

Universal credit and its impact on household incomes: the long and the short of it

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Executive summary

The working-age benefits system is undergoing radical reform, with six means-tested benefits and tax credits (the 'legacy' system) being replaced by a single payment called universal credit (UC). Under current plans, UC is expected to be fully rolled out by mid-2024.

In this briefing note, we provide up-to-date analysis of the impact of UC on families' incomes, and show that it varies substantially with the characteristics of the family. We also go beyond standard distributional analysis, which compares how different families are affected by tax and benefit policy at a single point in time, and use data that follow the same people for multiple years. This allows us to measure the effect of UC on longer-run measures of their incomes (specifically, average incomes over eight years).

Key findings

UC disproportionately reduces incomes among poorer adults.

Those in the lowest-income 10% of the population on average lose the most from UC – a 1.9% fall in their income, equivalent to £150 per year per adult.

But the averages mask the fact that many people win and lose from UC – some quite substantially.

76% (8.7 million adults) of those entitled to means-tested benefits – and 84% (7.2 million) of those in working households – see a change in their entitlement of at least £100 per annum (p.a.). 17% (1.9 million) see a loss of at least £1,000 p.a., while 14% (1.6 million) see a gain of at least that much.

While some of these patterns are a natural consequence of integrating many benefits, four specific choices that the government has made account for many of the large losses.

77% of those who lose at least £1,000 p.a. are affected by UC's harsher treatment of one of the following groups: those with financial assets; the low-earning self-employed; couples where one member is above state pension age and the other below; and some claimants of disability benefits. The large gains are accounted for partly by UC's more generous treatment of working rented households: 29% of those in such households who are on means-tested benefits see an increase in entitlement of at least £1,000 p.a.

Losses resulting from some of these specific features of UC are often temporary, with their effect on individuals' average incomes over eight years being considerably smaller.

Those affected by the harsher treatment of the low-earning self-employed on average lose £2,100 p.a. in the year they are affected (the 'short run'). But when we measure the effect on their average incomes over eight years (the 'longer run'), they lose on average £850 p.a. – because they often go on to higher-income self-employed work or become employees. Similarly, the average loss from UC's treatment of assets (among those affected) is £1,430 in the short run, but £420 in the longer run.

Some of the groups that lose from UC are more likely to be on a low income only for a short period, which means that the effect of UC on the persistently poor is considerably less than on the temporarily poor.

The self-employed, owner-occupiers and people with significant financial assets – all of whom tend to lose out from UC – are 1.5 to 2 times as likely as other low-income groups to find that a period of low income is temporary, rather than persistent. Conversely, those who are disabled or who live with a disabled person (who, on average, lose from UC) are especially likely to be persistently, rather than temporarily, poor.

Because of these design choices and people's changing circumstances, large persistent gains or losses are less common than large temporary ones.

While 30% of those entitled to means-tested benefits see a £1,000 p.a. change to their incomes in the short run (17% losing, 14% gaining), only 16% see a change that big to their longer-run incomes (11% losing, 5% gaining).

Nevertheless, as an overall cut to benefits, UC hits the persistently poor harder than those with higher longer-term incomes.

Those whose average incomes over eight years are in the lowest tenth of the population – the persistently poorest – lose on average 1.1% of their income over the eight years (equivalent to £100 p.a.) from UC, more than any higher-income group.

1. Introduction

The working-age benefits system is undergoing radical reform, with six means-tested benefits and tax credits (the 'legacy' system) being replaced by a single payment called universal credit (UC). Under current plans, UC is expected to be fully rolled out by mid-2024.¹

This is a hugely important reform: around one in three working-age households will be receiving UC when it is fully rolled out, and it will affect them in a number of ways. The integration of many benefits into one payment is intended to simplify the process of claiming benefits – obviating the need to make more than one claim to different government departments at the same time, or to stop claiming one benefit and start claiming another when circumstances change, and making it easier to be confident of what one is entitled to. It should also address the very weakest work incentives that were present under the legacy system, which arose when people could face the withdrawal of more than one means-tested benefit simultaneously when their earnings rose. But the reform is having many other important impacts on low-income households – with a number of difficulties that were unintended, and some others that are the result of deliberate choices about UC's design – including changes in the regularity of payments, how long people have to wait for them and who within the household actually receives them.

As one would expect from a reform that replaces a complex jumble of overlapping means tests with one benefit, UC also has large effects on many people's total entitlement to benefits. It is these effects that we focus on here. We go beyond standard analysis, which looks only at the effect of reforms at a point in time, and consider UC's effects on entitlements for people over eight years of their lives (we choose eight years because that is the number of times we observe individuals in our data).

By doing this, we can dig deeper on some of the larger losses (or, in fewer cases, gains) in benefit entitlement that UC will cause, which unsurprisingly attract much of the attention. We assess the extent to which these large effects are temporary for the people concerned – affecting them just for a short period before their circumstances change – or longer run. Relatedly, we analyse the impact of UC on the persistently poor, as opposed to those who have a low income at a single point in time. While temporary periods of hardship are clearly unpleasant, policymakers should be at least as concerned about persistent poverty; certain actions (such as borrowing, drawing on savings, or delaying purchases) that can allow a family to maintain living standards during a short-run fall in income cannot be maintained forever. Importantly, we also show how various specific design features of UC, such as its treatment of the low-income self-employed and people with assets, drive these 'longer-run' (eight year) distributional effects.

Overall, UC represents a cut in entitlements of £2 billion per annum (p.a.).² Alongside its rollout, a number of other significant changes are being made to working-age benefits. The two biggest ones are as follows:

¹ Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2019, para 4.85.

² The Office for Budget Responsibility estimate that UC will cost the government around £2 billion more in 2023–24 than the legacy system would have. This is a consequence of the fact that they

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- Most working-age benefits are being frozen in cash terms between April 2015 and March 2020. Relative to standard inflation uprating, this represents a 6.5% reduction in the value of benefits, saving the government around £4 billion p.a.
 - Since April 2017, the ‘two child limit’ means that families will not be eligible for the child element of tax credits or UC for third or subsequent children born after that date. The family element is also being removed, meaning that families with first children born after April 2017 will not be eligible for the £545 p.a. payment that families with children born earlier are. When fully rolled out, these policies will save the government around £5 billion p.a.

Each of these policies represents a larger total cut in entitlements than UC does, but their impacts are much more straightforward. The benefits freeze cuts benefits for almost all working-age claimants, and the two child limit only affects families with at least three children. The impacts of UC, however, are far more wide ranging: around 5 million adults lose an average of £1,150 p.a., and 4.5 million gain an average of £850 p.a. Three quarters of those entitled to legacy means-tested benefits would, under UC, see their incomes change by at least £100 p.a.

The rest of the briefing note is structured as follows. Section 2 lays out the data and methodology that we use. Section 3 shows who wins and loses from UC in the short run (at a point in time). Section 4 shows how these patterns change when we look at the longer run. Section 5 focuses on the impact of four particular aspects of UC: its treatment of self-employment incomes, assets, disability and housing tenure. We look at these features because they have substantially different impacts on the short- and longer-run distributional effects of UC. Section 6 then concludes.

expect UC to increase take-up of benefits, and because in 2023–24 they estimate that the government will be spending £1 billion on transitional protection. In this briefing note, we only analyse benefit *entitlements*, regardless of whether they are claimed or not, after transitional protections have expired.

2. Data and modelling of impacts

Here we briefly set out some key points about the analysis undertaken in this briefing note, which goes beyond the standard distributional analysis of tax and benefit reforms. Readers interested only in the results should skip straight to Section 3.

We primarily use data from ‘Understanding Society’, the UK Household Longitudinal Study (UKHLS) data, a representative sample of UK households, covering the period 2009–10 to 2016–17.³ These data survey the same people annually, allowing us to see how their circumstances change over time. We show in Appendix A that the Family Resources Survey (FRS), which is more typically used to analyse UK tax and benefit reforms and which surveys households only once, gives a very similar distributional pattern for the short-run impact of UC. We use TAXBEN, the IFS tax and benefit microsimulation model, to estimate families’ benefit entitlements.⁴ We ‘uprate’ financial variables in the data – such as earnings, rent and mortgage interest payments – to 2018–19 terms using official series that measure average growth in these variables.

We calculate, for each individual in the data, their net income once per year for eight years, under two different scenarios: in the first, the legacy system of means-tested benefits is in place for all eight years, and in the second the UC system is in place for all eight years. This lets us calculate the ‘longer-run’ impact of UC on an individual’s income – its average effect on their income over eight years.⁵ The legacy and UC benefit systems that we use are those that are in place in 2019–20 (in 2018–19 prices), with the benefits freeze, two child limit and removal of the family premium (discussed in Section 1) fully in place.

Several further caveats and methodological points are worth noting:

- In reality, existing claimants of legacy benefits that are moved across to UC will be entitled to ‘transitional protection’, which ensures that they do not see cash losses until they have a change in circumstances. In this briefing note, we look at the impact of UC after transitional protections have expired and the system is in its long-term state.
- We show the impact of UC assuming that everyone takes up all the benefits to which they are entitled; in other words, we are analysing the effect on benefit entitlement, not benefit receipt. The Office for Budget Responsibility expects that UC will result in a £2.5 billion annual increase in take-up of benefits.⁶ This is a consequence of integrating multiple payments; for example, while under the legacy system it is possible to take up one’s tax credit but not housing benefit entitlement, in UC they are combined together so – as long as the family makes a claim to UC – they get it all.

³ University of Essex. Institute for Social and Economic Research, NatCen Social Research, Kantar Public (2018). *Understanding Society: Waves 1–8, 2009–2017 and Harmonised BHPS: Waves 1–18, 1991–2009. 11th Edition. UK Data Service. SN: 6614*, <http://doi.org/10.5255/UKDA-SN-6614-12>.

⁴ For a description of TAXBEN, see <https://www.ifs.org.uk/publications/12858>.

⁵ We choose eight years because that is the number of available waves of the UKHLS data.

⁶ Office for Budget Responsibility, ‘Welfare trends report’, January 2018, <https://obr.uk/wtr/welfare-trends-report-january-2019/>.

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- Since 2013, local authorities in England have been responsible for designing their own council tax support (CTS) schemes (a means-tested benefit not integrated into UC). We do not yet have a full picture of how every local authority is treating UC in assessing a claimant's CTS entitlement. Therefore, in the analysis below, we ignore CTS and council tax.
 - We measure income at the household level, and then split it equally between adults in the household, to calculate each adult's income at a point in time (i.e. for a couple, we split their combined incomes in half).⁷ This means that a loss to a couple of £1,000 p.a. will appear in our analysis as two losses of £500 p.a. Often in analyses of this kind we need to make no assumption about which adults within the household benefit from its income – we simply count each household as one unit and measure the income going to different households. We cannot do that here where we aim to track the same units over time: households cannot, in general, be followed over time consistently because the people in a household can change. Instead, we must follow individuals over time, assigning them in each period some of the income of the household to which they belong at that point. The assumption that incomes are shared equally between members of a household will be a reasonable approximation in many cases but it will be wrong in others.
 - The UKHLS data give information about people's circumstances at the point in time that they were surveyed. Our measure of short-run income therefore corresponds to their income at that time (approximately that week). Our measure of longer-run income (described in further detail in Section 4) is the average of eight short-run incomes, each observed approximately a year apart. This means that we miss within-year changes in circumstances and incomes, which can be important and can have significant effects on UC claimants (e.g. because they have to wait five weeks before receiving money at the start of a claim, and because those with volatile incomes through the year – especially the self-employed – can receive quite different amounts of UC in total to those with smoother incomes). We only have information about a person's circumstances at the time they were surveyed (and not, say, five weeks prior), so we cannot account for these issues.
 - TAXBEN, our microsimulation model, cannot model entitlements and tax liabilities for certain households in the data if key variables are missing. Moreover, the data are subject to 'attrition' – some individuals do not appear in every wave of the UKHLS. The sample we use is constructed of only those individuals who appear in all eight waves of the UKHLS in households that TAXBEN can model. To account for the possibility that such individuals are systematically different from those not included in our sample, we begin with the individual longitudinal weights provided in the UKHLS data, which are intended to account for non-random attrition. We then modify these to account for non-randomness in whether TAXBEN can model the household.

⁷ An alternative would be to assign individuals their 'equivalised' household incomes. This takes account of economies of scale within the household. However, it is not straightforward to interpret an equivalised cash change – it is not very clear, for example, what an equivalised benefit cut of £100 p.a. means.

- We make some modifications to Employment and Support Allowance entitlement in the data to reflect what appears to be an under-recording of certain combinations of benefits. This is discussed further in Appendix B.

3. The impact of UC on short-run incomes

In this section, we analyse the effect that UC has on incomes in way usually done by HM Treasury after Budget events as well as by IFS researchers: by measuring the incomes and circumstances of individuals at a single point in time.⁸ We term this the impacts on ‘short-run’ incomes. Readers can find a brief description of how UC is structured, and how it differs to the legacy system, in Box 1. A more detailed description can be found in Browne et al. (2016).⁹

Box 1. The structure of universal credit and the legacy system

In both the legacy and UC systems, claimants are entitled to a basic allowance according to whether they are single or in a couple, plus additional elements for children, and an element related to their housing costs if in rented accommodation. The levels of these core elements are largely unchanged, meaning that many out-of-work families see no change in their entitlement when they move to UC.

The main differences between the systems are related to how support is means-tested (i.e. how it is withdrawn as incomes rise). This means that in-work claimants are more likely to see a change in entitlements under UC than out-of-work claimants.

Under the legacy system, different benefits were withdrawn at different rates as the claimant increased their earnings, and the level of entitlement depended on hours worked as well as amount earned. Under UC, the system is considerably simpler: claimants see their total entitlement withdrawn at a rate of 63p (the ‘taper rate’) for every pound of (post-tax) earnings that they earn above a certain threshold (known as the ‘work allowance’), which varies according to family type. Because this system is simpler – with entitlement controlled by just two factors, the taper rate and work allowance – it cannot be designed so as to ensure that all or most working claimants receive a similar amount under UC and the legacy system. The fact that there is only one taper rate for all claimants tends to favour renters over owner-occupiers when compared with the legacy system, in which renters would see their housing benefit and tax credits withdrawn at the same time as they increased their earnings – giving them a very high effective taper rate – while owner-occupiers would only see their tax credits reduced – giving them a considerably lower taper rate. Applying a single rate to both

⁸ The analysis in this section is related other analysis looking at winners and losers from UC, including J. Browne, A. Hood and R. Joyce, ‘The (changing) effects of universal credit’, in C. Emmerson, P. Johnson and R. Joyce (eds), *The IFS Green Budget: February 2016*, <https://www.ifs.org.uk/publications/8136>, and V. Alakeson, M. Brewer and D. Finch, *Credit where it's due? Assessing the benefits and risks of Universal Credit*, 2015, <https://www.resolutionfoundation.org/publications/credit-where-its-due-assessing-the-benefits-and-risks-of-universal-credit/>.

⁹ J. Browne, A. Hood and R. Joyce, ‘The (changing) effects of universal credit’, in C. Emmerson, P. Johnson and R. Joyce (eds), *The IFS Green Budget: February 2016*, <https://www.ifs.org.uk/publications/8136>.

groups in UC effectively cuts the taper rate for renters and increases it for owner-occupiers. This point is discussed further in Section 5.

The government has also made several choices in designing UC, which generate differences in entitlement for specific claimants:

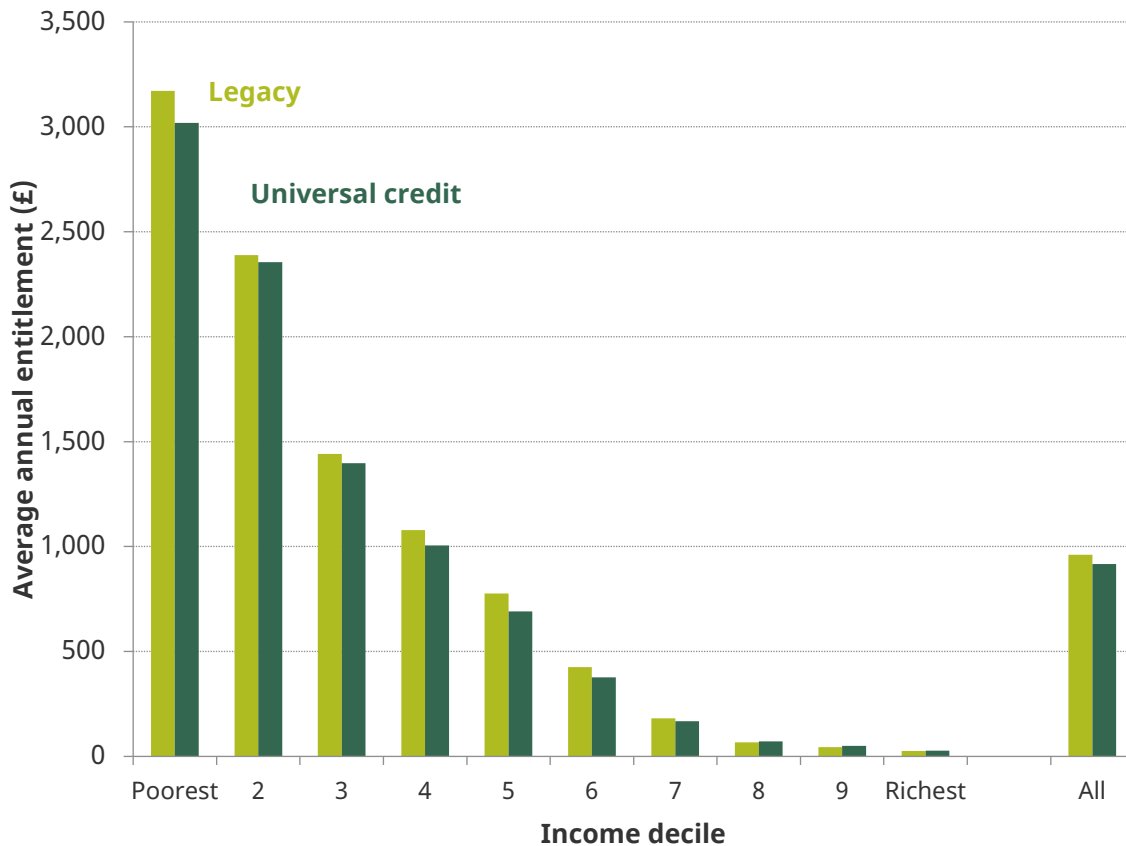
- Certain types of unearned income – such as contributory out-of-work benefits – reduce awards more quickly in UC than under the legacy system.
- A claimant’s assets over £6,000 steadily reduce their UC award, and if they have assets over £16,000, they are not entitled to any UC at all. This is in contrast to the legacy system where only housing benefit and out-of-work benefits – but not tax credits – are subject to such ‘asset tests’.
- Unlike the legacy system, UC applies a ‘minimum income floor’ (MIF) for self-employed people. If a claimant’s self-employed earnings are below the MIF, the government calculates their UC award on the assumption that they earned an amount equal to the MIF. For most people, the MIF is equivalent to 35 hours a week at the National Living Wage (i.e. broadly speaking, the minimum they would earn if working full-time as an employee).
- Though most basic out-of-work entitlements are the same in UC and the legacy system, some are changed. Entitlements for disabilities are higher for some claimants and lower for others (the details of this are discussed in Section 5). Couples in which one partner is below pension credit age and the other above were, under the legacy system, able to receive pension credit (typically higher than working-age benefits), but under UC they cannot.^a Parents aged under 25 also see a lower basic allowance under UC.

^a This change is not formally part of UC, but the government has linked its introduction to UC’s rollout such that it only occurs when UC is available nationally for new claims (with the planned date of this change being moved as the dates of UC rollout have moved). This means that it should only affect UC claimants, rather than legacy claimants. We include this as a UC change in our analysis.

At a given point in time, 25% of adults (and around one-third of working-age adults) are in households entitled to legacy benefits, with an average annual entitlement of £3,860 per entitled adult. Under UC, the share entitled falls slightly, to 23%, while the average annual entitlement is slightly higher, at £4,050. This is partly a consequence of the fact that those who lose all of their entitlement in the switch to UC (such as some of those with high assets) are not, under the legacy system, entitled to a very large amount in cash terms, relative to other claimants. Figure 1 shows annual entitlement to legacy benefits and UC across the income distribution, by ordering the UK adult population by their household income and splitting them into ten equal-sized groups (deciles).¹⁰

¹⁰ Note that the entitlements shown are per adult. Average entitlement per family is higher.

Figure 1. Legacy and UC entitlement per adult, by income decile



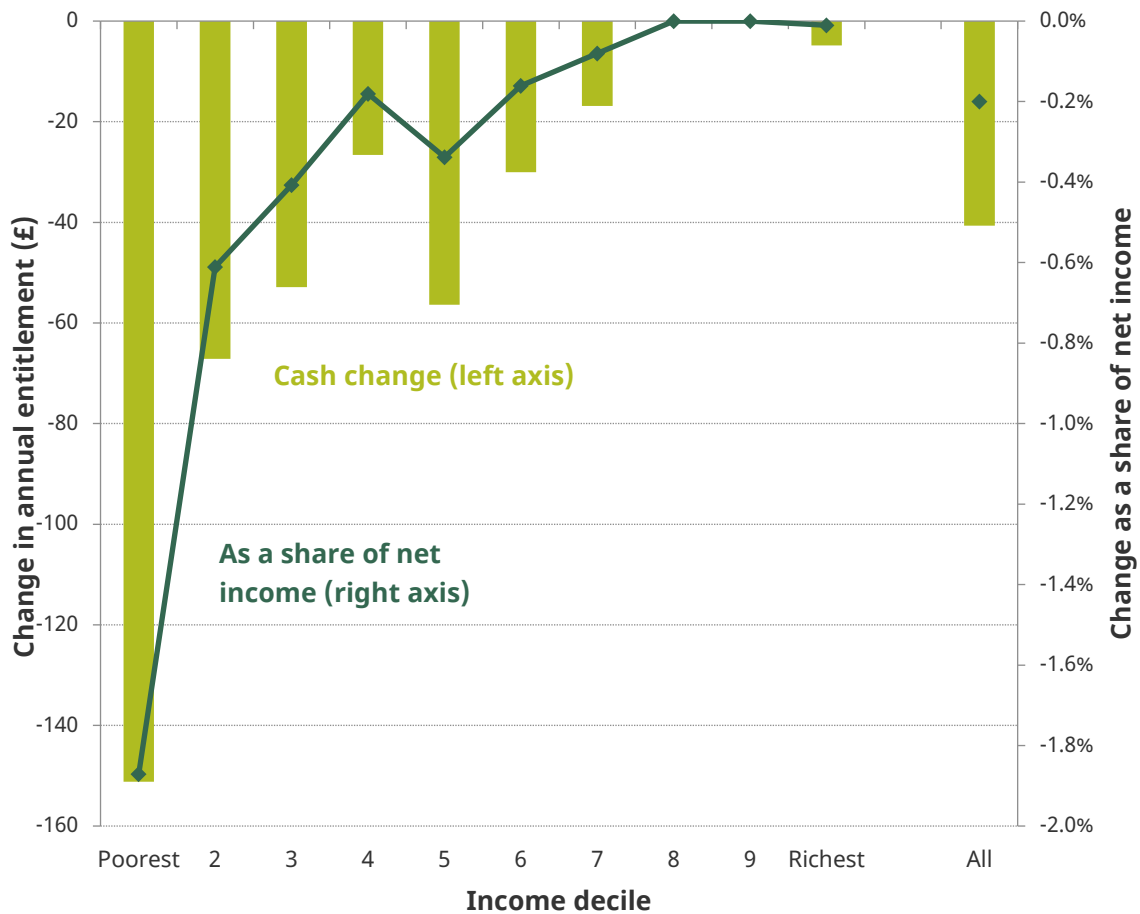
Note: We assume complete take-up of entitlement, and that benefits are allocated equally between adults in a household. Income deciles are derived by dividing all adults into ten equal-sized groups according to their net household income under the legacy system, adjusted for household size using the OECD-modified equivalence scale.

Source: Authors' calculations using the FRS (2009–10 to 2016–17) and TAXBEN, the IFS microsimulation model.

The figure shows that UC does little to change the broad allocation of total benefit entitlements across the income distribution: under both legacy and UC, those in the poorest decile are entitled to roughly 30% more than those in the second decile, who in turn are entitled to 70% more than those in the third decile, and so on. But UC also represents a broad-based cut, with average entitlements falling in each decile from 1 to 7.¹¹

¹¹ Unlike the other statistics in this briefing note, these numbers (and the figure) are derived from the FRS, rather than UKHLS. The pattern of legacy and UC entitlement is similar in the UKHLS data, but the total level is somewhat lower. This is in large part because in the UKHLS data we only use those people who are in the survey for eight years. This means that they tend to be older, and so have lower entitlement to legacy benefits (which are only available to those of working age). While the total level of entitlement is lower in UKHLS, the patterns of winners and losers are – as we show in Appendix A – similar to those seen in the FRS. Appendix A also shows the equivalent of Figure 1 using UKHLS data.

Figure 2. Distributional impact of UC



Note: We assume complete take-up of entitlement, and that benefits are allocated equally between adults in a household. Income deciles are derived by dividing all adults into ten equal-sized groups according to their net household income under the legacy system, adjusted for household size using the OECD-modified equivalence scale.

Source: Authors' calculations using UKHLS (waves 1 to 8) and TAXBEN, the IFS microsimulation model.

We can see the size of that cut more clearly in Figure 2, which gives the change in entitlements across the income distribution. This clearly shows that, because it represents an overall cut to working-age benefits and those benefits disproportionately go to those on lower incomes, the introduction of UC is a regressive change, with poorer deciles tending to lose more from the reform, both in cash terms and as a share of income.

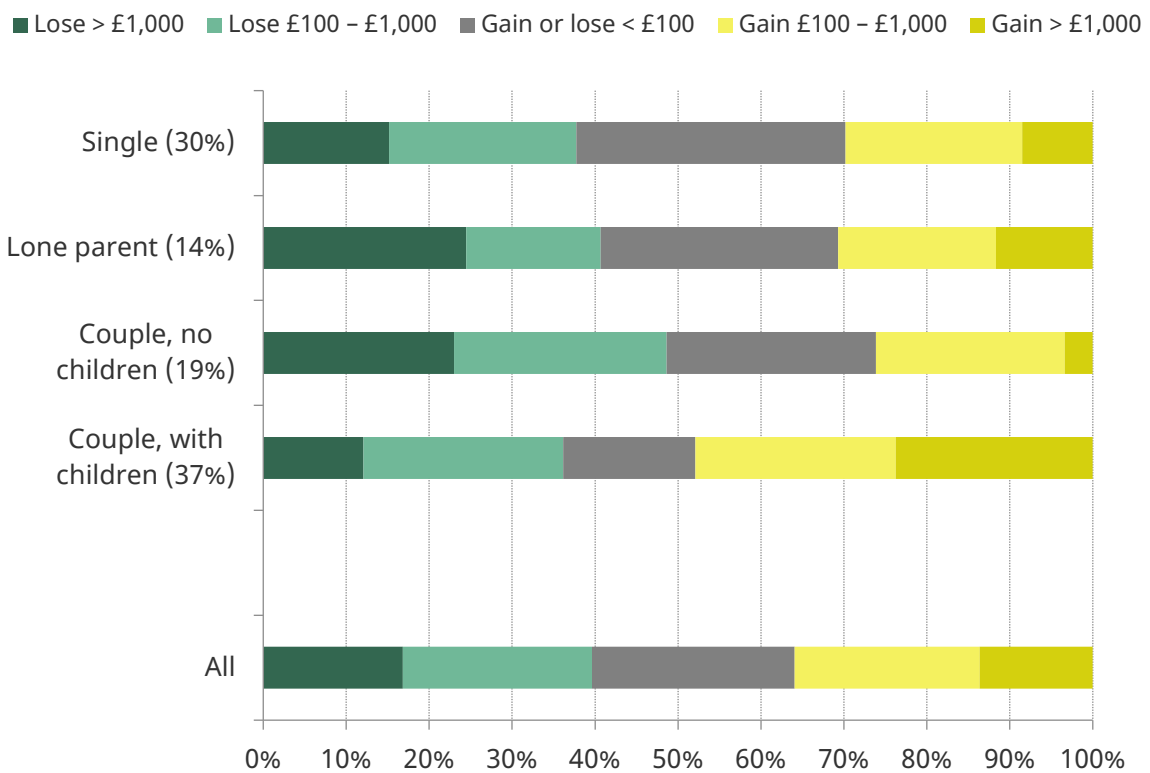
So far, we have looked at the average impact of UC within income groups. But these averages are the combination of substantial gains for some and substantial losses for others.

This can be seen in Figure 3, which shows the frequency of winners and losers from UC by family type, among those who are entitled to either legacy benefits or UC. There are two things to note from this figure. First, although UC, on average, represents a cut in entitlements, the 'All' bar in the figure shows that there are a significant number of winners from the policy – as well as a substantial number of people who lose a lot. Three-quarters of those entitled to means-tested benefits (8.7 million people) would see their

incomes change by at least £100 p.a. under UC. About one-third (3.5 million) would see a change of at least £1,000 p.a., with 14% (1.6 million adults) gaining at least £1,000 p.a. and 17% (1.9 million) losing at least that much.

Second, certain types of families are more likely to lose or gain than others. Around one-quarter of lone parents and members of couples without children entitled to means-tested benefits (representing 0.4 million and 0.5 million adults, respectively) see losses of over £1,000 p.a. – compared with 15% and 12%, respectively, for singles and couples with children. Similarly, almost no couples without children see a large increase in entitlements, whereas almost one-quarter (1.0 million adults) of members of couples with children do.

Figure 3. Impact of UC on adults in households entitled to means-tested benefits, by family type (share of all entitled adults in brackets)



Note and Source: See Figure 2. A household is classified as entitled to means-tested benefits if it is entitled to either legacy benefits or UC.

Why do we see these patterns across family types? It is not merely because the UC system makes fairly direct choices about how to treat, say, lone parents differently from how they were treated under the legacy system. It is also because UC makes many other choices, about how to treat the self-employed, people with assets, renters versus homeowners, people with disabilities, and so on; and lone parents (to continue that example) have a different likelihood to other groups of being affected by those other design choices.

This point can be seen in Figure 4, which categorises those entitled to means-tested benefits according to various characteristics, and shows the proportion that gain or lose different amounts from the switch to UC. Figure 5 digs deeper, looking only at those

Figure 4. Impact of UC on adults in households entitled to means-tested benefits, by circumstances (share of all entitled adults in brackets)



Note and Source: See Figure 2 and Figure 3. A household is classified as working if anyone in that household is working. 'Disabled person in HH' means that someone in the household reports receiving a disability or incapacity benefit. A household is classified as having over £6,000 in assets if every family in the household that is entitled to means-tested benefits has assets of at least that much.

who are in working households that are entitled to means-tested benefits. Several patterns emerge from these figures, as follows:

- First, as Figure 4 shows, while 50% of those in workless households see a change in their award of less than £100 p.a. as a result of UC, just 16% of those in working households do. This is because (as discussed in Box 1) most of the basic elements of a UC award – the amount for a single person or a couple, for each child, for rent – are the same as in the legacy system. What UC changes is the speed at which those elements are withdrawn as a family increases its earnings (in a way that can be more or less generous than the legacy system) – but this is only relevant for those in work. Still, half of those in workless households do see a change, typically a loss. This occurs for a number of reasons. Many of those in workless households are disabled, and some disability awards are reduced under UC while others are increased. Some are couples in which one partner is below pension credit age and the other above; under the legacy system, these couples could receive pension credit, but under UC they cannot. Some have certain types of unearned income that reduce awards more quickly in UC than

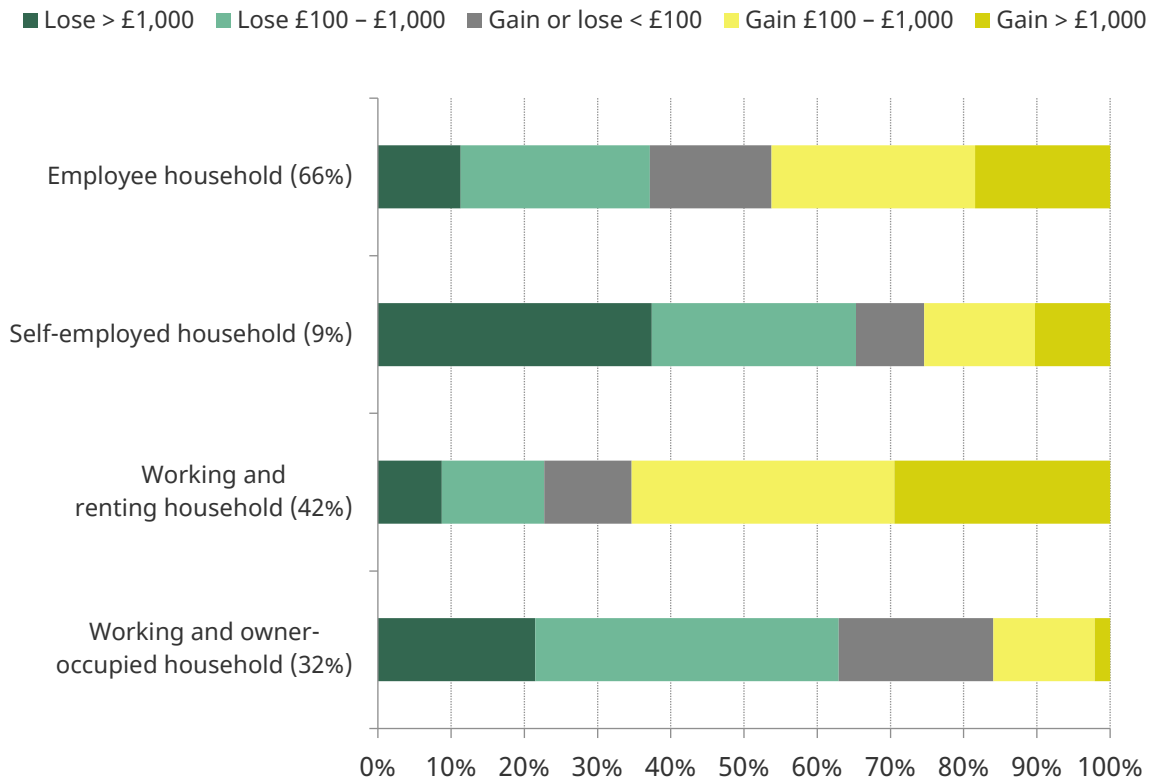
under the legacy system. Some have high assets, which can make them ineligible for UC. (See Box 1 for a further discussion of some of these points.)

- Second, there is considerable variation within working households (Figure 5). Households where self-employment income is the dominant source of earnings are far more likely to see considerable losses, with 65% seeing a loss of at least £100 p.a. and 37% a loss of at least £1,000 p.a. – a consequence of the ‘minimum income floor’, discussed in Box 1. Further, working households in rented accommodation do much better out of the move to UC than those in owner-occupied housing: whereas two-thirds of the former see an increase in entitlement from the move to UC, two-thirds of the latter see a reduction. This is a result of UC effectively reducing the ‘taper rate’ (the speed at which benefits are reduced as incomes increase) for many renters, and increasing it for many owner-occupiers, as explained in Box 1 and Section 5.
- Third, Figure 4 shows that 22% of those with a disability, or those who live with someone with a disability, lose at least £1,000 p.a. from UC, compared with 14% for other claimants. This is a consequence of the fact that disabled people are more likely to be out of work (and it is relatively difficult to gain from UC if a family is out of work), and of UC’s treatment of disability.
- Fourth, as is made clear by Figure 4, those with assets over £6,000 fare much worse from UC than others, with three-quarters seeing a loss of at least £100 p.a. and about 40% losing at least £1,000 p.a. This is because of UC’s treatment of assets (see Box 1). Note that the affected group is a small one, representing just 5% of those entitled to means-tested benefits.¹²

These differences are driven by choices over the design of UC, and the legacy system that it replaces, both of which treat people with certain characteristics more or less generously than people without them. But these characteristics – such as having assets or being self-employed – are often not permanent. This means that the impact that UC has on a person’s incomes can change over time. It is these longer-run impacts on incomes measured over longer periods that we turn to in the next section.

¹² UC’s treatments of self-employment incomes, housing tenure, disability and assets are all discussed further in Section 5.

Figure 5. Impact of UC on adults in working households entitled to means-tested benefits, by circumstances (share of all entitled adults in brackets)



Note and Source: See Figure 2 and Figure 3. A household is classified as self-employed if it receives more gross income from self-employment than it does from employee earnings.

4. The impact of UC on longer-run incomes

Our analysis thus far has focused on the consequences of UC for people's incomes at a point in time. It has shown that the impact of UC is driven by its treatment of different claimant characteristics. But, as noted above, these characteristics can change over time. This means that someone who loses a lot from the reform at one point in time (e.g. because they are, at that point, self-employed) might do much better out of the reform in the future (when they become an employee). Conversely, a working renter who gains from UC today because their benefits are withdrawn more slowly than under the legacy system might in the future acquire substantial assets and so lose their UC entitlement entirely.

In this section, we look at the extent to which the gains and losses from UC are temporary; and, conversely, the extent to which they are persistent and hence represent significant changes even to longer-run measures of income.¹³

As noted in Section 2, we look at these effects by measuring, for each individual in the data, their net income once per year for eight years, under both the legacy and UC systems. We choose eight years because that is the number of available waves of the UKHLS data. Longer time periods, if they were available, would result in sharper differences relative to the short run.

Longer-run impacts are likely to differ from impacts at a point in time precisely because people's circumstances change.¹⁴ For example, at a given point in time 23% of adults are entitled to legacy benefits, but at least 40% are at some point over eight years.¹⁵ Of that 40%, around half are entitled in no more than four years, and less than a quarter – or 9% of adults – are entitled in all eight years. Similarly, those affected by the MIF (described in Box 1) in a given year only spend, on average, about two and a half years affected by it in the other seven years that we see them. The remaining four and a half years are, on average, made up of just under three years in a self-employed household not affected by the MIF (e.g. because their earnings are high enough to escape its impact), one and a half years in a household with employees but no self-employed people, and a few months in a workless household.

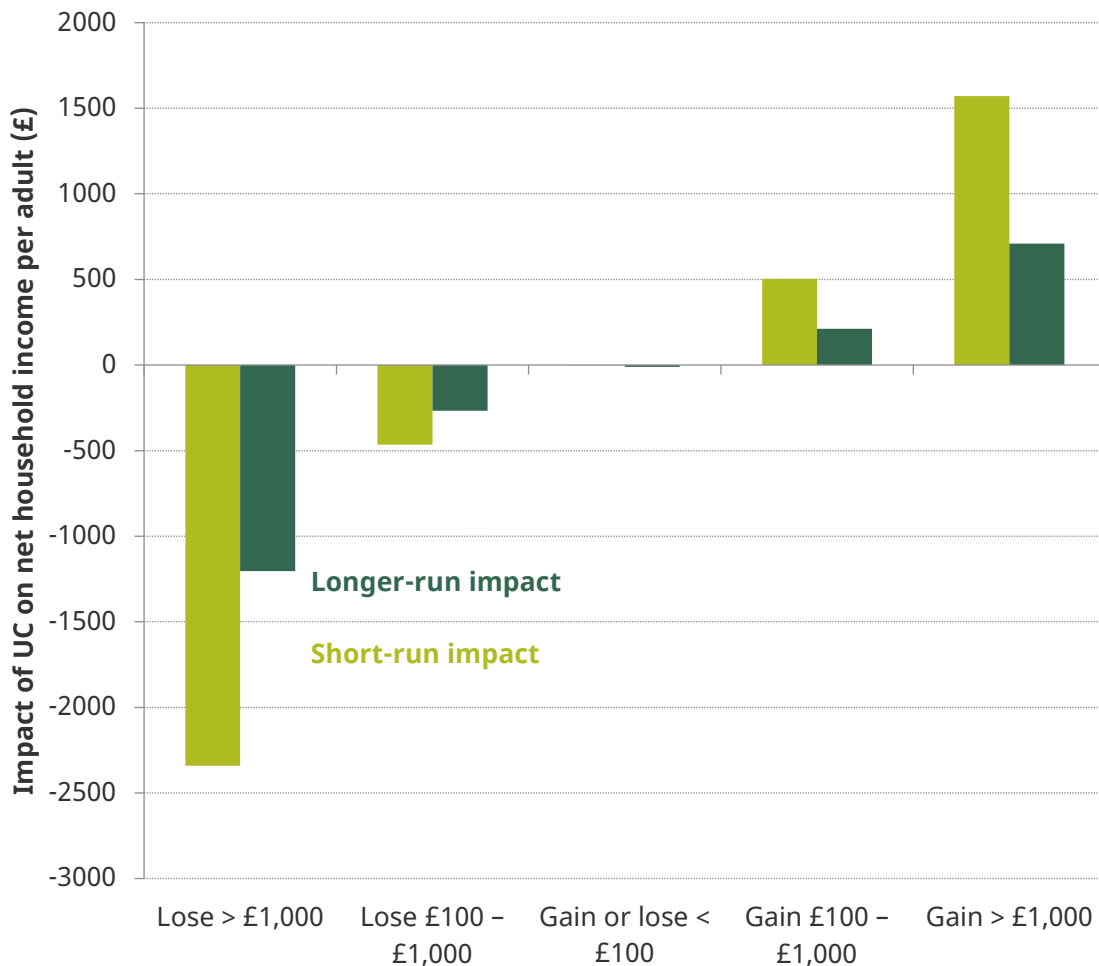
¹³ This analysis is connected to other work looking at income dynamics. For example, Jenkins (2011) uses UK data to show that while there is a lot of movement from one part of the income distribution to another, most of these moves are relatively short distance, with few individuals moving from the bottom to the top of the distribution or the reverse. S. Jenkins, *Changing Fortunes: Income Mobility and Poverty Dynamics in Britain*, Oxford University Press, Oxford, 2011.

¹⁴ This is a form of 'regression to the mean': those who have circumstances that mean that they see a large gain (or loss) from UC in a particular year are more likely to see a smaller gain (or loss) in other years.

¹⁵ As noted in Section 2, because the UKHLS data are annual, we cannot pick up within-year changes. Some families will likely have become entitled and then lost entitlement to benefits between two UKHLS surveys. We cannot identify such short-term periods of entitlement, meaning that the true number of families who are entitled to means-tested benefits at some point over an eight-year period is almost certainly higher than 40%.

To understand in very broad terms the longer-run impact of UC on those who see a substantial impact in any single year, Figure 6 groups people according to how much they win or lose from the introduction of UC in the short run; and it shows, within each of those groups, how much they win or lose in the longer run. The figure shows that those who lose a lot at a point in time tend to lose much less when we average the impact of UC over eight years of their life, and vice versa for those who gain a lot at a point in time. For example, in any single year, about 1.9 million adults will be receiving at least £1,000 p.a. less income under UC than they would have received under the legacy system. Those adults lose an average of £2,300 each in that year. But if we zoom out and look at those same adults over an eight-year period, their average annual loss from UC is about half that, because in other periods their circumstances are different and so they lose less (or not at all) from the UC reform in those periods.

Figure 6. Short- and longer-run impacts of UC on adults in households entitled to means-tested benefits, by size of short-run impact



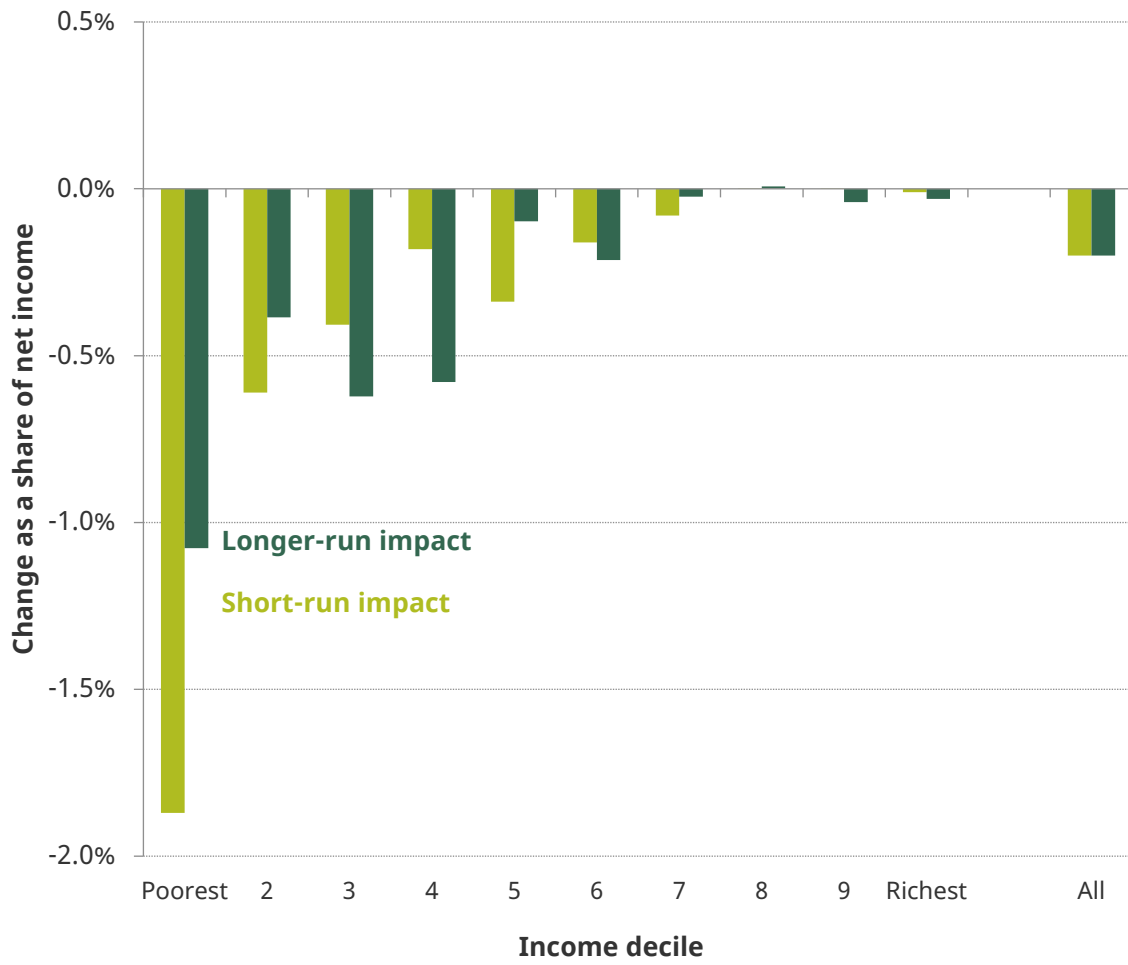
Note and Source: See Figure 2 and Figure 3. The 'short-run' impact on a person is defined as the impact at a given point in time. The 'longer-run' impact is the average impact on a person over eight years.

Another way to illustrate the same point is to look at the number of people gaining or losing at least £1,000 p.a. in the short run and longer run. Among those entitled to means-tested benefits at a point in time, 30% see a change of at least £1,000 p.a. at that point (17% losing, 14% gaining). But only about half of those (i.e. 16%) will see a change of at least that size, on average, over eight years (11% losing, 5% gaining).

Because of these effects, where gains and losses in any one period are diluted over multiple periods when people's circumstances change, the distributional impacts of UC (and indeed most reforms to benefits) are less stark when we consider longer-run measures of people's incomes. This can be seen in Figure 7, which shows the distributional impact of UC measured over the two different horizons. For the short-run bar, adults are categorised into deciles according to their current (short-run) incomes and the short-run impact of UC calculated, while for the longer-run bar they are categorised according to their longer-run incomes and the longer-run impact of UC calculated. The short-run bars therefore show the impact of UC on the currently low- and high-income individuals, while the longer-run bars show the impact on the persistently poor and rich. Because peoples' circumstances change, at a given point in time most adults (around 60%) are in a different short-run decile to the longer-run decile they will end up in. Most mobility is short-range, though; only 5% of adults in the bottom two short-run deciles end up in the top half of the income distribution over the longer run, and only 2% of adults in the top two short-run deciles end up in the bottom half over the longer run.

The figure shows that UC remains a regressive change when analysed using longer-run incomes. This is not surprising, as it represents a cut in benefit entitlements and benefit recipients are, on average, relatively poor in the longer run as well as in the short run. But we also see that UC looks notably *less* regressive from a longer-run analysis than it does from a short-run analysis. This tends to be true of benefit cuts more generally, as people move around the income distribution over time. But there is a little more than that going on here: UC also tends to cut benefits more for those whose low income is temporary than for those whose low income is persistent. In fact, among those in the bottom income quintile at a point in time, those who also end up in the bottom quintile over the longer run (the persistently poor) lose 0.7% of their income as a result of UC at that point in time, while those who end up in the top four longer-run quintiles (the temporarily poor) lose 2.1%. In the next section, we examine some of the specific design choices of UC that are responsible for this pattern.

Figure 7. Distributional short- and longer-run impacts of UC



Note and Source: See Figure 1. Deciles are based on short-run incomes for the short-run impact and on longer-run incomes for the longer-run impact.

5. The impact of specific design features of UC

In Section 3, we saw that certain groups are particularly likely to gain or lose from UC. In Section 4, we saw that UC is less regressive when analysed on a longer-run basis rather than on a short-run basis, and many of those who lose substantially from the UC reform in any single year do so only temporarily. Both of these facts are partly due to specific design choices in the UC system.

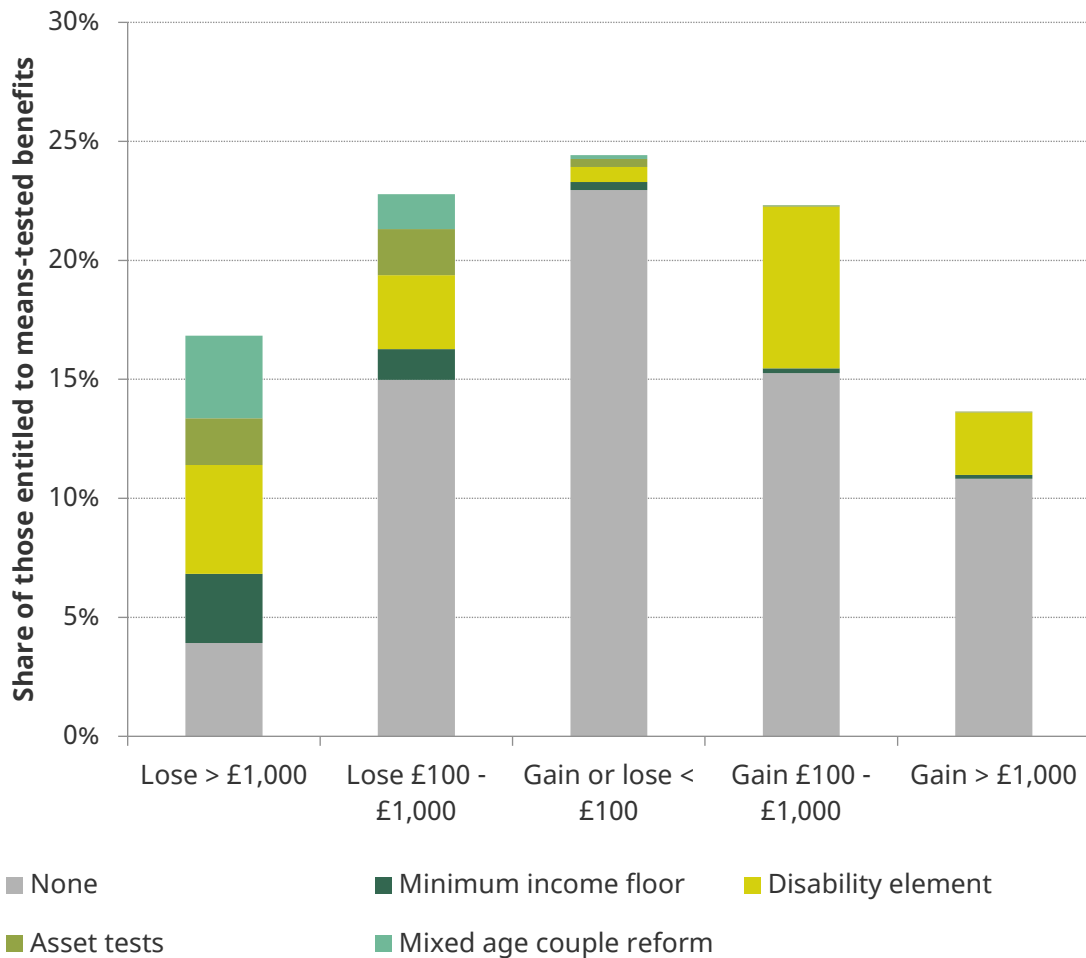
Four of these choices, in particular, account for a large share of those that lose (and, to a lesser extent, gain) significant amounts from the move to UC. These are:

- The ‘minimum income floor’ (MIF), which reduces entitlements for low-income self-employed claimants.
- Tougher ‘asset tests’, which reduce awards for those with significant financial assets.
- Changes to disability awards, including giveaways and takeaways.
- Making pension credit only available to couples where both members are over the state pension age. Under the legacy system, ‘mixed age couples’ – where one is above and another below the state pension age – are eligible for pension credit, which is more generous than working-age out-of-work benefits. However, mixed age couples who are new claimants to means-tested benefits will (from May 2019) have to claim UC, rather than pension credit. This can represent a large cut; a mixed age couple with no other income would stand to lose around £7,000 p.a. as a result of this change.

The importance of these four design choices can be seen in Figure 8, which categorises adults who are in households entitled to means-tested benefits according to how much they gain or lose from UC in the short run, and then splits them according to which of the features of UC mentioned above they are affected by. The figure shows that 77% of those losing at least £1,000 p.a. are affected by one of these four policies (compared with 32% overall). In the rest of this section, we will look in more detail at the MIF, tougher asset tests and changes to disability awards, which affect 63% of those that lose at least £1,000 p.a.

Because these features explain a lot of the large losses from UC at any point in time, it is important to understand both the short- and longer-run circumstances of those affected. Table 1 shows, of those who are in the lowest income quintile at any point in time, what fraction are in the top four longer-run quintiles (i.e. are temporarily, rather than persistently low-income). It shows that a period of low income is 1.5 to 2 times as likely to be temporary for people who live in households with high assets, with self-employment earnings, that are owner-occupied (another group that often loses out from UC) or that do not contain any disabled people.

Figure 8. Share of adults in households entitled to means-tested benefits that are affected by various features of UC, by short-run UC impact on annual incomes



Note and Source: See Figure 1 and Figure 3. Those affected by more than one feature are categorised according to which feature has a larger absolute impact on their incomes.

Therefore, in the rest of this section, we analyse four of the specific design choices that lead to some of the biggest losses and gains in the short run: the MIF, tougher asset tests, changes to disability awards, and the treatment of owner-occupation versus renting (we do not further discuss the reform which applies to mixed age couples, because the period over which we are able to follow individuals – eight years – is not enough to understand its longer-run impact). We examine how persistently these losses are felt for the people concerned, and whether these people are temporarily or persistently on a low income. Of course some people affected by one feature might be particularly likely to be affected by another. For example, among people in households entitled to means-tested benefits, those in owner-occupied households are about twice as likely as those in rented housing to be self-employed, and five times as likely to have assets over £6,000.

Table 1. Proportion of adults with low current incomes (lowest quintile) who do not have low longer-run incomes (are in the top four longer-run quintiles)

	Share in top four longer-run quintiles
Assets over £6,000	41%
Assets under £6,000	23%
Self-employed household	38%
Not self-employed household	24%
Owner-occupied housing	35%
Rented housing	18%
Disabled person in HH	15%
No disabled person in HH	28%
All in lowest short-run quintile	26%

Note and Source: See Figure 1. The asset status of the adult is determined by whether there is a family in their household with assets over £6,000. An adult is classified as self-employed if their household's gross income from self-employment is more than their gross income from employee earnings. If a household has neither self-employment nor employee earnings, they are classified as not self-employed. 'Disabled person in HH' means that someone in the household reports receiving a disability or incapacity benefit.

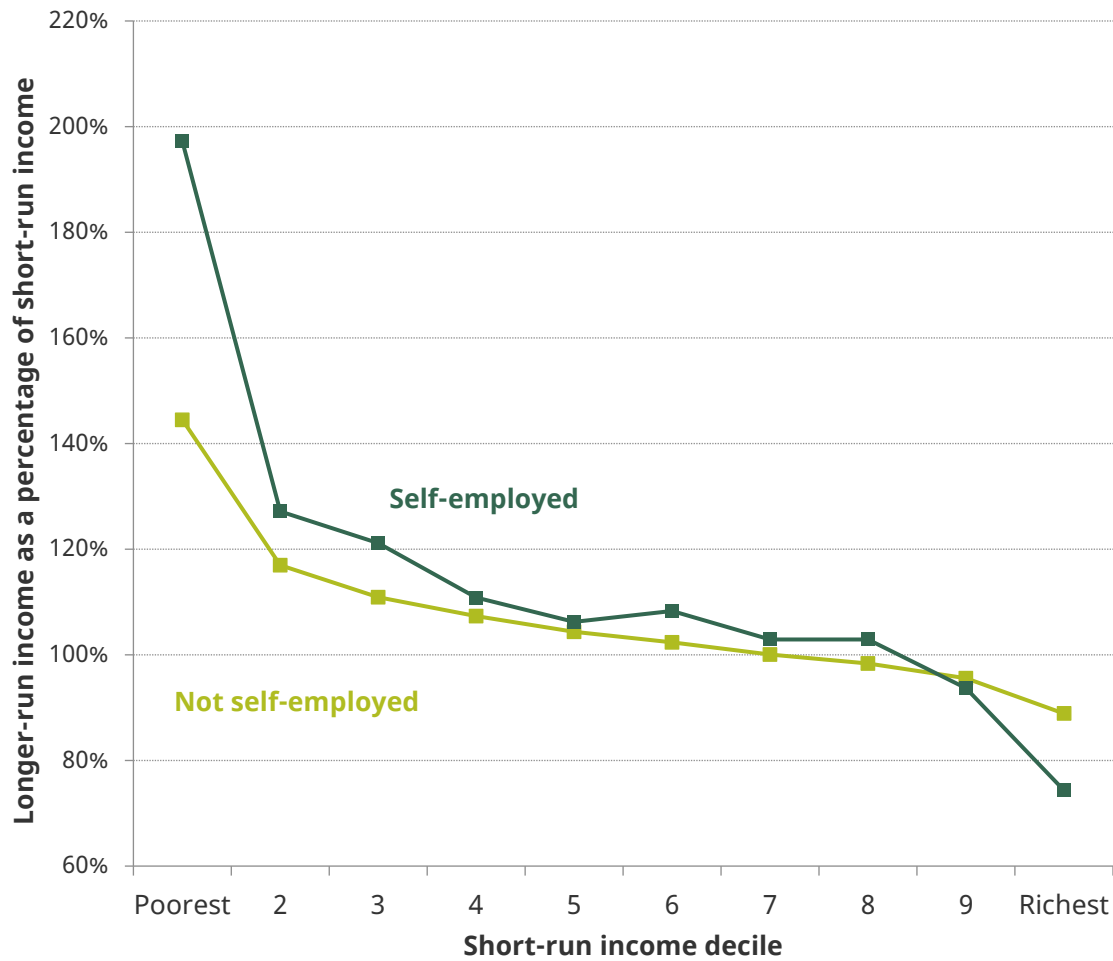
Treatment of self-employment incomes

Unlike the legacy system it replaces, UC applies a 'minimum income floor' (MIF) for self-employed people. As discussed in Box 1, if a claimant's self-employed earnings are below the MIF, the government calculates their UC award on the assumption that they earned an amount equal to the MIF. For most people, the MIF is equivalent to 35 hours a week at the National Living Wage (i.e. broadly speaking, the minimum they would earn if working full-time as an employee). Thus, low-income self-employed people will often be worse off under UC than they would have been under the legacy system – sometimes considerably so. For example, a single, self-employed person who makes no profit this year could see their entitlement in UC reduced by £8,250 p.a. as a result of the application of the MIF.

Policymakers might also want to know whether those people who are low-income and self-employed at one point in time – and hence affected by the MIF – are losing out from the UC reform to a similar extent in other years or whether the hit is temporary; and, relatedly, whether these people are among the longer-run poor or not. This point is addressed by Figure 9. This figure allocates people according to their point-in-time (short-run) income decile, and then shows their longer-run incomes as a share of their short-run incomes. A value higher than 100% means that people's longer-run incomes in that short-run decile are, on average, above their short-run incomes; a value lower than 100% means that they are below.

Not surprisingly, the lines are downward sloping: at least for some people, low incomes and high incomes are temporary states, meaning that the former have higher longer-run incomes than they do short-run incomes, and vice versa for the latter.

Figure 9. Longer-run incomes as a share of short-run incomes, by current household self-employment status

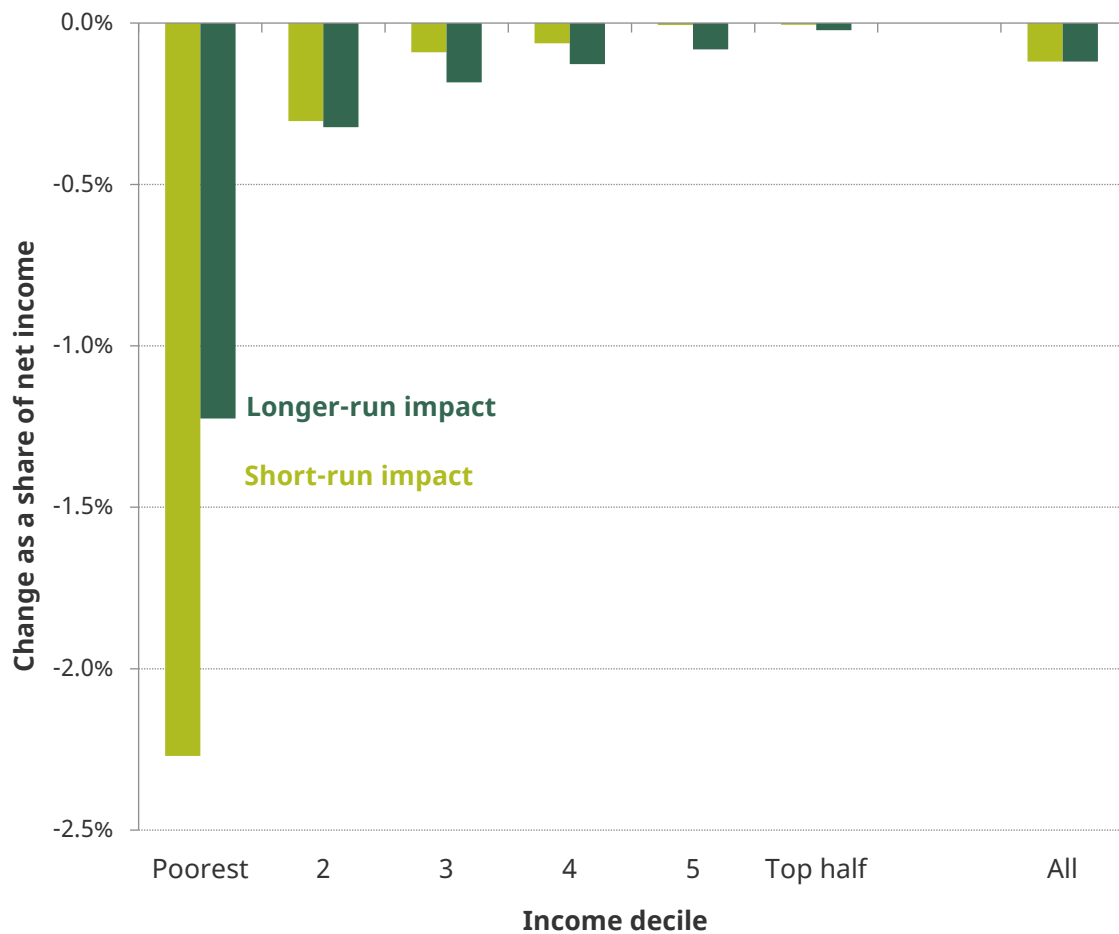


Note and Source: See Figure 1 and Table 1. Incomes are measured at the household level and are equivalised.

The figure shows that periods of low income are relatively likely to be temporary for the self-employed. The differences are large: among those in the poorest short-run decile, adults in self-employed households have longer-run incomes of around twice their short-run income, while those in other households have longer-run incomes only 45% higher. Therefore, among households that are currently poorer, being self-employed is a predictor of higher longer-run income. This is important because it influences the longer-run impact of the MIF, which affects households that are short-run poor and self-employed.

In fact, we find that, at a point in time, those affected by the MIF lose on average £2,100 p.a., and two-thirds of them are in the lowest income fifth at that point. But when we measure their incomes over the longer run (eight years), the average loss from the policy for that same group falls to £850 p.a., and only 46% of them are in the bottom fifth of the longer-run income distribution.

Figure 10. Distributional short- and longer-run impacts of the MIF



Note and Source: See Figure 1 and text. The figure shows results among all adults, not only the self-employed. Income deciles are based on incomes under the UC system.

This influences the distributional impact of the MIF, which is shown in Figure 10.¹⁶ As with Figure 7, the short-run bars show the short-run impact of the MIF on the currently poor and rich, while the longer-run bars show its longer-run impact on the persistently poor and rich. In the short-run analysis, the MIF looks very regressive, with the poorest decile losing the most, by some distance. When we turn to longer-run incomes, it remains regressive but considerably less so; the impact on the longer-run poorest decile is only half of the impact on the short-run poorest decile. In fact, while 88% of the saving to the government from the MIF comes from those in the bottom short-run fifth of the income distribution, only 64% comes from the bottom longer-run fifth.

¹⁶ An important aspect of the MIF relates to within-year volatility of incomes: a claimant with steady earnings above the MIF will not be affected by it, while one with volatile incomes could be subject to it during low-income months – even if the two claimants have the same income across the year as a whole. Because our data are annual, we will fail to identify some people who would be affected by the MIF at some point in the year (but who were earning above the MIF when they were surveyed), and we will overstate the impact of the MIF on others (because they were earning below the MIF when surveyed, but earned above it at other months in the year). The MIF is also not applied for claimants during the first year of their claim so long as the Department for Work and Pensions assesses them to be taking ‘active steps’ to increase their earnings. Because of data limitations, we ignore this aspect of the policy.

This is because some of those who are affected by the MIF at one point in time, when they have a low income, go on to have higher incomes. To illustrate the point, take the case of a single, self-employed individual. In the first year, they are making a profit equivalent to £100 per week, meaning that they are near the bottom of the short-run income distribution and lose significantly from the MIF in that year. Over the next seven years, this person sees their profits or other earnings increase (consistent with Figure 9). The result is that they have lost out from the MIF, but only in one year out of eight, and they do not look to be among the worst-off people in society if we measure their income over the whole eight-year period.

Therefore, the MIF is part of the reason why the UC reform looks particularly regressive when measuring people's incomes and circumstances at just one single point in time, but less so when using longer-run incomes. Similarly, it is part of the reason why many of those who lose a lot on a short-run basis lose considerably less on a longer-run basis.

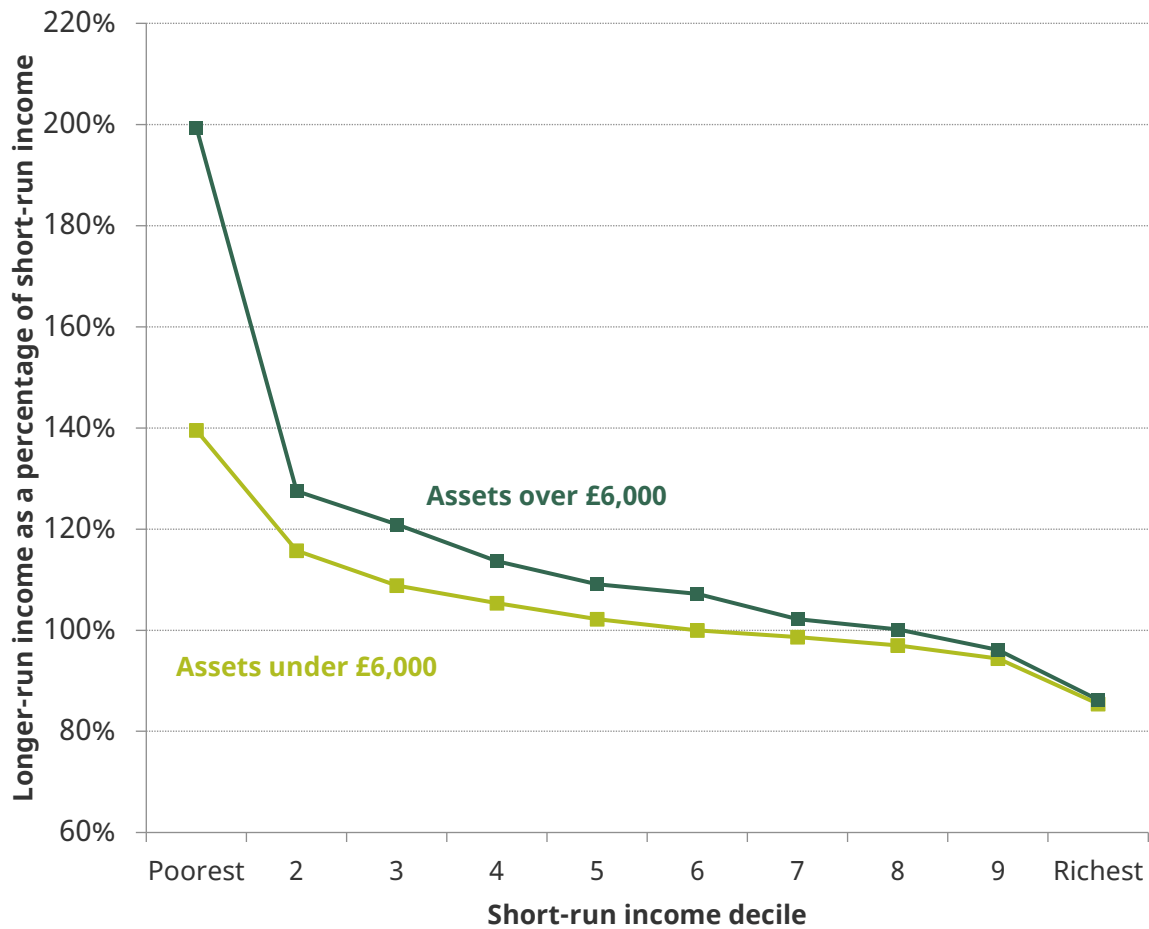
Treatment of assets

Under the legacy system, financial assets over £6,000 reduce housing benefit and out-of-work benefit entitlements, and assets over £16,000 remove them entirely. Assets do not directly affect tax credit entitlements, though savings income above £300 p.a. reduces entitlement. UC adopts a rule similar to the one that applied for housing benefit and out-of-work benefits, but assets over £6,000 reduce entitlements more quickly than they do for housing benefit. This means that claimants of housing benefit or tax credits who have assets over £6,000 generally lose out from this tougher 'asset test'.

Figure 11 shows the relationship between short-run and longer-run incomes, according to financial asset level, in a manner similar to Figure 9. It shows that, given a similar level of short-run income, those with assets over £6,000 tend to have higher longer-run incomes than others. This difference is especially large at the bottom of the income distribution, but remains moderate even further up. In other words, periods of low income are relatively likely to be temporary among those who have significant financial assets.

This has implications for the longer-run distributional implications of tougher asset tests. At a point in time, those affected lose on average £1,430 p.a., and 61% of them are in the lowest-income fifth at that point. But over an eight-year period, the average impact of tougher asset tests for that same group falls to £420 p.a., and only 38% of them are in the bottom fifth of the longer-run income distribution. In fact, 22% of them are in the top half.

Figure 11. Longer-run incomes as a share of short-run incomes, by financial asset level

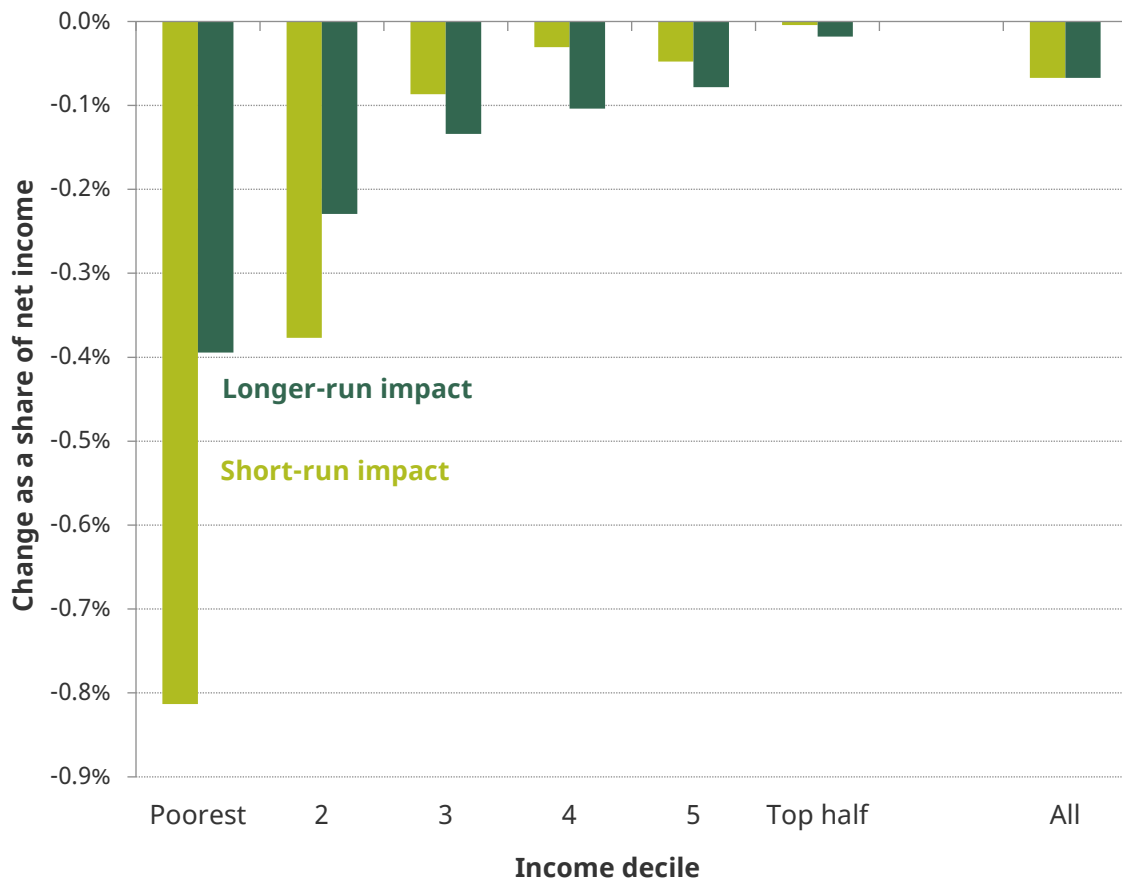


Note and Source: See Figure 1 and Table 1. Incomes are measured at the household level and are equivalised.

Given this, we would expect the impact of UC's tougher treatment of assets and unearned incomes to look more progressive if we consider their effects over longer periods, rather than just the point in time at which they lose out from the harsher asset tests. Figure 12, which gives the distributional consequences of tougher asset tests, shows exactly that: in the short run, the bottom decile loses the most and considerably more than deciles 3 and above; but, in the longer run, while the reform remains somewhat regressive, it is less sharply so.¹⁷ This is because some of those who lose from the tougher asset tests in the short run are only temporarily poor, and so end up in a higher longer-run decile. While 78% of the saving to the government from the tougher asset tests comes from the bottom fifth of the short-run distribution, only 48% comes from the bottom fifth of the longer-run distribution.

¹⁷ We measure the effect of tougher asset tests as the difference between the actual legacy system, and a legacy system where savings income does not reduce tax credit entitlement, but assets reduce entitlements at the same speed as they do in UC and apply to total legacy entitlement (i.e. including tax credits).

Figure 12. Distributional short- and longer-run impacts of tougher asset tests in UC



Note and Source: See Figure 1 and text. The figure shows results among all adults, not only those with assets. Income deciles are based on incomes under the legacy system.

In a similar way to the MIF, tougher asset tests in UC are part of the reason why those who lose a lot in the short run lose less over the longer run. Some with temporarily low income but high assets may (as suggested by Figure 11) have higher incomes in other years. This means both that they may not in fact be among the longer-run poor, and that the tougher asset tests have only temporary effects on their incomes because in other years they have lower benefit entitlements anyway. For similar reasons, tougher asset tests help to explain why the longer-run distributional consequences of UC as a whole are less regressive than the short-run consequences.

Treatment of people with disability or incapacity

Relative to the legacy system, UC makes two broad changes with respect to disabilities, one a takeaway and another a giveaway.

- UC abolishes the range of disability ‘premia’ that exist in the legacy system, so there are only two levels of disability payments. This creates a particularly large loss in entitlement for severely disabled claimants who receive the Severe Disability Premium

(SDP). These are people who are entitled to certain non-means-tested benefits, and who are mostly single.¹⁸

- UC increases the amount payable to claimants assessed as having limited capability for work-related activity (LCWRA). These claimants are deemed by the government as being further from paid work than other disabled claimants.

As these two changes work in opposite directions – one cuts entitlement and the other increases it – there are winners and losers. Those entitled to SDP are particularly likely to lose, seeing their entitlement fall by as much as £2,230 p.a. Those assessed as having LCWRA who do not receive any non-means-tested benefits are most likely to gain, with entitlement increases of up to £1,120 p.a.

Before moving on to the analysis of the effects of these changes, it is worth re-emphasising some points made in Section 2 and Appendix B. First, because of the limitations of our data with respect to disability entitlement, we consider our results here to be illustrative rather than precise estimates of the consequences of changes in disability awards under UC. Second, estimates using administrative data appear to suggest that the changes to disability awards in UC are a small cut, on average, though its exact size is difficult to ascertain and, in any case, there are many winners and losers. Third, we show here the impacts on entitlements after transitional protections have expired. This is especially relevant in the case of disability, as the government has announced that (from January 2019) existing claimants of the SDP will not be moved across to UC; so, unless or until they stop claiming legacy benefits, they will not lose from the reform. Again, because this only applies to existing claimants, our analysis here is on the impact of UC after that protection has expired (i.e. when all claimants are ‘new’ claimants).

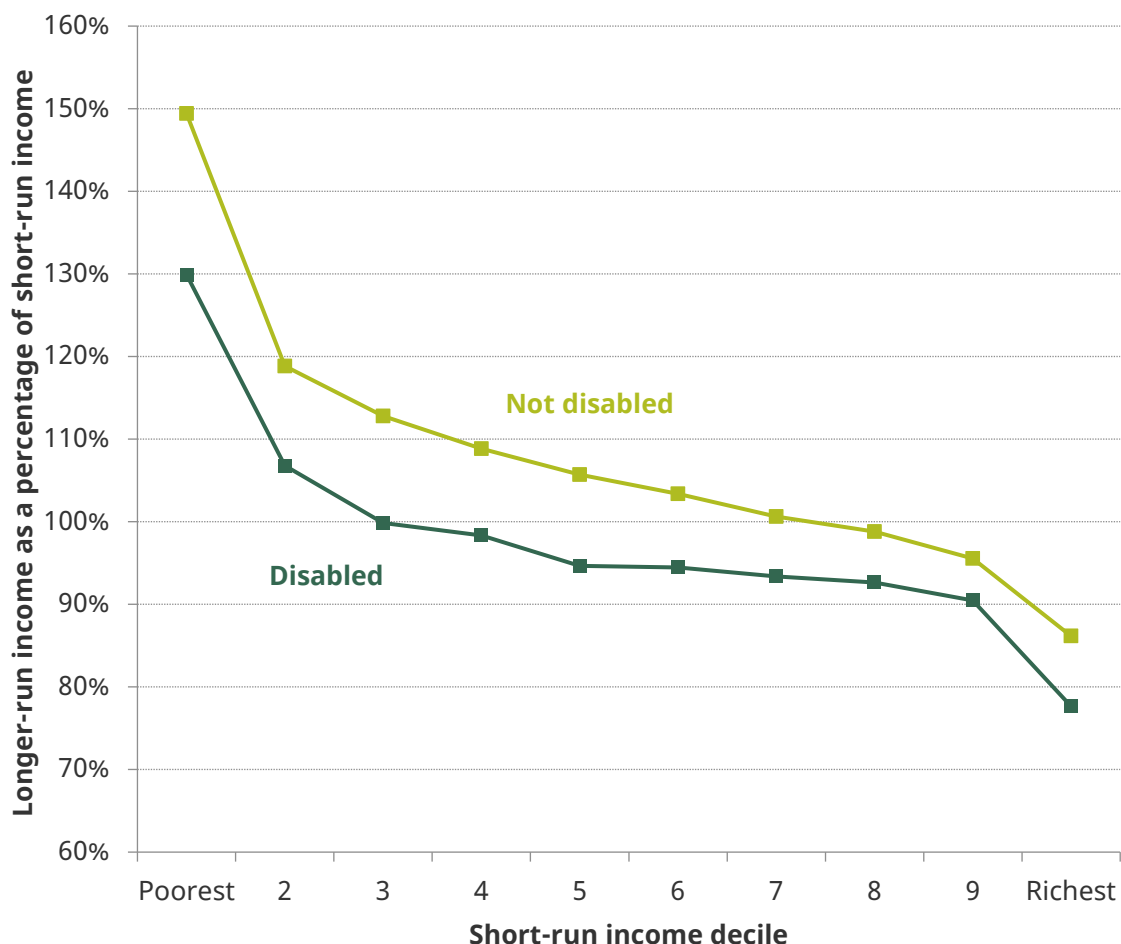
As with previous features of the design of UC, we first analyse the relationship between short-run and longer-run incomes for those with and without disabilities. Figure 13 shows that low household income is more likely to be a persistent state of affairs for those with a disability.

We turn now to analysing the distributional impact of these changes. It is important to note that we measure people’s household incomes, but disabled people tend to have higher living costs than others (which is a key rationale for the existence of disability benefits). These higher living costs are not captured when we put people into deciles based only on their income, and so it may appear that disabled people have higher standards of living than they in fact do. Previous research has shown that people with disabilities are more likely to report being ‘materially deprived’ than others, even given similar levels of income.¹⁹

¹⁸ Under the legacy system, those claiming Jobseekers’ Allowance (JSA) or Income Support (IS) can be eligible for disability premia. As these premia are abolished under UC, with only those on Employment and Support Allowance eligible for UC’s disability elements, the switch to UC can create particularly large losses for JSA or IS claimants entitled to disability premia.

¹⁹ See Figure 5.8 of Belfield, C. et al., *Living Standards, Poverty and Inequality in the UK: 2015*, Institute for Fiscal Studies (IFS) Report no. R107, 2015, <http://www.ifs.org.uk/publications/7878>.

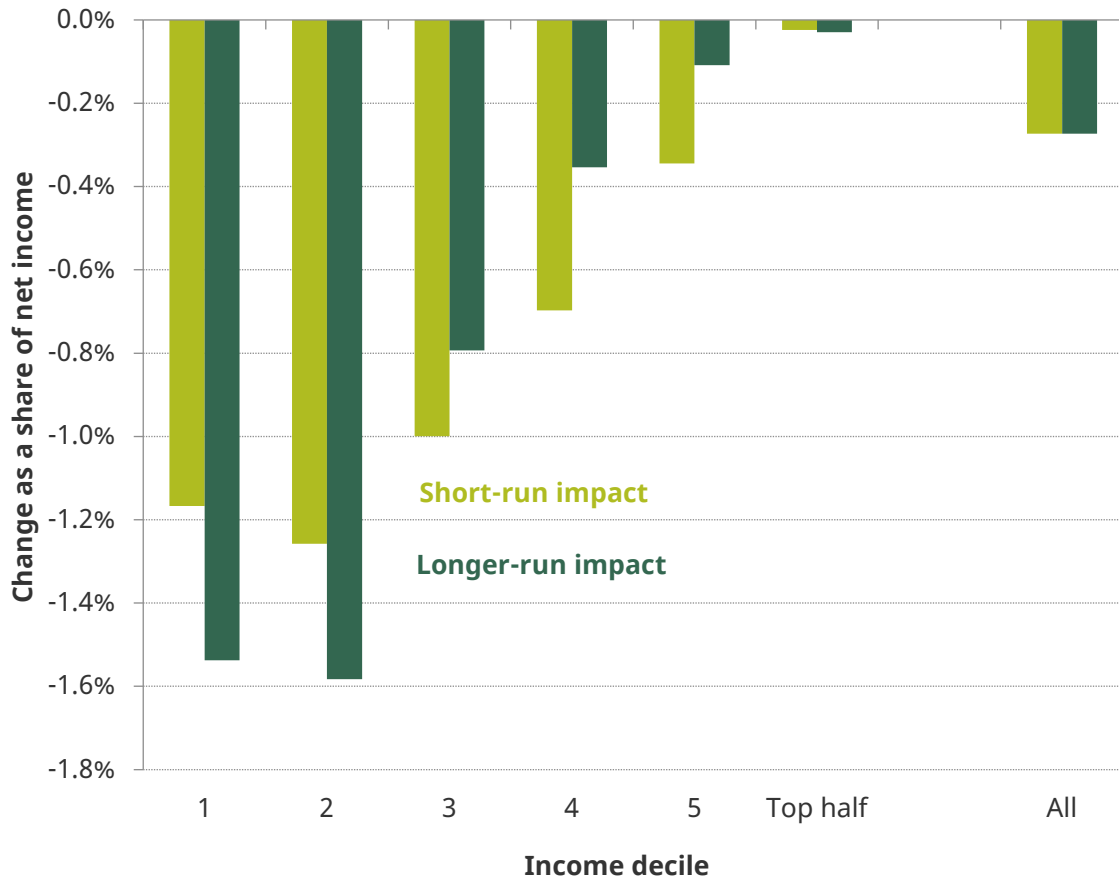
Figure 13. Longer-run incomes as a share of short-run incomes, by disability status



Note and Source: See Figure 1. The disability status of an adult is determined by whether or not they report claiming a disability or incapacity benefit. Incomes are measured at the household level and are equivalised.

Because UC's treatment of disability is comprised of a takeaway and a giveaway, we analyse them separately. Figure 14 shows the impact of UC's abolition of the disability premia (the takeaway). In the short run, the losses are concentrated in deciles 1-3. This pattern becomes more regressive when analysed on a longer-run basis, with the losses more concentrated in the bottom two deciles. This is not surprising given Figure 13: those on low incomes at a point in time are more likely to stay on a low income if they have a disability.

Figure 14. Distributional short- and longer-run impacts of the removal of disability premia in UC

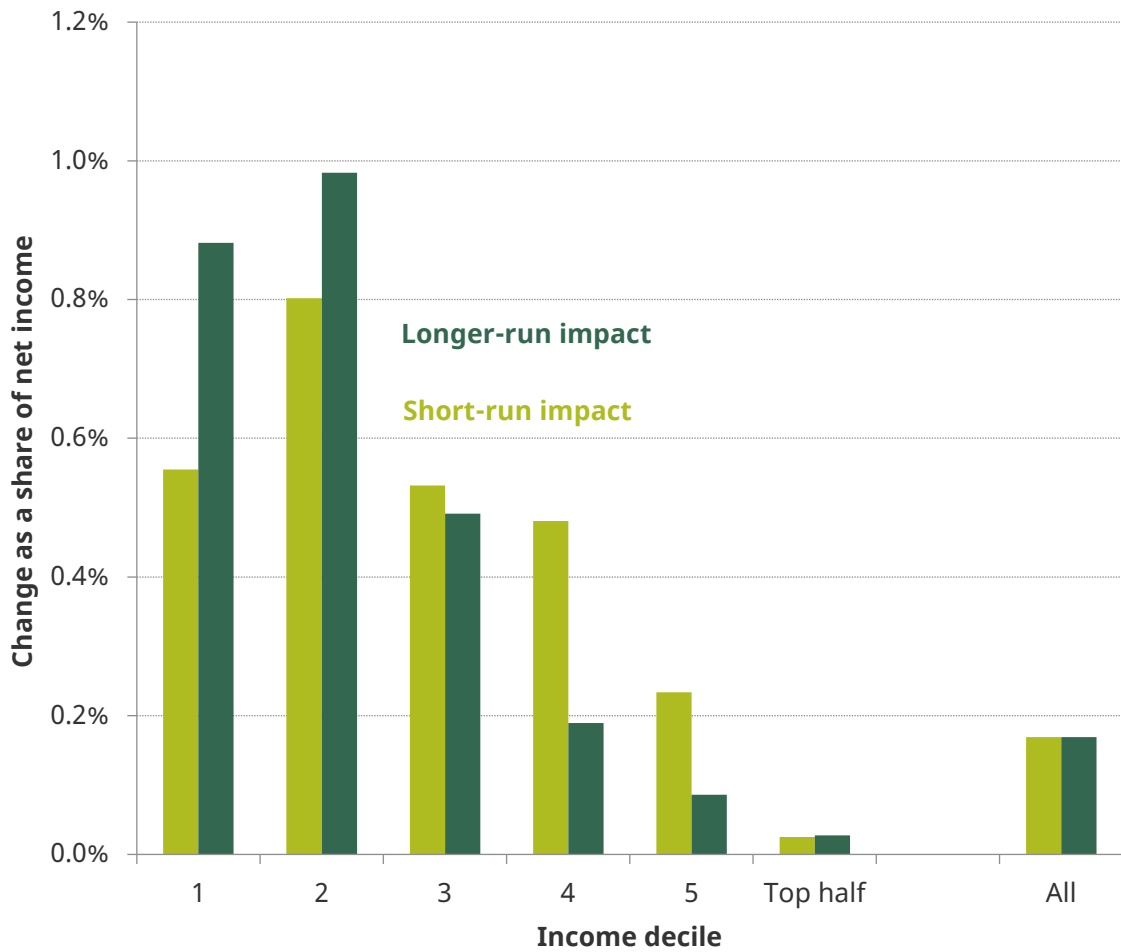


Note and Source: See Figure 1 and text. The figure shows results among all adults, not only the disabled. Income deciles are based on incomes under the UC system.

Figure 15 repeats the same exercise but for the part of the UC reform that increases entitlements for some people with a disability – the increase in the component given to those assessed as having limited capability for work related activity. The results are essentially a mirror image of the takeaway. In the short run, it is a progressive change, with deciles 1–4 gaining the most. Over the longer run, the gains concentrate more at the bottom two deciles, because for disabled people being on a low income is more likely to be a longer-run state.

The two changes to disability payments thus have offsetting effects: the giveaway makes the longer-run distributional impact of UC more progressive than the short-run one, while the takeaway does the reverse. Overall, the effects are relatively small, but because the takeaway is (as far as we can tell) larger than the giveaway, the net impact is to make the longer-run distributional effect of UC more regressive than the short-run effect. This is the opposite direction to the impact of the MIF, tougher asset tests, and treatment of renters versus owner-occupiers.

Figure 15. Distributional short- and longer-run impacts of a higher LCWRA component in UC



Note and Source: See Figure 1 and text. The figure shows results among all adults, not only the disabled. Income deciles are based on incomes under the UC system.

Treatment of renters versus owner-occupiers

UC makes a number of changes to the way that benefit entitlement responds to a claimant increasing their earnings and hours. It removes the feature of the legacy system where claimants on low earnings and hours who increased their earnings by £1 would see their benefits fall by £1. It also removes the increase in entitlement that legacy claimants would see when they reached certain hours of work thresholds and became eligible for working tax credit. Instead, UC steadily reduces benefit entitlement as earnings increase above a certain level (the claimant's 'work allowance').

One key difference between UC and the legacy system is that, under UC, there is a single 'taper rate' – the speed at which earnings reduce entitlement above the work allowance – that applies to renters and owner-occupiers. The effect of this is to tilt support more towards working renters. Under the legacy system, a working renter not claiming council tax support (a benefit not integrated into UC) who earns an extra £1 could see their net income only increase by 9p – because they lose 41p in tax credits, 18p in housing benefit

and 32p in income tax and National Insurance contributions.²⁰ Conversely, a similar claimant who is an owner-occupier – and who therefore does not receive housing benefit – would typically see their net income rise by 27p when they increased their earnings by £1. But UC integrates housing benefits and tax credits and applies a single taper rate to renters and owner-occupiers alike. This means that both the working renter and the working owner-occupier see their income rise by 25p for every pound that they earn – implying a more generous taper rate for the renter, and a slightly less generous one for the owner-occupier, when compared with the legacy system.

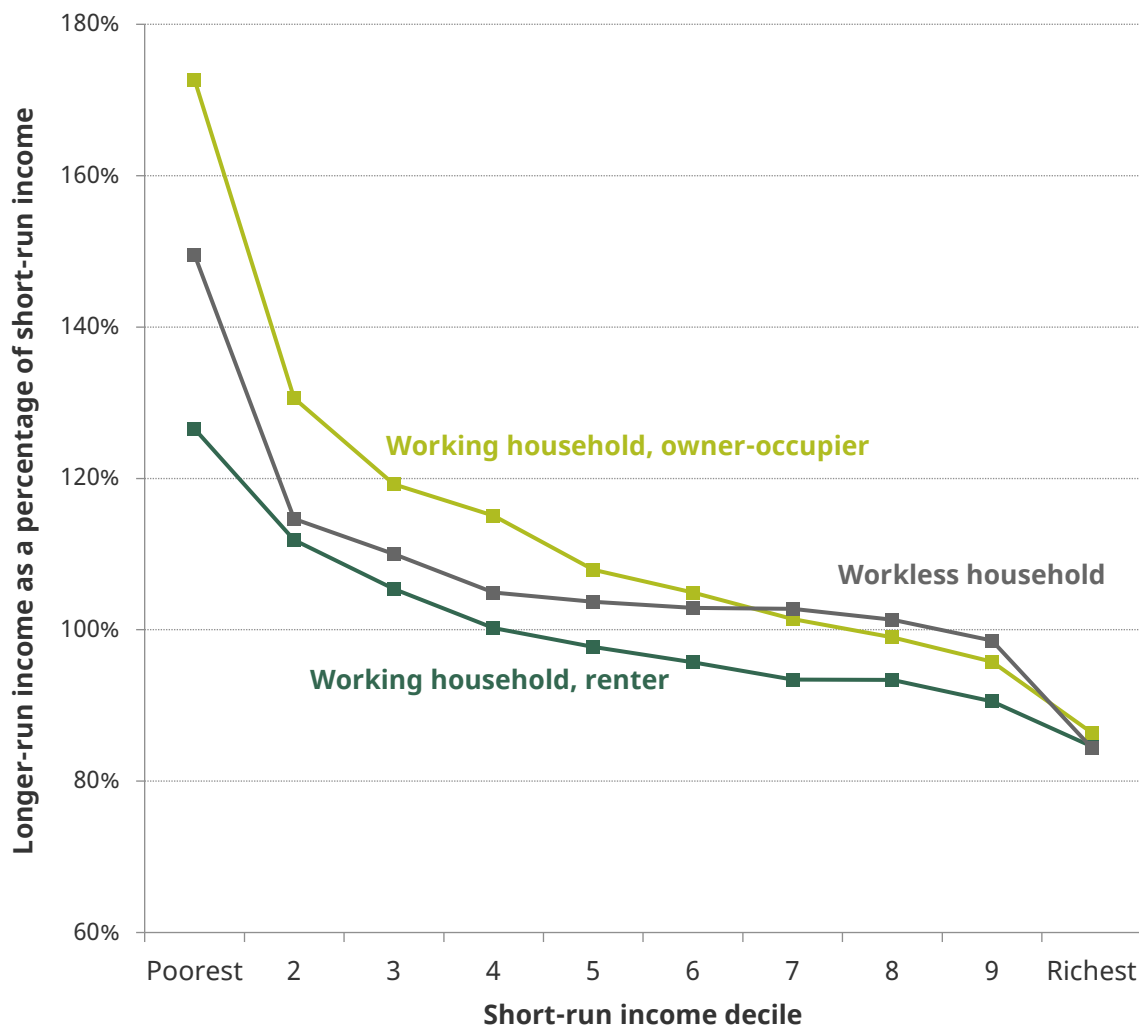
These changes to the way in which benefit entitlement responds to hours and earnings are partly a natural consequence of integrating benefits together, and partly because of choices the government has made (the taper rate and work allowance levels, for example, are set by – and indeed have already been changed by – the government). The net result of these changes is to make the system more generous to working renters.

Overall, among those in households entitled to means-tested benefits, those in working owner-occupied households lose, on average, £530 p.a. from the move to UC, while those in working rented households gain £370 p.a. Those figures are affected not only by UC's explicit treatment of renters and owner-occupiers (through the choices about taper rates and work allowances described above) but also, for example, by the fact that owner-occupiers are disproportionately likely to have high assets or be self-employed and hence lose out from UC's treatment of assets and self-employment income. As these were all distinct choices, it is useful to be able to analyse their effects separately. Hence, in the analysis below, we effectively 'switch off' these other differences between UC and the legacy system, and calculate the remaining additional support that UC provides to working renters.²¹

²⁰ If they were claiming council tax support, they could lose 5p of that, leaving their increase in net income from earning an extra pound at 4p.

²¹ More precisely, we compare incomes under two hypothetical benefits systems, which treat assets, self-employment income and disability in the same way but retain the differences between UC and the legacy system in how means-testing affects working renters. We calculate incomes under (i) a UC system without assets tests or a MIF, and with legacy disability premia, and (ii) a legacy system without asset tests. We then assess the difference between incomes under those two systems for working renters. The impact of this feature of UC for owner-occupiers, and those out of work, is set to zero.

Figure 16. Longer-run incomes as a share of short-run incomes, by tenure and household work status

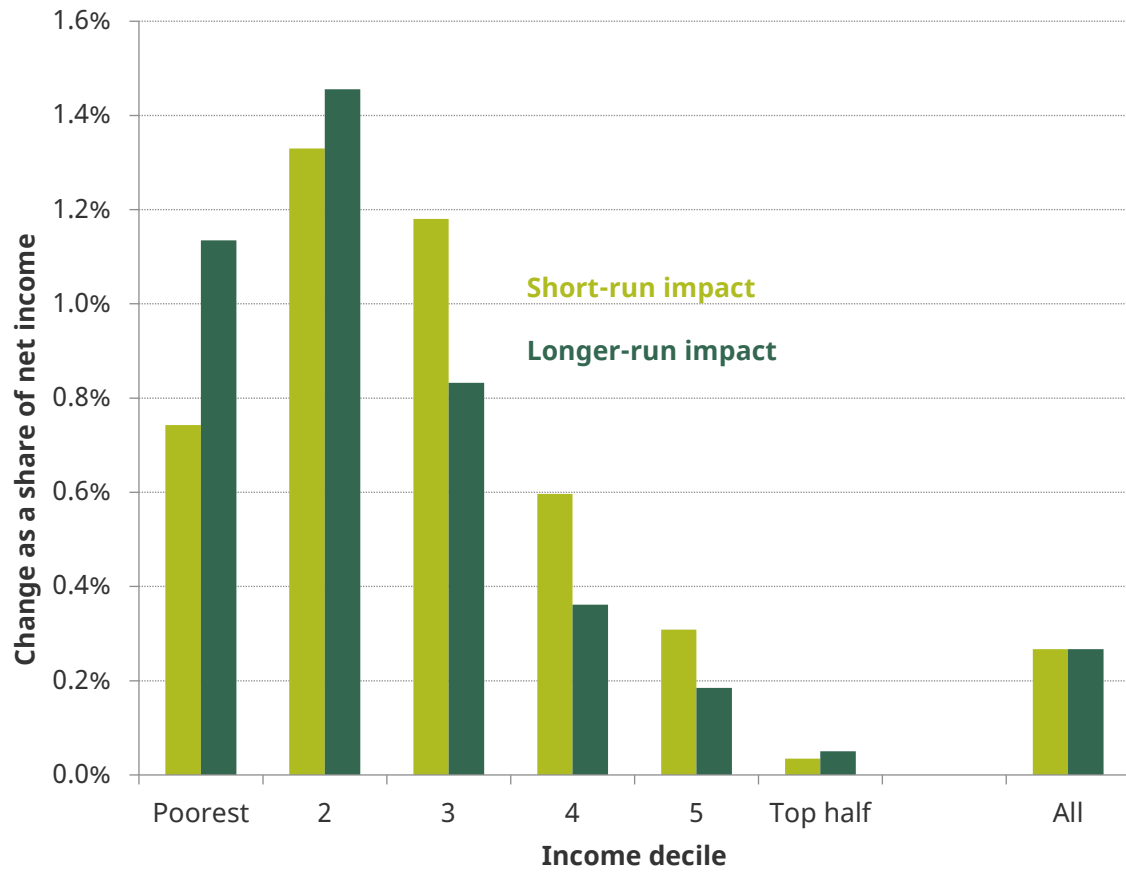


Note and Source: See Figure 1. An adult is classified as working or not according to whether there is anyone working in the household. Incomes are measured at the household level and are equalised.

As with previous features of UC, we analyse this feature by first looking at the relationship between short-run income, longer-run income, and tenure and work status. Figure 16 shows that being on a low income is less likely to be a temporary state for those in working households in rented accommodation than it is for either those in workless households, or those in working owner-occupied households.

The distributional consequences of the more generous support for in-work renters are shown in Figure 17. In the short run, this feature of UC is broadly progressive, with the second and third deciles gaining the most as a percentage of income. Because low-income renters are especially likely to be on persistently low incomes, as Figure 16 showed, this pattern is accentuated further when we assess people’s incomes over a longer period, with the gains more concentrated in the first and second longer-run deciles. Again, this helps explain why UC as a whole is less regressive on a longer-run basis than a short-run one, and why those that lose out from UC in the short run lose less in the longer run.

Figure 17. Distributional short- and longer-run impacts of more generous support for working renters in UC



Note and Source: See Figure 1 and text. The figure shows results among all adults, not only working renters. Income deciles are based on incomes under the UC system.

6. Conclusion

UC represents a major change to the UK's working-age means-tested benefit system. Any major change that brings together multiple benefits into one, without substantially changing the overall cost of the system, will inevitably create a lot of winners and losers. UC is no different. The fact that most claimants of means-tested benefits will see a change in benefit entitlement of at least £100 p.a. is an unsurprising consequence of this restructuring of the system.

But precisely who wins and who loses is dependent upon a number of more specific choices that the government has made about the design of the system. Moreover, some of the biggest losses of support that people will experience as a result of the switch to UC are due to those more specific choices. Among those who lose at least £1,000 p.a. from the reform, 77% are affected by one of four features: UC's treatment of the low-income self-employed (through the 'minimum income floor'), its tougher treatment of financial assets, its changes to disability awards, and making couples where one member is above state pension age and the other below ineligible for pension credit.

One important aspect of the distributional effects of policy, often ignored, is its impacts over longer periods of people's lives. People's circumstances can change and hence the effects of policy on them can change too. And the people who look poor when assessed at one point in time are not always the same as the people who look poorest when we take a longer-term view of their circumstances.

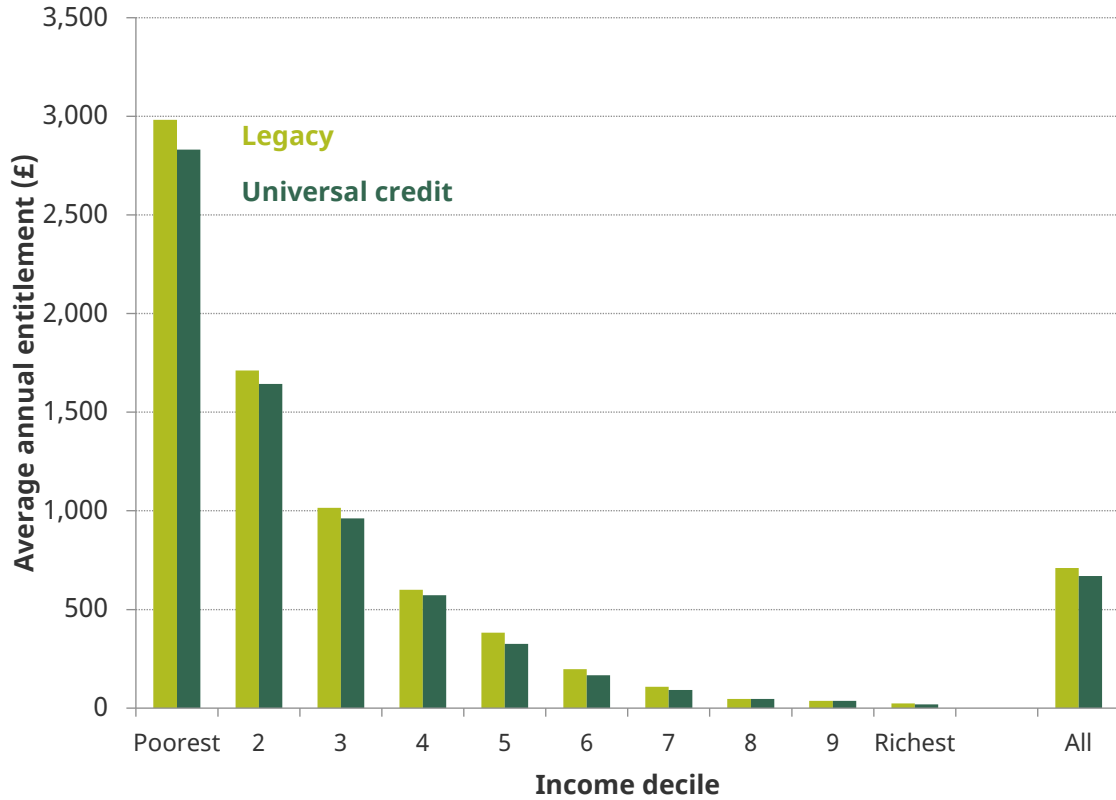
This is relevant for fully understanding the gains and losses from UC. It turns out that many of the large losses it creates at any single point in time are temporary. Key to this is that periods of low income are more likely to be temporary for those with financial assets and those who are self-employed. These are groups who often do badly out of UC at a point in time, but who are often not persistently poor and who are often not affected as badly by UC for very long. The fact that UC shifts support away from working owner-occupiers towards working renters has similar effects, as owner-occupation is also associated with higher longer-run incomes than renting. These all contribute to the fact that UC looks like a less regressive reform when its effects on people's incomes are assessed over multiple years than at a single point in time.

That said, UC does still represent a significant cut in entitlements for the persistently poor on average, and those that lose out from the disability changes are disproportionately likely to be in that category (even without adjusting for the higher costs that many disabled people face). The design features that target entitlement cuts on those who tend to have longer-run higher incomes only mitigate, not reverse, the fact that UC is regressive on a longer-run basis. In addition, of course, the short run matters too: it is not always straightforward for households to adjust to periods of low income, even if they are temporary, and one of the roles of a benefits system is to help smooth out some of those fluctuations. Some of the other features of UC that we are unable to analyse here, such as the five-week wait to receive one's first payment, are also important when thinking about how the system helps people to cope with changes in circumstances in the short run.

As well as being informative for those who wish to understand UC's effects, we hope this analysis will be useful more generally for those wishing to understand how the design of the benefits system affects people over the longer run. In the UK, benefit entitlements are almost entirely dependent upon the current circumstances of the claimant – a feature that is partly a necessity (conditioning entitlement on future circumstances would be very challenging) and partly a choice (other countries that make more use of the 'contributory principle' condition more on past circumstances). What this briefing note shows is that, even given this restriction, meaningful changes to the longer-run progressivity of the benefit system can be made – by targeting support to those with characteristics that are predictive of lower (or higher) longer-run incomes.

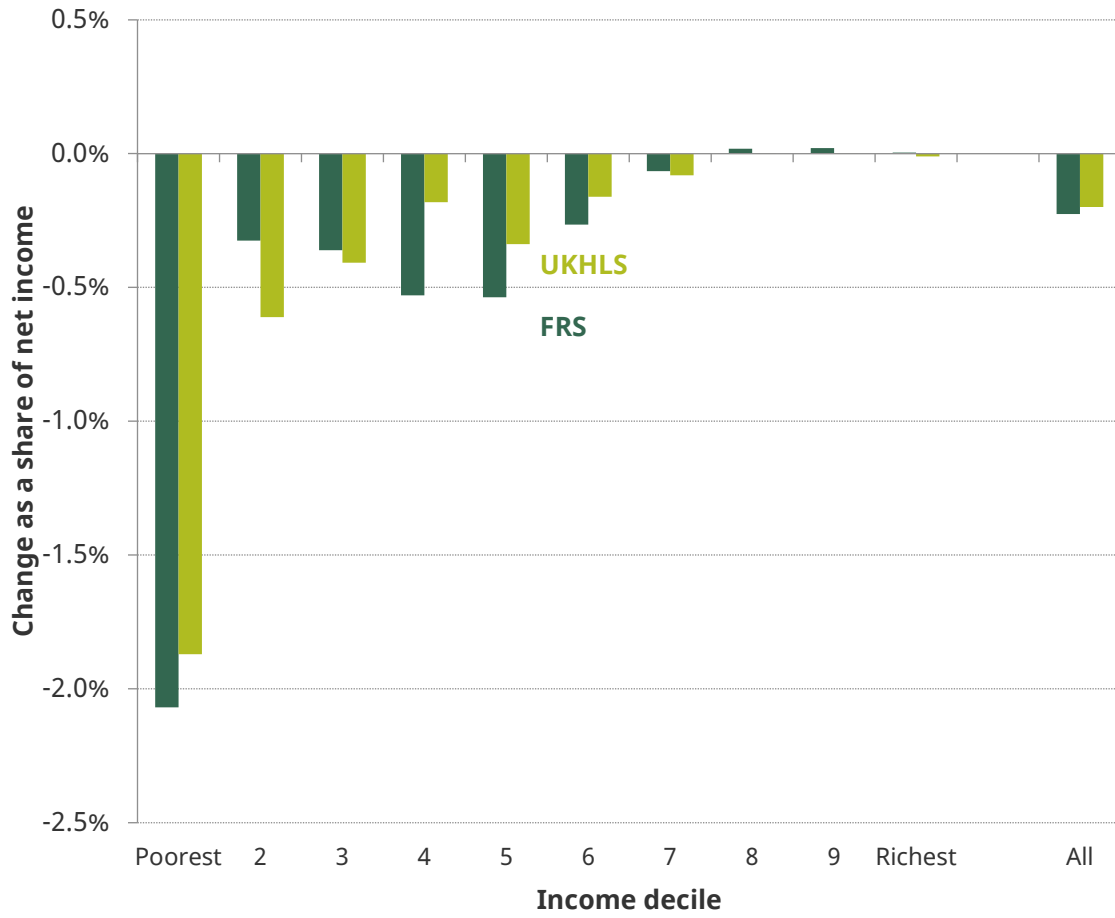
Appendix A

Figure A1. Legacy and UC entitlement per adult, by income decile, using the UKHLS data



Note and Source: As Figure 1, except using UKHLS, waves 1 to 8.

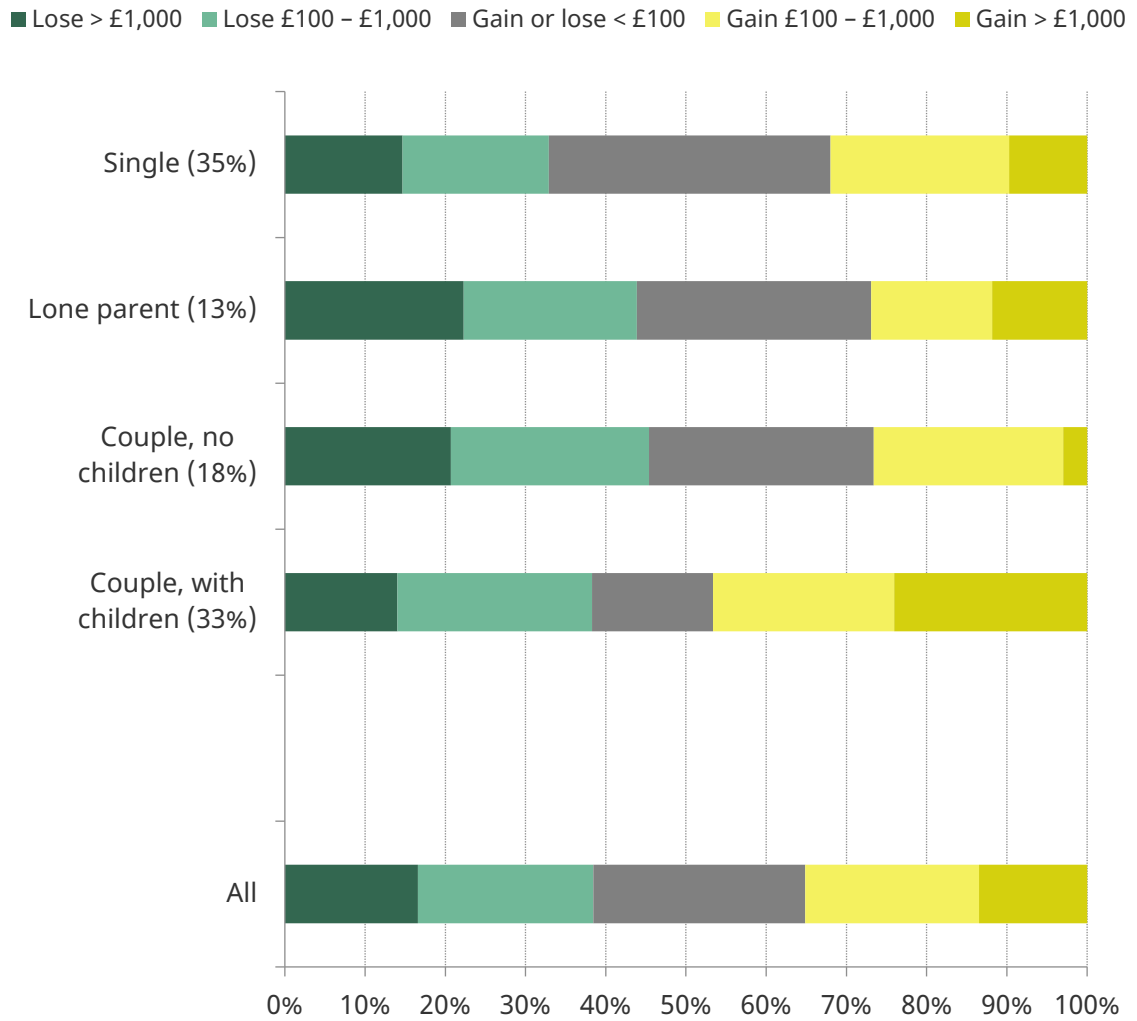
Figure A2. Distributional short-run impact of UC, Family Resources Survey (FRS) and Understanding Society (UKHLS)



Note: See Figure 1.

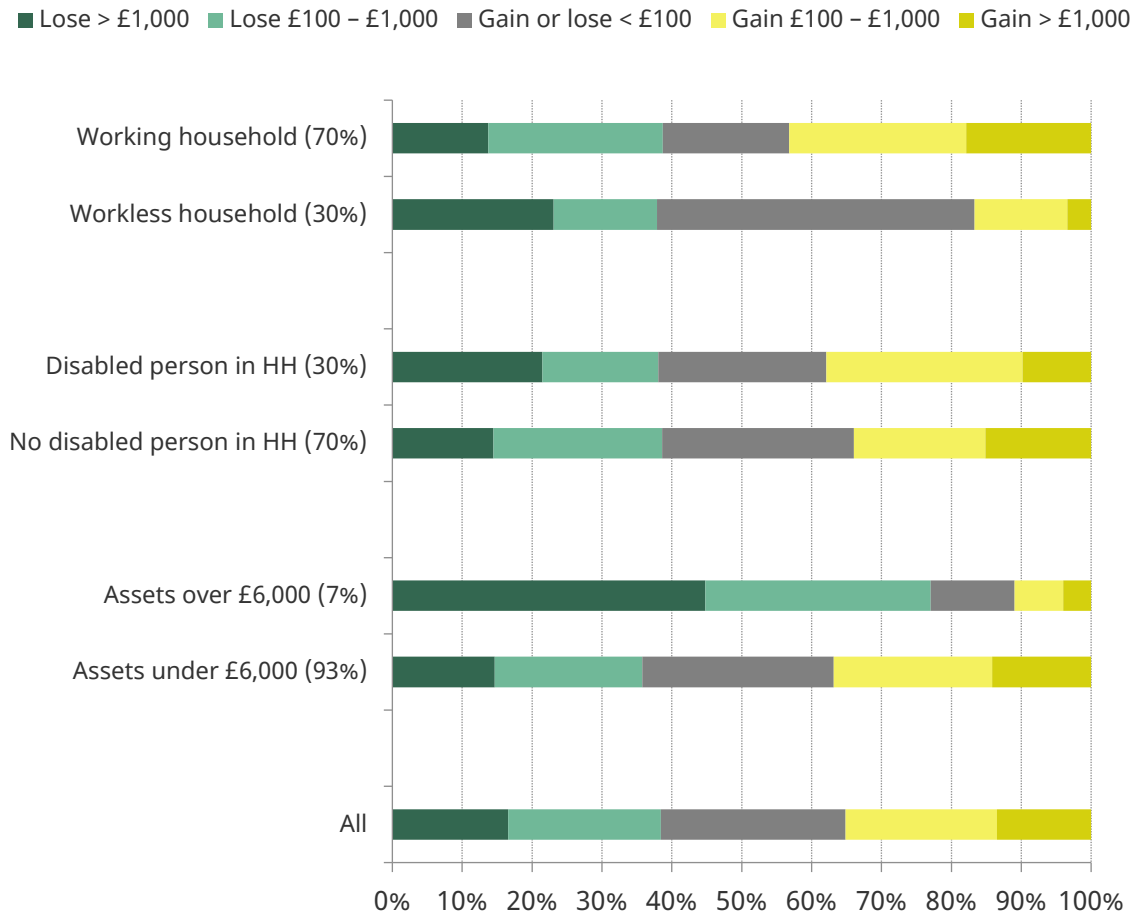
Source: See Figure 2, and the FRS (2009–10 to 2016–17).

Figure A3. Impact of UC on adults in households entitled to means-tested benefits, by family type (share of all entitled adults in brackets), using the FRS



Note and Source: As Figure 3, except using the FRS (2009-10 to 2016-17) rather than UKHLS.

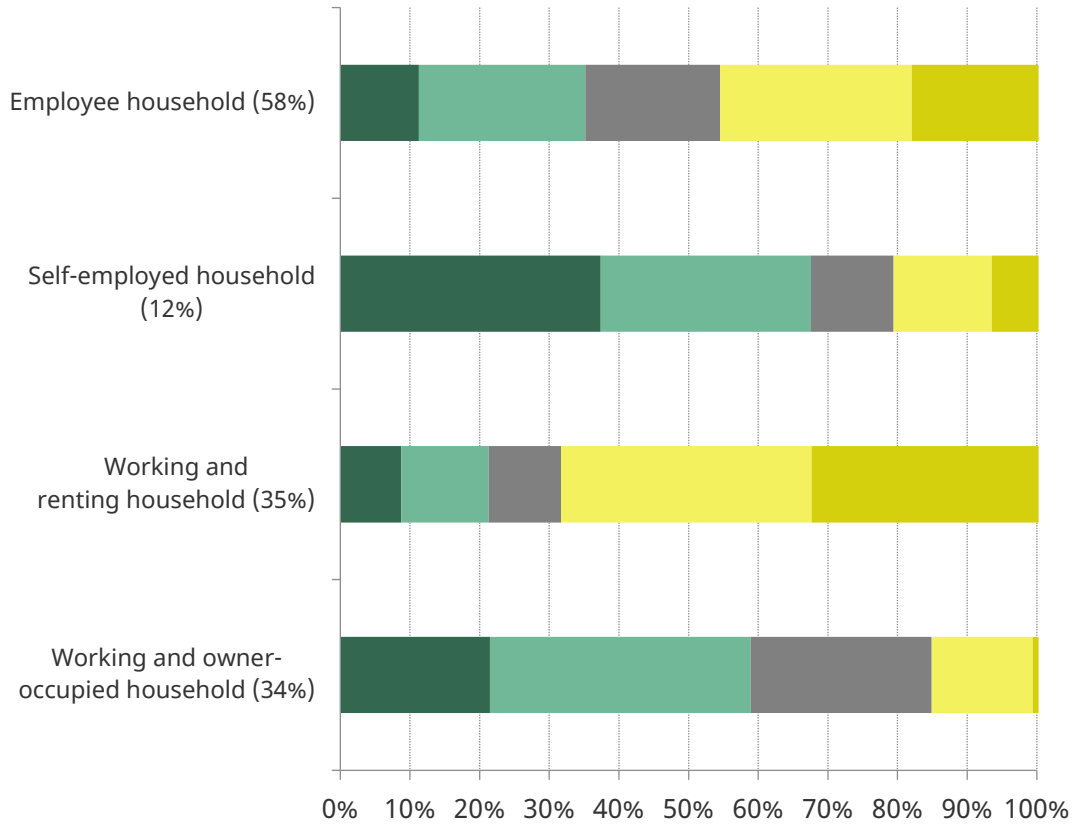
Figure A4. Impact of UC on adults in households entitled to means-tested benefits, by circumstances (share of all entitled adults in brackets), using the FRS



Note and Source: As Figure 4, except using the FRS (2009–10 to 2016–17) rather than UKHLS.

Figure A5. Impact of UC on adults in working households entitled to means-tested benefits, by circumstances (share of all entitled adults in brackets), using the FRS

■ Lose > £1,000 ■ Lose £100 – £1,000 ■ Gain or lose < £100 ■ Gain £100 – £1,000 ■ Gain > £1,000



Note and Source: As Figure 5, except using the FRS (2009–10 to 2016–17) rather than UKHLS.

Appendix B

Under the legacy system, those claiming Jobseekers' Allowance (JSA) or Income Support (IS) can be eligible for disability premia – typically if they are eligible for non-means-tested benefits. As described in Section 5, these premia are abolished under UC, so that only those who, in the legacy system, would be on Employment and Support Allowance (ESA) are eligible for UC's disability elements. This means that the switch to UC can create particularly large losses for JSA or IS claimants entitled to disability premia. In our analysis, we use reported receipt of incapacity and disability benefits in our data to determine eligibility. These data show a significant number of people who report receipt of non-means-tested disability benefits but not of ESA, and so would lose from UC's treatment of disability. However, this is difficult to reconcile with the administrative data on disability premia, which show that the vast majority of working-age people receiving the premia are claiming ESA – rather than IS or JSA.²² This discrepancy reflects the fact that survey data on benefit eligibility are typically subject to misreporting. In this analysis, we assume that most of those claiming non-means-tested disability benefits who do not report receiving ESA are, in fact, entitled to ESA. Under this assumption, we estimate that the government saves around £1 billion from the change to disability awards. This is more than, though not too dissimilar from, the approximately £0.5 billion saving implied by administrative data.²³ This difference is a consequence of our data appearing to have too few people who are in the Support Group of ESA. These people are more likely to gain from UC (as discussed in Section 5), resulting in our analysis overstating the saving to the government. Because of these difficulties with disability data, we consider our estimates of the impact of the changes to disability awards to be illustrative; the general patterns are likely to be correct, but not too much weight should be put on the precise numbers.

²² See <https://www.gov.uk/government/statistics/people-on-income-related-esa-and-enhanced-or-severe-disability-premium-or-both>.

²³ Gross saving derived from <https://www.gov.uk/government/statistics/people-on-income-related-esa-and-enhanced-or-severe-disability-premium-or-both>; gross cost derived from number of ESA Support Group claimants as given by the Department for Work and Pensions' Stat-Xplore (<https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml>). This £0.5 billion costing is itself somewhat uncertain as the gross saving estimate is sensitive to how many families receiving disability premia get the singles or couples rate.