Reforming Disability Insurance in the UK: Evaluation of the Pathways to Work Programme

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Abstract

From October 2003 the UK piloted a major reform, called 'Pathways to Work', to the Disability Insurance system in place in the UK. This programme both provides greater support (financial and non-financial) and imposes greater obligations to encourage new claimants of incapacity benefits to move into paid work. Using a difference-in-differences methodology the programme is found to accelerate the rate of outflow from Disability Insurance benefits, but only for individuals who would have left the benefit rolls in less than a year in any case. On the other hand, the programme has a positive impact on employment that is still evident 18 months after the start of their benefit claim. Our preferred explanation for these results is that women who would have left benefit anyway but not returned to paid work, are now returning to employment because of the programme. Using a cost-benefit analysis based on simulating the effect of the policy on incapacity benefit recipients and micro-simulating the tax and benefit system, we find that the programme exhibits positive financial gains for both the individuals and the government, even under conservative assumptions.

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Like many developed countries, especially in Europe, the United Kingdom has seen a large increase in the 1980s in the number of recipients of the various Disability Insurance (DI) schemes successively available. From 3% of the working age population, the number of claimants of these schemes peaked at 7% in 1995. Whereas the unemployment rate was continuously falling during the 1990s, the trend of DI recipients seemed inexorably increasing, moving reforms of the DI schemes to the top of the policy agenda. Reforms were enacted in 1995, 2001, 2003 and 2008, while the newly-elected Coalition Government has announced another major reform to the way disability benefits are awarded in the UK.

The UK is not alone in fearing a "fiscal crisis" from the large increase in incapacity benefits. Countries in Northern Europe, like Sweden, Denmark, the Netherlands or Norway, have experienced even higher prevalence of disability programmes, while the debate in the US about the fiscal sustainability of the Social Security Disability Insurance (SSDI) continues to receive a lot of attention. Most of the academic debate has thus far been focused on the likely causes behind the increase in DI claimants. Given the general view that average health has been improving markedly in developed countries, most analyses have stressed the likely impact of the screening process, the generosity of disability benefits relative to unemployment benefits and the deterioration of labour market opportunities for the unskilled population.[2] The common thrust of these studies is that disability programmes have become less tightly targeted on medical impairments and have shifted towards being long-term unemployment schemes rather than proper disability insurance schemes.

Among the possible policy responses to these developments, reinforcing the screening process and reducing the level of benefits have generally been highlighted, while policies aiming at raising the exit rate out of DI have generally been considered ineffective (Autor and Duggan 2006). For instance, the US programme "Ticket-to-Work", which subsidised access to employment support schemes for SSDI claimants, does not appear to have fostered many returns to work (Thornton et al. 2007). After having toughened significantly the screening process in 1995, UK policymakers decided to launch in 2003 an ambitious programme called "Pathways to Work",

[2] See Bound and Burkhauser (1999) for a survey. The efficiency of the screening process has been discussed extensively during a well-known debate between Parsons (1980, 1991) and Bound (1989, 1991). More recent studies have stressed the impact of benefit levels (Gruber 2000) and the labour market opportunities (Disney and Webb 1991, Autor and Duggan 2003). Karlstrom et al. (2008) assess the impact of stricter rules for eligibility of DI in the Swedish context.

aimed at increasing the exit rate out of DI. Although the name and objectives of the scheme are very similar, the UK scheme differs substantially from the US Ticket-to-Work programme by insisting on conditionality and increased incentives. It includes mandatory work-focused interviews and financial incentives to return to work as well as an array of schemes focusing on disabled individuals. The scheme focuses on new claimants, the idea being to intervene early, when DI claimants are still not too detached from the labour market.

The Pathways to Work programme, hereafter 'Pathways', has been subjected to a very intensive evaluation process. The scheme was piloted in some areas before being progressively phased in across the rest of the country. The Department for Work and Pensions (DWP) commissioned independent institutes to run a full-scale evaluation of the program, with both qualitative and quantitative studies, the collection of surveys before and after the implementation of the program, as well as the use of all administrative data available.[3] This paper presents the quantitative evidence on the economic impact of the programme, using data from the initial pilot areas. Using a difference-in-differences methodology, we compare labour market participation, hours of work, earnings, health and benefit receipts for individuals in areas where the programme was implemented with claimants in areas with similar labour markets. We find a significant impact on the probability of returning to work – 5.8 percentage points 18 months after the start of the claim – and an increase in the rate of exit from the DI scheme peaking 6 months after the claim, but fading away by 12 months. Although the employment effect seems to be long-lasting, the impact on benefit outflows is limited to duration claims less than a year. We present evidence suggesting that these apparently puzzling results can be explained by the dynamic process of IB claims. The individuals who have gone back to work because of Pathways would have left the DI scheme in less than a year anyway but would not have returned to the labour market. The programme seems to have had most impact on women living with a partner who have suffered some physical incapacity. Without the programme they would have left IB but remained out of paid work.

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[3] The evaluation has been led by the Policy Studies Institute and also comprises the Institute for Fiscal Studies, Mathematica, the National Centre for Social Research, the Social Policy Research Unit, and David Greenberg of the University of Maryland, Baltimore County. The results of the evaluation of the programme have been published in numerous DWP reports (for the quantitative evaluation, see for instance Adam et al. 2006, Bewley et al. 2007, Adam et al. 2008, Bewley et al. 2009, Adam et al. 2009, summarized in Dorsett 2008).

When discussing the optimal design of programmes targeted on people with disabilities, the economics literature has largely focused on the appropriate level of benefit and the stringency of the screening test. This study shows that active labour market schemes could have an impact on the ability of individuals with disabilities to return to work, quite separate from their benefit receipt status. This suggests that there is value for both research and policy design to pay increased attention at the way individuals with health impairments could continue or return to paid work.

The paper proceeds as follows. In section 1, we describe the DI scheme in place in the UK at the time of the reform and section 2 presents the measures implemented with Pathways. Section 3 describes the experiment setting, the data and the methodology, while the results are presented in section 4. Section 5 discusses a careful cost-benefit analysis and section 6 concludes.

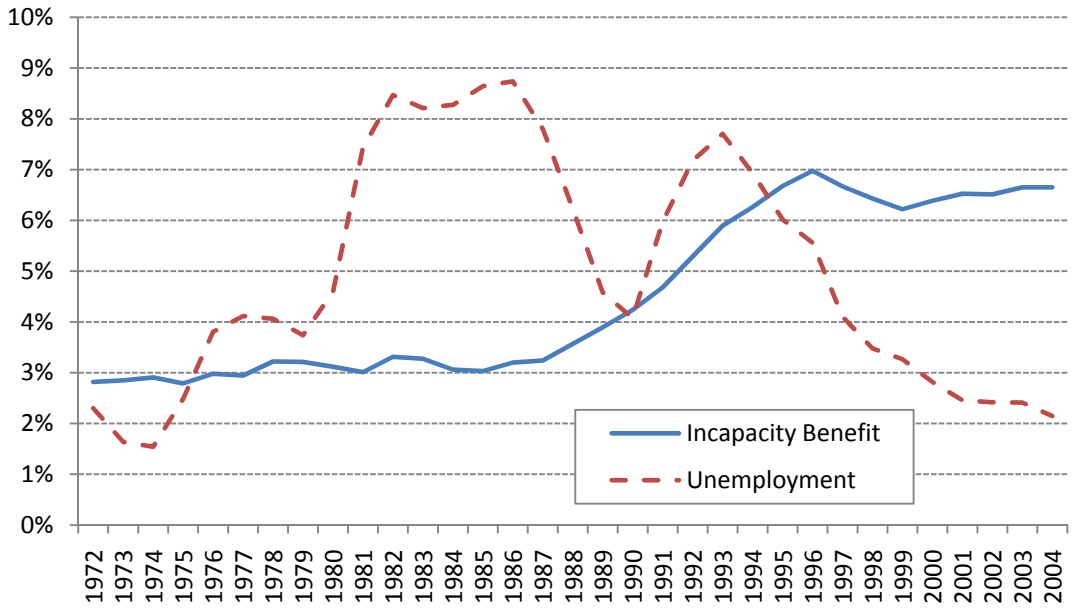
1. The UK Disability Insurance system and the Pathways reform

Disability Insurance in the UK shares many of the characteristics of DI schemes around the world, but it has also some defining features inherited from its origin, that is worth recalling from the outset.[4] In 1948 the welfare system put in place in the UK largely followed the design of the Beveridge report. It relied on an insurance principle, whereby eligibility to benefits was determined by contribution requirements, but benefits were not earnings related, contrary to the US SSDI or examples in Continental Europe. At first the coverage for disability was not distinguished from short-term sickness, and only duration of claim could distinguish the long-term sick, i.e. the disabled, from the short-term sick. In 1971 Invalidity Benefit (IVB) was split from Sickness Benefit but still followed the structure inherited from the previous scheme, whereby entry to IVB would be offered to those who had been on sickness benefits for longer than 28 weeks. The screening process at the time relied on a medical assessment, by a personal doctor, of the ability to conduct its "own occupation". The number of claimants increased slowly until the mid-1980s for the older workers, when a sharp increase of IVB recipients was registered for all age groups. One can see in Fig. 1 the number of IVB recipients as a share of the working age population rising from 3% in 1985 to close to 7% in 1995.

[4] See Banks, Blundell, Bozio and Emmerson (2010) for further details on the history of DI schemes in the UK.

In 1995 a reform was introduced which replaced the IVB scheme with the Incapacity Benefit (IB). The IB scheme strengthened the screening process by replacing the "own occupation test" by an assessment of the ability to work "in any occupation". The medical screening was also removed from personal doctor to be executed by medical staff at the regional level and commissioned by the DWP administration. The growth rate of the IB roll was stopped, even slightly reversed but the stock remained high, especially for younger individuals. In 2001 another reform was enacted to reduce the generosity of the scheme, without much noticeable effect and in 2003 still more than 6% of the working aged British were receiving IB. It is in that context that the Government decided to pilot an ambitious programme to incentivize IB claimants to return to work.

Fig. 1.1 IVB/IB recipients and unemployed as a share of the working age population



Note: IV/IB claimants' data from Anyadike-Danes and McVicar (2007), unemployed from NOMIS, working age population from Family Expenditure Survey.

2. The Pathways to Work programme

The Pathways to Work programme is aimed at encouraging employment among people claiming various disability related schemes, described in the UK under the term "incapacity benefits". It includes Incapacity Benefit (IB), the main DI scheme, and Income Support (IS) on grounds of disability, a means-tested benefit targeted towards low income individuals.

Pathways was introduced as a response to the large increase in the numbers claiming incapacity benefits. At the time of the 2002 Department for Work and Pensions (DWP) Green Paper 'Pathways to Work: helping people into employment', there were roughly 2.7 million claimants: more than the combined total number of unemployed people claiming unemployment benefit, Jobseeker's Allowance (JSA), and lone parents claiming IS. The overwhelming majority of people starting an incapacity benefits claim say they expect to work again (Woodward et al., 2003). Many do – in 2004, almost 60 per cent left benefit within a year. However, for those who remain on benefit beyond this point, the chances of leaving declines markedly – 29 per cent will still be claiming after another eight years (DWP, 2002).

Pathways programme relies on the idea that there are only limited gains, especially in terms of increased employment, to be expected from a further tightening of the screening process to incapacity benefits. Instead, the programme provides greater support and imposes greater obligations to encourage claimants of incapacity benefits to move into paid work. A key aim of the programme is to intervene early so as to reduce the incidence of prolonged benefit dependency.

Pathways consists in three main elements, mixing support for the disabled, financial incentives and increased monitoring of their effort to return to the labour market.

2.1 Mandatory work focused interviews

First the programme mandates incapacity benefits claimants, aged between 18 and 59, to attend an initial work-focused interview eight weeks after making their claim. These are carried out by specially trained IB personal advisers. Failure to comply with this requirement can result in benefits sanctions, although these have been rare in practice. Most people remaining on incapacity benefits must attend five further interviews at approximately monthly intervals. In non-Pathways areas, in contrast, only the initial interview is required. There are two groups of people for whom the five additional work-focused interviews are not required: those with particularly severe medical conditions and those judged likely to return to work without additional help.[5] However, they could still participate on a voluntary basis.

[5] The requirement of five further interviews was cut to three for existing claimants when the programme was extended to them.

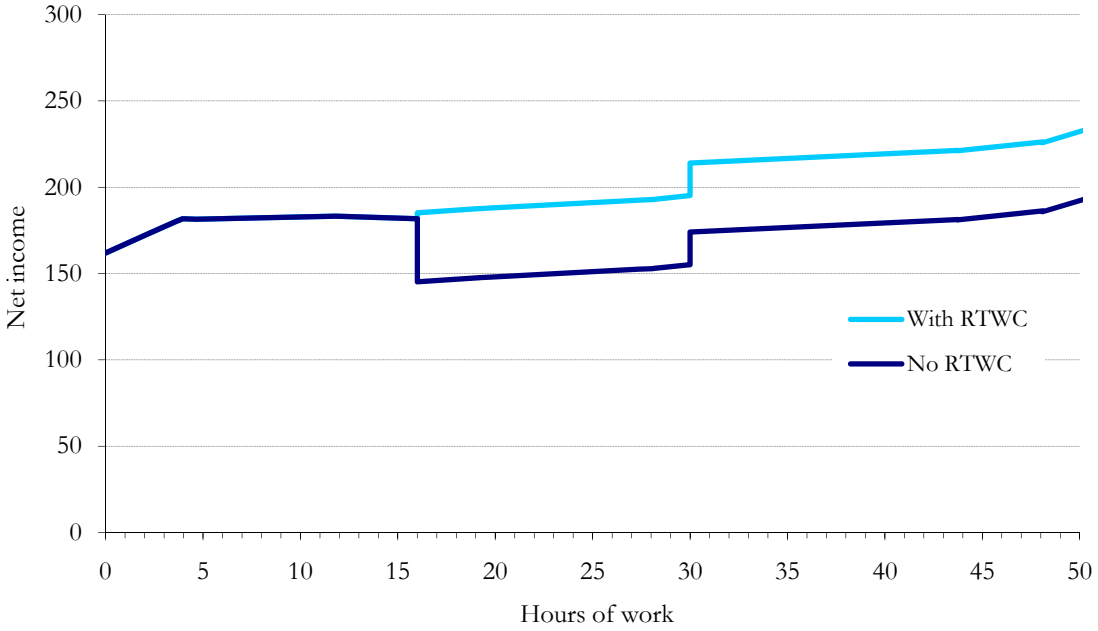
Those exempted on the basis of the severity of their medical condition are identified through a medical assessment called the "personal capability assessment". Under Pathways, the aim is to fast-track this process to take place within 12 weeks of making the initial claim so the results are available by the time of the second interview. Those exempted from further participation on the grounds that they are likely to return to work without the need for any assistance are identified during the first interview using a 'screening tool'. This consists of a questionnaire, the answers to which are used to rate the probability of an unassisted return to work within 12 months. Those with the most extreme illness or disability are exempted from the entire process, i.e. from both any additional work-focused interviews and from the personal capability assessment.

2.2 Financial incentives to return to work

Second, the programme offers financial incentives to return to work in the form of the Return to Work Credit (RTWC). It offers Pathways participants, who have claimed IB for at least 13 weeks and found work of at least 16 hours a week, a payment of £40 per week for a year if their gross annual earnings are below £15,000. The RTWC is a significant part of the programme representing about 40% of its total cost. Its impact on incentives is relatively straightforward: it provides a stronger financial incentive to be in receipt of an incapacity benefit for at least thirteen weeks and then to work at least 16 hours a week (but no additional incentive to work for more than 16 hours per week) for an expected annual salary of no more than £15,000. This could lead to a range of outcomes. First, the RTWC could lead to some individuals remaining on incapacity benefits for thirteen weeks or longer who would otherwise have left benefits sooner. Second, they could lead to some individuals choosing to work 16 hours a week or longer who would otherwise have not. Third, they could lead to individuals expecting to earn no more than £15,000 a year when previously they would have expected to earn a greater amount.

What is not straightforward, however, is the overall financial incentive to enter work – taking into account not just the RTWC but also other taxes, benefits and tax credits – faced by claimants of incapacity benefits. Figure 1.2 shows, as an illustration, the budget constraint facing of a single individual without children if she is assumed to lose all disability-related entitlements at the same time as losing entitlement to IB. This would be the case if, for example, an improvement in health led immediately to them moving into paid work (for example if they were returning to a job that had been held open to them) or if they continued to receive IB between their health improving and moving into paid work.

Fig. 1.2 Illustration of the impact of RTWC on the budget constraint of a single individual without children receiving IB



Note: Budget constraint in 2006–07 for example IB recipient: single individual without children, minimum wage, with no disability-related entitlements unless receiving IB.
Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN (Giles and McCrae 1995).

Figure 1.2 shows a sharp fall in income at 16 hours of work in the absence of the RTWC.[6] Thus an individual moving off IB and into paid work of 16 hours or more as her health improves loses her IB. In this example, she would be worse off working part time than when she was on IB. Receipt of the RTWC changes this, though it is still only work of 30 hours or more (which confers entitlement to Working Tax Credit, albeit without the disability element) that shows any significant financial reward. This example is one illustration among many of the interactions with the rest of the tax and benefit system that is likely to alter the overall work incentives of the scheme.

[6] This is because people without children must work 30 hours a week to qualify for Working Tax Credit if they do not qualify on grounds of disability, but only 16 hours if claiming on grounds of disability.

2.3 Voluntary schemes to improve work readiness

The third component of Pathways is a package of bespoke schemes called 'Choices'. Participants to the programme have been offered to voluntary join a range of new and existing schemes aimed at improving labour market readiness and opportunities. The two main programmes within Choices are the (pre-existing) New Deal for Disabled People (NDDP) and the (new) Condition Management Programme (CMP).

NDDP is the major Government employment programme available to people claiming incapacity benefits in the UK.[7] NDDP is delivered locally by 'Job Brokers', a mixture of voluntary, public and private sector organisations. Although Job Brokers vary enormously in size and in how they operate, most help individuals with job search and attempt to increase individuals' confidence in their ability to work. Many also attempt to develop clients' work-related skills and monitor individuals' progress in jobs after they are placed, sometimes intervening when the individual encounters problems on the job. Job Brokers receive a payment from DWP for each IB claimant they register, for each individual they place in a job, and for each placed individual who continues to work for at least three months.

The CMP, on the other hand, was introduced as part of Pathways and run in collaboration with the local National Health Service (NHS). The objective of CMP is to help claimants of incapacity benefits move into work by helping them to manage their health problem better in a work context. Arrangements to accomplish this vary somewhat. Most CMP participants are people with mental health or musculo-skeletal problems and tend to have more serious conditions than NDDP participants. These people also make up the bulk of people receiving incapacity benefits. After an initial assessment, a range of services is provided by occupational therapists, physiotherapists, psychologists, counsellors, and others. The exact services that are offered to an individual depend on their condition but can include coping skills, advice, information about exercise, and confidence building. Services are sometimes arranged on a one-to-one basis and sometimes in a group or classroom setting.

Other smaller programmes were also available, but remained more limited in their use within Pathways.[8]

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[7] The NDDP programme was launched nationally in 2001 and has been considered a success (Strafford et al. 2007).

[8] For instance, `Workstep' is a programme targeted toward the disabled to help them find a job and remain in employment. It provides help and advice to the employees as well as assistance to employers. 'Access to Work' is designed to pay for costs

2.4 Implementation of the programme

Pathways was introduced on a pilot basis for new incapacity benefits claimants in three areas in October 2003, and in a further four areas in April 2004. These experimentations are the focus of this paper, as they have been comprehensively evaluated. The programme has been subsequently extended progressively to other parts of the country, with four more areas in October 2005, seven areas in April 2006 and three additional areas in October 2006. By December 2006, 40% of the country was experimenting the programme and from April 2008 onwards, all new incapacity benefits claimants in Great Britain were mandated onto it. Existing claimants are free to participate in Pathways on a voluntary basis, though mandatory participation for existing claimants has been piloted in the original experiment areas.[9]

While being extended to the entire country, the programme has been modified in a number of substantive ways. As such the scheme currently in place is not exactly the programme we evaluate in this paper. At its introduction Pathways was implemented only by Jobcentre Plus (hence it was called 'JCP Pathways'), i.e. by the state agencies in charge of helping and monitoring the unemployed. In December 2007 the programme was extended in the rest of the country by contracting out support and monitoring tasks to private providers (hence the programme was called 'Provider-led Pathways'). In October 2008 the structure of DI provision in the UK was altered, once again. Employment and Support Allowance (ESA) replaced IB and IS on grounds of disability for new claimants. The health test is made even more stringent, while benefits are more generous for those who qualify. The pathways programme has been imbedded into the benefit structure: if an individual qualifies for DI benefits but is deemed "able to return to work", she would be mandated onto Pathways. Only if the health test states inability to return to work, would she qualify for higher benefits without the further conditionality of Pathways. Finally, in June 2010, the new Coalition Government announced an entire revamp of the disability benefits in the UK, including a reconsideration of the Pathways programme. The exact direction of reform is still unknown at the time of writing but the Government has already announced that incapacity benefit claims will be reassessed from October 2010 onwards.

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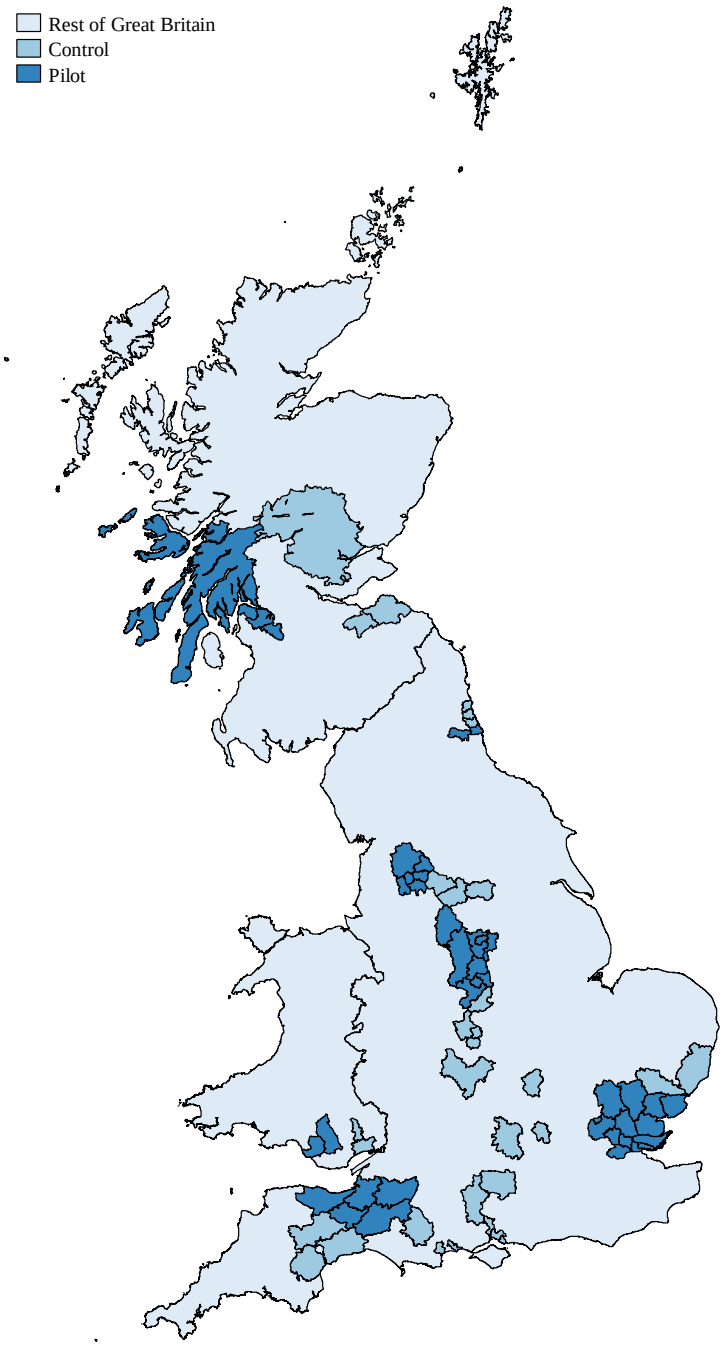
associated with accommodating disabled workers at the workplace. It can, for instance, pay for equipment or for transport costs to the workplace. See Adam et al. (2009) for details on the Choices programmes.

[9] In February 2005 individuals claiming incapacity benefits for up to two years were mandated onto Pathways and in April 2006, the scheme was extended to those who had been claiming for up to six years (see Bewley, Dorsett and Ratto 2008).

3. Data and methodology

This paper aims to present evidence of the impact of Pathways using its implementation between 2003 and 2006 in the pilot areas on new claimants of incapacity benefits.

Fig 3.1 Map of pilot and control areas within Great Britain



Each of these pilot areas is an administrative area where the state unemployment agency, JobCentre Plus, monitors and helps individuals looking for work. These administrative units,

called JobCentre Plus districts, are specific to the JobCentre administration and encompass several local authorities. The pilot areas were selected by the government, whereas comparison areas were carefully selected by researchers from the evaluation team to be similar to the pilot areas. This was done by choosing areas where Jobcentre Plus had also been rolled out and that were similar in terms of characteristics in the 2001 census. Figure 3.1 represents these pilot and control areas on a map of Great Britain. Five of the pilot areas are located in England, one in Wales and one in Scotland. Within each JobCentre Plus district the boundaries of the local authorities are drawn to give a scale of the size of each of these areas.

3.1 Data

To assess the impact of the programme, we have used both administrative and survey data. The administrative data are drawn from the National Benefits Database which provides information on all benefit spells in the UK since 1999. It includes disability benefits but also unemployment benefits, state pensions and other minor benefits. The advantage of this dataset is its large sample size and the availability of continuous data on benefit spells.[10] The drawback is that the benefit receipt is only one side of the story and administrative data on employment spells were not considered, at the time, very reliable.

For that reason, and in order to gather more background information on individuals, surveys were collected by the National Centre for Social Research in both pilot and control areas. In all areas, a sample of individuals who had made an enquiry to their local Jobcentre Plus about claiming incapacity benefits was selected. Four groups of individuals were interviewed: those who flowed onto incapacity benefits in the pilot areas *before* the pilots were operational; those who flowed onto incapacity benefits in the pilot areas *after* the pilots were operational; those who flowed onto incapacity benefits in one of the comparison areas *before* the pilots were operational in the pilot areas; and those who flowed onto incapacity benefits in one of the comparison areas *after* the pilots were operational in the pilot areas. Table 3.1 presents the survey samples in all areas. Although the response rate was high, the small samples in some areas have been attributed to the high number of errors in contact details in the sample frame (Bewlet et al. 2007).

[10] The accuracy of the administrative data has its limit as the end date of most spells is not recorded precisely. If an individual is not observed anymore in the benefit data, he/she is assumed not to be claiming benefits anymore. Given that the database scan is only done every six weeks, the end date entails an error of similar length. Benefit spells less than six weeks are also likely to be missed altogether from the database.

Table 3.1 Survey samples in the pilot and control areas (last interview)

	Before Pathways	After Pathways
Pilot areas		
October areas	503	706
April areas	1,194	1,154
Comparison areas		
October areas	515	594
April areas	147	616

Note: Individuals younger than 18 or older than 59 were excluded from the sample as Pathways did not apply to them.

Individuals were interviewed by telephone shortly after their enquiry about claiming incapacity benefits to measure baseline characteristics, the interview including a range of questions aimed at replicating the Screening Tool that would be administered at the initial work-focused interview in the Pathways to Work pilot areas. All individuals were then re-contacted for a second interview several months later in order to collect information on outcomes of interest. These final interviews took place on average 18 to 20 months after the initial enquiry and all the results in this study are based on this medium term outcome.

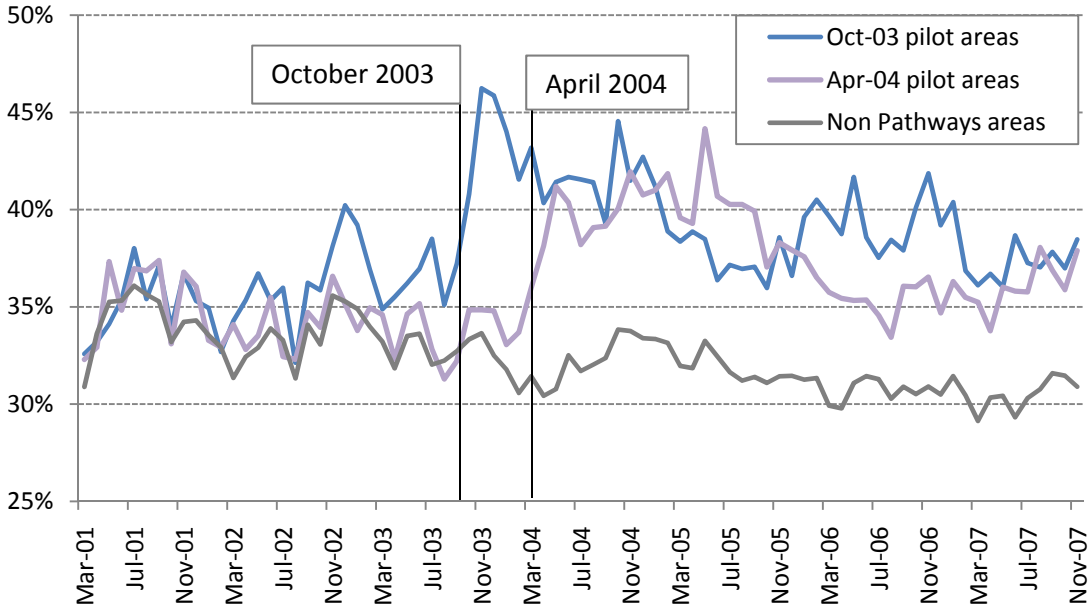
3.2 Descriptive evidence

Using administrative data on the rate of outflow out of IB, it is possible to provide some preliminary descriptive evidence of the likely effect of the programme. Figure 3.2 presents the evolution of the outflow rate out of the Incapacity Benefit six months after the start of a claim, in areas where the programme has been piloted and in areas where the programme was not introduced in that time period. Before the introduction of the programme, the exit rate out of IB was similar in all three regions, hovering around 33-36%. When Pathways is introduced in the first three pilot areas in October 2003, the exit rate rapidly increased, and after the boost following the programme introduction, stabilized 7 to 10 percentage points above the exit rate in areas where the programme had not been introduced 4 years earlier. The same pattern can be observed in areas where the programme was introduced in April 2004.

We have also administrative data on the areas where Pathways was subsequently expanded in 2006. Figure 3.3 presents the same statistics as Figure 3.2, the six-month outflow rate out of IB, in the expansion areas. The outflow rates before the expansions are much less homogenous than in the pilot areas, with the non Pathways areas exhibiting the lowest exit rate of all the pictured areas. Nevertheless the increase in the outflow rate out of benefits at the time of the expansion

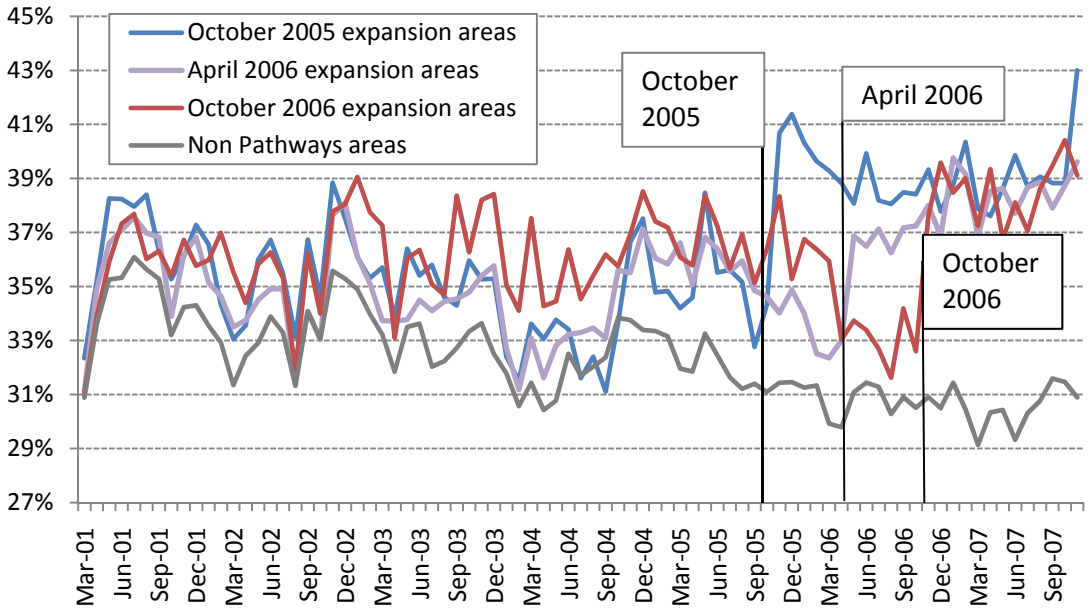
of the programme in each area is clearly noticeable. At the end of the period, i.e. December 2007, the exit rate out of IB in expansion areas in 4-5 points higher than it was two years earlier.

Fig. 3.2 Six months outflow rate from IB in and outside pilot areas



Sources: administrative data on benefit flows, DWP.

Fig. 3.3 Six months outflow rate out of IB in the expansion areas



Sources: administrative data on benefit flows, DWP.

These descriptive data using administrative data are indicative that something was indeed going on at the introduction of Pathways but it falls short of evaluation the impact of the programme given the possible differences between each area, and more importantly because the main outcome of interest is the impact on employment status.

3.3 Identification strategy

The main methodology that we use to identify the impact of Pathways is a difference-in-differences approach. This takes into account the background characteristics and also attempts to subtract out the effect of pre-policy differences in our outcome measures between pilot and comparison areas, thus allowing for any differences in unobserved characteristics that remain constant over time. We implement this approach within a linear regression framework. For more details see, for example, Blundell and Costa Dias (2000).

The 'difference-in-differences' methodology involves comparing the change in outcomes of interest (such as subsequent employment) among individuals in the pilot areas with the change among individuals in the comparison areas. The advantage of this approach is that it 'differences out' any time-constant effect of factors that may be correlated with both the outcome of interest and whether the individual is in the treatment group. This is the case even if any such factors are unobserved: as long as any effect that they have on the outcomes that we are interested in does not change over time, this methodology subtracts them out. Not doing this would be potentially problematic as it could lead to biased estimates of the impact of the policy on the relevant outcome of interest.

As the samples in both the pilot and comparison areas are not a panel over time, but contain different individuals for the pre-policy and post-policy data, the assumption that any unobservables have no different impact over time relies on the impact of unobservables' not being cohort specific in a way that differs systematically between the pilot and comparison areas.

'Difference-in-differences' therefore allows us to control for factors that we do not observe (as long as their impact is constant over time), but we can also control for changes over time in factors that we do observe: in this case, the composition of our samples in terms of the observed background characteristics of the individuals who have made an enquiry about claiming incapacity benefits. The model can be written as follows:

$$Y_i = \gamma X_i + \delta POST_i + \lambda PILOT_i + \beta POST_i * PILOT_i + \varepsilon_i \qquad (1)$$

where Y_i denotes the outcome of interest (for example employment/benefit outcomes) for individual i and X_i denotes observed individual characteristics.[11] $PILOT_i$ is a dummy variable indicating whether the individual's enquiry about claiming incapacity benefits was made in a pilot area or in one of the comparison areas, and $POST_i$ is a dummy variable indicating whether the enquiry about claiming incapacity benefits was made before or after the Pathways pilots were actually implemented (regardless of whether the individual lived in one of the seven pilot areas or in one of the comparison areas). ε_i is an error term.

The term of particular interest is $POST_i$*$PILOT_i$ which is a dummy variable taking the value 1 for those observed in one of the seven pilot areas after the policy was introduced, and 0 otherwise. Hence, β is the main coefficient of interest. This measures the effect of being subject to Pathways in a period in which the policy was in effect, controlling for all other observed factors. In addition it is net of any effect of being observed in the period after the policy was implemented that is constant across pilot and comparison areas (δ) and any effect of being in a pilot area that is constant over time (λ). Hence, it captures shifts in the outcome measure among those in the Pathways to Work pilot areas vis-à-vis those in the comparison areas that occur after the policy is introduced. However, this can be interpreted as the causal impact of the intervention only under two assumptions: first, as discussed above, that the effect of unobserved characteristics on the outcomes of interest does not vary differentially between pilot and comparison areas over time; second, that the characteristics included in our regressions that are correlated with $POST_i$*$PILOT_i$ have a linear effect on the outcomes of interest as assumed in equation 1.

4. Results

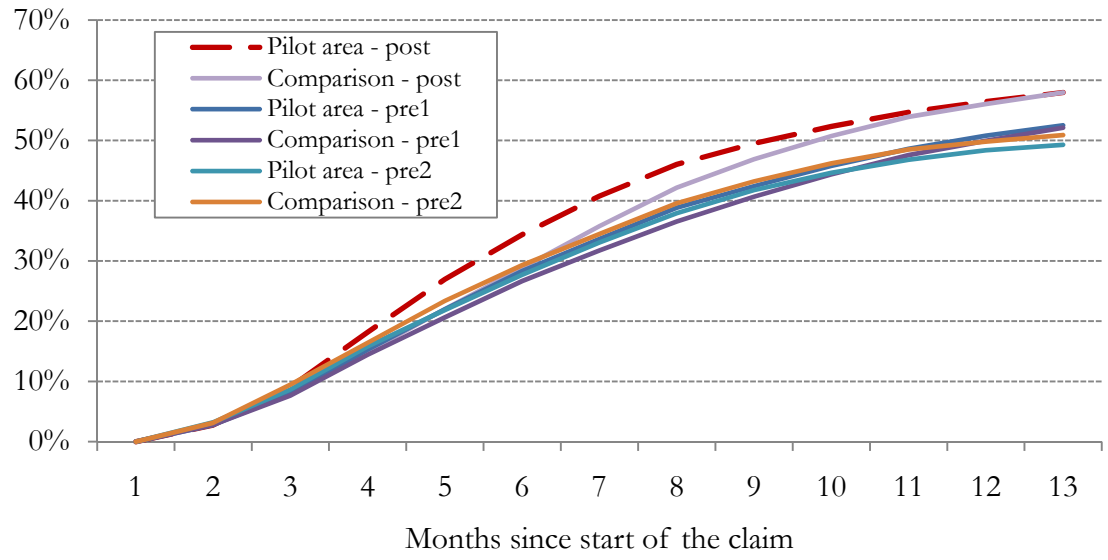
We highlight two sets of results. The first come from administrative data and allow us to follow the impact of the programme on benefit receipt on a monthly basis. The second set of results is drawn from the survey data and shows the impact on employment, benefit receipt and self-declared health status at the final interview, i.e 18-20 months after the initial enquiry.

[11] These include age, age squared, sex, education, ethnicity, marital status, number of kids, type of health problem and duration of health problems.

4.1 Impact on benefit receipt (administrative data)

Figure 4.1 shows the percentage still receiving IB by time elapsed since moving onto IB in pilot and control areas. The post programme period is defined as individuals who moved onto IB between August 1st 2004 and November 30th 2004. Two potential pre programme groups are defined. First the 'standard' control group which is defined as those moving onto IB immediately before the programme was implemented. In the October 2003 areas this is defined as those moving onto IB between 1st September 2003 and 26th October 2003 while in the April 2004 areas it is those moving onto IB between 1st January 2004 and 4th April 2004 (inclusive). One potential problem with this control group is that they might have been indirectly affected by the programme, since their claim is likely to be ongoing after the implementation of the programme in the pilot areas. Therefore an alternative 'lagged' control group is also examined. This is defined as those moving onto IB in a window exactly one year before the window used for the 'standard' control group (i.e. 1st September 2002 to 26th October 2002 or 1st January 2003 to 4th April 2003).

Fig. 4.1 Outflow rate from IB in pilot and control areas



Sources: administrative data on benefit flows, DWP.
Notes: Pre1 controls are benefit spells that occurred one year before the start of Pathways. Pre2 are benefit spells that occurred two years before the start of the programme. Number of observations = 76,777. This is divided as follows: pilot – post 17,527; Comparison – post = 14,885; Pilot – standard control = 11,993; Comparison – standard control = 9,828; Pilot – lagged control = 12,444; Comparison – lagged control 10,100.

In Figure 4.1, all of the lines are upward sloping, which shows that IB recipients become more likely to have moved off the benefit over time. Four of the lines on the figure – those relating to the cumulative off-flow rates in both the pilot and the comparison areas during the two periods

examined prior to the pilot being introduced (the two "standard control" lines and the two "lagged control" lines) – are very difficult to distinguish from each other. This is encouraging since it suggests that the pilot and comparison areas are similar, at least in terms of characteristics that determine movements off IB. Looking at the cumulative off-flow rates during the period after the programme was introduced in the pilot areas (the two "post" lines) it can be seen that from the third month onwards more individuals moved off IB in the pilot areas than in the comparison areas. After six months the difference is relatively large, matching the results seen in Figures 3.2 and 3.3. Beyond month six the cumulative off-flow rate in the comparison areas rises more quickly than that in the pilot areas and by twelve months only very slightly more individuals had moved off IB in the pilot areas compared to the comparison areas.

Tables 4.1 and 4.2 present the results from the difference-in-differences estimates. Table 4.1 reports the results using the standard controls, i.e. the benefit spells that occurred just before the implementation of Pathways, while table 4.2 reports the results using the lagged controls.

The results reported in Table 4.1 suggest that the programme led to more individuals moving off IB after three or six months. There is no statistically significant evidence of any positive impact of the programme on cumulative off-flow rates after either nine or twelve months. Breaking down the impact on cumulative off-flow rates after six months reveals a statistically significant increase (at least at the 10% confidence level) in cumulative off-flow rates for both men and women in the April 2004 area (+2.7ppt and +3.5ppt respectively) and for men in the October 2003 areas (+4.1ppt) with no statistically significant increase among women in the October 2003 areas.

Table 4.1 Impact of Pathways on exit rates out of IB, by area and sex. Standard controls.

	Exit from benefit after:				
	3 months	6 months	9 months	12 months	Sample size
Overall impact					
All areas	+2.1***	+2.7***	–0.2	–0.8	54,233
	(0.7)	(0.8)	(0.9)	(0.9)	
October 2003 areas	+2.0*	+2.1	–0.4	–1.2	21,748
	(1.0)	(1.4)	(1.4)	(1.4)	
April 2004 areas	+2.2***	+3.0***	–0.1	–0.5	32,485
	(0.8)	(1.1)	(1.1)	(1.1)	

Men					
All areas	+2.4***	+3.2***	+0.5	+0.0	31,464
	(0.9)	(1.1)	(1.2)	(1.2)	
October 2003 areas	+1.9	+4.1**	+1.2	–0.3	12,587
	(1.4)	(1.8)	(1.9)	(1.8)	
April 2004 areas	+2.7**	+2.7*	–0.0	+0.2	18,877
	(1.1)	(1.4)	(1.5)	(1.4)	
Women					
All areas	+1.7*	+1.9	–1.2	–1.9	22,769
	(0.9)	(1.3)	(1.3)	(1.3)	
October 2003 areas	+2.0	–0.7	–2.6	–2.5	9,161
	(1.5)	(2.1)	(2.1)	(2.1)	
April 2004 areas	+1.5	+3.5**	–0.2	–1.5	13,608
	(1.2)	(1.6)	(1.7)	(1.7)	

Note: Standard errors clustered at the individual level shown in parentheses. Sample size refers to the number of unique clusters (individuals). Statistical significance denoted by ***, ** and * for the 1%, 5% and 10% levels respectively. Controls for age (5 year age bands), whether they hit the State Pension Age in the respective window, whether observed in the pre or post time period (interacted with whether they were in an October area or an April area), local authority dummies, whether IB claim is only for National Insurance credits and whether recorded health problem is a mental health problem. All controls interacted with sex.

Alternative estimates of the impact of Pathways on the benefit outcomes of those mandated onto the programme are presented in Table 4.2. These use the lagged rather than the standard set of controls. Using these earlier benefit spells as controls generally leads to larger central estimates of the impact of the programme.

One possible reason for this is that Pathways has a positive impact on those who moved onto IB in the pilot areas just prior to the programme becoming mandatory for new claimants. This might occur, for example, if existing claimants chose to take part in the programme voluntary or if they benefited from their advisor becoming better trained. If this was the case then the results produced using the standard controls would be expected to understate the true impact of the programme. The estimated impacts using lagged controls, like those using the standard controls, peak at around six months and then fade – by twelve months of benefit claim the higher cumulative off-flow rate in the pilot areas after the programme was implemented is only statistically significantly different from zero among men.

Table 4.2 Impact of Pathways on exit rates from IB, by area and sex. Lagged controls.

	Exit from benefit after:				Sample
	3 months	6 months	9 months	12 months	Size
All					
All areas	+3.8***	+6.3***	+3.0***	+1.4*	54,956
	(0.7)	(0.8)	(0.9)	(0.9)	
October 2003 areas	+5.1***	+5.4***	+1.5	+1.4	22,019
	(1.0)	(1.3)	(1.4)	(1.4)	
April 2004 areas	+3.0***	+6.8***	+3.8***	+1.4	32,937
	(0.8)	(1.1)	(1.1)	(1.1)	
Men					
All areas	+4.2***	+6.5***	+3.5***	+2.7**	31,957
	(0.9)	(1.1)	(1.2)	(1.1)	
October 2003 areas	+4.3***	+4.7***	+1.7	+2.4	12,740
	(1.4)	(1.8)	(1.8)	(1.8)	
April 2004 areas	+4.1***	+7.5***	+4.5***	+2.8*	19,217
	(1.1)	(1.4)	(1.4)	(1.4)	
Women					
All areas	+3.3***	+6.0***	+2.3*	–0.3	22,999
	(1.0)	(1.3)	(1.3)	(1.3)	
October 2003 areas	+6.2***	+6.3***	+1.3	+0.1	9,279
	(1.5)	(2.0)	(2.1)	(2.1)	
April 2004 areas	+1.5	+5.8***	+2.9*	–0.5	13,720
	(1.2)	(1.6)	(1.7)	(1.7)	

Note: Standard errors clustered at the individual level shown in parentheses. Sample size refers to the number of unique clusters (individuals). Statistical significance denoted by ***, ** and * for the 1%, 5% and 10% levels respectively. Controls for age (5 year age bands), whether they hit the State Pension Age in the respective window, whether observed in the pre or post time period (interacted with whether they were in an October area or an April area), local authority dummies, whether IB claim is only for National Insurance credits and whether recorded health problem is a mental health problem. All controls interacted with sex.

In summary the results looking at the impact of Pathways on those IB recipients mandated onto the programme suggest that the programme led to individuals moving off IB earlier than they would otherwise have done, but that by twelve months the cumulative off-flow rate was no different from what it would have been in the absence of the programme. This suggests that Pathways has been successful in getting individuals who would have moved off IB within twelve months to move off benefit sooner than they otherwise would have done, but has not been successful in getting individuals who would still have been in receipt of IB after twelve months to move off benefit within twelve months.

4.2 Impact on employment and benefit receipt (survey data)

Using survey data we can extend the difference-in-differences methodology to a larger set of outcomes while also controlling for a larger set of observable characteristics. All the results presented below use the outcomes at the time of the final interview, i.e. 18 to 20 months after the initial enquiry.

Table 4.3 presents the estimates of the impact of Pathways on employment and benefit status at the final interview. Taking into account both areas where the programme was experimented, we find an overall effect of 5.8 percentage points statistically significant at the conventional level. If the methodology is applied separately for each area, the October 2003 areas exhibit a similar effect, while the impact is larger and more precise in the April 2004 areas, i.e. 8.2 percentage points higher.[12] Note that the standard errors have been clustered at the JobCentre Plus level to take into account possible serial correlation within each labour market.[13]

Table 4.3 Impact on employment and benefit receipt (at the final interview)

	All sample	October 2003 areas	April 2004 areas
Employment	0.058**	0.058**	0.082***
	(0.023)	*(0.021)*	*(0.024)*
Benefit receipt	-0.032	-0.020	-0.023
	(0.032)	*(0.044)*	*(0.032)*
Sample size	5,429	2,318	3,111

Sources: Pathways evaluation survey data.
Notes: Standard errors are clustered at the JobCentre Plus district level.

In a way that is consistent with the findings from administrative data, we do not find any impact of the programme on benefit receipts, 18-20 months after the initial enquiry. The point estimates are negative but not statistically different from zero.

[12] In the official evaluation report, the evaluators excluded the October 2003 areas, suggesting that the difference-in-differences methodology was not reliable in these areas (Bewley et al. 2007). The authors base their judgement on hypothetical difference-in-differences one year before the implementation of the programme using administrative data, not controlling for the characteristics included in the survey data. Although we present impact estimates on each area separately, our preferred estimates are based on the entire sample, which exhibits lower impact than the April 2004 areas alone.

[13] JobCentre Plus districts are large administrative areas encompassing several local authorities. October 2003 areas consist of 13 JobCentre Plus districts and April 2004 areas 12 JobCentre Plus districts. We have also computed standard errors clustered at the local authority level, which leads to slightly larger standard errors in the October 2003 areas.

Given these apparently contradictory results, it is important to evaluate jointly the impact of the programme on employment and benefit status at the final interview. Table 4.4 presents the results of the difference-in-differences estimates on the interactions between the two statuses. As in tables 4.3, April areas exhibit much higher effects of the programme than October areas. Not surprisingly most of the positive effect of Pathways on employment comes from an increase of those who report being employed and not on benefit after the implementation of the programme in the pilot areas. More interestingly though, this employment increase is not matched by a reduction of those not employed and on benefits, but by a decrease in those *not employed and not on benefit*. In the entire sample, the decrease in this groups amounts to 3.6 percentage points, while in April 2004 areas, the decrease in this group amounts to 7.5 percentage points.

Table 4.4 Impact on benefit and employment status (at the final interview)

	All sample	October 2003 areas	April 2004 areas
In employment and not on benefit	0.068**	0.062**	0.098***
	(0.024)	*(0.022)*	*(0.026)*
In employment and on benefit	-0.009	-0.004	-0.016
	(0.007)	*(0.011)*	*(0.009)*
Not employed and not on benefit	-0.036*	-0.042	-0.075**
	(0.020)	*(0.032)*	*(0.026)*
Not employed and on benefit	-0.022	0.016	-0.007
	(0.030)	*(0.039)*	*(0.028)*
Sample size	5,429	2,318	3,111

Sources: survey data.
Notes: standard errors are clustered at the JobCentre Plus district level.

These results suggest that Pathways led some individuals, who would have left IB in less than 12 months, to leave benefits a couple months earlier. At the same time, the programme seems to have led some of those, who would have left IB and not return to work without the programme, to return to paid work, at least 18-20 months after the claim.

Table 4.5 presents the estimates on employment status and benefit receipts at the last interview while applying the difference-in-differences methodology on subgroups of individuals. This approach, limited by the sample size, allows providing better characterisation of the type of individuals positively affected by Pathways – without giving to these characteristics any causal

interpretation. Females, those aged above 40, those living with a partner and those without mental illness seem to have experienced the highest impact of Pathways on the propensity to return to work. On the other side, for males, those aged below 40 and those with mental illness, the effect seems to be much smaller, or in the case of mentally ill claimant close to zero. As expected no effect is discernable on benefit receipts for either group.

Table 4.5 Impact on employment and benefit receipt by subgroup (all sample)

		Employment	Benefit receipt	Sample size
Sex	Male	0.033	0.005	2830
		(0.046)	*(0.030)*	
	Female	0.091***	-0.068	2577
		(0.032)	*(0.054)*	
Age	18-39	0.049	-0.004	2088
		(0.046)	*(0.045)*	
	40-59	0.066**	-0.048	3341
		(0.025)	*(0.031)*	
Partner	Single	0.035	-0.020	2581
		(0.034)	*(0.036)*	
	Live with partner	0.087**	-0.044	2848
		(0.039)	*(0.049)*	
Health	No mental illness	0.075**	-0.046	3293
		(0.031)	*(0.046)*	
	Mental illness	-0.047	0.021	1152
		(0.047)	*(0.066)*	

Sources: Survey data.
Notes: Each of these impacts is made separately, for instance replicating the difference-in-differences estimator on the male population only. Standard errors are clustered at the JobCentre Plus district level.

4.3 Impact on self-reported health measures

The objective of Pathways is to foster return to work amongst incapacity benefit claimants. One obvious drawback of a scheme mandating disabled or incapacitated individuals to attend work-focused interviews might be in accrued stress, physical or mental distress for claimants. We do not have objectives measures of health for participants in the Pathways experimentations but self-reported health measures have been collected in the surveys. One issue with these measures is that they are likely to be influenced by the employment status: if an individual starts working as a result of Pathways, she might be lead to report an improvement in health. We report in Table

4.6 the impact estimates of Pathways on self-reported perception of how health condition limits everyday activities.

Table 4.6 Impact on benefit and employment status (at the final interview)

	All sample	October 2003 areas	April 2004 areas
Health limits	-0.018	-0.029	-0.046
everyday activities	*(0.022)*	*(0.035)*	*(0.031)*
Health limits everyday	-0.050	-0.062	-0.087**
activities a great deal	*(0.030)*	*(0.047)*	*(0.034)*
Sample size	5,429	2,318	3,111

Sources: survey data.
Notes: standard errors are clustered at the JobCentre Plus district level.

All estimates are negative, but generally not significant, with the exception of the April 2004, which exhibits a decrease of 8.7 percentage points of individuals reporting that health condition limits their everyday activities a great deal as a result of Pathways. Given the imprecision of these results, and the possible endogeneity of the self-reported health measure, one has to remain cautious on the impact of Pathways on the health of participants. One can only say that there is no evidence of deterioration of self-reported health measures as a result of the programme.

5. Extensions

The evaluation so far has put in evidence the impact of the programme on exit rate out of benefit and on the probability to return to work. These effects are not sufficient in themselves to guarantee that the policy is a cost effective tool to achieve the welfare objectives from the government. Two issues must be considered before forming a judgement on the programme. First, has the programme introduction been responsible for poorer labour market performance of other groups? Second, can we relate the costs to the benefits of the programme for both the individuals concerned and the Government?

5.1 Indirect effects

Individuals not mandated onto Pathways might still have been affected by it. Those receiving an incapacity benefit and not mandated onto the programme were entitled to participate voluntarily, benefit recipients not taking part in the programme might have been affected indirectly via

Pathways affecting their local Job Centre Plus or their personal advisor, while those applying for jobs might have experienced greater competition in the labour market.

We have used administrative data on benefit records to examine the cumulative off-flow rates from various welfare benefits both before the programme was implemented in the pilot areas and a set of specially chosen comparison areas in order to explore whether there have been indirect effects of Pathways.

Those already receiving IB, who were not mandated onto the programme but could choose to participate voluntarily, were found to be around 0.7 percentage points more likely to have moved off the benefit 3, 6, 9 and 12 months after the programme had been implemented. Similar impacts were found in the October 2003 and the April 2004 pilot areas, and on both men and women. There is also some evidence that women already receiving Income Support or Pension Credit with a disability premium, who again could only have participated in Pathways voluntarily, were more likely to move off benefit within twelve months after the programme had been implemented. Since many of these individuals also claim IB, this finding is consistent with that above (see Adam et al. 2008).

Among those already receiving Severe Disablement Allowance, who also could only have participated in Pathways voluntarily, there was some statistically significant evidence that men in the April 2004 areas were more likely to move off benefit within twelve months after the programme had been implemented.

For most of those DWP benefit recipients who were not mandated onto the programme, and in general could not have participated in Pathways voluntarily, there was no statistically significant evidence of any impact of the programme on their likelihood of moving off benefit.

The main exception to these results comes from men and women receiving unemployment benefit in the October 2003 areas. Table 5.1 presents the results of the difference-indifferences estimates on claimants of the UK unemployment benefit, the JobSeekers Allowance (JSA). Men and women in the October 2003 areas were both found to have been around 3½ percentage points less likely to move off benefit within six months after the programme had been implemented.

Table 5.1 Difference-in-differences estimate of impact of Pathways on exit rates of existing JSA claims, by area and sex.

	Exit from benefit after:				
	3 months	6 months	9 months	12 months	Sample size
Overall impact					
All areas	–1.3***	–1.7***	–0.6*	–0.5	203,841
	(0.4)	*(0.4)*	*(0.4)*	*(0.4)*	
October 2003	–1.9***	–3.6***	–1.3**	–1.6***	89,247
areas	*(0.8)*	*(0.8)*	*(0.8)*	*(0.8)*	
April 2004 areas	–0.9	–0.2	–0.1	+0.5	114,594
	(0.6)	*(0.5)*	*(0.5)*	*(0.5)*	
Men					
All areas	–1.7***	–1.7***	–0.5	–0.4	154,305
	(0.5)	*(0.5)*	*(0.5)*	*(0.4)*	
October 2003	–2.5***	–3.6***	–1.3*	–1.2*	68,580
areas	*(0.9)*	*(0.9)*	*(0.9)*	*(0.9)*	
April 2004 areas	–0.9	–0.0	+0.1	+0.3	85,725
	(0.6)	*(0.6)*	*(0.6)*	*(0.5)*	
Women					
All areas	–0.3	–1.8**	–1.0	–0.6	49,536
	(0.8)	*(0.8)*	*(0.7)*	*(0.7)*	
October 2003	+0.0	–3.4***	–1.4	–2.9***	20,667
areas	*(1.3)*	*(1.3)*	*(1.2)*	*(1.1)*	
April 2004 areas	–0.6	–0.7	–0.7	+1.1	28,869
	(1.1)	*(1.0)*	*(0.9)*	*(0.8)*	

Note: Standard errors clustered at the individual level shown in parentheses. Sample size refers to the number of unique clusters (individuals). Standard errors in parentheses. Statistical significance denoted by ***, ** and * for the 1%, 5% and 10% levels respectively. Controls for duration of benefit claim (linear and squared), age (5 year age bands), whether they hit the State Pension Age in the respective window, whether observed in the pre or post time period (interacted with whether they were in an October area or an April area) and local authority dummies. All controls interacted with sex.

This is consistent with either Job Centre Plus in the October 2003 areas being less able to cope with the introduction of Pathways, perhaps because these areas had less notice of the programme than the April 2004 areas, or with the labour market in the October 2003 areas less able to respond quickly to greater number of IB recipients seeking work.

5.2 Cost benefit analysis

Given the significant cost of the programme, including some very intensive interventions like the Choices schemes, the evaluation of Pathways merits a rigorous cost and benefit analysis. Like with most welfare programmes which involve possible impacts that are difficult to estimate – i.e.

changes in health status, inequality of life, loss of non-market time etc. – a full cost-benefit analysis is hard to realise. Although we have conducted a careful estimation of the financial costs and benefits of the programme, we have left aside some potentially important non financial impacts of Pathways that we have not been able to estimate.[14]

The estimated costs of the programme are summarised in Table 5.2. The first point to highlight is the difference between the cost per participant and the cost per IB enquiry. The two most costly elements of Pathways per participant, the RTWC and the Choices component, have had limited take-up rates which has reduced their cost per enquiry. For instance individuals who have received RTWC, only 10% of those who have made an enquiry, have received on average an award of £1,431.

Table 5.2 Net Costs of Pathways per IB Enquiry (April 2005-March 2006)

Cost component	Net cost
Staff	
Salaries	£73.28
Other staff costs	£33.92
Choices	
New Deal for Disabled People	£11.39
Condition Management Programme	£54.07
Accelerated Personal Capability	£3.23
Assessments	
Payments to Pathways participants	
Return to Work Credit	£136.49
Advisor Discretionary Fund	£1.30
Reimbursed Expenses	£0.14
Total net costs	**£313.82**

Note: Costs based on April 2005-March 2006 estimates (see chapter 4 of Adam et al. 2008).

The Choices programme, especially the health related Condition Management Programme was also a relatively costly element, amounting to over £1000 per participant, but its overall cost per enquiry remained small due to the limited number of participants. Overall RTWC still represents

[14] These include work related expenditures from participants, the loss of non market work time, changes in health status, compliance costs, NHS utilisation and reductions in deadweight loss.

40% of the total cost per enquiry, while staff salaries necessary to implement work-focused interviews make another third of the cost.[15]

The methodology that we have used to compute the benefits of the programme, both for individuals and for the government, rely directly on the impact estimates. We have used the survey data to measure the impact of the programme on employment status, hours of work and benefit receipts and simulated the programme impact on incapacity benefit claimants from the Family Resource Survey (FRS). From this dataset we have all the information necessary to compute changes to taxes and benefits, paid and received by potential incapacity claimants who would have been impacted by Pathways. We then use the micro-simulation model of the Institute for Fiscal Studies, TAXBEN, to compute the gross benefit for the Government and the individuals of Pathways implementation. This computation takes into account, for instance, changes to income tax and tax credits paid or housing benefit received, as well as changes to indirect taxes. Table 5.3 presents these estimates according to two main variants. The most conservative estimates rely on assuming that the employment impact observed at the final interview, around 70 weeks after the initial enquiry, stops just after the interview. We present a less stringent variant assuming that the employment impact last for 150 weeks. In both cases, the net benefits to the Government and to the individual are significantly positive.

Table 5.3 Present value of total measured financial benefits per incapacity benefits enquiry

Duration of impact	Individual	Government			Society		
		Gross		Net	Gross		Net
	Benefit	Benefit	Cost	Benefit	Benefit	Cost	Benefit
70 weeks	£526	£515	£340	£175	£1,041	£340	£701
150 weeks	£935	£1,088	£340	£748	£2,023	£340	£1,683

Note: Assumes 3.5% discount rate. See Adam et al. (2008) for details.

5.3 Is there a Pathways puzzle?

On the face of it, the results from the evaluation of Pathways are puzzling. The programme appears to have led to a short-term increase in the rate of outflow out of incapacity benefits, i.e.

[15] For more details on the cost of Pathways, see chapters 2 and 4 of Adam et al. (2008).

between 3 and 6 months after the claim, while only marginal impact can be detected after 9 months. On the contrary, a sustained employment impact is still significant 18 months after the claim.

The first point to stress is that it is mistaken to imagine that benefit receipt matches employment status. As earlier research has shown in the US case (Bound 1989, 1991), some individuals who have DI spells do return to work, while those who have been denied benefit can remain unemployed for long periods. In the case of the UK, 23% of the individuals in the control areas are found to be out of IB but not in employment 18 months after their initial claim. It is therefore completely consistent that a programme could have differentiated impact on benefit receipts and employment status.

The puzzle, if any, comes from the fact that the main alternative route for disability benefit claimants, out of benefits, might be unemployment benefits. We have seen that there is some weak evidence of some impact of the programme on unemployment claimants in one of the experimentation area, but nothing that could match the change in employment observed 18 months after the claim.

Our preferred explanation for the impact of the programme comes from the subgroup analysis. The impact of the programme is found to be higher for women, those living with a partner, those without mental health problem and above age 40. While not providing robust identification of the individuals mostly affected by Pathways, these sub-group analyses portray a coherent picture of the way the programme can reach its diversified impact. Without the programme, women who have suffered a long-term health shock, would have qualified for benefits and would have left IB in less than 12 months. They would not have come back to paid work but would have stayed at home, relying on the income from their partner. With Pathways those women would have been redirected towards looking for paid work instead of staying at home, leading some of them to do so.

This explanation is consistent with all aspects of the evaluation and offers a relatively positive judgement on the programme in itself, reinforced by the cost benefit analysis detailed earlier. It does not provide, however, with an optimist view of Pathways to tackle the large stock of IB claimants in the UK, most of whom are today male, with long incapacity spells, suffering from mental disabilities. Moreover recent evaluation of the impact of the programme in one of the expansion areas has shown similar impact of the programme on benefit receipt but no significant

impact on employment (Bewley et al. 2008, 2009). This could cast doubt on the general value of the results from the pilot areas, either because the characteristics of the labour markets in the pilot areas were specific to these areas or because the amount of resources committed to the pilot areas differed substantially from those in the rest of the country.

Given that Pathways is in itself a package of reforms, one would like to know which component has been the most effective in bringing about the employment impact we have identified. It is unfortunately impossible to provide robust evidence on this issue. The programme having been piloted in its entirety and not with its component, ascribing the effect of the programme to its various parts is highly speculative (Adam et al. 2009). When comparing Pathways with other schemes targeted at the long-term sick or disabled, on should also be cautious: the evaluation of pathways has shown how the results seem be to specific to the sample of individuals who, in the UK, claim incapacity benefits and there is likely to be considerable difference with other national setting. The other difficulty rests on the fact that most of these schemes differ largely. As was mentioned in the introduction, the closest scheme to Pathways is the US Ticket-to-Work programme, but that programme not only applied to a different sample of long-term sick, but is also very different from Pathways, being entirely based on voluntary participation.

6. Conclusion

From October 2003 the UK piloted a major reform, called 'Pathways to Work', to the Disability Insurance system in place in the UK. This programme both provides greater support (financial and non-financial) and imposes greater obligations to encourage new claimants of incapacity benefits to move into paid work. Using a difference-in-differences methodology the programme is found to accelerate the rate of outflow from Disability Insurance benefits, but only for individuals who would have left the benefit rolls in less than a year in any case. On the other hand, the programme has a positive impact on employment that is still evident 18 months after the start of their benefit claim. Our preferred explanation for these results is that women who would have left benefit anyway but not returned to paid work, are now returning to employment because of the programme. Using a cost-benefit analysis based on simulating the effect of the policy on incapacity benefit recipients and micro-simulating the tax and benefit system, we find that the programme exhibits positive financial gains for both the individuals and the government, even under conservative assumptions.

When discussing the optimal design of programmes targeted on people with disabilities, the economics literature has largely focused on the appropriate level of benefit and the stringency of the screening test. This study highlights the potential for work-focused support and conditionality to have an impact. It shows that active labour market schemes could have an impact on the ability of individuals who claim DI benefits to return to work, quite separate from their benefit receipt status. Approaches that rely only on increasing the stringency of the screening test might be quite effective in reducing the disability rolls but neglect the question of whether people move back to work or to other inactive states. The design of disability benefit schemes could either incorporate increased support and conditionality into the standard DI programme – like in the UK – or else incorporate specific schemes towards those with health impairments among the unemployment insurance system.

However the positive results from this evaluation should not hide the fact that Pathways has not been found to be a 'magic bullet' to reduce the caseload of DI claimants. The programme has not been found to have significant impact on men, on those suffering from mental illness or on those with long duration claims. They, alas, constitute the largest share of incapacity benefits claimants.

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