ESA), where more men than women are negatively impacted.
- In terms of the average impacts on income, compared to men, women are expected to lose the most/gain the least from a number of reforms including Universal Credit (UC), for example.
- Overall, non-working lone parents (of which around 90 per cent are female) are one of the groups that will incur the largest income losses.
- The incentive for lone parents to work more hours is significantly strengthened. However, the reforms will mean that couples will have more to lose from a second earner being in work. Given that second earners are primarily women, they will encounter greater adverse employment impacts than men.
- Generally, one UC payment is made per household. Payment will be made to one member of a household, usually the head of the benefit unit. For couples, this is likely to be the male, which could potentially disadvantage the female.

### **Disabled people<sup>3</sup>**

- Major changes have already been made to disability and sickness benefits with more to come this year.
- Although the Department for Work and Pensions (DWP) has put in place some protection for disabled groups via exemptions and increased discretionary housing payments (DHP), there will be significant impacts on disabled people in Wales. These are likely to be even more so than in the UK as a whole given the relatively high dependence on disability and sickness benefits in Wales.
- There will be particular impacts on disabled people as a result of changes to benefit and tax credit indexation, DLA, IB/ESA, UC and Housing Benefit (HB). There will also be adverse effects on the carers of disabled people. For example, they may lose their entitlement to CA as a result of the move

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<sup>3</sup> It is important to note that the findings on the impact of the welfare reforms on the incentive to be in work or increase earnings exclude some important reforms to disability benefits (particularly migrating the remaining stock of IB claimants to ESA and the associated reassessment of health conditions, which removes benefit entitlement for many people). The findings relate only to the reforms modelled by Adam and Phillips (2013). Also, some of the findings are based on small sample sizes (e.g. 53 disability benefits claimants in some instances) and therefore caution is needed when drawing conclusions from such a small sample.

from DLA to the Personal Independence Payment (PIP), and following the introduction of UC a carer will only be entitled to either a carer or a disability element, not both. This will mean that some carers with health problems will be worse off.

- The structure of UC will involve a number of other changes for disabled people. More specifically, some disabled children, disabled people without an adult to assist them, and disabled people in work could lose some of the disability additions they receive under the current benefit system. However, DWP state that they intend to redistribute the savings from such cuts to the most severely disabled adults and some claimants will also be entitled to transitional protection.
- Under UC, the average monthly increase in entitlement for households with a disabled person will be smaller than that for all households in receipt of UC.
- The incentive to be in work will be strengthened for those who are receiving a disability benefit themselves or have a partner receiving a disability benefit. This is driven by the time-limiting of contributory ESA (which in some cases will result in a large reduction in out-of-work income) and the introduction of UC respectively.
- For those who are already in work and in receipt of a disability benefit, their incentive to increase earnings is expected to improve substantially mostly caused by UC. However, those in work with a partner receiving a disability benefit will see a weakened incentive to increase their earnings driven by both UC and the welfare cuts.
- Disabled people are relatively less likely to live in households with internet access and so may have difficulty making online claims for UC. Some impairments may also make it harder for disabled people to use the online claiming process.

## **Age**

- Overall, pensioners are largely unaffected by the welfare reforms as most of these apply to working-age benefits.
- More younger than older working-age people will be adversely affected by some of the reforms such as the abolition of concessionary ESA 'youth' National Insurance (NI) qualification conditions and increasing the age threshold for the shared accommodation rate (SAR). While other reforms such as those to DLA, time-limiting ESA to one year and tapering CB away from families containing someone earning more than £50,000 will affect more older than younger working-age people.
- On average, older working-age people will see an income loss under UC while younger people will see an income gain.

- Those aged between 55 and the state pension age (SPA) see a greater strengthening of the incentive to be in paid work than younger people.
- Those aged 55 or over who are in work also see an improvement in the incentive to increase their earnings, although this improvement is greater for those aged 25–54. However, those under 25 and in work see a particularly weakened incentive to increase their earnings.
- Older people are relatively less likely to use the internet and so may have difficulty making claims online.

## **Race and ethnicity<sup>4</sup>**

- Some of the welfare reforms, such as the household benefit cap, are likely to have a disproportionate impact on some Black and ethnic minority (BME) claimants because of the characteristics of some of these households (e.g. larger family size among certain ethnic minority groups, hours worked, etc). Other reforms including those related to DLA, IB/ESA and the introduction of the size criteria for HB claimants in the SRS are more likely to adversely affect white recipients.
- On average, UC is expected to result in a significantly higher income gain for households with an adult of ethnic minority background compared to all households.
- The welfare reforms will strengthen the incentive for white people to be in work, and to the same extent as that for the population as a whole, on average. However, the incentive for non-white people to be in work is expected to weaken. Most importantly, this is because non-white people are more likely to have a greater number of dependent children than white people, which means they are more likely to see their out-of-work income rise as a result of increases in Child Tax Credits (CTC). This has the effect of weakening the incentive to be in work.
- For those in work, both white and non-white groups are expected to see an improvement in the incentive to increase their earnings. However, the improvement for non-white groups will likely be smaller. Again, this is likely to be due to other characteristics such as earnings levels.
- Language issues may cause problems for some ethnic minority people (e.g. recent migrants and some refugees) accessing the UC system online.

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<sup>4</sup> Various terminologies are used throughout the report to describe particular ethnic groups (e.g. white, non-white, BME, etc.). The terminology used aligns with that of the data source that it was extracted from. It is also important to note that the sample sizes for non-white people that were used for the research on the impact of the welfare reforms on work incentives (Adam and Phillips, 2013) are small (e.g. 110 non-white people in some cases) thereby affecting its robustness and making it difficult to do too much disaggregation to try to explain the differences in results.



## Other protected characteristics

- In addition to the equality groups above, current equality legislation also covers transgender, religion, sexual orientation, pregnancy/maternity, marriage and civil partnerships. As DWP does not hold this information on its administration system (with the exception of information on pregnancy and maternity, which is held in the event that it is the primary reason for incapacity), it is not possible to accurately assess the impact of the welfare reforms on these equality groups. However, DWP do note in a number of their impact assessments that given their knowledge of the policy designs and customer groups, they do not envisage any adverse effects on any of these grounds.

A table summarising the key findings from this research report can be found on pages 7–15.

Policy change	Identification of disproportionate impacts by equality group			
	Gender	Disability	Age	Race
<b>UC</b>	<p>Single males to benefit more than single females.</p> <p>Improved incentive for lone parents (most of whom are female) to be in paid work, and those in work will see a significantly strengthened incentive to work more hours.</p> <p>Work incentives for couples with second earners adversely affected. Second earners in couples are primarily female.</p> <p>Around 70 per cent of the partners who will be affected by the extended work-focused requirements under UC will be female.</p>	<p>Households with a disabled person are likely to receive a smaller increase in entitlement payments.</p> <p>Particular impacts on income for some disabled children, disabled people without an adult to assist them, disabled people in work, and disabled carers.</p> <p>Incentive to be in work will slightly decrease for those in receipt of a disability benefit themselves while those who have a partner receiving a disability benefit will see a significant improvement.</p> <p>Incentives for those who are already in work, and in receipt of a disability benefit, to work more hours improves substantially. Incentives deteriorate for those in work with a partner receiving a disability benefit.</p>	<p>Households where the head is over 50 see a decrease in their entitlement on average. Conversely, households where the head is under 25 see an increase in their entitlement on average.</p> <p>Those aged between 55 and the SPA see a greater strengthening of the incentive to be in paid work than younger people.</p> <p>The improvement in the incentive for 25 to 54-year-olds who are in work to work more hours (earn more) is greater than for older people.</p> <p>Incentives to work more hours deteriorate for under 25s.</p>	<p>In terms of impacts on income, ethnic minority groups tend to benefit more than the general population.</p> <p>Incentive for white groups to be in work likely to be greater than for non-white groups on average.</p> <p>Non-white in-work claimants to see a greater average improvement in the incentive to increase earnings compared to white in-work claimants.</p> <p>Around 15 per cent of the partners who will be affected by the revised conditionality requirements under UC are from an ethnic minority background.</p>

Policy change	Identification of disproportionate impacts by equality group			
	Gender	Disability	Age	Race
<b>UC (continued)</b>	One UC payment will be made to couples; likely to be made to the male member of the couple to the potential disadvantage of the female member.	<p>Just over one-quarter of the partners who will be affected by the revised work-search requirements under UC have a disability.</p> <p>Disabled people are relatively less likely to live in households with internet access and so may have difficulty making online claims for UC.</p>	<p>New claims for couples with one partner below and one partner above retirement age will be more adversely affected than couples with both partners below retirement age.</p> <p>Older people are relatively less likely to live in households with internet access and may have difficulty making online UC claims.</p>	Language issues may cause problems for some ethnic minorities accessing the UC system online.
<b>Switch to up-rating most benefits by CPI (instead of RPI or Rossi)</b>	Males slightly more at risk of being affected. Income losses by gender are unclear at this stage.	<p>Disabled people are disproportionately represented among benefit/tax credit recipients and are therefore more at risk of being affected.</p> <p>Disabled claimants may incur higher average losses than non-disabled claimants.</p>	DWP and population data for Wales suggests that those aged 16–44 are slightly under-represented in the benefit claimant caseload. On the other hand, those aged 45–59 are over-represented and so are more likely to be affected by this measure. Income losses by age are unclear at this stage.	No disproportionate impacts identified on the numbers affected by ethnicity. Some ethnic groups have a much lower probability of claiming benefits and tax credits, reducing the likelihood of being affected by this change. Income losses by ethnic group are unclear at this stage.

Policy change	Identification of disproportionate impacts by equality group			
	Gender	Disability	Age	Race
<b>One per cent cap on most working-age benefits, tax credits (excludes disability and carers benefits) and CB</b>	Females more at risk of being adversely affected than males.	Because of exemptions, a substantial number of households in receipt of disability benefits will not be affected. Nevertheless, due to receipt of other non-exempt benefits, more households that include a disabled person will be affected than households without disabled members.	Pensioners are the least likely group to be affected as applies mainly to working-age benefits.	No analysis provided by DWP.
<b>Household benefit cap</b>	A significantly greater proportion of single females are affected compared to single males.	Despite some exemptions for disabled claimants (DLA claimants and the most severely disabled recipients of ESA), 50 per cent of affected households will contain somebody classified as disabled.	Applies to working-age benefits only.  Eighty per cent of affected households are aged 25 to 44 with the majority of the remaining 20 per cent likely to be 45 or over (as those under 25 tend to receive less benefit and are less likely to have children).	Forty per cent of households affected by the cap are estimated to contain a person who is of ethnic minority background (GB level) – a significantly higher proportion than in the working-age population as a whole.
<b>Replacement of IB with ESA</b>	More likely to affect males than females.	Disproportionate impact on disabled people particularly those with mental and behavioural disorders.	More likely to affect those aged 35–64.	There is a risk that white recipients are more likely to be adversely affected than people in other ethnic groups (except those of mixed ethnicity).

Policy change	Identification of disproportionate impacts by equality group			
	Gender	Disability	Age	Race
<b>Time-limiting contributory ESA to one year except for the most severely disabled</b>	Males are more likely to be adversely affected than females. However, the average loss in household net income is higher for females than males.	Disproportionate impact on disabled people, especially those with mental and behavioural disorders and those with diseases of the musculoskeletal system and connective tissue. Exemptions to limit impacts on the most severely disabled and individuals with low or no other income may be partially or wholly compensated by entitlement to income-related ESA and 'passported' benefits.	Those aged 50–64 are more likely to be affected. This age group will also incur higher average losses than younger age groups.	There is a risk that white recipients are more likely to be adversely affected than people in other ethnic groups (except those of mixed ethnicity).  Average losses in net income expected to be greater for white claimants than ethnic minority claimants.
<b>Abolition of concessionary ESA 'youth' NI qualification conditions</b>	More likely to adversely affect males than females.	Disproportionate impact on disabled people, particularly those with mental and behavioural conditions and diseases of the nervous system.	Will have a disproportionate impact on young disabled people (aged under 25).	There is a risk that white recipients are more likely to be adversely affected than people in other ethnic groups (except those of mixed ethnicity).

Policy change	Identification of disproportionate impacts by equality group			
	Gender	Disability	Age	Race
<b>DLA, PIP and CA</b>	<p>DLA/PIP: no disproportionate gender impacts.</p> <p>Adverse affect on carers: more likely to affect females than males.</p>	<p>DLA/PIP: vast majority of affected recipients will be disabled (according to the Equality Act 2010). Those with arthritis, psychosis and learning difficulties are at greater risk of being affected by this reform.</p> <p>Adverse affect on carers: more likely to affect disabled people.</p>	<p>DLA/PIP: initial impacts will be on working-age recipients. More likely to affect those aged 50–64.</p> <p>Adverse affect on carers: more 35 to 64-year-olds affected than other age groups.</p>	<p>DLA/PIP: those from a white background are slightly more at risk of being affected.</p> <p>Likely adverse affect on carers, but no robust data available.</p>
<b>Closure of the ILF</b>	<p>Likely no direct gender impact. Indirect adverse impact on carers possible if the need for informal care increases; more likely to affect females than males. The future of the ILF in Wales is being considered. A consultation and an Equality Impact Assessment will be undertaken later in 2013.</p>	<p>This group will be disproportionately affected.</p> <p>Greater numbers of those with severe learning disabilities, cerebral palsy and Down’s syndrome will be affected compared to those with other primary medical conditions.</p>	<p>The smallest groups of ILF users are the youngest (16–25 years old) and oldest (56-plus) age ranges and these are under-represented in the ILF caseload compared to in the population as a whole. More likely to affect ILF users aged 26–55.</p>	<p>Limited data available and not possible to accurately identify impacts on any particular ethnic group.</p>

Policy change	Identification of disproportionate impacts by equality group			
	Gender	Disability	Age	Race
<b>SF/DAF (April–June 2013)</b>	No disproportionate gender impacts identified.	A lower proportion of people are registered disabled compared to in the 16-64 population as a whole.	Those aged 16–24 and 25–39 are more likely to submit a claim than those aged 55–69 and 70-plus.	No disproportionate impacts identified by ethnic origin.
	Only one-third of DAF claimants have given information on each of these protected characteristics. We do not know whether these respondents are representative of the overall claimants.			
<b>CTS (2013–14)</b>	Will protect income for females and males, but more females will benefit given the demographic make-up of claimants.	Given that households containing an adult receiving a disability-related benefit account for 57 per cent of CTB expenditure in Wales, the CTS scheme in 2013–14 will particularly benefit these households.	Will have particular benefits for those aged 65-plus given that they represent the biggest group of recipients and account for 40 per cent of CTS expenditure. Over 43,000 households in Wales will also benefit from the CTS Pensioner Grant.	No disproportionate impacts identified on the numbers affected by ethnicity.
<b>Taper CB away from families with someone earning £50,000 plus</b>	No significant gender impacts have been identified.	No significant impacts on this group have been identified.	This policy is likely to affect more people in the 51–65 age group than other age groups because they are generally more likely to be higher earners with children.	No significant effects on this group have been identified.
<b>Changes to the hours eligibility rules for WTC</b>	No data available.	Households with a disabled member may be affected but there are exemptions to mitigate impacts on couple households with a disabled member.	No data available.	BME groups will be disproportionately affected.

Policy change	Identification of disproportionate impacts by equality group			
	Gender	Disability	Age	Race
<b>Removing IS eligibility for lone parents based on the age of their youngest child</b>	Females are significantly more likely to be adversely affected than males.	Lone parents more likely to be disabled than the working-age population as a whole. DWP exemptions should mitigate adverse effects on those that have a child with a health condition or disability.	<p>More younger lone parents (aged 25–34) will be affected, mitigated partly perhaps by their greater propensity to join the labour market than older groups.</p> <p>Lone parents under the age of 18 with a youngest child aged 5 will retain IS eligibility.</p>	A relatively large proportion of lone parents with a youngest child age five or six is of an ethnic minority background. Employment rates of ethnic minority lone parents are relatively low suggesting this group will find it more difficult to find work following loss of IS. Childcare and language barriers may also undermine chances of finding and sustaining employment.
<b>Size criteria for people renting in the SRS</b>	Single females more likely to be adversely affected than single males and couples.	DWP exemptions will protect some disabled people. However, a greater proportion of the affected households contain a disabled person than those that include non-disabled claimants. An additional £25 million of DHP funding is available in 2013/14 and 2014/15 to help disabled claimants remain in properties that have been significantly adapted.	<p>Applies to working-age claimants.</p> <p>More older working-age claimants affected than younger claimants because often their grown-up children have left home. Older working-age claimants also see a greater income loss on average.</p>	<p>Black and ethnic minority claimants are less likely to be affected by this measure than white claimants.</p> <p>Black and ethnic minority households that are affected will see a greater average weekly loss compared to white claimants.</p>



Policy change	Identification of disproportionate impacts by equality group			
	Gender	Disability	Age	Race
<b>Increase LHA rates in line with CPI rather than actual rents</b>	Single females more likely to be adversely affected than single males and couples, and they are also likely to incur a greater income loss.	No disproportionate impact identified.	Affects the 25 to 44-year-old group the most as they have a higher propensity to claim and receive higher payments and so are likely to incur a higher income loss.	No disproportionate impacts identified on the numbers affected by ethnicity.
<b>Cut LHA (to the SAR) for single adults aged 25–34 without children</b>	Single males more likely to be adversely affected than single females.	Some disabled people will be adversely affected but exemptions will mitigate some of the impacts on this group.	This policy will only affect adults aged 25–34.	No disproportionate impacts identified on the numbers affected by ethnicity.
<b>Cumulative impact</b>	<p>Non-working lone parents (of which around 90 per cent are female) to incur some of the largest income losses.</p> <p>Incentives for lone parents (predominantly women) to enter work largely unchanged. Incentives for lone parents to work more substantially enhanced in absolute and relative terms.</p>	On average, the welfare reforms will strengthen the incentive to be in work for those in receipt of a disability benefit themselves or those who have a partner receiving a disability benefit more so than families not in receipt of disability benefits. Incentives are also improved substantially for those already in work and in receipt of a disability benefit.	<p>Pensioners largely unaffected by the welfare cuts and the introduction of UC.</p> <p>Incentives for those aged between 55 and the SPA to be in paid work strengthened more than for younger people.</p>	On average, the welfare reforms will strengthen the incentive for white people to be in work, and to the same extent as that for the population as a whole. Conversely, the incentive for non-white people to be in work is expected to weaken.

Policy change	Identification of disproportionate impacts by equality group			
	Gender	Disability	Age	Race
<b>Cumulative impact (continued)</b>	Work incentives for couples with second earners adversely affected. Second earners in couples are primarily female.	Incentives for those in work with a partner receiving a disability benefit to increase their earnings, on average, will deteriorate.	Those aged 55 or over who are in work also see an improvement in the incentive to increase their earnings, although this improvement is greater for those aged 25–54. However, incentives for those under 25 and in work to increase their earnings will deteriorate.	For those in work, on average, both white and non-white groups are expected to see an improvement in the incentive to increase their earnings. However, the average improvement for the latter group is estimated to be somewhat less than that seen by the former group.