



2006 Benefit Uprating

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This note sets out the basis for the April 2006 uprating of the main social security benefits. It focuses on the Retirement Pension and Pension Credit but also contains a summary of the main benefit and tax credit rates before and after the uprating. It takes account of the Pre-budget Report of 5 December 2005 and the benefit uprating statement made on 6 December 2005.

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A. Introduction

The uprating of social security benefits from April 2006 is based on inflation in the year to September 2005. This means that many state benefits such as Incapacity Benefit, Child Benefit, and Disability Living Allowance will be uprated by 2.7% (the increase in the RPI in the 12 months to September 2005) and means tested benefits by 2.2% (the increase in the “Rossi” index – the RPI less certain housing costs, namely less rents, mortgage interest payments, council tax and depreciation costs.).¹

The September RPI is also used in the formula governing the basic state pension, which was set out in the 2004 Budget Report. This specified that the basic state pension will continue to

¹ In practice, because of rounding, the rates of some individual benefits will not change by exactly these factors.

rise each April by 2.5 per cent or the increase in the retail prices index for the previous September, whichever is higher.

The Government is committed to increasing the rates for the guarantee part of Pension Credit in line with average earnings. The relevant factor is 4.2%. The savings elements of the credit rise in line with the Retirement Pension.

B. Retirement Pensions

An inflation-based increase to the basic state retirement pension of 2.7% is greater than the 2.5% minimum. It will result in the single rate rising by £2.20 pw and the married rate by £3.55 pw.

The single weekly pension rate will increase from £82.05 to £84.25 and the couple rate from £131.20 to £134.75.

If the uprated pension had been linked to earnings this year the single rate in April 2005 would be £85.50 pw and the couple £136.70pw. (based on a 4.2% increase in the “headline” rate of average earnings to July 2005²)

C. Minimum Income Guarantee/Pension Credit

The Government is committed to increasing the minimum income guarantee for pensioners by the increase in average earnings.³ From October 2003 this has been delivered through the guarantee part of the Pension Credit, which the Government has confirmed will increase in line with earnings. This year the relevant factor is 4.2%.

The basic level of the MIG increased with age, as Income Support had previously, in April 1999 and April 2000, as IS for pensioners had done in previous years. However, from April 2001 the MIG was simplified into one rate for all those over 60. The level of the guarantee from April 1999, to April 2006 and the previous rates of IS for pensioners are shown in the following table:

² ONS *Monthly Digest of Statistics* Oct 2004 Table 18.15

³ see HC Deb 6 6 2000 c223W for basis of earnings uprating factor - 3 month avg change in average earnings to previous July "headline" rate, as published in the ONS *Monthly Digest*

a. Income Support/Minimum Income/Pension Credit Guarantee – 1997 to 2006

<i>£pw</i>	Apr-97	Apr-98	Apr-99	Apr-00	Apr-01	Apr-02	Apr-03	Apr-04	Apr-05	Apr-06
Single 60-74	68.80	70.45	75.00	78.45)						
Single 75-79	71.00	72.70	77.30	80.85)	92.15	98.15	102.10	105.45	109.45	114.05
Single 80 or over	75.70	77.55	82.25	86.05)						
Couple one or both 60- 74	106.80	109.35	116.60	121.95)						
Couple one or both 75-79	109.90	112.55	119.85	125.35)	140.55	149.80	155.80	160.95	167.05	174.05
Couple one or both 80 or over	115.15	117.90	125.30	131.05)						

From October 2003 the MIG has been paid as the “guarantee” part of the Pension Credit.

D. Social Security Benefit rates 2006-07

The following table sets out selected benefit rates before and after the April 2006 uprating:

	Apr-05	Apr-06			
Attendance Allowance			Couple		
Higher rate	60.60	62.25	both 18+	88.15	90.10
Lower rate	40.55	41.65	Dependent child <16	43.88	45.58
			Premiums		
			Family	16.10	16.25
			Carer's Allowance	45.40	46.95
Child Benefit⁴			Jobseekers Allowance		
Only/elder/eldest child	17.00	17.45	Contribution based		
Subsequent child(ren)	11.40	11.70	Under 18	33.85	34.60
			18-24	44.50	45.50
			25+	56.20	57.45
Disability Living Allowance			Pension Credit		
Care component			Standard minimum guarantee		
Highest	60.60	62.25	Single	109.45	114.05
Middle	40.55	41.65	Couple	167.05	174.05
Lowest	16.05	16.50	Retirement Pension		
Mobility component			Single	82.05	84.25
Higher	42.30	43.45	Couple	131.20	134.75
Lower	16.05	16.50			
Incapacity Benefit					
Long term	76.45	78.50			
Short term					
Lower	57.65	59.20			
Higher	68.20	70.05			
Income Support					
Personal allowances					
Single 18-24	44.50	45.50			
Single 25+	56.20	57.45			

⁴ This is not a DWP benefit but is included in this table for convenience

E. Tax Credits

Under the *Tax Credits Act 2002* the Treasury is required to review the levels of tax credit elements on an annual basis ‘in order to determine whether they have retained their value in relation to the general level of prices in the UK as estimated by the Treasury in such a manner as it considers appropriate’⁵ The expectation was that the basic working tax credit will be reviewed in line with prices and the child tax credit in line with earnings.⁶ The childcare element is not to be linked so directly as these costs do not necessarily follow the same trends. Their updated levels announced by the Treasury at the 2005 Pre-Budget Report are as follows:

a. Working and Child Tax Credits rates 2006-07

£ per year (unless stated)	2005-06	Change	2006-07
Working Tax Credit			
Basic element	£1,620	+£45	£1,665
Couple and lone parent element	£1,595	+£45	£1,640
30 hour element	£660	+£20	£680
Disabled worker element	£2,165	+£60	£2,225
Severe disability element	£920	+£25	£945
50+ Return to work payment (16-29 hours)	£1,110	+£30	£1,140
50+ Return to work payment (30+ hours)	£1,660	+£45	£1,705
Childcare element of the Working Tax Credit			
Maximum eligible cost for one child	£175 per week	-	£175 per week
Maximum eligible cost for two or more children	£300 per week	-	£300 per week
Percentage of eligible costs covered	70%	+10%	80%
Child Tax Credit			
Family element	£545	-	£545
Family element, baby addition	£545	-	£545
Child element	£1,690	+£75	£1,765
Disabled child element	£2,285	+£65	£2,350
Severely disabled child element	£920	+£25	£945
Income thresholds and withdrawal rates			
First income threshold	£5,220	-	£5,220
First withdrawal rate (per cent)	37%	-	37%
Second income threshold	£50,000	-	£50,000
Second withdrawal rate (per cent)	6.67%	-	6.67%
First threshold for those entitled to Child Tax Credit only	£13,910	+£245	£14,155
Income disregard	£2,500	+£22,500	£25,000

⁵ Section 41(1)

⁶ Committee Stage of the Tax Credits Bill in the Lords 23 May 2002 c CWH 143

While most of the elements rose by inflation, the child element of Child Tax Credit (CTC) increases in line with average earnings. The family element (normal and baby addition) remains frozen at £545 per year. The maximum eligible childcare costs remains at £175 for one child and £300 for two or more children but the percentage of eligible childcare costs increases from 70 per cent to 80 per cent. The disregard in Tax Credits for increases in income between one tax year and the next rises from £2,500 to £25,000 from April 2006.

F. Links

DWP table for all benefits before and after the 2006 uprating:

http://www.dwp.gov.uk/mediacentre/pressreleases/2005/dec/ben_rates.pdf

DWP Press Notice on 2006 Uprating

<http://www.dwp.gov.uk/mediacentre/pressreleases/2005/dec/bens-061205.asp>

2005 Uprating statement by (HC Deb 6 Dec 2005 c-)

(Link will be inserted here once it is available on the Parliament website)

HM Treasury Pre-Budget Report Press Notice 2 *Income Tax Allowances, NI contributions, and Child and Working Tax credit rates 2006-07* (includes tax credit and child benefit rates)

http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/press_notices/prebud_pbr05_press02.cfm

Earlier notes:

This note is the latest in a series covering upratings since 1999; Links to the earlier ones are as follows:

Uprating taking place in April:	Library Standard Note Link:
1999	http://hcl1.hclibrary.parliament.uk/notes/sgss/snsg-00195.pdf
2000	http://hcl1.hclibrary.parliament.uk/notes/sgss/snsg-00300.pdf
2001	http://hcl1.hclibrary.parliament.uk/notes/sgss/snsg-00577.pdf
2002	http://hcl1.hclibrary.parliament.uk/notes/sgss/snsg-01715.pdf
2003	http://hcl1.hclibrary.parliament.uk/notes/sgss/snsg-01969.pdf
2004	http://hcl1.hclibrary.parliament.uk/notes/sgss/snsg-02781.pdf
2005	http://pims.parliament.uk:81/PIMS/Static%20Files/Extended%20File%20Scan%20Files/LIBRARY_OTHER_PAPER/S/STANDARD_NOTE/snsg-03275.pdf
