The (changing) effects of universal credit

Robert Joyce

30th June 2016
Introduction

• Main aim here is to shed light on what the current UC plans mean for incomes and financial work incentives of different groups

• 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

Weekly benefits (2015-16 prices)

Hours worked at National Living Wage

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

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

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

Average change in benefit entitlement

- Out of work Renters
- In work Renters
- Out of work Owner-occupiers
- In work Owner-occupiers

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

- Single, not working
  - Single, in work
- Lone parent, not working
  - Lone parent, in work
- Couple, no children, no earners
- Couple with children, no earners
- Couple, no children, one earner
- Couple with children, one earner
- Couple, no children, two earners
  - Couple with children, two earners
- Multi-family household, no children
- Multi-family household with children

Average change in benefit entitlement

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

Percentage of individuals whose PTR:

- Falls by at least 20ppts
- Falls by 10–20ppts
- Falls by 5–10ppts
- Falls by less than 5ppts
- No change
- Increases by less than 5ppts
- Increases by 5–10ppts
- Increases by 10–20ppts
- Increases by at least 20ppts

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, 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