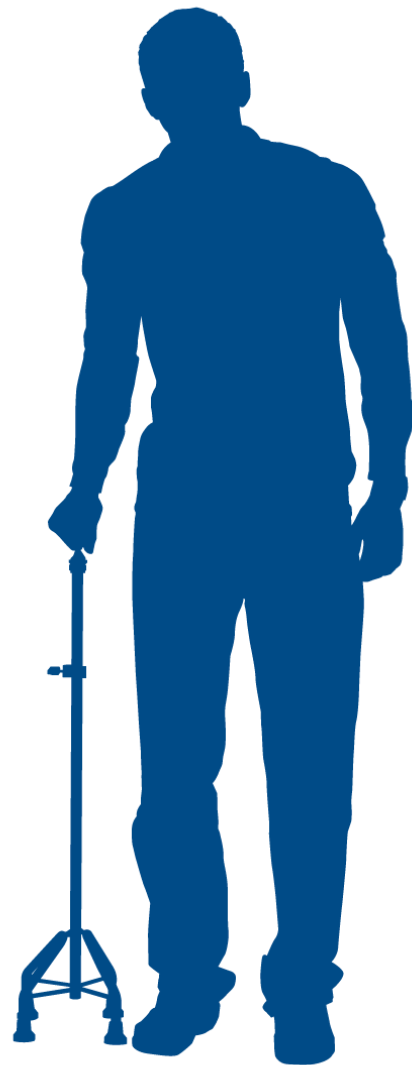


# How to balance fairness and effectiveness in Unemployment Insurance

Contributory benefits are being streamlined and enhanced – but the risks to disabled people must be addressed



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# Executive summary

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**The aim of recognising previous labour market contributions in benefit eligibility and payment levels, in order to enhance the political legitimacy of the benefits system, is understandable.** And we agree that the role of contributory benefits in partially replacing lost income when someone becomes unemployed can help some people return to sustainable jobs more swiftly.

The problem, however, is that **disabled people, and people with long-term health problems, will see their contributory benefit entitlements scaled back if current proposals go ahead.** The proposed Unemployment Insurance system could actually *reduce* expenditure on contributory unemployment benefits by at least £2 billion per year, by ending the long-duration new style Employment and Support Allowance awards. Payment levels for unemployed people in general are being increased, resulting in higher spending. But this is more than offset by withdrawing entitlements for contributory benefits typically received by people leaving employment due to ill-health.

**At a time when income-related health and disability benefits are being cut, and the future of Personal Independence Payment remains under consideration, this is difficult to justify.** Many of the people who will be affected are already experiencing hardship. We help tens of thousands of people with new style Employment and Support Allowance each year: **more than 1 in 10 also need charitable support such as food bank vouchers.** Our debt clients receiving Employment and Support Allowance are more likely to be in a negative budget, especially if they are also eligible for Universal Credit.

If the government proceeds with largely removing health considerations from the UK's contributory unemployment benefits system, and limits even those with limited capability for work-related activity to receiving UI for only 6 or 12 months, then at the very least **other planned and prospective cuts to health- and disability-related benefits must be reconsidered.**

It would be unwise to withdraw support from the benefits system before significant progress has been made on increasing employment among disabled people and/or reducing the proportion of people experiencing ill-health. **More than 80% of our advisers say that people currently eligible for the highest**

**rate of new style Employment and Support Allowance would be unlikely to return to work if/when they lose contributory benefits.** And they report that becoming dependent on Universal Credit alone would result in significant financial hardship for many – with negative health impacts and higher demand for public services.

Recipients of new style Employment and Support Allowance are typically older people who become unwell before they reach state pension age and are unlikely to ever return to employment. The view of our advisers is that **people prospectively eligible for an indefinite new style Employment Support Allowance award should be able to access Unemployment Insurance Awards with a longer duration.** Around half say that indefinite awards should continue. One option available to the government is award duration to be based on the length of a claimant's National Insurance contributions record before becoming unemployed – whether this applies to all claimants, or only those unemployed due to ill-health. Our understanding is that longer awards for a defined cohort would still be possible while recognising significant savings.

It will also be important to introduce transitional protection for current and prospective new style Employment and Support Allowance claimants. **People already receiving health-related contributory unemployment benefits – and those who would become eligible in the future – have already accrued entitlements in the current system.** This is especially the case for those claimants nearing retirement age.

**The government also needs to decide how to treat earnings in the new Unemployment Insurance system, and how the new benefit should interact with Universal Credit.** If the approach currently in use for the main contributory unemployment benefit (new style Jobseekers' Allowance) is replicated, then typical low-income benefit claimants would not benefit from this policy to any meaningful extent. Any earnings they have would see their Unemployment Insurance award reduced and, more importantly, any Unemployment Insurance would simply see them losing Universal Credit entitlement by an equivalent amount.

We are therefore recommending that:

1. The government should **thoroughly review the available evidence on the impact of income-replacement mechanisms** on well-being and

employment, and engage the public in a broader consultation about the role and design of contributory unemployment benefits.

2. The government should **consult on benefit design issues around how Unemployment Insurance treats earnings and interacts with Universal Credit**. As part of this consultation, it is important that the government outlines what the impact would be on different groups of claimants in each possible scenario.
3. The government should **use Unemployment Insurance to develop a new approach to Jobcentre Plus relationships with claimants, replacing work coaches with case workers and offering tailored support**. It should review all available evidence to determine whether ongoing Unemployment Insurance eligibility should be subject to stringent conditions being met, and whether Unemployment Insurance claimants who are disabled or in ill-health should be exempt from conditionality altogether.
4. The government should **consult on the likely impact of ending indefinite new style Employment Support Allowance support group awards on disabled people**. Options for mitigating this impact should include longer-duration awards for some or all claimants – for example, duration could be based on age, or the length of a claimant’s National Insurance contributions record. The government should also reconsider other health- and disability-related cuts that will exacerbate the negative impacts of contributory unemployment benefit reform.
5. The government should **put transitional protection in place to minimise the negative impact of replacing nsESA with UI for disabled people**. It should consult on the options available, outlining what the impact would be on different groups of current and future claimants of each possible scenario.

The author is grateful to the many Citizens Advice advisers who shared their insights for this report, colleagues in the Families, Welfare and Work team for their support, and participants in a series of private roundtables on Unemployment Insurance hosted by DWP in late 2025 (and particularly colleagues from the Institute for Fiscal Studies)..

# Introduction

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The government's [Pathways to Work green paper](#) on disability benefits reform included proposals to streamline and enhance contributory benefits, specifically by merging the 2 most common existing contributory benefits for working-age people. The new benefit will be rebranded as Unemployment Insurance (UI). The intent is to reward claimants who have made significant labour market contributions before becoming eligible for unemployment benefits.

This report assesses the design choices available to the government as it moves towards implementation, and draws upon Citizens Advice's front-line insights to consider the impact that UI could have. It focuses in particular on disabled people currently eligible for one of the contributory benefits being replaced – people for whom UI may represent a significant scaling back of contributory entitlements.

## What are contributory benefits?

There are 3 main types of social security benefits within the UK welfare state: income-related (sometimes referred to as means-tested), universal, and contributory.

*Income-related benefits* are targeted on the poorest. If their income is below a certain level, the benefits system will provide payments that bring their income up to a pre-determined threshold. There are typically different income thresholds across different benefits depending on health, age, housing and family circumstances or, in the case of Universal Credit (UC), a variable threshold depending on which specific elements of the benefit claimants may be eligible for. To avoid cliff-edges for people just below/above thresholds, income-related benefits typically include earnings disregards whereby claimants can retain some of their benefit income even if they have income from other sources, such as employment.

*Universal benefits* are available to everyone, irrespective of income or labour market history, if they meet certain criteria. The best example is Personal Independence Payment (PIP), which supports people in meeting additional living

and mobility costs associated with ill-health and disability. The most common universal benefits are Child Benefit (available to parents caring for children) and Winter Fuel Allowance (available to all pensioner households), but income-related elements have been introduced to both of these benefits through the tax system to limit their availability to higher-income households.

*Contributory benefits* are typically available to everyone who has been in employment, and therefore making National Insurance contributions (NICs), in advance of needing financial support from the benefits system. They are the clearest expression of the 'social insurance' principle that has traditionally underpinned welfare provision. Different contributory benefits have various rules around what counts as a sufficient contribution, and in what circumstances people may become eligible for the benefit. The most obvious example is the State Pension, whereby people reaching state pension age become eligible for a lifetime income based on their National Insurance record.

Typically, whereas income-related benefits are for *households* (e.g. taking into account income for both members of a couple), contributory benefits are for *individuals* irrespective of their relationship status (although this was not fully the case for the State Pension until recently).

Income-related benefits seek to bring people's income up to a certain level (e.g. to lift them out of poverty), and universal benefits seek to meet the additional cost of specific circumstances (e.g. raising children). In contrast, contributory benefits typically seek to replace the income (or a portion of the income) that individuals lose when they become unable to work. This is why, historically, contributory benefit payments have been linked to a claimant's previous earnings – although this formula has increasingly been diluted. Contributory benefits are often said to maximise work incentives, given that entitlement to enhanced social security benefits can be built up while in employment.

Only a few decades ago, working-age benefits expenditure in the UK was dominated by contributory benefits: they accounted for around 60% of expenditure in 1980-81, compared to around 30% for income-related benefits. By 2022-23, the proportion of expenditure on contributory benefits was below

10%, having risen to almost 70% for income-related benefits.<sup>1</sup> The main contributory unemployment benefit was worth around 24% of average earnings in the early 1980s, compared to less than 15% today.<sup>2</sup>

## What the government is proposing

At present, the most common working-age contributory benefits are new style Jobseeker's Allowance (nsJSA) and new style Employment and Support Allowance (nsESA). Both Jobseeker's Allowance (JSA) and Employment and Support Allowance (ESA) previously had income-related and contributory elements, but were both formally split into 2 benefits in order to facilitate the replacement of the income-related elements by UC. This led to a rebranding of the contributory-only benefits that remained 'new style'.

With the migration of claimants from income-related JSA and ESA to UC almost complete, the government has now proposed replacing both nsJSA and nsESA with UI. This offers a radical simplification of contributory benefits. UI will not

### **Box 1. New style Employment and Support Allowance**

All forms of ESA are for people who are unable to work due to ill-health or disability. Whereas income-related ESA is available to only low-income claimants (and is being replaced by Universal Credit), nsESA is a contributory benefit available to all who meet conditions in terms of their previous labour market contributions (i.e. NICs record) and current work capability. Claimants' health is assessed via a Work Capability Assessment (WCA). People will be placed in either the WRAG (assessed as having limited capability for work), where they receive the regular rate of nsESA for up to a year, or the support group (assessed as having limited capability for work and work-related activity), where they receive the highest rate of nsESA indefinitely. Support group status effectively means that the claimant is unlikely to ever return to employment, and therefore exempts people from all work-related requirements.

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<sup>1</sup> The remainder is reported as 'other' by the Resolution Foundation – we can assume it largely consists of universal benefits. Note that the 2022/23 proportions were forecasted outcomes at the time the Foundation's analysis was published.

<sup>2</sup> This is really only applicable to working-age contributory benefits. For example, the state pension is worth around 25% of average earnings today).



resurrect the benefits system of the postwar era – but arguably it is intended as a first step in this direction.

[Table 1](#) on the next page summarises the significant differences between nsJSA and nsESA, and between the ‘support group’ and ‘work-related activity group’ (WRAG) elements of nsESA. Essentially, nsJSA is a very short-duration benefit for people who become unemployed, with payment levels slightly below what an individual would receive from the UC standard allowance alone. In contrast, nsESA is for people for whom unemployment is the result of ill-health or disability; the benefit can be paid for longer (indefinitely for some) and at a higher rate.

UI would largely eliminate these differences. Everybody who becomes unemployed would be able to receive benefit payments equivalent to the highest rate of nsESA currently available. But this apparent expansion of contributory benefit entitlements is counter-balanced by the abolition of indefinite awards: UI would only be available for 6 or 12 months (the government has not yet announced its intention on award duration).<sup>3</sup>

## Outline of this report

The first chapter of this report outlines and assesses the government’s proposals in more depth. The second chapter considers how well the design of UI achieves its stated aims, and explores the specific policy choices the government needs to make to enable implementation. The third chapter focuses attention on the group most likely to be negatively affected by UI, that is, people currently or prospectively eligible for nsESA who will no longer be able to access indefinite contributory unemployment benefit awards.

This report is focused mainly on the design of UI as a social security benefit – e.g. payment levels, award durations, the interaction with earnings and other benefits, the recognition of disability and ill-health – and the impact design choices will have on different groups. While acknowledging the government’s ambition to revive social insurance and the contributory principle in the UK benefits system, it does not consider in depth issues around the nature and extent of NICs people need to make in order to qualify for UI.

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<sup>3</sup> Each of these features of nsJSA, nsESA and/or UI is explored in more depth throughout this report.

**Table 1. Comparison of nsJSA, nsESA and proposed UI features**

	nsJSA	nsESA		UI
		Support group	WRAG	
<b>Eligibility</b>	Sufficient NICs from employment in the last 2-3 years	Assessed as 'limited capability for work and work-related activity', plus sufficient NICs from employment or self-employment in the last 2-3 years	Assessed as 'limited capability for work', plus sufficient NICs from employment or self-employment in the last 2-3 years	Expected to be similar to nsJSA, but self-employed people also eligible (TBC)
<b>Payment (2025/26)</b>	£92.05 pw (under-25 rate: £72.90 pw)	£140.55 pw	£92.05 pw	£140.55 pw (under-25 rate: TBC)
<b>Duration</b>	6 months	Indefinite	12 months	6 or 12 months (TBC)
<b>Employment rules (2025/26)</b>	Max. 16 hrs pw	Max. £195.50 pw earnings from 'permitted work' (equivalent to 16 hrs at National Living Wage)		Expected to be no employment restrictions (TBC)
<b>Earnings withdrawal</b>	After £5 pw earnings disregard, 100% withdrawal rate, (i.e. £1 deducted for every £1 earned)	0% withdrawal rate (i.e. earnings are retained in full)		Expected to be similar to UC: 55% withdrawal rate (TBC) (i.e. 55p deducted for every £1 earned)

# Assessing the government's proposals

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This chapter considers the arguments in favour of reviving contributory benefits – and whether the prospect of merging nsJSA and nsESA into UI actually delivers on these promises.

## Rationale for reform

There are 3 main arguments in favour of enhancing contributory benefits. First, that by reflecting previous contributions to society and the economy, as well as basic living costs that must be met, they offer 'something for something'. By expressing the notion of social insurance, contributory benefits are therefore [important for the wider political legitimacy of the welfare state](#) – this rationale for reform has therefore been voiced strongly by the government.

Second, the possibility that contributory benefits enable a 'trampoline effect'. If incomes in the immediate wake of unemployment are better protected by the welfare state, people may be better equipped to return to work quickly, because the disruption to the rest of their lives will be minimised. The fact that contributory benefits typically reward those with a strong employment history means they are appropriately targeted on those most closely attached to the labour market.<sup>4</sup>

An additional rationale specific to the government's proposals, thirdly, is that UI is more 'pro-work'.<sup>5</sup> As explored below, under the current system of contributory unemployment benefits, people who become unable to work due to ill-health or disability can receive higher payments, and for longer. By removing this protection, the government believes that fewer people will seek to be considered unable to work.

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<sup>4</sup> In a March 2025 [speech](#), Liz Kendall, then Secretary of State for Work and Pensions, said UI meant 'if you have paid into the system you'll get stronger income protection, while we help you get back on track'.

<sup>5</sup> The [green paper](#) states that UI would be 'significantly more pro-work... by removing the financial incentive to be considered unable to work'.

## UI versus nsJSA and nsESA

The government's proposals would arguably result in a larger presence for contributory benefits in the benefits system, by increasing the amount received from the contributory system for people typically only eligible for nsJSA.

There are, however, 2 main caveats to this. Firstly, while the payment level will be higher, UI will continue to pay all eligible jobseekers a flat rate. Many European countries offer variable contributory benefits more directly linked to a claimant's previous earnings, which arguably provides for a stronger trampoline effect, insofar as benefits are tailored to individual circumstances. The UK adopted this kind of approach for the furlough scheme during the COVID-19 pandemic. The trampoline effect may also be undermined if the government opts to make UI available for only 6 rather than 12 months, because for some this may be insufficient time to secure sustainable employment.

Secondly, UI payments are higher than nsJSA, but they will still not be high enough to lift people out of eligibility for income-related benefits, i.e. Universal Credit. We know that a significant portion of people on the highest rate of nsESA already receive either Universal Credit or the income-related version of ESA at the same time.<sup>6</sup> We can probably expect fewer people to be on both UI and UC, but this may only be because UI is providing a slightly higher level of income than is provided by UC for some, especially people who do not need additional income-related payments such as the UC health element, rather than because it is providing a substantially higher income.

It is not itself problematic that contributory unemployment benefits and UC will act in combination to protect people against poverty, but this could reduce the transformative potential of UI. People will still be required to enter the complex UC system as soon as they become unemployed – and any role that UI could

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<sup>6</sup> It is very difficult to determine exactly how many people are in these circumstances, due to the impact of managed migration from legacy income-related benefits to UC, and the inadequacy of the statistical information published by the government. We know that around 487,000 people received only the contributory version of ESA in February 2025, but around an additional 260,000 people received income-related ESA and nsESA at the same time. Similarly, we know that around 545,000 working-age people in England and Wales received a non-UC incapacity benefit, predominantly ESA in February 2025 (note that incapacity benefits could be contributory or income-related), but an additional 578,000 received an incapacity benefit alongside UC or Housing Benefit, the most common income-related benefits (although we do not know which elements of UC they were receiving).

play in supporting work returns would be compromised as it interacts with UC's [flawed work incentives](#).

Clearly, many people eligible for UI will still require UC to cover additional living costs related to children, housing and ill-health. And the proposed monthly rate of UI (£609.05 if introduced today) would be insufficient to lift a couple above even the UC standard allowance rate for couples, assuming one partner was eligible for UI but the other wasn't.<sup>7</sup>

The most obvious concern about the government's proposals, however, is the plan to end indefinite awards. Currently, people eligible for the support group within the nsESA system can continue to receive the benefit until they reach state pension age (or until their health improves), whereas people in the WRAG are eligible for nsESA for 1 year. Future claimants would receive UI at the same payment level as the nsESA support group payment, but only for 6 or 12 months.

The third main chapter of this report will discuss the impact of this change in more depth. It is worth noting here initially that it could represent a significant reduction in spending on contributory benefits. 88% of spending on nsJSA and nsESA is currently focused on people with awards lasting more than a year – which must, by definition, mean nsESA support group awards. The Institute for Fiscal Studies (IFS) [estimates](#) that the proposed UI system with a 12-month award duration would result in reduced spending of £2 billion (or £3 billion with a 6-month award duration). This is despite the higher payment level within UI for 6 or 12 months, and the likely increase in UC spending for those who would previously have stayed on contributory benefits.

To be clear, the nature of contributory benefits means that, by making NICs while in employment, people are already building up entitlements to nsESA they can draw upon if they meet eligibility criteria at some future point. UI withdraws this accrued entitlement retrospectively.

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<sup>7</sup> This report assesses the interaction of benefit rates that are set in weekly (i.e. most contributory benefits) and monthly (i.e. Universal Credit). It therefore applies the method typically used by DWP to convert monthly amounts to weekly amounts, and vice versa. This means, for example, that the monthly rate of UI is calculated by multiplying the proposed weekly rate of UI by 52, and then dividing the total by 12. Given that there are always slightly more than 52 weeks in a year, the monthly amount is inherently inaccurate by a small amount, so is used here only to enable comparison of different benefit rates.

The flipside of increasing the payment level of contributory benefits for most people is that UI, as things stand, would not incorporate any recognition of claimants' health circumstances. Ill-health and disability may be about to 'disappear' from the UK's contributory benefits system for the first time since Invalidity Benefit was introduced in 1971. And this would be brought about at a time when income-related health and disability benefits are seeing [eligibility tightened and payment levels reduced significantly](#), and reform of the main universal benefit for disabled people (PIP) remains a live possibility via the ongoing [Timms Review](#). While UI payments will be no lower than the highest rate of nsESA, they will be available for only a short period of time.

# Contributory benefits in principle and in practice

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This chapter discusses the principles underlying UI; principally income replacement, and its role in both supporting people back into work and providing enhanced protection against poverty. The chapter also considers some of the design choices the government will need to make to implement UI in practice, including what it would mean for people seeking to combine income from earnings and benefits, and how it would interact with other parts of the benefits system.

## Bouncing back versus poverty prevention

There are as many routes into unemployment as there are people in unemployment. Every individual will have a unique set of circumstances in terms of their labour market experience, health, and wider living arrangements that will both explain how they became unemployed, and how unemployment might impact their life. Alongside the value of acknowledging previous contributions to the economy, this diversity of circumstances is one of the reasons that many benefits systems across the world provide some people leaving employment an income that is closer to their previous earnings level. It means their life is less disrupted by a period of unemployment, arguably meaning they are better equipped to return to work.

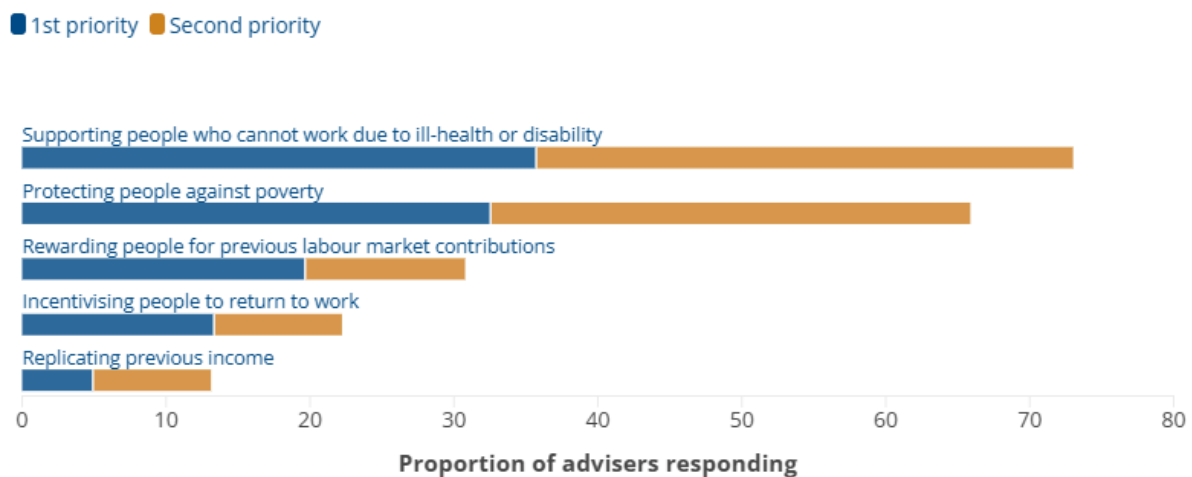
The UK has long since eschewed this approach, both in the design of contributory benefits, and in shifting the balance in social security provision from contributory to income-related benefits. The furlough scheme during the COVID-19 pandemic is an important caveat here. Many people who would have become unemployed at this time had their income largely protected by the state, albeit receiving salary-linked payments via their employers rather than through the benefits system directly.

The government's proposals for UI do not involve income-replacement in a conventional sense, insofar as UI will be a flat-rate benefit determined mainly by

whether a claimant has spent in employment in recent years, rather than what they earned when they were in employment. The priority for the government seems also to be on using UI primarily to protect people against poverty when they become unemployed. This is essentially the same purpose that income-related benefits already serve, but under UI people with strong labour market records are likely to be offered enhanced protection against poverty, for a limited period.<sup>8</sup>

It is important to recognise that there are competing objectives around the design of every social security mechanism – we cannot expect UI to solve every policy problem, and the new system may continue to develop even after implementation. Insuring people against prolonged unemployment, and against poverty, are both consistent with a social insurance model. Nevertheless, there is a need for wider consultation on the principles and aims behind the UI proposal.

**Fig 1. Views of Citizens Advice advisers on the objectives of contributory unemployment benefits**



Source: Citizens Advice Network Panel Survey, November 2025

<sup>8</sup> This outcome is not certain – it depends to some extent on choices made around the interaction of UI income and the UC system.



[Figure 1](#) above shows the proportion of Citizens Advice advisers who say that various objectives should be a high priority for the design of contributory unemployment benefits.<sup>9</sup> There is strong support for the idea that the contributory system should prioritise disabled people, and people with long-term health problems – which aligns with views on the impact that UI will have on existing nsESA recipients – as well as protecting people against poverty.

Although there is some support for the idea that contributory benefits should reward previous labour market contributions, there is less support for the idea that they should replicate previous earnings. But this does not mean that advisers do not recognise the role of the contributory principle in the benefits system, even if not treated as the highest priority objective.

“I feel when someone has paid into the system that they should get more than someone that has not worked.” *Citizens Advice adviser*

“Contributory benefits are available to the claimant based on their NICs paid. If these benefits are limited or reduced, the public may see less incentive for them when paying NICs.” *Citizens Advice adviser*

The government appears to be valuing simplicity in the design of UI benefits. But this may be at the expense of both fairness or legitimacy and the effectiveness of UI’s trampoline effect. The economics literature strongly suggests that, across rich countries, more generous levels of income-replacement for the newly unemployed [tends to enable people to return to higher-paying jobs that offer a more sustainable re-entry into work](#). The existence of generous contributory benefits may also mean that people are [more willing to take risks in their career](#), which ultimately benefits productivity levels across the economy as a whole.

Higher generosity is also associated, however, with [a longer duration of benefit receipt](#). This may be because people are being afforded the time they need to find a suitable role. But it may also represent a ‘moral hazard’ whereby people delay returning to work because the benefits system is providing sufficient income.

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<sup>9</sup> Citizens Advice distributes a monthly survey to adviser colleagues, covering policy issues related to the services they are providing locally and nationally. 146 advisers answered this question. The results exclude ‘Don’t know’ responses.

One option therefore could be to offer a meaningful income-replacement benefit for higher earners for a very limited period, e.g. 3-6 months, before payments are reduced to the proposed flat rate. Most rich countries already offer a high replacement rate for much longer periods. In the United States it is 6 months, but it can be as long as 3 years in some European countries. Some countries vary award duration based on the claimant's age and length of previous employment. The Resolution Foundation has [suggested](#) that the duration of the higher income-replacement period should 'flex with the economic cycle', in recognition that people will spend longer looking for work during periods of high unemployment.

A contributory benefit delivering a higher replacement rate may reduce the savings that are likely to result from the implementation of UI. However, this may not be the case if providing an enhanced rate of UI for a 3-6 month period for some claimants has the impact of supporting people to return to work more quickly. And there would be additional tax revenue if they returned to higher-paying jobs than would be likely under the current proposals.

**Recommendation:** The government should thoroughly review the available evidence on the impact of income-replacement mechanisms on well-being and employment, and engage the public in a broader consultation about the role and design of contributory unemployment benefits.

## How should UI treat earnings?

Facilitating people to receive income from employment while receiving benefits has been a defining feature of how the welfare state has developed in the UK in recent decades. Will this continue to be the case if UI means contributory benefits – focused to some extent on income replacement – begin to replace income-related benefits for working-age people experiencing unemployment?

The main principle underpinning contributory benefits is that payments are based on entitlements accrued in advance of becoming eligible for the benefit. The notion that people should continue to receive the benefits even if they return to work within their period of entitlement may therefore be important to the sense of fairness the government hopes UI will reinforce. In practice, people

who are newly unemployed may return to work at a lower rate of pay, or work fewer hours than they previously did – so may still need UI to maintain their standard of living. If it were not possible to receive UI in these circumstances, then the benefit may have the effect of further displacing people from the labour market, making a return to a sustainable job more challenging.

There is no publicly available data on how many people combine income from employment and nsJSA or nsESA. But we know this is possible. And if UI is only going to be available to claimants for a short period, there is perhaps a strong case for allowing people to retain all or most of their contributory benefit entitlements even if they return to work or retain some employment while receiving UI.<sup>10</sup>

On the other hand, it would arguably be perverse to not place some limit on employment income while UI is being received. A system in which people do forgo contributory unemployment benefits, if they have sufficient income from employment, would mean UI expenditure is better focused on those in greatest need of a replacement income and/or protection against poverty.

As [Table 1](#) in the previous chapter shows, there are already limits on how much people can work, or earn, if they are simultaneously claiming a contributory unemployment benefit. In nsJSA there is a limit on hours worked, and in nsESA there is a limit on earnings. However, in nsESA these earnings are entirely disregarded when benefit entitlement is calculated. In contrast, in nsJSA claimants are only able to earn £5 per week – a figure not uprated for decades. Earnings above this miniscule amount are subtracted from benefit payments on a pound-for-pound basis.

If nothing else, UI is an opportunity to modernise earnings disregards within contributory employment benefits, with the aim of balancing accrued entitlements and work incentives. A viable approach could be to apply the current nsESA earnings disregard (which is essentially 16 hours per week multiplied by the National Living Wage) to all UI recipients. And a taper rate of 55% could then be applied to additional earnings (equivalent to Universal

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<sup>10</sup> There may also need to be a mechanism for people who become involuntarily *under-employed* – losing pay or hours but not actually becoming fully unemployed – although we acknowledge this would be difficult to verify.

Credit's taper rate – meaning 55p in every £1 earned above the disregard is subtracted from benefit payments).<sup>11</sup> It is impossible to determine what impact this would have on planned UI expenditure, given the lack of publicly available information on the employment status of current nsJSA and nsESA recipients (and the government has not published any analysis of how likely future UI claimants are to combine UI and employment income).<sup>12</sup>

## How should UI and UC interact?

This leads next to the question of how the UC system should treat unemployed people with UI income for the first 6-12 months of unemployment. The previous chapter explained that a large number of people currently receive income-related as well as contributory benefits. We should expect this to continue, to some extent, insofar as UI payments will not lift all households with someone in unemployment above UC thresholds, especially if the household is eligible for the housing, child or health elements.

Currently, nsJSA and nsESA payments are treated as *unearned* income in UC. This means that UC awards are reduced by the exact amount of contributory benefit income (i.e. there is a 100% rather than 55% withdrawal rate). This is arguably unfair to those on nsJSA and nsESA with the lowest household incomes, since they effectively lose access to accrued entitlements if they also need income-related benefits.

This approach potentially also undermines work incentives by reducing the rewards associated with being in employment, if someone knows their income will be no higher when unemployed irrespective of previous labour market contributions, they have a lower incentive to work. Someone in employment, and therefore paying NICs, will likely be able to access nsJSA if they become unemployed. But because their nsJSA award is withdrawn in full from their UC award, they are no better off in unemployment than someone who only

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<sup>11</sup> To clarify, the government is not currently proposing any earnings disregard or taper rate for earnings while receiving UI. If a 55% taper were applied to earnings, a claimant could work for around 20 hours per week at NLW before UI income is fully withdrawn. If a 16-hour earnings disregard were also applied, a claimant could work up to full-time at NLW before UI is fully withdrawn.

<sup>12</sup> Similarly, there is no published analysis of likely UI take-up rates. Existing take-up rates for nsJSA and nsESA are not published.

accesses UC, having built up no entitlement to contributory unemployment benefits.

The obvious solution would be to treat UI payments as *earned* income in UC. This would mean UC earnings disregards (i.e. the work allowance and 55% taper rate) are applied to UI income. The partial earnings disregards in UC are designed to act as a work incentive, so this can logically be extended to UI: people should be incentivised to accrue UI entitlements through employment. And while this would not eliminate potential unfairness between UI claimants eligible for UC, and those that are not – because they would still see some of their UI income by the UC system – it would at least allow very low-income households to benefit from accrued entitlements for a limited period of time, albeit within limits already established in the UC system. They would be demonstrably better off than if claiming only UC – and therefore the incentive to work, in order to build up contributory entitlements in the event of experiencing unemployment, would be stronger.

This would be a higher-cost option than treating UI payments as unearned income, since claimants would keep more of their UC entitlements on top of their UC award compared to applying the current nsJSA approach to UI. But this increase has to be seen in the context of UI overall representing a significant reduction in contributory benefits spending, and indeed the cuts to UC health being introduced in April 2026.<sup>13</sup>

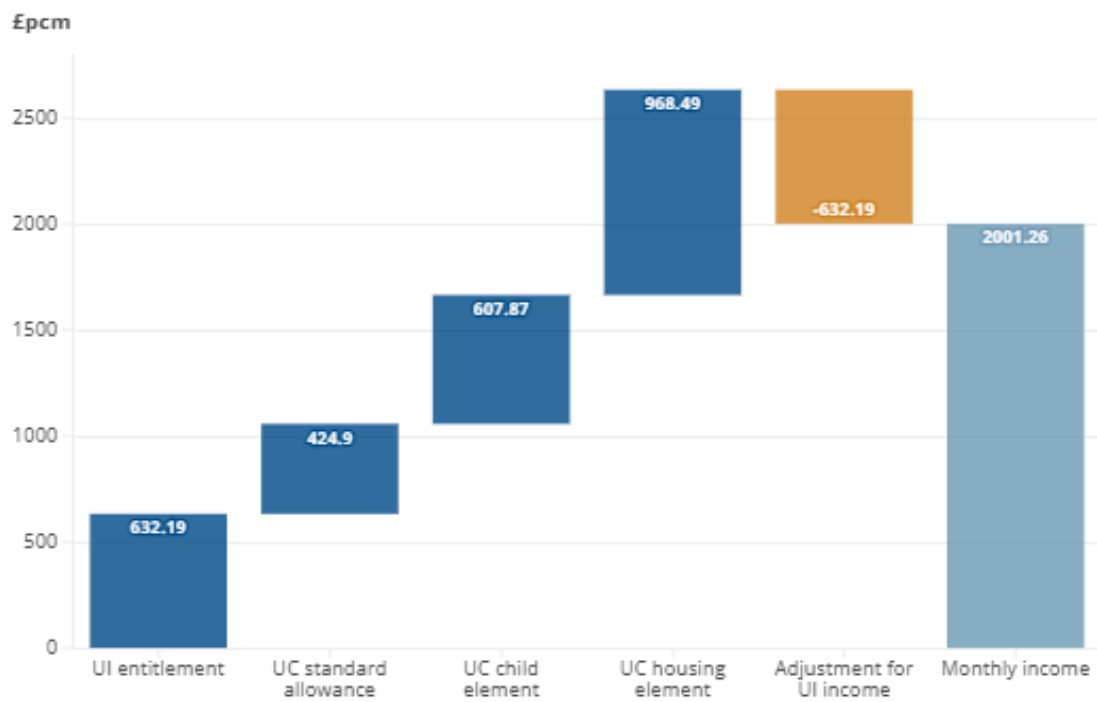
The charts below illustrate these 2 potential ways of treating UI income for a single claimant, living in private renting with 2 children: [Figure 2a](#) is based on UI being treated as unearned income, and [Figure 2b](#) is based on UI being treated as earned income.<sup>14</sup>

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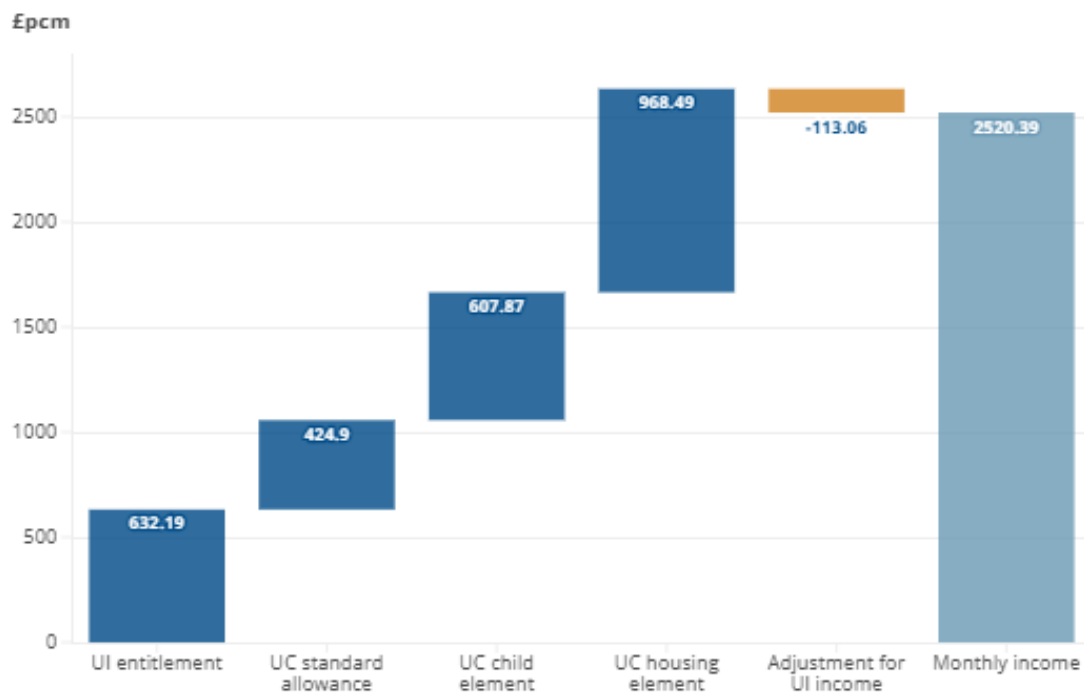
<sup>13</sup> If this approach were adopted, the government would need to consider the tax implications, and the impact on couples of applying the work allowance to one member's UI income.

<sup>14</sup> For the purposes of the analysis summarised in Figures 2a-2d, 2025 rates of UI (i.e. the nsESA support group rate) have been increased by 3.8% (i.e. CPI for September 2025), and the UC standard allowance has been uprated by 3.8% plus the 2.3% uplift specified in the Universal Credit Act 2025. We expect the UC housing element to remain frozen at its 2024 level; the housing element value used is the average for broad rental market areas in England (i.e. the 1-bedroom rate for the group without the child element, and the 3-bedroom rate for the group with children). Both children for which the child element is being received are assumed to be born after April 2017. It is assumed that the claimant is unemployed and entitled to UI in full.

**Fig 2a. Impact of treating UI as unearned income in UC calculations (from April 2026)**



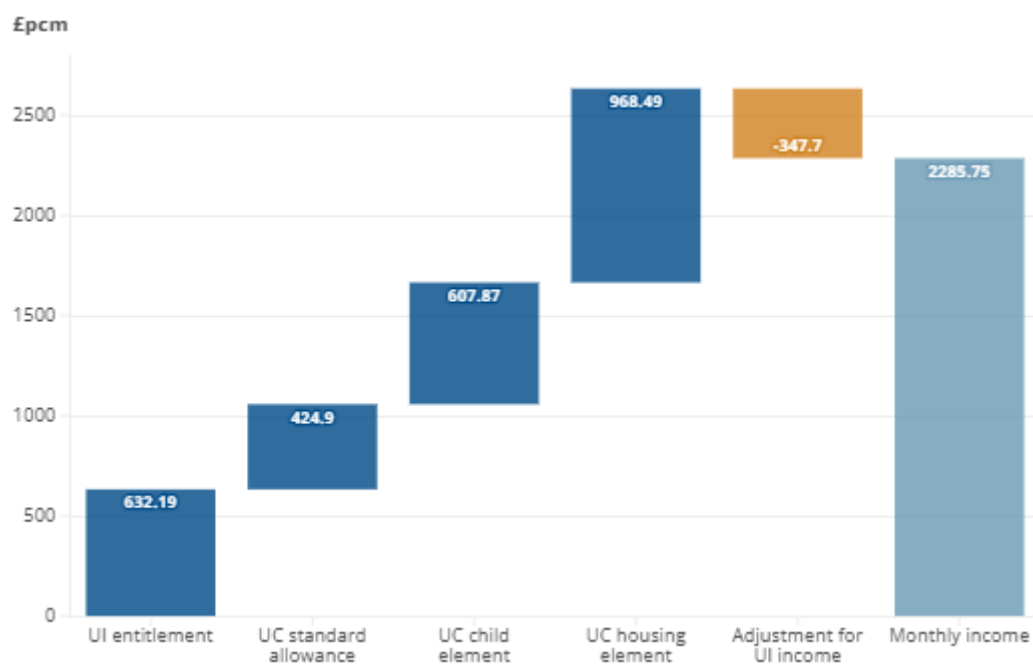
**Fig 2b. Impact of treating UI as earned income in UC calculations (from April 2026)**



Source: Author calculations

A third option could be to treat UI as earned income, but only apply the UC taper rate, not the work allowance – since UI would be benefits income not employment income. The impact is illustrated in [Figure 2c](#). It would reduce combined monthly income from UI and UC by around £300, compared to also applying the work allowance to UI income.

**Fig 2c. Impact of treating UI as earned income in UC calculations, excluding the work allowance (from April 2026)**



Source: Author calculations

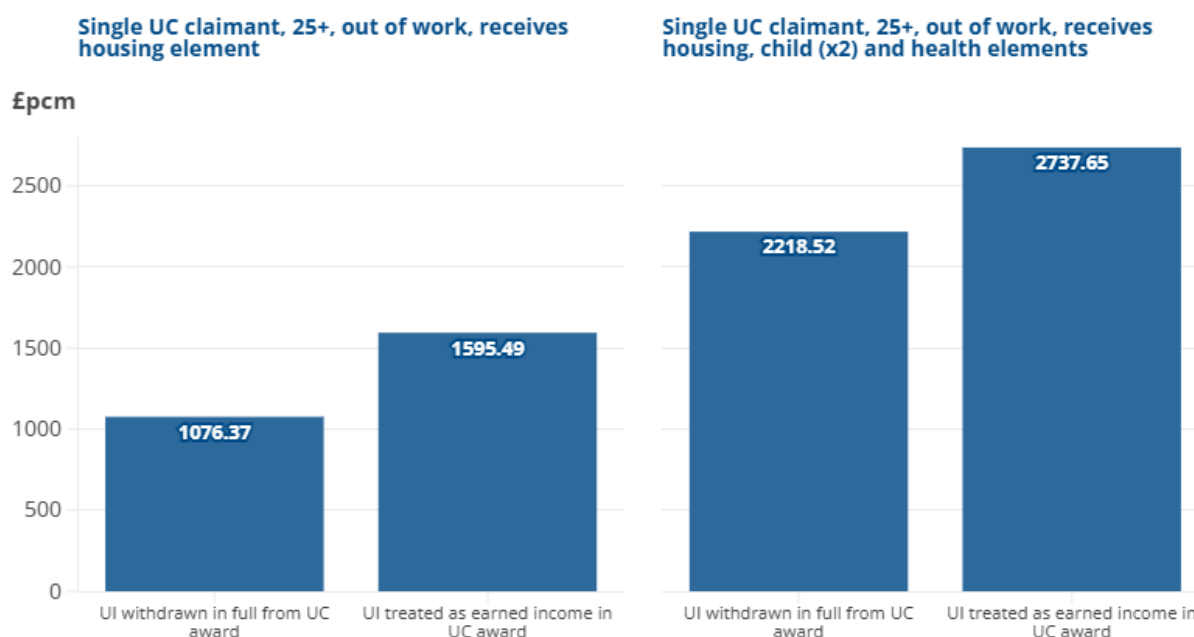
[Figure 3](#) below shows the impact of both main options (UC treats UI as unearned income; UC treats UI as earned income) on 2 additional UI/UC claimant profiles.<sup>15</sup> The first scenario is a single, out-of-work claimant in private renting. In the

<sup>15</sup> For the purposes of this analysis, 2025 rates of UI (i.e. the nsESA support group rate) have been increased by 3.8% (i.e. CPI for September 2025), and the UC standard allowance has been uprated by 3.8% plus the 2.3% uplift specified in the Universal Credit Act 2025. We expect the UC housing element to remain frozen at its 2024 level, and the reduced rate of UC health element, also specified in the Act, is applied. The housing element value used is the average for broad rental market areas in England (i.e. the 1-bedroom rate for the group without the child element, and the 3-bedroom rate for the group with children). Both children for which the child element is being received are assumed to be born after April 2017. It is assumed that both groups are entitled to UI in full.

second scenario, the claimant also receives the child element (for 2 children) and health element. Across both scenarios, if the UC system treats UI as earned income, the combined award would be more than £500 higher per month, compared to treating UI as unearned income.<sup>16</sup>

Analysis of Citizens Advice debt clients detailed in the next chapter shows that people currently receiving ESA and UC are in a negative budget, with an average monthly deficit of £133 (or £43 if they also receive PIP). Other things being equal, this would persist if UI is treated in the same way as nsESA income by the UC system. But treating it instead as earned income would provide a boost that is more than sufficient to ensure people can meet their essential living costs.

**Fig 3. Combined UI and UC awards by different benefit design scenarios (from April 2026)**



Source: Author calculations

<sup>16</sup> We also modelled a fourth option, i.e. aligning the UC standard allowance with an individual's UI award, for the period that UI is being received. This would be implemented by introducing a UC rule whereby a temporary income disregard is applied to the difference between the regular standard allowance and UI entitlement (this mechanism would need to be modified in circumstances in which UC is claimed as a couple, but only one member is receiving UI). This would mean the individual receives combined UC and UI income which is higher than the scenario in which UI is treated as unearned income, but lower than the scenario in which UI is treated as earned income by the UC system. The author is happy to share this analysis upon request.



**Recommendation:** The government should consult on benefit design issues around how UI treats earnings and interacts with UC. As part of this consultation, it is important that the government outlines what the impact would be on different groups of claimants in each possible scenario.

## Should UI be conditional?

Conditionality is a feature of the existing contributory unemployment benefits system. Anybody receiving nsJSA needs to sign a claimant commitment with Jobcentre Plus (JCP), essentially agreeing to search for work and accept any role offered. They can lose the entirety of their benefit if they do not comply. In nsESA, claimants in the support group are exempt from conditionality, but claimants in the WRAG must commit to preparing for employment so they are ready to work when their health improves.

However, the government's approach to benefit conditionality is in flux. We generally support the agenda outlined in the [Get Britain Working white paper](#), acknowledging the flaws in applying claimant commitments rigidly, with JCP focusing on compliance rather than genuine support. It is also worth noting that the role of conditionality in contributory benefits has always been a little incongruous. Given that failing to meet conditions can lead to sanctions – a loss of up to 100% of benefit income for a limited period – it does not seem consistent with the contributory principle that accrued entitlements can be withdrawn at the discretion of JCP.<sup>17</sup>

UI is an opportunity to move beyond the current conditionality regime, at least in relation to contributory benefits. Citizens Advice [research on JCP work coaches](#) led to [our proposals for 'case workers'](#) for UC claimants, offering a more supportive and personalised approach to JCP employment support. A similar model could be applied to UI. In fact, the government could ensure that a UI claimant has the same case worker across both UI and UC, whether they are

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<sup>17</sup> This anomalous situation probably stems from the fact that JSA and ESA originally featured both contributory and income-related benefits. We do acknowledge, however, that some form of conditionality may be required to ensure that claimants are genuinely and involuntarily unemployed (especially so if the claimant is under-employed).

claiming both simultaneously or only claiming UC after their UI eligibility ends. At the moment, they would not engage with a single, dedicated work coach allocated to their claim for either JSA/ESA or UC, let alone across both benefits. There would be no strict conditions associated with UI per se, but the case worker could develop a relationship with the claimant and offer appropriate back-to-work support, and help them to understand what additional support and expectations a UC claim would involve.

The Health Foundation has [welcomed](#) UI insofar as it presents an opportunity to embed work rehabilitation services for recent work leavers in the benefits system, also recommending a case worker model. This is in recognition of the role of ill-health and disability in labour market exits – and the lack of dedicated support available to those who could be capable of swiftly re-entering the workforce.

People who would previously have qualified for nsESA need [support, not strict conditionality](#). The latter tends to breed mistrust between disabled people and JCP, pushing people further from the labour market rather than bringing them closer. However, it should be noted that, as things stand, the new UI system would not recognise a claimant's health circumstances, since this would no longer lead to a different level or duration of benefit payments. If this health-blind approach is implemented, and nsJSA conditionality applied by default, there would need to be a new mechanism for identifying which claimants should be exempt from UI conditionality, and instead become eligible for more intense forms of health-related support. The likely abolition of the WCA, discussed more in the next chapter, makes this especially pressing.

**Recommendation:** The government should use UI to develop a new approach to JCP relationships with claimants, replacing work coaches with case workers and offering tailored support. It should review all available evidence to determine whether ongoing UI eligibility should be subject to stringent conditions being met, and whether UI claimants who are disabled or in ill-health should be exempt from conditionality altogether.

# Scaling back contributory benefits for disabled people

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The most concerning aspect of the government's proposals for UI is the end of indefinite awards. Currently, people in the nsESA support group receive the highest rate of nsESA if they continue to be assessed as having limited capability for work and work-related activity (LCWRA). This is an important protection for those disabled claimants who are unlikely to ever return to work – and reflects the fact that, before they became unwell, they were building up contributory benefit entitlements through labour market contributions. This chapter explores what we know about claimants in the nsESA support group – and those who were likely to become claimants in the future – and considers how the impact of ending indefinite awards could be addressed.

## The nsESA support group

We have little specific data on the circumstances in which people enter the nsESA support group. But we can infer typical claimant profiles from what we do know about people currently claiming. [Table 2](#) below details the number of claimants receiving the various forms of ESA. It presents the latest available caseload data (May 2025), but also data from a year earlier, before the migration of income-related ESA claimants to UC began.<sup>18,19</sup>

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<sup>18</sup> Note that ESA claimants first enter an assessment phase before joining the support group or WRAG, and the 'total' figure includes people whose claim phase is unknown. The 'total' for benefit type includes people whose benefit type is unknown, and people receiving ESA credits without payment (for National Insurance purposes).

<sup>19</sup> The large reduction in people receiving income-related ESA between May 2024 and May 2025 is due to the migration of claimants to UC. The increase in people receiving only nsESA is largely explained by people no longer being able to claim nsESA and income-related ESA at the same time.

**Table 2. ESA caseload by phase of claim and benefit type**

ESA type	Claim phase	May 2024	May 2025
<b>nsESA</b>	Assessment phase	39,219	38,402
	WRAG	6,051	4,814
	Support group	396,048	504,861
	<b>TOTAL</b>	441,326	548,080
<b>Income-related</b>	Assessment phase	592	122
	WRAG	95,296	36,259
	Support group	575,189	314,158
	<b>TOTAL</b>	671,076	350,543
<b>Both ESA types</b>	Assessment phase	5	-
	WRAG	119	47
	Support group	315,045	193,722
	<b>TOTAL</b>	315,165	193,765
<b>TOTAL</b>	Assessment phase	42,876	40,855
	WRAG	133,290	69,799
	Support group	1,291,458	1,018,295
	<b>TOTAL</b>	1,518,405	1,175,221

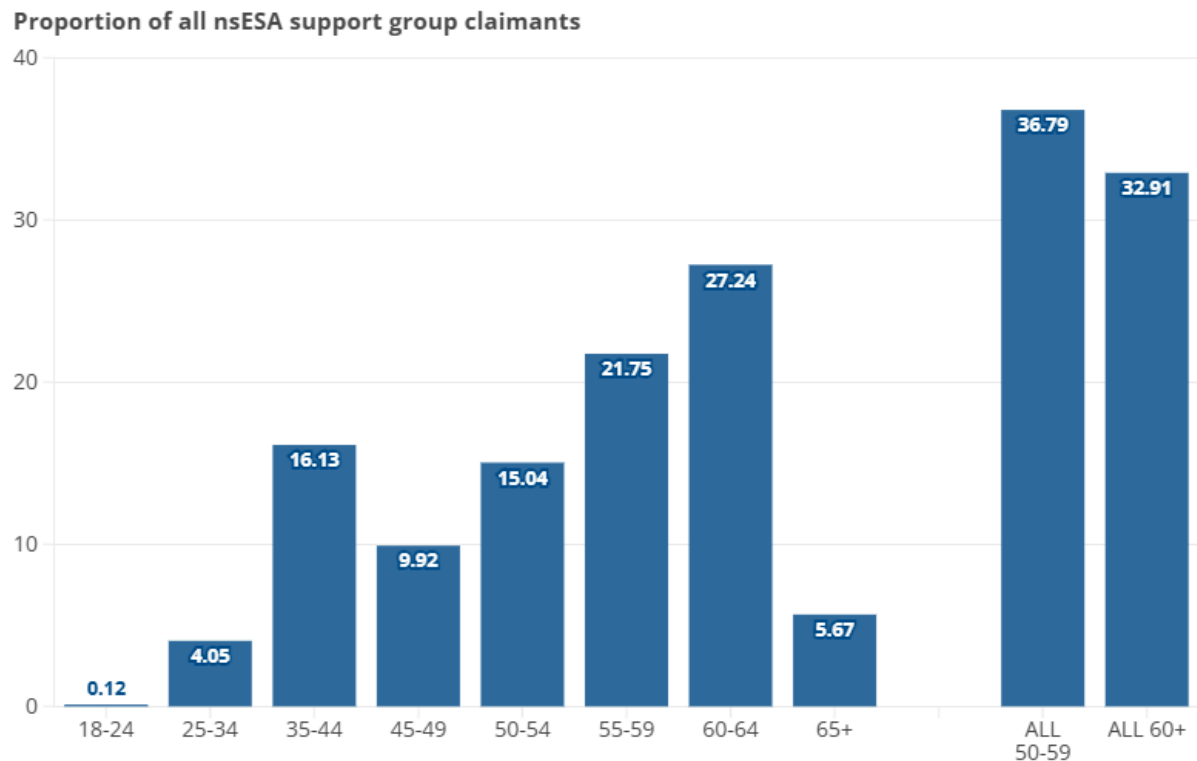
Source: DWP StatXplore

There were 1.2 million people claiming ESA in May 2025. Of these, the majority (0.7 million, or around 60%) were nsESA claimants (alone or in combination with income-related ESA) in the support group. 52% in this group were women, and 48% were men.<sup>20</sup> As [Figure 4](#) below shows, the nsESA support group caseload is

<sup>20</sup> Note that the government does not publish data on the ethnicity of ESA claimants.

heavily skewed towards older people. 37% of claimants are in their 50s (with the majority of these aged 55-59), and 33% are in their 60s.<sup>21</sup>

**Fig 4. nsESA support group caseload by age (May 2025)**



Source: DWP StatXPlore

In terms of the primary medical condition for which people claim the highest rate of nsESA, 41% of claimants' primary condition is related to mental health.<sup>22</sup> But this is less the case for older age groups. This is the primary condition for only 38% of claimants aged 55-59, and 32% of claimants aged 60-64.

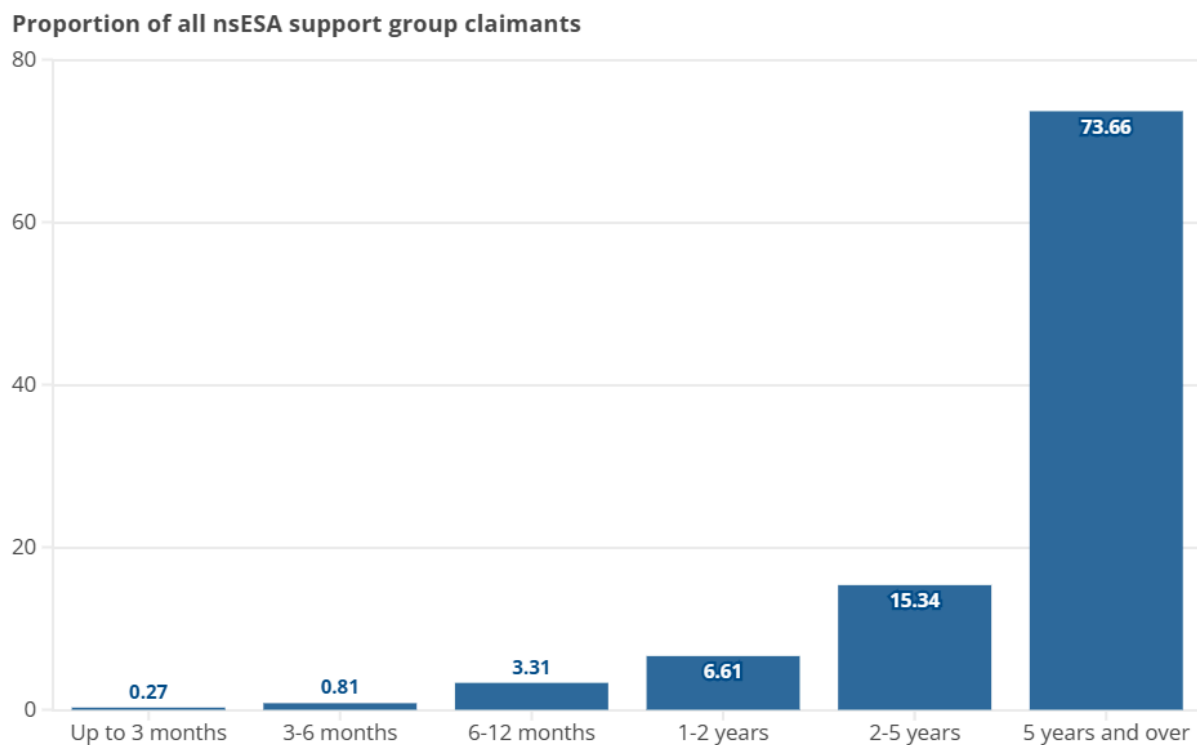
In contrast, musculoskeletal conditions account for 16% and 18% of claims, respectively, in these age groups – compared to 14% of all claimants.

<sup>21</sup> The 60+ group is mostly people aged 60-64 because ESA is a working-age benefit. However, with state pension age now 66, and beginning to increase from 66 to 67 from April 2026, more people aged 65 and over would remain eligible for ESA for longer if indefinite awards were to continue.

<sup>22</sup> The category DWP uses is 'mental or behavioural disorder'. This could be a mental health condition, or other conditions related to cognition and mood in a way that impacts upon daily functioning.

Neurological diseases account for 10% and 9% of claims, respectively (compared to 10% for all claimants). Cardiovascular diseases account for 5% and 6% of claims, respectively (compared to 4% for all claimants). Neoplastic conditions, including cancers, account for 4% and 5%, respectively (compared to 4% for all claimants). Respiratory conditions account for 2% and 4% of claims, respectively (compared to 2% for all claimants).<sup>23</sup>

**Fig 5. nsESA support group caseload by duration of claim (May 2025)**



Source: DWP StatXplore

As [Figure 5](#) above shows, the overwhelming majority (74%) of people currently claiming the highest rate of nsESA have been receiving the benefit for more than 5 years. This demonstrates that the indefinite length of financial support available is hugely important. The government may argue that people remain on

<sup>23</sup> Calculated from DWP StatXplore. Musculoskeletal conditions would include conditions such as arthritis and osteoporosis. Neurological diseases would include conditions such as dementia, multiple sclerosis and epilepsy. Cardiovascular diseases would include conditions such as heart disease and stroke. Respiratory conditions would include conditions such as asthma and chronic obstructive pulmonary disease.

the benefit only because we allow them to do so – but as we explore below, typically claimants do not return to sustainable employment after entering the nsESA support group because of the barriers to employment they encounter.<sup>24</sup>

This helps us to build a picture of the typical claimant: an older person, becoming disabled or developing a long-term health condition towards the end of their working life, albeit usually many years before they reach state pension age. They tend not to return to employment – possibly due to age making health improvements more challenging, and limiting the employment opportunities available to them. Mental ill-health is an important driver, but the typical claimant is far more likely to have a physical health condition that inhibits employment.

### **Box 2. Other problems experienced by nsESA claimants**

Citizens Advice supports people with a wide range of problems, often within a single adviser/client contact. Of the people we supported with nsESA in the past year (November 2024-October 2025):

- 69% also needed support with Universal Credit.
- 14% also needed support with utilities and communications (such as energy bills).
- 13% also needed support with debt.
- 12% needed additional charitable support services (including food banks).

## **Our clients receiving nsESA**

In the past year Citizens Advice supported more than 57,000 people with issues connected to ESA – including nearly 30,000 specifically with nsESA.<sup>25</sup> 67% of the people we supported with nsESA were aged 50 or over.<sup>26</sup>

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<sup>24</sup> We do not have any data on when people exit the nsESA support group. The snapshot of current claimants made available by the government may under-state the long-term nature of nsESA receipt, since people with award durations below 5 years at the moment may yet remain on the benefit for a long time.

<sup>25</sup> Our client data does not distinguish between advice related to WRAG and the support group of nsESA – often people will need support before their work capability has been assessed.

<sup>26</sup> Of those for whom ethnicity data was collected, 83% were White British (compared to [74% of the England and Wales population](#)).

There is no single explanation for why our support was needed: often people are receiving advice about which benefits they may be eligible for, and often they will experience administrative barriers to claiming nsESA. But as [Box 2](#) above shows, we know that wider problems around financial hardship are a driver too.

## Debt clients

On average, the people Citizens Advice supports with debt receiving ESA are in a negative budget, with a monthly deficit of more than £20. Unfortunately, we are not able to distinguish between the type of ESA received, so [Figure 6](#) below, showing average monthly deficits for debt clients by receipt of ESA and other benefits, should be treated with caution.<sup>27,28</sup>

There is an interesting but complex story in this data. Essentially, receiving ESA is associated with a higher monthly deficit. But this is especially the case where ESA claimants also receive UC (and by definition, this group will be nsESA claimants). This makes sense: while UC may be a source of additional benefits income, only very low-income households are eligible for UC. The tendency of ESA claimants to be in a negative budget is still evident even when they receive PIP as well as UC – whereas people who receive UC and PIP *without* ESA are the only group modelled here in a positive budget.<sup>29</sup> This underlines the need for caution before any decision to scale back contributory unemployment benefit entitlements for disabled people is made.

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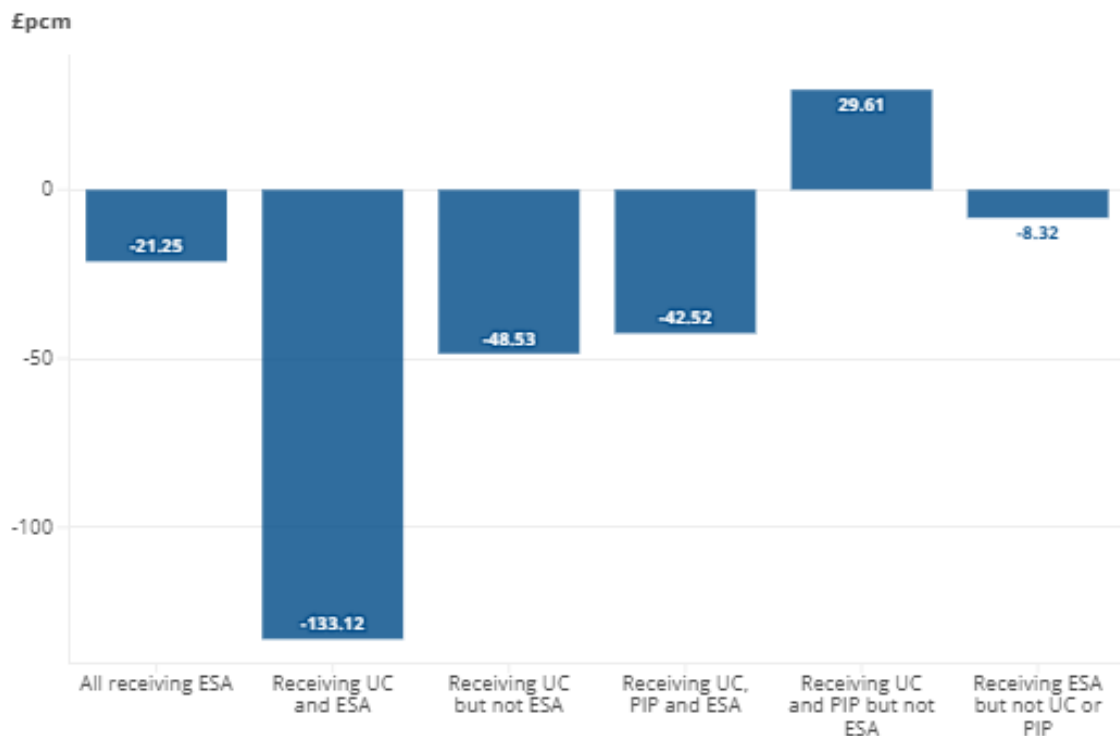
<sup>27</sup> Providing debt advice means we are able to collect detailed income and expenditure data. A negative budget means the client spends more than their income each month on essential living costs, after receiving budgeting advice. The chart shows the average monthly surplus or deficit for people we have supported with debt in 2025 up to the end of October.

<sup>28</sup> That said, we know that the majority of ESA claimants are now nsESA support group claimants. Income-related ESA is closed to new claimants (and existing claimants are being transferred to UC), and nsESA support group claims are much longer in duration than WRAG awards.

<sup>29</sup> It is not possible to conclude definitively on why this is the case. One explanation may be that people with ESA (whether new style or income-related) are more likely to be older, so may have accumulated more debt, or have higher essential living costs.



**Fig 6. Average monthly surplus/deficit for Citizens Advice debt clients in 2025 by receipt of ESA and other benefits**



Source: Citizens Advice budgeting data

## Adviser views

In November 2025, we canvassed our local advisers on the likely impact of disabled people losing contributory unemployment benefits after 6 or 12 months, and therefore becoming more dependent on Universal Credit. It is clear that our advisers are very concerned about this prospect, with many pointing to the significant financial hardship that will result. One described it as 'catastrophic', and another said it would be 'hugely detrimental'.

*"This will be devastating financially and emotionally." Citizens Advice adviser*

*"With cuts to [UC health] as well, some people will experience significant financial hardship." Citizens Advice adviser*

Many reported that it would have a negative impact on people's mental health (both becoming reliant on Universal Credit, and needing to apply for Universal

Credit) and increase demand for public services. One remarked that the UI proposal represented ‘scant reward for having paid National Insurance’.<sup>30</sup>

## The financial impact of abolishing nsESA

### Combining UI and UC entitlement

The impact of abolishing indefinite nsESA support group awards depends largely upon the choices made around how to treat UI income in the UC system. [Figure 7](#) below shows the effects on monthly benefits income of a range of possible scenarios in the first 5 years of a UI claim.<sup>31</sup>

The 100% withdrawal rate for contributory unemployment benefits income in UC calculations means that, if UI is introduced, future UI claimants will be no better off than current nsESA claimants: they simply become more dependent on UC sooner. Treating UI as earned income in UC calculations would mean they would be better off in year 1, with an income boost sufficient to eliminate the average monthly deficit our debt clients receiving ESA and UC experience, but no better off from year 2 onwards.<sup>32</sup> The best option for this group in terms of benefits income, however, would be for UC to treat contributory benefits income as earned income *and* retain the longer-term awards available in nsESA. This would mean nsESA support group claimants would receive a higher UC award while receiving the highest rate of nsESA in each of the 5 years if they do not return to work (and beyond if necessary).<sup>33</sup>

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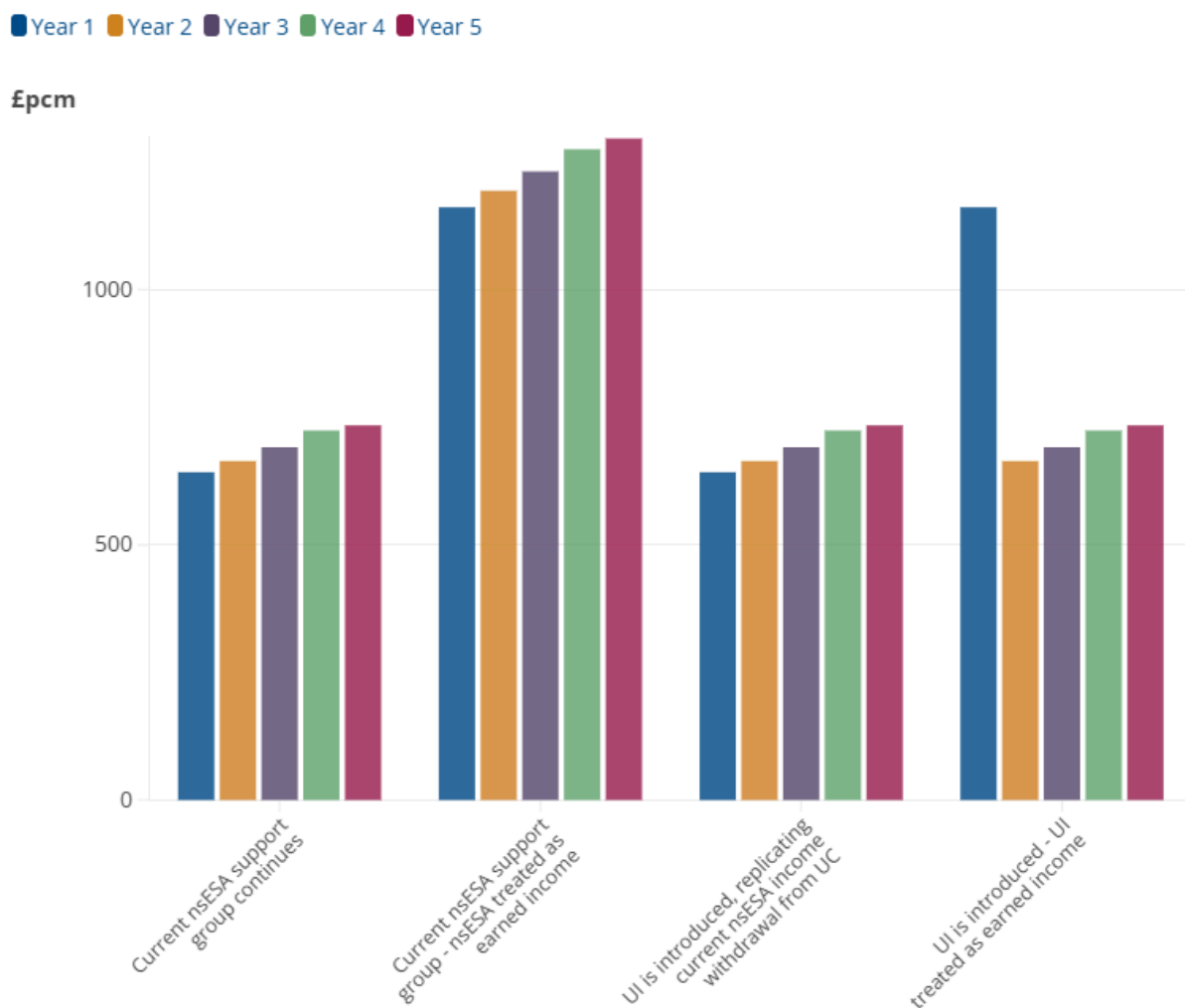
<sup>30</sup> The survey only attempted to capture qualitative data on this issue. Around a third of respondents took the opportunity to share views on the impact of this proposal - they were almost exclusively negative.

<sup>31</sup> The claimant is single, aged over 25, and out of work. They receive the UC standard allowance and health element, beginning their claim after April 2026. In the UI scenarios they receive UI for the maximum of 1 year, but in the nsESA scenarios receive the highest rate in each of the 5 years. In line with the Universal Credit Act 2025, the UC standard allowance is uprated in line with both CPI and the ‘uplift’. The UC health element rate applied is the lower rate for new claimants, and assumed to be frozen in cash terms across the 5 year period. The modelling applied the lower work allowance rate as the UI income disregard for the second and fourth scenarios, with the taper constant at 55% and the work allowance uprated in line with CPI. CPI (which determines nsESA and UI uprating, and part of UC standard allowance uprating) is assumed to be 3.8% between year 0 and year 1, but 2% thereafter.

<sup>32</sup> To clarify, ‘year 1’ refers to the first year after a claim is made – not the first year after UI is implemented.

<sup>33</sup> See note 16 – we have also undertaken this modelling for the option of aligning UI entitlement and the UC standard allowance (available upon request).

**Figure 7. Combined UI/nsESA and UC income across various benefit design scenarios**



Source: Author calculations

### Receiving UI without UC entitlement

There is another set of scenarios that should be noted here: an older person with a strong NICs record may not become eligible for UC after their UI entitlement ends, as a result of their assets or savings breaching capital limits, or due to the ongoing employment income of a partner.

This means that they would have a similar benefits income in the first year of unemployment when UI is introduced, compared to receiving the highest rate of nsESA. However, they would not receive income-related benefits to offset the loss of UI income from the second year onwards. In terms of capital, a claimant would lose all eligibility for UC if they had assets or savings of more than £16,000

(this excludes the value of a primary residence or workplace pension, but includes cash, current and savings accounts, inheritance income, premium bonds, company shares, other property such as caravans, etc.). They would begin to lose UC entitlement with assets or savings of only £6,000, with £4.35 withdrawn from monthly payments for every £250 between £6,000 and £16,000.<sup>34</sup>

Is this really an outcome that enhances the UK benefits system's sense of fairness? This question needs further consideration. It is fairly likely that older people approaching retirement – with a strong employment record – will have built up some assets or savings (perhaps with the intent of making themselves more comfortable in retirement, or to pass on to their children and grandchildren).<sup>35</sup>

On the one hand, UI has the effect of providing a higher benefit income to people who arguably need it less (i.e. people currently only eligible for nsJSA who are deemed not to need UC).<sup>36</sup> But this is the implicit reasoning underpinning UI, with people currently only eligible for nsJSA now likely to receive higher awards to recognise 'something for something'.

On the other hand, the government's UI proposals have the opposite effect for people who would currently be eligible for only nsESA: they would have neither UI nor UC income after 6 or 12 months. They would instead be expected to live

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<sup>34</sup> These thresholds have not been updated since UC was first introduced in 2013. In fact, they were first applied to other income-related benefits, such as JSA, in 2006 – almost 20 years ago.

<sup>35</sup> [Analysis published by DWP](#) alongside the Pathways to Work green paper in 2025 indicated that around 85% of nsESA claimants had 'underlying' UC entitlement (this means that those not currently receiving UC would become eligible if their contributory unemployment benefits claim ended). However, this finding relies on survey data (the Family Resources Survey) for assumptions about how savings and a partner's earnings would affect eligibility. The publication acknowledges there is uncertainty around capital limits - respondents may be underestimating the impact of their savings or assets on UC eligibility. Furthermore, the analysis does not take into account the lower rate of UC health element available to new claimants (a lower rate is more likely to be tapered away based on other household income), and the likelihood that UC health eligibility will be based on eligibility for a PIP daily living award in the future. Even if it were the case that 85% of nsESA claimants would receive UC income in place of contributory unemployment benefits, they would still generally be worse off – and this would leave 15% of disabled claimants with no benefits income from income-related or contributory benefits.

<sup>36</sup> This view was expressed by one of our local advisers when we asked for their views on people losing contributory unemployment benefits after 6 or 12 months.

off their savings, or their partner's income, until they reach state pension age.<sup>37</sup> Many of our advisers identified this problem – i.e. having to draw down savings, or become reliant on their partners' income – without a specific prompt. It is clear that our advisers are concerned about this prospect, with many describing it as unfair.

"At present someone suffering a life changing health issue gets some ongoing financial support without having to live on just their savings. If they were ineligible after, say, 6 months and then had to live on their savings that could spiral into all sorts of other personal problems." *Citizens Advice adviser*

## **Employment prospects**

Given that many nsESA support group claimants already experience financial hardship, the planned downgrade of contributory entitlements for future claimants is difficult to justify. And as explored in Citizens Advice [research on health inequalities and the labour market](#), it cannot be assumed that employment is a realistic remedy for the negative financial impact of time limiting UI for disabled people.<sup>38</sup>

Returning to work after becoming unemployed is clearly more straightforward for some people than it is for others – and people who would be eligible for the nsESA support group face significant hurdles in this regard. More than 80% of our advisers say that people in the nsESA support group would be unlikely to return to work if/when they lose contributory unemployment benefits (with more than 45% saying 'very unlikely').<sup>39</sup>

As we explained in our [response](#) to the Pathways to Work green paper, the threat of losing benefits could push people into work that's insecure or short-term.

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<sup>37</sup> Some may of course have an income from a PIP award, but this is to help with the higher cost of disability – not to cover essential living costs.

<sup>38</sup> Indeed, some people will develop a disability and/or health problems as a result of their work, especially as they age. People are not able to return to work quickly if their experience is concentrated in an occupation they are no longer able to take up.

<sup>39</sup> Citizens Advice Network Panel Survey, November 2025. 113 advisers answered this question. The results exclude 'Don't know' responses.

“Burnout, a messy divorce leading to loss of client's property, homelessness, severe debt, financial abuse etc., might all last years and maintaining a support net in all that is critical.” *Citizens Advice adviser*

“Rushing people into work which is often transient and insecure may massage the figures but, in reality, solves nothing.” *Citizens Advice adviser*

This is particularly true for disabled people, who face a lack of accessible jobs or may need to retrain to find a suitable role. Returning to work too soon, or to a job that's not accommodating to health needs, can make health conditions worse.

“In the majority of cases, the people claiming are looking at getting back into work but may have to retrain. I've had builders that have broken their leg and are now unable to do their specialism and may need digital skills training to get a work from home job.” *Citizens Advice adviser*

“Some disabled people may return to work, which could worsen their condition or endanger others, depending on their work. Other disabled people will simply stop having an income, driving more people into poverty and putting more people at risk of abuse.” *Citizens Advice adviser*

## **Can the impact on disabled people be mitigated?**

The government has not conducted a full consultation on UI and the various policy choices that need to be made before UI can be implemented. There was a single question on UI in the Pathways to Work green paper. This is concerning given the potential impact on disabled people.

If the government proceeds with largely removing health considerations from the UK's contributory unemployment benefits system, and limits even those with limited capability for work-related activity to only 6 or 12 months of receiving UI, then at the very least other planned and prospective cuts to health- and disability-related benefits must be reconsidered. It would be unwise to simultaneously weaken the contributory, universal and income-related benefits system for disabled people, before significant progress has been made on increasing employment among disabled people and/or reducing the proportion of people experiencing ill-health.

Our advisers' view is that longer award durations for contributory unemployment benefits for disabled people, and people with long-term health conditions, should be retained. Around half say that indefinite awards should continue for people in these circumstances.<sup>40,41</sup>

There is, however, a compromise that would lean into the contributory principle. The government could make longer UI awards available to claimants who have more years of NICs. The longer someone had spent in employment, the longer they receive UI when they are no longer able to work – this could be applied to any UI claimant (as in similar systems in other countries), or only those leaving employment due to ill-health. The latter would probably be the best expression of the social insurance principle, with ill-health being the risk that employees are insuring themselves against. An alternative is that government could vary UI features according to age – with older people less likely to return to work qualifying for a longer duration, for example.

Detailed consideration of the UI eligibility criteria is beyond the scope of this paper, but this solution would have the benefit of targeting UI awards on older age groups who have paid NICs for many years, but for whom returning to work after a health-related exit is especially unlikely. There is a precedent for this variable approach in the state pension system, whereby people can qualify for a partial award if they do not have the required 35 years of NICs for a full pension. The government could perhaps allow working-age disabled people a longer or even indefinite UI award if they have a NICs record consistent with a long working life when they become unemployed – measured in line with the standard applied for state pensions.

To clarify, anything less than an indefinite UI award means this would still represent a scaling back of contributory entitlements that have already been accrued for people who would have been eligible for the nsESA support group. But by maintaining adequate financial support for disabled people elsewhere in the benefits system, alongside strengthening employment support for those

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<sup>40</sup> Citizens Advice Network Panel Survey, November 2025. 114 advisers answered this question. While the majority favoured indefinite awards, a further 21% favoured an award duration of at least 2 years (but not indefinite), and the same proportion favoured a duration of at least 1 year (but less than 2 years). The results exclude 'Don't know' responses.

<sup>41</sup> Some referred to the '[special rules](#)' that allow people nearing the end of their life to qualify for higher benefit rates – this mechanism could be used to allow longer awards, so that UI claimants do not see a drop in income if they survive longer than 6 or 12 months.

further from retirement, this may be a compromise that allows for the UI system as a whole – with its higher, initial rate of UI for all claimants – to be fiscally sustainable.

The [IFS analysis](#) suggests that even a longer award duration for people currently prospectively eligible for the nsESA support group would represent a long-run saving – because the vast majority of nsESA support group claimants remain on the benefit for over 5 years. This extrapolation should be treated cautiously, but there is room to explore UI retaining more of the contributory system that already exists while still reducing spending on contributory benefits (if the government considers the latter to be essential).<sup>42</sup>

**Recommendation:** The government should consult on the likely impact of ending indefinite nsESA support group awards on disabled people. Options for mitigating this impact should include longer-duration awards for some or all claimants – for example, duration could be based on age, or the length of a claimant’s NICs record. The government should also reconsider other health- and disability-related cuts that will exacerbate the negative impacts of contributory unemployment benefit reform.

However, if longer award durations of UI are going to be targeted on people with work-limiting health conditions – replicating nsESA to some extent – then it will be necessary to consider how claimants would become eligible for this form of UI. Currently nsESA eligibility is determined by a Work Capability Assessment (WCA), which is also used to determine eligibility for UC health. But the WCA is set to be abolished by 2029.

As things stand, eligibility for UC health will be determined instead by a claimant’s eligibility for the PIP daily living component. This is unlikely to be appropriate for UI to adopt the same approach: among other things, it would mean that longer UI awards would only be available to people also receiving an income from PIP. But it is also [inappropriate for UC health, given that PIP is not a work-related benefit](#). It is important that [the Timms Review](#), focused on PIP, has

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<sup>42</sup> Note however that the proposals explored in the previous chapter, i.e. to introduce a disregard into the UC system for contributory benefits income, may offset any reduction in overall benefit expenditure, because claimants would be able to keep more of a nominal UC award while also receiving UI.



a broad enough remit to consider how the impact of nsESA abolition can be mitigated, and how UI claimants can be assessed to ensure that the appropriate award duration and benefit conditions are applied.

The government may of course argue that people in ill-health who receive UI should not be exempt from periodic reassessment of their health status; it is therefore fair that they receive UI on the same terms as all other claimants, and then claim UC after 6 or 12 and become subject to regular assessments. However, this argument would overlook the rationale for reviving the contributory principle in the first place. As noted throughout, paying NICs – perhaps for a longer period of time than currently required for contributory unemployment benefits – should be considered a form of social insurance whereby people build up a right to financial support from the benefits system without resorting to income-related benefits. It would be entirely consistent with the government's objectives for this offer to incorporate protection from reassessments for a meaningful period of time.

### **Transitional protection**

The government also needs to consider the issue of transitional protection, if UI is implemented broadly in line with the current proposals. Our assumption is that the government intends nsESA to close for new and existing claimants in the near future: this would presumably mean that existing claimants would lose contributory unemployment benefits in entirety, since they would have already 'used up' their entitlement within the current system. As such, the IFS has [suggested](#) the government 'reset the clock', i.e. allow people exiting nsESA support group claimants to move into UI for a year, affording them some time to adjust to a potential loss of income.

This would however be a rather conservative approach to transitional protection. There is a case for going further, allowing existing claimants to remain on nsESA, with only new claimants entering UI. Alternatively, the closure of nsESA could be scheduled several years ahead – in line with how the migration from legacy income-related benefits to UC was undertaken.

Arguably, transitional protection should also cover people who have not yet claimed nsESA, but are likely to do so in the near future. This is a group who

have already accrued an entitlement to contributory unemployment benefits, including an indefinite nsESA support group award if they have a work-limiting health condition. UI threatens to remove this entitlement retrospectively. This is not to suggest that accrued entitlements must be respected in all circumstances, but there are precedents for proceeding cautiously. For example, where increases to state pension age dilute the value of previous NICs, the policy has been phased in gradually with very long lead-in times. A solution for near-future nsESA claimants could be to allow for people to receive a longer award – whether this is UI or nsESA – if they successfully claim in the course of the current parliament.<sup>43</sup>

**Recommendation:** The government should put transitional protection in place to minimise the negative impact of replacing nsESA with UI for disabled people. It should consult on the options available, outlining what the impact would be on different groups of current and future claimants of each possible scenario.

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<sup>43</sup> Transitional protection would reduce the savings expected to result from introducing UI in the short term, but would have no impact on long-term spending projections.

# Conclusion

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The government wants to streamline and enhance contributory unemployment benefits: we're good with that. Social insurance is an important foundation of welfare provision, and the aim of recognising previous labour market contributions in benefit eligibility and payment levels, in order to enhance the political legitimacy of the benefits system, is understandable. And the available evidence suggests that the role of contributory benefits in partially replacing lost income when someone becomes unemployed can help some people return to sustainable jobs more swiftly.

But the government's ambitions for UI feel conservative. The proposals do not represent a return to the UK's postwar benefits system, with a significant role for contributory unemployment benefits – or indeed the kind of approach still in operation in the United States and throughout Europe. Before proceeding with UI, the government should thoroughly review the available evidence on the impact of income-replacement mechanisms on well-being and employment, and engage the public in a broader consultation about the role and design of contributory unemployment benefits.

It is also essential that the government consults widely on benefit design issues around how UI treats earnings and interacts with UC. It will be important to outline what the impact of different options would be on different groups of claimants in each scenario. Our analysis shows that if the approach currently in use for nsJSA is replicated, then typical low-income benefit claimants would not benefit from this policy to any meaningful extent. Any earnings they have would see their UI award reduced and, more importantly, any UI income would simply see them losing UC entitlement by an equivalent amount.

The main problem with the current UI proposals, however, is that disabled people, and people with long-term health problems, will lose rather than gain under the proposed changes. They are arguably being denied the opportunity to insure themselves against the risk of developing a work-limiting health condition. At a time when income-related health and disability benefits are being cut, and cuts to PIP remain under consideration, this is difficult to justify. Our evidence strongly suggests that nsESA recipients already experience financial

hardship. Claimants are typically older people who become unwell before they reach state pension age and are unlikely to ever return to employment.

The government should therefore consult on the likely impact of ending indefinite nsESA support group awards. Options for mitigating this impact should include longer-duration awards for some or all claimants (this would not necessarily lead to increased expenditure on contributory unemployment benefits, although it might reduce the expected savings). If the government proceeds with largely removing health considerations from the UK's contributory unemployment benefits system, and limits even those with limited capability for work-related activity to 6 or 12 months of receiving UI, then at the very least other planned and prospective cuts to health- and disability-related benefits must be reconsidered.

It will also be necessary to introduce transitional protection. People already receiving health-related contributory unemployment benefits – and those who would become eligible in the future – have already accrued entitlements in the current system. This must be acknowledged and honoured.

UI essentially means that health will 'disappear' from the UK's contributory unemployment insurance system, under the guise of reviving the contributory principle. It is not immediately obvious that this would be considered a fair outcome by most people, or that it would be the best way of supporting disabled claimants to return to sustainable employment.

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