



Institute for  
Fiscal Studies

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# The (changing) effects of universal credit

Robert Joyce

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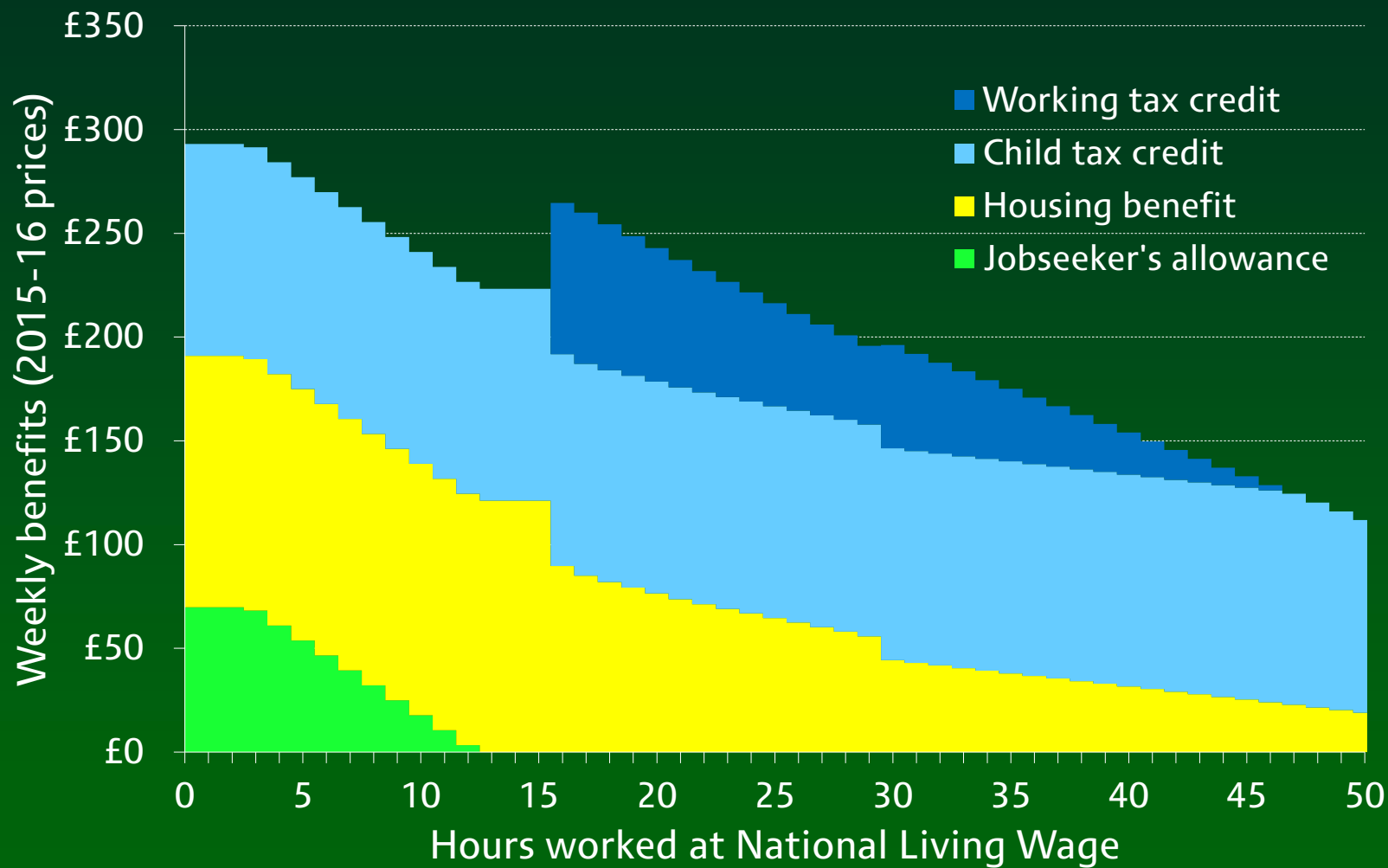


# Introduction

- Main aim here is to shed light on what the current UC plans mean for incomes and financial work incentives of different groups
  - Draws heavily on Chapter 10 of February's IFS Green Budget: [www.ifs.org.uk/uploads/gb/gb2016/gb2016ch10.pdf](http://www.ifs.org.uk/uploads/gb/gb2016/gb2016ch10.pdf)
- Will also talk about
  - early evidence on labour market impacts
  - integration with wider welfare system
- Lots of issues that I won't have time to cover in any detail, e.g.:
  - Administration of benefit claims
  - Changes in frequency of payment
  - Payment of all a family's benefits to a single bank account
  - Ending of direct payments to social landlords
  - Job search conditions extended to in-work claimants
  - Treatment of the self-employed

# The structure of financial support: 'legacy' system

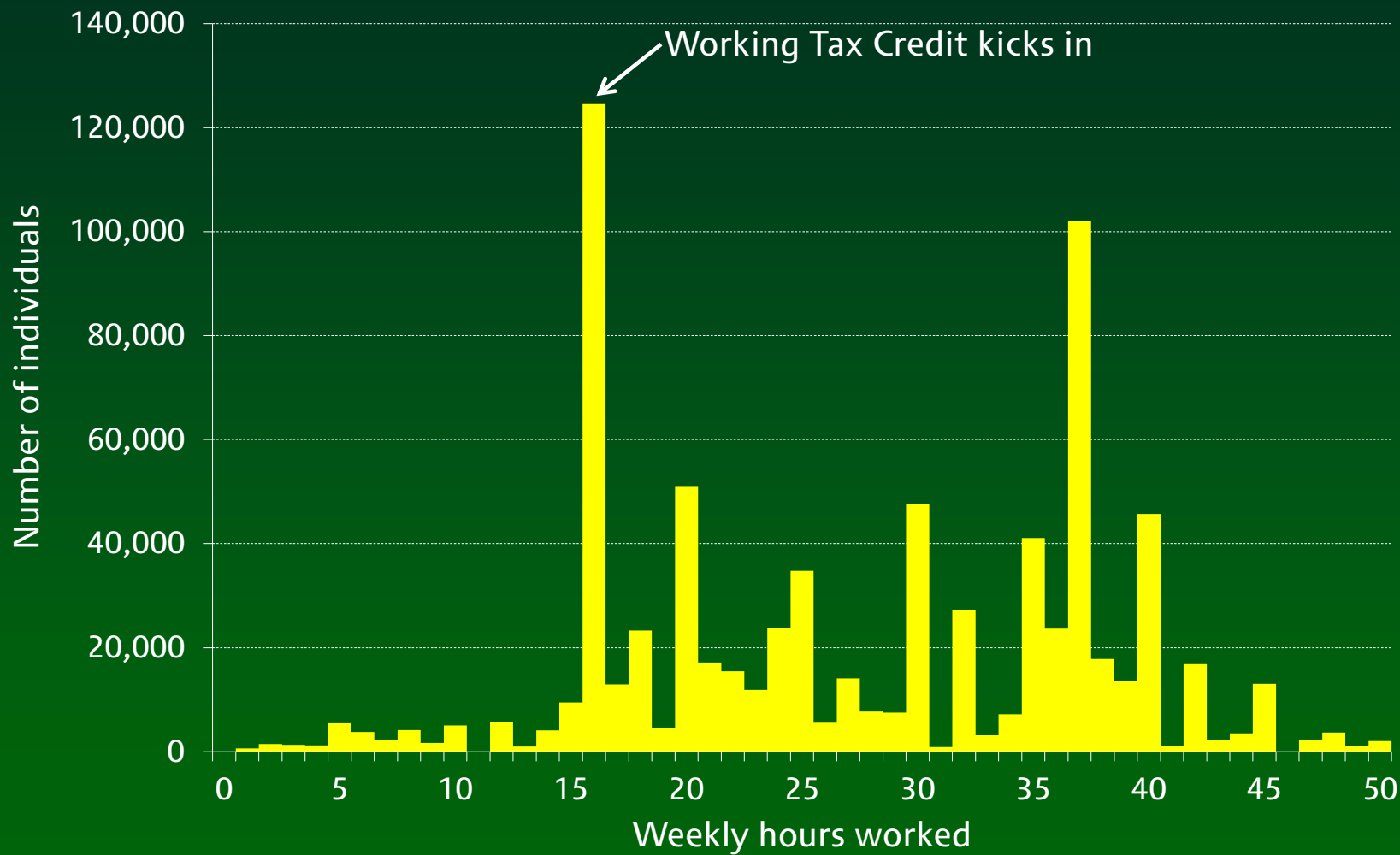
## Example lone parent with two children



Notes and sources: see Figure 10.3 of Green Budget document

# Financial incentives affect people's choices

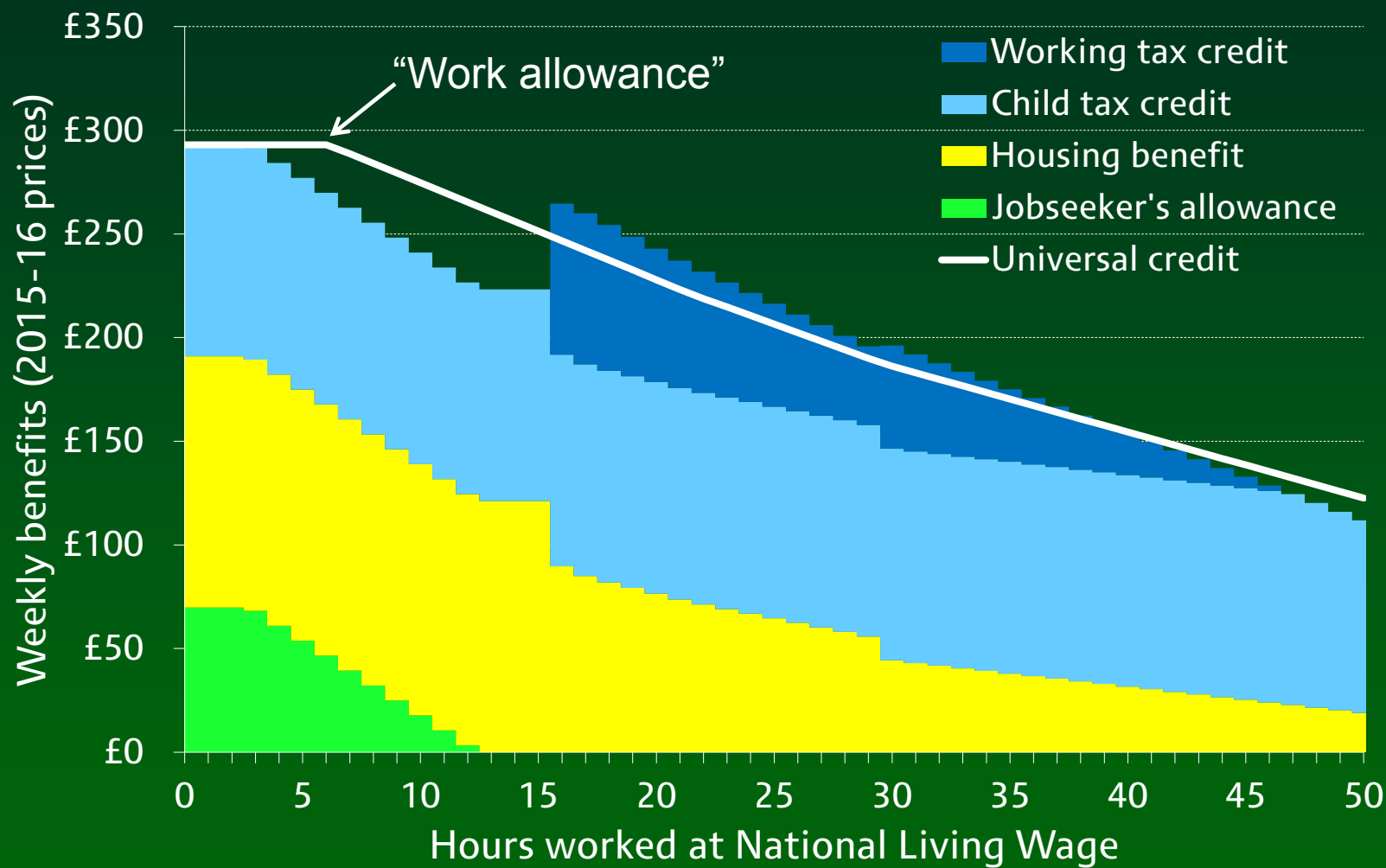
## Weekly hours worked by lone parents in 2013-14



Notes and sources: see Figure 10.4 of Green Budget document

# The structure of financial support: the UC reform

Example lone parent with two children



Notes and sources: see Figure 10.3 of Green Budget document

# Changes in planned 2017-18 work allowances

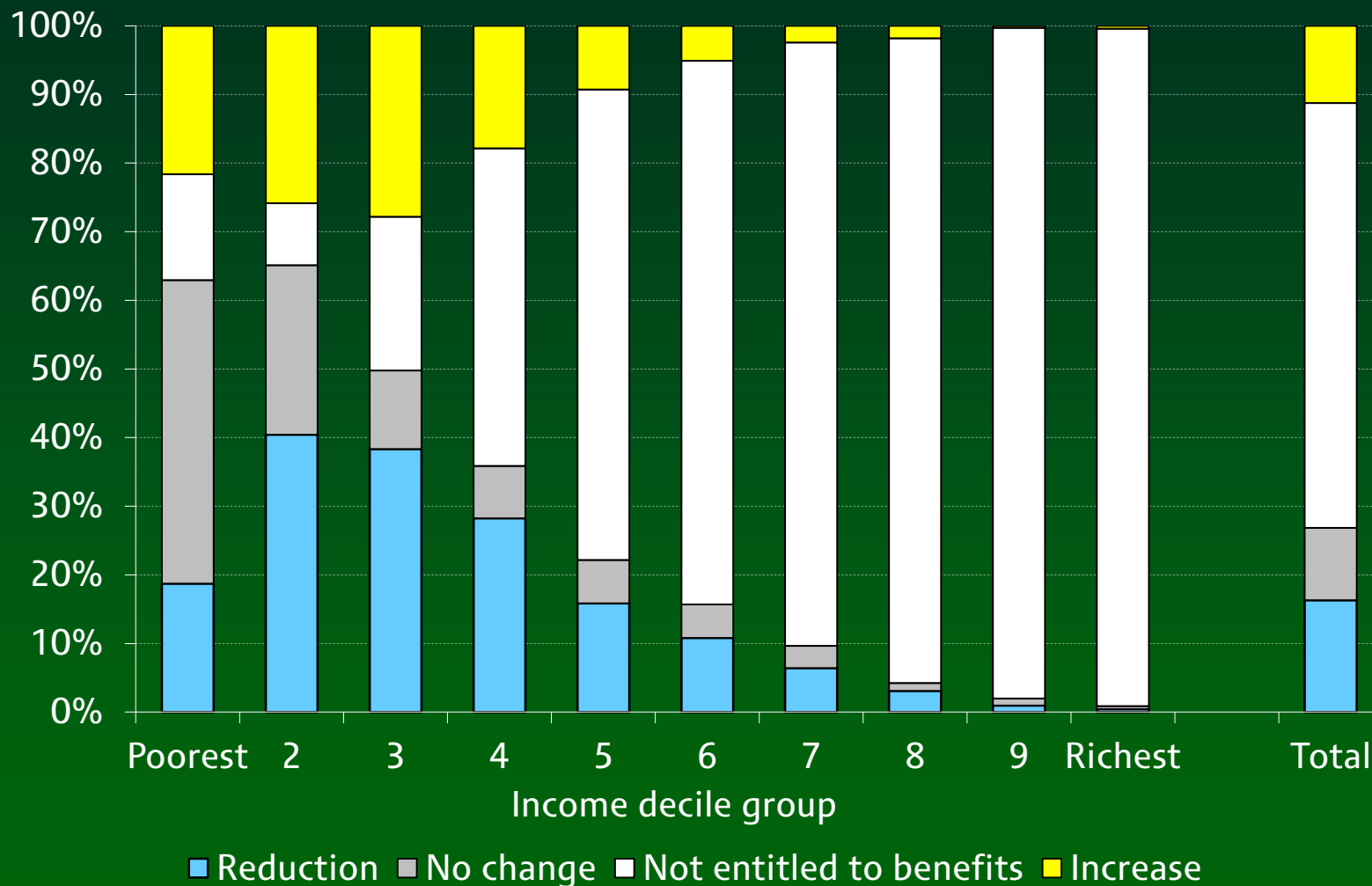
£ per month

	2012	2015	% cut since 2012 plan
<i>Claiming support for housing costs</i>			
Single, no children	£114	£0	100%
Lone parent	£272	£192	29%
Couple without children	£114	£0	100%
Couple with children	£228	£192	16%
Disabled	£198	£192	3%
<i>Not claiming support for housing costs</i>			
Single, no children	£114	£0	100%
Lone parent	£755	£397	47%
Couple without children	£114	£0	100%
Couple with children	£551	£397	28%
Disabled	£667	£397	40%

Notes and sources: see Table 10.1 of Green Budget document

# Direct impacts of UC on incomes are complex

Winners and losers by income decile among working-age households



Notes and sources: see Figure 10.6 of Green Budget document



# Direct impacts on incomes (1)

Impacts of long run UC system on households entitled to legacy benefits



Notes and sources: see Figure 10.1 of Green Budget document

# Direct impacts on incomes (1)

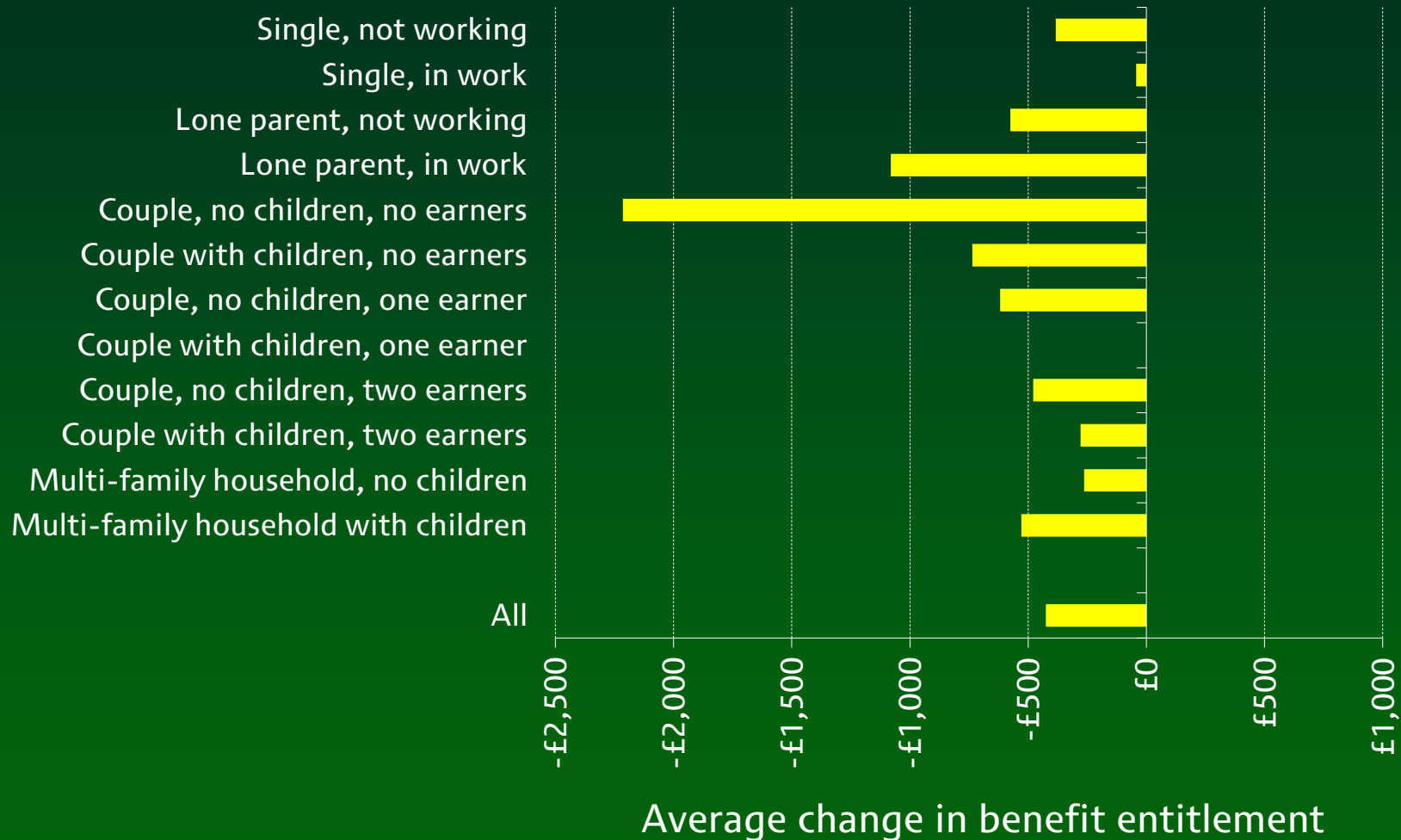
Impacts of long run UC system on households entitled to legacy benefits



Notes and sources: see Figure 10.1 of Green Budget document

# Direct impacts on incomes (2)

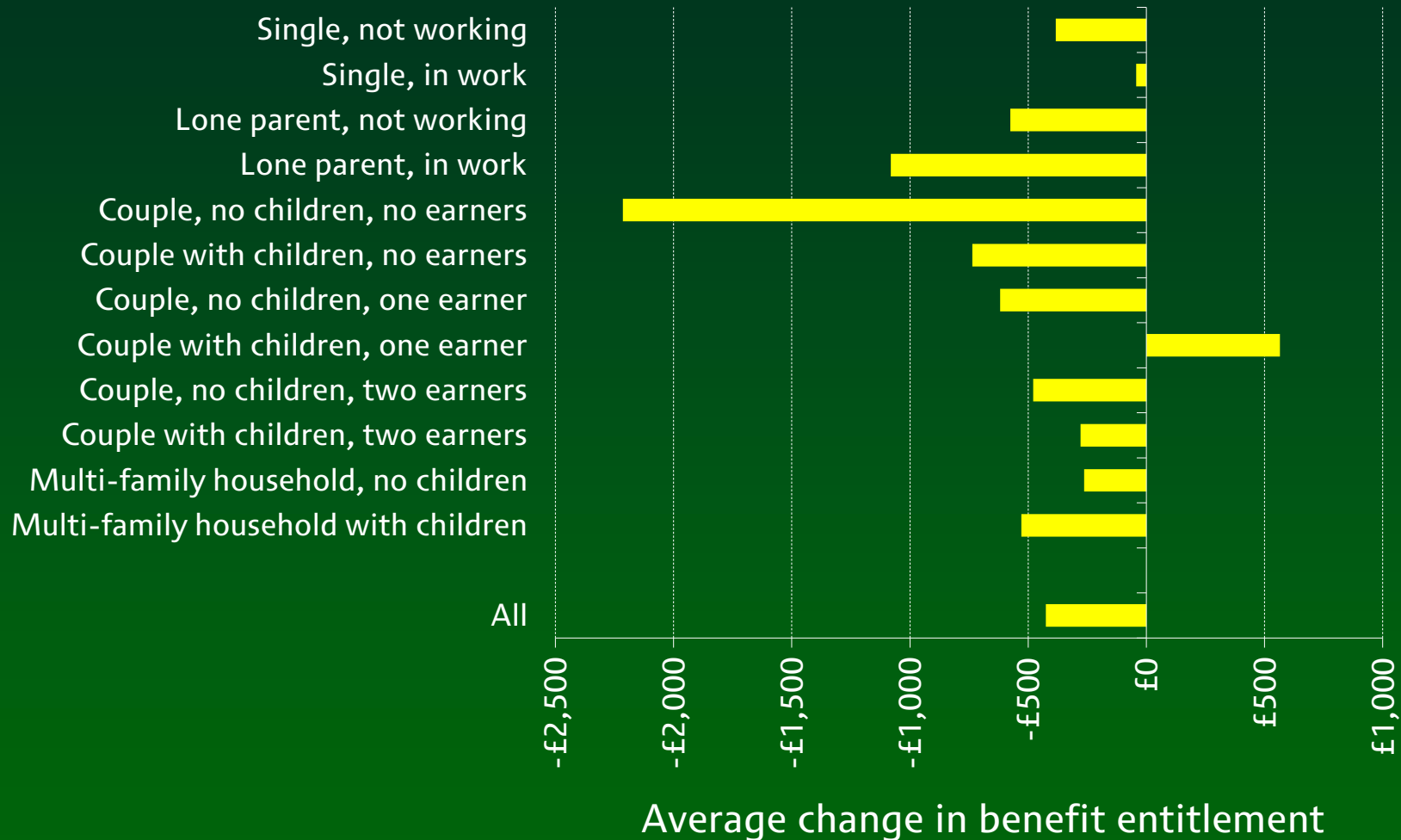
Impacts of long run UC system on households entitled to legacy benefits



Notes and sources: see Figure 10.7 of Green Budget document

# Direct impacts on incomes (2)

Impacts of long run UC system on households entitled to legacy benefits



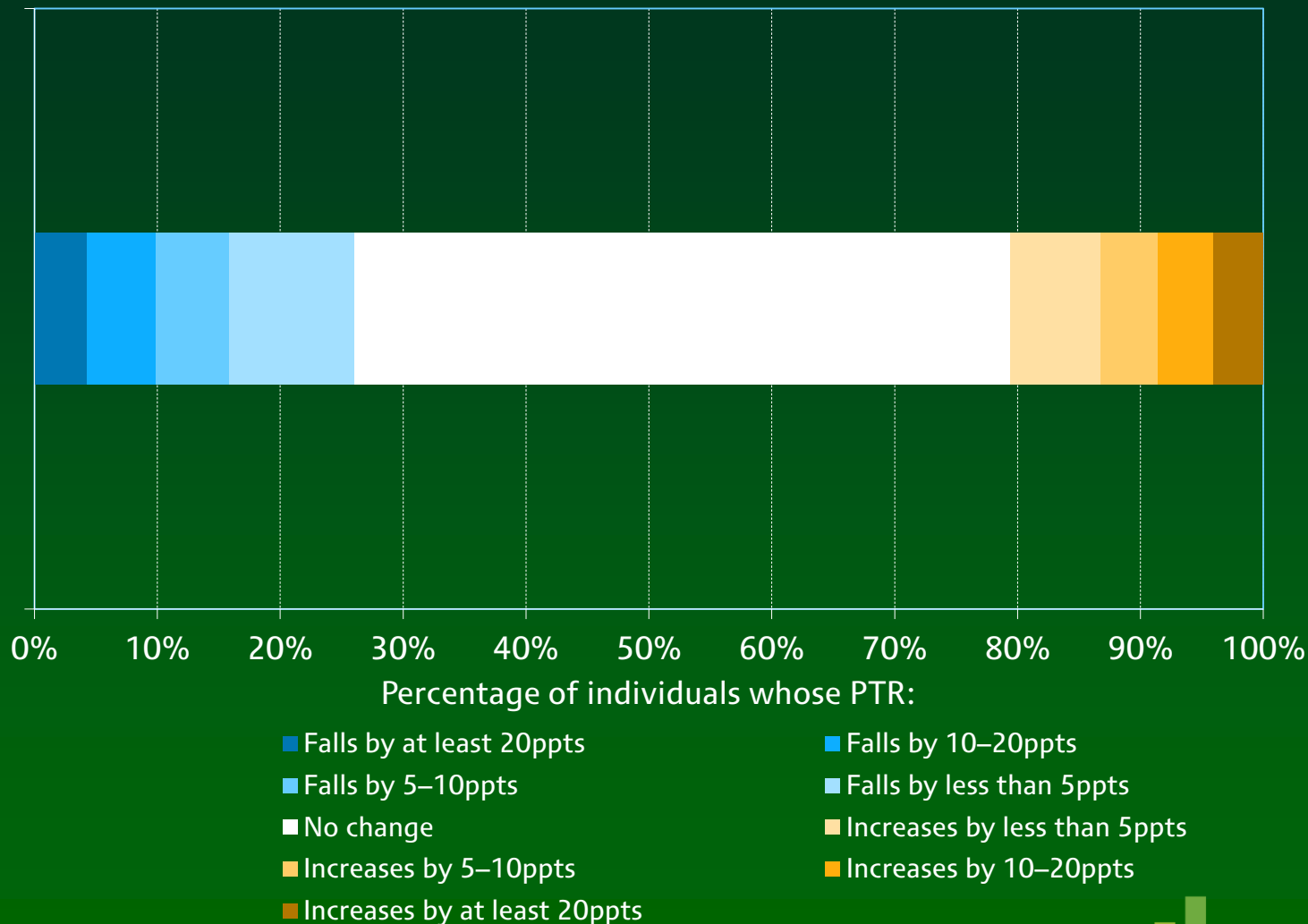
Notes and sources: see Figure 10.7 of Green Budget document

# Does UC “make work pay”?

- Measure financial work incentives in two ways:
  1. Incentive to be in work at all
    - ‘participation tax rate’ (PTR)
  2. Incentive to earn a little more
    - ‘effective marginal tax rate’ (EMTR)
- Higher numbers mean weaker work incentives

# Effect of UC on incentive to work now very mixed

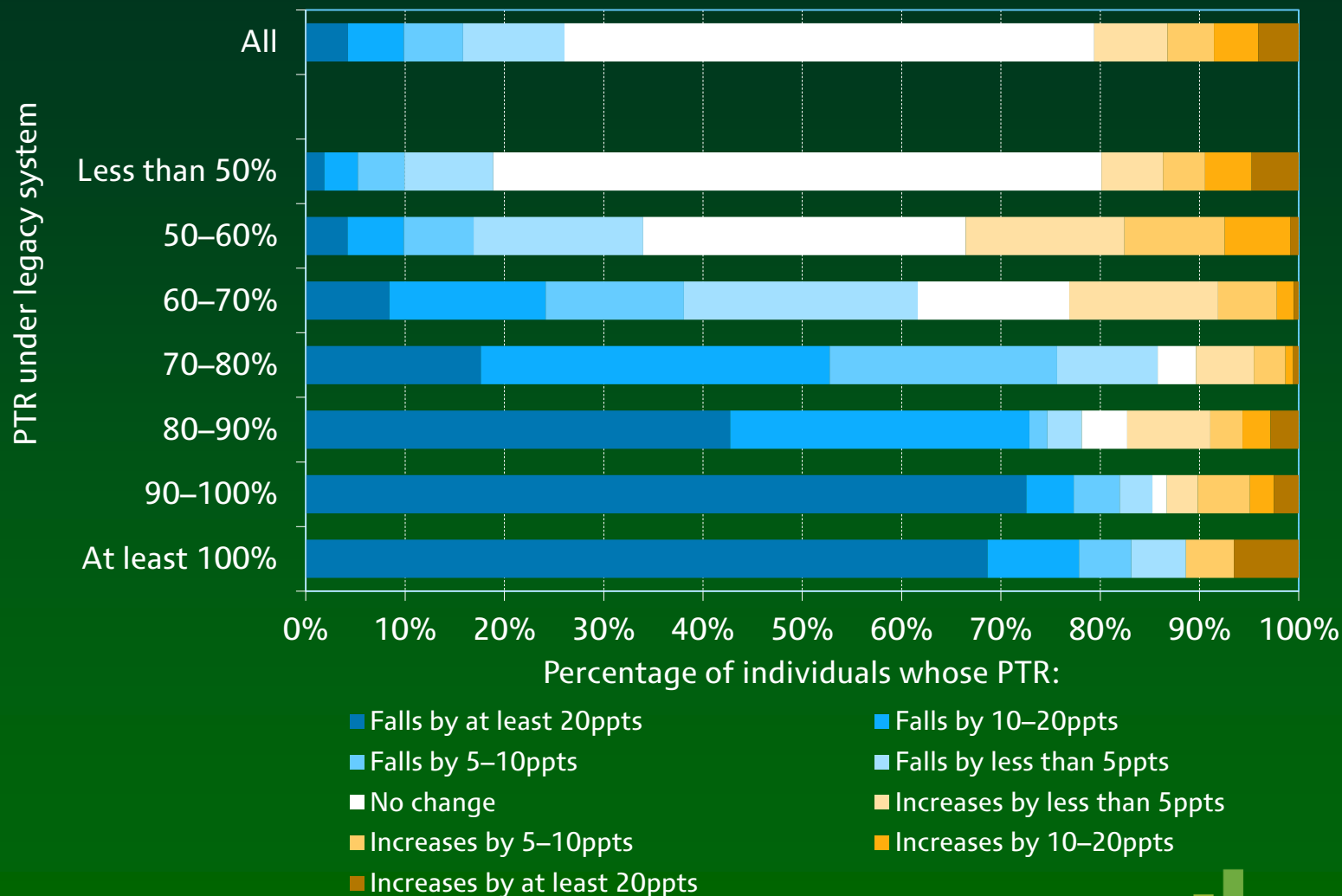
## Effect of UC on Participation Tax Rate (PTR)



Notes and sources: see Figure 10.8 in Green Budget document

# But still strengthens incentives a lot where weakest

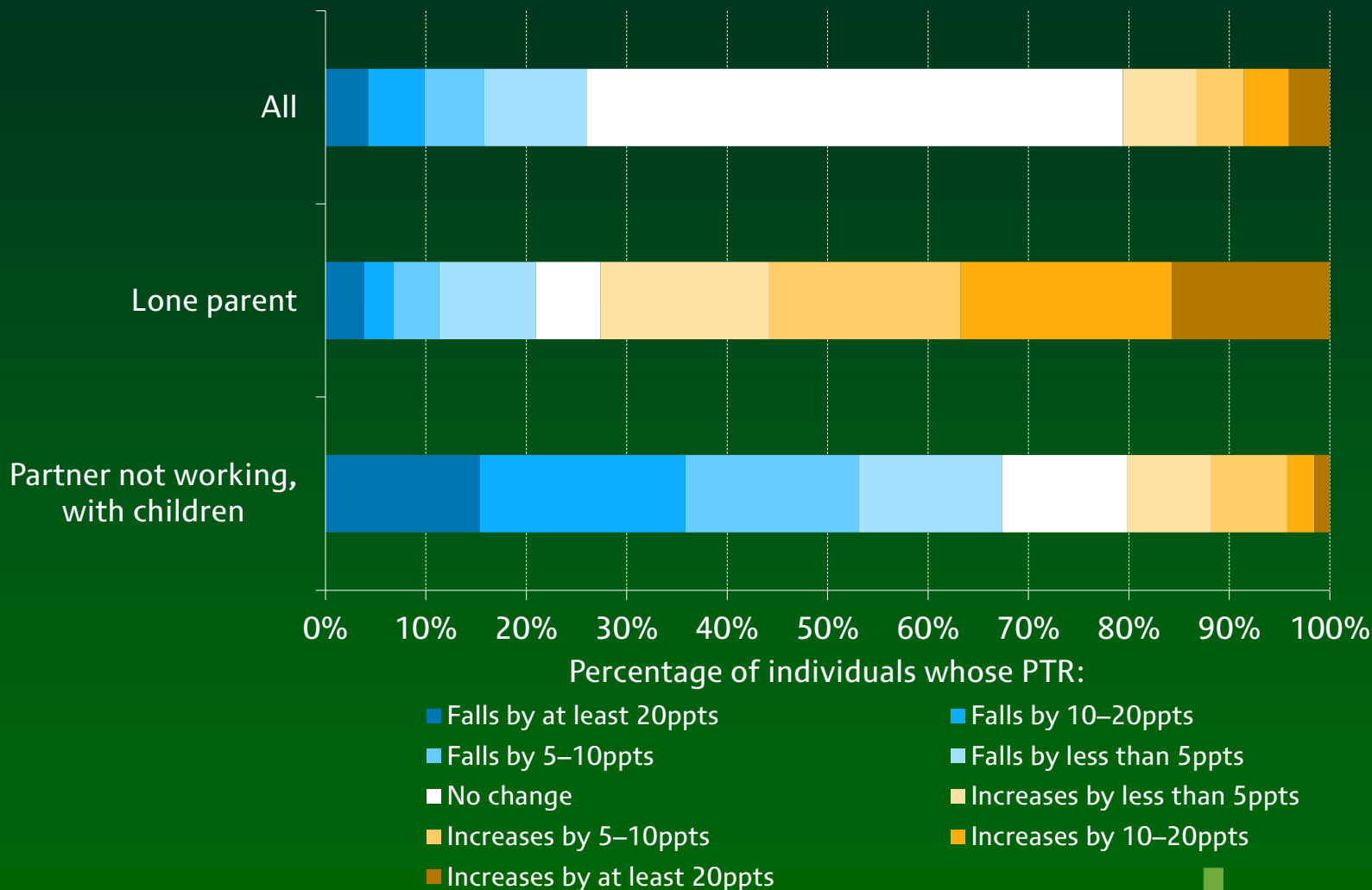
Effect of UC on PTR, by PTR faced under legacy system



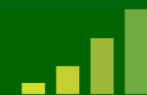
Notes and sources: see Figure 10.8 in Green Budget document



# Lots of variation by demographic group

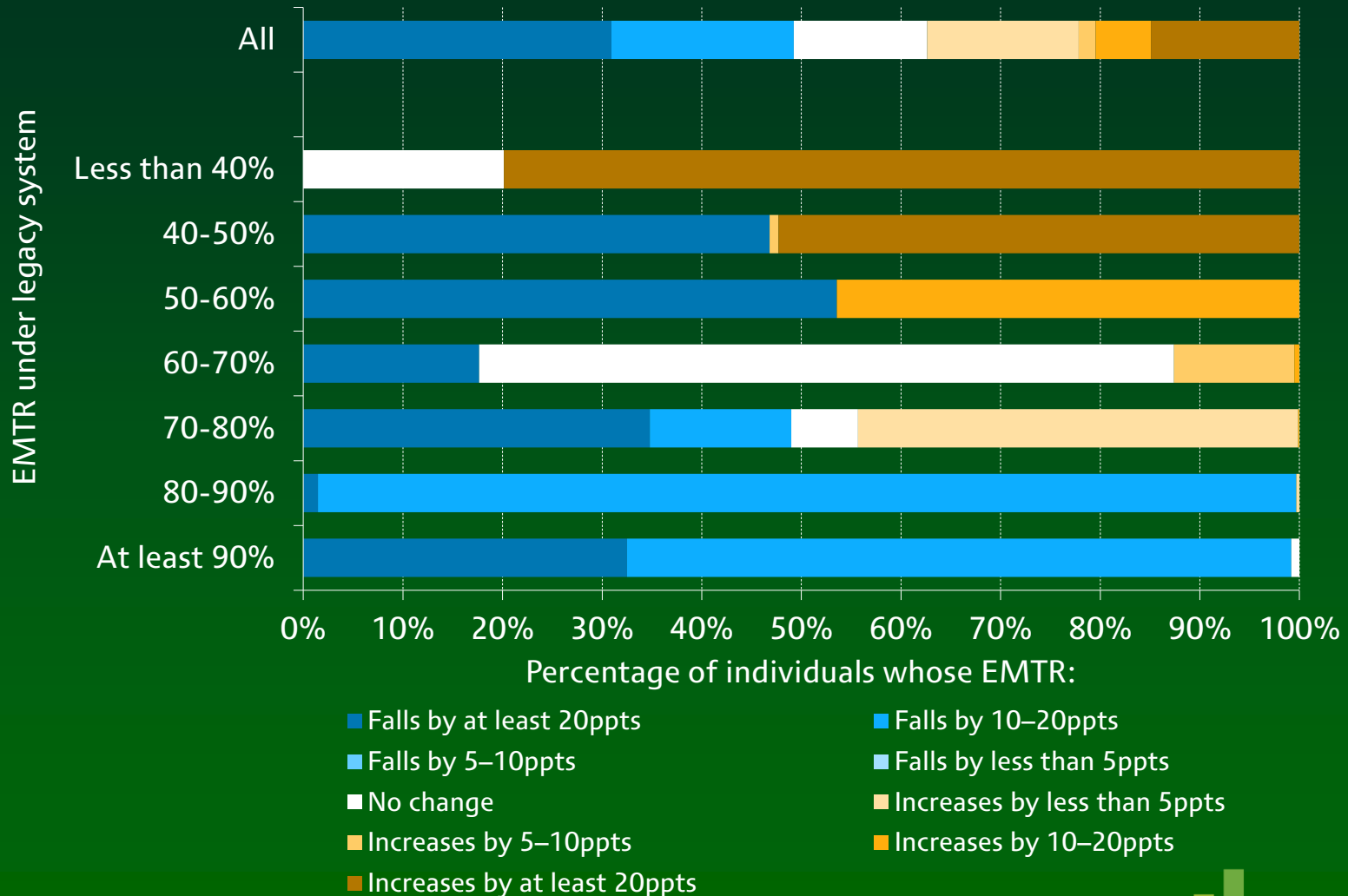


Notes and sources: see Figure 10.9 in Green Budget document



# The incentive for those in work to earn more

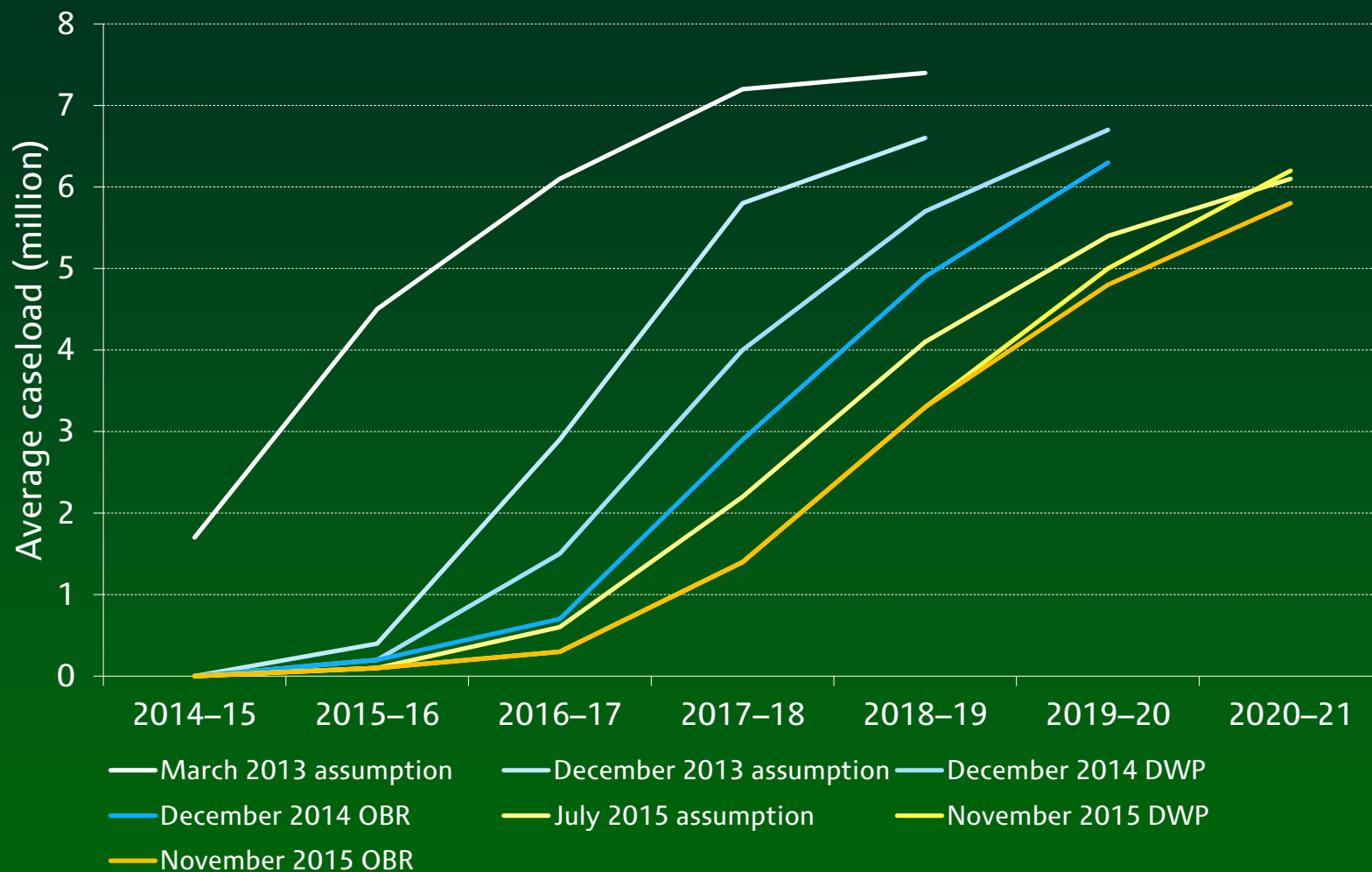
Effect of UC on EMTR among workers entitled to legacy benefits, by EMTR faced under legacy system



Notes and sources: see Figure 10.12 in Green Budget document



# Changing assumptions about UC roll-out



Notes and sources: see Figure 10.5 of Green Budget document

# Actual effects of UC on labour market

## What quantitative evidence do we have?

- Evidence from DWP very limited in scope at this stage
  - Though still interesting, and seems robust
- Looked at non-disabled singles without children who don't claim support for housing costs (in areas where rollout began earlier; new claimants only)
  - Nationally that group is about 10% of the population who'll be on UC
  - And not particularly 'typical', e.g. we estimate that ***on average*** the group sees no change in financial incentive to work (PTR) due to UC

# Actual effects of UC on labour market

## What does the evidence tell us?

- For the very specific group analysed, DWP found UC increased:
  - Chances of being in work at some point in first 9 months by 8ppts
  - Chances of actually being in work after 9 months by 3ppts
  - Total earnings over first 9 months by 2% (not statistically significant)
- What might we tentatively conclude from this?
  - UC may be attracting significantly more to do a small number of hours in short-term work
  - Though aspects of UC that might help with job progression (e.g. in-work conditionality) could take > 9 months to have full effect
  - Effects on behaviour of financial vs non-financial changes...?

# Integration with rest of welfare system

- A few questions here – two that probably affect the most people:
  1. Council tax support (see [www.ifs.org.uk/publications/6183](http://www.ifs.org.uk/publications/6183), ch 7)
    - Kept outside of UC (and localised)
    - Has potential to seriously undermine rationalisation, integration and simplicity that UC would otherwise bring to system...
    - ...including re-introducing extremely weak work incentives
    - Tricky design issues for LAs in deciding how UC and CTS interact
  2. Assessing entitlement for free school meals
    - Doesn't look possible to replicate current system in this regard
    - Still not clear what government will do, and hence who winners/losers will be from this

# Conclusions

- UC less generous than current system (and original plan) on average
  - But many winners as well as losers
- Planned structure of financial support under UC has changed a lot
  - But perhaps the most welcome effects here remain: getting rid of the most severe and arbitrary disincentives caused by current system (notwithstanding separation of council tax support)
- Other aspects of reform could also turn out to be very important ...
- ...while administrative challenge of implementation may carry the greater risks to the program
- Don't yet know much about impacts on behaviour
  - Huge once-in-a-generation opportunity for learning