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# An anatomy of economic inactivity in Northern Ireland

Working paper



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## Abstract

Northern Ireland (NI) has topped the United Kingdom (UK) economic inactivity rankings for most of the past 30 years. Recent trends behind the headline labour market data indicate rising economic inactivity at a time when it has been falling in other regions of the UK. The aim of this working paper is to provide an overview of recent data, providing an up to date overview of recent historical trends and drivers of change. This paper analyses time series headline indicators, a more detailed analysis of the economically inactive stock of people and the economic activity status of NI households. The research also analyses information on labour market flows, and an audit of data based upon claimants of out of work incapacity related benefits.

This evidence base identifies areas where NI is performing differently from other parts of the UK, to investigate and highlight the areas where there are larger gaps between NI and the UK and highlight any socio-economic groups which appear to suffer from barriers to labour market participation. This is solely an overview of the available statistics relating to economic inactivity.

Increasing the employment rate has been brought to the top of the policy agenda through its inclusion as a key outcome in the recently published 'Draft Programme for Government' (PfG). This paper argues that it is not possible to raise the employment rate and close the gap with the UK without reducing the economic inactivity rate, which is itself included as an outcome in the PfG.

Although developing policy recommendations is not within the purview of this research, where appropriate, policy remarks and areas for further research have been highlighted throughout this report.

## Acknowledgements

The authors would like to thank colleagues in the Department for Communities (DfC). This research has been undertaken in collaboration with the DfC. The DfC are now the department responsible for the delivery of NI's economic inactivity strategy. We are grateful for access to DfC statistics, and for the analytical support provided by the DfC Analytical Services Unit.

## 1. Introduction and background

Worklessness is both a social and economic tragedy and is a problem that is particularly pronounced in Northern Ireland (NI) relative to other parts of the United Kingdom (UK). NI has had the highest working age economic inactivity rate of all UK regions in 72 of the past 82 quarters, representing consistent underperformance in this area over a 20-year period. Working age economic inactivity in NI currently stands at 26.8%, significantly above the UK average (21.8%).

In Q1 2016 NI's total stock of working age economically inactive persons (excluding students) was 224,000. This compares to 230,000 in Q1 1996, highlighting how the stock of inactive persons has remained stubbornly high over the past two decades despite policy efforts to encourage more people into work.

The working age client group who claim a 'key benefit'<sup>1,2</sup> peaked in Q1 2013 at 272,870 and has fallen marginally to 258,590 in Q1 2016. Within this figure the number of disabled people has increased from 18,350 to 26,050 between Q1 2011 and Q1 2016. The number of people claiming Employment and Support Allowance (ESA) and incapacity related benefits had been falling over the 2007-13 period, reaching a low point of 109,710 in Q3 2013. However, more recently the trend has reversed and increased in each of the 10 subsequent quarters reaching 122,510 in Q1 2016. These trends run counter to similar data in the UK, which is itself a poor performer by international standards.

Given the myriad of evidence that exists to suggest that labour market detachment increases over time, the high number of individuals claiming out of work incapacity related benefits creates negative externalities for individuals, society and the economy. The inclusion of an objective to reduce the working age economic inactivity rate (excluding students) within the Draft Programme for Government<sup>3</sup> (PfG) is welcomed by the Ulster University Economic Policy Centre (UUEPC). Economic inactivity is an issue that has for too long been overlooked by various NI Executive strategies. It is an issue which transcends Departmental boundaries and is interlinked with other issues at the heart of creating a better society in NI such as, among others, underachievement in education and tackling poverty.

A failure to break the barriers which prevent people returning to the labour market after a period of sickness and a relatively low number of disabled people participating in the labour market has significant fiscal consequences. Spending on incapacity, disability and injury benefits accounts for more than one quarter of NI's entire social protection budget<sup>4</sup>. Spending on this category of benefits is 13 times greater than spending on unemployment assistance, one of the highest ratios in the OECD.

Over the long term mobilising underutilised groups within the labour force will become important to supply the workers required to facilitate economic growth, and contribute the tax revenues required to support an increasingly older population. The latest population projections forecast that NI's working age population will peak at 1.81m in 2025. Under a hypothetical scenario where NI had to raise its own tax revenue to fund social protection, future demographic changes will make current levels of inactivity in receipt of public assistance increasingly unsustainable.

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<sup>1</sup> Key benefits refer to Bereavement Benefit; Carer's Allowance; Disability Living Allowance; Employment & Support Allowance (from November 2008); Incapacity Benefit; Income Support; Jobseeker's Allowance; Pension Credit (males aged 60 - 64); Severe Disablement Allowance; Widow's Benefit.

<sup>2</sup> Not all persons who are claiming a key benefit are classified as economically inactive.

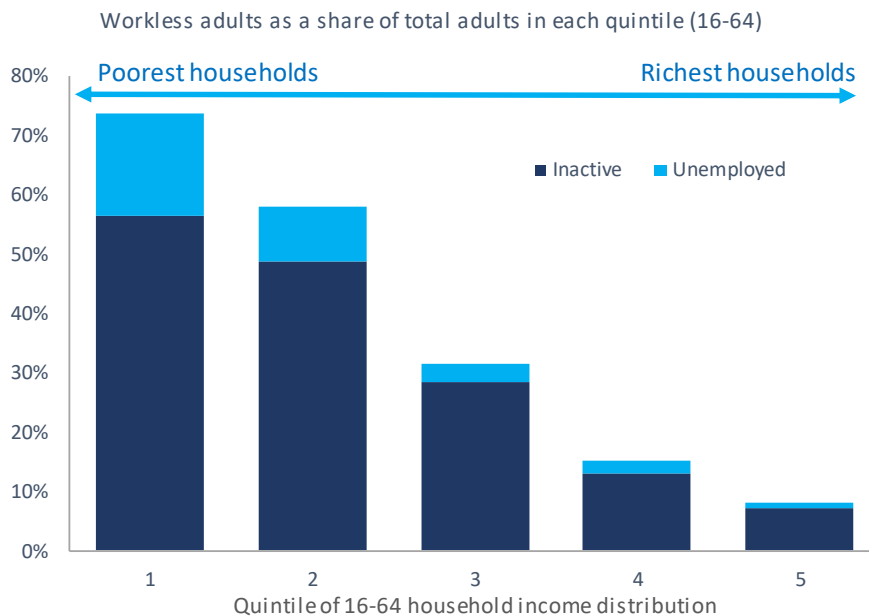
<sup>3</sup> NI Executive (2016) Draft Programme for Government Framework 2016-21

<sup>4</sup> HM Treasury (2016) Public Expenditure Statistical Analysis

A reduction in poverty is another target outcome within the Draft PfG, aiming to ‘*improve wellbeing for all – by tackling disadvantage, and driving economic growth*’. With the value of working age benefits and tax credits expected to decrease over the period of this Assembly, transitioning groups currently excluded from the labour market into employment is the most effective method to reduce poverty and create inclusive prosperity.

Workless adults are concentrated at the bottom of the household income distribution, with the majority being classed as economically inactive. Therefore, any strategy focussed on poverty alleviation with a narrow focus on unemployment will encounter diminishing returns quickly. From the perspective of contributing towards the betterment of NI worklessness should be considered in a wider context to cover the unemployed, the economically inactive who want to work and, crucially, the economically inactive who face a barrier preventing them from participating in the labour market.

### Distribution of out-of-work adults (exc. Students), Northern Ireland, 2014-15



Source: Family Resources Survey, UUEPC

Note: Based on households containing at least 1 person aged 16-64

As a society, an ambitious goal would be to achieve an employment rate as close to full employment as possible. Driving down the number of people excluded from work is crucial to achieving such a goal and would bring with it a series of economic, health, and social benefits.

### Background to this research

This research originated from the most recent UUEPC board meeting. Recent inactivity data was highlighted during the meeting and board members expressed a view that the issue should be researched further. The research augments work already carried out across Government and will provide useful labour market intelligence that will help a number of Departments to develop action plans to support the achievement of outcomes outlined in the PfG.

### Aim of this research

The aim of this research is to contribute to the NI policy debate by providing up to date labour market intelligence relating to economic inactivity. This research seeks to provide an evidence base

to identify areas where NI is performing differently from other parts of the UK, and highlight any socio-economic groups which appear to suffer from barriers preventing participation in the labour market. Although developing policy recommendations is not within the purview of this research, policy remarks and areas for further research have been highlighted throughout this report.

## Structure of this report

The structure of this report is as follows:

- 1) Introduction and background** – This section sets out the aims and objectives of the study, alongside the relevant policy information.
- 2) Recent trends in headline economic inactivity** – This chapter presents time series trends and headline benchmarks to set the context for the study.
- 3) Key socioeconomic trends over time** – This section sets out a time series analysis based on key demographics such as age and gender, with a more detailed overview of reasons for inactivity.
- 4) Profiling the economically inactive stock**– An analysis of the key characteristics of the working age inactive (excluding students). This analysis includes a decomposition of the inactive across a number of different characteristics including skills, work history, age, geography, family unit, duration of inactivity and ethnicity/nationality.
- 5) A profile of inactive households** – An analysis of the characteristics of inactive households (including both inactive households and mixed households with at least one inactive household member).
- 6) Labour market flows** – An illustration of recent labour market flows between those of different economic status, and an investigation of the characteristics of recent entrants into inactivity.
- 7) Benefit level data**– This section reviews an audit of data on out of work incapacity related benefits.
- 8) Scaling the challenge** – This section highlights the scale of the changes required to reduce NI's inactivity rate to a level similar of the rest of the UK, and highlights which groups in society have the largest gaps in inactivity relative to the UK.
- 9) Summary and policy remarks**– This section provides a summary of key findings, provides policy remarks and identifies areas for further research.

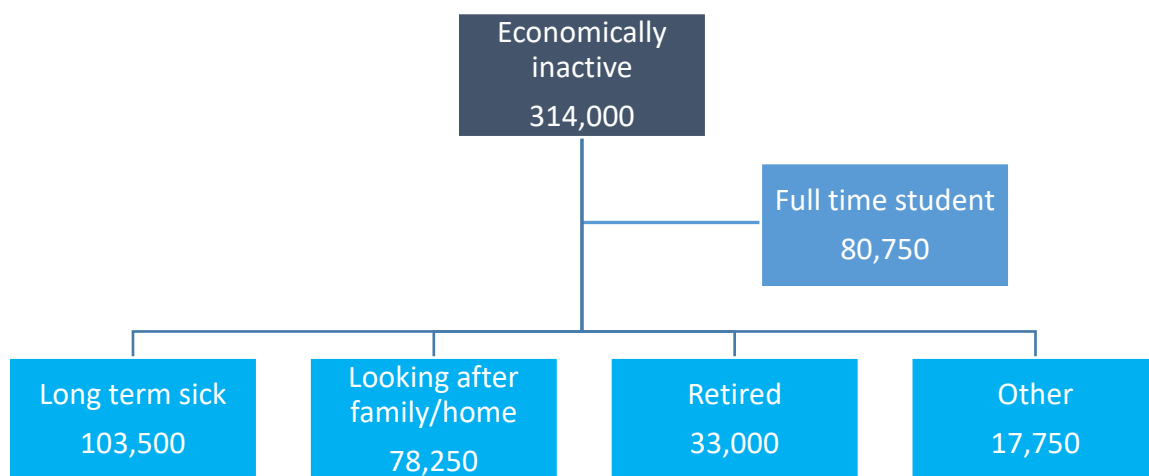
## 2. Recent trends in headline economic inactivity

This section presents time series trends and headline benchmarks to set the context for the study.

### Who are the economically inactive?

In the four quarters<sup>5</sup> to Q1 2016 there was an average of 314,000 economically inactive persons of working age<sup>6</sup>. Approximately one third of this group are people claiming long term sickness benefits. The second largest category of economically inactive people are full-time students (80,750), with the next largest category being people who are looking after their family and home (78,250). There are a relatively small number of people who have retired (33,000) before the age of 65. The smallest category within the economically inactive population are people who are inactive for other reasons such as temporarily sick, injured and discouraged workers.

*Structure of the economically inactive 16-64 population, Q1 2016 (4 quarter average)<sup>7</sup>*



**Source:** DfE, Labour Force Survey

Note: Totals may not add due to rounding.

Full time students represent a relatively large proportion of the overall inactive stock, accounting for 26% of the total. As full time education represents people investing in their human capital and skills development for the future this group are considered inactive for ‘positive’ reasons.

### Headline economic inactivity rate

Recent releases of the Labour Force Survey (LFS) have included an eye catching headline that in Q1 2016 NI has recorded the lowest working age economic inactivity rate on record at 26.9%. However, it is important to note that although the rate has decreased, NI still has the highest economic inactivity rate of all UK regions. Despite the rate falling, the gap between the NI and UK rates has widened to 5 percentage points as the UK’s inactivity rate has decreased at a more rapid, and consistent, pace (see chart overleaf, LHS).

The contribution of the different groups comprising the economically inactive population has changed significantly over the years. In particular, a higher participation rate in tertiary education

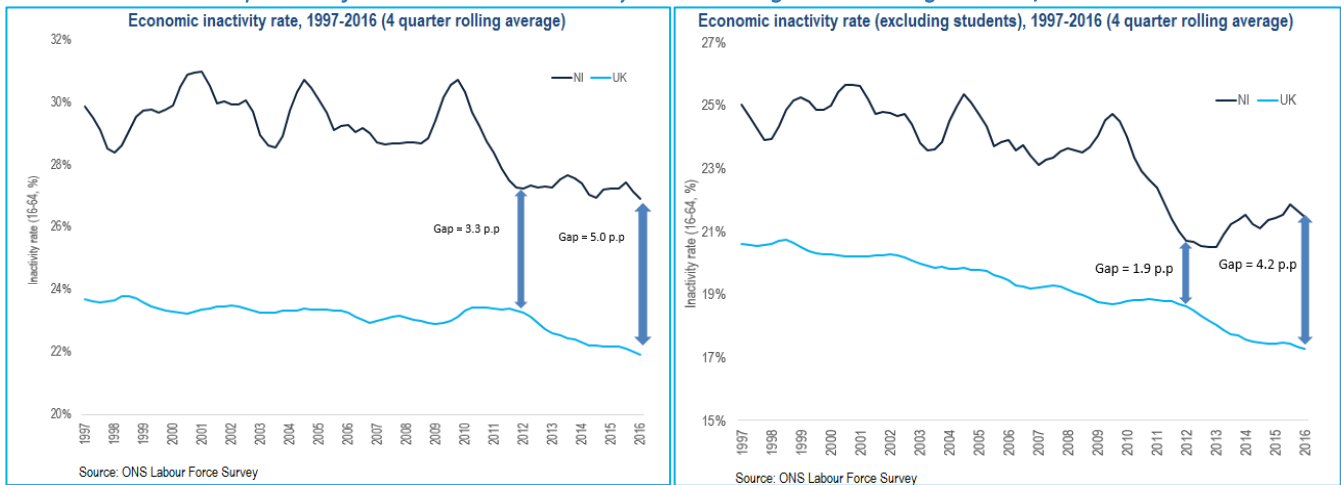
<sup>5</sup> All time-series analysis within this report is based on a 4 quarter moving average and will therefore not directly match published quarterly statistics. Using a 4 quarter average helps to smooth the data and minimises any fluctuations between quarters resulting from a relatively small survey sample.

<sup>6</sup> In this paper the working age population refers to all persons’ age 16-64.

<sup>7</sup> All figures quoted in this report from the Labour Force Survey are based upon a 4 quarter moving average.

has placed upward pressure on the headline economic inactivity rate. With this in mind we should consider the recent trends excluding students from the measurement (see chart below, RHS).

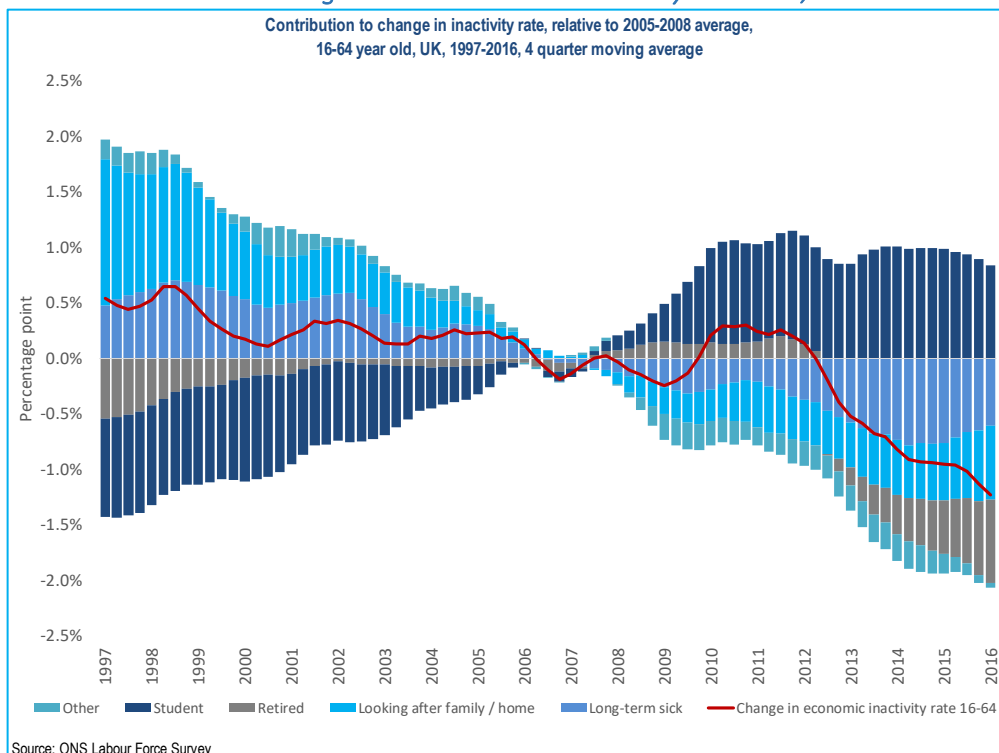
*Comparison of 16-64 economic inactivity rate including and excluding students, 1997-2016*



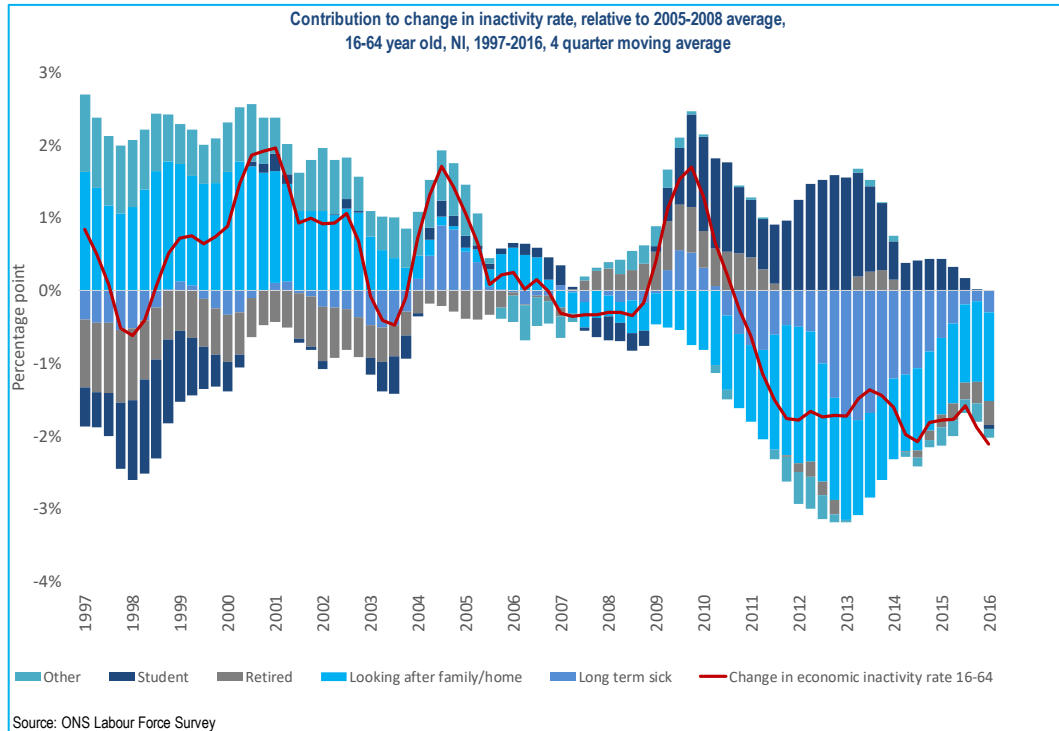
Excluding the student population, the inactivity rate illustrates a different trend, with the inactivity rate of the non-student population increasing since 2012 and widening the gap between NI and the UK. Therefore, the local labour market performance since 2012 has posted a performance very different than had been indicated by the headline rate. The increase in non-student economic inactivity since 2012 should be a point of concern for policy officials in NI, particularly when benchmarked against the fall recorded in the rest of the UK over the same period.

The drivers of change which have influenced NI's economic inactivity rate since the recession of the late 2000's differs from the trend observed in the UK. In the UK, relative to the 2005-08 average, only the increase in full time students has provided any significant upward pressure on the inactivity rate.

*Contribution to change in 16-64 economic inactivity rate – UK, 1997-2016*

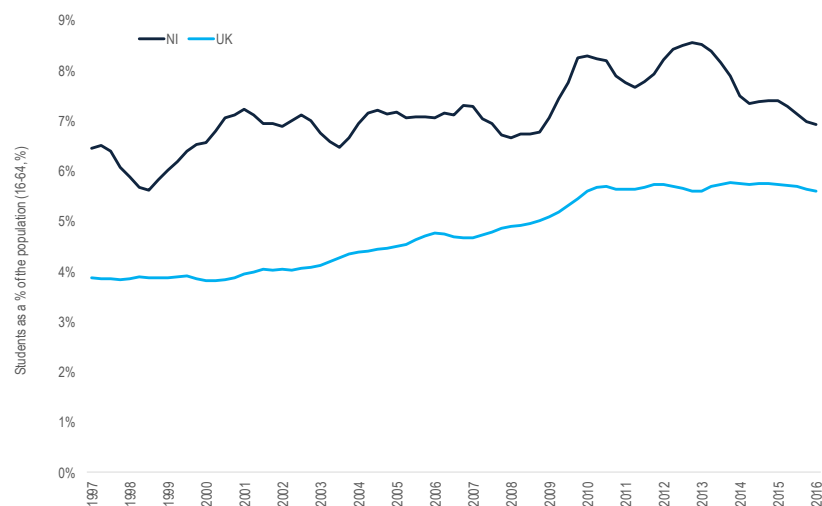


### Contribution to change in 16-64 economic inactivity rate –NI, 1997-2016



The recent trend in NI is one of decreasing full-time students, and the recent decline in full time student enrollments has provided significant downward pressure on the local headline inactivity rate. Despite the number of people who are long-term sick and looking after the family/home contributing towards a lower inactivity rate between 2008-13, in the past three years this trend has reversed and these large groups within the inactive population are now exerting upward pressure on the NI inactivity rate.

### Percentage of the 16-64 population who are full time students, UK and NI, 1997-2016



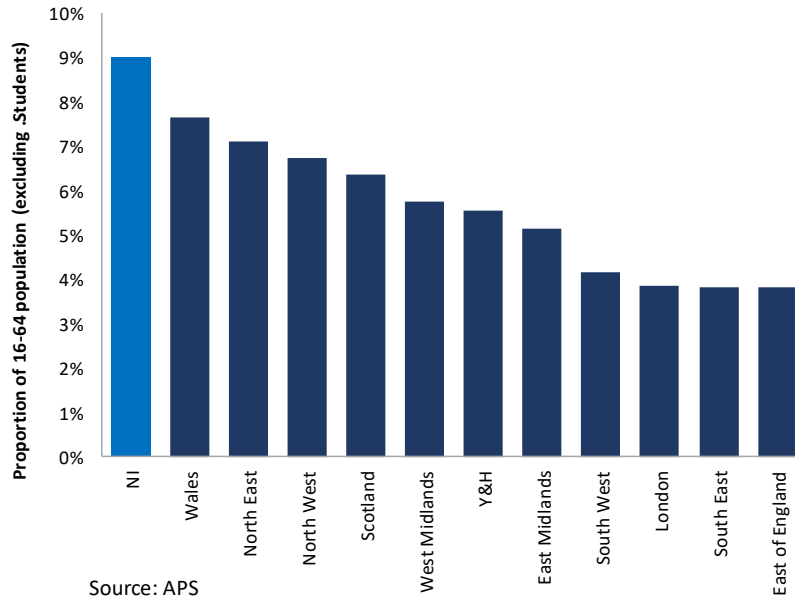
Despite the headline inactivity rate in NI being at its lowest point in the current 20 year series, it paints a false portrait of success. The recent decline has been largely driven by falling student enrollment. Initial post-recession successes in reducing the number of long term sick and people looking after the family/home have reversed in a trend not observed in the wider UK labour market.



## Long-term sickness

Among UK regions NI has the largest proportion classed as long term sick or disabled at 9% compared to 5% in the UK. Since 2004 when the Annual Population Survey (APS) started to collect the data, NI has topped the regional rankings on this measure in 44 of the 45 quarters on record<sup>8</sup> highlighting both the difficulty, and failure of policy over the past decade, to reduce the number of people on out of work incapacity related benefits.

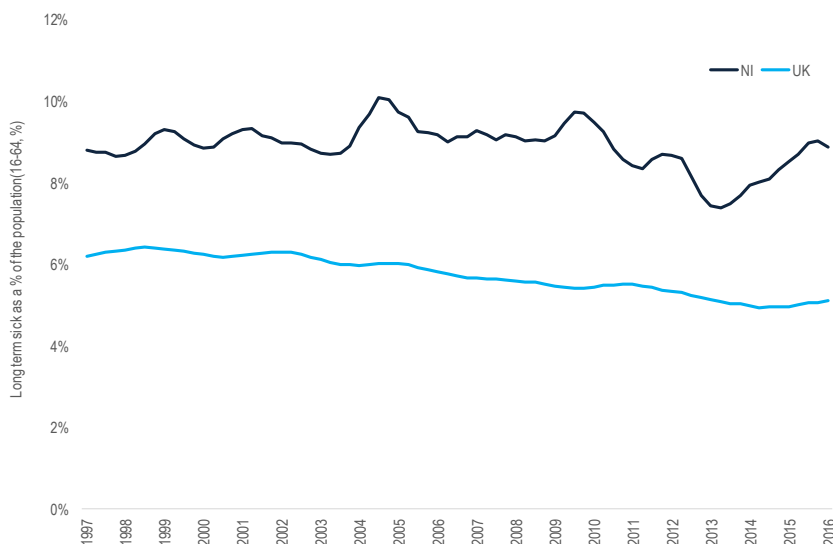
*Percentage of the 16-64 population who are long term sick (excluding students), UK regions, 2015*



Source: APS

The most recent trend observed since 2013 has been the sharp upturn in the proportion of the population who are inactive due to long term sickness reasons. The proportion of the population with this labour market status decreased to a low of 7% in Q1 2013. However, the incidence of long term sickness increased to 9% by the end of 2015, it's highest rate since mid 2010.

*Percentage of the 16-64 population who are long term sick, UK and NI, 1997-2016 (4 quarter rolling average)*



Source: ONS Labour Force Survey

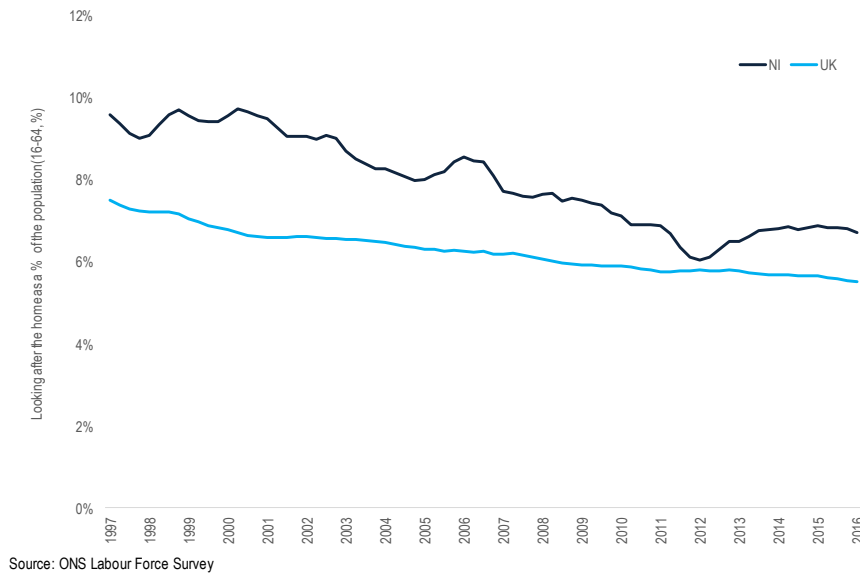
<sup>8</sup> The first data point available on the APS series relates to Q4 2004, with the data calculated on an average of the 4 quarters of 2004.

## Looking after family/home

Unlike long-term sickness/disability, the proportion of people looking after the family/home is not out of line with other UK regions. There are currently 7% of the population looking after the family/home, compared to 6% in the UK.

Although it is worth highlighting that NI has recorded a more rapid reduction in the proportion of the population with this labour market status compared to the UK over the past two decades, largely as the result of increases in female labour force participation throughout the 1990's and early 2000's. NI's proportion of people looking after the home almost matched the UK rate in 2012. However, over the past four years NI has experienced a slight increase compared to the UK where the proportion of people looking after the family/home has remained largely static.

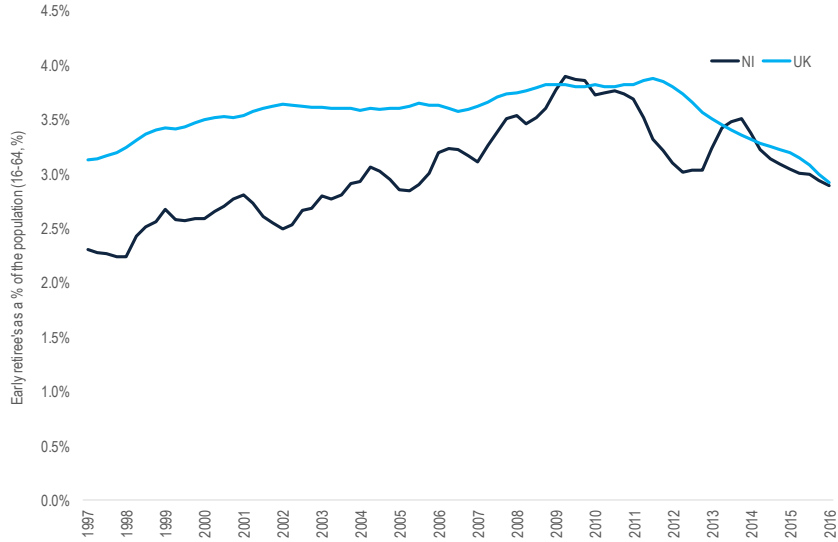
*Percentage of the 16-64 population looking after the family/home, UK & NI, 1997-2016 (4 quarter rolling average)*



## Early retirees

The proportion of the population who are retiring before the age of 65 steadily increased throughout the 1990's and early 2000's. Since 2010 the rate at which people retire early has decreased in a similar trend to the UK. This is attributable to a decrease in the proportion of early female retirees owing to changes in the female state pension age which is in the process of increasing from 59 to 66 by 2020.

Percentage of the population who are early retirees, UK & NI, 1997-2016 (4 quarter rolling average)



Source: ONS Labour Force Survey

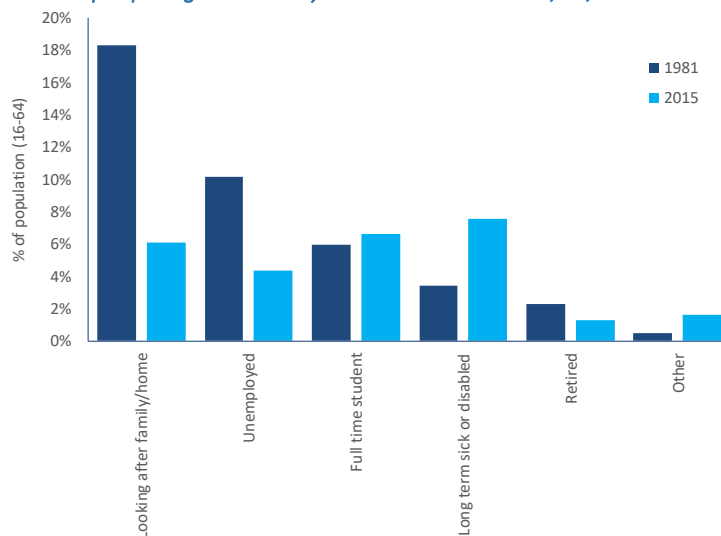
Other categories of the economically inactive population are too small to enable a statistically robust analysis of longer term trends.

### Longer term trends

Although the broad profile of the inactive population has only undergone relatively small changes over the 20 year period of the quarterly LFS series, some wider changes are evident when the labour market is compared over a longer time series using annual LFS data which predates the current quarterly series.

A comparison of today's labour market benchmarked against the 1981 equivalent highlights significant changes – both positive and negative. On the positive side, there has been a dramatic change in the proportion of people looking after the family/home. This has fallen from 18% to 6% between 1981-2015, and represents 86,000 less working age people being inactive. The change is largely attributable to a transformation in the female labour market, with womens' labour force participation increasing from 50% to 77% over the period.

Workless people aged 16-64 by labour market status, NI, 1981 versus 2015

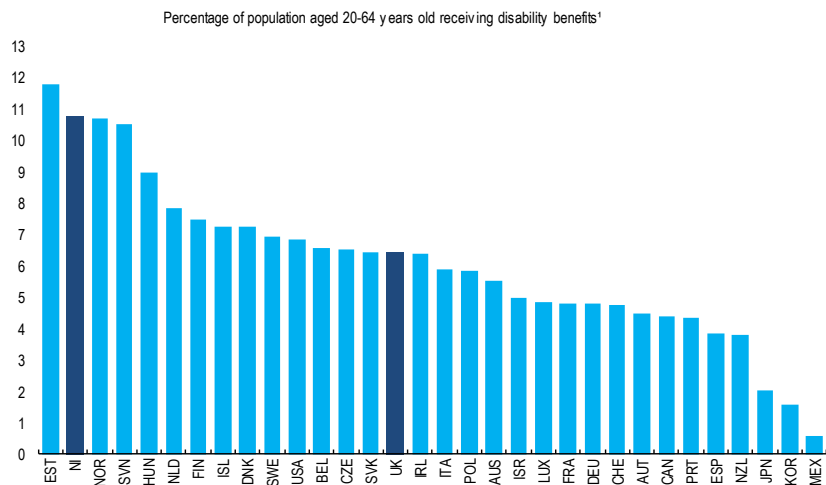


Source: LFS

Although today's unemployment rate is roughly half the rate recorded in 1981, there has been a significant increase in the proportion of the population suffering from long term sickness or are disabled. This has increased from 3% of the 16-64 population in 1981, to 9% in 2015. This amounts to an increase of some 74,000 people who are long term sick/disabled. This fact seems counterintuitive when one considers that the health status of the working age population has been increasing over time, as demonstrated by several health indicators. Although improved diagnosis and a reduced social stigma around issues such as mental illness are likely to account for some of the increase.

Today's high proportion of sick/disabled people has led to Northern Ireland having one of the highest rates of sickness/ disability benefit recipients amongst advanced economies (NI has the 2nd highest recipient rate amongst the OECD group of countries).

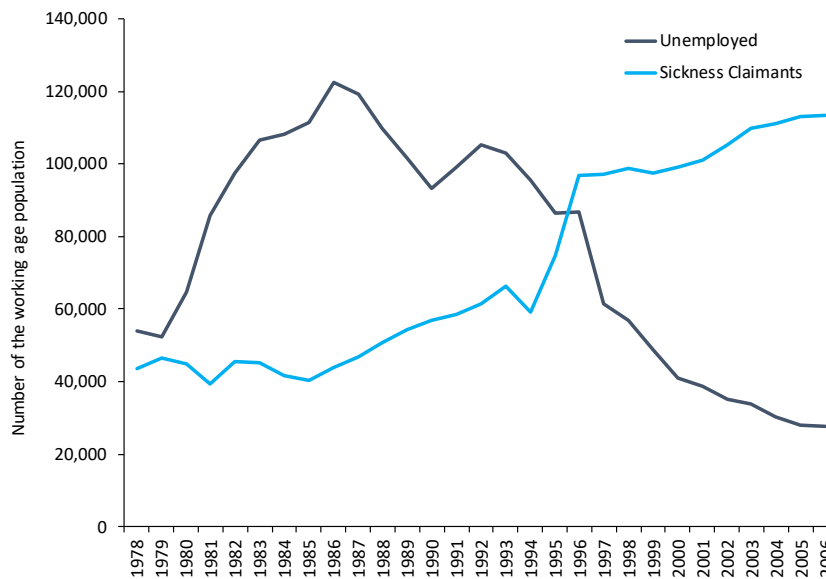
*Disability/sickness benefit recipients in OECD countries (latest available year)*



1. Disability benefits include benefits received from schemes to which beneficiaries have paid contributions (contributory), programmes financed by general taxation (non-contributory) and work injury schemes. UK and NI data relates to 2015. The last available year is 2014 for Estonia; 2013 for Australia, Czech republic, Finland and the United States; 2010 for Spain; 2009 for Mexico; 2008 for Austria, Japan and Korea; 2007 for Canada and France; 2005 for Luxembourg. For 2000, data refer to 2004 for Poland; 2003 for Japan and Mexico; 2002 for the Netherlands; 2001 for Ireland. For all other countries data relates to 2012.  
Source: OECD, ONS Labour Force Survey

Reform of unemployment benefits has played an important role in contributing to a lower unemployment rate, but concurrently led to a higher proportion of the population claiming out of work incapacity related benefits. Unemployment benefit recipients peaked in the mid-1980s at over 120,000, and has since experienced a long term decline to a lower equilibrium between 30,000-40,000 claimants. The significant drop between 1996 and 1997 was caused by the introduction of Job Seekers Allowance (JSA) in October 1996, which intensified monitoring of unemployed claimants' job-seeking behaviour was backed up by benefit sanctions in cases of non-compliance.

*Working age unemployed and sickness benefit recipients, NI, 1978-2006*



**Source:** DSD archive data

**Note:** This data has been constructed using archive data from the Department for Social Development

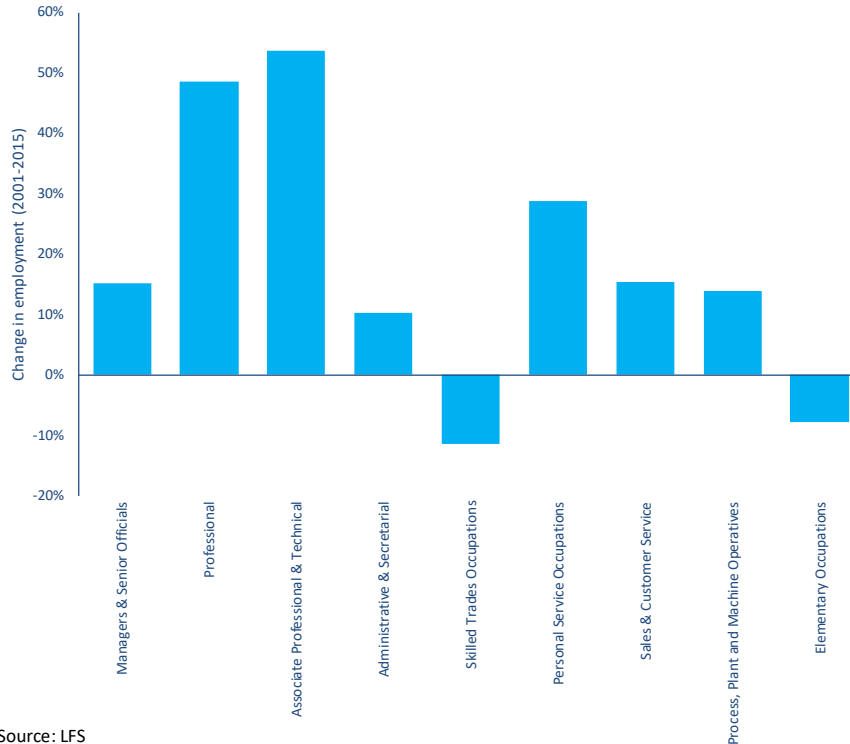
**Note:** The comparable dataset for more recent data is titled ESA and incapacity benefits caseload. However, data is not publically available to construct an unbroken time series from 1978-2016.

The movement towards a stricter unemployment benefit regime encouraged a number of people who had been claiming unemployment benefit to transfer to sickness benefits, which at that time represented a more passive form of assistance for out of work adults. This contributed to a sharp increase in sickness claimants with a correspondingly sharp decrease in unemployment claimants. The increase raised the sickness caseload to a higher 'structural' level, which it has remained above ever since.

The current caseload for Employment and Support Allowance (ESA) and incapacity benefits is 122,500. Sickness and disability benefits have become a benefit of the last resort for people unable to access, or remain in, the labour market. As noted above, one of the key reasons for this has been a UK policy change in the welfare to work programme.

Another reason contributing to the changed role of sickness and disability benefits are structural labour market changes. Skills-biased technological changes combined with globalisation have had a disproportionately large effect on low skilled workers. These global forces have led to a hollowing out of the labour market, with very few jobs created in occupations with mid-level skills and the overall majority of jobs created being concentrated in professional categories which require higher qualifications.

*Labour market polarisation, NI, change in employment by occupation, 2001-15<sup>9</sup>*



Long term sickness represents a ‘sticky’ labour market status. In other words, once people start receiving sickness benefits very few return to employment. The off-flow rates on key sickness benefits are very low which contributes to a much higher stock of sick people out of work following a downturn in the economic cycle. In times of economic difficulty disadvantaged people tend to be affected to a greater extent than the wider population. With a time lag this tends to increase the caseload on sickness benefits. The increase tends to create a new higher structural level for the caseload, which does not return to its previous level in the subsequent recovery.

This pattern leads to people spending a sustained period on sickness benefits. This raises two research questions relating to the economically inactive stock.

1. The characteristics of new or recent claimants is likely to be in contrast to people who have been inactive for a number of years. Therefore, a successful policy approach may have a strategy to minimise on-flows to economic inactivity and a separate strategy to address the barriers faced by long-term claimants.
2. The ‘sticky’ nature of an economically inactive labour market status has created an eclectic mix of people within the stock who have become inactive at different points in economic cycles over the past two decades and are therefore likely have varying characteristics and thus face a different range of barriers to labour market participation. Therefore, to actively inform policy development it is important to understand the profile and needs of the different inactive groups and the specific barriers which they face.

The remainder of this report will use the data available to investigate the characteristics of NI’s inactive, which will at the very least provide an evidence base which can be built upon.

<sup>9</sup> It should be noted that there are more sophisticated analytical methods which can demonstrate labour market polarisation. However, this analysis is beyond the scope of this paper.

### 3. Key socioeconomic trends over time

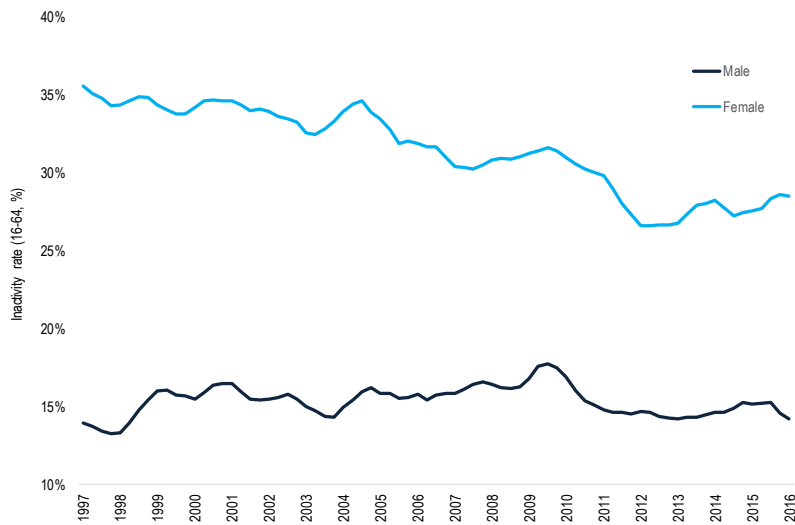
In this section we have undertaken an analysis of trends by age and gender over the past 20 years, to highlight differences between these major demographic groups.

#### Gender

In NI the female economic inactivity rate is approximately double the male rate at 29% and 14% respectively. Similar differences are observed in the rest of the UK, although UK rates are much lower at 11% for males and 22% for females.

*Economic inactivity rate aged 16-64 (excluding students), by gender, NI, 1997-2016*

Northern Ireland - Economic inactivity rate (excluding students), 1997-2016 (4 quarter rolling average)



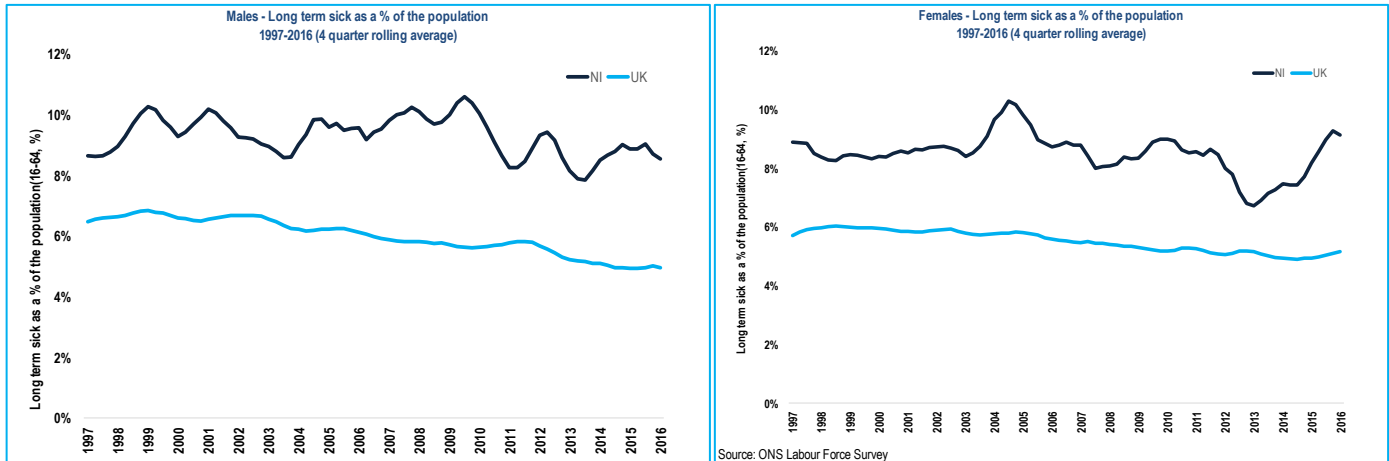
Source: ONS Labour Force Survey

One of the reasons for the higher inactivity rate amongst the female working age population is the much higher proportion of women who are ‘looking after the family/home’ – 12% of working age females compared to just 1% of working age males. Females account for nine-tenths of the total number of people who are looking after the home. Therefore, the chart previously presented for the total number of people looking after the family/home is largely reflective of a ‘female trend’<sup>10</sup>.

The proportion of NI’s population who are long term sick/disabled is markedly higher across both sexes relative to the UK. The most recent data indicates that 8.5% and 9.1% of the male and female working age population are sick/disabled, which compares to 5.0% and 5.2% in the UK. A particularly worrying trend in this data is the recent sharp increase in the proportion of long term sick females over the past 3 years to its highest point in over a decade.

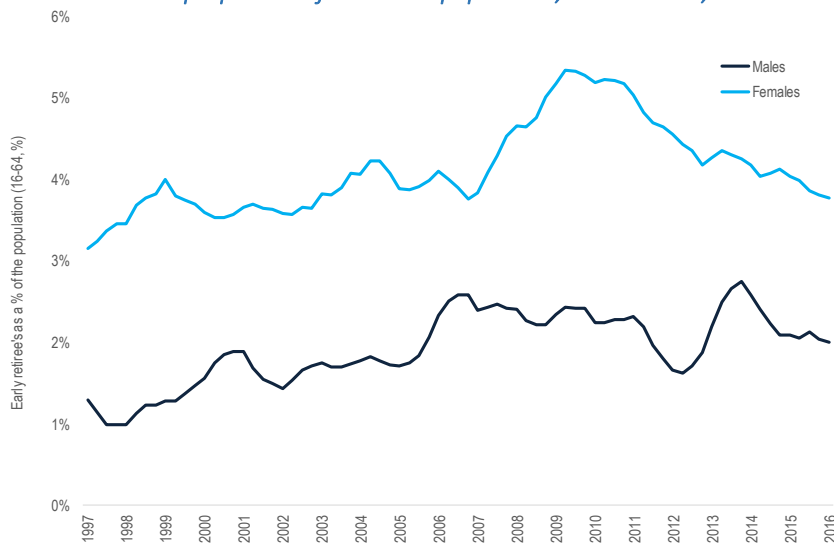
<sup>10</sup> Although the proportion of male’s looking after the family/home has increased over the past 20 years, it still represents a small proportion of the working age population. Therefore, a gender breakdown for this group has not been presented.

### Long term sick as a proportion of the 16-64 population, NI versus UK, 1997-2016



There is a different trend between the sexes with regard to the proportion of early retirees – i.e. the proportion of people who retire prior to age 65. The proportion of female early retirees has recorded a sharp decline over the past 5 years which can largely be linked to legislation regarding the State Pension Age (SPA). Until recently the SPA was 60 for women and 65 for men. The legislation plans for an equalisation of the SPA to 65 by 2018 followed by a further increase to 66 by 2020. Therefore, although the SPA will go up for both sexes, the increase from 60 to 66 over a 10 year period will affect females to a much greater extent than males. The trend since 2010 for females is expected to continue through to 2020, with a more marginal effect for males from 2018.

### Retirees as a proportion of the 16-64 population, NI versus UK, 1997-2016



Source: ONS Labour Force Survey

From a policy perspective inactivity due to early retirement can be considered in two cohorts. Firstly, people who have had successful careers, saved prudently and are able to finance their early retirement through their own wealth. Secondly, there is some forced retirement within this cohort of people. This represents people who have lost their jobs at a later stage in their careers and have been unable to secure alternative employment. They retire with less income and, as a result, a lower standard of living compared to their prior expectations. This second category of retired worker should be a public policy concern, and links directly to poverty rates amongst older people<sup>11</sup>.

<sup>11</sup> According to the NI Poverty Bulletin for 2014/15 13% of pensioners live in relative poverty after housing costs.

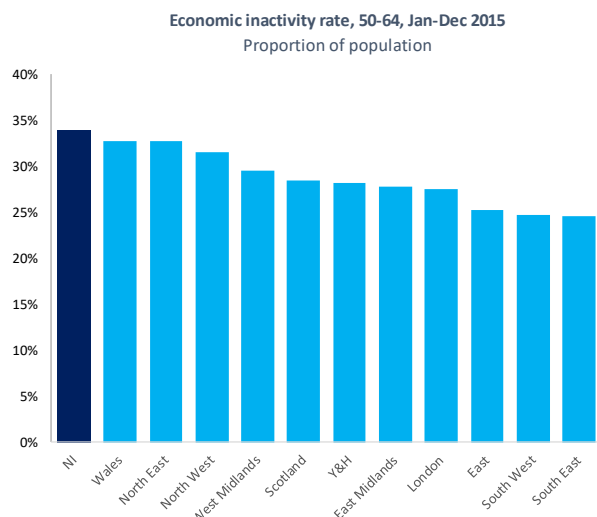
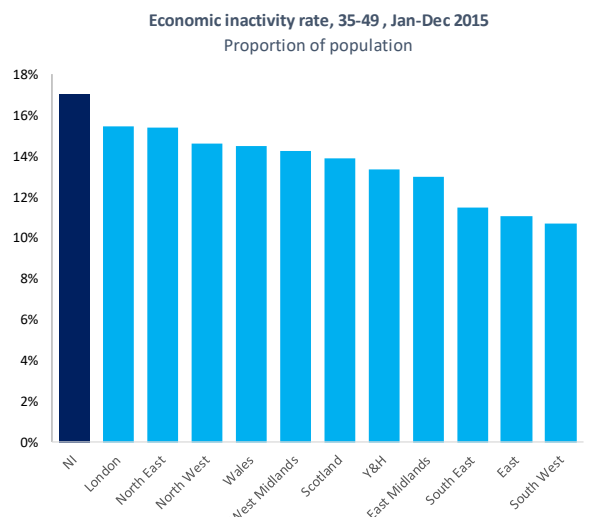
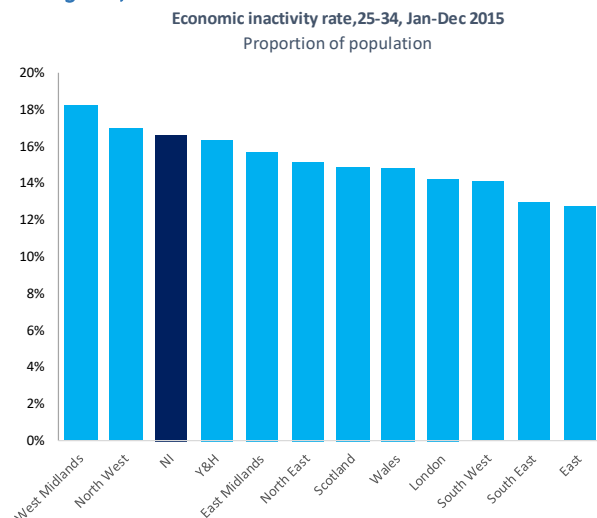
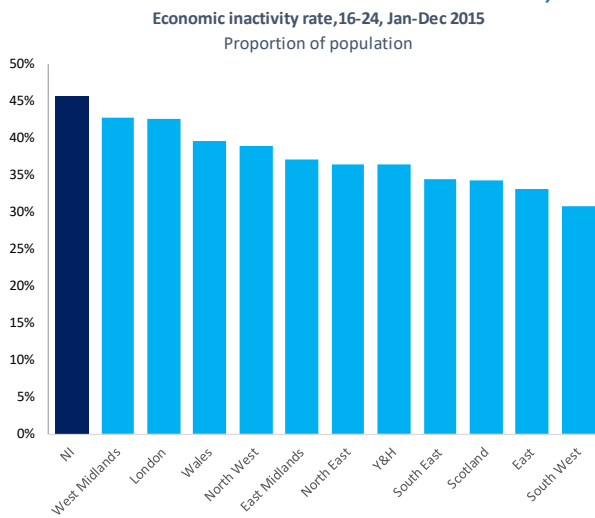


## Inactivity by age

NI has the highest economic inactivity rate of the 12 UK Government Office Regions amongst people aged 16-24, 35-49 and 50-64. The only age group where NI does not top the rankings is in the 24-34 age category, although it still ranks 3<sup>rd</sup> of the 12 UK regions. The inactivity rate amongst the 35-49 year olds records the largest percentage point gap to the next highest ranked UK region. Although NI's 50-64 year olds have the highest inactivity rate in the UK, their inactivity rate is only marginally larger than Wales and the North East (the next highest ranking regions).

People under 24 have the highest economic inactivity rate in NI, although this can be misleading as most students are under 24 and counted as economically inactive.

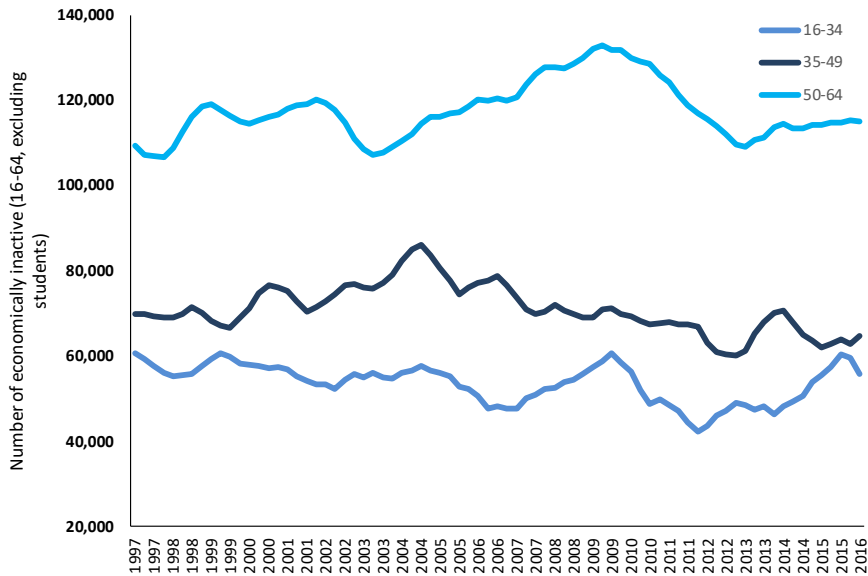
### Economic inactivity rate by age, UK regions, Jan-Dec 2015



Source: Annual Population Survey

Using slightly different age bands the inactivity rate for young people is much lower once full-time students are excluded from the analysis. The inactivity rate for persons aged 16-34 is reduced from 30% to 15% by removing students. Although this represents a low inactivity rate when benchmarked against older workers, the trend since 2012 has observed an upward rise from its lowest level in 20 years (42,250 in Q4 2011) to 60,250 by Q3 2015 – a level commensurate with the peak in economic inactivity recorded amongst young people in the aftermath of the late 2000's recession.

Number of economically inactive persons, 16-64 population (excluding students), 1997-2016



Source: LFS

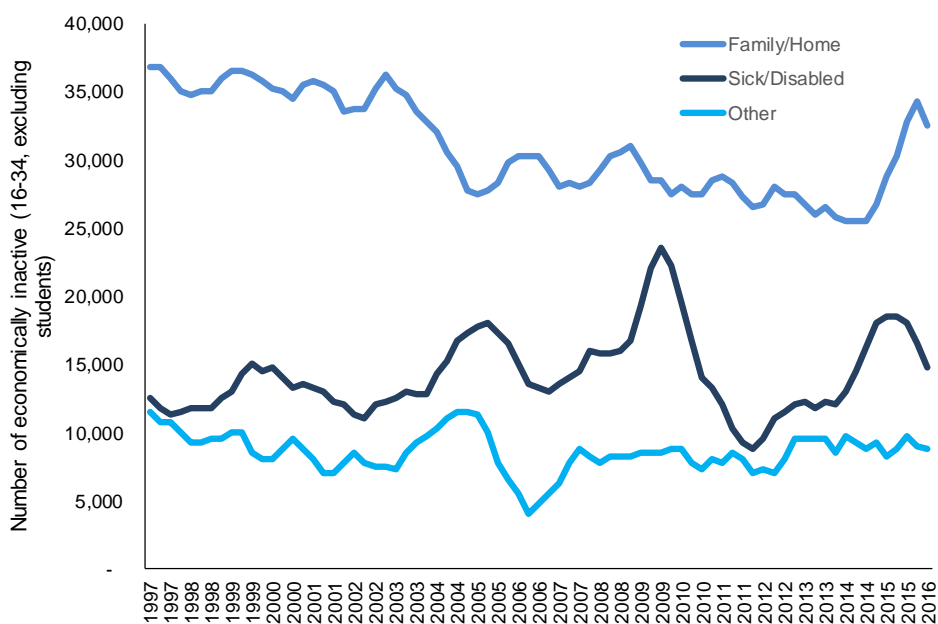
This increase has been driven by both an increase in the number of young people who are long-term sick/disabled and looking after the family/home.

The number of long-term sick young people reached its highest ever point during the recessionary period in 2009, peaking at 23,500. To put the scale of this in context, it is roughly equivalent to the number of young people who leave the school system each year<sup>12</sup>. The number then dipped to 8,750 during 2011 but has since increased to its current level of 14,750. Although this still represents a high number it should be noted that the number of long term sick young people has fallen in each of the past two quarters.

The number of young people who are looking after the family/home had followed a long term downward trend since the early 2000's. However, the most recent data indicates a sharp increase during 2015 and early 2016. The reasons for such a sharp increase are unclear without further research. However, it represents a significant deviation from trend.

<sup>12</sup> According to the Department for Education's School Leavers survey in 2014/15 the total number of pupils who left school was 26,460.

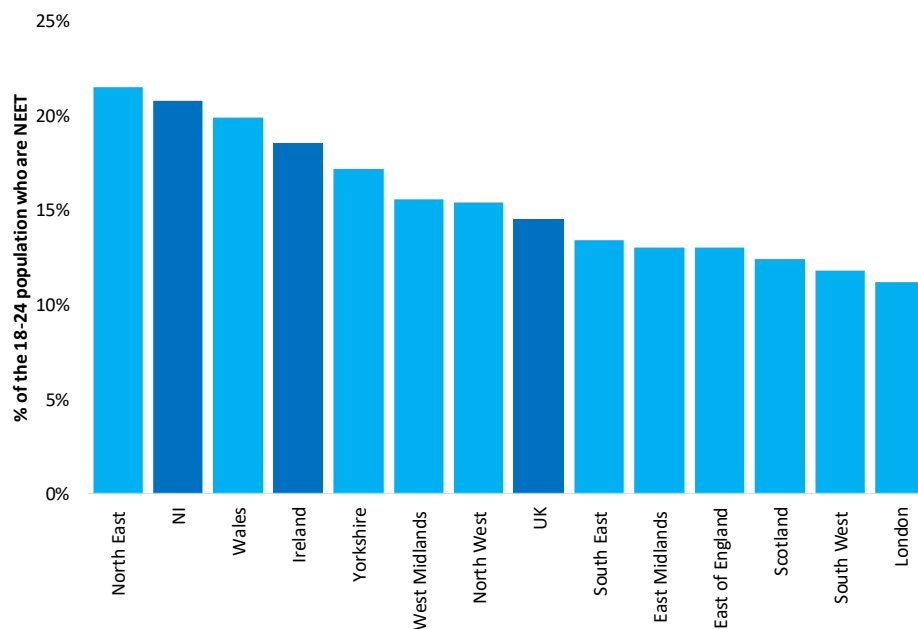
Number of economically inactive persons by reason, 16-34 population (excluding students), 1997-2016



Source: LFS

NI has the 2<sup>nd</sup> highest proportion of its population not in education, employment or training (NEETs) of the 12 UK regions, and a higher rate of NEET's than Ireland. In NI 21% of people aged 18-24 are classified as NEET, which is more than double the rate recorded in 2006 prior to the onset of the global financial crisis.

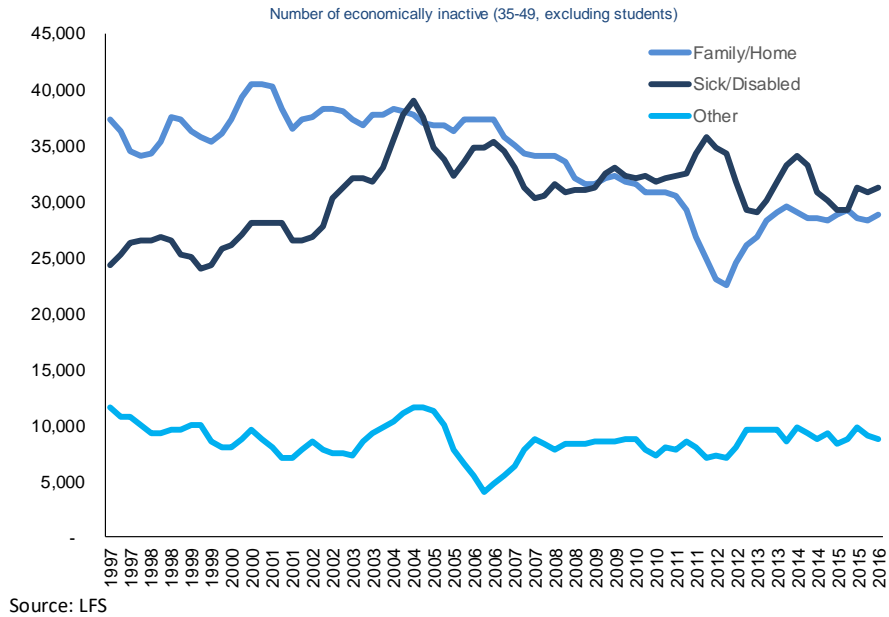
Young people aged 18-24 not in education, employment or training schemes, UK and Ireland, 2015



Source: Eurostat

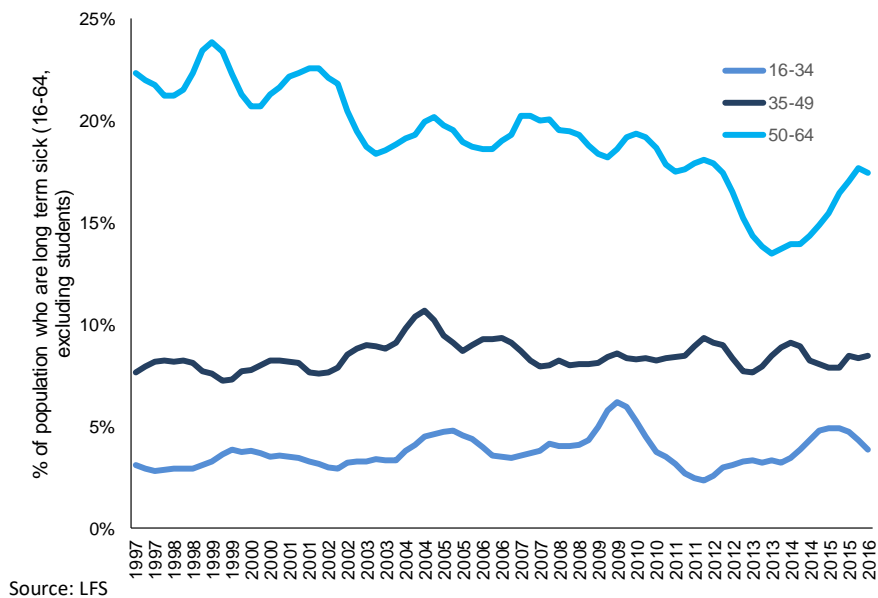
Within the 35-49 age group the number of long term sick/disabled people recorded a large increase in the 1990s and early 2000's, moving to a higher structural level where it has since remained. Over the past 5 years' sickness has been the most likely reason for a person to be inactive, having previously been people looking after the family/home throughout most of the 1990's and 2000's.

*Number of economically inactive persons by reason, 35-49 population (excluding students), 1997-2016*



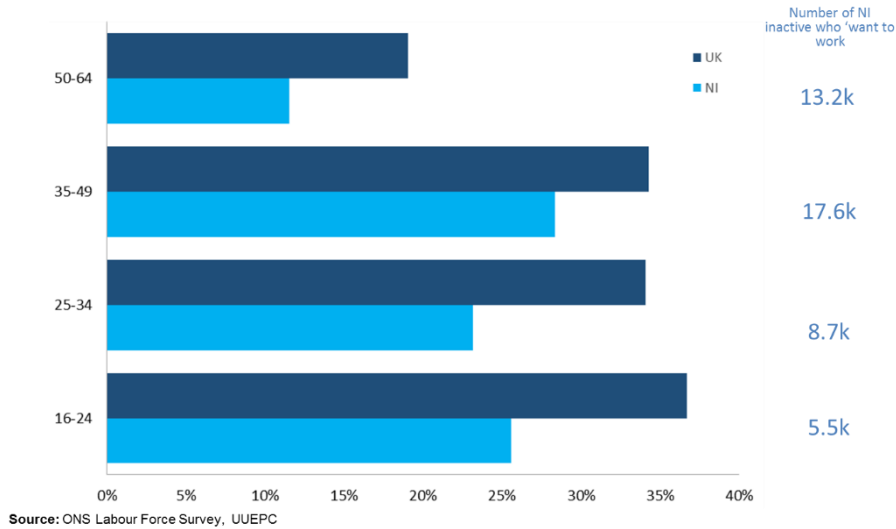
Another evident trend within age groups has been a sharp increase in the proportion of long term sick/disabled people in the 50-64 population. It seems likely that the rising state pension age has provided an incentive for older workers to spend the latter stages of their careers on sickness benefits prior to retirement. This should be of concern to policy makers if older people excluded from the labour market are turning towards sickness benefits as a last resort to support household incomes in cases where insufficient savings have been made to fund retirement years.

*Percentage of the population who are long-term sick (excluding students), 1997-2016*



The attitudinal characteristics of the economically inactive provide an important indication of the likelihood of being able to reduce the inactivity rate. For example, only 12% of the over 50's 'want to work', significantly lower than other population cohorts. The highest proportion of people who 'want to work' is found in the 35-49 age group (28%), followed by 16-24 year olds (26%) and lastly 25-34 year olds (23%).

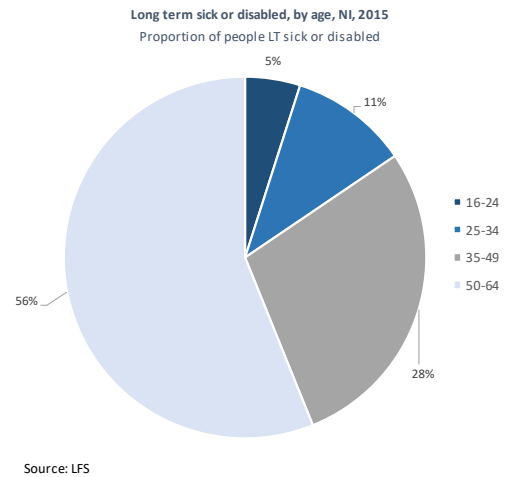
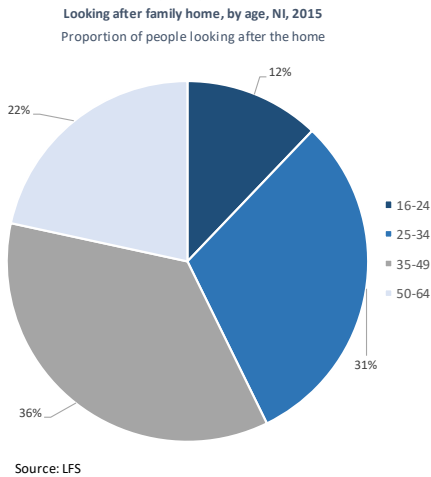
*Percentage of the 16-64 economically inactive (excluding students) who 'want to work by age, 2015*



Across all age bands the 'willingness to work' gap between NI and the UK is striking, this perhaps suggests a similar culture towards work in NI spans across generations. This is likely to be driven by a wide range of social and economic factors in addition to attitudinal differences.

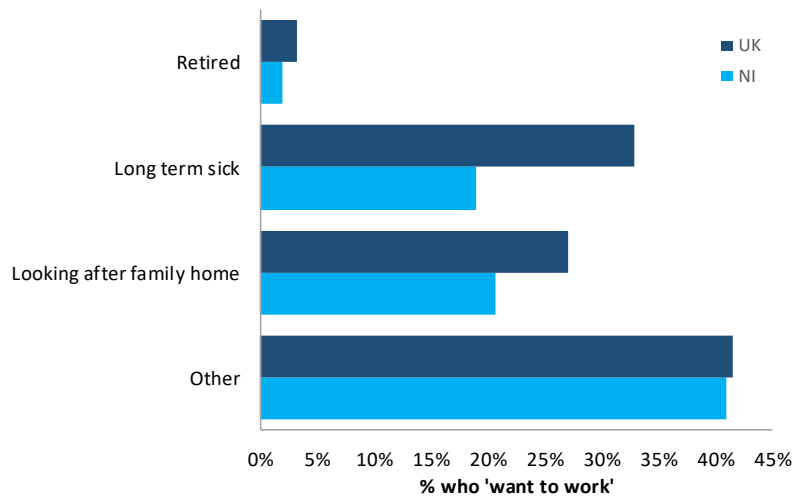
Although a low proportion of over 50's stated that they 'wanted to work', this still translates into a high number of people given the large stock of inactive over 50's. This group account for over half of the long term sick/disabled. People looking after the family/home are a younger demographic, with over three quarters aged under 50.

*Percentage of the 16-64 economically inactive (excluding students) by reason and age, 2015*



The demographic profile highlights the huge challenge in moving large numbers of people from a long-term sickness/disabled status into employment. The lower rates of older people wanting to work feeds through into a low proportion of long-term sick/disabled people who want to take a job (19%).

*Percentage of the 16-64 economically inactive (excluding students) who 'want to work' by reason, 2015*



Source: LFS

Despite the more youthful age profile of people looking after the family/home, only a marginally higher proportion 'want to work'. Although it is a different set of barriers which prevent this group from 'wanting to work'.

One obvious barrier is the cost of childcare, with a high proportion of people in this category having children. The average cost of a full-time private childcare place in 2015 was £164 per week<sup>13,14</sup>, which accounts for 42% of the net income for a full-time employee earning the median wage. Within a household context it is a greater cost than the average weekly mortgage payment (£128) and over 2.5 times average NI household weekly spending on food and non-alcoholic drink (£64).

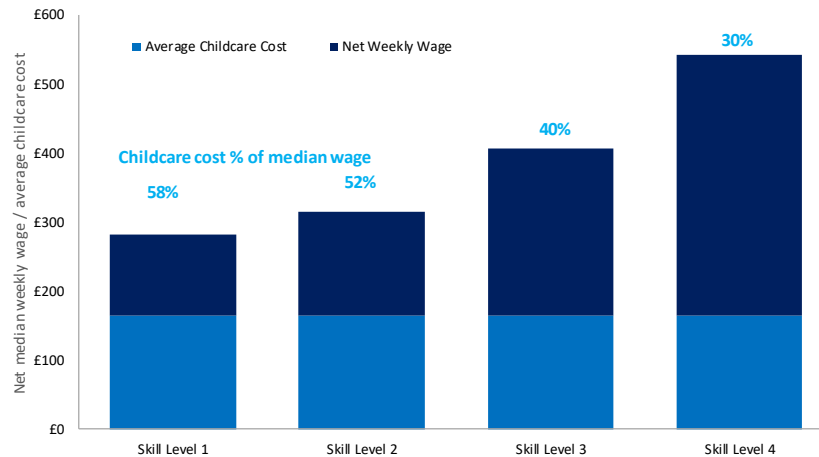
Median earnings range significantly between low skilled and high skilled workers, and therefore represent a much greater cost burden for people in lower skilled jobs. The average cost of a full-time childcare place represents 58% of the net income for a worker in the lowest skill's category. Given the low qualifications profile of the economically inactive population this cost acts as a disincentive to participation in the labour market.

It should be noted that the cost of a childcare place accounts for 30% of net wage for employees in high skill occupations. This is still a significant cost and is also a labour market barrier for high skilled workers. However, empirical research finds that the effects of children on labour force participation tend to be greater amongst mothers employed in lower skill occupations.

<sup>13</sup> The average cost with a full time child-minder was £170 per week, and the cost of a place at a day nursery was £158.

<sup>14</sup> Dennison, R. (2015) Northern Ireland childcare cost survey, Employers for Childcare.

### Net earnings by skill level and the cost of a full-time childcare place, 2015



Source: ONS Annual Survey of Hours and Earnings, NI Childcare cost survey

Note 1: The SOC2010 classifies jobs into groups according to the concept of 'skill level' and 'skill specialisation'

Note 2: Gross to net adjustments are consistent with the 2015/16 tax year.

A new research paper from the Centre for Economic Performance at the London School of Economics<sup>15</sup> highlights very different behaviour between low skills and high skilled workers in response to having children. The research found a very limited impact on workforce participation among mothers who have one child. However, the proportion of women in unskilled jobs working more than 20 hours a week fell after the birth of their second child. Very little change in labour force participation was observed amongst mothers in skilled jobs following the birth of a second child.

### Concluding remarks

People over 50 years old comprise just under half (49%) of the 16-64 inactive stock, yet represent three quarters (75%) of working age people who are long-term sick/disabled. Higher rates of sickness are to be expected amongst older population cohorts as the probability of contracting an illness increases with age.

An important research and policy question is whether or not the over 50's of future years will record the same rates of sickness as today's over 50's. If the current 35-49-year-old cohort can avoid recording economic inactivity rates as high as today's over 50's when they become older and move into the 50-64 age cohort, then the overall 16-64 rate will decrease over time as today's 50-64 inactive population move into the 65+ age category.

The recent rise of the proportion of the 50-64 population who are long-term sick/disabled is a reversal of a long term decline in the proportion of sick older workers aligned to health improvements. The recent rise appears to be correlated with changes to the state pension age, with a larger number of older workers choosing to claim sickness benefits. Therefore, channels for older workers to transition into retirement are an important consideration. This includes, among other things, the availability of employment opportunities for older workers (particularly part-time/flexible contracts) and the ability of today's workers to save for a pension to avoid incentives to transition to out of work benefits in later years.

Although the inactivity rate for young people aged under 35 is comparatively low it still represents a sizable number of persons given NI's relatively youthful population profile. The recent upward trend in inactivity amongst young people is concerning. The number of inactive persons aged 16-34, excluding students, is now almost at the same level as the number of inactive people aged 35-49. At

<sup>15</sup> Hupkau, C. & Leturcq, M. (2016) Fertility and Labour Supply: New Evidence from the UK

56,000 the total number of non-student inactive persons under 35 is now over one third larger than the total number claiming unemployment benefits (36,000). Minimising the inflow of younger people into long term-inactivity should be an immediate priority for NI.

A sharp rise in female rates of sickness, and people under 35 who are looking after the home suggest that young people, particularly females are facing barriers preventing participation in the labour market. A lack of access to affordable childcare is likely to be a key reason behind this trend, with current the current cost of a full time childcare place rendering working full time unaffordable for low skilled and low wage workers.



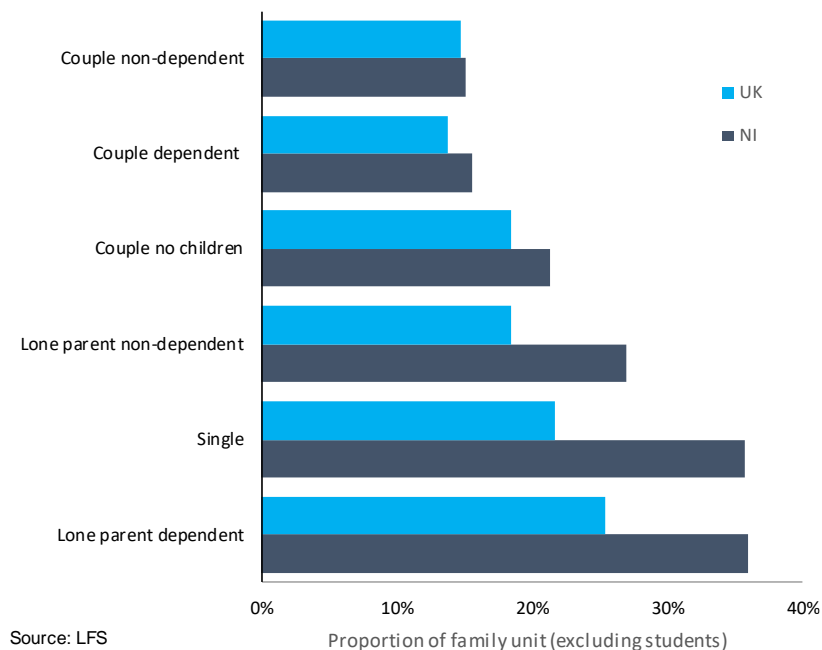
## 4. Profiling the economically inactive stock

In this section we have undertaken an analysis of the economically inactive stock in NI, and compared the characteristics of NI's inactive population to the UK. The analysis has been undertaken using the LFS, based upon an aggregation of quarterly data. The base for analysis is the working age population, defined as those aged 16-64, excluding full-time students.

### Family structure

Economic inactivity rates tend to differ quite significantly by family type. For example, the inactivity rate is as low as 15% for people who are part of a family unit comprised of a couple with non-dependent children<sup>16</sup> and as high as 36% for lone parents with dependent children.

*Percentage of the 16-64 economically inactive (excluding students) by family unit, 2015*



The proportion of inactive people in families comprised of a lone parent with non-dependent children is also particularly high at 27%. As this group represents parents with an older child it suggests a long term detachment from the labour market, and barriers preventing entry to the labour force after a long period of absence.

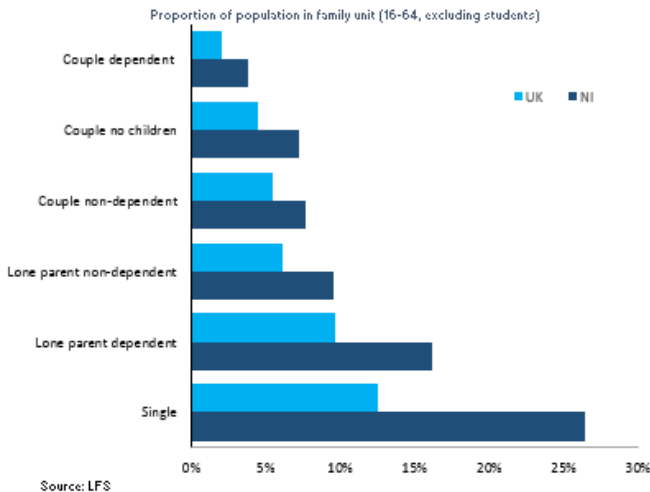
The proportion of inactive people living in single person family units is also particularly high at 36%, which compares to 22% in the UK.

The reasons for inactivity also differ significantly between different types of family units. Over one in four single people are inactive due to long term sickness/disability whereas the highest proportion of people who are inactive for reasons looking after the home are lone parents with non-dependent children (25%).

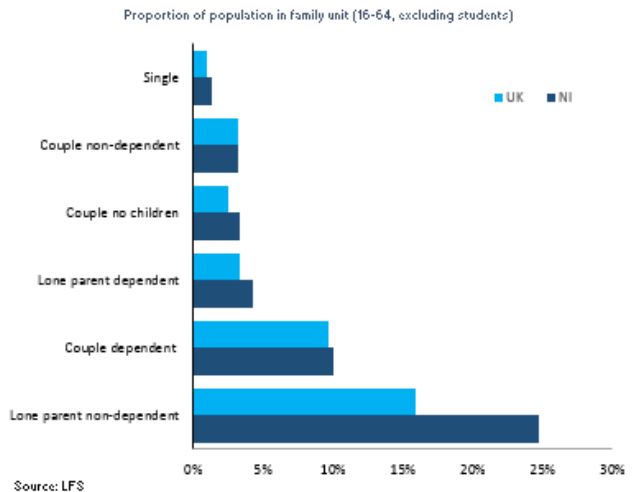
<sup>16</sup> Dependent children are those under 16 years old and those never-married aged 16 to 18 in full-time education. Non-dependent children are those aged 19 or over and those aged 16 to 18 who are married and/or not in full-time education.

*Percentage of the 16-64 population who are economically inactive by family type by reason, 2015*

**Long term sick as a proportion of the family unit population, 2015**



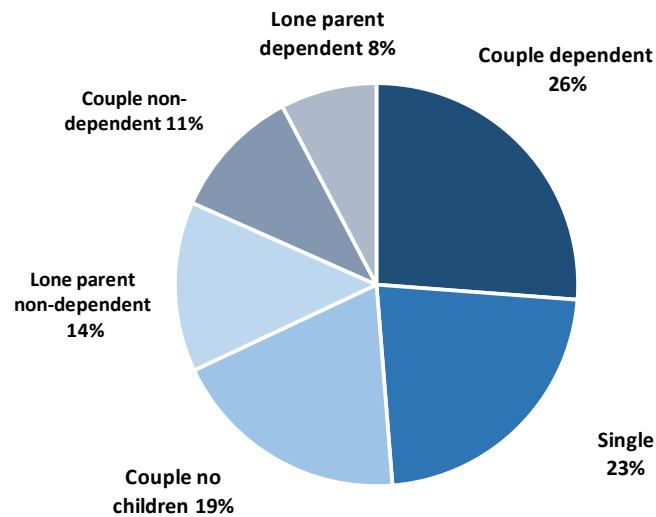
**Looking after the family and home as a proportion of the family unit population, 2015**



When interpreting the inactivity rates amongst different groups, it is important to consider the size of each group. For example, although the inactivity rate of a couple with dependent children is low relative to a lone parent with dependent children, the former still represent over a quarter (26%) of the total stock of people who are economically inactive whereas the latter represent less than one-tenth (8%). Therefore, a 1 percentage point reduction in the economic inactivity rate of a couple with dependent children would have a greater impact on reducing the overall economic inactivity rate than an equivalent percentage point reduction in the inactivity rate of lone parents with dependent children.

*Distribution of economic inactivity by family unit, 16-64 population (excluding students), 2015*

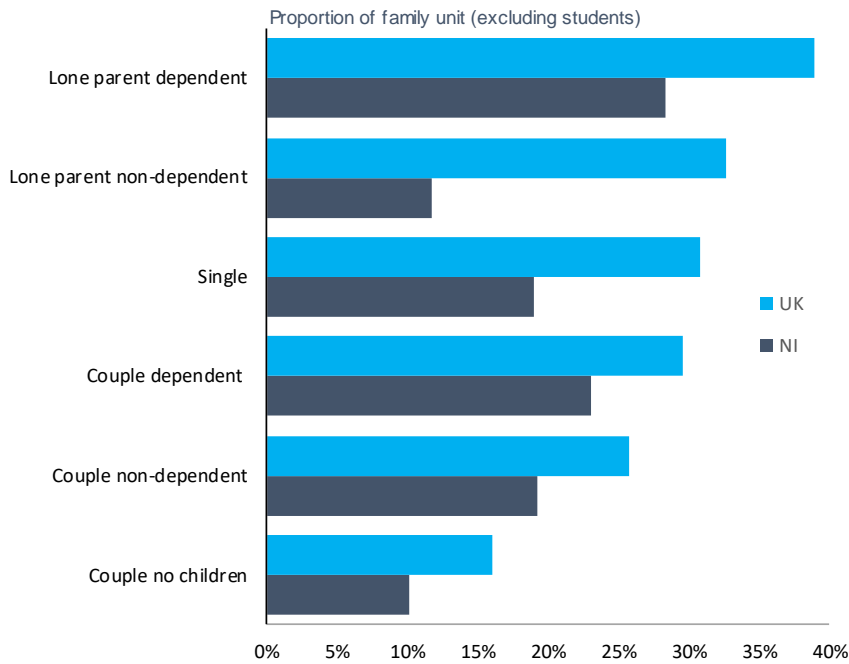
Proportion of total inactive aged 16-64 (exc. students)



Source: LFS

Although lone parents with dependent children represent a relatively small proportion of the total stock of economically inactive people, they have the highest proportion of people who 'want to work'. A couple with no children expressed the weakest sentiment towards working, with less than one in ten reporting that they 'wanted to work'. This will create challenges in reducing the overall rate as this family unit type accounts for almost one fifth of the total stock.

Proportion of the inactive who 'want to work' by family unit, 16-64 population (excluding Students), 2015



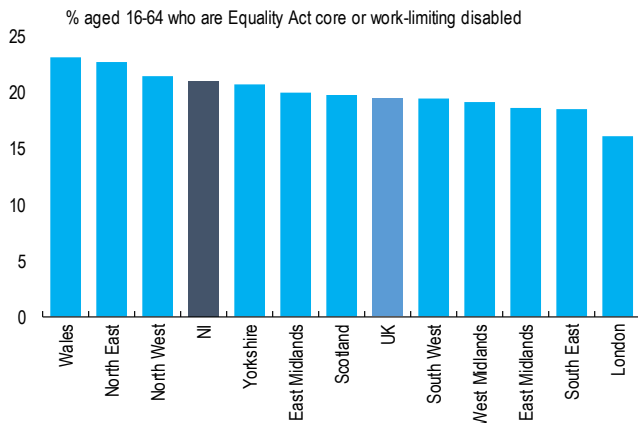
Source: LFS

Health and disability status

Health and in particular disability<sup>17</sup> also has a significant impact on economic activity status. The prevalence of disability in NI is only marginally higher than the UK average (21% compared to 19%). However, the levels of economic activity for those with a disability is significantly lower than all other regions in the UK (40% compared to a UK average of approximately 55%).

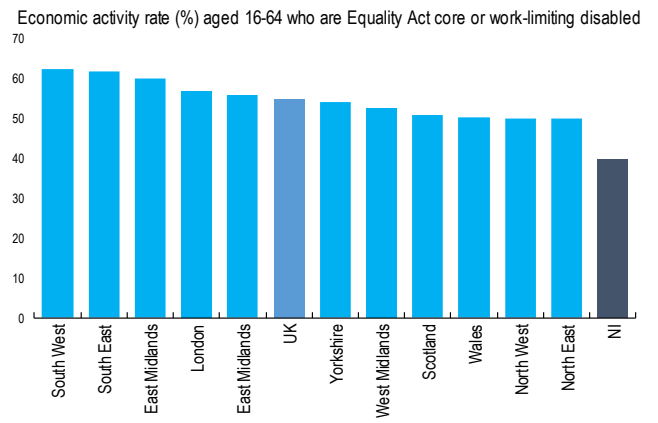
Prevalence of disability, and the disability inactivity rate (16-64 population), 2015

NI ranks 4th on the prevalence of disability in the population (2015)



Source: APS, ONS

NI has the lowest disabled economic activity rate - 9.9 p.p. below the next ranked region



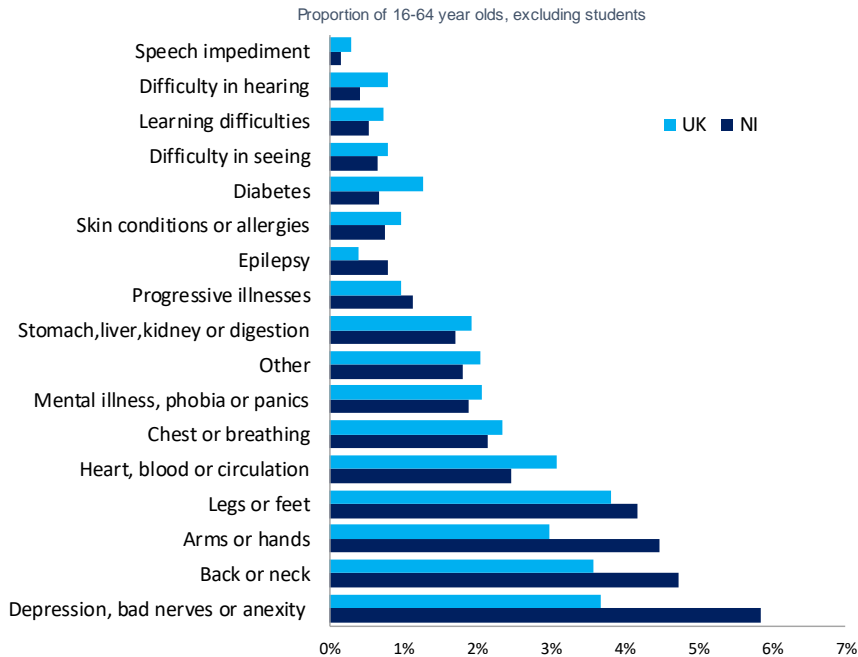
Source: APS, ONS

In terms of the specific health conditions giving rise to the disability, the trends in NI are broadly similar to those in the UK. Most of the conditions identified are proportionally more prevalent in the UK as a whole compared to NI, however, there are a small number of conditions in which NI has proportionally

<sup>17</sup> Disability is defined according to the Equality Act, and persons who report a work limiting disability.

greater incidence relative to the UK. These relate most significantly to mental health, but also neck/back problems and issues with arms and hands. From a policy perspective targeted interventions to address these specific issues could be a policy priority.

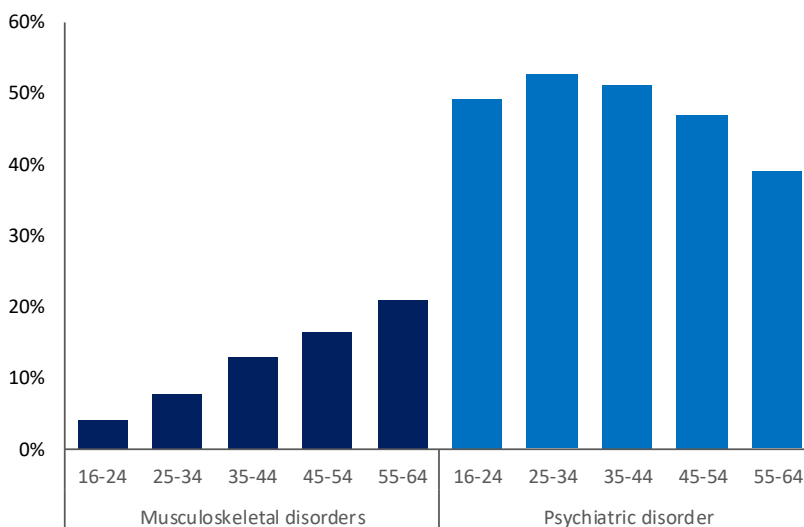
*Health condition as proportion of population, NI versus UK, 2015*



Source: ONS, LFS

An analysis of ESA claimants highlights that the reasons preventing young people from working are very different to those of older people. There is little difference between older and younger people with regard to mental illness. In fact, a higher proportion of people in the under 35 age group cite mental illness as their primary health condition than in the over 45 age group. This indicates that mental illness is prevailing at an earlier age and that fewer young people suffer the types of physical illnesses that are observed amongst older people.

*Health condition as proportion of population, NI, 2015*



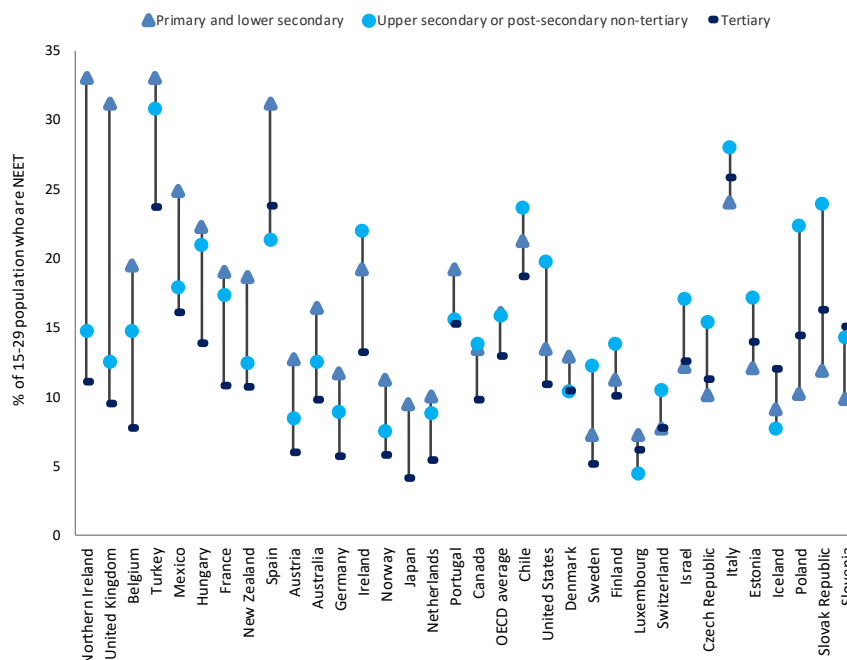
Source: Department for Communities

## Skills

The world of work has changed considerably over the past two decades, with employers becoming increasingly more ‘qualifications hungry’. For example, in NI 37% of people in employment have a tertiary level qualification compared with just one in four at the turn of the millennium.

Being a young person with a low level qualification in the NI labour market can be unforgiving. Only 11% of people with a tertiary level qualification in NI are Not in Employment, Education or Training (NEET). This compares to 15% of people qualified to upper secondary or post-secondary non-tertiary level qualification, and 33% of people qualified to lower secondary level and below. The gap in the NEET rate between the lowest skilled and the highest skilled is higher in NI than any other OECD country.

*NEET's by skill level, aged 15-29, 2015*



Source: OECD, ONS LFS, UUEPC

Note: NI and UK figures relate to 2015. Data from other countries is based on 2013 data.

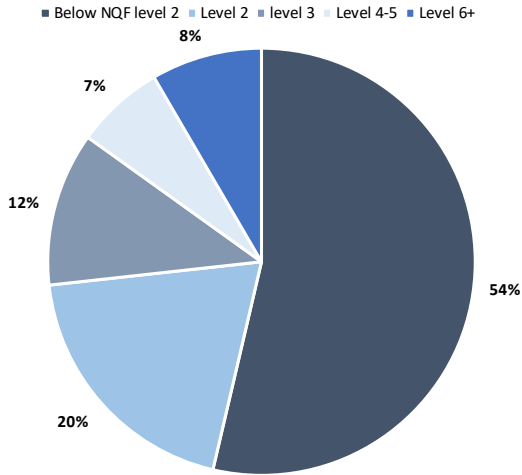
This widening of participation in tertiary level education has provided a squeeze on job opportunities for lower skilled workers. With the increase in the number of tertiary qualified younger workers, not all of these people are able to obtain ‘tertiary level’ employment and secure employment in jobs previously considered ‘non-graduate’ roles. In the 2015 Employer Skills Survey (ESS) 37% of NI employers reported having staff who had qualifications more advanced than required for their job role. In the 2012 OECD Survey of adult Skills about 30% of workers in England and NI reported that they have higher qualifications than was deemed necessary to obtain their job – the highest rate of over-qualification amongst the 24 participating countries after Japan.

These trends in formal qualifications have made it difficult for lower skilled workers to access labour market opportunities. Over half (54%) of working age inactive people have failed to achieve 5 GCSE grades A-C (NQF level 2), whereas more than three quarters (76%) of people in employment have higher qualifications than this. It should be noted that the overall qualification profile of people in employment is skewed downwards by older workers who are skilled but have a lower level of formal qualifications, meaning that the qualifications profile of the inactive is even further out of sync with the labour market than indicated by the graphic below.

*Skills profile of the economically inactive and those in employment, 2015*

**Economically inactive, Skills profile, NI, 2015**

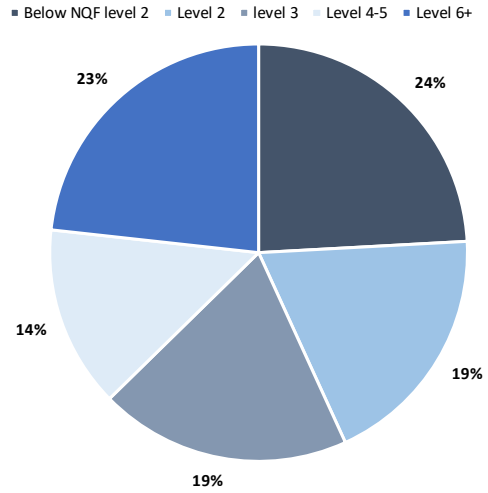
Highest level of qualification (NQF) as proportion of total inactive aged 16-64 (exc. students)



Source: LFS

**Employed, Skills profile, NI, 2015**

Highest level of qualification (NQF) as proportion of employed aged 16-64 (exc. Students)



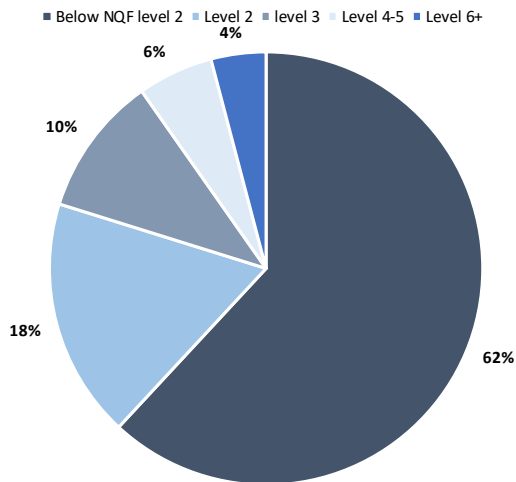
Source: LFS

Within the stock of the economically inactive both of the main categories of inactivity have a qualification profile weighted towards low academic achievement. Less than one-tenth of long term sick/disabled people and 13% of those looking after the family/home have a tertiary level qualification. This is not aligned with the current labour market demand for qualifications, and will act as a barrier to these individuals obtaining employment.

*Skills profile of the long term sick/disabled and people looking after the family/home, 2015*

**Long term sick, skills profile, NI, 2015**

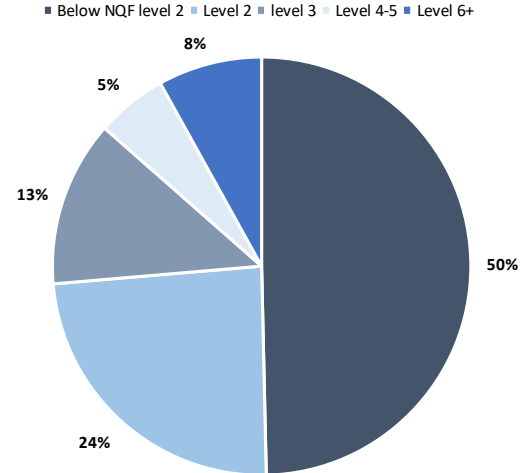
Highest level of qualification (NQF) as proportion of long term sick aged 16-64 (exc. Students)



Source: LFS

**Looking after family/home, skills profile, NI, 2015**

Highest level of qualification (NQF) as proportion of looking after family/home aged 16-64 (exc. Stud)

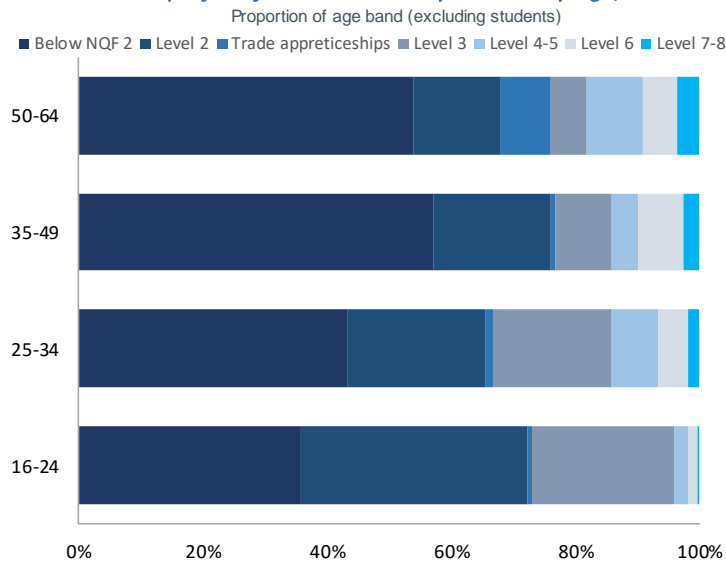


Source: LFS

Within the economically inactive stock the over 50's and persons aged 35-49 have the lowest qualification levels, with 36% and 57% respectively having qualifications to a level below NQF level 2.

However, it should be noted that the qualifications profile of inactive young people is very low. For example, 43% of people aged 25-34 are qualified to a level below NQF level 2, which compares to 20% for employed people within the same age category. Similarly, 36% of inactive people under 25 are qualified to level below NQF level 2, compared to 18% of employed people within the same age band.

### Skills profile of the economically inactive by age, 2015



There is a strong link between low academic achievement and economic inactivity levels. This is confirmed in an extensive list of research publications. Low achievement amongst young people in NI continues to be an area of weakness. Although NI performs well at the top end of the education spectrum with regard to the number of A/A\* A-level grades, too many people leave school with no/low qualifications. In 2014/15 34% of the 22,361 school leavers left school with less than 5 GCSE's including English and Maths, which is considered the minimal acceptable level of education by most employers.

Based on current levels of achievement and demographic projections it is estimated that over the next decade approximately 73,000 school leavers will leave school without achieving 5 GCSE's including English and Maths.

However, it should be noted that very few of this group of school leavers directly enter the labour market. Over three quarters (78%) of pupils leaving with qualifications below A-level enter Further Education (FE) or training schemes upon leaving school. Although many improve upon their existing level of qualification the majority of enrolments in FE and training programmes are in courses at NQF level 2 and below.

Unless performance in this area improves it can be expected that the long tail of underachievement in education will continue to place pressure on the economic inactivity rate in future years.

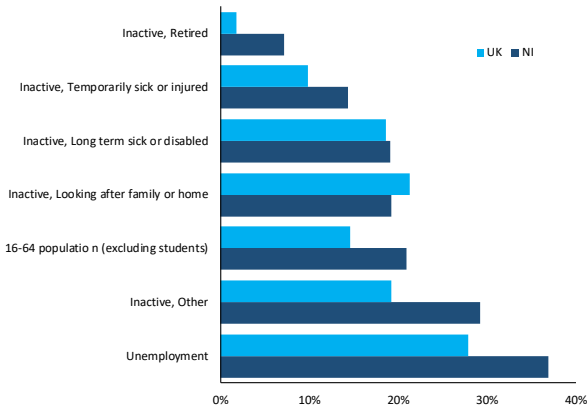
### Work history

A minority of inactive people have 'never worked or had a place on a Government training scheme', with four fifths of the working age inactive population having previously been classed as 'in employment' at some stage during their life.

The highest proportion of people who have never worked is amongst unemployed people, owing to a younger population in comparison to the economically inactive. Although the proportion of long term sick people who have never worked is lower than amongst the unemployed, the higher overall number of people who are long term sick equates to a relatively similar number of people amongst these two groups who have never worked.

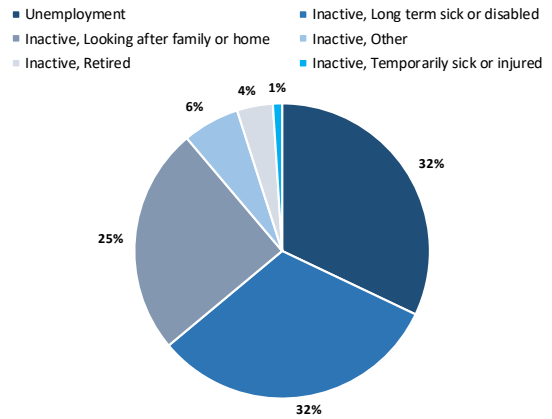
### People who have 'never worked', 2015

Individuals who have never worked, NI vs. UK, 2015  
Proportion of workless population aged 16-64 (exc. students)



Source: LFS

Individuals who have never worked by labour market status, NI, 2015  
Proportion of total workless aged 16-64 (exc. students)

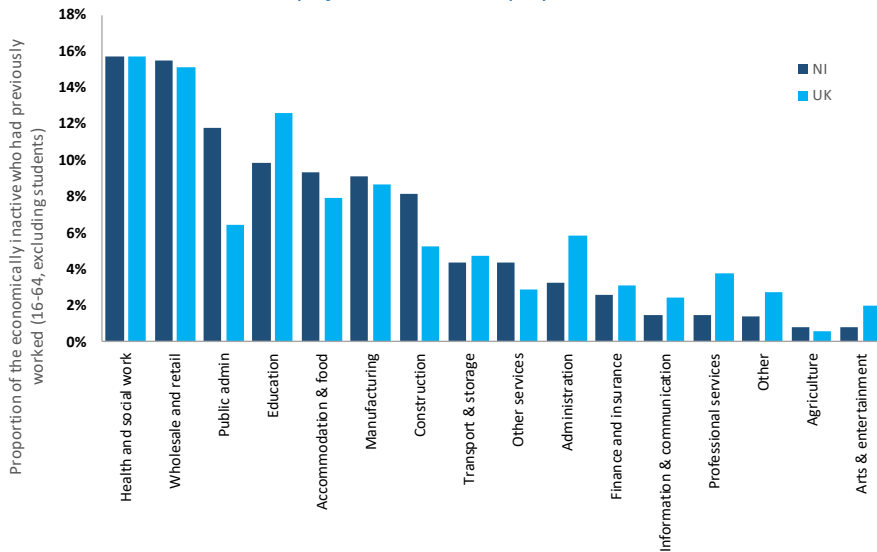


Source: LFS

The work history of the economically inactive who had previously worked in NI follows a relatively similar pattern to the UK, with some notable exceptions. The most common previous sector of employment are the health and retail sectors, which is unsurprising as they are two of the largest sectors in the economy.

A higher proportion of inactive people had previously been employed in the construction sector in NI. This is linked to the property crash of 2007/08 where the NI construction workforce fell by over one third within a 5-year period and has since recovered only moderately.

### Industry of most recent employment, 2015



Source: LFS

There is a much higher proportion of inactive people who had previously worked in public administration compared to the UK. Although NI has a relatively larger public administration sector than the UK, the scale of difference is too large to be explained by structure alone.

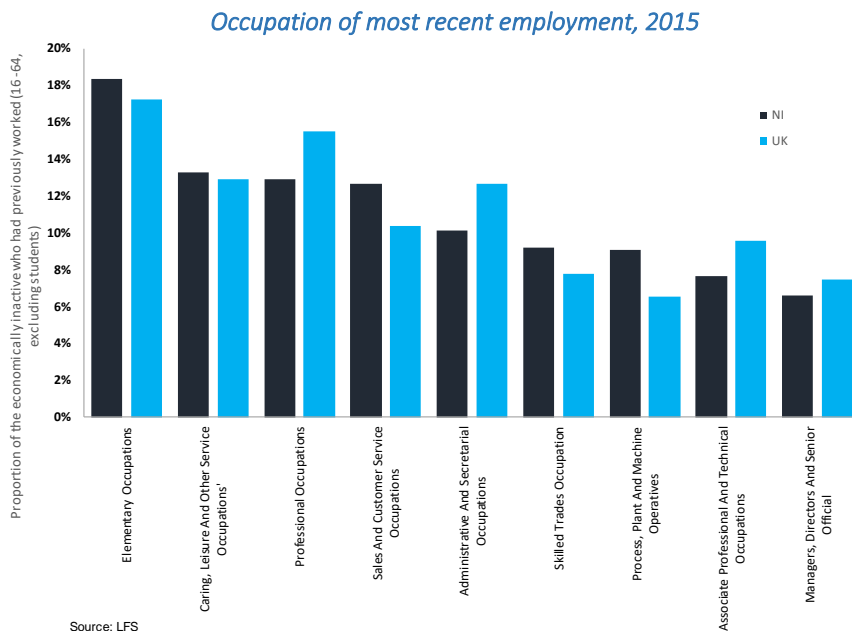
This supports alternative data relating to sickness levels in the Civil Service which indicates that on average 10.8 days are lost per staff member due to sickness absence at a cost, in salary terms, of £32m



per year<sup>18</sup>. One in three civil service days lost to sickness are attributed to ‘work related stress’, indicating that even in relatively higher skilled sectors mental health can be an issue.

Today’s world of work is very different to that of three decades earlier, work has become much more intense. Nearly 27% of UK workers reported that their job involved working to tight deadlines either all of the time or almost all the time. Of those people working to tight deadlines 48% reported stress at work, compared to just 7% of workers who do not work to tight deadlines almost all of the time<sup>19</sup>. Such demanding work requirements may contribute to stress related working conditions which ultimately cause people to seek disability benefits as a means of escaping rising demands at work.

The occupation profile of inactive people who had previously been in employment follows a relatively similar pattern. For example, NI has proportionately more people in skilled trade occupations which is linked to the post-recession downturn in the construction sector. A higher proportion of people previously employed in process, plant and machine operative occupations is a product of a larger manufacturing sector relative to other UK regions.



A more detailed analysis of the inactive stock over the previous 5 years highlights some notable differences between the previous industry of employment between males and females. The construction effect is more concentrated amongst inactive males, whereas females are much more likely to have been previously employed in retail, caring or other elementary services occupations.

<sup>18</sup> Department of Finance (2015) Sickness absence in the Northern Ireland Civil Service

<sup>19</sup> Data on working conditions is derived from the European Working Conditions Survey.

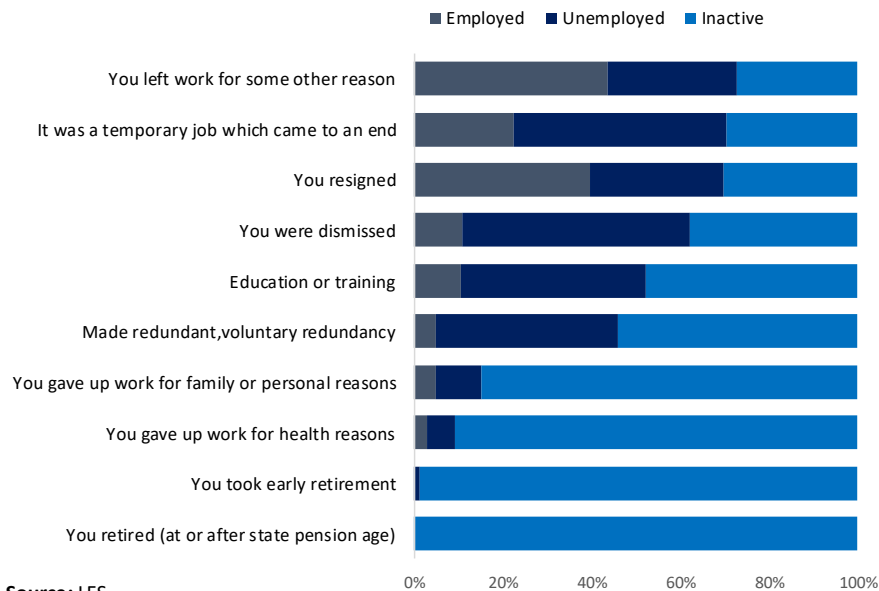
*Occupation of most recent employment, 16-64 population (excluding students), 2011-15*

NI - Males - Inactive		NI - Females - Inactive	
	% of total		% of total
Road Transport Drivers	9%	Sales Assistants and Retail Cashiers	14%
Construction and Building Trades	8%	Other Elementary Services Occupations	9%
Elementary Construction Occupations	5%	Caring Personal Services	9%
Sales Assistants and Retail Cashiers	4%	Elementary Cleaning Occupations	7%
Teaching and Educational Professionals	3%	Teaching and Educational Professionals	5%
Process Operatives	3%	Childcare and Related Personal Services	5%
Elementary Cleaning Occupations	3%	Administrative Occupations: Gvrnmnt and Related Orgs	4%
Agricultural and Related Trades	3%	Secretarial and Related Occupations	4%
Other Elementary Services Occupations	3%	Nursing and Midwifery Professionals	4%
Protective Service Occupations	3%	Other Administrative Occupations	4%

Source: LFS

There are a range of reasons for people leaving their previous job, with some particularly striking results. In particular, the probability of people becoming workless is extremely high if they are made redundant, with a 95% chance of being workless within the 3 months after being made redundant.

*Current labour market status and reason for leaving previous job, 16-64 population (excluding students), 2015<sup>20</sup>*



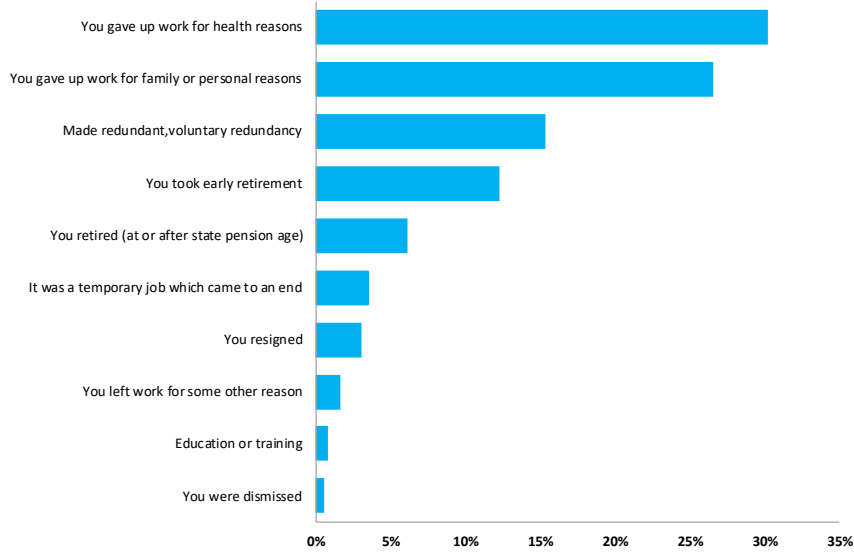
Source: LFS

Note: Based on people who left paid job in last 3 months or unemployed in reference week

Health problems remain the largest driver of people leaving their jobs to become economically inactive, accounting for 30% of people who had left their job within the previous three months. A relatively high proportion (27%) of people left their position for family reasons, which is likely to be linked to looking after children.

<sup>20</sup> The LFS definition of employment includes people on Government training programmes and unpaid family workers.

*Reasons for leaving last job, 16-64 population (excluding students), 2015*

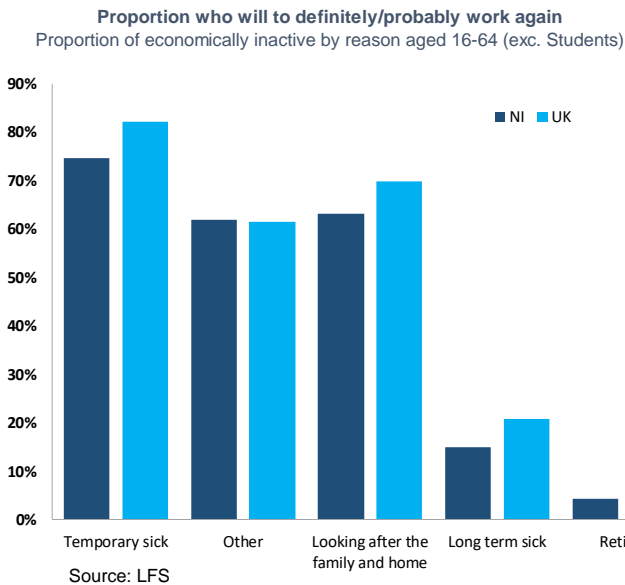


Source: LFS

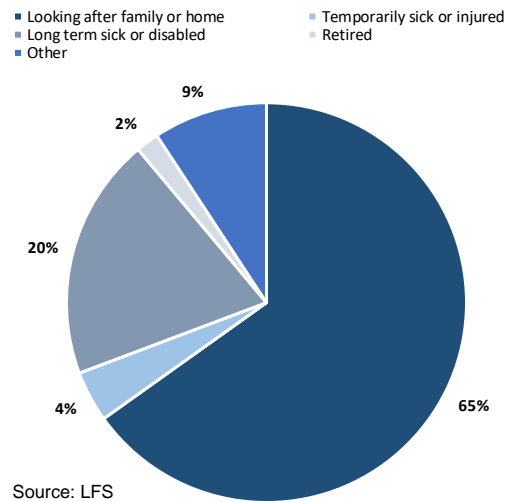
**Note:** Based on people who left paid job in last 3 months or unemployed in reference week

There are large differences across the inactive stock with regard to the proportion of people who expect that they will work again. For example, 63% of people who are looking after the family/home expect to work again compared to just 15% of people who are long-term sick/disabled.

*Proportion of the inactive who will definitely/probably work again. 16-64 population (excluding students), 2015*



**Economically inactivity, definitely/probably work again, NI, 2015**  
Proportion of economically inactive that definitely/probably want to work again, aged 16-64 (exc. students)



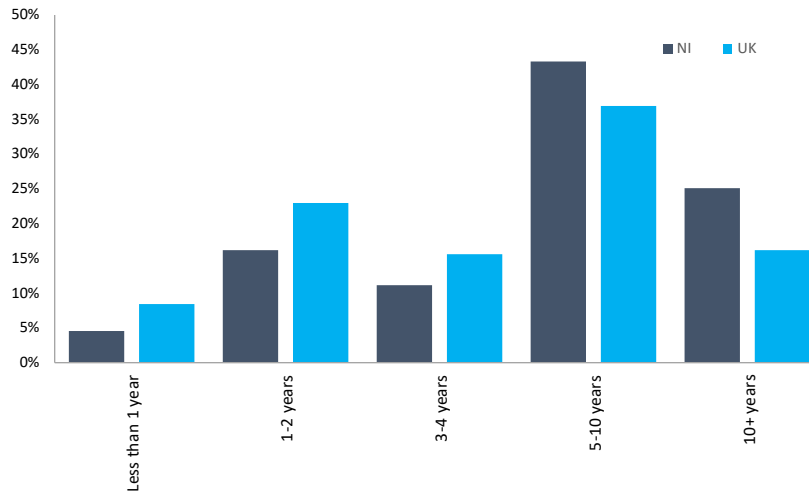
The extremely low aspiration and expectation towards future work, alongside a skills profile which is too low relative to labour market needs, highlights the huge challenge in moving sick and disabled people into employment. In particular, if they have been removed from the labour market for an extended period of time, as the longer a person is in a period of worklessness the probability of them finding employment decreases significantly<sup>21</sup>.

<sup>21</sup> Pillossoph, L. & Jarosh, G. (2016) The longer you're unemployed, the less likely you are to find a job. Why? World Economic Forum Agenda series.

## Duration of inactivity

Of the inactive stock who had previously been employed, the majority of people are long-term workless. Over two-thirds (68%) had not had a job within the previous 5 years, which compared to just over half (53%) of inactive people in the UK.

*Number of years since leaving last job, NI versus UK, 16-64 population (excluding students), 2015*



Source: LFS

The existing research base relating to the duration of worklessness tends to be weighted towards unemployment, which can be used to provide some insight. According to research by the Office for National Statistics<sup>22</sup> a person is 3.2 times more likely to move into employment if they have been out of work for less than 3 months compared to someone who had been unemployed for more than 2 years.

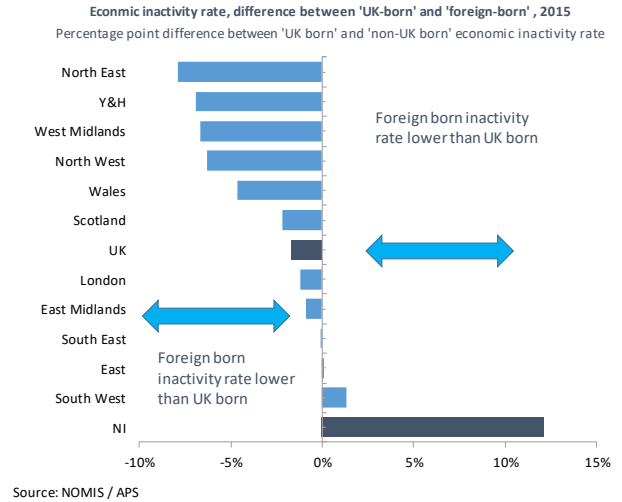
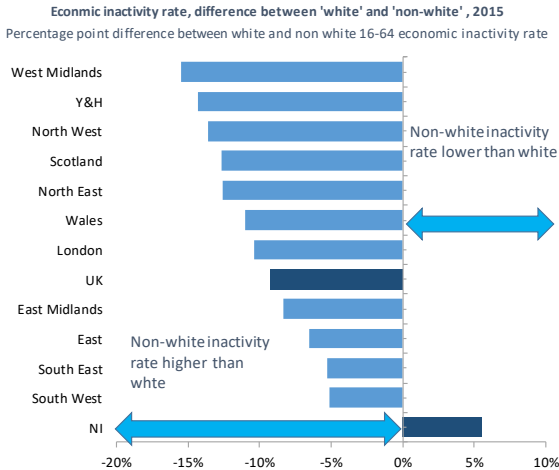
## Ethnicity and nationality

In light of the recent EU referendum result, it is worth briefly considering the economic inactivity status of foreign born nationals in the local labour market. In most regions the economic inactivity rate is higher amongst the foreign born population compared to UK born people.

However, in NI there are a considerably higher proportion of UK born people who are economically inactive compared to the foreign born population. This pattern is also apparent when analysing inactivity patterns amongst ethnic minorities with NI being the only UK region where the 'non-white' inactivity rate is lower when compared to 'white' people.

<sup>22</sup> Office for National Statistics (2013) Full report: Moving between unemployment and employment

### Inactivity by ethnicity and nationality, 16-64 population (excluding students), 2015

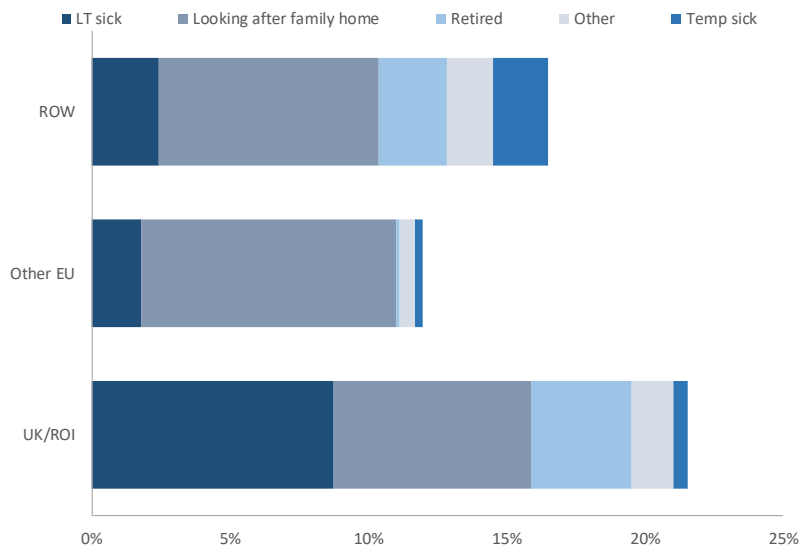


It is also worth drawing attention to the profile of inactive foreign people in NI. In particular EU workers have a much lower economic inactivity rate than people born in the UK or Ireland. Only a small proportion of EU residents in NI are long term sick/disabled, with the majority of inactive EU residents looking after the family/home.

Overall, the proportion of foreign workers in NI is relatively small compared to other parts of the UK. Therefore, it is unlikely that any change in migration flows will have a large effect on NI's economic inactivity rate. However, any impact on the rate, however marginal, will be negative and increase the inactivity rate given the higher employment rate among EU nationals in NI.

### Inactivity by reason and nationality, 16-64 population (excluding students), 2015

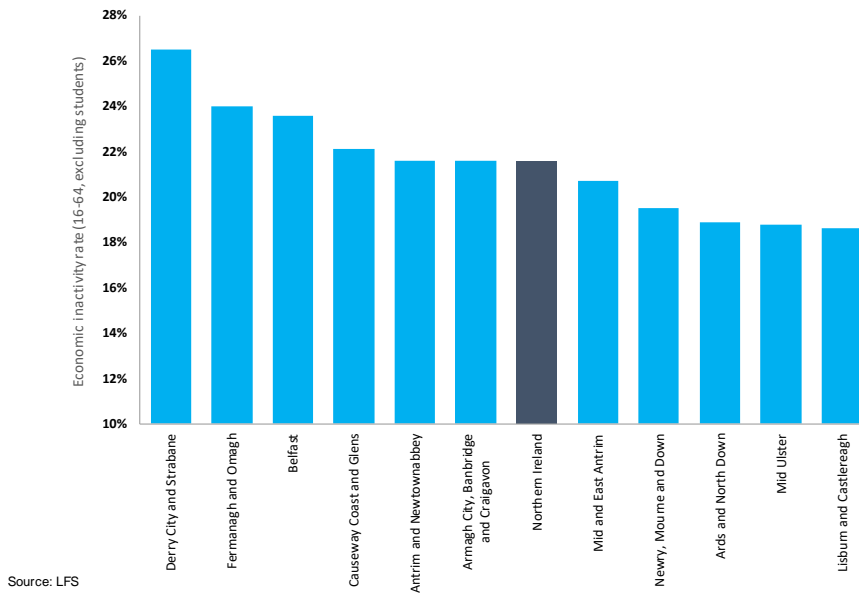
Proportion of 16-64 population (excluding students)



### Sub-regional variation

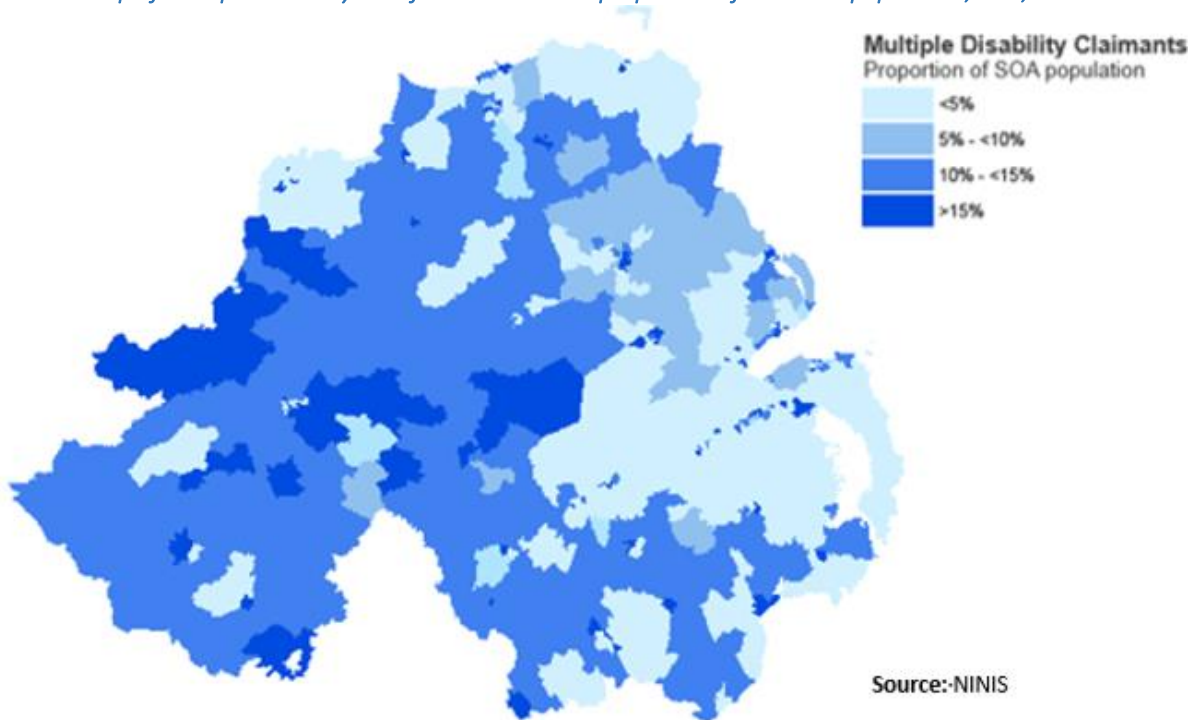
There are significant sub-regional differences in Northern Ireland with regards to economic inactivity, ranging from 26.5% and 18.6% respectively in "Derry City and Strabane" and "Lisburn and Castlereagh" respectively.

*Economic inactivity rate by district council, 16-64 population (excluding students), 2014*



The rates of inactivity recorded in Derry and Strabane are amongst the highest across comparable sub-regions in the UK. However, even at council level there are very large differences between neighbourhoods. The map below highlights the percentage of the population claiming multiple disability benefits (i.e. classified as long term sick) at Super Output Area (SOA) level.

*Map of multiple disability benefit claimants as a proportion of the 16-64 population, SOA, 2015*



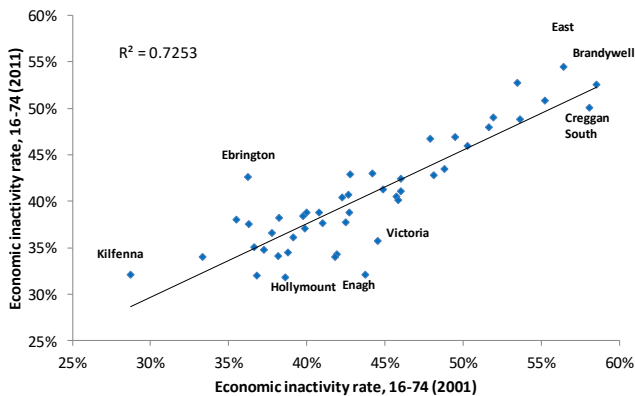
The map above highlights 'hotspots' where there is a high rate of people claiming multiple disability benefits. There is a pattern whereby the highest rates of multiple disability/sickness benefit claimants are most highly concentrated in urban areas (particularly in Belfast and Derry). It is also

noteworthy that the pattern of inactivity at SOA level is very different from a broader council level overview, suggesting that in some areas tackling worklessness may require localised interventions.

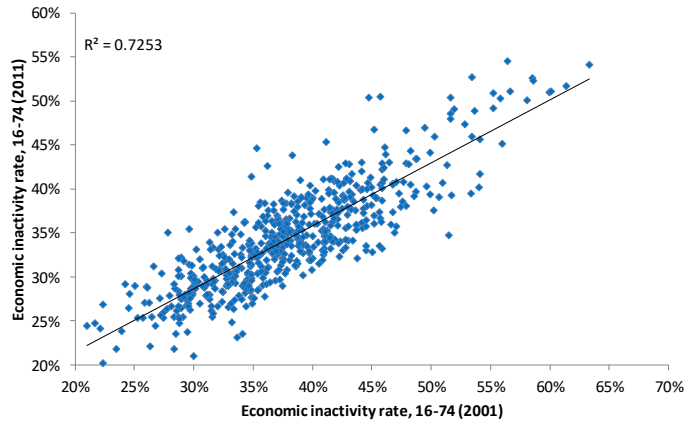
Worklessness can become engrained within communities, which leads to difficulties in raising the aspirations of subsequent generations. Across NI the wards with the highest economic inactivity rates in at the time of the 2001 Census also recorded the highest economic inactivity rates 10 years later. This is a pattern which holds across not only at a NI level, but also across most local council areas.

*Economic inactivity rate, wards, 2001 versus 2011*

**Economic inactivity rate by Derry & Strabane wards, NI, 2001 & 2011**



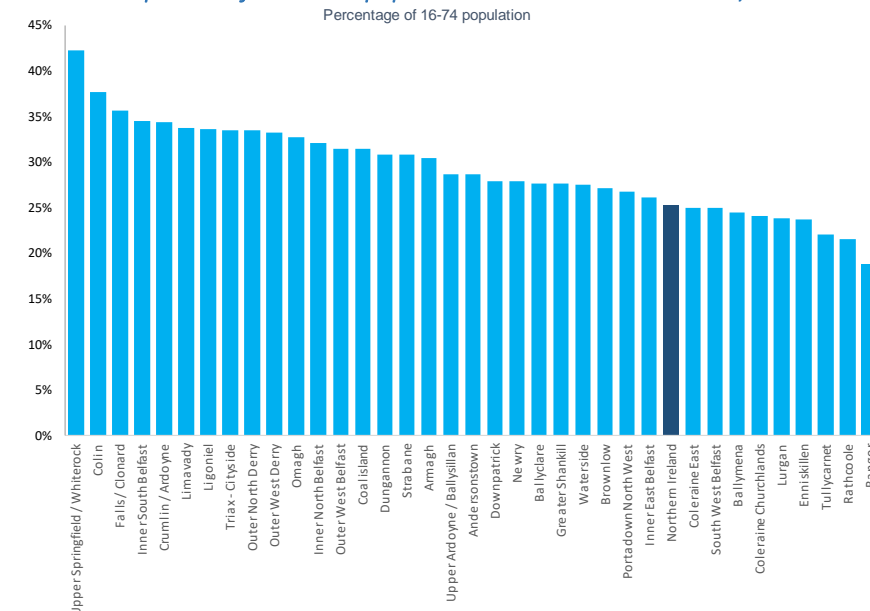
**Economic inactivity rate by ward, NI, 2001 & 2011**



Source: NISRA

A culture of worklessness can develop in some areas where large proportions of the population have never worked. At the time of the 2011 Census more than one in four of the local 16-74 population had never worked before in 30 of NI's 36 Neighbourhood renewal areas<sup>23</sup>.

*Proportion of the 16-74 population who have never worked, 2011*



Source: Census, 2011

A 'one size fits all approach' to tackle worklessness is unlikely to be successful across a disparate set of neighbourhoods. Localised interventions may well require some trial and error to identify

<sup>23</sup> Neighbourhood renewal areas represent the most deprived areas in NI, and are defined using the NI multiple deprivation measure.

effective policy interventions, which may involve a series of pilots to test ‘what works’ in the most deprived communities.

## Concluding comments

The profile of those who are economically inactive has a very significant impact on the likelihood of an individual being economically inactive. In particular, lone parents or those who are single show a higher tendency to be economically inactive.

In addition, whilst the prevalence of disability is not significantly higher in NI compared to the UK average, the level of economic activity amongst the disabled is much lower. A more detailed understanding of why this is the case would help inform the development of policy interventions. In particular, the high rates of inactive people with mental health problems requires a stronger research base to effectively inform policy.

In many ways the story of economic inactivity in NI is a tale of low skills and underachievement in education. People with higher skills are more likely to be economically active, however in NI the gap between those who are economically inactive with tertiary level qualification and those with low/ no skills is much greater than across most other OECD countries. Over half (54%) of those who are economically inactive have a qualification below level 2 compared to just 8% for those with a Level 6+ qualification.

Economic inactivity is also a status more likely for those in lower skilled occupations with those formerly working in construction occupations a common industry for men and those formerly working as sales assistants for women.

Of the economically inactive group, those looking after the family or home are the most likely return to work. Those who are long-term sick and retired are the least likely to return to work again. In particular, people who have been economically inactive for more than three years have an extremely low probability of ever returning to employment.

Economic inactivity can become engrained within local communities. Many of the local areas with the highest economic inactivity rates in NI have held their position at the top of the rankings for more than a generation.

This multiplicity of features shows that a ‘one size fits all’ approach to tackle worklessness is unlikely to be successful and tailored approaches are required across each of these different groups.



## 5. Labour market transitions

The behaviour of flows between employment, unemployment and inactivity drives movements in aggregate indicators such as the employment and unemployment rate. They are critical to our understanding of labour market dynamics.

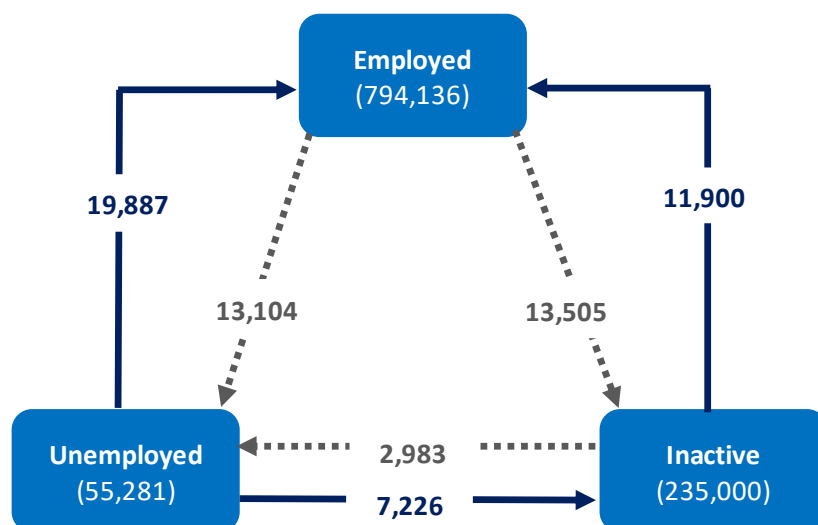
In Q2 of each year the LFS includes a question to probe the respondent on their economic status 12 months ago<sup>24</sup>. Using this question, it is possible to undertake an examination of labour market flows. In other words, the number of people flowing from employment to inactivity and the number of people flowing from unemployment into inactivity.

### Labour market flows

Our analysis highlights two important trends. Firstly, there is a net inflow of people to inactivity from employment of 1,605. Therefore, this flow contributes to an increase in the economically inactive stock of people. The data confirms that the net flow between employment and inactivity has been a net inflow to inactivity in each of the past three years<sup>25</sup>.

The net flow between employment and unemployment is a net flow into employment of 6,800 between 2014 and 2015. Over one-third of the unemployed stock in 2014 had moved into employment within the following 12 months. This relatively high proportionate flow reflects the temporary, or frictional, nature of a reasonable proportion of unemployment.

*Labour market flows, 16-64 population (excluding students), 2014-15*



Source: LFS

Note: Excludes students from both stocks and flows

Note: Inactive numbers refer to only long term sick/disabled; looking after the family home; temporarily sick; and early retirees

However, a relatively large proportion of the unemployed stock (13%) moves from unemployment into inactivity. In net flow terms this represents a net flow of people into inactivity from unemployment of 4,200. An important point is that this is the opposite of the flow observed in a

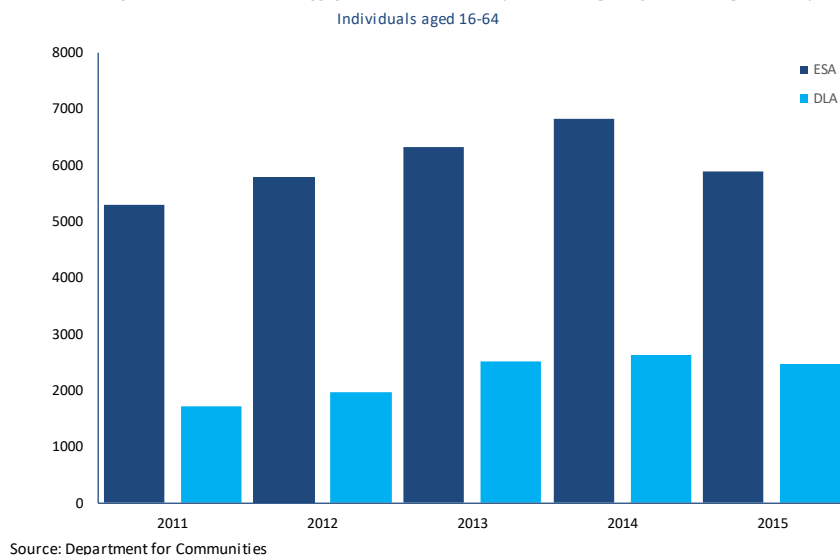
<sup>24</sup> The variable code for this analysis within the LFS is OYCIIRC. The sample size for this variable is relatively low. However, the results for the three years analysed are relatively similar. This indicates that the results can be interpreted as indicative of broad trends.

<sup>25</sup> Data has only been analysed over the period 2012-15.

similar analysis for the UK and the longitudinal version of the LFS<sup>26</sup>. In the results of both analyses the UK recorded a net outflow from inactivity in the flow between unemployment and inactivity. The opposite flow being recorded in NI may be related to the failure to implement welfare reform in NI.

A large number of ESA and Disability Living Allowance (DLA) claimants have claimed Job Seekers Allowance (JSA) within 28 days of entering the respective ESA and DLA caseloads. In 2015 8,360 benefit on-flows had an off-flow from JSA within 28 days, which is almost one in five (19%) of the average JSA stock in 2015.

*ESA and DLA on-flows with a JSA off-flow within the preceding or following 28 days, 2011 - 2015*



It is concerning that such a large number of applicants to incapacity related benefits have already been claiming employment support through JSA. The deterioration in the health of these claimants suggests that the programme of interventions through JSA have not been effective for these claimants.

Overall, it is apparent that inactivity represents a ‘sticky’ labour market status. Only 5.1% of the economically inactive stock move from inactivity to employment (compared to 7.5% in the UK) and 1.3% move into unemployment (compared to 4.6% in the UK).

### Inflows to key economic activity statuses

The two main categories of inactivity both portray this ‘sticky’ characteristic. Of the long term sick/disabled stock in 2015, 94% held the same labour market status 12 months earlier. Of people looking after the family/home in 2015, 85% were in the same position 12 months earlier. As very few people return to work following a spell of inactivity, the most effective way to reduce the inactive stock permanently and over the longer term is to reduce inflows. Therefore, it is important to understand the characteristics of inflows to inactivity.

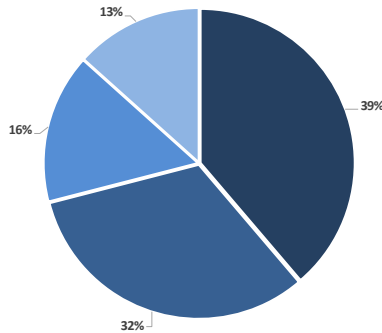
The previous labour market status of the inactive differs depending on the category of inactivity. People who are looking after the family/home are more likely to have been economically active prior to becoming inactive. Almost two fifths (39%) were employed 12 months earlier, and one-third (32%) were unemployed. This suggests that there has been a social or economic change to transition these people into inactivity. The reasons for this cannot be determined from the existing data, and could range from an economic downturn to the birth of a child to caring for an ill relative.

<sup>26</sup> Although it is possible to derive some analysis from the longitudinal LFS for NI, sample sizes are too small to enable a reliable analysis.

*Economic activity 12 months ago, 16-64 population (excluding students), 2012-15*

Labour market situation one year previous of new inflows to looking after family home, NI, 2012-15  
 Proportion of total new inflows to looking after family home (16-64) exc. Students

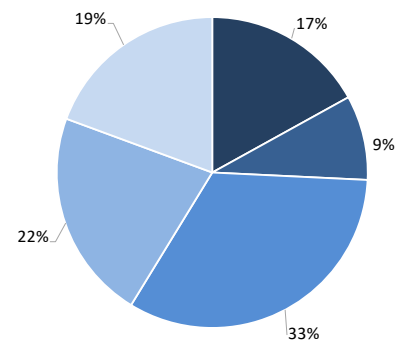
■ Employed ■ Unemployed ■ Retired ■ Long term sick or disabled ■ Temporarily sick or injured



Source: Labour Force Survey

Labour market situation one year previous of new inflows to long term sick, NI, 2012-15  
 Proportion of total new inflows to long term sick (16-64) exc. Students

■ Employed ■ Unemployed ■ Retired ■ Temporarily sick or injured ■ Looking after family or home



Source: Labour Force Survey

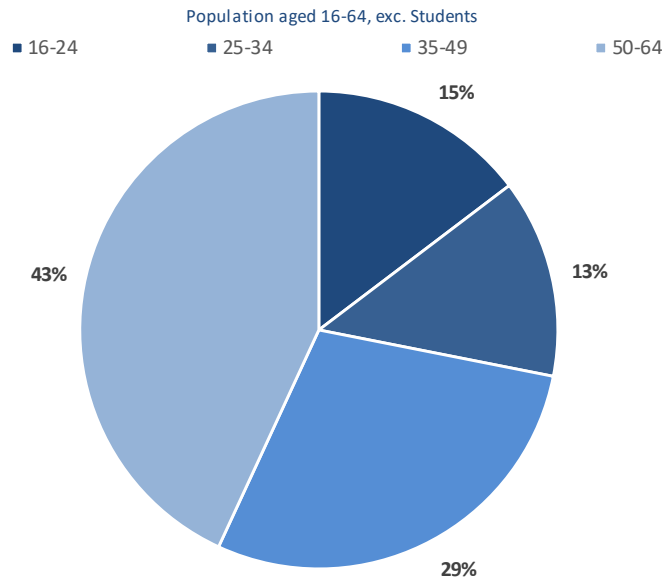
Inflows to long-term sickness/disability are much less likely to have been economically active a year earlier, with just over one quarter (26%) having been either employed or unemployed one year earlier.

A relatively high proportion of the inflow into long-term sickness/disability is from people who had previously been looking after the family/home (22%). This would support the earlier observed trend whereby the proportion of women who are long-term sick/disabled has increased sharply. As this group has moved from one economically inactive status to another it suggests either a lack of aspiration, ability, an increase in the incidence of health issues or some other barrier preventing them from entering the labour market.

Around one fifth (19%) of the sickness inflow is accounted for by people who had previously been temporarily sick or injured. Of the workers who were previously sick 12 months ago 37% were in employment a year later. The majority of this group remained classified as either long-term sick/disabled or temporarily sick/injured one year later. The low return rates to work highlight an important role for employers, in particular with regard to occupational health schemes and a responsibility upon employers to encourage sick employees to return to work following a period of extended illness.

The largest inflow into long-term sickness/disability are people who had reported that they had been retired 12 months earlier, accounting for a third (33%) of the inflow. This corroborates earlier findings where a sharp rise in long-term sick/disabled people amongst the over 50's was observed. Within the wider definition of inactivity people of working age over 50 accounted for 43% of the gross inflow into economic inactivity.

### Gross inflow to economic inactivity by age, 2015



Source: ONS LFS Household dataset

The high proportion of older people claiming sickness benefits is to be expected, as the probability of becoming ill increases with age. However, the recent sharp increase appears to be driven by other factors, such as the rising state pension age.

Equally, it could be caused by changes in the wider family ecosystem. For example, half of parents use informal childcare, and almost four fifths of 'informal childcare' is provided by grandparents. Although the precise quantum is unclear, there is evidence to suggest that the high cost of childcare extends well beyond parental employment and in many cases has led to grandparents giving up work<sup>27</sup>.

It could also be indicative of a changing economy, leaving older people out of work with insufficient savings for their retirement years and no alternative to turn to the welfare state for assistance. There is limited evidence locally on the ability of older people to fund their retirement, and it is an area which warrants further research.

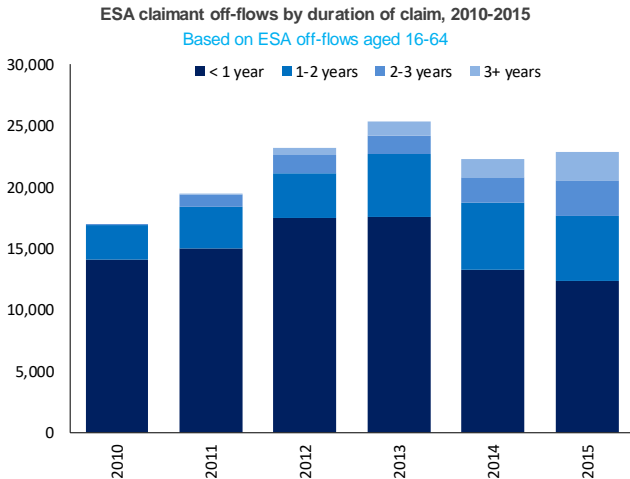
### Off-flows from key benefits

In 2015 the total claimant off-flow from ESA was 22,850, equal to 19% of the average ESA stock in 2015. The off-flow from DLA is much lower, with 8,960 people leaving the DLA register in 2015, which is equal to 7% of the total DLA stock in 2015. Therefore, the probability of a claimant leaving DLA is much lower than the likelihood of a claimant leaving ESA.

The duration of the claim is a significant indicator of the likelihood of leaving the benefit across both schemes. Although, a simple review of the overall off flow numbers does highlight some differences. A majority of people who leave DLA are long term claimants who have received the benefit for more than three years. Whereas, the majority of claimants within the ESA off-flow are people who have claimed the benefit for less than one year.

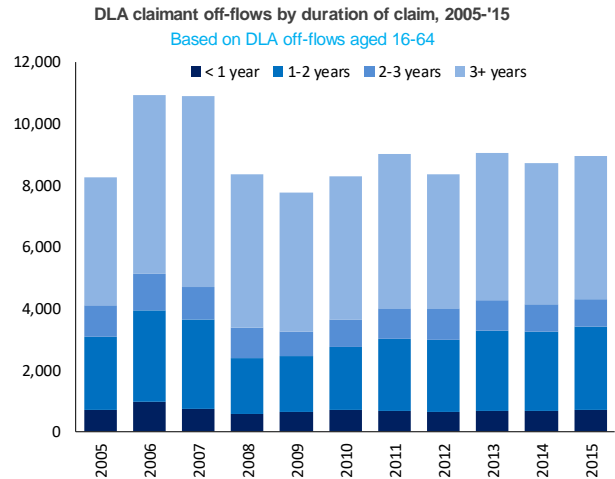
<sup>27</sup> Dennison, R. (2015) Northern Ireland childcare cost survey, Employers for Childcare.

### Gross outflow from ESA and DLA by duration, 2015



Source: Department for Communities Analytical Services Unit

Note: Claimant figures include individuals receiving payments and those who receive only National Insurance credits.



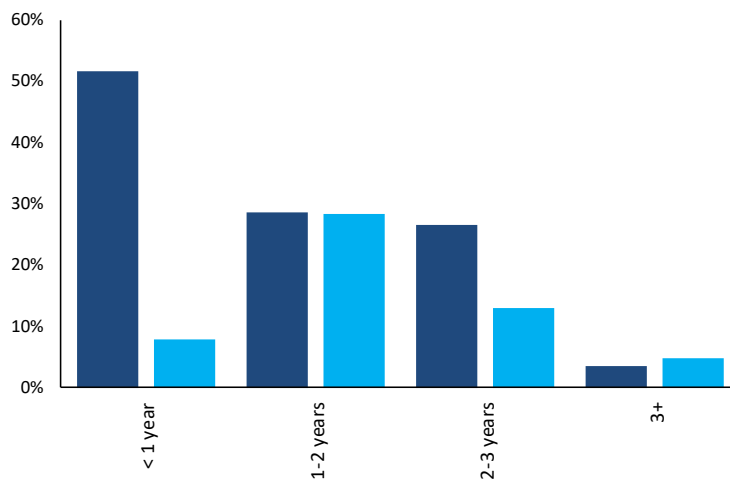
Source: Department for Communities Analytical Services Unit

Note: Claimant figures include individuals receiving payments and those who receive only National Insurance credits.

However, the rates are quite different. In other words, long term claimants on DLA are likely to make up a sizable proportion of the total off-flow simply because they represent a large proportion of the overall stock. The rate of off-flow is quite different depending on the duration of the claim. In particular, once a claimant has been a part of the caseload for 3 or more years the probability of them leaving the benefit is minimal.

### Gross outflow rate from ESA and DLA by duration (outflow as a proportion of total stock), 2015

Based on ESA off-flows aged 16-64



Source: Department for Communities Analytical Services Unit

Note: Claimant figures include individuals receiving payments and those who receive only National Insurance credits.

## Concluding remarks

It is clear that inactivity represents a 'sticky' labour market status, with only a very small percentage (5.1%) moving into employment in 2014/15 (compared to 7.5% in the UK). In particular, the probability of leaving sickness/disability benefits increase significantly the longer a claimant is part of the ESA or DLA caseloads. The two main categories of economic inactivity that represent the greatest challenge, in terms of 'stickiness' are the sick/ disabled and those looking after the home. Given the difficulty in moving people out of economic inactivity, the most effective way to reduce the stock permanently is to reduce inflows.

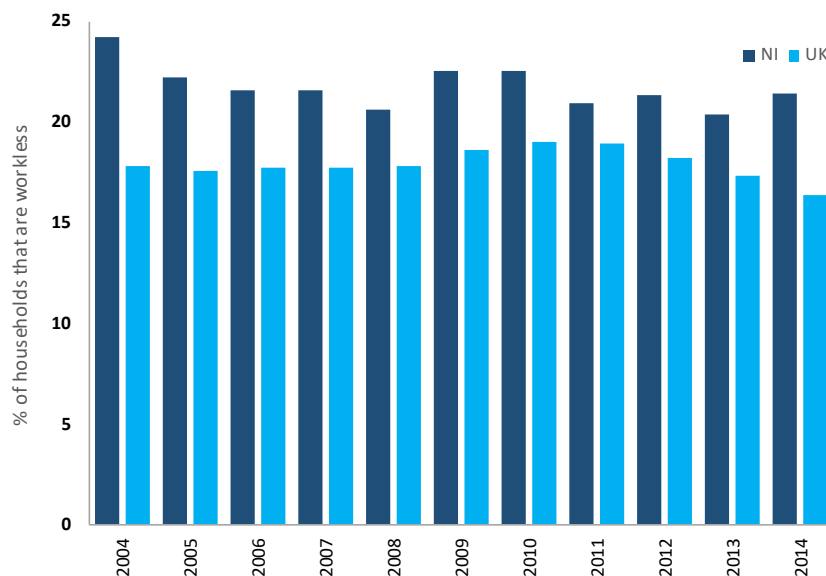
## 6. Household characteristics

This section of the report presents an analysis of the working status of NI households which contain at least one person aged 16-64.

### Recent trends in workless households

Throughout the past decade NI has recorded a higher proportion of workless households compared to the UK. In 2014 21.4% of households containing at least one working age person were workless. In other words, all members of the households were either unemployed, inactive or a combination of the two. This compares to 16.4% of households in the UK, with the percentage point gap between NI and the UK at its highest since 2004.

*Workless households, NI versus UK, 2004-14*



Source: APS

Note: Households containing at least one person aged 16-64, includes student households

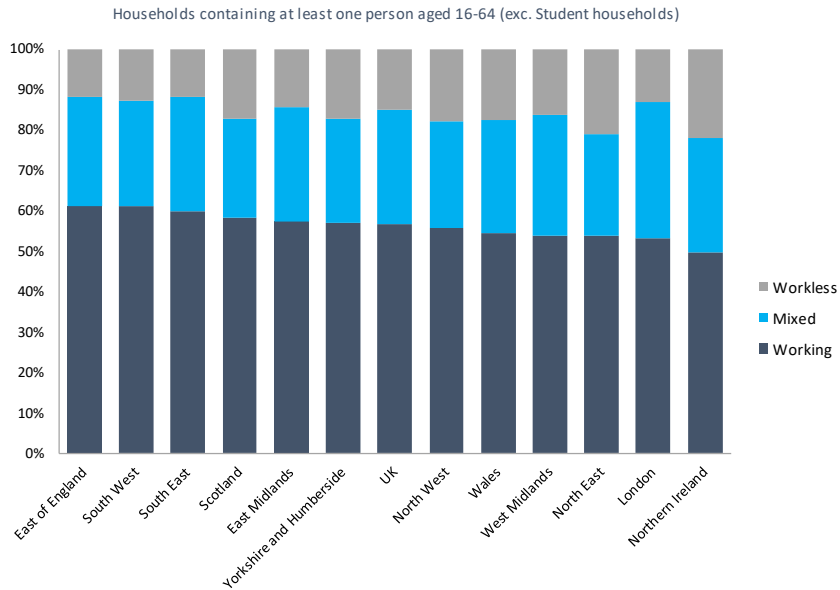
The percentage of workless households has fallen in each year since 2010 in the UK, and the data highlights that NI has not followed a similar trend.

### Composition of NI households

The most recently published data relating to the economic activity status of UK households from the Annual Population Survey (APS) relates to 2014. UUEPC has constructed a 4-quarter dataset based on LFS household data to baseline the combined household economic activity status to 2015. All analysis is based upon households containing at least one person aged 16-64, excluding households where all members are full-time students.

NI has the highest proportion of ‘workless households’ amongst the 12 UK regions, and the lowest proportion of households where all members are working. NI is the only region of the UK where less than half of households are ‘working households’. The percentage of “workless households’ is almost double that of the East of England, the top performing region on this measure.

### Combined economic activity status of UK households by region, 2015

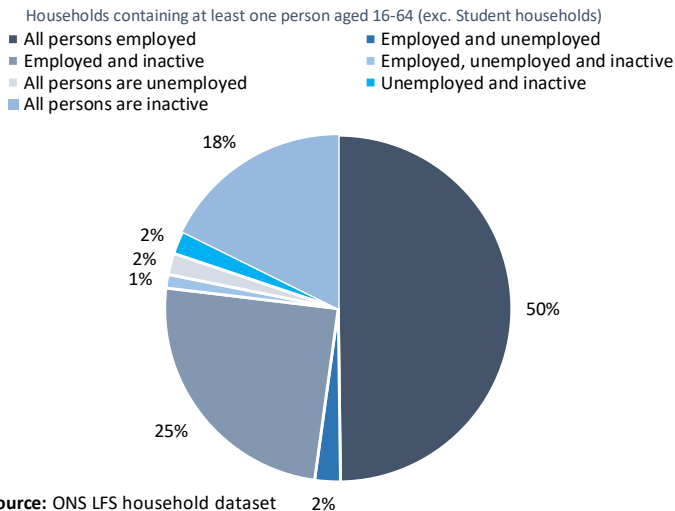


Source: ONS LFS household dataset

NI's household structure differs from the rest of the UK. For example, in 18% of NI households all household members are economically inactive, compared to 12% in the UK. Therefore, a higher proportion of NI's inactive households will contain people who are further removed from the labour market and face more severe labour market barriers relative to the UK.

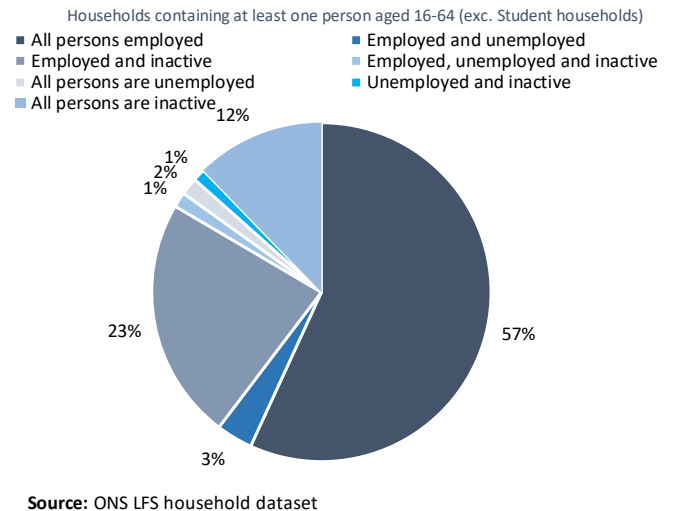
### Combined economic activity status of households, UK versus NI, 2015

#### Household economic activity status, NI, 2015



Source: ONS LFS household dataset

#### Household economic activity status, UK, 2015



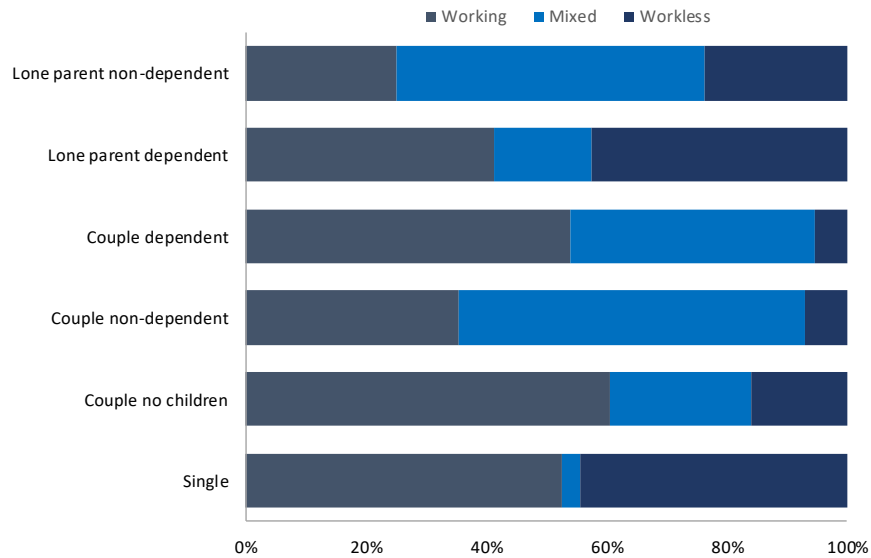
Source: ONS LFS household dataset

### Differences between family units

The most likely type of family unit to comprise 'workless households' are those which contain one person (44%) or a single parent with a dependent child (43%). These groups are reflective of a longer term trend in UK society, where there is now a much larger proportion of households containing one adult. The probability of a household being 'workless' is greater when a household contains one working age adult rather than two.

### Family structure by household economic activity, 2015

Households containing at least one person aged 16-64 (exc. student households)



Source: ONS LFS Household dataset

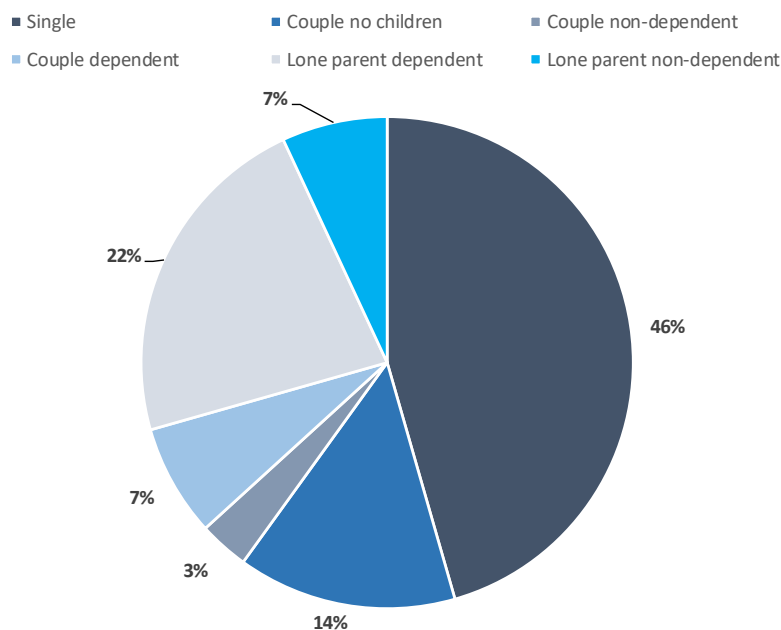
Note: In some cases there is more than one family unit per household

The difference in the combined economic activity status of the household is striking amongst different family units with children. For example, a lone parent with a dependent child is about 8 times as likely to live in a workless household as a family unit with two parents and a dependent child. Similarly, a lone parent with a non-dependent child is approximately 3 times as likely to live in a workless household as a family unit with a couple and a non-dependent child.

Single people account for the largest group of workless households, accounting for 46% of the total. Lone parent households with dependent children are the next largest group, accounting for 22% of total workless households. Couples, regardless of whether they have children, account for 24% of workless households in NI.

### Distribution of workless households by family unit type, NI, 2015

Households containing at least one person aged 16-64 (exc. Student households)



Source: ONS LFS Household dataset



## Economic activity of key household members

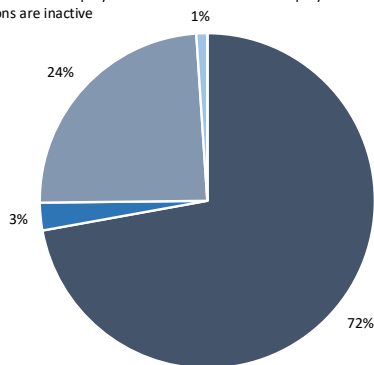
The economic activity status of the head of household is an important determinant of the status of other household members. For example, in households where the head of household is employed there is a 28% chance that other members within the household will be out of work. When the head of household is unemployed or inactive the chances of other household members working are 19% and 31% respectively.

### Combined economic activity status of NI households where the head of household is employed, unemployed and inactive, 2015

**Household economic activity status by head of family unit employed, NI, 2015**

Households containing at least one person aged 16-64 (exc. Student households)

- All persons employed
- Employed and inactive
- All persons are unemployed
- All persons are inactive
- Employed and unemployed
- Employed, unemployed and inactive
- Unemployed and inactive

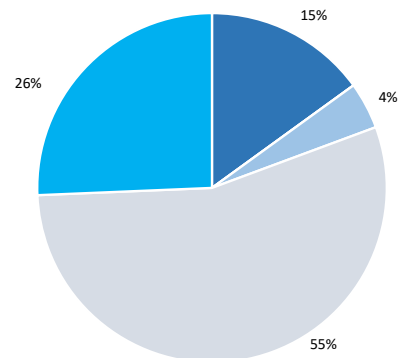


Source: ONS LFS Household dataset

**Household economic activity status by head of family unit unemployed, NI, 2015**

Households containing at least one person aged 16-64 (exc. Student households)

- All persons employed
- Employed and inactive
- All persons are unemployed
- All persons are inactive
- Employed and unemployed
- Employed, unemployed and inactive
- Unemployed and inactive

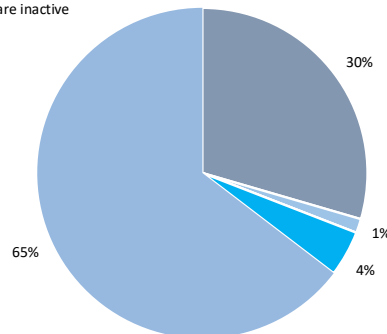


Source: ONS LFS Household dataset

**Household economic activity status by head of family unit inactive, NI, 2015**

Households containing at least one person aged 16-64 (exc. Student households)

- All persons employed
- Employed and inactive
- All persons are unemployed
- All persons are inactive
- Employed and unemployed
- Employed, unemployed and inactive
- Unemployed and inactive

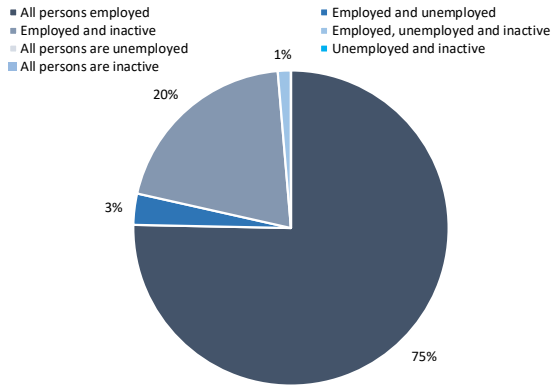


Source: ONS LFS Household dataset

A similar pattern is also evident when analysing the household economic activity status according to the economic activity of the 'wife of the family unit'. In cases where the wife of the family unit is employed three quarters of households contain family members who are all working. However, when the wife of the family unit is unemployed there is a 42% chance that the household is entirely workless. If the wife of the family unit is inactive there is a 31% chance of the household being workless.

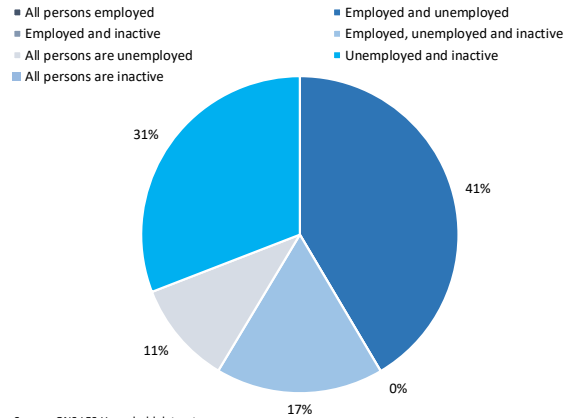
### Combined economic activity status of NI households where the wife of the head of household is employed, unemployed and inactive, 2015

Household economic activity status by wife of family unit employed, NI, 2015  
Households containing at least one person aged 16-64 (exc. Student households)



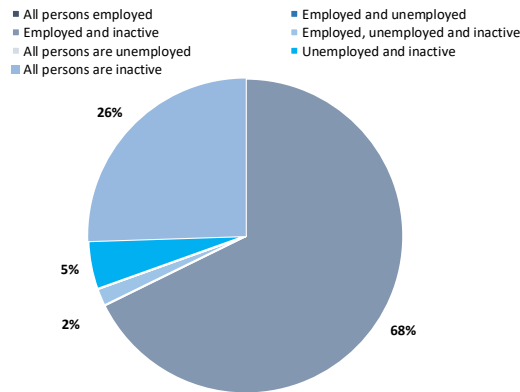
Source: ONS LFS Household dataset

Household economic activity status by wife of family unit unemployed, NI, 2015  
Households containing at least one person aged 16-64 (exc. Student households)



Source: ONS LFS Household dataset

Household economic activity status by wife of family unit inactive, NI, 2015  
Households containing at least one person aged 16-64 (exc. Student households)



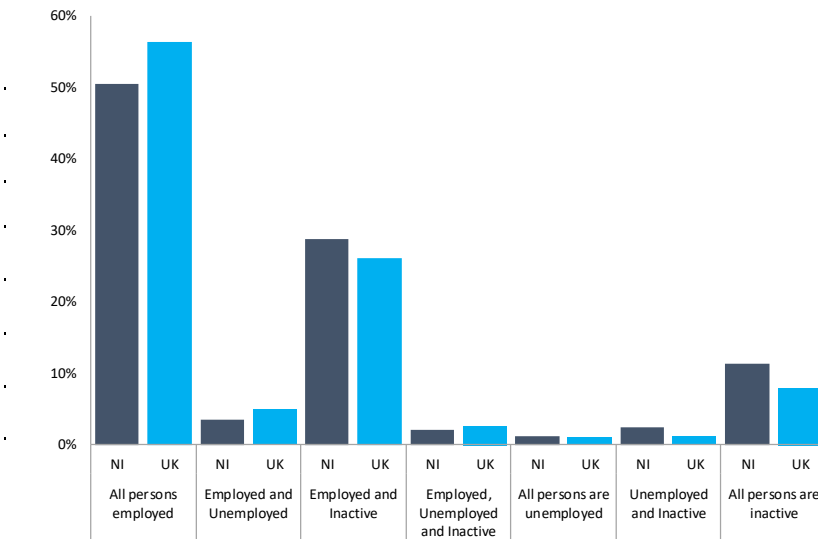
Source: ONS LFS Household dataset

### Economic activity of individuals by household status

A household profile with a high proportion of workless households relative to the UK translates into having a higher proportion of individuals living in workless households. In NI 15% of people live in a workless household compared to 10% in the UK.

*Household economic activity status of individuals, NI versus UK, 2015*

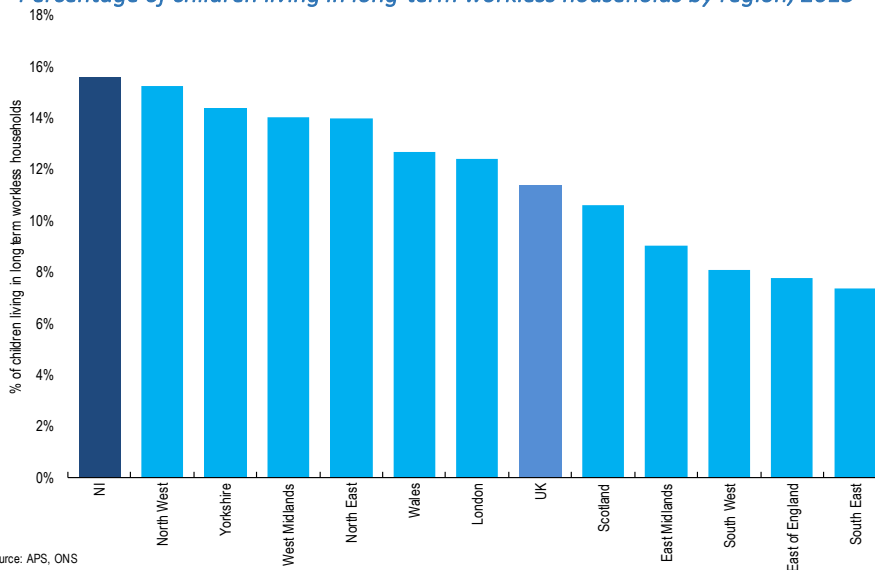
Individuals aged 16-64, exc. Students



Source: ONS LFS Household dataset

Stubbornly high levels of worklessness are a major concern for policymakers given the very high risk of poverty faced by workless households compared to working households (even where wages are low) and the poorer outcomes associated with children growing up in workless households. There are currently around 60,000 children in NI who live in ‘long-term workless households’, accounting for 16% of all children which is the highest amongst UK regions.

*Percentage of children living in long-term workless households by region, 2015*



Source: APS, ONS

Note: Long term workless households are households in which all persons over 16 have been workless for more than 1 year or have never worked.

The percentage of children living in a ‘long-term workless household’ has increased in each year between 2012 and 2014. In the UK the proportion has fallen in each of the past four years. The high numbers of workless households are inextricably linked to child poverty rates (after housing costs) which increased in 2015 to 25% in NI.

Although NI performs relatively well in comparison to other UK regions on measures of child poverty, the fact that a quarter of all children face multiple disadvantages such that their current

experiences, outcomes and future life chances are impaired highlights that there are still significant policy challenges to improve outcomes for all people in society.

Child poverty is important in terms of determining life outcomes, both in the short-term and long-term, and there are numerous research studies outlining the negative implications of a high child poverty rate. In the short-term, children growing up in poverty are more likely to suffer chronic illness during childhood or have a disability. Children living in low-income households are nearly three times as likely to suffer mental health problems as their more affluent peers which is a particularly severe problem in NI<sup>28</sup>. In the longer term, young adults who have lived in poverty as children are significantly more likely to earn lower wages or be unemployed, while women face a higher risk of becoming lone parents<sup>29</sup>.

*Percentage of children living in long-term workless households, NI versus UK, 2014*

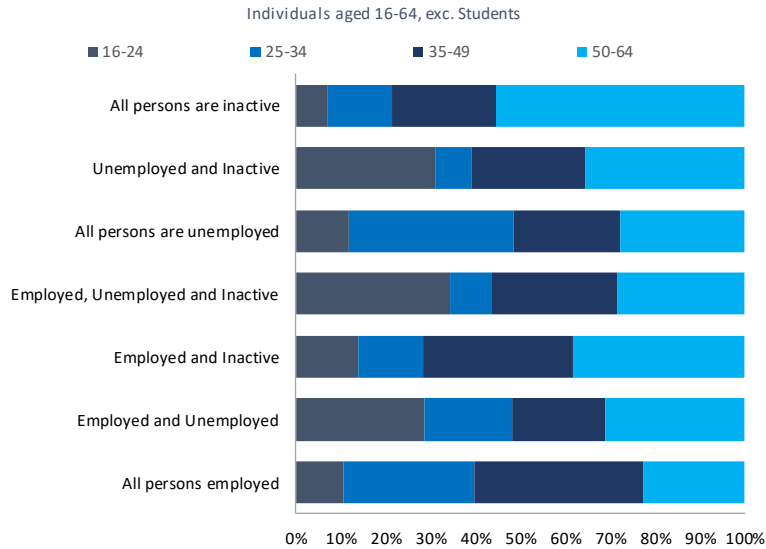


Households where all members are inactive are most likely comprised of people over 50, which accounts for around half of individuals within inactive households. By contrast, in households where all members are employed, the over 50's account for around one fifth of individuals. Households with an employed person, or an unemployed person, are more likely to include a young person aged under 35, relative to inactive households.

<sup>28</sup> The Children’s Society (2013) A good childhood for every child? Child poverty in the UK.

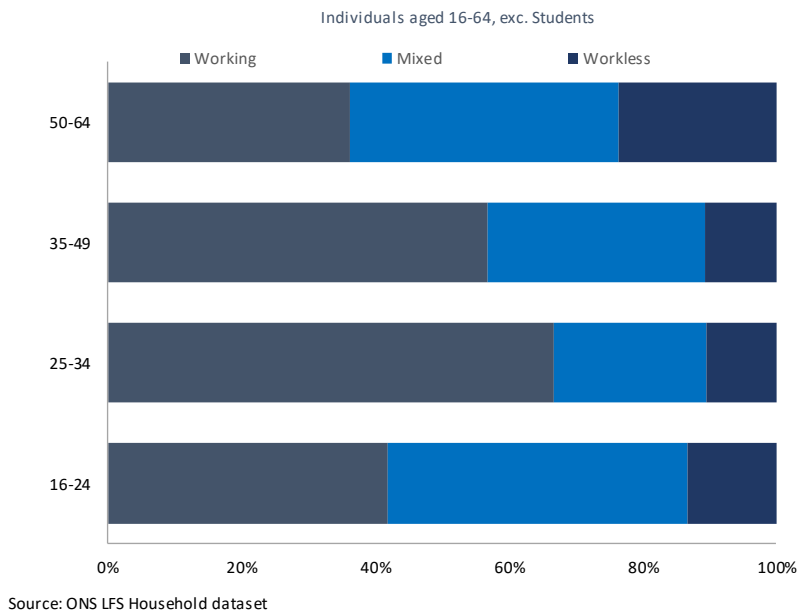
<sup>29</sup> Gregg, P. Harkness, S. and Machin, S. (1999) Child Poverty and its consequences. Joseph Rowntree Foundation.

### Household economic activity status of individuals by age, NI, 2015



Only one third of individuals aged 50-64 live in 'working households', and 36% live in 'workless households'. However, there is also relatively high number of young people under 25 who live in a workless household (13%) relative to the UK (7%).

### Household economic activity status of individuals, NI versus UK, 2015



## Summary

The percentage of workless households increased in the UK following the 2008 global financial crisis, but has been falling every year since 2010. The trend in NI has been somewhat different and although the percentage of workless households peaked in 2010, levels of worklessness were only marginally lower four years later.

Single people account for the largest group of workless households, accounting for 46% of the total. Lone parent households with dependent children are the next largest group. The economic activity status of the head of household is an important determinant of the status of other household

members. Where the head of household is inactive, the chances of other household members working is only 31%.

Stubbornly high levels of worklessness are a major concern for policy makers, given the very high risk of poverty faced by workless households and the poorer outcomes faced by children growing up in workless households.

## 7. Benefit level data

This section provides an overview of administrative data relating to out of work incapacity related benefits. This refers to people of working age on Employment and Support Allowance (ESA); Disability Living Allowance (DLA); Incapacity Benefit (IB), and Severe Disablement Allowance (SDA).

The authors are grateful to the Department for Communities for the provision of analytical support, and access to administrative datasets. Only a small proportion of the available data is presented in this chapter. A wider set of charts is included as a supporting slide pack alongside this report.

### Employment and Support Allowance

ESA provides financial help if a person is unable to work because of illness or disability. It also provides personalised support if individuals are able to work. ESA was introduced in 2010 and replaced older out of work incapacity related benefits such as IB and SDA.

#### Definitions:

**Assessment Phase:** The assessment phase lasts for the first 13 weeks of a new claim. This is while a decision is made on claimants' capability for work through the Work Capability Assessment. During this phase, ESA is paid at a basic rate.

**Work Related Activity Group (WRAG):** Claimants placed in the WRAG are expected to take part in work-focused Interviews with their employment service adviser. Claimants receive help to prepare for suitable work. In return, claimants receive a work related activity component in addition to the basic rate payment.

**Support Group:** If claimants are placed in the Support Group it is because their illness or disability has a severe effect on their ability to work. The claimant will not be expected to take part in any work or training. Claimants in the support group receive a support component in addition to the basic rate.

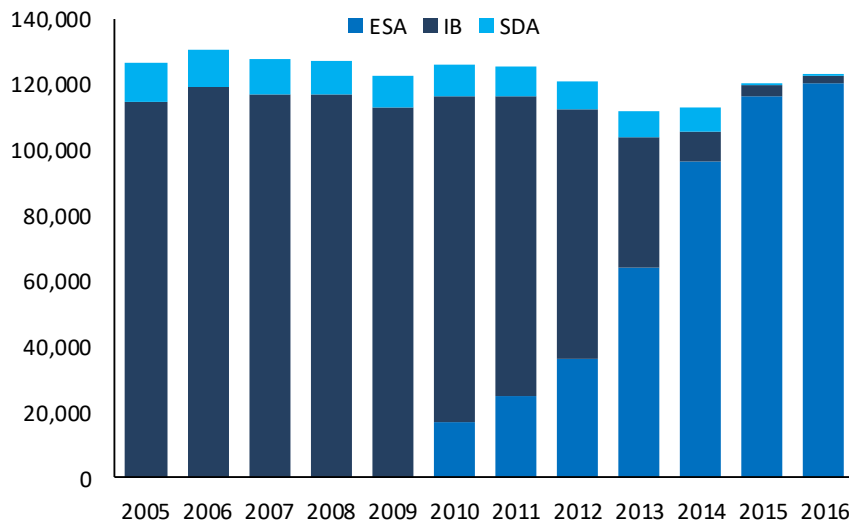
### ESA – headline trends

The landscape for this type of sickness benefit has changed over the past 15 years. SDA was replaced by IB in 2001, which itself was replaced by ESA in 2010. Although it is no longer possible to make a claim for SDA, individuals who are already receiving the benefit have continued to do so. Therefore, claimants who receive SDA are older legacy claimants, and their numbers decrease over time as participants become older and reach retirement age.

When ESA was introduced in 2010 IB participants were required to undertake a reassessment to transfer them to ESA. It has taken a number of years to assess the entire caseload, and by 2015 almost all working age claimants had been transferred to ESA.

### Working age ESA, IB and SDA claimants, 2005-16

Based on claimants aged 16-64



Source: DfC, UUEPC

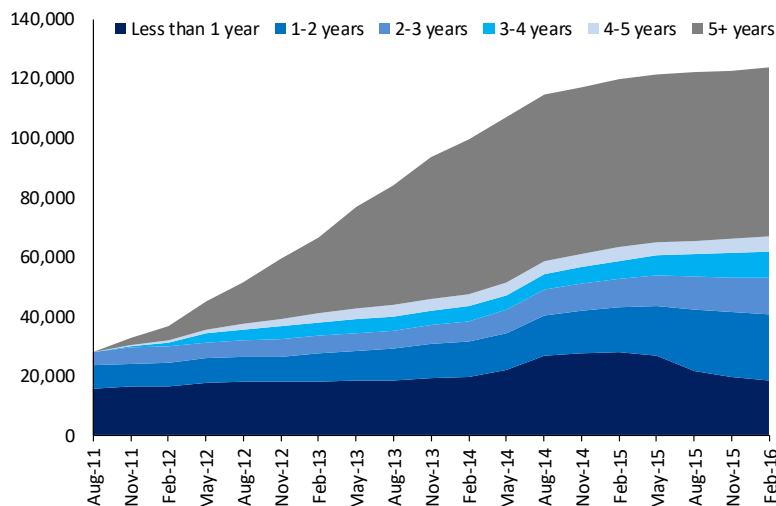
NB: ESA was introduced in 2010; IB refers to Incapacity Benefit; and SDA refers to Severe Disablement Allowance

Across the three types of benefit schemes the overall caseload has remained fairly static over the past decade. This highlights the ‘stickiness’ of incapacity related benefits, being characterised by relatively low off-flow rates. This results in a larger stock of long-term claimants over time. In February 2016 over two thirds (67%) of the caseload had been claiming ESA for 2 years or more.

### Working age ESA claimants by duration of claim, 2011-16

ESA claimants, by duration of claim, 2011-2016

Based on claimants aged 16-64



Source: DfC, UUEPC

**Note:** ‘Claimants’ refers to all those with entitlement to the benefit, which includes individuals receiving payments and those who receive only National Insurance credits

**Note:** Claim duration has been calculated for ESA claimants. For those claimants transferred to ESA from IB, the duration of claim includes both the duration of the IB claim and the duration of the ESA claim.

Note that the migration of IB claimants began during 2011.

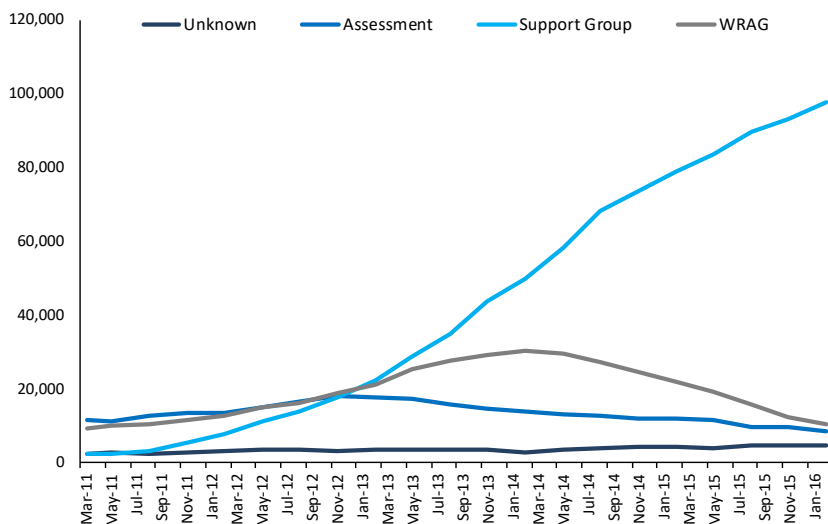
It is worth highlighting that although the overall stock has remained fairly static over the past decade the overall number of claimants across ESA, IB and SDA has increased in each of the past three years, recording a 10% increase between 2013 and 2016. It is noteworthy that this represents an increase in the caseload during a period of relatively strong job growth in the labour market.



It is striking that such a high and increasing proportion of claimants are within the support group strand of the ESA programme, which now accounts for 91% of the assigned caseload (i.e. excluding those currently under assessment and unknown claimants).

### Working age ESA claimants by group, 2011-16

Based on claimants aged 16-64



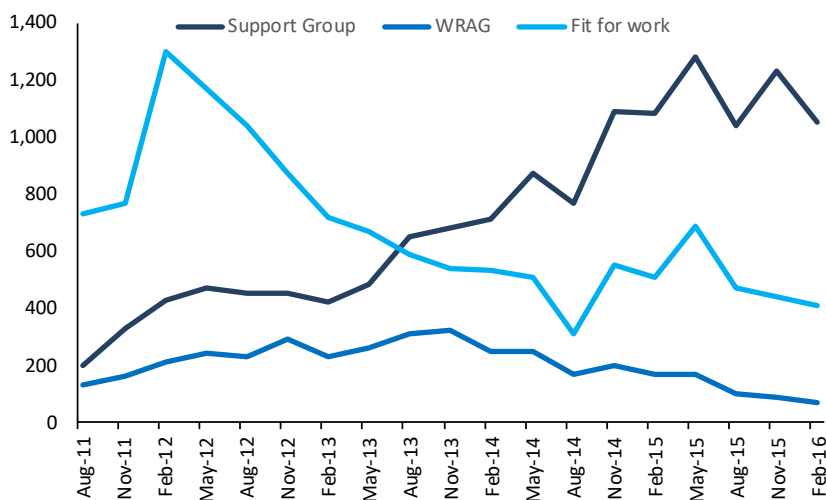
Source: DfC, UUEPC

Note: 'Claimants' refers to all those with entitlement to the benefit, which includes individuals receiving payments and those who receive only National Insurance credits

The trend is similar if the caseload is examined excluding incapacity benefit reassessments, where 89% of the assigned caseload are in the support group. This represents a phenomenally high proportion of people who are out of work, not subject to any conditionality and do not receive any employability support. The number of new quarterly claims assigned to the support group has increased significantly over the past 3 years, with over 1,000 people per quarter being assigned to the support group in 2015/16.

### New claim outcomes at Work Capability Assessment for those aged between 16 and 64, 2011-16

Based on new claims aged 16-64



Source: DfC, UUEPC

## ESA – Health condition of claimants

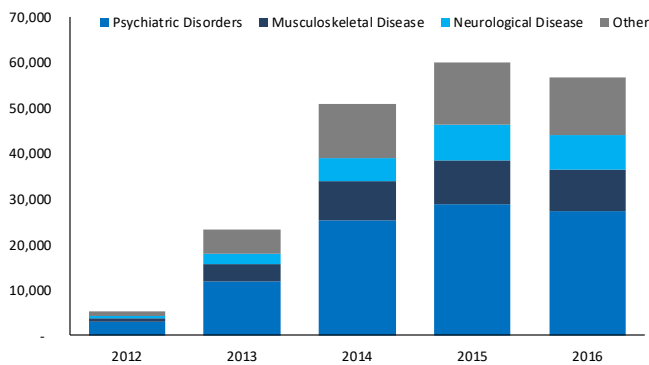
Psychiatric disorders account for almost half (47%) of the ESA caseload. It is the most prevalent medical condition amongst the caseload, followed by musculoskeletal diseases which account for a much smaller proportion of the caseload (15%).

Historically NI’s prevalence of mental illnesses has been high, which is borne out by the fact that almost half of the incapacity benefit reassessments have a psychiatric disorder. However, the data highlights that this is a current and ongoing challenge within NI society and is far from a legacy issue. Of the new ESA claims (i.e. excluding reassessed incapacity claimants) recorded since 2011 who remain part of the caseload today, psychiatric disorders are the most prevalent health condition accounting for 45% of new claims within the caseload.

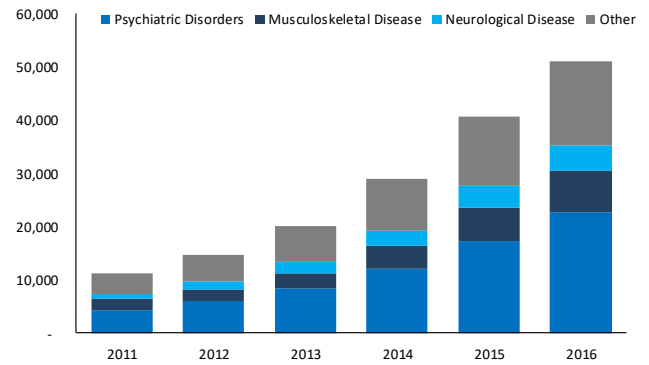
Unfortunately, relatively little is known relating to the mental disorders driving the increase in benefit recipients, nor the severity of the disorders. It may be necessary to collect additional information relating to mental illness to better inform policy seeking to develop effective solutions.

### ESA claimants by primary medical condition, aged 16-64, 2011-16

Employment Support Allowance by primary medical condition, IB reassessments, 2011-16  
Based on claimants aged 16-64



New Employment Support Allowance by primary medical condition, 2011-16  
Based on claimants aged 16-64



Source: Department for Communities, Analytical Services Unit

Note: 'Claimants' refers to all those with entitlement to the benefit, which includes individuals receiving payments and those who receive only National Insurance credits

Note: Claimants with Group recorded as 'Unknown' or 'Assessment' have been excluded from tables

One reason which could explain high rates of psychiatric disorders in NI is linked to recent history of over three decades of violent civil conflict, primarily centred on nationalist and unionist tensions, known as 'The Troubles'. These decades of persistent violence and exposure to psychological trauma have left a legacy of mental illness among individuals and families in NI.

A recent research paper by Bunting et al<sup>30</sup> based upon an analysis of the NI study of health and stress highlighted that 61% of the population had experienced a traumatic event at some point in their lifetime, and 39% have had one or more traumatic experiences linked to the conflict. The research identified that NI had a relatively high incidence of Post-Traumatic Stress Disorder (PTSD) relative to other comparable countries. Despite the comparatively high rate of PTSD among the adult population, 51.9% of individuals with 12-month PTSD received treatment from any healthcare professional.

Additionally, though people with depression and other mood disorders on average seek help within 12 months of the onset of their symptoms, people with anxiety disorders (such as PTSD) wait an average of 22 years before seeking help<sup>31</sup>. Therefore, despite NI’s period of civil conflict ending in 1998 with the

<sup>30</sup> Bunting, B. P., Murphy, S. D., O'Neill, S. M., & Ferry, F. R. (2013). Prevalence and treatment of 12-month DSM-IV disorders in the Northern Ireland study of health and stress. *Social Psychiatry and Psychiatric Epidemiology*

<sup>31</sup> Bunting, B. P., Murphy, S. D., O'Neill, S. M., & Ferry, F. R. (2013). Prevalence and treatment of 12-month DSM-IV disorders in the Northern Ireland study of health and stress. *Social Psychiatry and Psychiatric Epidemiology*

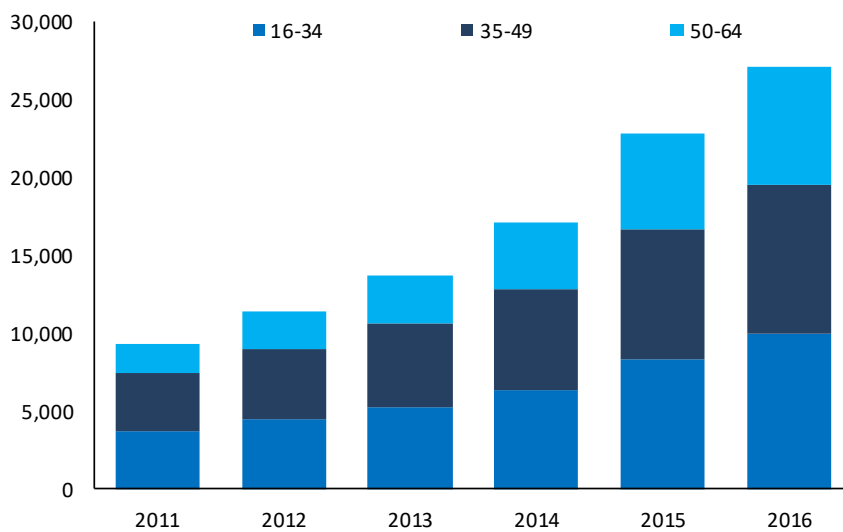
signing of the Good Friday Agreement, some fresh claims could still be linked to the legacy of ‘The Troubles’.

Despite evidence linking mental illness to traumatic events such as past conflicts, ‘The Troubles’ can only explain a small fraction of NI’s rates of poor mental health. There are other explanatory factors, likely to be a combination of health, social and economic factors which contribute to poor mental health in NI. These are less well understood, and require further research from experts in the field of mental health.

Within the caseload of ‘new’ ESA claimants people aged under 35 with psychiatric disorders has increased year on year, accounting for 9,990 of the 27,080 new ESA claims currently within the ESA caseload.

*New ESA claimants w/ psychiatric disorders, by age, 2011-16*

Based on new claimants aged 16-64



**Source:** Department for Communities, Analytical Services Unit

**Note:** ‘Claimants’ refers to all those with entitlement to the benefit, which includes individuals receiving payments and those who receive only National Insurance credits

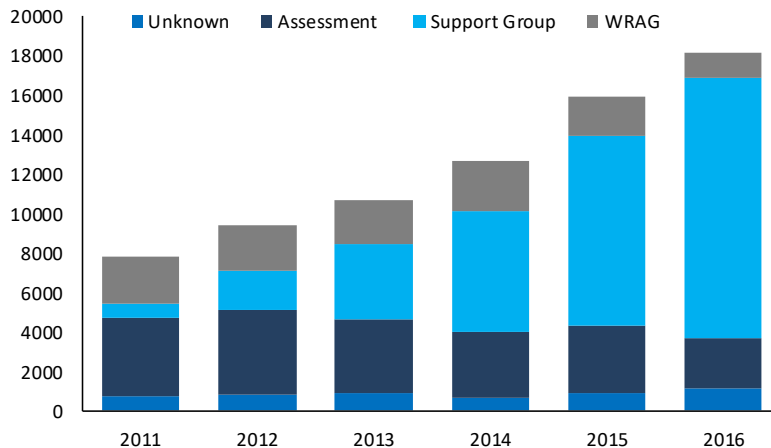
In addition to most mental illnesses, which tend to develop before adulthood, both risk of suicide and self-harm have a higher prevalence amongst young people. Therefore, it is unsurprising to have a high proportion of young people within the caseload suffering from psychiatric disorders<sup>32</sup>. However, the increasing caseload amongst the under 35’s remains concerning, and to reduce the stock to lower and sustainable levels over the longer term it is essential that the scale of the inflow amongst the under 35’s is reduced.

Of particular concern is the high proportion of young people who are assigned to the support group. In 2016, of new claimants aged 16-34 who had been assessed 92% were assigned to the support group and only 8% to the work related activity group.

<sup>32</sup> Holmes, E.Pickles, C. & Titley, H. (2015) Employment and Support Allowance: the case for change. Reform Policy paper

### New ESA claimants by group, aged 16-34, 2011-16

Based on claimants aged 16-34



Source: Department for Communities, Analytical Services Unit

Note: 'Claimants' refers to all those with entitlement to the benefit, which includes individuals receiving payments and those who receive only National Insurance credits

Assigning young people to the support group in such large numbers risks permanently detaching them from the labour market, damaging their wellbeing over the longer term. In Paul Litchfield's review of the work capability assessment he noted that without appropriate employment support, the assignment of young people to support group has long term implications for the employability of what could become a 'lost generation'<sup>33</sup>.

Older people still account for the largest proportion of claimants – both in the overall caseload and amongst new ESA claimants. Claimants aged 50-64 account for 49% of the overall caseload and 39% of new ESA claims, which compared to 19% and 29% respectively amongst the 16-34 age group. Claimants aged 35-49 account for 32% of both the total caseload and new ESA claims. Key to reducing the overall caseload over the longer term will be to prevent the 34-49 age group reaching the level of benefit uptake recorded in today's over 50's.

## Disability Living Allowance (DLA)

Disability Living Allowance (DLA) is a social security benefit paid to eligible claimants who have personal care and/or mobility needs as a result of a mental or physical disability<sup>34</sup>.

### DLA– headline trends

The number of DLA claimants remained fairly static between 2005 and 2014, with the average change in the number of claimants equal to 570 claimants. In the past 2 years the number of claimants has increased significantly, by 3,970 during the 12 months to February 2015 and by 3,450 during the 12 months to 2016. Therefore, the increase recorded over the past 2 years (7,420) is greater than the change recorded over the entire 2005 to 2014 period (5,100).

In NI total working age DLA claimants as a percentage of the 16-64 population is 10%, a figure which has remained unchanged since 2005. This is a much higher take up of DLA relative to other parts of the UK. For example, 4% of the working age population in England claim DLA, 4% in Scotland and 4% in Wales. Over the past decade the differences between NI and the UK have largely remained unchanged, highlighting much higher take up of DLA in NI compared to other parts of the UK.

<sup>33</sup> Litchfield, P. (2014) An independent review of the work capability assessment – year 5.

<sup>34</sup> It should be noted that not all DLA claimants are economically inactive. Disabled claimants are eligible for DLA regardless of economic status.

## DLA– Component of claim

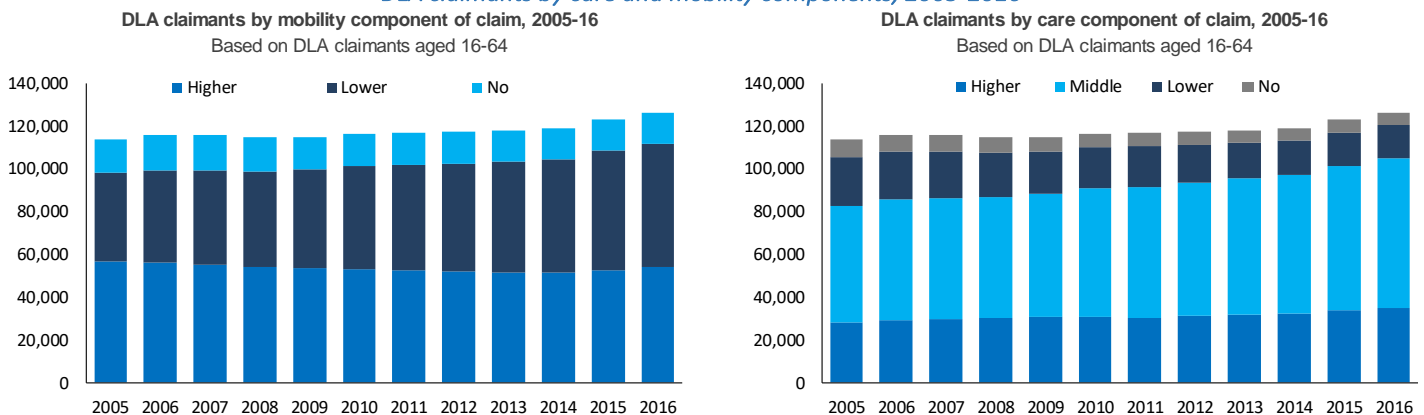
### Definitions:

**Mobility component:** If claimants are assessed to have walking difficulties they are entitled to the mobility component of DLA. Claimants are eligible for the lower rate of the mobility payment if they need guidance or supervision out of doors. Claimants are entitled to the higher rate if they have other more severe walking difficulties.

**Care component:** If the claimant requires help with their personal care they are entitled to the care component of DLA. If the claimant needs help for some of the day or are unable to prepare a cooked meal they are entitled to the lowest rate. Claimants are entitled to the middle rate if they need help with personal care frequently or supervision throughout the day only, or help with personal care or someone to watch over them during the night only, or require someone with them if the claimant is on dialysis. Claimants are entitled to the highest rate if they need help or supervision frequently throughout the day and during the night.

It should be recognised that NI has a high of people included within the ‘higher’ mobility classification. Over two fifths (43%) of claimants are entitled to the higher care component. Although this is a relatively similar proportion of DLA claimants when compared against the rest of the UK, given the much higher take up rate in NI, the number of DLA claimants classified in the ‘higher rate’ as a proportion of the population is much higher in NI (5% in NI and 2% Great Britain).

### DLA claimants by care and mobility components, 2005-2016



**Source:** Department for Communities, Analytical Services Unit

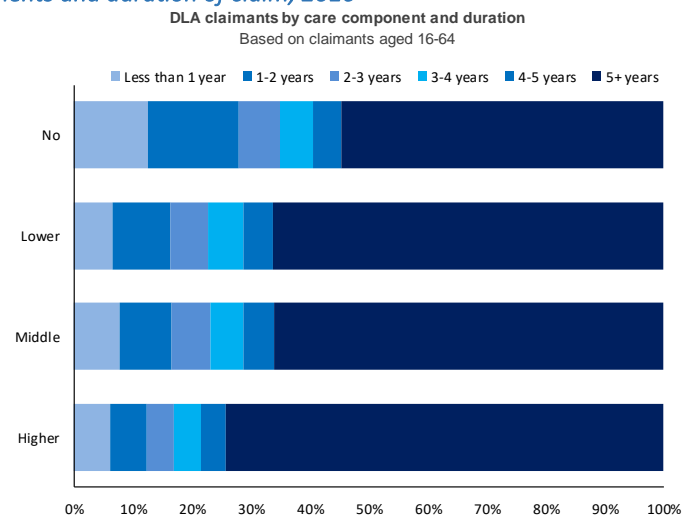
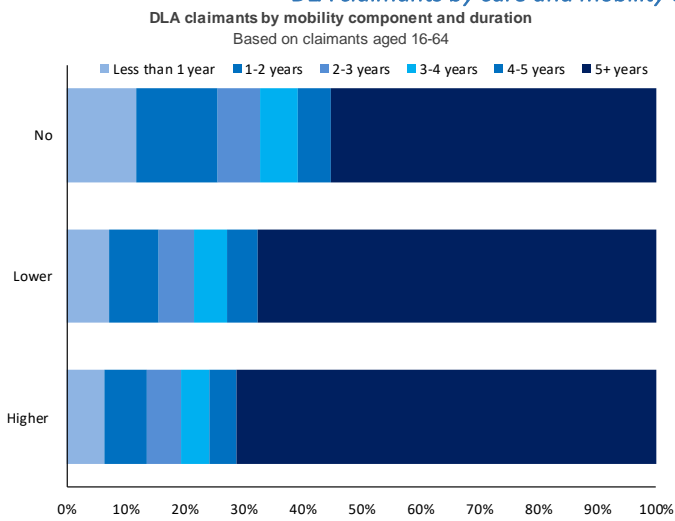
**Note:** DLA refers to Disability Living Allowance; Higher, Middle, Lower and No refer to the claimants DLA entitlement based on their mobility and care requirements

It is a slightly different story with regard to the care component, 83% of claimants are entitled to either the ‘higher rate’ or the ‘middle rate’ care component payment compared to 69% in Great Britain. Therefore, in NI the DLA claimants require a high degree of care to manage their condition relative to Great Britain. The difference is even larger when considered as a proportion of the population. In NI 9% of claimants receive the ‘higher’ and ‘middle’ care components compared to 3% in Great Britain.

The high rates of disability/illness which severely limit mobility and high level of care requirements go some way to explaining the very low off-flow rates from DLA. The vast majority of claimants entitled to the ‘higher rate’ (86%) and ‘lower rate’ (85%) mobility component claimed DLA for more than 2 years. A high proportion of claimants not entitled to the ‘mobility component’ (74%) have claimed DLA for more than 2 years. However, this group represents only 12% of total claimants. A similar story is portrayed when the care component is considered with the duration of claim being longer if the claimant requires

a higher degree of care and a lower average duration of claim amongst people not entitled to the care component. However, the latter represent a small group (5%) within the total caseload.

*DLA claimants by care and mobility components and duration of claim, 2016*



**Source:** Department for Communities, Analytical Services Unit  
**Note:** Claimants' refers to all those with entitlement to the benefit, which includes individuals receiving payments and those who receive only National Insurance credits

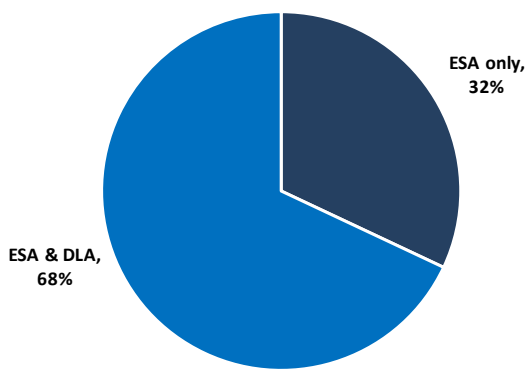
**Multiple disability claimants**

There is a high degree of overlap between the two largest sickness/disability schemes. Of the ESA caseload 68% of claimants are also in receipt of DLA, and of the DLA caseload 65% are also in receipt of ESA.

*Working age customers claiming both DLA and ESA as a proportion of the liveloads for each, 2016*

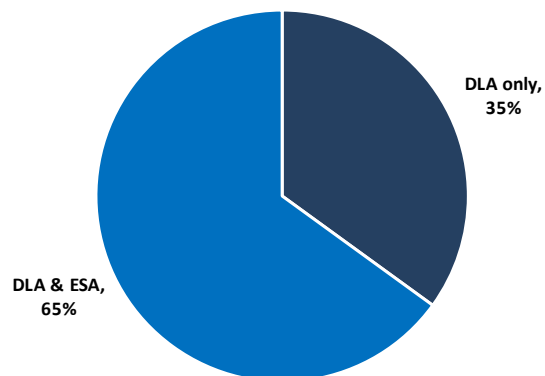
ESA only claimants vs. ESA & DLA claimants, 2016

Proportion of total ESA claimants aged 16-64



DLA only claimants vs. DLA & ESA claimants, 2016

Proportion of total DLA claimants aged 16-64

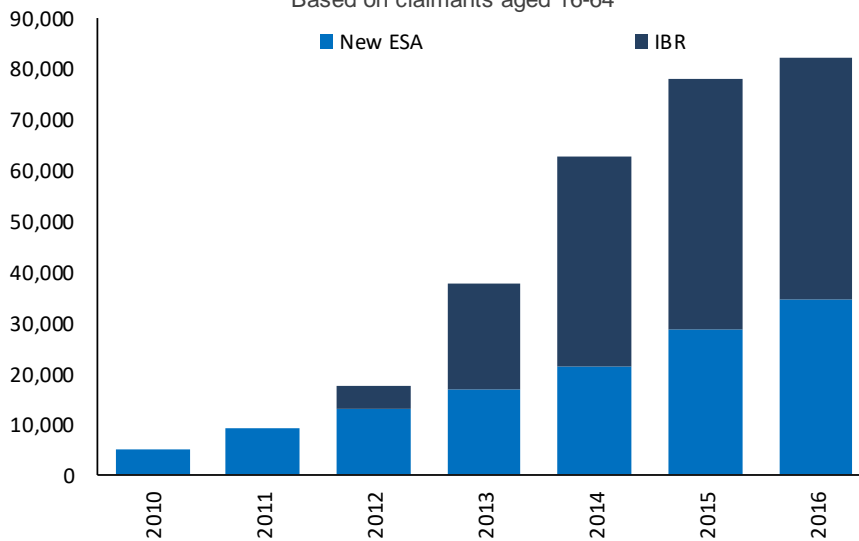


**Source:** Department for Communities, Analytical Services Unit  
**Note:** Claimants refers to all those with entitlement to the benefit, which includes individuals receiving payments and those who receive only National Insurance credits

The proportion of claimants who claim both ESA and DLA has increased in every year where data is available, increasing from 37,620 in 2013 to 82,090 by 2016. This is in part driven by legacy IB cases which have been subject to a reassessment. In 2016 IB reassessments accounted for 58% of all claimants who claimed both benefits. However, the number of 'new' ESA claims who receive both ESA and DLA has increased in each of the 6 years for which data is available. This highlights that 'dual eligibility' is not a phenomenon specific to longer term legacy claims.

### Claimants of both DLA and ESA by claim type, 2010-16

Based on claimants aged 16-64



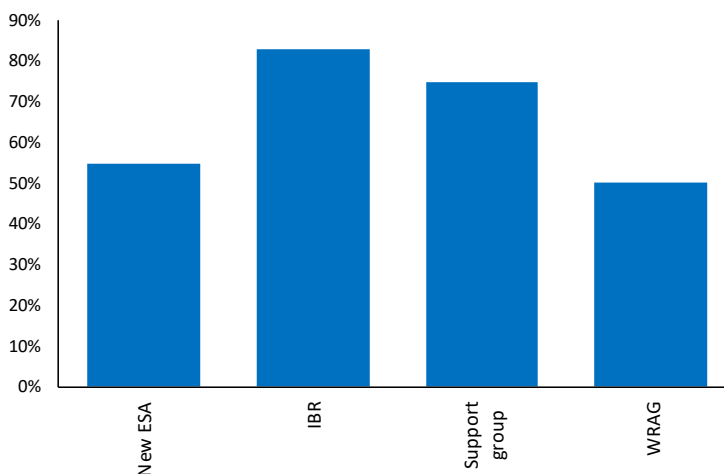
**Source:** Department for Communities, Analytical Services Unit

**Note:** Claimants refers to all those with entitlement to the benefit, which includes individuals receiving payments and those who receive only National Insurance credits

Over half (55%) of 'new ESA' claimants within the 2016 stock are also receiving DLA, compared to over four-fifths (83%) of claimants who have joined the ESA caseload from IB following an assessment. Although dual claiming is much lower amongst 'new ESA' claimants relative to 'IB reassessments', their rate nonetheless appears to be very high.

### Claimants of ESA also claiming DLA by assigned group, 2016

Proportion of ESA live-load aged 16-64



**Source:** Department for Communities, Analytical Services Unit

**Note:** Claimants refers to all those with entitlement to the benefit, which includes individuals receiving payments and those who receive only National Insurance credits

There are also large differences in the rate of dual claiming between ESA claimants in the support group compared to the WRAG, with three quarters of the support group claiming both benefits compared to half of ESA participants in the WRAG. The latter of these two statistics raises some questions relating to the synchronicity in the administration across the two benefit programmes. For example, when a claimant is placed into the WRAG, the work capability assessment has recognised that the claimant has a health condition which limits their current ability to work but there are things which can be done to improve their work capability. In other words, the labour market or health barrier which they face can

be overcome. With half of participants in the WRAG also receiving DLA, and only a small proportion of DLA claimants not in receipt of either the mobility or care component, it suggests that there are participants in the WRAG who are also receiving DLA with the mobility component and/or care component.

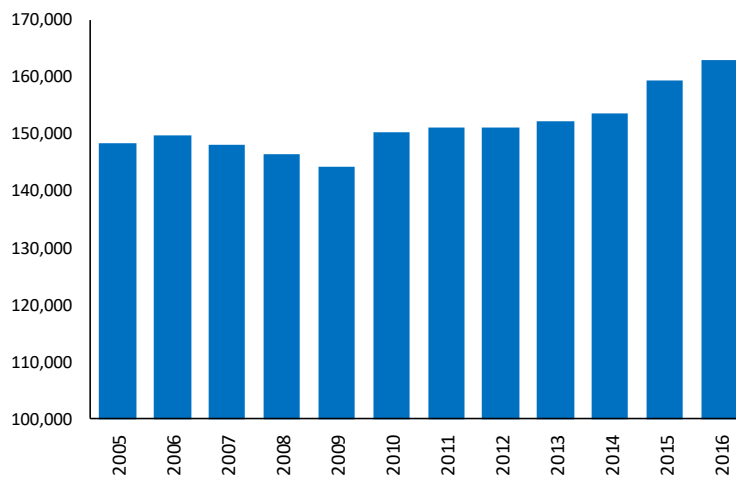
The overall number of multiple benefit claimants has increased in each year since 2012, and now stands

**Definitions:**

**Multiple disability claimant:** This refers to all those with entitlement to at least two disability benefits (of Attendance Allowance, Disability Living Allowance, Incapacity Benefit, Severe Disablement Allowance and Employment and Support Allowance), which includes individuals receiving payments and those who receive only National Insurance credits

at 163,030 representing 13.8% of the working age population. Claimants of multiple benefits also tend to be long term claimants, with over two thirds (68%) of this group having one of their claims dating back more than three years.

*Multiple disability claimants, 2005-16*  
Based on MDB claimants aged 16-64



**Source:** Department for Communities Analytical Services Unit

**Source:** Multiple disability benefit & housing benefit claimants' refers to all those with entitlement to at least 2 disability benefits (of AA, DLA, IB, SDA and ESA). Claimant figures include individuals receiving payments and those who receive only National Insurance credits.

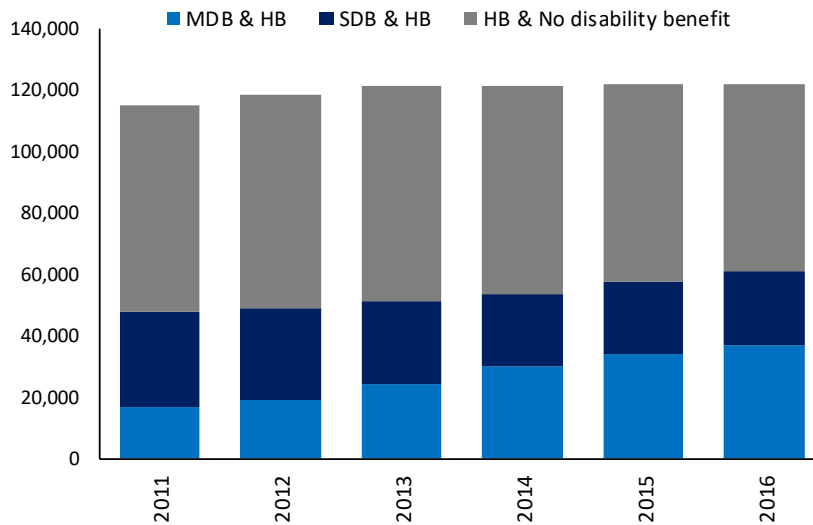
Almost one quarter (23%) of multiple benefit recipients are also in receipt of housing benefit, and are accounting for an increasing share of the total. The number of multiple disability benefit claimants receiving housing benefit has doubled within the past five years to 37,200, increasing their share of all housing benefit claimants from 15% to 30%.

It would be remiss not to mention the incentive effect which this can have on an individual. The financial benefit of receiving multiple disability benefits in addition to having a home either funded or subsidised can often outweigh what an individual can expect to earn after taxes. In particular, it has a high chance of outweighing the expected income from employment given the high proportion of the economically inactive stock with low level skills. A welfare state should look after the most vulnerable people in our society. However, a negative externality is that some benefit combinations can provide a disincentive to work even after the claimant has recovered. Striking a balance between the two is a significant challenge in which many advanced economies have thus far failed.



### Housing benefit claimants by benefit combination, 2011-16

Based on claimants aged 16-64



**Source:** Department for Communities Analytical Services Unit

**Source:** 'Single disability benefit & housing benefit claimants' refers to all those with entitlement to only 1 disability benefit (of AA, DLA, IB, SDA and ESA) and Housing Benefit. Claimant figures include individuals receiving payments and those who receive only National Insurance credits.

## Incapacity related benefits

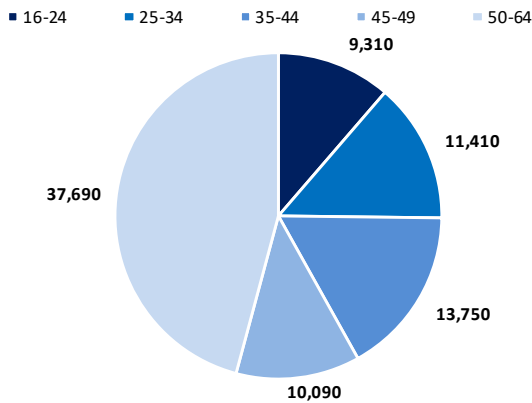
### Definitions:

**Incapacity related benefit claimants:** These are defined as people claiming either Disability Living Allowance (DLA); Employment Support Allowance (ESA); Incapacity Benefit (IB); or Severe Disablement Allowance (SDA).

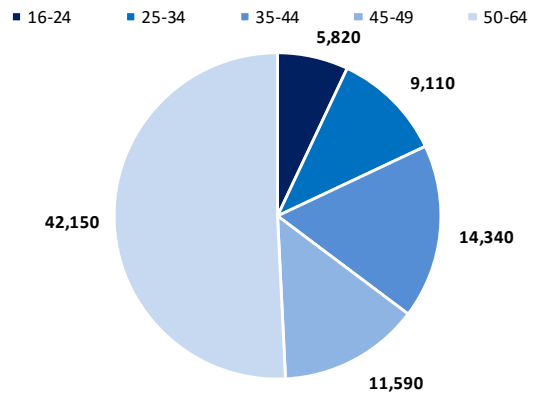
By aggregating the major out of work incapacity related benefits it is possible to build a portrait of the characteristics of the claimants across the suite of benefit programmes. Overall, there is a relatively similar split between males (82,250) and females (83,010) with a similar age profile weighted towards people over 50.

### Incapacity related benefit claimants by age and gender, 2016

**Male incapacity-related benefit claimants, by age, 2016**  
Based on male claimants aged 16-64



**Female incapacity-related benefit claimants, by age, 2016**  
Based on female claimants aged 16-64



**Source:** Department for Communities Analytical Services Unit

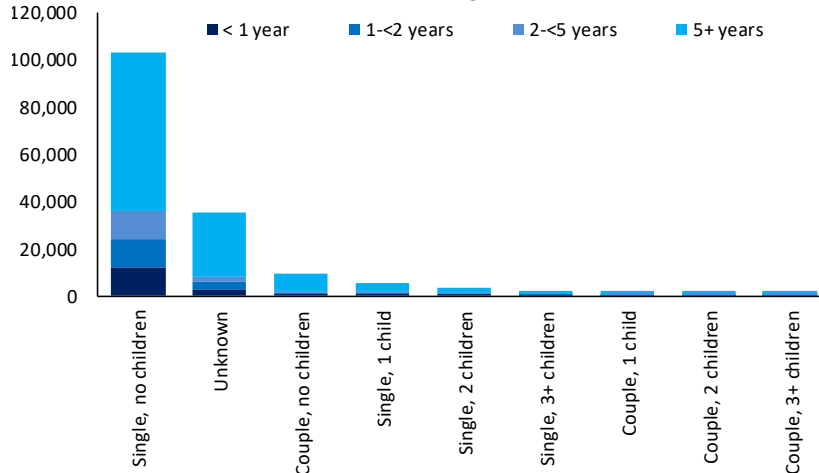
**Source:** Claimant figures include individuals receiving payments and those who receive only National Insurance credits.

Although it should be noted that there are some differences in trend. Female claimants over 50 increased by 8% between 2013 and 2016 whereas male over 50's increased by only 3%. Conversely, in the past 3 years the number of claimants aged under 35 increased by 4,430 with 74% of the increase accounted for by young men.

The vast majority of claimants are single people with no children, who account for almost four fifth (79%) of claimants where their family background is known. Of this group over three-quarters have been claiming incapacity related benefits for more than two years.

### Incapacity related benefit claimants by family type, 2016

Based on claimants aged 16-64

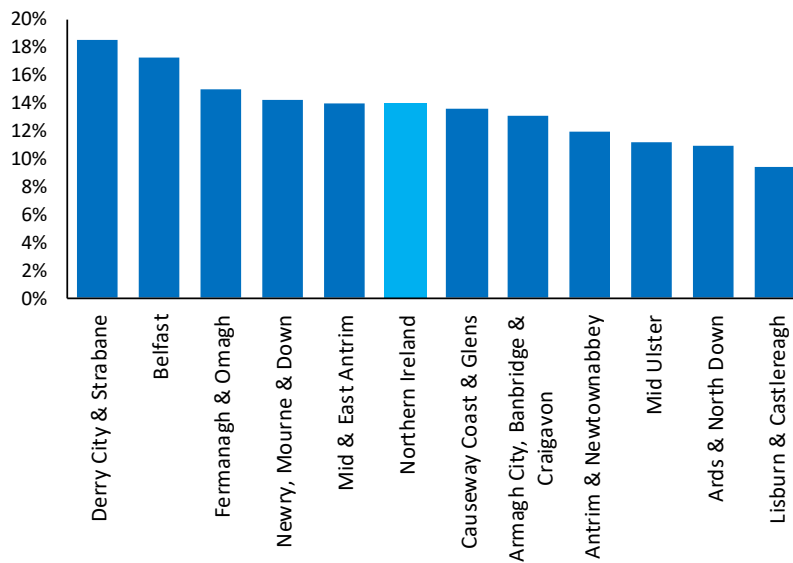


**Source:** Department for Communities Analytical Services Unit

**Source:** Claimant figures include individuals receiving payments and those who receive only National Insurance credits.

Belfast (23%) and Derry City and Strabane (11%) account for the largest number of claimants in NI, which is unsurprising as they are two of the largest Government districts. However, claimant rates are also highest in these two districts with 18% of the working age population in Derry and Strabane claiming an incapacity related benefit compared to 17% in Belfast.

*Incapacity related benefit claimants by local Government District, 2016*  
Proportion of population by LGD aged 16-64



**Source:** Department for Communities Analytical Services Unit  
**Source:** Claimant figures include individuals receiving payments and those who receive only National Insurance credits.

## Summary

The analysis of data relating to the major sickness/disability programmes has reinforced some findings from our earlier analysis of Labour Force Survey (LFS) data. Namely, that a very high proportion of the caseload on sickness or disability benefits are older people who have been claiming for an extended duration. Therefore, this group are amongst the most difficult to help and remain at a considerable distance from the labour market. Although younger people represent a smaller proportion of the total caseload, it is a point of concern that the number of claimants aged under 35 has been increasing.

Another finding supporting our earlier LFS analysis relates to the high instances of sickness relating to mental health problems. In particular, the rising stock of young people with mental health problems is an area of concern. Unfortunately, relatively little is known regarding the type or severity of claims relating to mental health, it is an area which requires further research from experts in this field.

DLA statistics indicate that a high proportion of the caseload are entitled to either the care or mobility components of the scheme. Per head of the population NI has a much higher proportion of the DLA caseload in the middle and higher categories of the mobility and care components. In other words, a more challenging group with a high proportion not likely to ever work again. This structure of the caseload makes it more difficult to reduce.

The data relating to ESA identifies that very few claimants are assigned to the WRAG, with most assigned to the support group. In other words, the majority of claimants are subject to no conditionality and receive no employability support. The off-flow rates of people in the support group are extremely low. Therefore, if the majority of new claimants continue to be assigned to the support group following assessment it will drive up the overall caseload over the longer term.

There is a high degree of overlap between the main out of work sickness/disability programmes. A majority of ESA claimants also claim DLA, and vice versa. The number of multiple benefit recipients has also been increasing. With such a high degree of overlap between sickness/disability programmes, it poses the question whether two programmes are required alongside unemployment benefit.

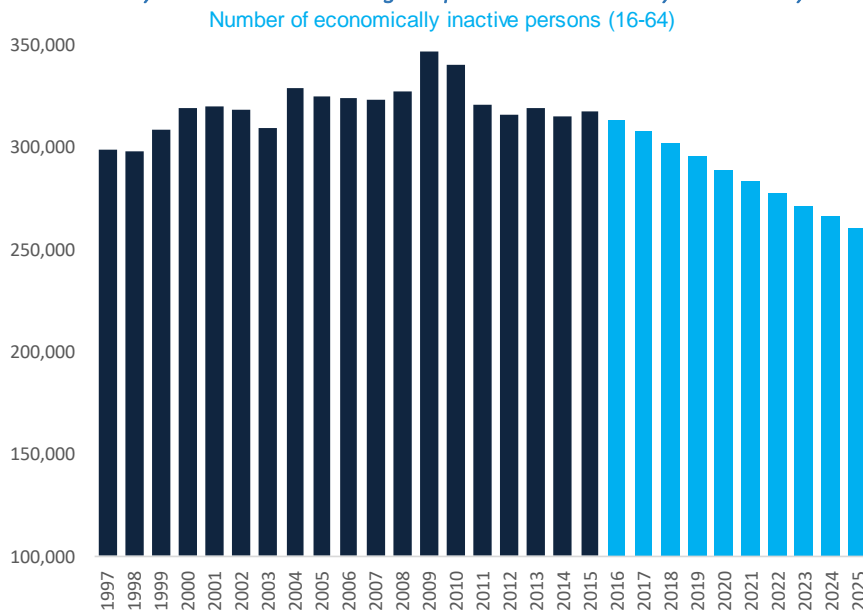
## 8. Scaling the challenge

This section provides contextual analysis on the scale of the challenge to bring NI’s labour market performance into line with the rest of the UK.

### Closing the gap – Reasons for inactivity

NI has consistently experienced higher rates of economic inactivity relative to other regions of the UK. In 2015 NI’s economic inactivity rate was 27.3% which compares to 22.1% in the UK. To match today’s UK inactivity rate by 2025 would require a reduction in the economically inactive population by 56,800. This would decrease the economically inactive stock to 261,000, a decrease of almost one fifth (18%).

*Economically inactive stock – change required to match today’s UK rate by 2025*



Source: LFS, UUEPC

However, within the economically inactive stock there is some benign economic activity such as people who have saved for retirement enabling them to retire early and students who are investing in their human capital and therefore economic potential. With this in mind policy should consider the gaps between the UK and NI in the largest forms of unproductive economic activity.

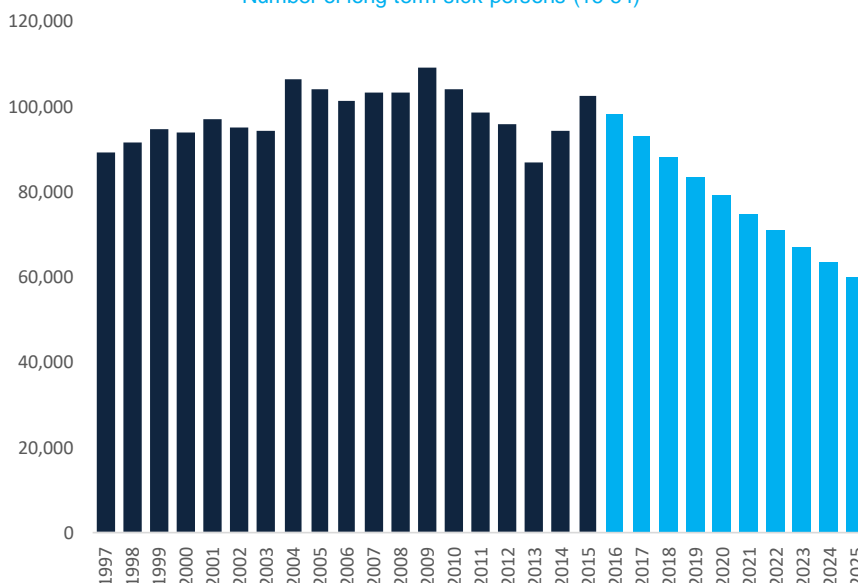
The largest group within the economically inactive stock are people classed as long-term sick/disabled. In NI in 2015 8.8% of the working age population were long-term sick/disabled compared to 5.1% in the UK. If NI were to match today’s UK rate by 2025 it would require a reduction of 42,500 inactive sick/disabled people, representing a reduction of over two fifths (41%). This would reduce the number of long term inactive sick/disabled people to 60,200, which is much lower than at any point in the past two decades.

One of the strategic objectives of NI’s economic inactivity strategy<sup>35</sup> is “to reduce, through transitions into employment, the levels of economic inactivity due to work-limiting health conditions or disabilities by a 25% reduction in the number of people claiming Employment and Support Allowance (Work Related Activity Group) against the 2015 baseline position”. However, given the relatively small number of people assigned to the support group this would represent an extremely unambitious target. A 25%

<sup>35</sup> Department for Employment and Learning and Department of Enterprise Trade and Investment (2015) Enabling Success. Supporting the transition from economic inactivity to employment: A strategy to tackle economic inactivity in Northern Ireland.

reduction in ESA claimants within the WRAG represents only 2,530 people and would have negligible impact on the overall economic inactivity rate.

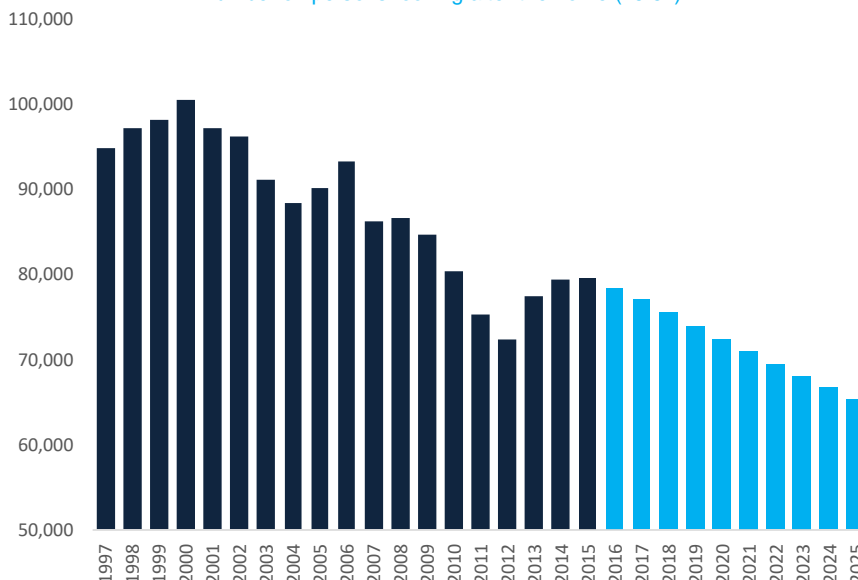
*Economically inactive - long-term sickness/disability— change required to match today’s UK rate by 2025*  
 Number of long term sick persons (16-64)



Source: LFS, UUEPC

The proportion of the working age population who are looking after the family/home is only slightly higher in NI compared to the UK, with 6.7% and 5.5% respectively recording this labour market status. To match today's UK rate by 2025 NI would have to reduce the number of people looking after the family/home by 14,400.

*Economically inactive – looking after the family/home— change required to match today’s UK rate by 2025*  
 Number of persons looking after the home (16-64)



Source: LFS, UUEPC

NI has a relatively similar proportion of early retirees to the UK (3% and 2.9% respectively in 2015), and therefore there is limited scope to have a significant impact on reducing the overall inactivity rate. While some people will have made enough money before they reach state pension age, others will have

been forced to retire early after finding themselves out of work and unable to find another job when in their 50's or 60's and retire with less income and a lower standard of living compared to their prior expectations. Therefore, the early retiree group represents people who are inactive for both positive and negative reasons.

There is a higher proportion of people in the UK who are inactive for 'other reasons' than in NI. Therefore, there is limited scope for gains in reducing the overall inactivity rate from this sources. NI also has a higher proportion of students relative to the UK. As this is a positive investment for young people to make, gains in reducing the inactivity rate which are beneficial for NI society cannot be achieved from reducing the number of students. Therefore, it is clear that the overall inactivity rate cannot be significantly reduced in a positive way without a concerted effort to increase the employment rate of people who are currently sick/disabled.

Increasing the disabled employment rate can have a significant impact on the overall inactivity rate in NI. For example, moving 36,675 EA core or work limiting disabled people into work in 2015 would reduce the inactivity rate by 3.2 percentage points, closing the overall gap in the headline inactivity rate by around two thirds.

*Economic inactivity rate, 16-64 population, 2015*

Disability category	NI	UK	Reduction required for NI to meet UK rate	Impact on overall inactivity rate
EA care or Work limiting disabled	60.0%	45.0%	-36,675	-3.2 p.p
EA care only	61.8%	47.1%	-34,122	-2.9 p.p
Work limiting disabled only	64.4%	51.9%	-26,911	-2.3 p.p
Not disabled	18.0%	16.7%	-11,678	-1.0 p.p

Source: Nomis, UUEPC

Note: EA refers to the Equality Act 2010

Note: The presence fo a work limiting disability is self-reported

## Identifying the employment gaps

When considering where the most likely areas are to have a significant impact on the overall inactivity rate it is necessary to examine which socioeconomic groups are characterised by the largest gaps in their respective inactivity rates relative to the rest of the UK.

As investment in education is considered to have wider societal benefits, we have removed full time students from this analysis. Once students are removed from both the numerator and denominator, in 2015 NI had an inactivity rate of 21.6% compared to 17.4% in the UK – a gap of 4.2 percentage points (p.p).

The table overleaf outlines the degree of impact that matching the UK inactivity rate across different age bands and gender categories can have. The first point of note is that match the female inactivity rates with the UK has a greater impact than males due to the higher number of females within the economically inactive stock.

The gap between NI and the UK is greatest in the 50-64 age category, which also has the largest number of economically inactive people. Matching the UK inactivity rate in the over 50 category would reduce the overall inactivity rate by 2.0 percentage points – in other words almost halving the overall inactivity rate gap (excluding students).

However, reactivation policies aimed at the over 50's have tended to have fairly limited rates of success and reducing the over 50's inactivity rate to the degree required to reach the UK would be extremely challenging. Active labour market policies are more likely to be successful with groups aged under 50,

and narrowing the gap with the UK for the under 50's would reduce the overall inactivity rate (excluding students) by 2.5 percentage points (with females accounting for 1.6 p.p. and males representing 0.9 p.p.).

*Inactivity rates by age, 16-64 population (excluding students), 2015*

**Total**

Age	NI	UK	P.P gap	Reduction required for NI to meet UK rate	Impact on overall inactivity rate (p.p)
16-24	16.0%	11.5%	-4.5%	-6,151	0.6
25-34	15.3%	12.8%	-2.6%	-6,260	0.6
35-49	16.8%	13.0%	-3.8%	-13,929	1.3
50-64	34.3%	27.8%	-6.5%	-21,918	2.0

**Male**

Age	NI	UK	P.P gap	Reduction required for NI to meet UK rate	Impact on overall inactivity rate (p.p)
16-24	9.3%	7.8%	-1.4%	-980	0.1
25-34	6.8%	5.5%	-1.4%	-1,651	0.2
35-49	10.7%	7.3%	-3.4%	-6,180	0.6
50-64	26.8%	21.8%	-5.0%	-8,271	0.8

**Female**

Age	NI	UK	P.P gap	Reduction required for NI to meet UK rate	Impact on overall inactivity rate (p.p)
16-24	22.9%	15.1%	-7.8%	-5,216	0.5
25-34	23.7%	20.1%	-3.6%	-4,469	0.4
35-49	22.6%	18.7%	-3.9%	-7,482	0.7
50-64	41.7%	33.5%	-8.1%	-13,757	1.3

Source: ONS, UUEPC

Note: Numbers will not add due to rounding

The inactivity rate for people with low skills is considerably higher when compared to people higher up the skills ladder. Indeed, the entire gap in the inactivity rate between NI and the UK could be closed with an equalisation of the inactivity rates amongst low skilled people (i.e. a highest qualification of NQF level 2). NI has lower inactivity rates relative to the rest of the UK amongst the sections of the population who have achieved a tertiary level qualification. The extremely low inactivity rates amongst tertiary qualified people highlights the considerable benefit from climbing the skills ladder.

*Inactivity rates by level of highest level of qualification, 16-64 population (excluding students), 2015*

Skill level (NQF)	NI	UK	Reduction required for NI to meet UK rate	Impact on overall inactivity rate (p.p)
Below Level 2	41.1%	34.0%	-25,641	-2.4
Level 2	34.8%	24.9%	-20,308	-1.9
Trade Apprenticeship	14.9%	15.5%	-	-
Level 3	24.0%	21.5%	-4,366	-0.4
Level 4-5	13.7%	16.8%	-	-
Level 6+	9.9%	10.2%	-	-

Source: ONS, UUEPC

Note: Level 8 – PhD (or equivalent); Level 7 – Masters (or equivalent); Level 6 – Degree (or equivalent); Level 4-5 – Foundation Degree/ HND/ HNC (or equivalent); Level 3 – A-Level (or equivalent); Level 2 – 5 GCSEs Grades A – C (or equivalent); Level 1 – 5 GCSEs Grades D – G (or equivalent); Level 0 – No qualifications

Single people account for the largest number of economically inactive people, and have the highest economic inactivity rate. Closing the inactivity rate amongst this group to match the UK rate would close almost half of the overall gap in the inactivity rate between NI and the UK.

Lone parents, who are largely female, also have very high economic inactivity rates relative to the UK. If lone parents with both dependent and non-dependent children were to match the UK inactivity rate it would reduce the overall inactivity rate by almost one third. However, the policy remedy is likely to be different for each category of lone parent. For example, childcare costs are likely to be a significant labour market barrier amongst lone parents with dependent children. Whereas, this is not an issue for lone parents with non-dependent children who are more likely to face barriers associated with a sustained period outside of the labour market (e.g. deterioration of employability skills etc.).

*Inactivity rates by family type, 16-64 population (excluding students), 2015*

Family type	NI	UK	Reduction required for NI to meet UK rate	Impact on overall inactivity rate (p.p)
Single	34.5%	20.2%	-21,988	-2.03
Couple, no children	21.3%	18.3%	-6,361	-0.59
Couple, non-dep children	14.3%	14.2%	-243	-0.02
Couple, dep children	13.9%	12.8%	-4,864	-0.45
Lone parent, dep children	30.4%	21.8%	-9,151	-0.84
Lone parent, non-dep children	26.0%	17.7%	-5,870	-0.54

Source: ONS, UUEPC

## Summary

A convergence with economic inactivity in the UK would require a significant change in the NI labour market, and significant change cannot be achieved without a reduction in the number of people who are classed as being long term sick and an improvement in the disabled employment rate.

The largest impact on the overall inactivity rate would be achieved from an increase in the employment rate amongst the over 50's, single people and people with a low level of qualification. Unfortunately, these groups also represent 'hard to reach' groups distanced from the labour market, highlighting the significant challenge in reducing the overall rate.



## 9. Summary and policy remarks

This report has provided a statistical portrait of economically inactive working age adults in NI. Economic inactivity is lower than previous decades, however there has been a worrying recent rise once students are excluded from the measure. The review paints a picture of an ‘above average’ economically inactive stock relative to other UK regions; rising inactivity at both ends of the age spectrum; high rates of worklessness amongst people with children; a low disabled employment rate and an increasing number of people with mental health problems. These are entrenched, complex challenges and this statistical review does not make policy recommendations, but a number of policy observations can be drawn out.

### Inactivity and the Programme for Government

Within the draft Programme for Government (PfG)<sup>36</sup> indicator 17 relates to “reducing economic inactivity”. It is encouraging to see a specific indicator and measurement (excluding students) within the policy framework for the period 2016-21. Although inactivity has a dedicated indicator, it is inextricably linked to another measure within the PfG framework.

Indicator 16 in the PfG relates “to increasing the working age employment rate”. Achieving an increase in the employment rate will not be possible without drawing upon NI’s reserve army of labour in the unemployed and inactive stock.

**Table 3: Employment rate scenarios, Q2 2016 (16-64, not seasonally adjusted)**

Scenario	Employment rate
<b>Baseline employment rate</b>	69.0%
<b>Unemployed stock reduced by 50%</b>	71.2%
<b>Inactive stock who <i>want a job</i> reduced by 50%</b>	71.4%
<b>Unemployed stock and inactive who <i>want a job</i> reduced by 50%</b>	74.4%
<b>Unemployed and inactive who <i>want a job</i> reduced to zero (i.e. full employment)</b>	78.8%

Source: LFS, UUEPC

Using data from Q2 2016, an illustrative example helps to place this in context. If the number of unemployed people were to be reduced by 50% it would lead to an increase in the employment rate of 2.2 percentage points from 69.0% to 71.2%. Similarly, reducing the number of people who are inactive and want a job by 50% would increase the employment rate by 2.4 percentage points to 71.4%.

Reducing both the unemployed and inactive stock who want a job by half would increase the employment rate to 74.4%, which is roughly equivalent to the UK rate for the same quarter (74.3%). Therefore, it is difficult to achieve significant increases in the employment rate without a significant reduction in both the unemployed and inactive who have work aspirations.

The next section of this working paper provides some remarks specifically related to long term sickness/disability, before providing comment on wider economic inactivity.

<sup>36</sup> Northern Ireland Executive (2016) Draft Programme for Government Framework 2016-21

## Long term sickness

**Targeting the stock or the flow** – For a lasting change in outcomes more can be gained from limiting the inflow to what has become a quasi-permanent labour market status. However, changes in inflows will translate only slowly to changes in the total quantum of inactive people. By targeting the stock, gains can be made by getting some people to return to work, but the problem can only be overcome in the longer term by targeting the inflow and in particular, the inflow of younger people. In a period of scarce fiscal resources a policy choice may have to be made.

**‘Stickiness’ of out of work incapacity related benefits** – The extremely low out-flow rates from long-term sickness/disability pose a huge challenge for policymakers. People rarely leave disability benefits for a job, which is perhaps a ‘fear factor’ of the claimant not being able to re-access the benefit if they return to employment and are unsuccessful in their new job. Some countries including Sweden promote their disability claimants job search by providing a full right of return to the benefit at any time without a need for reassessment.

**Mental health** – The high proportion of inactive people with health problems, in particular mental health problems, should be a priority area for research to identify appropriate interventions. The number of people in NI with mental health problems is above average across all age categories, and some trends amongst young people are particularly concerning. Proactively addressing mental health is particularly important in view of the evidence that inactivity can contribute to an individual’s poor health, in particular mental health, and that returning to work is generally associated with an improvement in health. It is beyond the expertise of economists to design successful mental health initiatives, however it is recommended that research should be undertaken in this area, and evidence reviewed from elsewhere to identify ‘what works’ in tackling mental health barriers to returning to the labour market.

**Testing the water** – Internationally, advanced countries have been dealing with higher rates of sickness and disability. The severity of the challenge is illustrated by the fact that surprisingly little evidence exists relating to best practice. Therefore, pilot programmes are important to test which interventions are capable of producing successful outcomes. With economic inactivity highly concentrated in some geographic areas, an intervention which works well in one area may not be so successful in another. Small geographic areas, with significantly different profiles of inactive people and the barriers they face, provide ideal testing grounds for a range of pilot interventions.

**Passive nature of out of work incapacity related benefits** – Disability benefits represent a passive benefit whereby the majority of participants are under no obligation to participate in labour market activation programmes. In particular, this is demonstrated by the increasing numbers of people on ESA who are in the support group, and relatively small numbers of people being in the Work Related Activity Group (WRAG). The low proportion of participants in the WRAG suggest that an unintended consequence of the design of welfare programmes has been to encourage claimants to express how sick they are, rather than have an honest conversation about their work capability.

**Sickness trends are misaligned with wider health and economic trends** – The data relating to sickness levels is concerning. In recent decades’ society has become wealthier and healthcare systems improved, over this period a counterintuitive trend has been observed regarding increasing levels of sickness. Over the past four years NI has enjoyed a relatively strong labour market performance with strong job growth, as inactivity has not reduced over this period a deeper understanding is required. As our understanding of mental health improves one reason to explain high numbers of people who are mentally ill is a significant improvement in the diagnosis of mental health conditions. However, the data suggests that our ability and support and re-integrate this group is failing and represents wasted potential.

**Linkages to Job Seekers Allowance (JSA)** – A high proportion of new out of work incapacity related benefit recipients had a recent experience on JSA. The deterioration in health of these individuals following a period on JSA is concerning. When considering labour market interventions for workless people we must consider the entire welfare system and how unemployment and inactivity programmes are interlinked. NI’s social security ecosystem should be composed of a series of supporting parts, and not interventions which act as a ‘feeder programme’ to other aspects of the social protection network.

**Multiple benefit claimants** – The number of claimants in receipt of multiple sickness/disability benefits has been consistently rising. This raises two points. Firstly, in a system where people can claim multiple disability benefits it boosts the income received. In particular, when this is combined alongside housing benefit it can act as a disincentive to the individual to seek employment. Secondly, with such high numbers claiming from multiple benefit schemes it highlights the overly complex nature of our system of social support.

**Strengthening the incentives of all stakeholders** – If successful outcomes are to be achieved there needs to be engagement from all actors.

- **Employer**– Local employers currently have very little incentive to tackle this key policy challenge. Recruiting a disabled or previously sick worker represents a risk for employers, as does recruiting someone who has been looking after the family/home and has been outside the labour market for a significant period of time. For employers it must pay to both make every effort to retain sick workers, and to consider recruiting disabled or previously sick people if they are willing and able to fulfil the requirements of the role. Other countries have tackled this in different ways, both through the use of the ‘carrot’ and the ‘stick’. Some countries have used job subsidies to encourage employers to hire workers with health problems, which can help to mitigate the expensive recruitment process. Other countries have introduced legislation to transfer some of the financial responsibility to the employer.
  - **Netherlands:** The employer is required to pay sick pay for the first two years of illness, and a third if they cannot prove to have made reasonable efforts to help the employee return to work. The Netherland’s Gatekeeper Protocol’ requires the employer to monitor sick leave; hold a sick worker’s job open for two years; develop, finance, and implement plans for rehabilitation; pay for certain medical treatments; make workplace accommodations; and find new jobs for those workers for whom the employer no longer has commensurable employment. The outcome is to reduce the state costs of sick leave, and transfer more of the responsibility to the employer.
  - **Finland:** Firms pay a social insurance premium to the government which varies depending on the number of ‘sickness cases’ they produce. This provides an incentive for the employer to make efforts to prevent employees entering into a long-term sickness status.
- **Making work pay for the individual:** It must be financially viable for the individual to leave sickness benefits and enter into employment. However, this can of course be a difficult balance. On one hand providing enough assistance for some of the most vulnerable members of our society to live better lives, and on the other preventing the level of assistance becoming a disincentive to work. Previous research<sup>37</sup> undertaken by members of the UUEPC identified that there is often a misalignment between the skills profile of a person out of work and their stated ‘required salary’ to enter employment. In NI skills matter, and average wage levels increase with each upward step on the skills ladder. Skills amongst the long-term sick population are heavily weighted towards low skills, and the ‘required salary’ of an out of work individual is often not commensurate with the average wage paid to individuals with their skills profile.
- **Incentives for the NI Executive:** Spending on social security benefits is funded via Westminster and not directly through locally raised taxes. Expenditure on local social security over much of the recent

<sup>37</sup> Regional Forecasts & PwC (2007) Labour Market Study. A report completed on behalf of Derry Local Strategy Partnership.

past has been unrelated to how much NI receives through its block grant from HM Treasury. It can be argued that this has not provide an incentive to tackle high rates of out of work sickness payments over the past 20 years. The direction of travel with regard to welfare policy in the rest of the UK appears to be towards partial devolution to Local Enterprise Partnerships (LEPs) in England as part of 'City Deals', and to the Scottish Executive via a Block Grant adjustment. There is an argument which could be made to devolve welfare powers to the NI Executive. The cost would provide a motivation to prevent caseload numbers increasing, and if NI were able to retain a proportion of savings for spending in other areas (e.g. skills, infrastructure, social services etc.) this could further incentivise the NI Executive to tackle a high caseload. However, as a small region there are of course risks with this approach. For example, caseloads will naturally fluctuate around the economic cycle.

## Wider forms of inactivity

**Up skilling** – Participation in skills programmes amongst the economically inactive is low, although there is a great need to improve the employability of inactive people who often lack the necessary labour market qualifications and experience. Both of the largest categories of inactive people have a skills profile weighted towards low skills. They also have a much weaker skills profile compared to people in employment under 35 years old, which is a proxy for skill requirements in new jobs. This highlights that the seeds of inactivity are sewn at an early age. Tackling underachievement in NI's education system is a long standing challenge, and some progress has been made. However, it remains that over one third of school leavers do not achieve 5 GCSE grades A-C including English and Maths, which is considered the minimum acceptable level of qualification by many employers. Continued improvement in school results should help alleviate pressures on inactivity in the long run, but it will be many years before any impact on the overall inactivity levels are apparent in the data. In the short-run it seems pertinent to ask the question are we investing enough in rehabilitation, employment and skills programmes for the existing inactive population?

**Stemming the flow of inactivity amongst young people** – There has been an increase in the number of young people who are economically inactive, and NI's proportion of young people not in employment education or training (NEET's) is amongst the highest in the UK. As in the UK, the probability of becoming inactive is now less related to age, and more related to educational underachievement than in the past<sup>38</sup>. This highlights the importance of minimising underachievement in NI's schools. In addition, a positive step would be to minimise the number of young people – particularly those with low skills – being assigned to passive benefits (i.e. the support group on ESA) and support them to participate in active labour market interventions. Assigning young people to passive benefits at a young age risks permanently detaching them from the labour market, damaging their wellbeing and life chances in the long term.

**Inclusive workplaces for older workers** – Although there has been increasing numbers of younger people becoming economically inactive, older people still make up a much larger proportion of the inactive stock, and also a larger proportion of recent inflow to inactivity. This is to be expected as disability prevalence increases with age. However, it should be noted that a reasonable proportion of the recent inflow into working age inactivity is accounted for by people retiring early. This in itself is not an 'economic problem', although it is likely that some workers will have been forced to retire early due to a perceived lack of job opportunities. The recently observed sharp rise in the proportion people who are long-term sick amongst the 50-64 age group may be linked to rising retirement ages, particularly amongst women. As the goalposts for the State Pension are shifted further into the distance some older people who find themselves outside the labour market may have turned towards disability benefits if they have not saved enough to fund their retirement. With an ageing society and NI's working age

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<sup>38</sup> Banks, J. & Blundell, R. (2015) The changing characteristics of UK disability benefit recipients

population expected to peak in around a decade creating an inclusive and flexible job opportunities for older workers will become increasingly important.

**Costs of childcare** – For many families’ childcare costs have become the largest line of expenditure within their household accounts, with the average cost of a full-time childcare place being larger than the average mortgage payment in NI. This is undoubtedly a huge labour market barrier for many mothers, and in many cases has resulted in mothers working at a loss to preserve their career over the longer term. In NI’s poorest households it is simply not financially realistic to continue working when the childcare costs erode a high proportion of the average salary in NI. As economically inactive people tend to have a much lower skills profile compared to those in employment, and much lower earning potential, expenditure on childcare accounts for a larger proportion of household income. There is also some evidence of indirect effects, whereby grandparents give up work early to support the career of their own child by providing informal childcare.

**A serious ‘childcare’ debate** – Most stakeholders agree the provision of more affordable childcare, would lead to more positive outcomes in the NI labour market. However, research into the viability of providing free childcare in NI has indicated that costs outweigh the fiscal benefits<sup>39</sup>. That being said, childcare costs remain unaffordable for many families and a social argument for government intervention may still stand up. The NI Childcare strategy states that *“every child, parent and family will have access to affordable, integrated, quality childcare”* and that *“through childcare we will support the transformation of our society, promoting equality, social inclusion and social mobility”*. If this vision is to be realised alternative models of provision should be considered (with associated cost modelling). If affordable childcare is to be used as a positive intervention to improve social outcomes including labour market participation, alternative models to universal childcare could be considered.

**Displaced workers** – An analysis of the previous occupations of inactive persons highlighted groups of workers whom have had their employment outcomes linked to short and long term changes in the economic cycle. For example, the high proportion of ex-construction workers amongst economically inactive males and other occupations linked to deindustrialisation. Given the recently announced high profile series of redundancies in NI, policy should be prepared to provide assistance, retraining or up-skilling to workers displaced by global forces and long term economic trends. Looking forward, advancements in technology, changing modes of service delivery in service occupations and a trend of factory closures displaced workers may become an increasingly large group within the labour market.

## Further research

**Counterintuitive sickness trends** - Minimal flows off the support group suggest that the majority of this caseload have little prospect of a return to work. The scale of people in the ESA support group and the recent increase in caseload across different conditions indicates that wide ranging interventions are needed to support a return to the labour market. More research is needed to understand recent increases in the caseload, which contradictory to recent improvements in health.

**Fiscal responsibility** - The design of the welfare state itself, as well as the typology of recipients and incentives they face require further research to understand the lost potential resulting from high rates of economic inactivity. Looking forward over the long term, if NI is to achieve its economic ambitions, alongside an aging population, NI firms may face difficulties in recruiting the labour they require. Large numbers of people who are economically inactive represent unfulfilled potential. Those who are inactive for sickness related reasons represent a significant fiscal cost to the UK taxpayer. Although the fiscal cost associated with high levels of sickness is borne externally, the responsibility to develop effective labour market policy should not be.

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<sup>39</sup> PwC (2014) Universal childcare in Northern Ireland: A cost benefit analysis. Centre for Economic Empowerment Research report.

## Further research - Using data to inform policy

**Early profiling of clients' needs** – With the current data systems it is not possible to trace the customer journey prior to arriving on out of work incapacity related benefits. New claimants are a diverse range of people with differing needs, and profiling can help direct them to the most appropriate intervention if a wider range of data is collected. For example, even the collection of simple information such as claimants' skills profile or previous occupation would help to design an appropriate recovery and up skilling programme which would help to facilitate a transition back to employment.

**Using longitudinal data** – In addition to better profiling of clients' needs at the outset, using longitudinal data to track claimants over their lifetime would provide useful intelligence to help design successful policy interventions. Tracking the off-flows of participants from different programme interventions will provide invaluable information on the longer term labour market performance of former claimants. This can provide useful intelligence on which sectors and occupations are more likely to enable a participant to return to the labour market, earnings differences amongst the skill levels participants and those with different types of medical conditions. Using longitudinal data can also provide an evidence base to demonstrate the value for money of different policy interventions used, which is critically important within a tight fiscal environment. Until recently it has only been possible to assess the labour market performance of former participants by using survey data. However, HM Revenue and Customs' introduction of real time earnings data, a reform initiated under the previous UK Coalition Government, will soon change this. This capability will provide a continuous understanding of the employment status of former claimants. If merged with other programme information held by Government, this information could be used to gauge the value for money represented by retraining initiatives and other back-to-work interventions.

## Concluding remarks

Although some of the policy remarks made above present implementation and funding difficulties, it is appropriate to open up the debate regarding economic inactivity and, in particular, welfare. As a society aiming to maximise the wellbeing of our citizens, an important question to ask is 'what we do we think a modern welfare state for NI should look like?' It is important that people who want to work are given every opportunity to do so, and are able to overcome barriers preventing them from accessing employment. For out of work individuals, with some work capability, long periods of inactivity can cause health to worsen, work related skills and motivation deteriorate, and significant new barriers to work can arise. The current ecosystem of social support in NI is not working for all of our citizens and a debate on how we would like NI's future welfare state to look should be encouraged.