

# **Universal Credit and Modern Employment: Non-traditional work**



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## Summary

The way we work has changed, with more people now working part-time, for themselves or on insecure contracts. The in-work benefit system has often been criticised as poorly suited to these new forms of work and for failing to offer sufficient financial incentives to progress.

Universal Credit - which replaces many in-work benefits such as tax credits and Housing Benefit - was intended to address many of these problems. However, in reality, UC will provide less predictability and security to those on less traditional employment contracts - both financially and administratively.

New rules for self-employed people could put them at significant financial disadvantage. The Minimum Income Floor (MIF) is likely to affect many people, particularly those whose income changes month-to-month, meaning some will lose hundreds of pounds in benefit support compared to directly employed counterparts with identical annual earnings.

In addition, people who are employed on non-traditional contracts may also face financial and administrative issues on UC. Those whose hours and earnings fluctuate may see these income variations made more extreme under UC, depending on the timing of their monthly assessment periods. Those who are not paid once each calendar month may see significant fluctuations in their benefit payments, with some needing to reclaim UC in certain months.

UC must be capable of reacting to changes in the labour market and supporting increased diversity in working arrangements. Without this, the new benefit risks creating or exacerbating financial insecurity for the significant proportion of the workforce in non-traditional work.

## Introduction

The 'traditional' model of full-time, permanent employment is now a thing of the past, with the UK workforce now consisting of a much greater proportion of people working part-time, for themselves or on insecure contracts.<sup>1</sup> Citizens Advice analysis suggests around 4.5m people are in a form of insecure work - meaning they hold jobs with some variability in hours or earnings. On top of this, 4.8m are self-employed. More than 1 in 10 (13%) UK adults say their income changes significantly from month to month. Almost half (48%) said they

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<sup>1</sup> ONS, [Trends in Self-Employment](#), 2018; IFS, The UK Jobs Market: [Where do we stand now?](#) 2017.

experienced at least one monthly drop in income last year, with an average largest fall of £385.<sup>2</sup>

There has also been a rapid growth of in-work benefits, with the rise of low-paid work resulting in more households becoming reliant on in-work benefits to top-up their income.

Since their introduction in 1999, tax credits have been the main form of in-work benefit. However, they are not well-suited to more insecure, flexible forms of work:

- The annual calculation of tax credit payments means they are not responsive to in-year changes, making both under and overpayments common.
- The tax credits system provides very limited scrutiny of, or support for, self-employed claimants. This has become more of an issue as the self-employed population has grown, with concerns about self-employed people being in receipt of Tax Credits for a long time with no prospect of increasing the success of their business and earning more.<sup>3</sup>

In addition to simplifying the benefits system overall, bringing tax credits into the new model for Universal Credit was intended to address these issues and improve the in-work benefit system for those in non-traditional work. Rather than an annual calculation, Universal Credit payments are designed to adjust to reflect actual earnings each month; if hours or pay change, the UC payment is adjusted accordingly. There are also new rules for those in self-employment, who must now prove their business is viable and genuine, and who will face financial penalties if their monthly income fails to clear earnings thresholds. These new rules intend to reduce the number of non-viable businesses and increase the incomes of self-employed claimants.

However, while laudable in their aims, it is not clear that that these changes will lead to a benefit system that works better for those in non-traditional work - and in some cases, might make their incomes more unpredictable. Financially and administratively, UC offers less stability to people with less conventional working arrangements. For people whose hours and earnings fluctuate, the move to a UC payment schedule that is adjusted on a monthly basis, with a range of new rules, can create significant additional challenges to achieving a stable income. This is often linked to the relatively arbitrary setting of monthly assessment periods used to calculate people's benefit entitlement, meaning they do not

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<sup>2</sup> Citizens Advice, [Walking on Thin Ice: the cost of financial insecurity](#), 2018, 2

<sup>3</sup> Citizens Advice, [Neither One Thing Nor the Other: How reducing bogus self-employment could benefit workers, businesses and the Exchequer](#), 2015.

always align with people's pay cycles and therefore no longer have the potential to smooth fluctuations over time for all claimants.

In this report, we look at the effects of UC on self-employed people and those who are employed on non-traditional contracts. We also explore how the design of UC can be altered to mitigate some of these problems. Our research is based both on our internal benefit calculations and modelling and on our insights in supporting thousands of benefit claimants across the country. Last year, Citizens Advice helped more than 50,000 people with 94,000 issues related to UC. We have also carried out an ongoing survey of people seeking our help with UC in full service areas. Our evidence therefore offers some of the clearest early insights into how benefit reforms affect working people and the experiences of some of those who come to us are set out in case studies in this report.

## Changes for self-employed people

Between 2008 and 2017, the number of self-employed people in the UK rose from 3.8m to 4.8m, and now makes up 15% of the workforce.<sup>4</sup> Self-employment is an important work option for people who might face barriers in the labour market. People with a health condition or disability, for example, are over-represented in the self-employed population.<sup>5</sup>

Because many of those in self-employment work part-time, in 2013-14 the median income from self-employment was £209 per week - just over half (54%) of the median income of all those in employment.<sup>6</sup> This means that a significant proportion of the self-employed population are eligible for in-work benefits.

In UC, self-employed people face a number of new policies, some of which could drastically reduce the financial support many are offered. These policies were designed to serve multiple purposes - some to crack down on fraud within the system, others to provide better Jobcentre support to self-employed people.

There are three key changes that will affect self-employed people moving onto UC, which we explain in more detail below. The first is the initial gainful self-employment test, the second the Minimum Income Floor, and the third is the surplus earnings rule. Taken together, they constitute substantial changes to the benefit system for self-employed claimants - yet all are as yet largely untested.

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<sup>4</sup> Citizens Advice, [Who are the self-employed?](#), 2015.

<sup>5</sup> See [Resolution Foundation analysis of LFS, 2017](#)

<sup>6</sup> Citizens Advice, [Who are the self-employed?](#), 2015.

### ***'Gainful self-employment' tests***

UC claimants will need to be assessed as 'gainfully self-employed' in order to be eligible for financial support. This will involve an interview with Jobcentre Plus using criteria similar to those set up for tax credit claimants in 2015 - although up to now these have been more as part of 'spot checks' rather than a formal initial interview. A claimant must be able to demonstrate that their work is regular and organised, that it is their main job, and that they expect to make a profit. If the Jobcentre assessor decides they are not gainfully self-employed, they will be required to start looking for alternative work.

In theory, these rules will prevent people continuing for long periods in businesses which are not viable and don't provide enough income for them to live on, reducing demands on the in-work benefit system. However, in practice, administering this system effectively will place significant new demands on already stretched Jobcentre staff. Supporting people in employment is new territory for work coaches, and self-employed people in particular can have very varied needs and working patterns. This also makes it potentially difficult to determine whether a business is viable; as previous Citizens Advice research has found, there is huge diversity in the self-employed population and the progression of their businesses.<sup>7</sup>

Without sufficient training and resources for Jobcentres and their staff, there is a risk that the new rules under UC could deter self-employed people who could genuinely benefit from support, risking the Government's aim of promoting and expanding entrepreneurialism.<sup>8</sup>

### ***The Minimum Income Floor***

Once claimants have passed gainful self-employment tests, and if they have been self-employed for more than a year, they are subject to the Minimum Income Floor (MIF). This is perhaps the biggest change facing self-employed people moving onto UC. The MIF is based on an earnings threshold equivalent - for those without health conditions or caring responsibilities, this will usually be set at 35 hours at the appropriate National Minimum Wage rate (this threshold should be set by Jobcentre at a lower level for those not expected to be working full-time). Employed people are also expected to reach this earnings threshold under the policy of in-work conditionality. Failing to do this does not mean they are subject to any immediate financial penalty, but they will be required to engage with Jobcentre Plus to demonstrate they are making efforts to increase their hours or earnings.

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<sup>7</sup> Citizens Advice, [Going Solo](#), 2015.

<sup>8</sup> [Conservative Manifesto 2017](#), 21

The MIF will take effect immediately for people making a new claim for UC who have already been self-employed for more than 12 months. Once it is applied, self-employed people are assumed to be earning above its threshold every month. In any month they don't reach this threshold, the difference will *not* be made up by a larger UC payment, despite the claimant having a lower income from their self-employment that month. This is likely to create real challenges for many self-employed people - and could significantly reduce the support they receive from the in-work benefits system. The OBR estimates more than 400,000 claimants will experience losses as a result of the MIF.<sup>9</sup> DWP's own projections suggest the policy could be saving £1.5bn by 2021-22.<sup>10</sup> The fact the threshold must be cleared every month also means that - for the first time - the level of financial support you receive from in-work benefits is not only being decided by how much you earn over a year, but by the way in which you work.

One of the most significant factors is the variability of many self-employed people's incomes, which can be seasonal or simply highly unpredictable from month to month. A recent Citizens Advice survey found nearly half (49%) of people who are self-employed or in insecure work said their income changed either a fair amount or a great deal from one month to the next, compared to 13% of all adults.<sup>11</sup>

A variable monthly income can create budgeting challenges even for those not claiming benefits, but can be exacerbated for people on UC due to the way in which benefit payments are calculated. Yet analysis has found that, because of the MIF, being self-employed with an unpredictable income can significantly reduce the *total amount of support* that someone is entitled to under UC - leaving them worse off simply because of the nature of the work they undertake.

To illustrate how this works, we take the example of two workers with identical circumstances and annual earnings. Sue and Sarah are both single parents with one child<sup>12</sup>, earning £9,750 a year<sup>13</sup>, with housing costs of £150 per week. However, Sue is self-employed and her income from this work fluctuates - by around £162.50 each month on average (a recent DWP study of self-employed people claiming tax credits found, of those with a varying monthly income, 26% reported variations of up to £100 per month, 17% of up to £200 and 12% up to

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<sup>9</sup> OBR, [Welfare Trends - January 2018](#), 10.

<sup>10</sup> OBR, [March 2017 Economic and fiscal outlook – supplementary fiscal tables: expenditure](#), Table 2.22

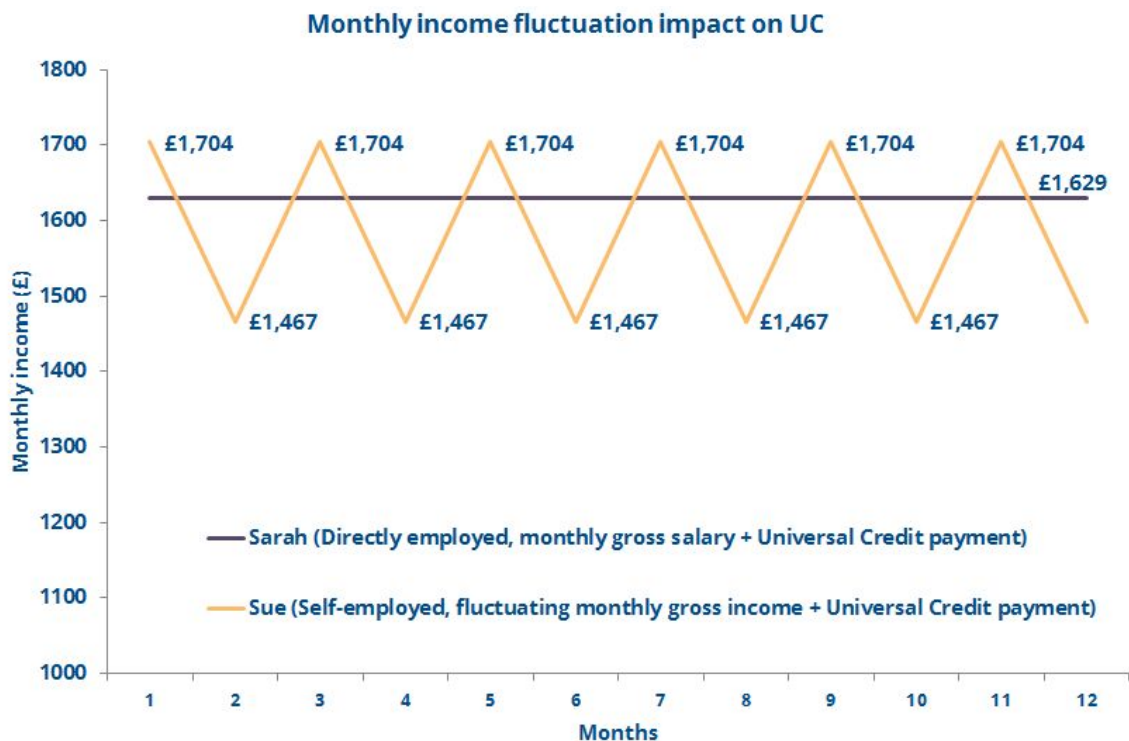
<sup>11</sup> Citizens Advice, [Walking on Thin Ice: The cost of financial insecurity](#), 2018, 11.

<sup>12</sup> This assumes steady state UC where children born after 6th April 2017 do not receive a higher child element if they are the first child.

<sup>13</sup> This is the salary threshold for the Minimum Income Floor for a single parent with one child under 13 (calculated as 25 hours per week at the National Minimum Wage of £7.50 an hour).

£300<sup>14</sup>). Sarah, on the other hand, is directly employed, works fixed hours and is paid the same amount each month. The pattern of their incomes over 12 months - including UC payments - is set out in the chart below.

**Figure 1<sup>15</sup>:**



Every time Sue’s monthly income falls below the MIF, the amount she gets in UC is not adjusted. Yet on the months she earns significantly more than the MIF, her UC payment is reduced accordingly: Sarah receives £9800 in UC payments, while Sue receive £9275. This means that, even though over the year she earns exactly the same amount of money as Sarah, Sue and her family are worse off by £525.

For a self-employed worker whose earnings are largely seasonal - for example, someone working in hospitality or agriculture - the impact is even greater. If Sue were to make most of her money in summer, earning £1137 a month for 4 months, but only £650 per month for the other 8 months, then she could expect to be worse off in comparison with Sarah by £630 over the year.

These losses can be intensified by the extension of the MIF into eligibility for other benefits. Some local authorities have used the MIF to determine eligibility for Council Tax Support, for example - meaning that a self-employed person’s

<sup>14</sup> Department for Work and Pensions, [Self-employment Working Tax Credits Claimant Survey and Qualitative Follow-up Research](#), 2017, p.8.

<sup>15</sup> Due to differences in how self-employed & directly employed workers pay NI, we show gross income plus Universal Credit throughout to aid comparison. Take-home pay will be lower than shown here.



entitlement will be calculated based on their *assumed* level of income under the MIF, rather than their actual earnings. This can leave self-employed people on low incomes in severe financial difficulty - in some months both losing out on UC and from reduced entitlements to other benefits.

### **Case study - Impact of the Minimum Income Floor**

Karen and her husband Paul recently moved from working tax credits to Universal Credit after Karen had a second child. Karen is a shop worker and Paul is a computer engineer.

Paul has anxiety and struggles to work structured hours. Because of this, the couple had decided that it made sense for him to be self-employed, giving him the flexibility to take on some of the childcare and work around his health condition. This arrangement had previously worked well under tax credits, with any monthly shortfall in income supplemented by their regular benefit payment.

However, after the switch to UC, they were told that they would be unlikely to receive benefit payments because, under the MIF, Paul's self-employed income is calculated at around £1,000 per month - even when he's actually making less. With little income from Paul, reduced benefit payments on UC, and only a small amount of maternity pay, the family were forced to visit a food bank. They finally decided that it no longer made sense for Paul to continue working at all - he gave up his self-employed role to look after their children and Karen increased her hours when she went back to work.

Karen was confused about the way the new rules worked. She said: "The way they deal with self-employed people is really strange. My husband may not have been making £1,000 per month, but he was making something, which is an achievement for someone who struggles with their mental health. This change has forced him out of work and to become the main carer."

### **Case study - The Minimum Income Floor and Council Tax Support**

Andrea is a self-employed hairdresser. She came to Citizens Advice about her Council Tax bill. Due to her eligibility for Council Tax Support, Andrea had previously paid £17 per month towards her Council Tax. However, after a recent reassessment, she had been told she would need to pay £140 per month, despite the fact her earnings had not changed. This was because her local authority is now applying the MIF to decide on eligibility for Council Tax Support - meaning everyone applying whose earnings fall below the MIF is assessed as though they were earning it.

Andrea was extremely anxious about her finances. She could not afford her higher Council Tax payments, but did not think she could easily increase her income or change her working arrangements. Hairdressers at her salon are usually self-employed, but the salon takes a 45% cut of their earnings.

The complexity of the MIF also means that few self-employed people are likely to be prepared for its challenges; a recent DWP study with self-employed tax credit recipients found they “struggled with the concept” and had “limited understanding” of how it would affect them. They most commonly reported they would simply “wait and see”.<sup>16</sup>

Given that large numbers of self-employed people have regular variations in income from month to month, and in certain sectors many will be affected by seasonal factors, the operation of the MIF is likely to have a major impact on the support available to self-employed people through the benefits system. The policy is also internationally untested, making it even less clear how self-employed claimants will react. While it may serve its objectives of pushing self-employed people to increase their earnings or seek employment, it could also see people giving up potential viable businesses, leaving work altogether, or struggling to continue self-employment despite significant hardship.

### ***Surplus earnings rule***

The final significant rule-change to affect self-employed people under Universal Credit is the ‘surplus earnings rule’ - due to come into effect in April 2018 and applying to all working people claiming UC. This rule effectively means that some earnings or losses are carried forward to future assessments of income. In practice, it means that people continue to see reductions in their UC payment for up to six months after they had a higher income from work in one month, reducing UC’s ability to smooth fluctuating incomes.

The rule is intended to prevent claimants manipulating their income by clustering their earnings into particular months, in order to increase UC payments in following months. Yet it could also affect those who do not deliberately manipulate their income. There have been widespread concerns about the likely effectiveness of the policy in terms of changing behaviour, given its significant complexity. The DWP’s Social Security Advisory Committee recently stated: “one of our main concerns... is the assumption that claimants will have a

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<sup>16</sup> Department for Work and Pensions, [Self-employment Working Tax Credits Claimant Survey and Qualitative Follow-up Research](#), 2017, p.72

detailed understanding of this complex policy, when in reality it seems likely most will not.”<sup>17</sup>

The threshold for the rule to apply was originally set at the amount of income which exceeds the maximum permitted for a UC payment, plus £300 per month. However, the DWP has recently announced that, for the first 12 months of the rule’s operation, that threshold will be substantially higher, at £2500 per month. While this means relatively few claimants are likely to be affected in the first year, if the threshold is reduced in future as planned it could cause serious problems for many self-employed claimants.

### ***Administrative issues for self-employed people***

On top of the new rules, more practical, administrative issues could make life on UC more challenging for self-employed people, who are already required to manage their own income, accounts and taxes. This is partly because on UC, earnings need to be reported monthly, rather than annually as previously. Many report struggling with this process, with frequent errors and confusion.

“Having to call DWP with self-employed earnings is really inconvenient. I'm not allowed to call on behalf of my husband, despite it being a joint claim. He works outside and it's very difficult to call - there's always a long wait time.” *Nina, 35, Citizens Advice Universal Credit survey respondent*

“It's been an awful experience - really stressful. They got the payments wrong... they had not sorted out the fact that income varies from month to month when you're self-employed... I went to the Jobcentre to meet a Citizens Advice adviser to help me budget. But we still couldn't as it is unclear what I am getting each month. It was supposed to be a benefit for the self-employed but it's a headache - such a shame!” *Christine, 52, Citizens Advice Universal Credit survey respondent*

The clear risk is that, amongst the various new tests, administrative issues and budgeting challenges, UC could make life much harder for self-employed people. The issue of non-viable or bogus self-employment remains an important one - and these groups may need to be identified and supported to look for opportunities in the regular labour market. However, the current arrangements, particularly the use of the MIF, affect many more self-employed people than just those in non-viable businesses. If large numbers find themselves struggling, and UC fails to offer support that is tailored to the diverse needs and circumstances of self-employed people, then the benefit could begin to serve as an active deterrent to people becoming - and remaining - self-employed.

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<sup>17</sup> Social Security Advisory Committee, [Surplus Earnings Report](#), 2017.

## Recommendations for self-employed people

- **Review the impact of the Minimum Income Floor to ensure self-employed people are not disadvantaged financially compared to people in employment.** We believe the MIF in its current form puts self-employed people at a significant and unfair financial disadvantage compared to their employed counterparts. It has also - so far - been untested, despite the significant risks that it will affect a far greater group than simply those with non-viable businesses. It requires full evaluation from the DWP, including trials of alternative models, such as allowing claimants with fluctuating monthly wages to average their incomes over a set period. The MIF could also be replaced altogether by requiring self-employed people to undergo more regular tests to ensure they remain gainfully self-employed which, like in-work conditionality, could be triggered if recorded income falls below the MIF threshold for a set period of time.
- **Introduce specialised training on supporting self-employed people for Work Coaches and clarify the Jobcentre support arrangements in place for self-employed claimants.** Jobcentres will need to engage with self-employed people to an extent they have never been required to previously - including in deciding whether or not their business is viable. They will require additional training and input from specialists to make such decisions. This could involve using advisers currently working on the New Enterprise Allowance, for example.
- **DWP should develop options for self-employed people to be able to report and prove their income online.** This is a particular issue given the requirement for monthly reporting.

## Changes for people in non-traditional employment

Another group of working people facing new challenges as they move onto Universal Credit will be those in non-traditional or insecure work. This is not only people on 'zero hours' contracts: our analysis of labour force data identified numerous other groups, including people on temporary contracts or engaged in agency work, those who have varying shift patterns, and people who are reliant on overtime.<sup>18</sup>

People in these forms of work are more likely to experience fluctuations in their hours, income and working arrangements. UC was designed to better support this group, with benefit payments adjusting monthly to reflect real earnings and reduce the risk of benefit overpayments. Yet this also means this group are now likely to experience fluctuations in income *and* benefit payments month to month. Monthly assessment periods, which are used to check people's benefit eligibility, are set arbitrarily, based on the date of someone's claim rather than being aligned with their pay cycles. This can mean some claimants find income variability is exacerbated, rather than smoothed, as we explain below. This can create new issues for people's budgeting and general sense of financial insecurity in work.

### ***Fluctuating incomes***

Although some claimants with variable incomes will be helped by UC, there are obvious budgeting challenges for people whose income fluctuates almost every month. Under tax credits, the risk of overpayments was high for this group. Although UC was designed to remove this risk, in fact the timing of wage payments relative to UC's monthly assessment periods can make a huge difference to whether the new benefit helps to smooth monthly income fluctuations or make them worse. Assessment periods are currently set in an arbitrary way - your assessment period begins in relation to the date you happened to file your claim - despite the fact this can make a big difference to the stability and predictability of income.

Ideally, wage payments should fall a few days *before* the end of a UC assessment period, meaning the payment is effectively topping up that month's wages. However, if the wage payment date falls a few days *after* the end of the assessment period, then UC is likely to exacerbate changes in income.

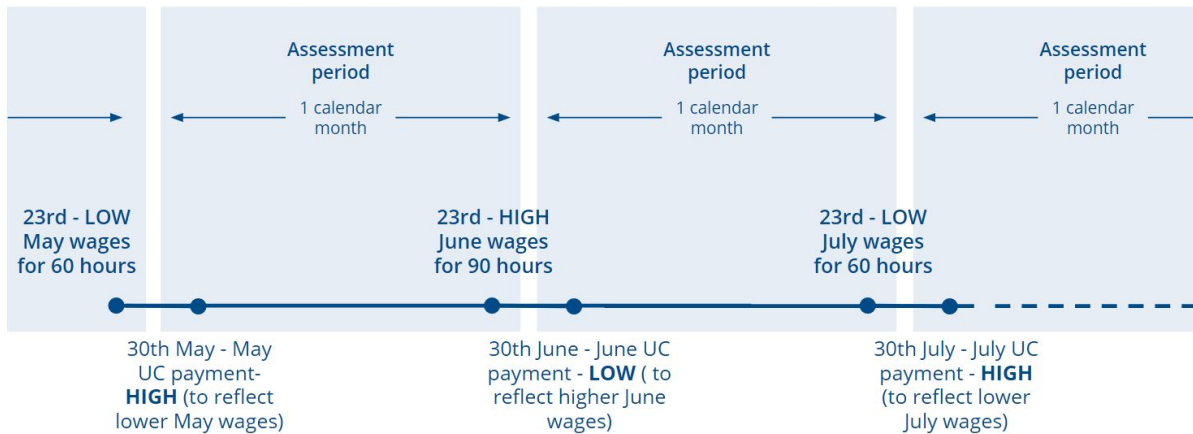
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<sup>18</sup> Citizens Advice, [The Importance of Income Security](#), 2016.

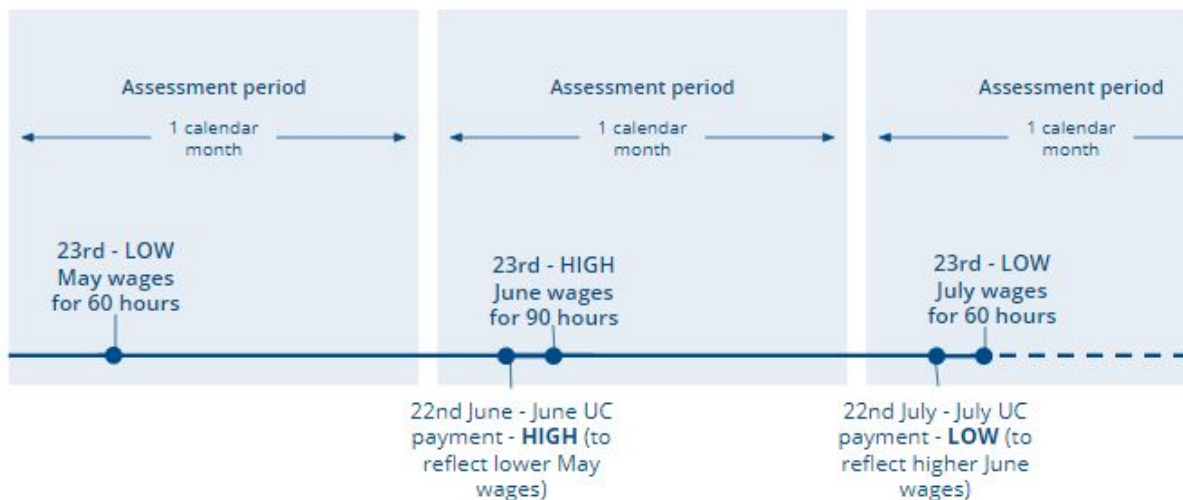
**Example:**

Jenny is single with no children, and has housing costs of £150 per week. She worked 60 hours in May, 90 hours in June and 60 hours again in July, earning £7.50 per hour. She receives her wages on the 23rd of each month.

If her UC assessment period for June runs from 24th May until 23rd June (with her UC payment paid 7 days later on 30th June), UC will top up her wages and help to smooth out changes in income, meaning she will receive higher UC payments in the months she receives lower wages and vice versa.



But if Jenny had applied for UC at a different time, for example submitting her claim on the 14th of a month, her UC assessment period for June would run from 14th May until 15th June. This would mean her changes in income are exacerbated by adjustments in her UC payments. As UC is paid in arrears, based on the wages recorded in the previous assessment period, receiving wages early in an assessment period means the UC payment for one month is likely to fall very close to the wage payment for the next. Where wages fluctuate, this can mean Jenny will receive higher UC payments just as she is about to receive higher wages. The following month, her lower UC payments fall alongside lower wages, as illustrated below.



This can create major budgeting challenges, with UC payments making fluctuations in monthly income more extreme. In Jenny's case above, with high UC payments alongside high wages, followed by low UC payments with low wages, her overall monthly income could fluctuate by around £360.

### ***Non-monthly wage payments***

A second issue is that of non-monthly wages. UC tends to work most effectively for people in the most traditional working arrangements - working fixed hours and paid a set income once each calendar month. However, our evidence suggests many working people on UC will not fall into this category. When we surveyed our UC clients in full service areas about their current or most recent employment, less than half reported they were being paid monthly.<sup>19</sup> This is backed up by recent analysis from the Resolution Foundation; using new data based on bank transactions, they found that the majority (58 per cent) of new claimants moving onto UC were paid either fortnightly or weekly in their current or previous job.<sup>20</sup>

Of survey respondents in work before claiming UC:

**37%**

paid weekly

**10%**

paid fortnightly

**8%**

paid every four weeks

**45%**

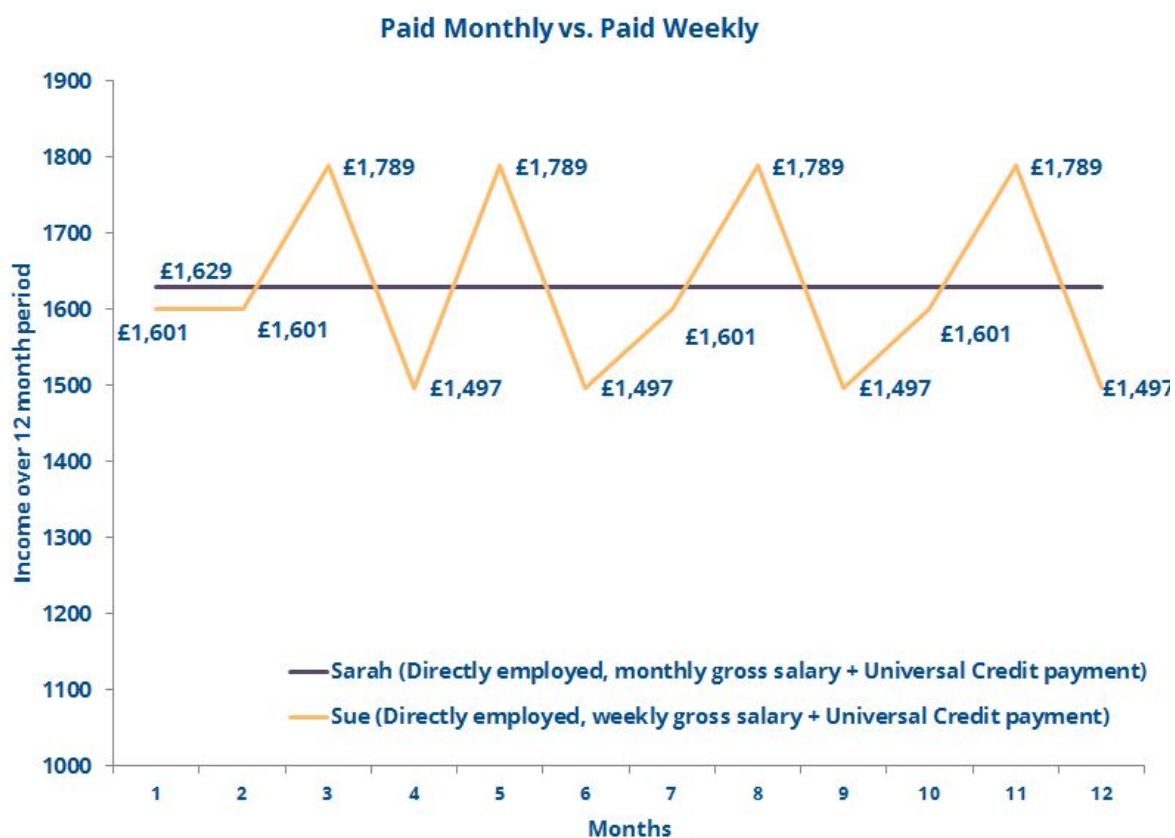
paid monthly

<sup>19</sup> Citizens Advice, [Fixing Universal Credit](#), 2017, 24.

<sup>20</sup> Resolution Foundation, [Universal Remedy](#), 2017, p. 6.

While the overall value of their annual benefit entitlement does not change - and is no different from a worker with a set monthly pay pattern - those trying to combine non-monthly wages with a monthly benefit can experience significant income fluctuations. To illustrate how this works, we can return to the example of two workers with identical circumstances and annual earnings. As a reminder, Sue and Sarah are both single parents with one child, both employed and earning £9,750 a year, with housing costs of £150 per week. However, in this case Sue is paid weekly and Sarah is paid monthly. The pattern of their incomes over 12 months - including UC payments - is set out in the chart below.

**Figure 2:**



Because Sarah's earnings are the same each month, her UC payment does not change. Sue, however, is paid weekly and - because each month does not contain the same number of weeks - her earnings recorded in each calendar month will vary. The amount she earns from wages in any given week stays the same but in some calendar months she receives four wage payments and in others she receives five. This will lead to fluctuating UC payments: we have calculated that the average monthly variance in her UC payments will be £110,



even though her wage income each week does not vary at all. These changes can be very difficult to calculate in advance and may change from year to year.

In some cases, these fluctuations for those paid non-monthly wages may be sufficient to take them over the earnings threshold for UC altogether (for example, where two four-weekly wage packets happen to fall in a single assessment period). Unless claimants know they quickly need to re-claim, this could lead to a loss of benefit payments.

### **Case study - four weekly wages**

Darren works part-time and is paid every four weeks. He came to Citizens Advice as he had received a drop in his UC payment and was confused about why this had happened. His adviser reviewed his statement with him and noticed that two of his four weekly wage payments had fallen at the beginning and end of a single calendar month assessment period. This meant Darren's UC payment for that month had dropped significantly, even though his earnings had not changed.

This situation had left Darren confused and anxious. Because he had not been expecting a change in UC payment, he was now facing a situation in which he was overdrawn and unable to pay some of his monthly bills.

### **Case study - problems aligning wages and assessment periods**

Tania is a single parent who works 16 hours per week. Her UC assessment period runs from the 30th to the 29th of each month. Tania is paid on the last working day of each month. This meant that she was paid on the 31st March and 28th April, with both wage payments falling in a single assessment period. This led to a big reduction in her normal UC payment - it had nearly halved.

This had left Tania without enough money to cover her needs. She was afraid she would not be able to cover her monthly rental payment or Council Tax bill, and that this could lead to arrears or even a possession order.

All of these issues can create significant budgeting challenges - particularly for people who are used to a set amount of benefit under the tax credit system. The system of monthly assessment periods and corresponding benefit payments is a highly complex one to understand and can leave many claimants feeling they have no ability to plan budgets in advance, confused about the idea they will receive a drop in their benefit payment if they take on more work, and at risk of financial difficulties. Indeed, the recent Universal Credit Test and Learn evaluation on families claiming UC found that understanding of UC's work

allowances and tapering was limited. Most claimants were aware of an earnings threshold after which UC would reduce, but were unsure what this was. Some felt the taper would leave them worse off in work, as they believed what they gained in wages would be taken from their UC if they moved into work or increased their hours.<sup>21</sup>

This issue is intensified by the financial challenges those affected may already be facing. We surveyed over 800 working families receiving tax credits or Universal Credit and found 43% were 'never' able to put some money aside as savings, and only 17% were able to do so regularly. Around a third already felt their housing costs (34%) and existing debt repayments (30%) were a heavy burden.<sup>22</sup> A lack of savings and little slack in household budgets can make it extremely difficult for many families to budget for fluctuating UC payments, and instead increases their risk of unexpected debt and hardship.

### ***Claiming and re-claiming UC***

A third challenge for people in non-traditional forms of work is one of the issues UC was originally intended to address - the need to re-claim benefits when circumstances change. For some people, temporary increases in their monthly incomes - due to short-term work, overtime or two pay packets falling in a single assessment period - can take them over the earnings threshold for UC. In full service UC, this automatically ends their claim. If in the next month that work ends or their hours fall, they will need to re-claim UC. This means they need to log into their online account and make a re-claim, with a potential loss of benefit support if they fail to do this in time.

#### **Case study**

Tariq is married with three children and had been receiving UC for four months while looking for work. His claimant commitment required him to take all work offered, including temporary jobs, so Tariq took six weeks work over Christmas. However, as a result of the wages he received in November and December, he received no UC payments in December or January and was unsure about how to re-start his claim. By the time he came to Citizens Advice at the end of January, Tariq was unable to cover his essential costs - he was having difficulties buying food and covering the bus fare for his children to get to school.

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<sup>21</sup> Department for Work and Pensions, [Universal Credit Test and Learn Evaluation: Families](#), 2017, 84.

<sup>22</sup> YouGov surveyed 877 working Tax Credit and Universal Credit claimants between January 25th and February 7th 2018.

## **Administrative errors**

Non-traditional working arrangements also increase the risk of administrative errors in processing real-time earnings information. UC is the first benefit that responds to reflect earnings each month. This is based on a new system of tax and national insurance reporting, introduced by HMRC in 2013. Under the Real-Time Information (RTI) system, employers must send tax and national insurance information to HMRC electronically and at the same time as they pay employees.

However, as this is a new system for both HMRC and employers, problems can arise when errors occur. This can create major budgeting challenges for claimants, who can find themselves with overpayments or no UC payments unexpectedly. A recent parliamentary written question revealed that 5.7% of the 590 million payments reported via RTI are currently reported late - amounting to around 33m payments.<sup>23</sup> In the third quarter of 2017-18, Citizens Advice helped with over 1,800 issues related to problems with the calculation of income on UC.

### **Case study: Problems with RTI**

Laura lives with her partner Andrew and their 3-year-old. Andrew is working, earning around £1,100 per month, and the family receives UC.

In March, Andrew's employer was late in putting through his payslip. This led to an overpayment of UC (as his wages were not recorded in the March assessment period), but Laura was able to contact the helpline and arrange for this to be paid back. However, the late filing of the payslip meant that Andrew effectively recorded two payslips in the April assessment period. This meant the family received no UC at all in May. Laura contacted the helpline again and was told she was owed this payment - however, when she spoke to her work coach at the Jobcentre she was told this was not the case.

Laura came to Citizens Advice for help. She had received conflicting information and the family did not have enough money to last the month, requiring a foodbank voucher.

As discussed in our earlier report on Universal Credit delivery, errors and delays are always more likely as new systems and benefits are introduced.<sup>24</sup> However, the risks should not simply be borne by those using the system. A major aim of UC was to smooth transitions into, out of and through work. With only limited support to budget, to understand the way the system works, when their

<sup>23</sup> [HM Treasury Written Question](#), answered 17th October 2017.

<sup>24</sup> Citizens Advice, [Delivering on Universal Credit](#), 2017.

payments are likely to change and how they can resolve problems, moving into work, or changing jobs or hours could continue to feel like a financial risk for claimants.

### **Recommendations for claimants in non-traditional employment**

- **Improved, ongoing budgeting support and information.** DWP should be assisting working claimants of UC to budget as far as possible. This should include using the Journal to notify those not paid monthly in advance of months when their UC payment is likely to change, as well as integrating benefit calculators so people are able to anticipate how their benefit payments might be affected if their hours or income change, or if they are not paid monthly. For those whose income is unpredictable, budgeting support should be expanded beyond help for those moving onto UC. Our evidence suggests working people may need budgeting help for periods even well into their claim. Changing hours, or even administrative mistakes, can lead to months where a UC payment unexpectedly falls. Helping people to understand this complex system - and to manage where it is unpredictable - is vital in helping working families on UC avoid hardship and debt.
- **More stable claims.** Within live service UC, people moving off UC due to increased earnings have the ability to reopen their claim within six months, without having to reclaim. Extending this to people on full service UC would help those who may temporarily move on and off UC - because of fluctuating hours or short-term employment - without them needing to manage the administration and budgeting challenges of a reclaim. It is critical that any communications about what action is needed to prevent the loss of income are clear and understandable.
- **Greater flexibility in assessment periods.** UC's assessment periods were designed to create a more responsive benefit, that could react to reflect real changes in income each month and reduce overpayment risks. However, assessment periods are currently set in an arbitrary way - your assessment period is fixed at a calendar month and begins in relation to the date that you happened to file your claim, regardless of when and how you are paid. This does not reflect many people's wage payments and other bills, reducing the potential for UC to help them smooth their income, rather than increase fluctuations. DWP should explore the options for allowing people greater flexibility around

assessment periods. This could include the ability to set the timing of these so that they make income more stable and budgeting easier - particularly for people in insecure work - and options for those whose working and wage patterns do not fit neatly into a monthly cycle of assessment periods.

## Conclusion

UC was designed a decade ago, but the labour market has changed significantly since then. The number of self-employed people has increased by 40% since 2000, compared to a 10% rise in regular employment.<sup>25</sup> A recent DWP study on self-employed tax credit recipients found 73% of respondents reporting 'being self-employed is normal for the job I do' - as the single biggest contributing factor to their being self-employed.<sup>26</sup> More than half of new UC claimants surveyed who came to Citizens Advice in full service areas had not previously been paid monthly. Yet UC is a benefit that still works most effectively for people with secure work, paid monthly and with set hours and income.

For self-employed people in particular, new rules under UC raise important questions about the basic principles of in-work benefits. Through policies like the MIF, for the first time what people receive through in-work benefits is being determined not just by how much they earn, but by the *way* they work.

Our in-work benefit system now needs to be able to support labour market diversity, not penalise or increase risk for people whose work and earnings patterns no longer fit traditional models of employment. If the Government fails to offer this, it will undermine its own aims of encouraging all kinds of work and enterprise, and offering those on low incomes the security and incentives they need to budget, to plan their wider lives and to progress in work.

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<sup>25</sup> RSA, [The Self-Organising Self-Employed](#), 2017.

<sup>26</sup> Department for Work and Pensions, [Self-employment Working Tax Credits Claimant Survey and Qualitative Follow-up Research](#), 2017, p. 22.