

7. Conclusion

The poverty trap arises from the complex interaction of the direct tax and means-tested benefit systems. Under the current system, a small number of families with children face marginal tax rates in excess of 100 per cent. The problem of high marginal tax rates in some region of the income distribution is essentially intractable if a social security system at or above the current level is to be maintained; in particular, raising tax allowances is a very ineffective means of alleviating the poverty trap. The proposed reforms of the social security system will make it impossible for marginal tax rates in excess of 100 per cent to be faced, but many more people will face a less extreme form of the poverty trap, with marginal tax rates over 80 per cent. Raising allowances under the new system will take more people out of the less extreme version of the poverty trap, but they will be a different group from those taken out by increased allowances under the current system. Nevertheless, using the tax system to manipulate problems caused by the social security system will continue to be very expensive and relatively ineffective.

The Take-Up of Supplementary Benefit: Gaps in the 'Safety Net'?

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1. Introduction

Non-take-up of social security benefits—the fact that not all of those eligible for benefits claim them—is widely acknowledged to be one of the most serious problems facing the social security system (see, for instance, Atkinson (1984) and Dilnot, Kay, and Morris (1984)). It means that the welfare system is to some degree ineffective in delivering the assistance its own provisions acknowledge as necessary. Non-take-up of supplementary benefit (SB) has caused the most widespread concern and attention, both within and outside government, as a result of the critical role of SB in the social security system. SB (formerly called National Assistance) has frequently been termed a 'safety net' benefit because it provides a minimum standard of living to those (in eligible categories) who have either no or very low incomes from other sources—including other benefits. The analysis of SB non-take-up therefore seems central to an understanding of poverty and a pre-condition for the design of effective social security reforms.

In 1981 (the most recent year for which figures have been published) the Department of Health and Social Security (DHSS) estimated that 1.4 million families did not claim a total of £760 million of SB entitlement (an average of £10.50 per week each—or approximately £15 in 1987 prices). This represented a take-up rate of 71 per cent of those entitled. The first purpose of this article is to provide estimates of SB take-up that are at once both more recent and more detailed, using data from the 1984 Family Expenditure Survey (FES). This in itself will, we hope, provide some contribution to the debate about the current extent and seriousness of the problem.

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The second purpose is more far-reaching. Consideration of the possible reasons for non-take-up makes it apparent that the take-up rate is unlikely to remain constant as not only the benefit system itself but also other economic circumstances change. Two of the most widely discussed explanations for non-take-up are lack of information and perceived social stigma (see, for instance, Atkinson (1984) and Cowell (1986)). We can think of claims for benefit as having associated costs—which may include time and effort as well as information and stigma—and the likelihood that a given eligible individual will claim as the likelihood that for them these costs are outweighed by the expected value to them of the benefit (see, for example, Moffitt (1983) and Blundell, Fry, and Walker (1988)). It follows that, other things being equal, we might expect to see lower take-up rates among groups who were entitled to relatively small amounts of benefit, who expected not to be eligible to claim for very long (because the fixed cost of claiming would seem higher relative to the total value of the benefit stream), who had relatively little access to information about the benefit system, or who felt particularly strongly that there was some stigma attached to being a benefit claimant. Two important consequences follow. First, since both lack of information and stigma are likely to diminish as the number of claimants rises (Cowell (1986)), take-up rates may increase with unemployment—and conversely remain lower among groups in which there are relatively few entitled to claim. Second, and most important, an increase (decrease) in average entitlement levels is likely to increase (decrease) the take-up rate, with important effects on the income distribution and revenue implications of any proposed change to the system (Blundell, Fry, and Walker (1988)). The second aim of this article is therefore to examine how far our analysis of SB bears out these conjectures and to provide estimates of the determinants of SB take-up which can be used to help forecast take-up and social security expenditure as circumstances change.

Section 2 describes the structure of SB and how entitlement calculations are made from the 1984 FES by the IFS tax and benefit model. Section 3 presents the results of comparing calculated entitlement to SB with receipts, examines take-up rates among different groups, and makes a preliminary assessment. Section 4 presents econometric estimates of the determinants of SB take-up and discusses their implications. Section 5 summarizes our conclusions.

2. Supplementary Benefit and the Calculation of Entitlement

SB is the major income-related benefit in the UK, representing an expenditure in 1984–5 of £6.5 billion (18 per cent of benefit expenditure) to 4.7 million families. SB provides those who are entitled with the shortfall of

Table 10.1 The extent and costs of the SB system

	1979–80	1984–5	1987–8 (estimate)	Percentage change 1979–80 to 1987–8 (real in parentheses)
Number of recipients (millions)	2.9	4.7	4.9	+69
Total expenditure (£ million)	2,440	6,472	8,300	+240 (+79)

Source: HM Treasury (1983 and 1987).

their income from a pre-defined level of 'need' and entitles them to have their rent and rates met by 'certificated housing benefit'. The predecessor of SB, National Assistance, which existed from 1948 to 1966, was originally intended to be a relatively minor part of the UK benefit system, providing a 'safety net' for those few claimants not eligible for (full) National Insurance (NI) benefits (mainly unemployment benefit, state retirement pension, and sickness benefit). However, this was never really the case and in recent years a combination of persistent high unemployment and the limitations—both in coverage and in level of benefit—of the NI benefit system has caused SB to grow rapidly in importance. Today, approximately one in every five families in the UK depends at least in part on SB. Table 10.1 gives an idea of the extent and costs of the SB system, and of its rapid growth in recent years.

Not everyone—even if they have a low income—is eligible for SB. However, in general all pensioners, and non-pensioners not in full-time work or education, are eligible provided they do not own capital (apart from their homes and personal possessions) of more than £3,000. As mentioned above, for those who are eligible, entitlement to SB is the difference between income and 'needs'. 'Needs' are defined by family size, with special heating additions for the very old, the very young, and the sick, and include mortgage interest and a home maintenance allowance for owner-occupiers. Those whose incomes fall short of their needs, and who are therefore entitled to SB, also automatically qualify for 'certificated housing benefit', which covers all of their rent and rates. They may also qualify for a number of one-off payments—for example, for clothing and furniture—and for various 'passport' benefits—benefits in kind such as free school meals and NHS prescriptions—although SB receipt is not a prerequisite for these. A fuller description of the SB system as it was in 1984, which was (and is) very much more complex than the above abbreviated outline suggests, can be found, for example, in Child Poverty Action Group (1984).

SB was replaced in 1988 by income support (IS), as part of the 'Fowler reforms' of the benefit system. Broadly the same people are eligible for IS

as were eligible for SB, but IS has many fewer special additions, replaces one-off payments with discretionary loans, and is less generous to many single people than SB.

Both today and in 1984, the main groups likely to be entitled to SB are pensioners, the unemployed, single parents, and sick people and those caring for them.

Pensioners are likely to qualify because the basic state retirement pension has for some years been very close to their basic SB 'needs' level, and so qualification for a small heating or dietary addition can be enough to tip the balance. This means that many pensioners are entitled to small sums of SB. However, those who qualify are usually also entitled to greater sums of certificated housing benefit.

Unemployed people may be entitled to SB either to top up their income from unemployment benefit (UB, which like the pension is close to the SB scale) or more frequently because they are not eligible for UB—they have been unemployed for over a year or have not worked sufficiently to build up a contribution record (this may be the case, for example, for school-leavers or those suffering repeated spells of unemployment).

Many of those who qualify or just fail to qualify for SB could qualify for standard housing benefit (SHB, formerly rent and rate rebates and allowances). In cash terms, they would be unambiguously better off on SB, if they qualify for it, since under SB they would get all their housing costs paid under certificated housing benefit, plus some actual SB, whilst under SHB the most that they could get would be all their housing costs. This 'overlap' of benefits proves to be a great complication in what follows.

The analysis of SB take-up undertaken in this article is based on a comparison of calculated entitlement and recorded receipt for each benefit and for all tax units in the 1984 Family Expenditure Survey. Entitlement data are drawn from the IFS tax and benefit model, which calculates the tax and benefit position of each of the households interviewed in the FES. (See Davis, Dilnot, Stark, and Webb (1987) for a full description of the model and Stark (1987) for more detail on the modelling procedures used here.)

It would be unrealistic to expect calculated entitlement to be wholly accurate. Various details needed both to establish eligibility and to calculate the amount of entitlement are missing from the FES. So, in some cases, is the amount of receipt itself (see Stark (1987)). Moreover, some of the information that is included—in particular, some income data—may contain errors. This is particularly true of self-employment income, which is known to be unreliable (see Atkinson and Micklewright (1983)), and so the self-employed are excluded from the present analysis. Problems of missing and erroneous data appear to be especially important for pensioners, for whom we provide separate results.

An additional difficulty is that the FES provides us with details of house-

Table 10.2 Estimates of SB take-up

Study	Year	Data	Take-up rate		
			Pensioners	Non-pensioners	All
DHSS	1977	ASE ^a /FES	.72	.79	?
DHSS	1979	ASE/FES	.65	.78	.70
DHSS	1981	ASE/FES	.67	.75	.71
Fry and Stark	1984	FES	.87	.81	.83
Fry and Stark ^b	1984	FES	.66	.78	.74

^a Annual statistical enquiry of SB claimants.

^b Estimate on 'DHSS basis'.

Source: HM Treasury (1984).

holds' circumstances in a particular fortnight, with very limited information on their 'history'. For instance, suppose that the head of a household has lost his/her job just prior to the FES interview. He/she may not yet have got around to making a benefit claim (though intending to) or may have made a claim which has not yet been processed, and so no benefit has yet been received. Any time-lag in the processing of claims in particular means that for groups such as the unemployed, whose circumstances change periodically, we are never likely to observe 100 per cent take-up (when we measure this by current receipt of benefit). These points will become important when we come to interpret the results in Section 3.

3. The Take-Up Rate

Most previous studies of benefit take-up, and most popular discussion, have focused on 'take-up rates'—ratios of the number of people receiving a benefit to the number who are entitled. Here, we present our own estimated take-up rates. Although there is no unambiguously correct take-up measure (Atkinson (1984)), we prefer what we feel to be a natural definition—namely, the proportion of those thought to be entitled to benefit who actually claim it. However, the definition is not as unambiguous as it might appear, so that care must be taken in making comparisons with other estimates.

Table 10.2 shows some previous estimates of take-up of SB produced by the DHSS. These define take-up as

$$\frac{\text{Number actually receiving SB}}{\text{Number actually receiving SB} + \text{Estimate from FES of number entitled but not receiving}} \quad (1)$$

Table 10.3 Supplementary benefit, standard housing benefit, and non-take-up in the 1984 FES

	Receiving SB			Entitled to SB but not receiving it	
	Entitled to SB (1)	Entitled only to SHB (2)	Entitled to neither SB nor SHB (3)	Receiving SHB (4)	Receiving nothing (5)
<i>Non-pensioners</i>					
Number in sample	790	35	32	58	180
'Grossed-up' figure (thousands)	2,579	110	106	183	584
<i>Pensioners</i>					
Number in sample	314	72	8	157	49
'Grossed-up' figure (thousands)	1,137	238	29	559	176

Apart from the complications arising from the use of two sources of data (administrative statistics on the numbers actually claiming SB and the FES sample for non-take-up), this differs in two respects from our figure. First, the number receiving SB may include some people who in their current circumstances are not entitled (for example, they have just got a job or an administrative error has been made). This will tend to make the DHSS figure larger than ours (by inflating the number of recipients included in both the numerator and denominator of (1)). Second, a number of those who appear to be entitled to SB in the FES in fact appear to be claiming SHB instead. By 1984, following the 1983 housing benefit reform, the number of non-pensioners in this category was relatively small. We have excluded all those who appear to be receiving the 'wrong benefit' from our calculation of the take-up rate, and return to the reasons for this below. The DHSS estimate of the numbers not taking up SB includes those taking up housing benefits instead, as well as those not taking up anything. This, of course, tends to reduce its estimate of the take-up proportion. Table 10.2 therefore includes an estimate from the 1984 FES on an approximation to the DHSS basis for comparison. Our estimate is quite close to the published DHSS figure. A substantial proportion of non-take-up in pre-1983 estimates was thought to consist of those receiving housing benefits, and Table 10.2 suggests this is particularly the case for pensioners.

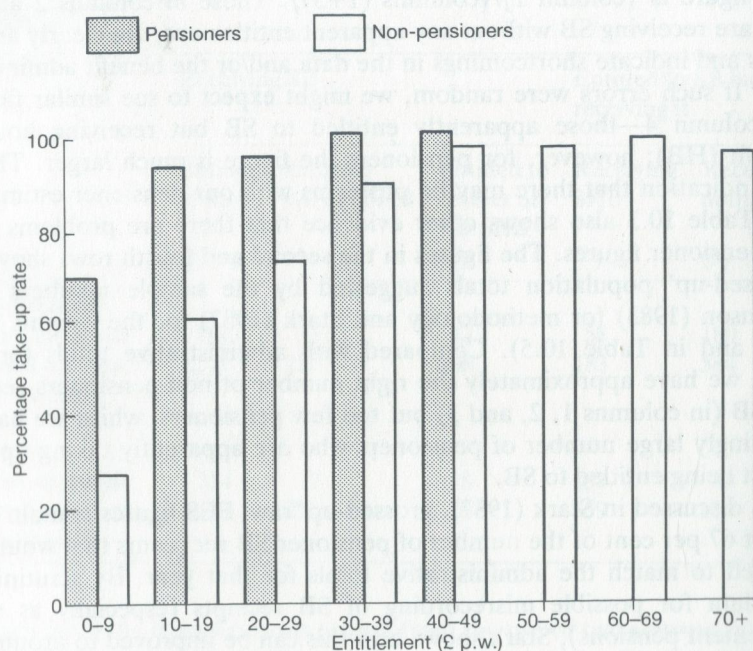
Table 10.3 illustrates these differences using our 1984 data. Our 'DHSS basis' figure is $\{ \text{columns (1+2+3)} \} / \{ \text{columns (1+2+3+4+5)} \}$, whilst our

own figure is $\{ \text{column 1} \} / \{ \text{columns (1+5)} \}$. Those in columns 2 and 3, who are receiving SB without any apparent entitlement, are clearly anomalous and indicate shortcomings in the data and/or the benefit administration. If such errors were random, we might expect to see similar figures for column 4—those apparently entitled to SB but receiving housing benefit (HB); however, for pensioners the figure is much larger. This is one indication that there may be problems with our pensioner estimates, and Table 10.3 also shows other evidence that there are problems with the pensioner figures. The figures in the second and fourth rows show the 'grossed-up' population totals suggested by the sample numbers (see Atkinson (1983) for methodology and Stark (1987) for the weights used here and in Table 10.5). Compared with administrative totals for the year, we have approximately the right number of non-pensioners receiving SB (in columns 1, 2, and 3) but too few pensioners, whilst we have a startlingly large number of pensioners who are apparently taking up HB whilst being entitled to SB.

As discussed in Stark (1987), grossed-up 'raw' FES figures contain only about 67 per cent of the number of pensioner SB recipients that would be needed to match the administrative totals for that year. By scrutinizing the data for possible misrecording of SB receipts (especially as state retirement pensions), Stark shows how this can be improved to around 80 per cent, and it is these figures that are used in this analysis. However, it remains true that some SB receipt by pensioners still appears to be missing from the FES, and this may well account for around 200,000 of the cases in column 4 of the table. At present, it is not possible to tell which of the cases in column 4 are in fact receiving SB and belong in column 1, which are in fact not entitled to SB and therefore do not belong in the table at all, and which are genuinely taking up the 'wrong' benefit. Given this uncertainty, we exclude them from the statistical analysis of the next section. Most of these cases are 'borderline' anyway—the financial difference between their calculated SB entitlement and actual SHB receipt is small. Both from the viewpoint of poverty analysis and from the viewpoint of expenditure forecasting, it is the determinants of non-take-up which are our primary concern.

We have already noted that there is a degree of inaccuracy in our calculations that makes it difficult to be precise about the exact level of take-up (and consequently also whether it appears to be increasing or not). They do indicate that, overall, take-up rates for SB are higher than those for other means-tested benefits;¹ on the other hand, because of the large

¹ For 1979, official estimates of take-up were: rent allowances 50%, rent rebates 72%, rate rebates 70%, and family income supplement (1978-9) 50% (Hansard, 1 December 1980, col. 88; *Social Security Statistics*, 1981).



^aIncludes certificated housing benefit.

^bAn extremely small number of pensioners in our sample are entitled to more than £49 p.w.; all of them take it up.

Figure 10.1 Take-up rates for SB by range of entitlement^{a,b}

numbers concerned (and their poverty), the 17 per cent non-take-up in 1984 indicated in Tables 10.2 and 10.3 may still be cause for considerable concern. Moreover, overall averages may conceal the experience of particular groups.

Figure 10.1 shows take-up rates for pensioners and non-pensioners by range of entitlement, and provides a strong preliminary indication of a positive relationship between take-up and entitlement level. Table 10.4 breaks down our sample of entitled units according to a variety of characteristics. Even these preliminary groupings reveal substantial variation. Among tenure groups, owner-occupiers take up considerably less than either council or private tenants, while among non-pensioners, on average those with children take up more than those without. There is considerably higher take-up amongst household heads than among non-householders, while among those in different economic positions, there is a remarkable

Table 10.4 SB take-up rates^a

By tenure

	Pensioners			Non-pensioners		
	Entitled	Receiving	Percentage take-up	Entitled	Receiving	Percentage take-up
Tenants ^b	240	230	96	655	580	88
Owners	115	83	72	286	195	68
Others ^c	—	—	—	13	10	76

By family type

	Entitled	Receiving	Percentage take-up
Single people	503	376	75
Single-parent families	139	131	94
Childless couples	119	99	83
Couples with children	193	179	93
Single pensioners	321	282	88
Couple pensioners	42	32	76

By family relationship

	Entitled	Receiving	Percentage take-up
Head of household	955	858	89
Son/daughter of head	286	187	65
Other relation of head	36	28	78
No relation	40	26	65

By economic position of head

	Entitled	Receiving	Percentage take-up
In work (including part-time)	94	36	38
Retired, over pension age	360	312	86
Early retired	24	19	79
Out of labour force	285	262	92
Short-term unemployed	179	116	65
Long-term unemployed	375	354	94

^a Figures do not necessarily sum to totals in Table 10.3 because of missing data on some characteristics.

^b Includes both council and private tenants.

^c Mainly those in rent-free accommodation.

Table 10.5 Grossed-up figures for those entitled to SB

	Receiving SB ^a		Receiving SHB		Receiving nothing	
	No. (000s)	£m p.a. ^b	No. (000s)	£m p.a. ^c	No. (000s)	£m p.a. ^d
Single people	1,270	1,900	60	50	430	450
Single-parent families	460	1,100	30	10	30	40
Childless couples	300	800	60	70	60	120
Couples with children	540	1,900	30	20	60	100
Single pensioners	1,020	900	450	140	140	70
Couple pensioners	120	80	110	40	30	10

^a Excludes those receiving with no modelled entitlement: this includes 260,000 pensioners.

^b Receipts, including certificated housing benefit.

^c Amount not taken up: difference between SB entitlement and SHB receipt.

^d Amount not taken up: SB entitlement.

distinction between the short-term and long-term unemployed.² Only 65 per cent of the former take up, while of those in our sample classified as long-term unemployed, 94 per cent take up their entitlement. This is all the more noteworthy given the relatively large sample, though, as noted in Section 2, the figures may to some extent be affected by delays in the processing of claims.

Table 10.5 shows what these figures imply for the population as a whole. Grossing-up from our sample suggests that in 1984 some £700 million per annum was unclaimed by non-pensioners and a further £75 million by 176,000 pensioners.

These results are both interesting in themselves and suggestive about the (proximate) reasons for non-take-up. However, there is a limited amount that simple cross-tabulation can tell us. Do single parents have a high take-up rate because they also belong to a low-income group, or because they are entitled to relatively large amounts of benefit, or because of characteristics peculiar to single parents—for example, greater needs, less resistance to the benefit system, or greater access to information through other branches of the health and social services? It is important to be able to answer this sort of question both to understand non-take-up and to be able to predict the effect on future take-up rates of changes to the benefit rules or in economic or demographic factors. To do this we must look to the econometric analysis in the following section.

² The 'short-term unemployed' are those who have been out of a job for less than 12 months. 'Long-term unemployed' includes all those seeking work who have not worked in the last 12 months, not only those who have been unemployed all that time but also, for example, school-leavers or those returning to the labour market.

Table 10.6 The determinants of SB take-up

	Non-pensioners ^a		Pensioners ^a	
Intercept	-.543	(1.05)	-.384	(.76)
log SB entitlement (£ p.w.)	.695	(5.85)	.865	(4.77)
Household income (£ p.w.)	-.005	(6.46)	-.004	(1.90)
Private tenant	-.257	(1.01)	-.314	(.85)
Owner-occupier	-.006	(.04)	-.088	(.34)
Part-time worker	-1.368	(6.26)	-	-
Short-term unemployed	-.566	(3.05)	-	-
Long-term unemployed	.356	(1.80)	-	-
Single parent	.849	(2.27)	-	-
Number of adults - 1	.192	(1.94)	-.194	(1.11)
Number of children under 6 years	.061	(.248)	-	-
Number of children aged 6 and over	.011	(.075)	-	-
Age (years)	-.006	(.85)	.001	(.07)
Education (years)	-.033	(.80)	.054	(.43)
Non-householder (relative of head)	-.063	(.25)	-	-
Non-householder (non-relative of head)	.041	(.13)	-	-
Number in sample	942 ^b		356 ^b	

^a Figures in parentheses are t-statistics. A figure greater than 2 is a conventional indicator of statistical significance.

^b See note (a) to Table 10.4.

4. The Determinants of Take-Up of SB

In this section, we report the results of estimating equations that attempt to explain take-up, so that we can distinguish the separate effects of income, benefit entitlement, and various demographic characteristics on take-up behaviour.

While all that we can observe is whether an individual takes up or not, what we predict is a probability that that individual takes up (or, equivalently, the proportion of identical individuals that we expect to take up), which must, of course, lie between 0 and 1. Table 10.6 reports the results of estimating equations for those above and below retirement age, which describe how the probability that an individual takes up relates to that individual's characteristics, entitlement, and income. For more detail on the generation of the take-up probability and underlying theory, see Blundell, Fry, and Walker (1988).

For non-pensioners, the most statistically significant effects are those associated with the level of entitlement and the level of income. A distinction between the short-term and long-term unemployed is apparent, with the short-term unemployed having a substantially lower probability of

taking up their benefit than either the long-term unemployed or non-participants in the labour market (the reference category of individuals). This may well reflect the effects of duration and expected duration of eligibility on take-up behaviour—the longer individuals are unemployed, the greater may be their awareness of benefit availability, the lower may be their own resources, such as savings, and the lower may be their expectations of finding a job in the near future. Turning to family characteristics, the results reveal that, although from the group averages in Table 10.4 both single parents and couples with children appear to have similarly high take-up rates relative to other groups, the estimates in Table 10.6 show that children have little impact on take-up rates when we control for other factors, including in particular the level of entitlement. Single-parenthood has a substantial positive effect on take-up. Similarly, once we have controlled for income, entitlement, family size, and economic position, there are no perceptible differences between householders and non-householders, or between different tenure groups.

For pensioners, the main determining factor is the level of entitlement, and the effect of additional income is similar to that for non-pensioners. The number of adults has a small negative but insignificant effect, again suggesting that the overall difference between single and married pensioners shown in Table 10.4 is attributable to other factors.

To gain some feel for the magnitude of the effects reported in Table 10.6 on the probability of take-up, in Table 10.7 we show the impact of an additional £5 of SB entitlement and an additional £5 of other income (for example, as a result of increasing other non-means-tested benefits) for households in different circumstances.

The first column shows the probability predicted by the model for various hypothetical household types at the average income and entitlement levels in the sample; the second column shows how the predicted probability would be affected if SB entitlements were increased by £5, and the third if (non-SB) income were increased by £5 (but entitlements were unaffected).

5. Conclusions

Supplementary benefit provided income support to some $4\frac{1}{2}$ million families during 1984–5; the FES-based calculations presented here suggest that it failed to reach a further $\frac{3}{4}$ million, who were entitled to claim approximately £20 per week each.

This should cause us considerable concern about the living standards of those with very low levels of other income. But it is also worrying because of the degree of resistance to the means-tested benefit system it could indi-

Table 10.7 The effects of income and SB entitlement on predicted take-up^a

	Predicted take-up probability		
	Mean income and entitlement	Additional £5 SB	Additional £5 income
One-parent family, unoccupied, aged 25, one child under 6, in council accommodation	.986	.990	.985
One-parent family as above, but with a part-time job	.794	.832	.785
Couple aged 35 with one child under 6, one child over 6, in council accommodation and head short-term unemployed	.821	.855	.813
Couple as above, but head is long-term unemployed	.967	.976	.965
Couple, early retired, aged 60, private tenants	.844	.875	.837
Couple, pensioners, aged 70, private tenants	.851	.910	.846

^a All examples have the mean level of education—10.5 years for non-pensioners and approximately 9 for pensioners.

cate. The estimates presented of the determinants of SB take-up show that the single most important factor is the level of entitlement itself. Provided people know that they are entitled, this implies that there are costs to claiming which in some cases can outweigh the value of the benefit; the hypothetical short-term unemployed family of Table 10.7 would only be more likely to take up than not at entitlement levels above about £9 per week, which in some sense represents the 'price tag' it puts on being a claimant. Our estimates cannot, of course, distinguish the extent to which such costs represent feelings of social stigma or other elements of the hassle associated with making benefit claims. But they do indicate that non-take-up of SB can have serious implications for the welfare of both claimants and non-claimants.

The importance of income and entitlement levels in determining the take-up of SB confirms that it is essential to take changes in take-up behaviour into account when assessing proposed reforms to the means-tested benefit system, both in forecasting their public expenditure implications and in judging their overall impact on the welfare of all those who are intended to benefit.