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**Working Paper**

## Attendance allowance and disability living allowance claimants in the older population: Is there a difference in their economic circumstances?

ISER Working Paper Series, No. 2010-27

**Provided in Cooperation with:**

Institute for Social and Economic Research (ISER), University of Essex

*Suggested Citation:* Hancock, Ruth; Morciano, Marcello (2010) : Attendance allowance and disability living allowance claimants in the older population: Is there a difference in their economic circumstances?, ISER Working Paper Series, No. 2010-27, University of Essex, Institute for Social and Economic Research (ISER), Colchester

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# Attendance Allowance and Disability Living Allowance claimants in the older population: Is there a difference in their economic circumstances?

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No. 2010-27  
22 July 2010



INSTITUTE FOR SOCIAL  
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## Non-technical Summary

### Background

In the UK, Attendance Allowance (AA) and Disability Living Allowance (DLA) are alternative social security benefits for people who have disabilities which generate a need for care services, formal or informal. In 2009, the Government mooted a reallocation of public spending away from these cash benefits as part of proposed reforms to the social care system in England. Following the change of government in May 2010, a new review of social care has been announced, so the future of these benefits remains in question.

AA can be claimed only by people aged 65 and over; DLA must be claimed before reaching age 65 but, if awarded, can continue past age 65. Because DLA receipt commences earlier, DLA recipients mostly have earlier onset of disability. This is often presumed imply lower income in old age so that removing DLA for the over 65s might have more serious consequences for low-income disabled people than withdrawal of AA. We consider whether this presumption is supported by evidence.

### Methods

Using data from the Family Resources Survey, we compare work histories of recipients and non-recipients of DLA aged under 65 and then compare work histories and current individual and family incomes of recipients of AA and DLA aged over 65. In contrast to most official analyses, we define income as total net income of the benefit unit, before disability and means-tested benefits. We use this income concept because we are interested in the underlying need for income supplements rather than the eventual income level achieved under the current benefit system. Income is adjusted for the number of members of the benefit unit, using the modified OECD equivalence scale.

### Findings

In the working age population, there is a clear difference between the proportion of past working time spent in employment for people receiving DLA and people not receiving DLA. This difference varies with age and, for people in the ten years before age 65, men on DLA have lost on average 16% more of their potential working years than men not on DLA; the difference is 10% for women. Those who are observed to be DLA recipients at an early age tend to have a more interrupted employment history up to the point at which they are observed. Comparing those aged over 65 and adjusting for possible differences in the age composition of different benefit groups reveals some systematic differences. There is evidence of a lower total of years in work for the DLA group, for those cohorts who had not yet reached their 80s by the time of their FRS interview. The difference between the age-specific employment totals for the DLA and AA groups is around 2-3 years in this age range, roughly 5% for men and 10% for women. Among the relatively few over-80 DLA recipients, the difference is positive rather than negative.

Both recipients of DLA and recipients of AA have incomes which are about a third less, on average, than the group of over 65s who are not on disability benefits. Differences in work histories between DLA and AA recipients are not translated into differences in retirement incomes. A comparison of the average incomes of older (65+) DLA and AA recipients controlling for age, reveals no substantial difference between the two groups. Indeed, if we compare the proportion of older AA, DLA and non recipients of either who have pre-benefit income below the minimum income that is guaranteed as part of Pension Credit, we find that AA recipients experience substantially higher rates of income deprivation than DLA recipients in most post-65 age groups.

### Conclusions

In sharp contrast to recent reform proposals which would treat recipients of Attendance Allowance less favourably than recipients of Disability Living Allowance, we have found no evidence of greater income deprivation among the DLA than AA claimants.

# Attendance Allowance and Disability Living Allowance claimants in the older population: Is there a difference in their economic circumstances?<sup>1</sup>

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**Abstract:** The UK *Disability Living Allowance* (DLA) is a non-means-tested cash benefit claimable initially only by people under 65, but receipt of which can be continued after that age. The similar *Attendance Allowance* (AA) can only be claimed after age 65. Recent proposals for benefit reform have suggested more favourable treatment for DLA recipients, on grounds that they have longer histories of disability and consequently lower financial security. We investigate this claim using detailed survey data on household incomes and find no evidence of higher levels of income deprivation among DLA than AA recipients in terms of equivalised pre-benefit family income.

**Keywords:** Disability benefit, older people, social security reform

**JEL codes:** H55, I32

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<sup>1</sup> We are grateful to Sally West of AgeUK (formerly Age Concern and Help the Aged) for extremely helpful comment and advice, and to AgeUK for financial support for this research. This research also builds on work generously supported by the Nuffield Foundation. Material for the Family Resources Survey is crown copyright, has been made available by the Office for National Statistics via the UK Data Archive and used with permission. All responsibility for data analysis and interpretation rests with the authors.

## 1 Introduction

In Britain at present, there are two alternative social security benefits for older people with disabilities which generate a need for formal or informal care services: *Attendance Allowance* (AA) and *Disability Living Allowance* (DLA). AA can be claimed only by people aged 65 and over; DLA must be claimed before reaching age 65, but if awarded, can continue past age 65.<sup>2</sup> In Great Britain in November 2009, there were 0.81 million DLA recipients aged 65 and over, and 1.62 million AA recipients, comprising respectively 8.3% and 16.5% of the over-65 population.

In 2009, the Government set out some options for reform of the system of social care in England, raising the possibility of some reallocation of public spending away from these cash benefit programmes:

“We think we should consider integrating some elements of disability benefits, for example Attendance Allowance, to create a new offer for individuals with care needs.” (Department of Health 2009a, p. 103)

A subsequent statement by the then Secretary of State for Health ruled out the possibility of DLA being withdrawn for people aged under 65 (Burnham 2009). Since that statement, and the change of government in May 2010, a new review of the reform options has been announced. Consequently, the policy situation is fluid and the future for AA and DLA remains unclear.

It has been suggested that the impact on older people’s financial wellbeing of withdrawing AA would be less than that from withdrawing DLA. Because it has to be claimed before reaching age 65, the typical recipient of DLA is presumed to have earlier onset and a longer history of disability and thus a more interrupted employment history than the typical AA recipient. A consequence of this might be lower accumulated pension rights and other wealth and consequently lower income in old age. Evidence from the Department for Work and Pensions reported in the House of Commons Select Committee inquiry into pensioner poverty included the statement that the main general aim of DLA is to:

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<sup>2</sup> DLA comprises a “care” component and a “mobility” component, each of which has multiple possible levels. An individual can receive either or both components, at levels judged appropriate to circumstances. We count an individual as a DLA recipient if a positive amount of either component is received.

“give priority for additional help to those disabled earlier in life for whom disability is more financially disruptive in terms of the lost opportunity to earn and save.” (House of Commons 2009, p. 51)

Our aim here is to consider whether this assumption of greater financial need as a consequence of earlier onset of disability linked to receipt of DLA rather than AA is supported by evidence.

Using data from the Family Resources Survey, we first compare the work histories of recipients and non recipients of DLA aged under 65 and, second, compare the work histories and current incomes of recipients of AA and DLA who are aged 65 and over. In both cases we make comparisons at the level of the individual and the family (or, more formally, the benefit unit). In the case of couples it is important to consider not only whether an individual’s disability has affected his or her own work history and retirement income but also its effect on the work history of the partner and on their combined income in retirement. It is possible that the effect of a disability which starts before age 65 is felt at least partly through the limitation it places on the ability of the disabled person’s partner to work and accumulate pension rights. Alternatively, it is possible that the family operates as an implicit insurance mechanism – that the partner of the disabled person may be prompted to take action to generate additional income to offset the loss of earnings caused by disability.

## **2 Survey data**

We use data are from the UK *Family Resources Survey* (FRS) spanning the three financial years April 2002 to March 2005. The FRS is a continuous cross-sectional survey, designed to be representative of UK private households, with a sample size of around 25,000 households each year. It collects detailed information on the personal characteristics, incomes, employment and pension scheme membership of all adults in the sampled households. For analysis at the individual level we distinguish two groups of people: those aged 65 and over and those aged 30-64 at the time of the survey interview. We exclude people under the age of 30 who are early in their working lives and for whom receipt of DLA is likely to be associated with rather different disabilities, possibly starting in childhood, from those suffered by older DLA recipients. There are 32,384 people aged 65 and over in the combined FRS sample, and 93,260 aged 30-64. For analysis at the benefit unit level, an ‘older’ unit is defined as either a single person aged 65 and over or a married

or cohabiting couple, where one or both partners are aged 65 and over (sample size = 24,623). ‘Younger’ benefit units comprise a single person or a couple where at least one adult is aged 30-64 and none is aged 65 and over (sample size = 55,038).

Although the FRS is not a longitudinal survey, it does contain retrospective questions which allow us to construct a measure of the length of time a person has spent in work. We summarise these work histories by expressing total years to date in full and part-time work (counting a year in part-time work as 50% of a year) as a proportion of working life. Working life is defined as the lower of current age and state pension age (60 for women, 65 for men) minus the age at which full-time education ceased. This proportion can exceed 100% for people who have worked beyond state pension age. For benefit units a corresponding calculation is made by dividing the partners’ combined years in work by their total working life.

For both individual and benefit unit analyses, income is defined as the total net income of the benefit unit, before disability and means-tested benefits. We use this income concept because we are interested in the underlying need for income supplements rather than the eventual income level reached under the current means-tested benefit system, which may change as a result of reform. This is an important point: much of the evidence adduced in official discussion of welfare reform is based on final income including disability and means-tested benefit. For example, in the 2010 “State of the Nation” report, it is pointed out that “over one in five of DLA claimants are in the top two income quintiles (when Disability Living Allowance is included in income and no account is taken of extra costs of disability)” (Cabinet Office 2010, p. 38). Such statements are dangerous because they create a presumption that benefit is often not meeting a genuine need, without asking what the claimant’s income position would be in the absence of benefit. Moreover, disability benefits are explicitly intended to promote independence by helping with the additional living costs experienced by disabled people – costs which make comparisons with the incomes of non-disabled people potentially misleading. In this quotation, the text in brackets is fundamental to the interpretation of the prior text, rather than a mere aside.

We adjust our measure of original income for the number of members of the benefit unit, using the modified OECD equivalence scale, which is used in the official “Households

Below Average Income” analysis.<sup>3</sup> Income is expressed in 2007 prices, adjusting by movements in the all-items Retail Price Index between the survey year and the financial year 2007/8.

### 3 DLA and work histories in the working age population

In the working age population, there is a clear difference between the proportion of past working time spent in employment for people receiving DLA and people not receiving DLA, and this difference varies with age. For people aged 55-64 at interview (Table 1), men on DLA have lost on average 16% more of their potential working years than men not on DLA; the difference is 10% for women.

**Table 1:** Average proportion of working life spent in work by current receipt of DLA, men and women aged 55-64

	Receiving DLA	Not receiving DLA
Men	75.1%	91.5%
Women	48.2%	57.9%

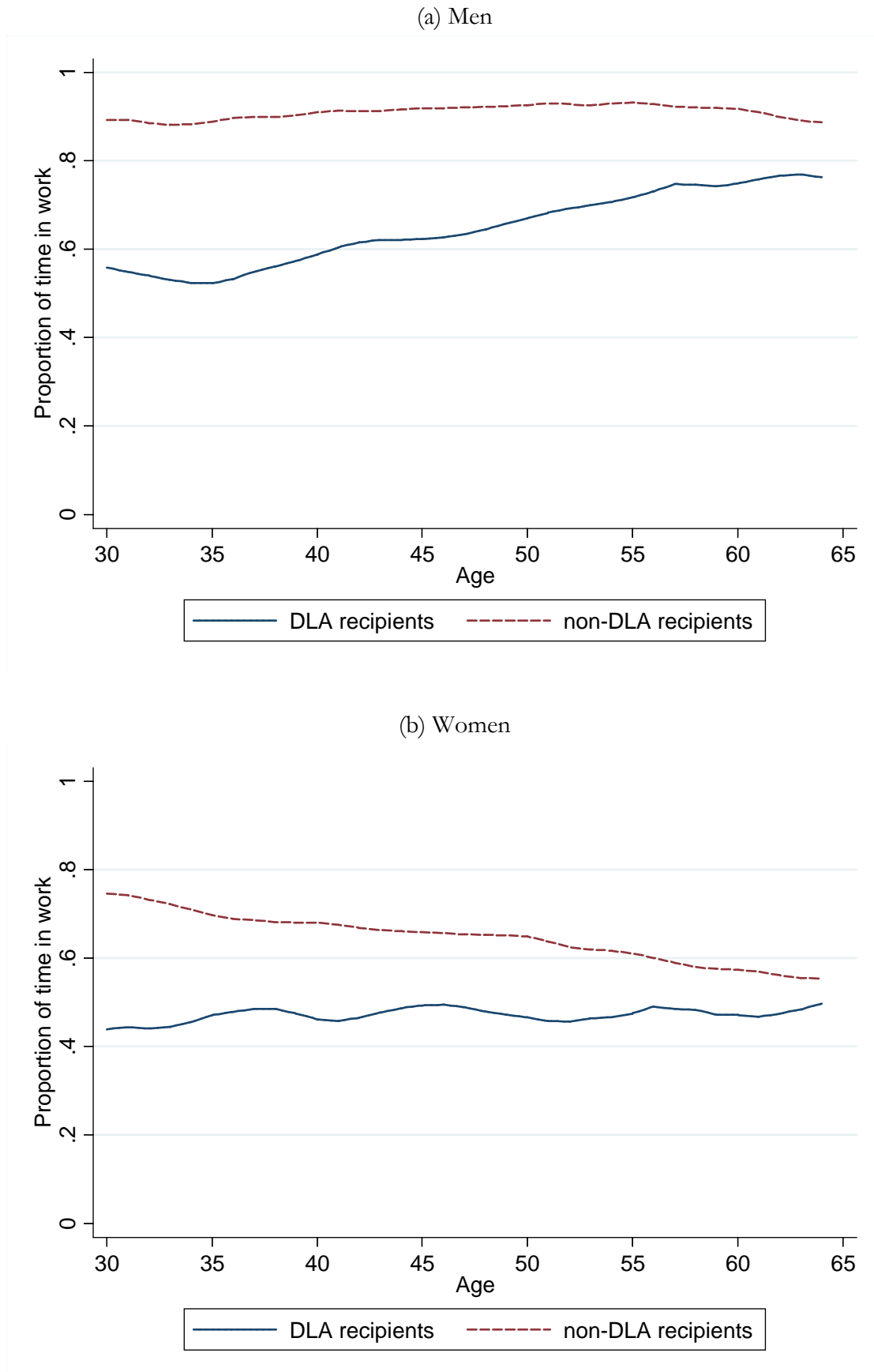
We use smoothed age profiles to adjust for possible differences in the age composition of the different groups. Smoothing is used here to reduce the ‘raggedness’ in the plots that is a consequence of random sampling from the population, without resorting to the use of arbitrary age bands.<sup>4</sup> Figure 1 shows that those who are observed to be DLA recipients at an early age tend to have a more interrupted employment history up to the point at which they are observed, and that the difference is larger for men than for women. However, note that receipt of DLA at an early age is uncommon: the proportions of working-age DLA recipients who are under 40 is 24% for men and 29% for women and, of the under-40s, only 4% and 6% respectively are on DLA.

<sup>3</sup> The modified OECD scale is the sum of 1 for the first adult, 0.5 for each subsequent adult or child aged 14 years or older, and 0.3 for each younger child.

<sup>4</sup> Smoothing is done using local linear least-squares regression (Cleveland 1979), using a tricube weighting function and a bandwidth of 0.1.



**Figure 1:** Proportion of working life spent in work by current age, men and women aged 30-64 (smoothed local linear regressions)



The preliminary conclusion therefore is that there does appear to be a significant disadvantage in terms of employment record for people who go onto disability benefits before age 65, relative to people who do not. However, note that the majority of non-DLA people will never go onto AA either, so the comparison of DLA versus non-DLA people pre-65 does not give us a direct comparison of the potential DLA and AA groups post-65. Figure 1 and Table 1 almost certainly overstate the difference between the work histories of DLA and AA recipients, since people who do eventually become AA recipients are quite likely to have lower incomes and less continuous work histories (and thus be more similar to DLA people) than people who never receive any disability benefit. This is partly because of the socio-economic health gradient that implies higher levels of disability among low-income people and partly because of the lower probability of claiming disability benefits found among high-income people (Pudney 2009, 2010).

#### **4 The composition of the over-65 population**

One of the considerations involved in comparing the AA- and DLA-recipient groups in the older population is the large difference, summarised in Table 2, in their demographic characteristics. DLA recipients are on average almost ten years younger than AA recipients, as a consequence of the earlier onset of disability among the DLA group. Higher mortality among people who enter old age already in receipt of DLA (and therefore already disabled) is also likely to be a factor. Note also that, although DLA was introduced only in 1992, prior to that date, AA could be claimed before age 65. All those on AA under 65 at that time were transferred onto DLA (West 1992), so there are some DLA recipients (around 10% of our DLA sample) who would have been over 65 in 1992.

A consequence of the lower average age of DLA recipients is that fewer of them are in single-person benefit units (42%, compared with 63% for the AA group) as a consequence of widow(er)hood. Because of these demographic differences, we present much of our descriptive analysis in age-specific form, over the 65-90 age range.

**Table 2:** Sample composition by benefit receipt

Population group		AA recipients <sup>1</sup>		DLA recipients <sup>1</sup>		No disability benefit	
		%	Mean age	%	Mean age	%	Mean age
Single-person benefit unit	Female	47.8	82.2	26.9	72.6	27.8	76.0
	Male	14.9	81.4	15.4	71.7	12.4	75.2
Member of couple	Female	16.8	77.3	24.8	69.7	26.4	71.7
	Male	20.5	78.7	32.9	70.0	33.4	72.7
All individuals		100.0	80.6	100.0	70.9	100.0	73.7

<sup>1</sup> All AA-DLA differences are statistically significant at the 1% level

## 5 Work histories of AA and DLA recipients in the older population

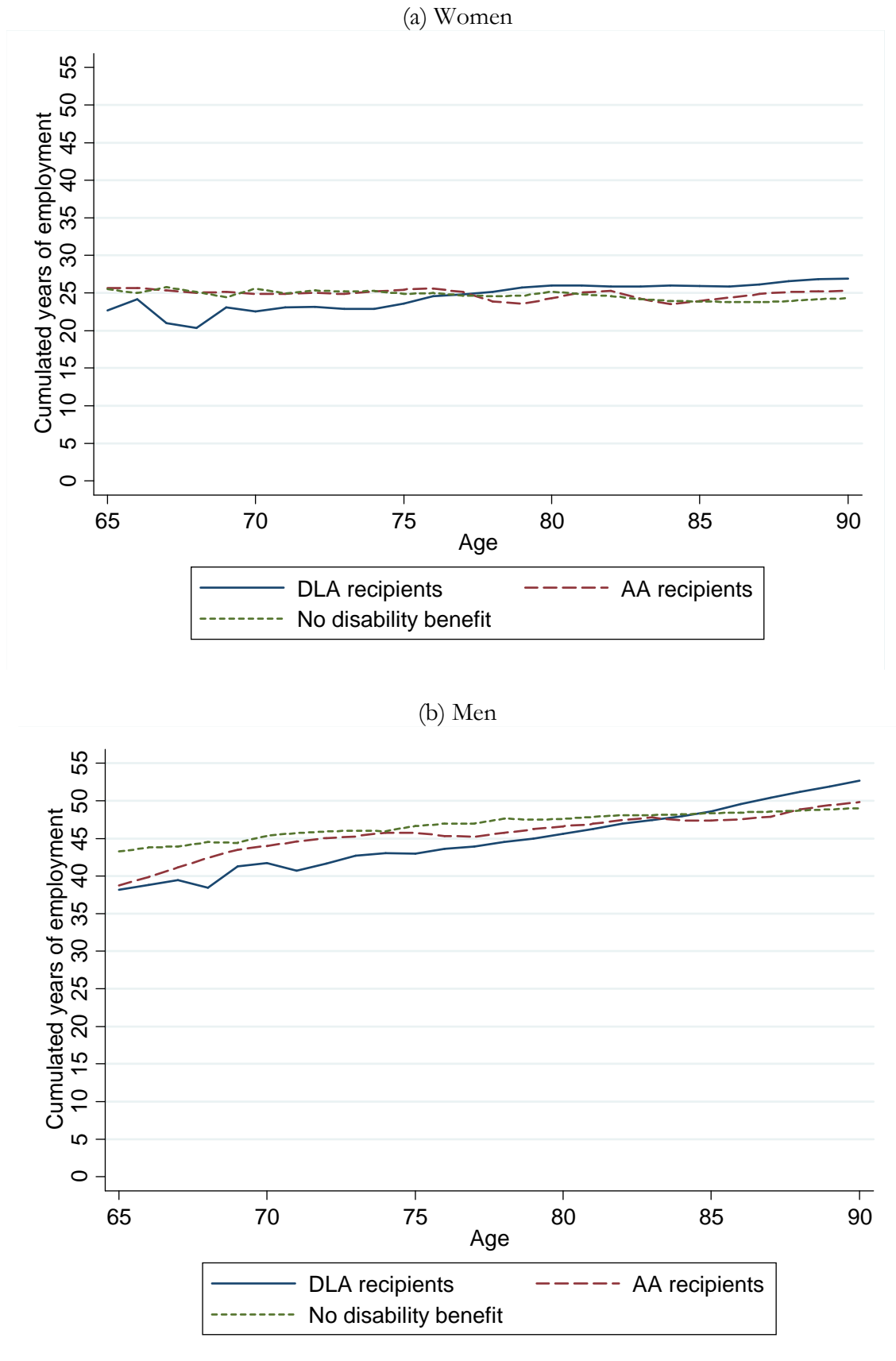
Perhaps surprisingly, the employment disadvantage suffered by DLA recipients relative to DLA non-recipients in the general population does not translate into a substantial difference in the lengths of employment cumulated by people who are observed to be AA or DLA recipients after age 65. Their mean employment durations are estimated to be 32.9 and 32.0 years respectively. Thus, AA recipients have, on average, spent only 2.6% longer in work than over-65 DLA recipients.<sup>5</sup> The corresponding mean duration for recipients of neither benefit is 34.8 years, so both disabled groups tend to have truncated employment histories relative to non-recipients.

Figure 2 uses smoothed age profiles<sup>6</sup> to adjust for possible differences in the age composition of different benefit groups, and this reveals some systematic differences. There is evidence of a lower total of years in work for the DLA group, for those cohorts who had not yet reached their eighties by the time of their FRS interview. The difference between the age-specific employment totals for the DLA and AA groups is around 2-3 years in this age range, amounting to roughly 5% for men and 10% for women. Among the relatively few over-80 DLA recipients, the difference is positive rather than negative.

<sup>5</sup> Although small, the difference is statistically significant (one-sided  $P$ -value = 0.034).

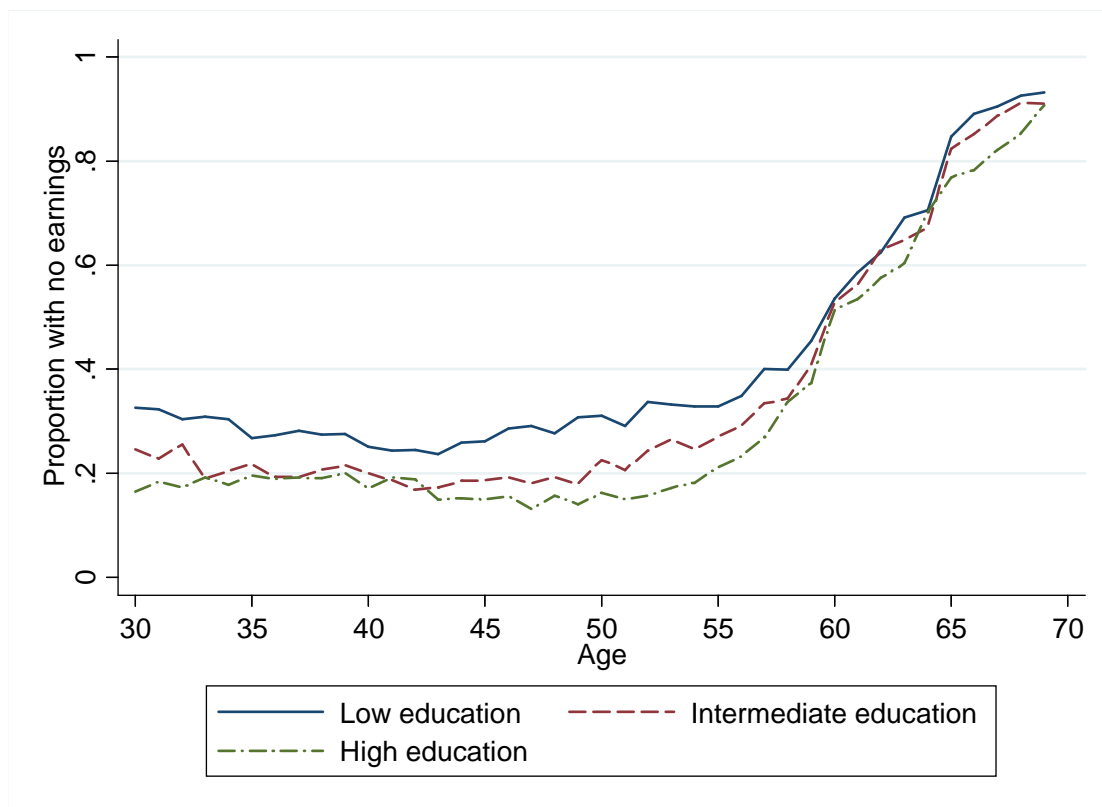
<sup>6</sup> We use a bandwidth of 0.1 for the relatively large non-DLA/AA group and 0.2 for the smaller DLA and AA groups.

**Figure 2:** Cumulated employment durations for individuals receiving DLA or AA, by age (smoothed local linear regressions)



Why do we observe this same truncated work history among AA recipients as among DLA-recipients? Although we cannot confirm this fully with available data, the short work histories of the AA group is largely the result of two processes which are strongly related to socio-economic status. For the cohorts we are interested in, people from lower socio-economic groups are more likely to have left employment before normal retirement age through open or disguised unemployment. This is evident among pre-65 FRS respondents, as shown in Figure 3, which plots by age the proportion of people with no current earnings as a proportion of their age/education group. Note that we are interpreting education here as an indicator of social position rather than a specific measure of skills or human capital. For the low-education group (with no more than compulsory minimum schooling) the non-employment rate is consistently above the rates for the intermediate and high education groups (1-3 and over 3 years of post-compulsory schooling respectively).

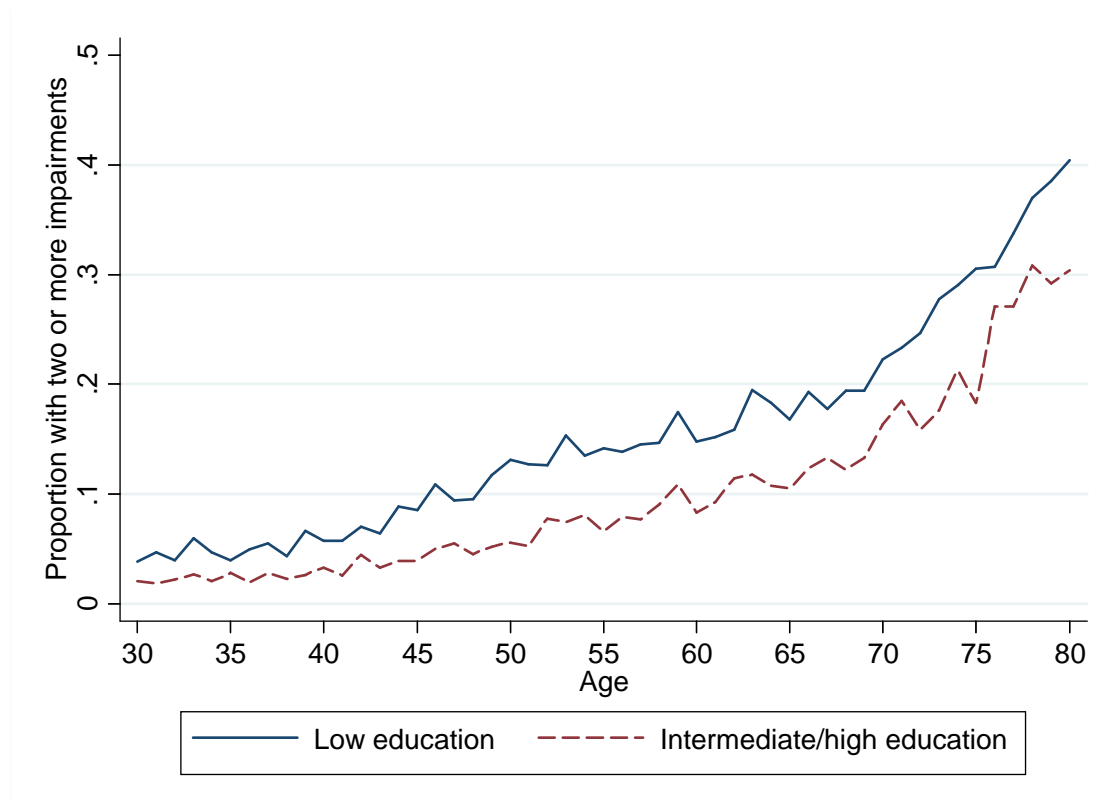
**Figure 3:** Non-employment rates by age and education among people not on DLA



A second factor which tends to bring the AA-recipient group in line with the DLA group is that the lower socio-economic groups are also characterised by a greater risk of disability at all ages and are thus more likely to be in need of disability support after age 65. The FRS allows us to say something about this, since it contains questions about eight possible

forms of disability-induced difficulties, covering various aspects of physical mobility, incontinence and cognitive function (see Pudney 2009). Figure 4 illustrates the socio-economic gradient in disability by plotting the proportion of non-recipients of DLA who perceive at least two of these difficulties, by age and education. There is a consistent positive difference between the disability rates between education groups at all ages.<sup>7</sup>

**Figure 4:** The incidence of disability by age and education among people not on DLA



## 6 Incomes of AA and DLA recipients in the older population

The lack of any substantial difference between the work history of an average AA recipient and an average DLA recipient suggests that there will be no major disadvantage for the DLA group relative to the AA group in income terms. Table 3 shows the mean income differences within categories defined by gender and benefit unit structure. There is no significant mean income difference for members of couples, a significantly lower income level for male single DLA recipients relative to comparable AA recipients, and a significantly higher level of income for DLA recipients overall.

<sup>7</sup> Since disability is relatively rare for some age-education groups, we combine the intermediate and high education categories into a single group.

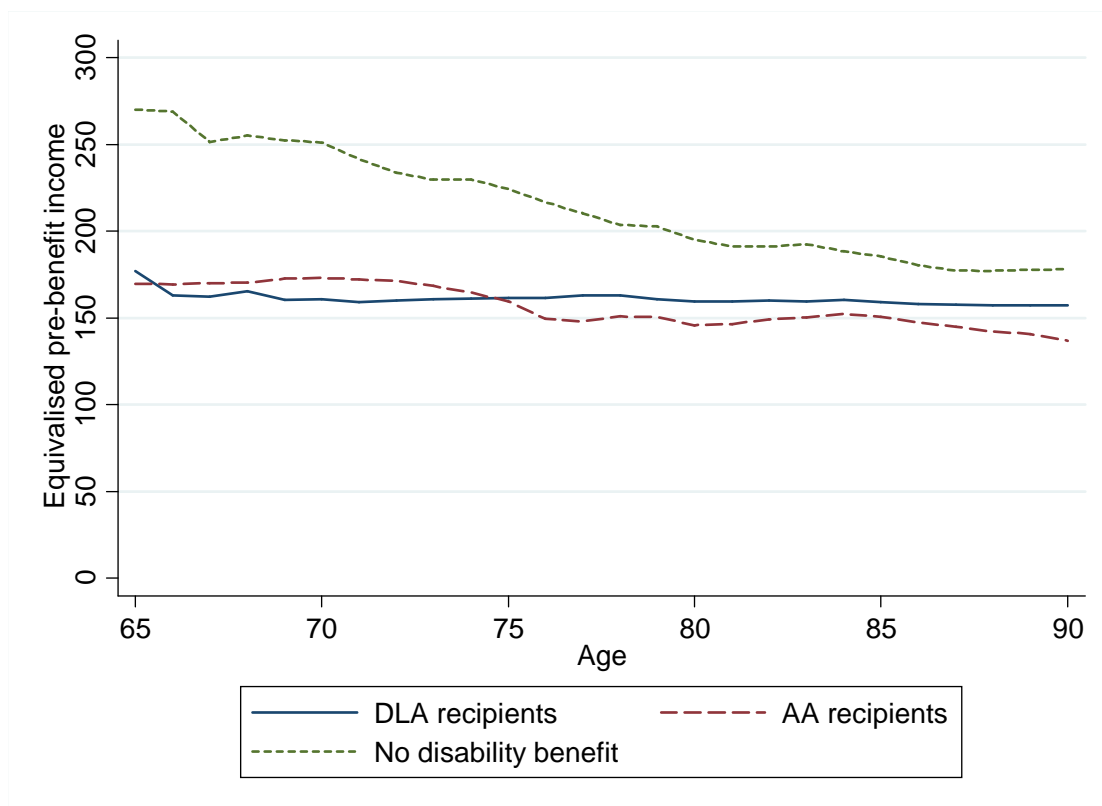
**Table 3:** Mean equivalised pre-benefit income by demographic group and disability benefit receipt (£, per week in 2007 prices)

Population group		AA recipients <sup>1</sup>	DLA recipients <sup>1</sup>	No disability benefit
Single-person benefit unit	Female	122.69	127.52	168.35
	Male	158.31**	137.11**	222.12
Member of couple	Female	167.07*	176.27*	245.04
	Male	169.64	175.70	258.88
All individuals		145.07***	156.91***	225.41

<sup>1</sup> Significance of AA-DLA mean income difference: \* = 10%, \*\* = 5%, \*\*\* = 1% level

However, such differences in mean income that we do find are largely driven by differences in the age composition of the two claimant groups, summarised in Table 2 above. Figure 5 adjusts for this by showing the age-specific average levels of pre-benefit weekly equivalised income for benefit units receiving DLA and those receiving some AA but no DLA. There is no substantial difference between the two groups.

**Figure 5:** Real equivalised pre-benefit income for benefit units receiving DLA or AA, by age of the oldest benefit unit member (smoothed local linear regressions)



The absence of a substantial difference between the incomes of DLA- and AA-recipients is a striking finding. The primary cause is the absence of a large difference between cumulated employment histories of the two groups, which we believe to be the outcome of underlying differences between social groups. A second relevant factor is that the size of the basic state pension is not very sensitive to the individual's number of years' employment, so the income penalty associated with an interrupted work history may, in any case, not be very large for the low-income benefit units among whom disability benefit receipt is most common. A third contributory factor is the difference in demographic characteristics between the AA and DLA groups: for example, there is a large difference in mean age and, within each age group, there are more single-pensioner benefit units among AA-recipients than among DLA-recipients.

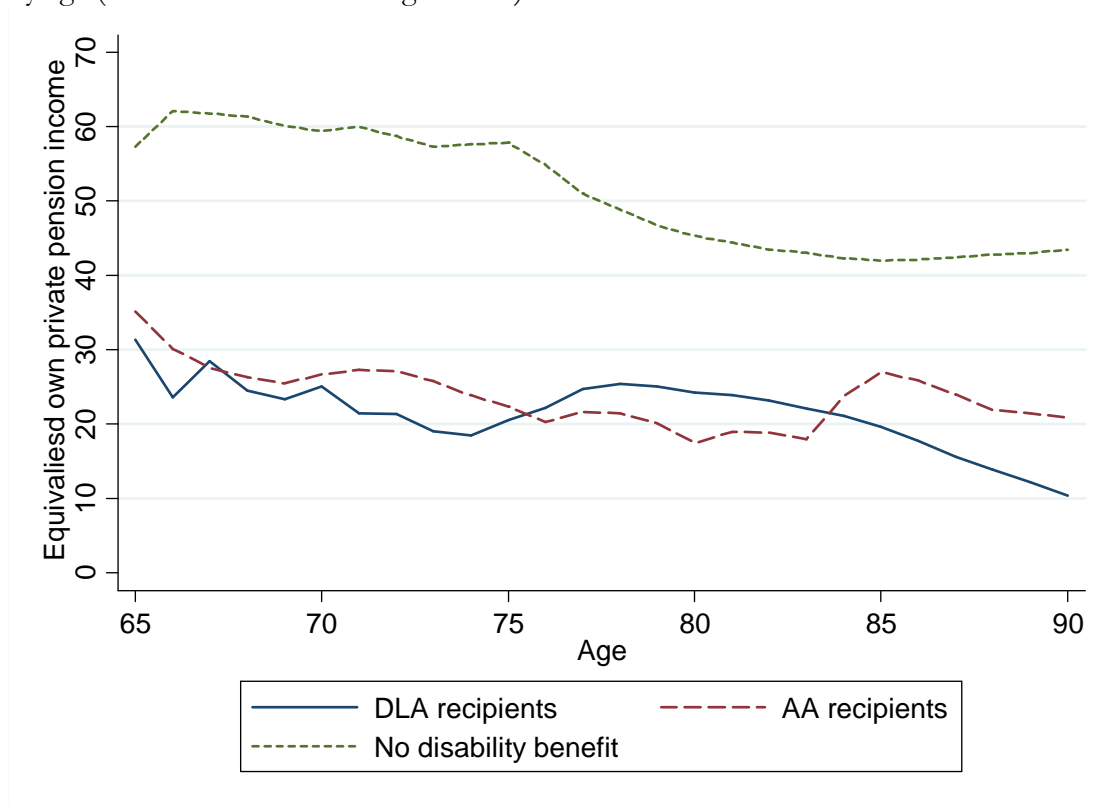
We now compare AA and DLA recipients in terms of their income sources. Interruptions to the employment history have different implications for the accumulation of state and private pension rights, so it is important to distinguish between the two, which we do in Figures 6 and 7, on an individual basis. For private pensions, we use the individual's own pension income, excluding any widow(er)'s pension (which represents benefit accrued by virtue of the partner's employment history, not the recipient's own employment history). We continue to work in terms of equivalised income, since that represents the individual's contribution to financial wellbeing of the family unit. Again we find very little difference between AA and DLA recipients, in terms of either state or private pension income. Both groups have much lower age-specific average amounts of private pension income than benefit non-recipients and there is remarkable uniformity in the mean amount of state pension income across all three groups.<sup>8</sup>

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<sup>8</sup> Note that the proportion of single-person benefit units rises with age, so the equivalisation of income largely explains the fact that mean amounts of state pension rise with age in Figure 5.



**Figure 6:** Own (equivalised) private pension income of individuals receiving DLA or AA, by age (smoothed local linear regressions)



**Figure 7:** Real (equivalised) own state pension income of individuals receiving DLA or AA, by age (smoothed local linear regressions)

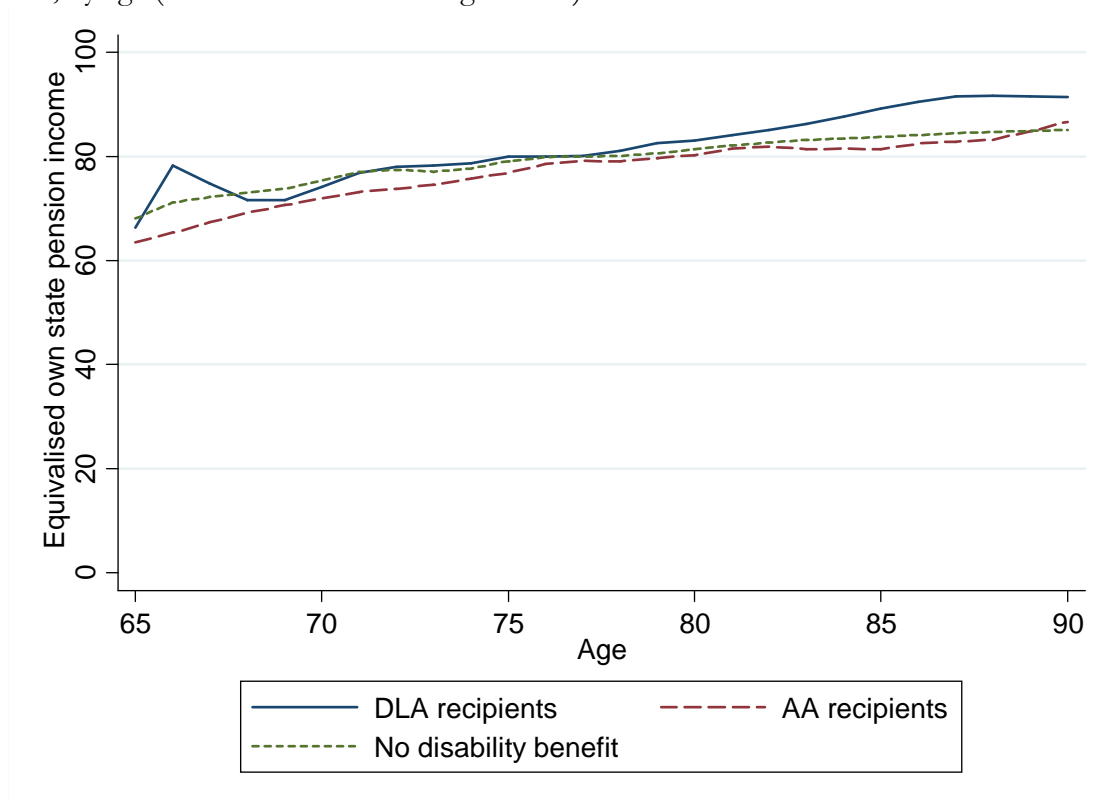
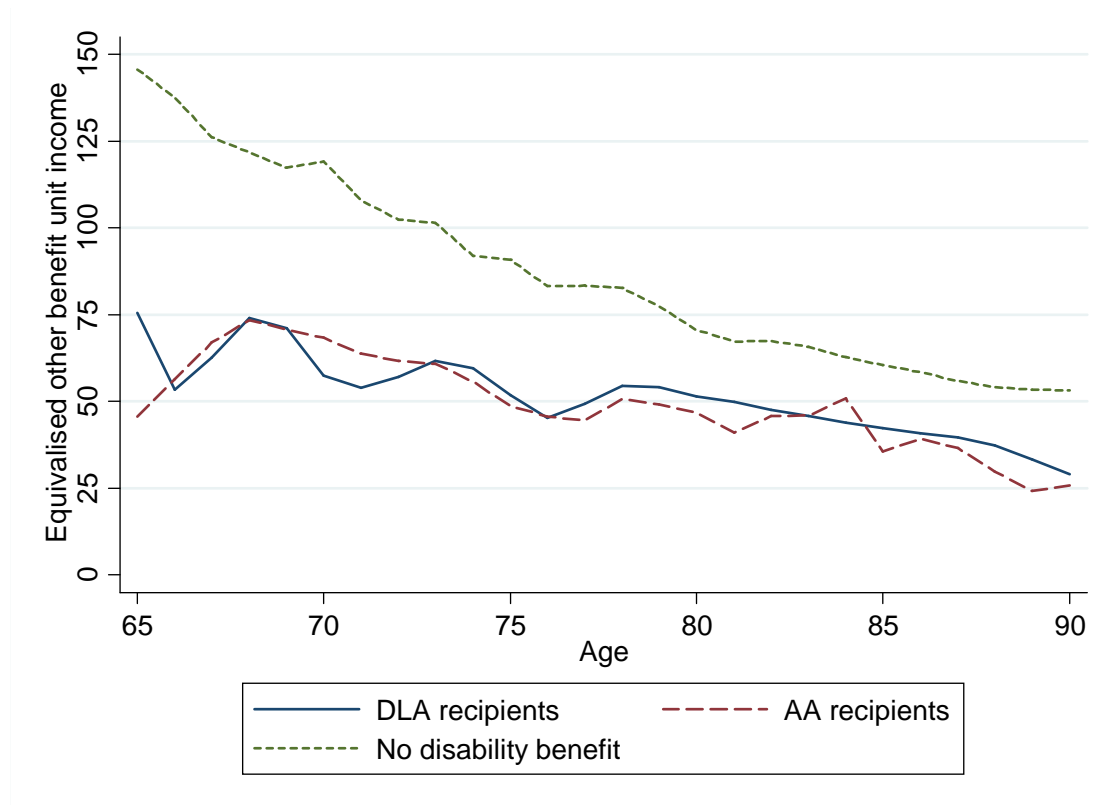


Figure 8 shows the age-specific mean levels of equivalised ‘other’ income, comprising the benefit unit’s total pre-benefit income less the pension income of the individual. These mean income residuals are plotted separately for AA and DLA recipients and all over-65 individuals who receive no disability benefit. Again, there is little difference between the AA and DLA groups, so there is no evidence here that DLA recipients are more dependent on a spouse’s income than are AA recipients. Note that the non-disabled group has a higher average level of ‘other’ income partly because this group has more non-pension income on average and also because there is a smaller proportion of single-person households in the non-claimant group (see Table 2).

**Figure 8:** Real (equivalised) benefit unit income excluding the individual’s own pension income, by DLA or AA receipt and age (smoothed local linear regressions)



## 7 Low income among AA and DLA recipients in the older population

It is possible that the similar average incomes of AA and DLA recipients may conceal large differences in the prevalence of low income within those groups. To examine this issue, we define low income to mean any case where the unit's pre-benefit income falls below the Guarantee Credit level, excluding premiums for disability and caring, embedded in the Pension Credit system.<sup>9</sup> Unless there were sufficient financial capital to disqualify the benefit unit from Pension Credit, low income in this sense would ensure eligibility for the principal means-tested benefit for older people. The first, very striking, finding from the FRS data is the greater prevalence (48% rather than 38%) of low income among AA recipients (Table 4).

**Table 4:** Prevalence of low income by demographic group and benefit receipt

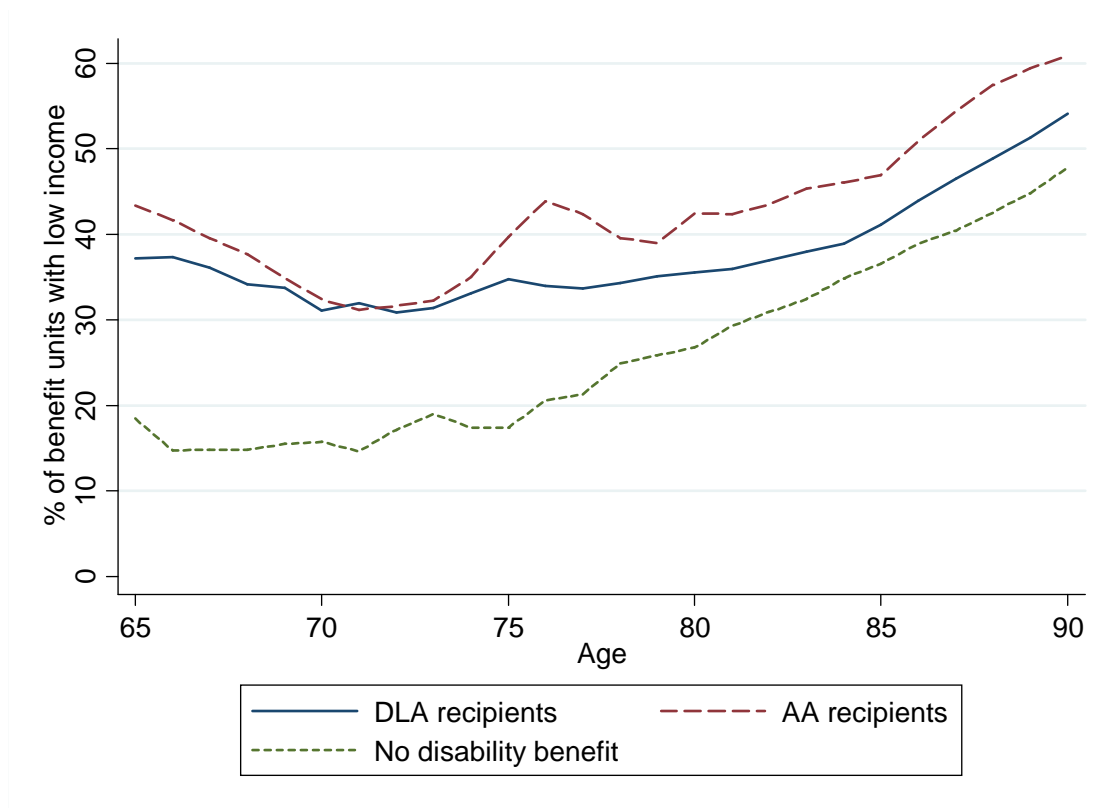
Population group		AA recipients <sup>1</sup>	DLA recipients <sup>1</sup>	No disability benefit
Single-person benefit unit	Female	61.7	58.6	40.2
	Male	41.6*	48.9*	23.5
Member of couple	Female	30.7**	24.9**	14.3
	Male	34.4***	27.0***	12.7
All individuals		47.9***	38.4***	22.1

<sup>1</sup> Significance of AA-DLA mean income difference: \* = 10%, \*\* = 5%, \*\*\* = 1% level

Figure 9 adjusts for differences in the age composition of the AA and DLA recipient groups by plotting age-specific prevalence rates of low benefit unit income. AA recipients experience substantially higher rates of income deprivation than DLA recipients in all age groups except the early seventies, where the two groups have almost identical rates of income deficiency.

<sup>9</sup> The relevant Guarantee Credit rates for April 2007 were £119.05 per week for single-person units and £181.70 for couples.

**Figure 9:** Prevalence of low benefit unit income, by DLA or AA receipt and age (smoothed local linear regressions)



## 8 Conclusions

In Britain, large numbers of older people receive one or other of two disability benefits: Disability Living Allowance (DLA) and Attendance Allowance (AA). Both groups have substantially lower levels of average pre-benefit income than the older population in general. Claims for DLA can only be initiated before age 65 but may be continued after that age, while AA is the only disability benefit available to people who become disabled after age 65. Consequently, it is often assumed that DLA recipients, with their earlier age of onset of disability and thus impaired earnings capacity in earlier life, must be in greater financial need than AA recipients. Recent reform proposals reflect this assumption and would treat less favourably people who would, under the present system, receive AA rather than DLA.

We have indeed found evidence of truncated work histories among over-65 DLA recipients, but the same is also true of AA recipients. Both groups have substantially shorter past employment records than the general over-65 population: a feature that seems to be linked to the negative socio-economic gradient in both health and employment. Contrary to the common assumption, we have not observed lower income among DLA than AA claimants. Despite the initiation of DLA claims at an earlier age, there is no compelling evidence to suggest that the two groups should be seen as distinct in terms of their mean income levels.

The incidence of income deprivation (defined here as a level of original pre-benefit income below the government's guaranteed minimum income level) is much higher for the DLA- and AA-recipient groups than for the over-65s in general. Surprisingly, we find the income deprivation rate to be even higher for AA- than for DLA-recipients, despite their similar average income levels. As a consequence, any reform of the system of disability benefits for older people which treats AA as a lower priority for public expenditure than DLA seems to be on weak evidential ground.

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