Does universal credit enable households to reach a minimum income standard?

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Citation: HIRSCH, D. and HARTFREE, Y., 2013. Does universal credit enable households to reach a minimum income standard? York: Joseph Rowntree Foundation, 26pp.

Additional Information:

- This report is also available at: http://www.jrf.org.uk/publications

Metadata Record: https://dspace.lboro.ac.uk/2134/16998

Version: Published

Publisher: Joseph Rowntree Foundation / © Loughborough University

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DOES UNIVERSAL CREDIT ENABLE HOUSEHOLDS TO REACH A MINIMUM INCOME STANDARD?

Donald Hirsch and Yvette Hartfree

This report looks at the impact Universal Credit (UC) will have on the disposable incomes of families with low or no earnings. It examines whether they have enough to reach a minimum acceptable standard of living, as measured by the Minimum Income Standard (MIS) for the United Kingdom.

The report helps to show how successful UC will be in achieving the key objective of improving work incentives. It also explores how far the credit will enable households to work in order to obtain a socially acceptable standard of living rather than simply to escape dire poverty.

This report shows:
• how much families on various wages and working hours will be left with after paying taxes, rent and childcare costs and receiving UC;
• what potential they have to increase this amount by working more hours;
• how these amounts compare to a minimum benchmark, MIS;
• how this situation compares to the old system in 2013; and
• the impact of other changes in state support, past, present and planned for the future.
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EXECUTIVE SUMMARY

From 2013 onwards, the Universal Credit (UC) system is simplifying support for low-income families by providing a single payment to those both in and out of work, and is intended to help ‘make work pay’. This report looks at the extent to which UC helps people achieve a minimum acceptable standard of living, as measured by the Minimum Income Standard (MIS), and at how well it incentivises families to raise their earnings in order to achieve an adequate income.

Incentives and adequacy under UC will vary considerably by family type. Those without children fall furthest below a minimum income if they do not work, but also find it easiest to get above this standard by working, particularly if they live as couples. Lone parents get considerable state support if on low or no earnings, but this disappears rapidly once they work more than about ten hours a week, creating an income ‘plateau’ at below the minimum required for an acceptable standard of living as measured by MIS – unless they have above-average wages. Similar conditions apply to a second earner in a low-wage couple with children. However, since the income plateau is strongly affected by childcare, families with older children and families who get free childcare experience much less severe disincentive effects, and can potentially achieve an adequate income by working full time on a modest wage.

The switch from the benefit and tax credit system to UC produces winners and losers, with the most significant winners being part-time workers who work too few hours to be able to claim the current tax credits (including support for childcare), but who will be eligible under UC. However, in order to reach MIS, families usually have to work more than this, and for full-time workers the switch to UC makes relatively little or no difference. What has made a difference is recent cuts in entitlements, which will carry over to UC. In the case of a lone parent who has one child and is working full time on a low wage, these have doubled the shortfall compared with MIS. Such cuts continue under the present policy for uprating benefits, but under
provisional plans to improve childcare support in 2016, such a family would become significantly better off.

These findings show that UC combines with other changes to impact on both work incentives and income adequacy. The biggest risk is that it will trap families on incomes below what they need and make it difficult or impossible for them to progress further.
1 INTRODUCTION

In 2013, the Government is starting its overhaul of the benefit and tax credit system, introducing Universal Credit (UC) as the principal means of financial support for people of working age who are either on a low income or out of work. The new system is intended to ‘make work pay’ and to support individuals and families on limited means through a single, integrated payment that is easy to understand.

UC is a monthly sum, based on family composition plus allowances for rent and any eligible childcare costs, paid in full to those who are not working, and to those earning less than a set level, and reduced by 65p in the pound for post-tax income above that level.

This report looks at the extent to which the new system is able to give low-income families a ‘hand up’, enabling them to reach acceptable living standards through work. This is partly an issue of how it structures work incentives, in terms of how it withdraws help as people become better off. Any means-tested system of this type faces the challenge of ensuring that support is not withdrawn too quickly as people become better off (undermining work incentives), yet not withdrawn so slowly that it becomes expensive and makes too many people dependent on state support.

However, support for people on low income is not just an issue of incentives but also of the adequacy of their income including that support. If a benefit system increased work incentives by reducing out-of-work entitlements, this could increase poverty levels; any government is bound to consider whether the level of income paid to people not working provides an acceptable safety net. A further ‘adequacy’ issue arises in the decision about how much people should be allowed to earn before UC starts being reduced. The simultaneous reduction of UC and the imposition of income tax creates an income ‘plateau’, a band of earnings over which disposable income varies relatively little with earnings. Incentive issues relate to the flatness of this plateau; but adequacy issues relate to its level. If the income plateau is too low for an acceptable standard of living, the
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The Minimum Income Standard (MIS) for the United Kingdom provides a benchmark against which the adequacy of disposable household income can be assessed. It is calculated following careful research with members of the public, looking at what households need to be able to afford, as a minimum, and specifies the disposable income required for a socially acceptable standard of living (Box 1).

**Box 1: The Minimum Income Standard (MIS)**

MIS is the income that people need in order to reach a minimum socially acceptable standard of living in the United Kingdom today, based on what members of the public think. It is calculated by specifying baskets of goods and services required by different types of household in order to meet these needs and to participate in society.

The research is funded by the Joseph Rowntree Foundation and carried out by the Centre for Research in Social Policy (CRSP) at Loughborough University, producing annual updates from 2008 onwards. MIS was originally developed in partnership with the Family Budget Unit at the University of York, bringing together expert-based and ‘consensual’ (based on what the public think) methods. The research entails a sequence of detailed deliberations by groups of members of the public, informed by expert knowledge where needed. The groups work to the following definition:

“A minimum standard of living in the United Kingdom today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.”

MIS distinguishes between the needs of different family types. It applies to ‘nuclear’ families and to childless adults; that is, to households that comprise a single adult or a couple, with or without dependent children.

MIS is relevant to the discussion of poverty, but does not claim to be a poverty threshold. This is because participants in the research were not specifically asked to talk about what defines poverty. However, it is relevant to the poverty debate in that almost all households officially defined as being in income poverty (having below 60 per cent of median income) are also below MIS. Thus households classified as in relative income poverty are generally unable to reach an acceptable standard of living as defined by members of the public.

Further information and publications available at: www.minimumincomestandard.org

This report considers the disposable incomes of different types of household, on different wages and working different numbers of hours, relative to MIS. First, it looks at the extent to which people can reach this standard under the UC system. It then looks at the effect of changes to this, alongside other changes taking place in the tax and benefit system. The purpose of these comparisons is to consider how the changing structure and level of support affects both incentives and income adequacy, as measured by MIS.
2 THE RELATIONSHIP BETWEEN EARNINGS AND INCOME ADEQUACY UNDER UNIVERSAL CREDIT

The graphs on the following pages look at the relationship between a family’s working hours, their wages, their disposable income, including UC, and what they need for a minimum acceptable living standard according to MIS. They thus show the incentive to work longer hours at various wage levels and the extent to which additional rewards from doing so enable households to meet minimum needs. The calculations are based on the entitlements of a range of family types according to various scenarios; the assumptions used are described in the Appendix.

Working-age adults without children

The first pair of graphs (Figure 1) represents the case of households without children, either single people or couples, in each case living with no other people.

In both cases, rewards from work are substantial under UC. A single person with no work has less than half of what they need – just under 40 per cent of the MIS requirements after rent and council tax (and this is even lower in cases, not shown here, where not all rent is covered through UC, either because a social tenant is penalised for under-occupying social housing or because a private tenant pays rent above eligible levels).
A single person can earn £25 a week without losing UC. This significantly improves their disposable income, bringing it to about 50 per cent of MIS, rather than below 40 per cent if they do not work. However, after this point UC is reduced by 65 per cent of additional wages (net of tax). This has different effects according to wage rates (Figure 1a). On the Minimum Wage, it means an additional working hour produces £2 or less in disposable income, and makes it impossible to reach the minimum even when working full time. Someone earning £7.95 an hour on the other hand (a ‘typical’ low-paid worker, since someone in the middle of the lower half of the wage distribution earns this amount) can just reach the minimum working full time. A single person on the median wage is about 50 per cent above the minimum. Work incentives are greater for people on relatively higher wages because they are not entitled to UC if they work more than a few hours a week, so the disincentive of it being reduced as earnings rise does not apply.

Figure 1: Disposable income compared to Minimum Income Standard under Universal Credit, 2013 – working-age adults without children

(a) Single adult

- Median wage
- Lower quartile wage
- Minimum Wage
- MIS requirement

(b) Couple (with second earner)

- Median wage
- Lower quartile wage
- Minimum Wage
- MIS requirement
Figure 1b shows the situation for a couple where one person is already working full time, according to the working hours of the second partner. This shows that, even on the Minimum Wage, a couple without children can get to an adequate income by both working full time. If both earn the median wage, equivalent to about £22,000 a year each, they can get to twice the minimum. However, the graph shows a less encouraging picture for a second earner working part time, where both partners are on low wages (the diagrams assume the same wage for both partners). Couples on the Minimum Wage with such working patterns will still be dependent on UC, and this will be withdrawn at a rate of 65 per cent, rather than the 41 per cent withdrawal rate for tax credits (see discussion on couples with children below). This means that a second earner working two days a week on the Minimum Wage would earn about £100, but keep only £35 rather than £59 today, a significant reduction in work incentives.

**Lone parent families**

Figure 2 shows the disposable income, after rent and childcare costs, of lone parent families with one or two young children of various ages. When such families do not work, UC provides around 60 per cent of minimum needs, which is a higher proportion than for those without children, but it still falls far short of what is required for an acceptable living standard.

An important feature of UC is that, by allowing lone parents to keep these benefits while earning up to about £60 a week, it allows part of this shortfall to be covered by those performing ‘mini-jobs’ of up to about ten hours a week. However, once these earnings are reached, benefits fall off sharply, while working more hours imposes extra childcare costs. This is why the lines in Figure 2 show ‘plateau’ effects after the first few hours of work. In particular, those on a Minimum Wage retain so little of any additional income earned – especially once they are paying tax – that working full time produces no additional disposable income after childcare costs when compared to part time for families with one child, and significantly less for those with two children, who face greater childcare costs for each extra hour they work.

Figure 2 shows that:

- a lone parent on a low wage and with childcare costs cannot generally get above about 80 per cent of the income required for a minimum acceptable living standard;
- even on the median wage of £11.26 an hour, lone parents with young children can find it hard to make ends meet. With one child, they can almost do so if they work full time. With two children requiring childcare they still fall over 10 per cent short.

UC contributes to these patterns by having a relatively generous ‘disregard’ but a relatively steep ‘withdrawal rate’. It helps lone parents to reach a higher living standard than single people, but rapidly withdraws this support at well below the earnings that produce an acceptable standard of living. So while there is a relatively more generous floor put on the income of lone parents than of single people, there is also a more severe income ceiling for those on low to medium wages. Unless lone parents have above average wages, they cannot raise their living standards above the minimum.

Importantly, the high withdrawal rate of UC is compounded by the high cost of childcare, which reduces the benefit of working more hours. An hour worked on the minimum wage yields about £1.50 after additional tax and

On the Minimum Wage, a couple without children can get to an adequate income by both working full time.
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reduced UC, and an hour of childcare for one child costs about £1 net of UC support for childcare, leaving only 50p extra disposable income for each additional hour worked. The childcare cost for a second child turns even this small gain into a net loss. (Note: these calculations are on the present rates of reimbursement for childcare costs; plans to increase them in 2016 are looked at later in this report.)

**Figure 2: Disposable income compared to Minimum Income Standard under Universal Credit, 2013 – lone parents**

<table>
<thead>
<tr>
<th>Hours worked</th>
<th>Median wage</th>
<th>Lower quartile wage</th>
<th>Minimum Wage</th>
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**Figure 3** considers two examples of couples with two children. In each case it assumes that one partner works full time on the same wage, and shows the net income the family ends up with according to the hours worked by the second partner, ranging from none to full-time work.

**Couples with children**

Figure 3 considers two examples of couples with two children. In each case it assumes that one partner works full time on the same wage, and shows the net income the family ends up with according to the hours worked by the second partner, ranging from none to full-time work.
The first graph shows that, as with lone parents working, second earners in such families see a ‘plateau’ effect on their income as they move from part-time to full-time work. The cost of additional childcare for two children can be approximately the same as the additional take-home income of someone
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As mentioned above, one child requiring additional childcare takes about £1 out of the £1.50 yielded by a taxpayer on UC earning the Minimum Wage; a second child, even paying half price (for a family discount) at the childminder’s will cost the family the remaining 50p, leaving no overall gain.

The main difference between this case and a lone parent with two children is that the ‘plateau’ on any given wage is somewhat higher – so two people working full time can provide more adequately for the family than a lone parent. Nevertheless, a typical low-paid couple, even working full time at significantly above the Minimum Wage, can still fall short.

Because of the importance of childcare costs to these results, the case of a family with secondary-school-age children requiring no childcare is markedly different, as shown in the lower part of Figure 3. Such a family requires about £50 a week more than a younger family (after childcare costs), due to additional costs of items such as clothing, food and social participation. This means that with just one partner working on a low wage of £7.95 an hour, they are worse off relative to need, falling about £140 a week short of meeting an MIS budget compared to £90 for a family with a primary and preschool child. However, a second earner is better able to reduce this shortfall where there are no associated childcare costs. For a family on median wages, additional rewards for the second earner working more than about two days a week are especially strong, because no UC is payable for such a family, so additional earnings are retained, net only of income tax and National Insurance contributions.

These results thus show that under UC, there will be far stronger incentives for second earners to go out to work as their children get older, and that some of those with younger children will have no choice but to put up with low living standards. It should be emphasised that this contrast arises more through the extremely strong work disincentive created by childcare for people on UC, rather than through particularly good work incentives for those without childcare costs. The system still has a 76 per cent ‘withdrawal rate’ for the latter if they are on UC and paying tax.

Comparison of full-time incomes across household types

The above analysis shows considerable variations in the ability of different kinds of household to earn adequate incomes. Figure 4 looks across households at how much income, relative to MIS, is yielded by working on the Minimum Wage and on a median wage.

At the Minimum Wage, across most household types there is a similar picture. With the exception of a couple without children, full-time work on this wage leaves households about 20 per cent short of an adequate standard of living. This similarity shows that UC, like the tax credit system before it, is reasonably efficient at equalising living standards for households of different composition on the very lowest wages.

In contrast, on a median wage, living standards vary greatly by household type. Households without children are able to get well above the minimum, and couples with children can generally at least reach the minimum if both partners work full time on a median wage. Households on such incomes do not require any UC. Once earnings rise above the level at which UC runs out, over two thirds of additional pay is available as disposable income (post tax and National Insurance contributions). For lone parents, on the other hand, the high level of dependence on UC for living and childcare costs means that even on a median wage there is usually some UC entitlement. As a
consequence, only a quarter of additional earnings are retained by the family, since reductions in UC offset pay increases. This explains why lone parents are typically only about 15–20 per cent better off on £11.26 an hour (the median) than on £6.18 an hour (the minimum), and still struggle to reach a minimum acceptable standard of living.
3 PAST AND FUTURE CHANGES IN INCOME ADEQUACY

UC marks a major change in the structure of support to low-income households. Understanding its impact on income adequacy is complicated by the fact that it is being introduced at a time when several other changes are being made to the benefits and tax system. While the switch to UC puts slightly more money overall into income transfers to households, as do increases in the personal tax allowance, cuts in the real level of various benefits and tax credits, taking place both before and during the switch to UC, have the reverse effect.

The following analysis starts by comparing incomes relative to MIS in 2013 under the old system and with UC, as they start to run in parallel. Secondly, it compares the UC regime to the present regime as it would have been without the various changes to entitlements that have taken place since 2010, affecting families with children. Thirdly, it looks at the impact of various further announced changes that will come in as the switch to UC proceeds. Finally, it brings these changes together, showing a story of progression between 2010 under the old system to 2015 under the new system. All of these changes are reported in 2013 terms – translating previous and future levels of entitlement into today’s values.

Switching from benefits and tax credits to UC in 2013

Figure 5 compares the tax credit and benefit system to the UC system for three household types, in terms of the consequences of working various hours on a low wage (£7.95 an hour) for income adequacy. The patterns for
Figure 5: Disposable income compared to Minimum Income Standard under old system and under Universal Credit, 2013*

a) Single person

- **Under UC**
- **MIS requirement**
- **Under old system**

b) Lone parent with child age 0–1

- **Under UC**
- **MIS requirement**
- **Under old system**

c) Couple with 2 children, preschool and primary, one adult working full time, by hours of second earner

- **Under UC**
- **MIS requirement**
- **Under old system**

* Earnings £7.95 an hour = lower quartile wage
these three household types vary considerably, but two commonalities can be noted:

- In no case does UC always represent either an improvement or a deterioration in income adequacy across the range of working hours.
- Where there are benefits from the switchover, they occur for people working relatively few hours, helping them to become better off than if they were not working, but still leaving them well below an adequate income as measured by MIS.

More specifically, looking at each part of Figure 5 in turn:

- For a single person working fewer than 30 hours a week, and therefore not entitled to tax credits, UC provides more generous support because, unlike Income Support, it is not withdrawn pound for pound above a small disregard. However, since single people working full time on this wage are not supported under either system, the change makes no difference to living standards for full-timers without children.
- Lone parents working fewer than 16 hours a week gain the most. They are entitled neither to general tax credits nor to help with childcare in the present system, and so would be worse off in a mini-job if they require childcare than if they were not working at all. However, working two days a week they can be better off under the old system, and working more than that there is not much difference.
- A couple with a single earner may be slightly better off under UC, but a second person’s earnings bring in more, net, under the old system. This is because of the different ways in which income tax interacts with tax credits and with UC. For someone below the tax and National Insurance threshold, UC is withdrawn at a rate of 65 per cent of additional earnings, rather than the 41 per cent in the case of tax credits. (For people paying tax, the combined withdrawal rate is similar under the two systems: 73 per cent with tax credits and 76 per cent with UC, but UC produces this with a high taper on post-tax income rather than a lower taper on pre-tax income, as under tax credits).
- Recent gains from raising the tax allowance will largely be lost under UC, since the move to a post-tax taper will claw back the gains from tax cuts (Hirsch, 2013). As a consequence of recent increases in the allowance, a couple working full time on £7.95 an hour has come close to meeting the minimum under the old system, and the predicted fall in their income under UC has increased.

UC and recent changes in entitlements

The past three years have seen important changes in tax and benefit entitlements, separate from the switch to UC. This means that even though some families may gain on the switchover, they may not be better off than they would have been without the cuts.

The main changes to affect the comparisons being made here apply to families with children. In particular, the tax credit system has been adjusted in ways that make it harder for them to earn enough to reach MIS. In 2011, the ‘taper rate’ at which tax credits are withdrawn as income rises was increased. In the same year, the maximum childcare tax credit level was reduced from 80 to 70 per cent of childcare costs. As set out in Davis et al. (2012), these changes added £5,000 to the amount a couple with two children had to earn...
Past and future changes in income adequacy

between them to reach MIS. The effect of a freezing of Child Benefit and of a small real increase in Child Tax Credit almost exactly cancelled each other out, while higher tax allowances had a smaller, benign effect on earnings requirements. Cuts in council tax support had a small negative effect.

Figure 6: Disposable income compared to Minimum Income Standard in 2013 with and without recent changes in entitlements*

* Earning £7.95 an hour
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Figure 6 reflects the imagined situation that the value of tax credits, Child Benefit and tax allowances had been uprated by inflation since 2010, and that the tax credit taper, the percentage of childcare eligible for tax credit support and Council Tax Benefit had stayed the same. It compares the consequences of such an ‘unchanged’ system to the actual situation under the UC and tax credit systems, all in 2013.

The results for lone parents show that the new system’s advantage for people in mini-jobs applies regardless of recent cuts. On the other hand, for those working more than 16 hours, rewards for working would be greater under the pre-2011 tax credit system than under UC in 2013. This is also true, to a lesser extent, for a second earner in a couple with children. In both cases the net effect of changes made since 2010, even when the raising of tax allowances and the introduction of UC are included, has been to reduce the adequacy of incomes of families (with children) in full-time employment. In the example shown in Figure 6a, the effect leaves a lone parent, working full time, 17 per cent rather than 9 per cent short of MIS.

UC and future changes in entitlements

Between 2013/14 and 2015/16, benefits and the UC will be rising by a standard one per cent annually, and therefore, given inflation, will become less adequate for families trying to make ends meet. Figure 7a shows, through the example of a lone parent, the result of this further deterioration in support levels: slightly lower net incomes across the board. While these changes in income adequacy are clearly small, the cumulative effect of increasing UC more slowly than living costs in future years will add up.

At the same time, other changes in the benefit system can also make a significant difference. Some families could lose out substantially through cuts in housing support. Up until recently, these changes have mainly affected private tenants, but from 2013 the penalty for under-occupying social housing (the so-called ‘Bedroom Tax’) means that even social tenants cannot count on getting their rent fully covered. The effect on social tenants with a spare bedroom is shown as the lower line in Figure 7b.

Figure 7b also considers the effect of a measure that the Government is consulting on, for introduction from 2016. This would pay an 85 per cent childcare tax credit to families who are above the income tax threshold. This creates a jump in support at the point at which the family reaches such a threshold, and better opportunities to improve income by working longer hours above that level. It would allow a lone parent working full time on a low wage to get much closer than at present to reaching a minimum acceptable standard of living. However, it is also important to note that six in ten working parents under the UC system do not earn enough to pay tax (Alekson et al., 2013), and so their families will not benefit from this increase (which is contingent on a lone parent, or both members of a couple, paying tax). The change would thus allow some families earning almost enough to reach MIS to get closer to or cross the threshold; however, those with much lower earnings, and where at least one person is working part time and on less than £10,000 a year, will become no better off.
Past and future changes in income adequacy

Figure 7: Effect of sub-inflation uprating of Universal Credit, 2013–15 – lone parent with one child*

* Earning £7.95 an hour

Overall changes 2010–2015

Figure 8 shows, again through the example of a lone parent, how various changes described above have affected disposable incomes of those working different hours. It shows the adequacy of incomes on low earnings in 2013, under different policy scenarios from the past, present and future.

For those working too few hours to be eligible for tax credits, the switch to the UC has been the most important factor, making it possible in principle to boost income above basic out-of-work benefit levels. For those working 16 hours or more, the picture is rather different. While in some cases the switch to UC has raised disposable income slightly, this was preceded by a deterioration from 2010 to 2013, and will be followed by further losses. On the other hand, if the Government proceeds with its plan to give taxpayers...
Does Universal Credit enable households to reach a minimum income standard?

Figure 8: Changes in disposable income relative to Minimum Income Standard, lone parent with one child, 2013

- Old system 2010 uprated
- Old system actual
- UC actual
- UC + future cuts
- UC future + 85% childcare for taxpayers

A maximum of 85 per cent of childcare costs through UC, the deterioration since 2010 will be largely reversed, for those in a position to benefit. This measure is especially important for helping low-paid families get closer to a minimum acceptable standard of living by working longer hours. It restores a situation that can make work pay in these circumstances for low-wage workers requiring childcare – although as mentioned above, it would not help families with at least one part-time earner who does not reach the tax threshold.
4 CONCLUSION

This report has shown that UC can provide some households on low earnings with improved disposable incomes compared with the current system, particularly if they work only a few hours. However, for others, especially those working full time, it can involve a cut in disposable income. This confirms the official impact assessment stating that there will be similar numbers of winners and losers (3.1 million will be better off and 2.8 million worse off – DWP, 2012).

However, the present report goes beyond narrow ‘better or worse off’ calculations at the point of introduction of UC. It considers the net effect of the introduction of UC and other recent and projected changes in entitlements. In many cases, reductions in these entitlements have been more significant to families than gains or losses through the restructuring involved in the introduction of UC itself. The same is true for the prospective increase in support for childcare.

The report also has important findings on work incentives, a central consideration of government policy. In general, UC helps strengthen the incentive to do a bit of work, but in many cases weakens rewards for additional work.

This is particularly important because, for many families, UC does not provide a reliable route to an adequate income, as measured by MIS. Lone parents only able to access jobs with modest wages are helped to raise their incomes to around three quarters the level of a minimum standard by working about ten hours a week. However, if they work longer, the falling value of UC combines with the growing childcare bill to prevent them from getting much closer to the minimum. For a couple with two children, it can be more worthwhile for both parents to work full time, but with young children it can still be hard to exceed the minimum on a low wage. A particular disadvantage for second earners in such families is that if they work part time and do not pay income tax, the family’s UC is reduced to reflect additional earnings at a far faster rate than under tax credits.
Thus, UC allows people to become better off by working a few hours rather than not at all, which was not always true under the previous system. However, this improvement does not generally get them to a minimum acceptable income level. In many respects it has become harder to progress further to reach this minimum. Importantly, this latter effect has been produced not just by the switch to UC but also by other changes such as the reduction in support for childcare, combined with the growing cost of childcare itself. Conversely, the planned change to a more generous form of childcare support could have a greater impact on families’ ability to make ends meet than the switch to UC. So while UC does represent a historic structural change to the way benefits and in-work credits are paid, its effect on working households’ economic well-being should not be exaggerated.
REFERENCES


APPENDIX: SCENARIOS AND ASSUMPTIONS

The calculations made in this report are all based on ‘modelled families’: they look at the financial situation, in terms of disposable income, of families with particular earnings and costs, provided they claimed everything to which they were entitled. It is important to acknowledge that this approach shows changes in what is possible under different systems, rather than mapping changes in actual incomes. It does not, for example, take account of changes in take-up: if the introduction of a simpler welfare system succeeds in improving take-up of entitlements, many families could become better off to a greater extent than modelled through these theoretical calculations. Similarly, it does not show changes in actual family outcomes deriving from changes in behaviour. It is possible that the more favourable situation for very part-time working will cause some families to work a few hours rather than no hours, while others may restrict their hours because of higher withdrawal rates; in these cases they could become better or worse off partly as a result of these behaviours.

The assumptions about childcare usage and costs and about housing costs are based on the MIS research. This assumes as a starting point that families live in social housing and that they require paid childcare at average central England childminder rates for each child under the age of 11 while they are working, except for the period when a child is at school or receives free early years childcare provision.

In mapping the effect of the new system, it was assumed that council tax support is paid at a rate of 91.5 per cent for people with no earnings, and tapered at 20 per cent on all earned income. This is in line with the most common model adopted by councils (Pennycook and Hurrell, 2013).
ACKNOWLEDGEMENTS

Thanks are due to Matt Oakley and James Plunkett for comments on a draft of the report, to Katie Schmuecker of JRF for support and guidance and to Nicola Lomax and Lisa Jones at CRSP for administrative support.

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