- We have included an explicit assumption about the lasting effect of the pandemic on **labour market inactivity** and associated claims of incapacity-related benefits. This raises our forecast for UC cases with a 'limited capability for work-related activity' and for 'new style' employment and support allowance (ESA) by around 300,000. This effect builds up steadily to add £3.2 billion to UC and ESA spending in 2024-25 relative to the *FSR*. (This also affects disability benefits spending, as set out below.) This broad-brush assumption is very uncertain and will be refined over time. Historical experience in the aftermath of previous recessions has varied – inactivity rose by less than this in the period after the financial crisis, but by significantly more in the five years following the 1990s recession. Neither recession was precipitated by a public health crisis, which could clearly have more lasting health effects on the population.

3.98 Other sources of difference from the *FSR* include:

- **State pensions.** Spending is lower due to the effect of a smoother – and on average weaker – path of average earnings on triple lock uprating, with the effect peaking at £1.6 billion lower spending in 2024-25. Spending is also reduced by excess deaths, where we have revised up our assumption for excess pensioner-age deaths this year from 62,000 in the *FSR* to 90,000 as a result of the resurgence of infections. This is a top-down assumption based on excess deaths in the second half of 2020-21 being around half the level of virus-specific deaths assumed in the Government's July 'reasonable worst case' scenario, reflecting the more stringent public health measures now in place. It is clearly very uncertain – while we were able to discuss virus-related modelling with the relevant government health experts, at the time we closed the forecast there were no official projections of the impact of the latest restrictions on the path of excess deaths. We assume that two-thirds of this year's excess pensioner deaths are brought forward from within the next five years and the remainder from beyond the forecast horizon, informed by analysis published by NIESR.[10] As a result, these deaths reduce spending by £0.6 billion in 2020-21 (up by £0.5 billion from the *FSR*), diminishing to £0.6 billion in 2025-26.

- **Disability benefits.** We have revised spending up by £0.9 billion a year on average, reflecting higher caseloads, partly related to the assumed increases in labour market inactivity and associated health conditions as a result of the pandemic. These could be directly related to the virus (e.g. 'long covid') or indirectly related (e.g. increased prevalence of mental health conditions due to economic conditions or lockdowns).

- **Other welfare spending** is also higher, largely due to virus-related increases in welfare spending in Northern Ireland, which was understated in the *FSR*.

3.99 Modest effects from new policy measures include the cost of extending the relaxation of the minimum income floor in UC until April 2021, and increasing pension credit, offset in later years by the decision to freeze local housing allowance rates in cash terms at the higher levels set this year. The extension of the CJRS delays and reduces the peak in unemployment, which also reduces spending on UC relative to our pre-measures forecast.

[10] *Living with Covid-19: balancing costs against benefits in the face of the virus,* Miles, Stedman and Heald, July 2020.