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Impacts on real earnings and working-age benefits

28 February 2023

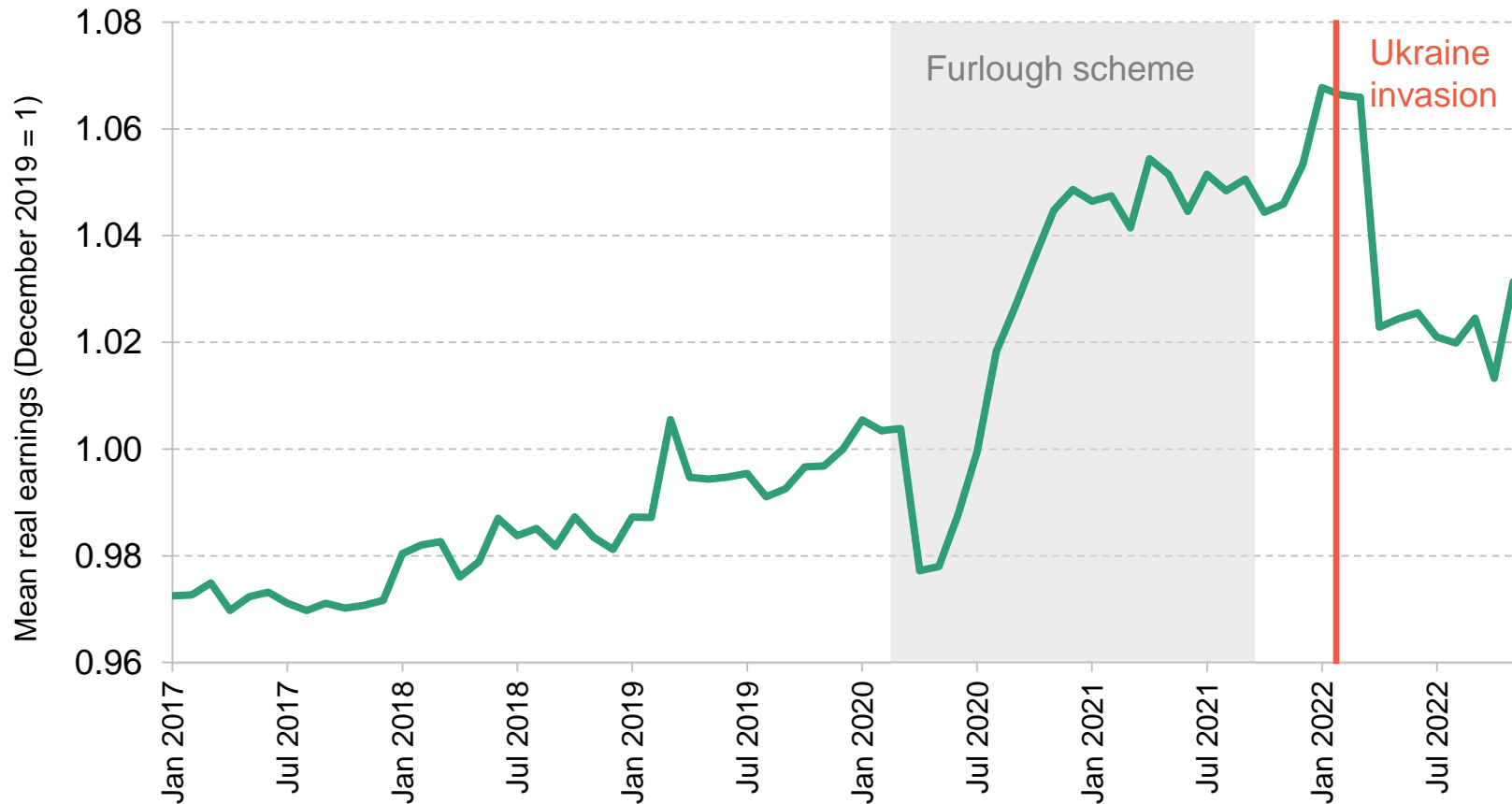
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Real earnings have fallen dramatically since the start of 2022

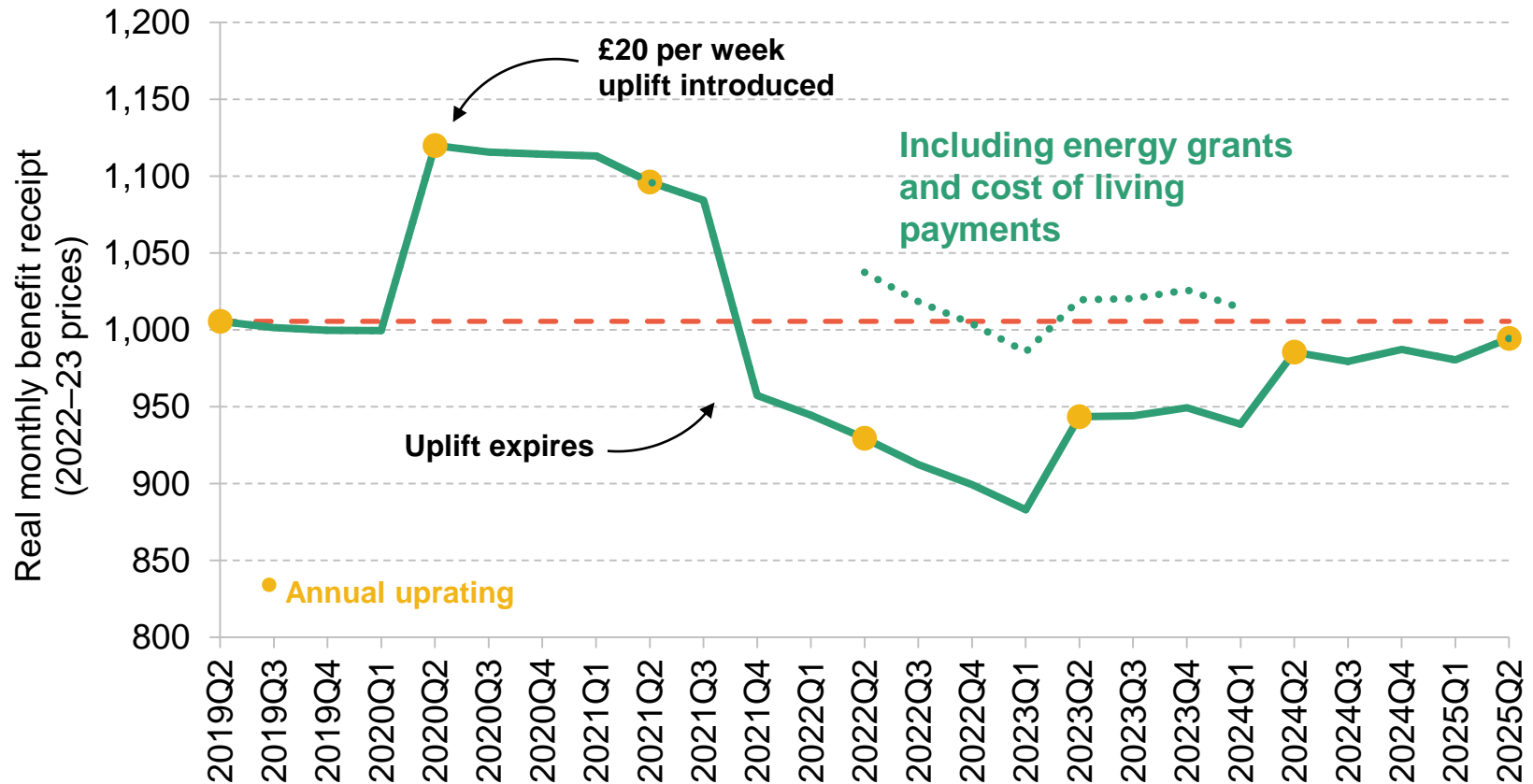
Average real earnings, employees (indexed to December 2019)



Note: Seasonally adjusted. Deflated by CPIH. Earnings around pandemic were affected by furlough scheme.
Source: HMRC PAYE

Benefit entitlements will remain below pre-pandemic levels until April 2025

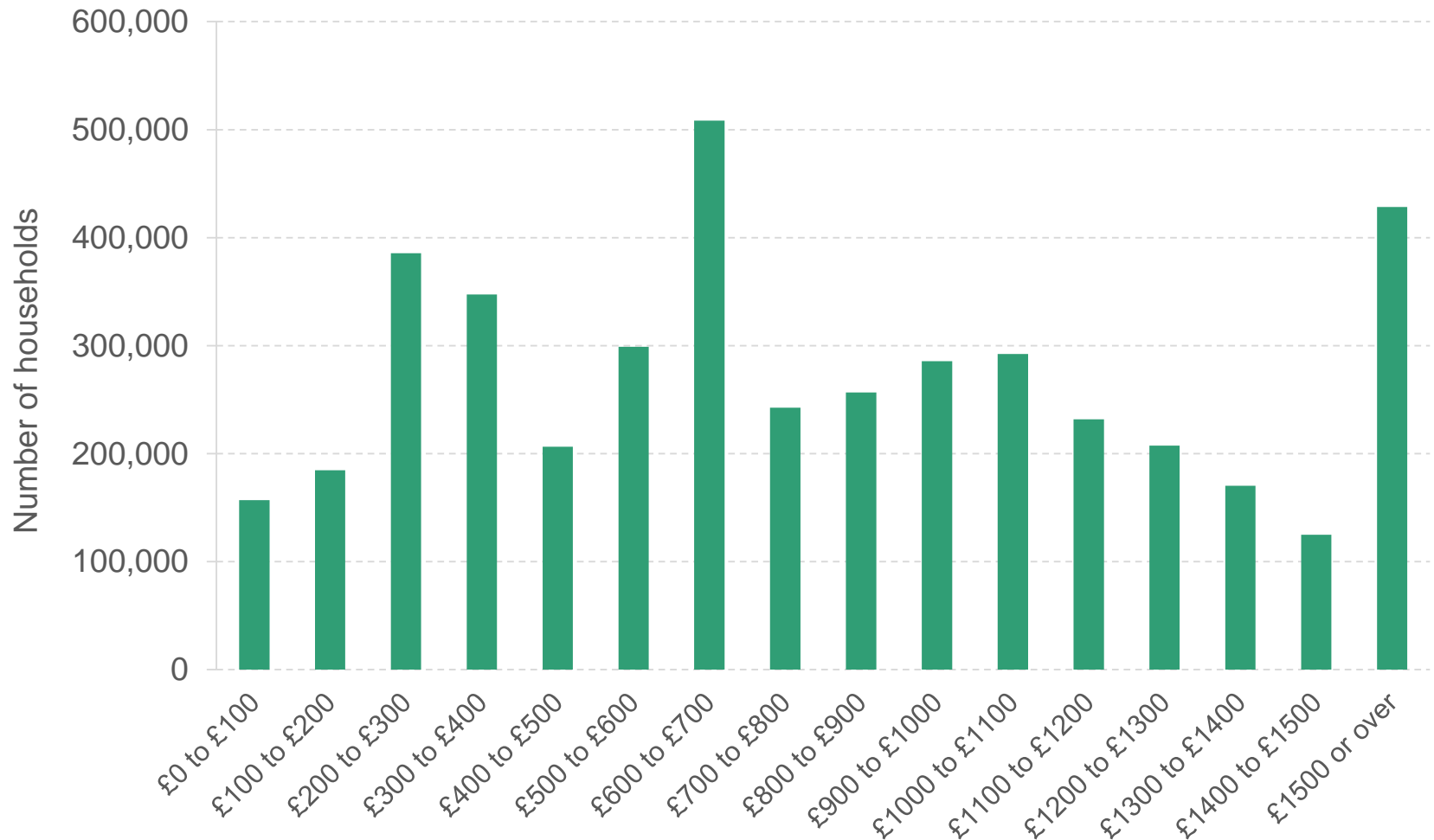
Average real benefit entitlement, excluding housing element, for out-of-work claimants of working age



Note: Yellow dots mark April, when annual benefit uprating occurs.

Source: Authors' calculations using TAXBEN, based on Family Resources Survey 2019-20, and inflation from OBR Economic and Fiscal Outlook (up to 2022Q3), ONS (2022Q4) and BoE February 2023 Monetary Policy Report (2023Q1 onwards).

Distribution of monthly universal credit awards, November 2022

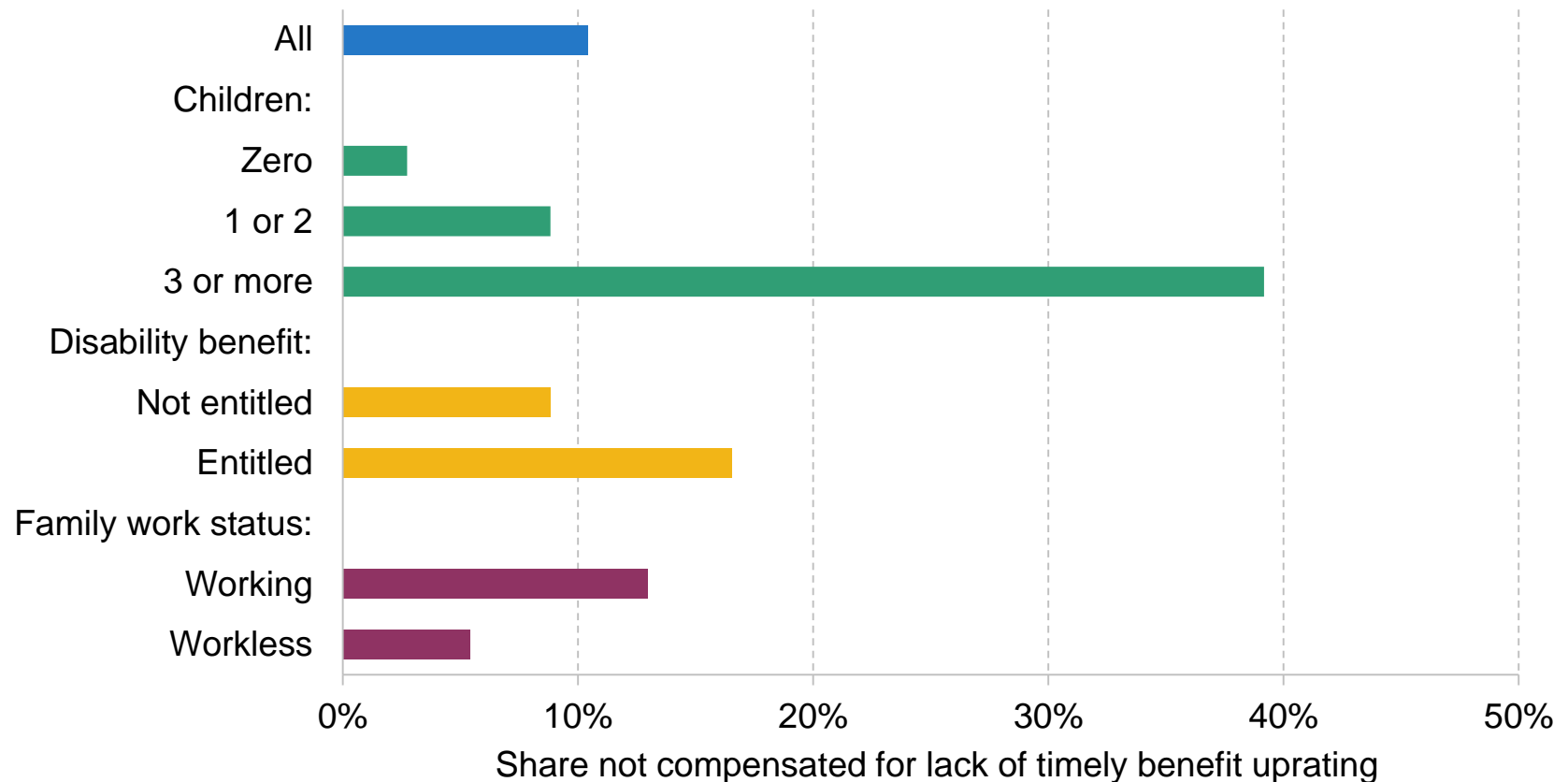


Note: Bins include (exclude) upper (lower) limit, meaning an individual with an award of £100 would fall into the £0 to £100 bin.

Source: DWP Stat-Xplore

Almost 40% of large families are not compensated by cost of living payments

Share of working-age households on means-tested benefits for whom the cost of living payments do not compensate for lack of timely benefit uprating in 2023-24



Note: 'Not compensated' defined as household net income more than £50 per year lower under grants compared with 'real-time' uprating. Source: Authors' calculations using TAXBEN, based on Family Resources Survey 2019–20, and inflation from OBR Economic and Fiscal Outlook (up to 2022Q3), ONS (2022Q4) and BoE February 2023 Monetary Policy Report (2023Q1 onwards).

Flat rate grants mean around 825,000 people could be better off reducing their earnings

Example budget constraint for lone parent with one child



Note: Budget constraint for the months in which the cost of living payment will be paid out. Assumes individual owns their home outright.
Source: Authors' calculations using TAXBEN

Summary

- Across the earnings distribution, lack of real earnings growth since December 2019.
 - Average real earnings have grown by only 1-2%.
 - Low wage workers have benefitted from large rises in NLW.
- Out-of-date inflation uprating means benefit rates will lag behind pre-pandemic levels until April 2025.
- On average, cost of living payments will more than compensate for this in 2023-24, but at additional cost of £2 billion.
 - 600,000 households will still be worse off than if benefits were uprated properly.
 - Introduces cliff-edges that distort incentives.
 - What about 2024-25?

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