The (changing) effects of universal credit

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Introduction

• Most means-tested benefits for working-age households being (very) gradually replaced by universal credit (UC)
  – 7 million households are entitled to at least one of the ‘legacy’ benefits being replaced by UC

• Important details repeatedly altered, including in July Budget
  – As a result, in long run UC will reduce entitlements by £2.7bn per year
  – But this hides many complexities in its effects

• Main aim here is to shed light on what the new UC plans mean for the incomes and work incentives of different groups
Scope of this analysis

• UC will come on top of cuts to ‘legacy’ benefits system, which largely carry through into UC
  – All affects broadly similar group of people
  – But cuts to legacy system much larger than cut from introducing UC
  – Focus here is just on impact of introducing UC

• Transitional arrangements mean existing claimants can’t lose at point when rolled onto UC
  – We ignore these: we analyse the long run effects
Means-tested benefits: legacy system and UC
Example lone parent with two children

Notes and sources: see Figure 10.3 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

<table>
<thead>
<tr>
<th>Renters</th>
<th>Owner-occupiers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of work</td>
<td>-£600</td>
</tr>
<tr>
<td>In work</td>
<td>£200</td>
</tr>
</tbody>
</table>

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”?

- We 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
UC focuses attention where incentives weakest
Effect of UC on PTR, by PTR faced under legacy system

All
Less than 50%
50–60%
60–70%
70–80%
80–90%
90–100%
At least 100%

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

- All
- Lone parent
- Partner not working, with children

Percentage of individuals whose PTR:
- Falls by at least 20ppts
- Falls by 10–20ppts
- Falls by less than 5ppts
- 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 10.9 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

Percentage of individuals whose EMTR:
- 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 10.12 in Green Budget document
Conclusions

• UC will be less generous than current system (and original plan)
  – But many winners as well as losers

• Impacts on financial work incentives are complex and have also changed due to revised plans
  – Though perhaps the most welcome effect remains: getting rid of most severe disincentives caused by current system

• Non-financial changes could also turn out to very important ...
• ...while administrative challenge of implementation may carry the greater risks to the program