



Universal Credit: a preliminary analysis

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Background

- Universal Credit will be a substantial welfare reform, integrating all means-tested benefits and tax credits for working-age adults
 - Government's view based on Centre for Social Justice report
 - Past IFS work has recommended integrating benefits and tax credits
- Fast-moving policy area
 - Consultation over the summer
 - Spending Review: £2bn to pay for introduction
 - White Paper in November 2010
 - Welfare Reform Bill due imminently
 - Universal Credit to begin in 2013
- This paper based on details in White Paper

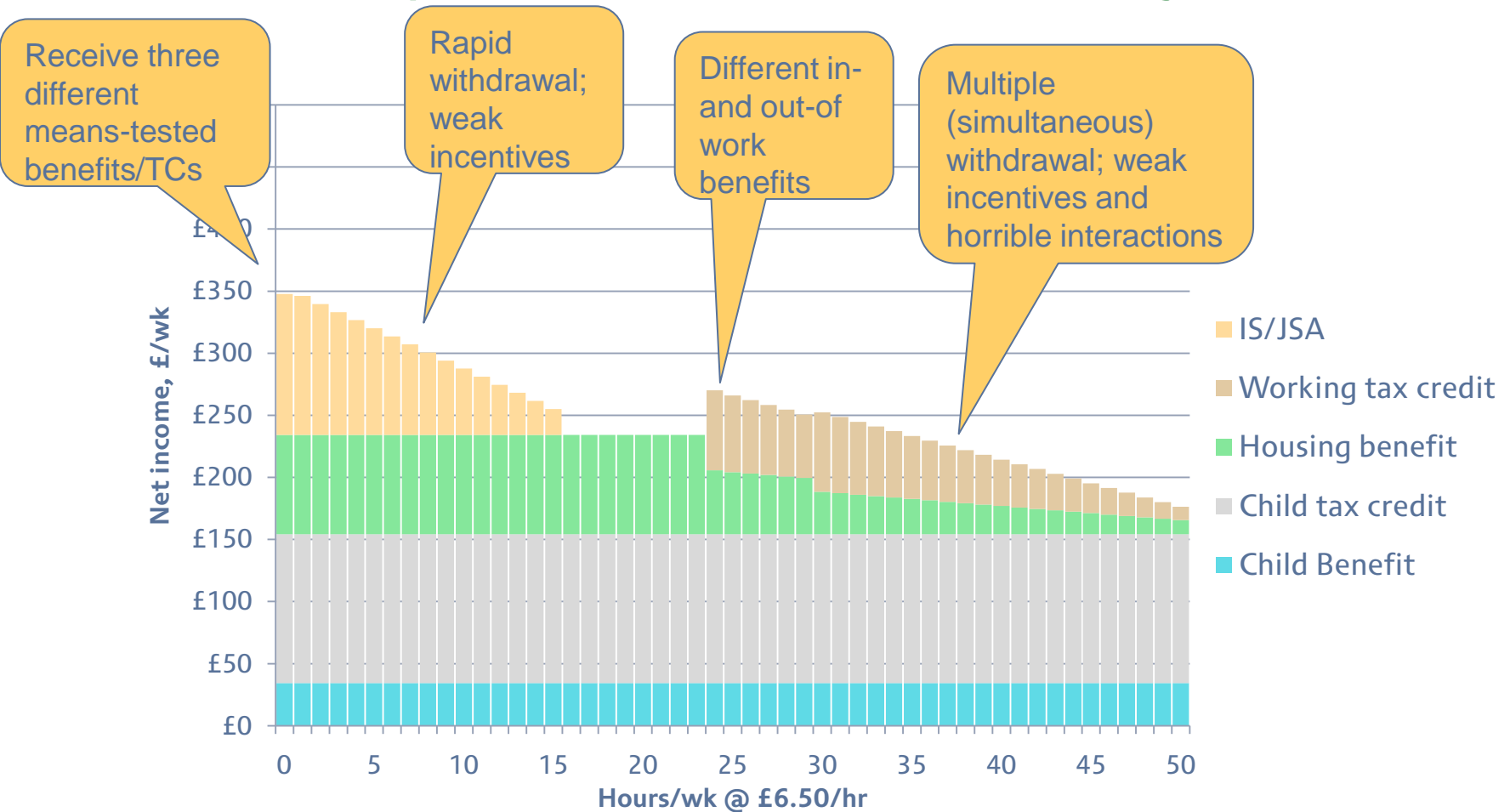
Outline

- What is Universal Credit
 - Government's objectives
 - How will it work?
 - Maximum entitlement
 - Withdrawal as income rises
 - Some examples
 - Other details
- Our new empirical work
 - Winners and losers, and cost to government
 - Work incentives
- Not covering administration or operational details, conditionality or impact on poverty

What is Universal Credit?

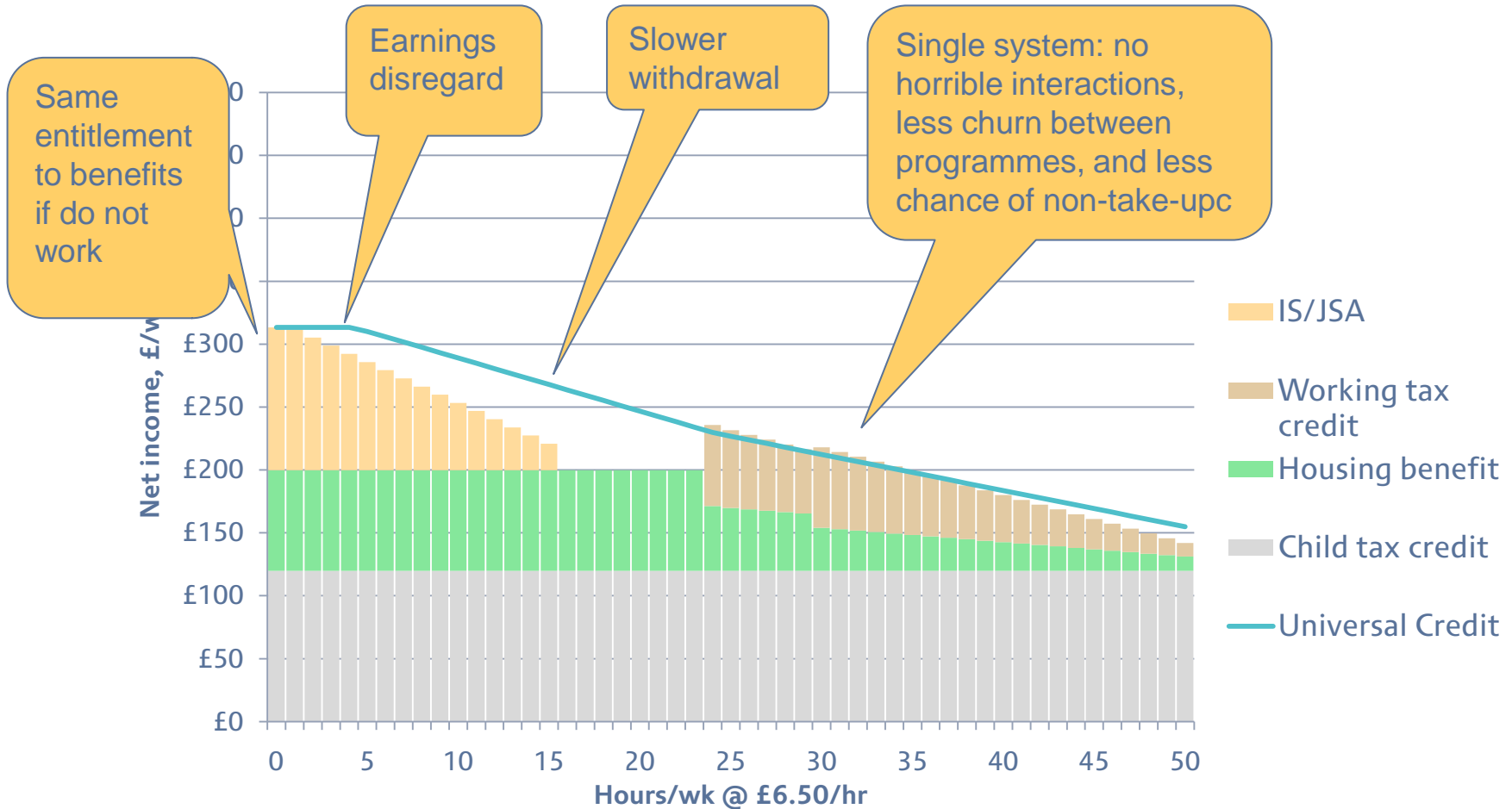
- Universal Credit is a means-tested benefit, based on family income, which will replace means-tested benefits and tax credits for working-age adults
 - Replaces Income Support, income-based Jobseeker's Allowance (JSA) and Employment and Support Allowance (ESA), Housing Benefit, Child Tax Credit, Working Tax Credit
 - Unclear what will happen to Council Tax Benefit
 - Pension credit not replaced
 - Administered by DWP, and paid monthly based on previous month's circumstances

Perceived problems with the current system



Assumes: couple with 2 children, 1 earner @ £6.50/hr, £80/wk LHA or eligible rent

The brave new world



Assumes: couple with 2 children, 1 earner @ £6.50/hr, £80/wk LHA or eligible rent. Ignores child benefit.

How is Universal Credit calculated

- Calculate maximum entitlement
- Calculate size of earnings disregard
- Calculate earned income, unearned income and imputed income from capital
- Calculate final award

Universal Credit: calculating maximum entitlement

Universal Credit	Current system	Example: couple, 2 children, LHA rate of £80/wk
Personal amount	Income support/ jobseekers allowance	£113.40/wk
Child additions	Child tax credit	£119.90/wk
Housing addition	Housing benefit	£80/wk
Disability or carers addition	Disability or carers premia in means-tested benefits	£0/wk

How is Universal Credit withdrawn as income rises?

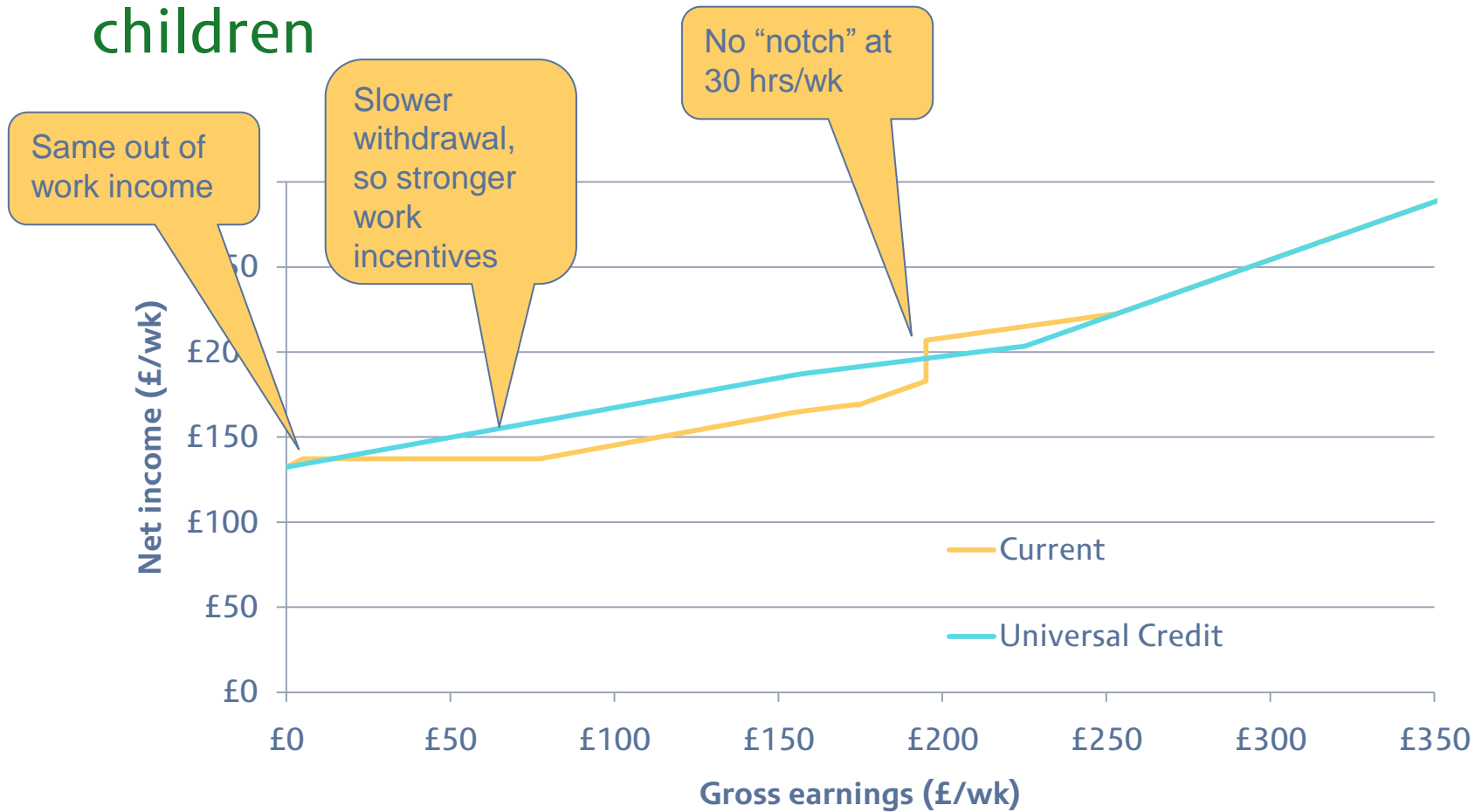
- Net-of-tax earned income subject to 65% withdrawal rate
 - **Lower** withdrawal rate than out-of-work means-tested benefits, so extends further up earnings distribution (and means WTC not needed)
 - **Higher** withdrawal rate than tax credits (65% of net earnings is greater than 41% of gross earnings)
 - The earnings disregard depends on family type & housing costs
- Unearned income (including income from some other benefits) subject to 100% withdrawal rate with no disregard
 - **Same** withdrawal rate as out-of-work means-tested benefits
 - **Higher** withdrawal rate than tax credits (100% is greater than 41%)
- Income from savings is imputed and capital rules mean those with savings > £16,000 get nothing
 - **Same** rules as out-of-work means-tested benefits
 - **Much harsher** than tax credits: £16,000 of savings would reduce tax credit eligibility by £1.42/wk

Universal Credit: full example of withdrawal

- Couple with 2 children, earning £400/wk, renting at £80/wk, savings of £10,000

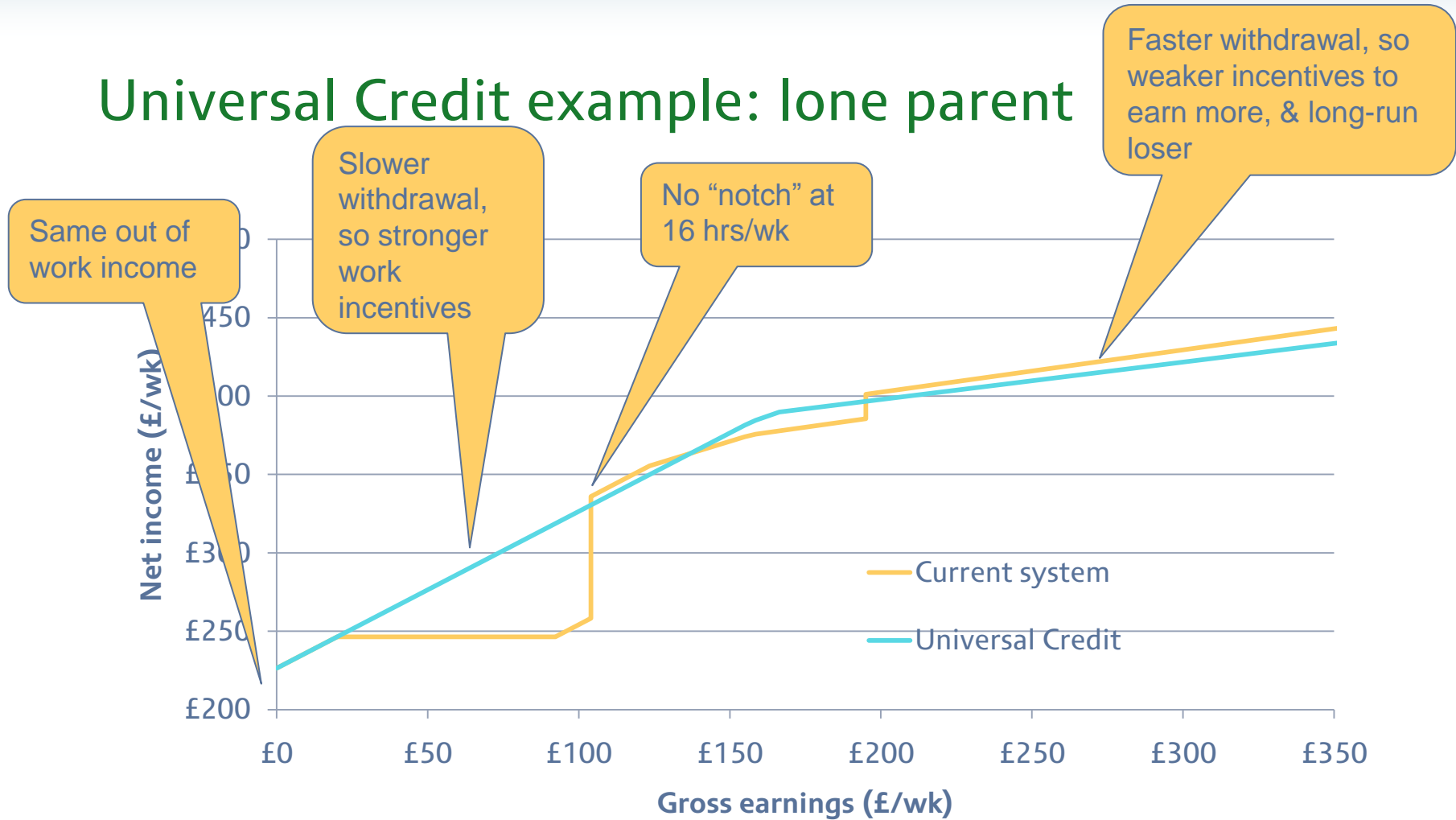
Calculate maximum entitlement	£313.30/wk
Calculate earnings disregard	£5,700 – 1.5*£4,160, but minimum of £1,300 for this family
Calculate net earnings	£322.31/wk (equivalent to £400/wk after deducting NI and income tax)
Calculate imputed income from capital	$(£10,000 - £6,000) / 250 = £16$
Final calculation:	£313.30 –£16 –0.65*(£322.31 – £25) =£104.05/wk

Universal Credit example: single adult, no children



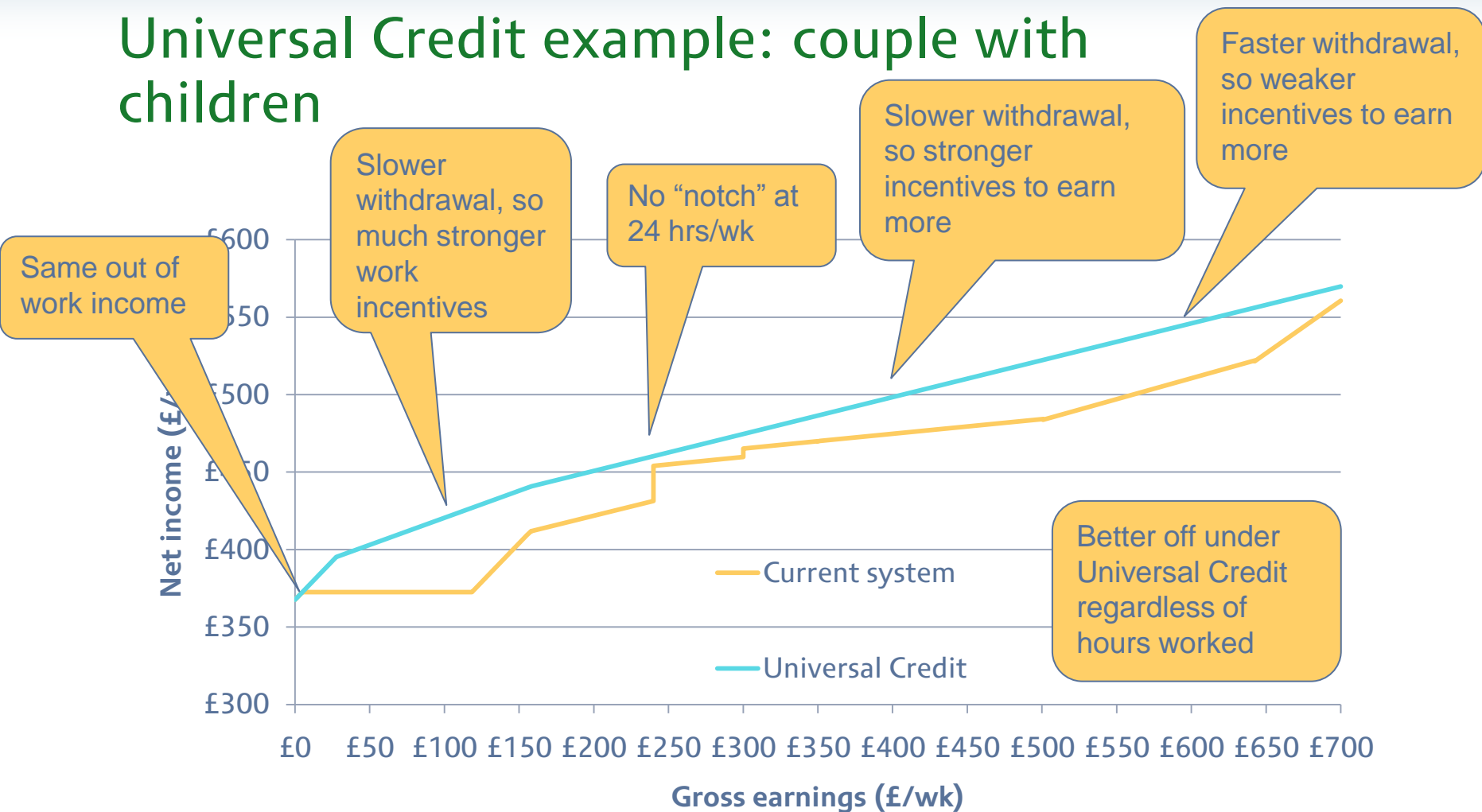
Assumes: £6.50/hr, £60/wk LHA or eligible rent

Universal Credit example: lone parent



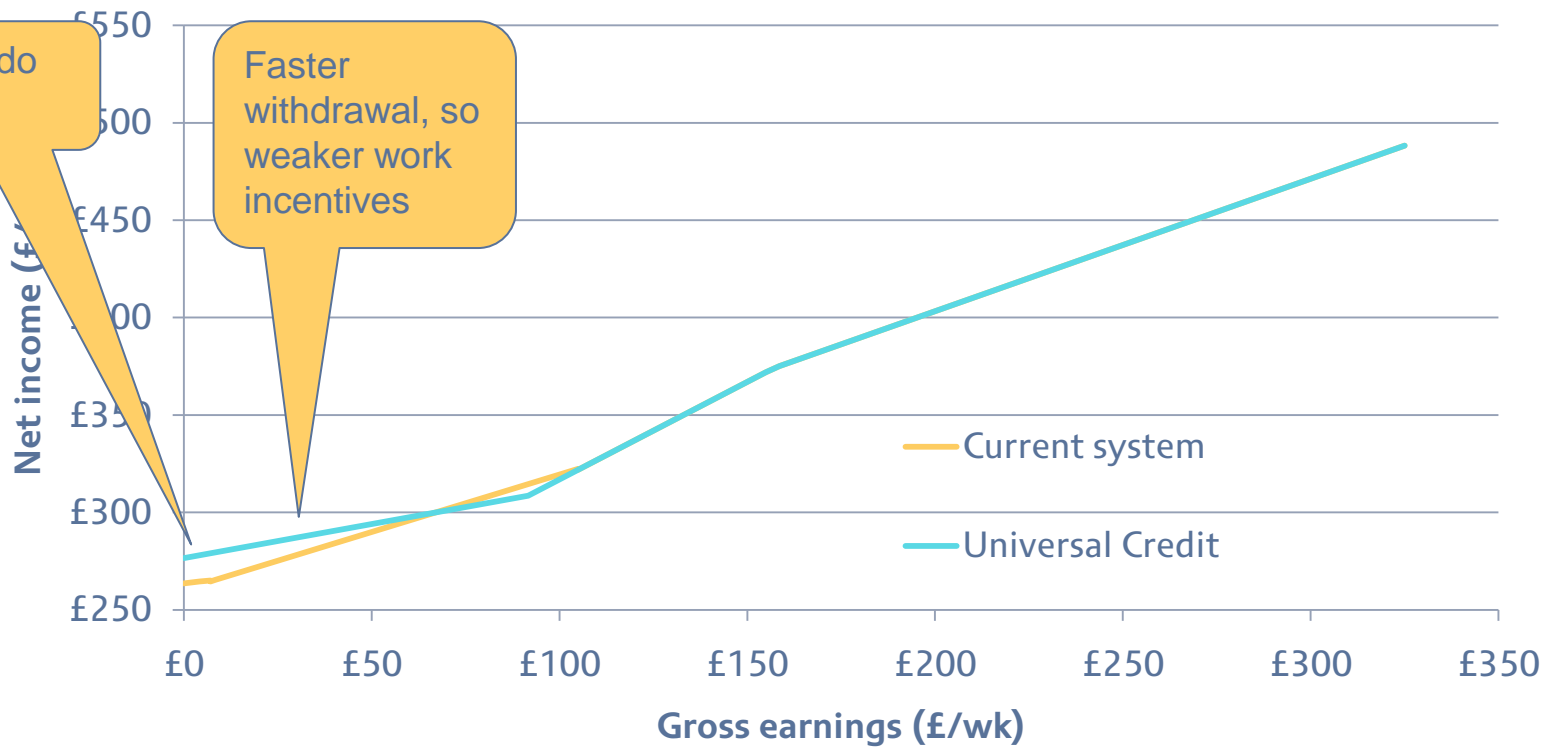
Assumes: £6.50/hr, no rent

Universal Credit example: couple with children



Assumes: £10/hr, £100/wk LHA or rent

Universal Credit example: 2nd earner in couple without children



Assumes: Main earner on £245/wk, 2nd earner on £6.50, £80/wk LHA or rent

But it's not as simple as all that...

- Many details unresolved, or unclear, in White Paper
- Some thorny policy issues include
 - Carer's Allowance: inside or outside Universal Credit?
 - Council tax benefit: inside or outside Universal Credit, and how to localise?
 - Childcare element of working tax credit: how to replace?
- Decisions also needed on
 - conditionality: who is subject, and how much Universal Credit to sanction
 - in-kind passported benefits
 - support for mortgage interest
 - disability additions
 - rates for students and those under 25
 - housing element for those in social housing

Timetable for transition

From October 2013	No new claims of out-of-work benefits: will claim Universal Credit instead Families leaving out-of-work benefits will claim Universal Credit
From April 2014	No new claims of tax credits: will claim Universal Credit instead
April 2014 to October 2017	Remaining claimants of benefits and tax credits moved to Universal Credit Transitional protection: families protected in cash-terms at point of transition while circumstances unchanged