

## Universal Credit: an exploration and key questions

January 2011

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## Summary

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In this document, Citizens Advice provides a brief guide to Universal Credit and highlights some issues that we consider need to be resolved before judgement can be made about the fairness or otherwise of the Credit. We have modelled the potential pitfalls and problems as we see them. (The lack of detail from Government necessarily makes this a working document which will be updated as further details are announced.) The main issues we raise are:

- **Will statutory sick pay (SSP) count as earnings?** This will make a big difference to some claimants. In the scenario we have modelled, where the main earner gets cancer, a family already facing a big drop in income will face a further drop of over £60/week compared with the present system if SSP is treated as income other than earnings.
- **Will statutory maternity pay and maternity allowance<sup>1</sup> be treated as earnings or as income other than earnings?** The scenario we model - a lone parent who was previously working, who has a new baby - shows **a drop in income of nearly £90/week** compared with the present system – if these benefits are not treated as earnings.
- **How will childcare costs be incorporated into the Universal Credit?** Our modelling demonstrates that households who depend on childcare in order to be able to work will be considerably worse off under Universal Credit. Those who only command the minimum wage and who have high childcare costs will be particularly badly affected, since the higher the ratio of childcare costs to earning power, the worse off someone will be.
- **Will any extra support be offered to parents of disabled children? Because of the extra costs of childcare they face, they will be particularly badly affected by the amount of childcare covered.** Unless extra safeguards are put into the system, our modelling demonstrates a very significant drop in income
- **What criteria will be used to determine entitlement to the disability disregard?** If the criteria are the same as those for entitlement to the disability element of WTC, many fewer people will be eligible, as the benefits which passport this help are being radically changed.
- **Will Universal Credit include any extra support for people with a disability, apart from that mentioned in the White Paper?** (ie the disability disregards and - we assume - the work-related or support component for those who satisfy the WCA). If not, then our modelling suggests that several groups of disabled people will be worse-off than under the present system
- **What support will be available for carers?** Will those eligible for carers allowance be able to earn more than the present limit and still claim and receive a carers premium?
- **How will support for pensioners with children be incorporated into UC?** At present, for example, grandparents with combined pensions of £16,000/year, who take responsibility for, say, two grandchildren, are eligible for **nearly £100 child tax credit**. Unless some concessions are introduced, they will get no help from Universal credit or pension credit.

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<sup>1</sup> statutory adoption pay and statutory paternity pay also need to be considered

**There are further questions which will affect everyone who is eligible for help:**

- **How will housing costs be assessed?**
- **Will financial support with council tax for people on low incomes be within or separate from Universal Credit?**
- **Will support for mortgage interest be restricted to those working fewer than 16 hours?**

**There are also a number of proposed rules which will have adverse consequences for the following groups:**

- **People with more than £16,000 in savings**
- **Households with unearned income, where someone in the household is working and currently eligible to working tax credit**
- **Self employed people starting up in business.**

**Finally, we are extremely concerned about the combined effect of cuts in benefits announced in the June Budget and October CSR, together with the possible outcome of the introduction of Universal Credit.**

Two groups for whom the combined effect could be devastating are:

**New parents**, who already face losing the health in pregnancy grant, the sure start maternity grant and the baby element of CTC, are likely to experience a huge drop in support available from UC, compared with the present system.

**Families where the main earner becomes seriously ill:** These families often suffer large drops in income when the main earner has to stop work. They are already facing cuts such as the removal of ESA(contribution based) after one year for those in the work related activity group. DLA reform is also likely to mean that they cannot access support from a disability benefit until after 6 months (instead of the current 3 months). If SSP is treated as income other than earnings, Universal Credit will offer considerably less support for the basic allowance and housing costs than under the present system.

## Our understanding of how Universal Credit will work and the main issues/problems

Universal Credit (UC) will work by creating one household allowance (called a personal allowance) which combines the help currently given in earnings replacement benefits - such as jobseekers' allowance - with the help towards rent and council tax given through housing benefit (HB), council tax benefit (CTB) and child tax credit (CTC). This personal allowance is paid in full if the household has no other income and any savings are less than £6,000. Some households will be entitled to an earnings disregard, which will mean that the first part of their earnings will not reduce the personal allowance. After any disregard, the personal allowance will be withdrawn at 65%, or £6.50 for every £10 of earned income. Because Universal Credit is withdrawn at a much slower rate than the existing means-tested benefits, it will be paid to households higher up the income scale, and will also replace the help currently given by working tax credit (WTC) to those in work. In the appendix we set out in more detail how UC works, together with some calculations.

Although many people will gain financially from the universal credit, we believe that there are a number of unresolved issues which are not currently being discussed because of lack of detail in the Government's White Paper, *Universal Credit: Welfare that Works*. We believe there are significant problems which must be resolved before judgement can be made about the fairness or otherwise of Universal Credit. We have therefore modelled the potential pitfalls and problems as we see them. (The lack of detail necessarily makes this a working document which will be updated as further details are announced).

### Advantages of the Universal Credit

The present system is very complex and has 'cliff edges' where benefits are withdrawn suddenly at various earnings transitions. For households on a low income with savings of less than £6,000, living in cheap rented accommodation with no disability or childcare needs, the Universal Credit offers a simpler approach and a steady and understandable increase in overall income as earnings rise.

For example: a single person working 40 hours a week who has their hours cut to 25 a week by their employer because of a shortage of work, will at present lose all help from tax credits if he/she is not disabled and does not have dependent children. It can be seen from the following calculations that Universal Credit will be more helpful in this situation. It is clear from the section on conditionality in the White Paper that someone will not be able to choose to work fewer hours if there is no good reason, but providing this conditionality is applied sensibly, there should be greater flexibility for workers who frequently have little or no say in the hours or shifts they are required to work.

*A single man working a 40 hour week earning £300/week (£244 after tax) with housing costs of £85 /week and council tax of £15/week. The following calculation demonstrates what would happen under the present system and under Universal Credit. We have made the assumption that his maximum UC will be £165, the same as the total benefit he would receive under the present system from JSA plus HB/CTB. It is not yet clear how CTB will be replicated in UC.*

**Gross earnings £300 (net £244)**

*Maximum UC of £165 will be reduced by*

*65% of £244 = £159*

*UC = £6*

*Total income = £244 earnings + £6 UC = £250*

*Under the present system he would have just his £244 earnings and no entitlement to benefits or tax credits.*

*The figures below demonstrate that under the universal credit he would be better off at each level of earnings. The gains are more marked at the lower level of earnings when in the current system he would not be working enough hours to get help from working tax credit. This is despite the fact that a single person without children or disability will not be eligible for any earnings disregard.*

**Gross earnings £300:** total income £244 (present system) or £250 (UC)

**Gross earnings £250:** total income £216 (present system) or £238 (UC)

**Gross earnings £200:** total income £211 (present system) or £226 (UC)

**Gross earnings £150:** total income £181 (present system) or £216 (UC)

**Gross earnings £100:** total income £175 (present system) or £200 (UC)

**Gross earnings £50:** total income £170 (present system) or £183 (UC)

## Concerns about potential problems

There are many situations where someone will be better off under universal credit than under the present system. However there are some circumstances where people are likely to be worse off. Some families will face more than one of these sets of circumstances. If Universal Credit is to be seen to be fair, these groups cannot be ignored - in some cases the groups affected will include many of the most vulnerable people.

There are a number of situations where the tax credit system and means-tested benefits have incompatible rules. In bringing these systems together under Universal Credit, the Government will have to make decisions between taking the more generous of the two sets of rules and making one group of people better off than at present, or taking the less generous option and making a different group of people worse off than at present. The choices that are made will make a huge difference to the end result for many of our clients. The major areas of concern where detail is yet to be supplied are:

- **What will count as earnings?** Some benefits, such as contractual sick pay, statutory sick pay, maternity, paternity and adoption pay, are treated as earnings in some parts of the present system and as unearned income in other parts – see next section on maternity pay. How income is treated makes a big difference, as is further illustrated below. Under the present system, if people are in work when they become ill, they remain entitled to WTC for the first six months of their illness. This support is vital in helping people who face a sudden unexpected drop in income. For example:

*Consider a couple in which one is at home looking after a two year old child, and the other works fulltime. They own their own house and pay council tax of £20/week. If the person who works gets cancer and has to be off work for a long period, s/he receives SSP and they will receive full WTC and CTC for the first six months of illness. Their total income will be £259/week. If SSP is not treated as earnings under UC, a couple in this situation would only be entitled to £198.*

- **Will there be any concessions within the universal credit for mothers on maternity leave** to match the extra help currently available through the tax credit system? Currently, they are counted as being in work and entitled to receive WTC as well as CTC. £100 of their statutory maternity pay is disregarded as income. For this group, it will be very significant whether statutory maternity pay is treated as earnings (as in the tax credit system and HB/CTB) and thus qualifies for an earnings disregard, or is treated as income other than earnings (as in the income-based earnings replacement benefits such as income support).

- A lone parent who has previously been working, receives significant support through the tax credit system. For example:

*A lone parent on maternity leave and statutory maternity pay(SMP) with one child will currently be entitled to £153 WTC and CTC if she previously worked 30 hours /week, and SMP of £125. This will give her a total of £278 plus child benefit of £20. Under UC, if SMP is treated as income other than earnings, she will only have her SMP of £125 plus £20 child benefit if she owns her own house or lives with her parents. **A reduction in income of £153 - more than half her income.***

*If she pays rent of £60 and council tax of £20 under the present system she would have £286 plus £20 child benefit – a total of £306/week. **Under UC she would have £220 - a reduction of £86 /week***

- Couples with a new baby who have been saving for a mortgage will also be disadvantaged by the new system if maternity pay is no longer to be treated as earnings. Tax credits currently give couples where one is taking maternity leave a great deal of help and support. This is because tax credits ignore savings, and disregards £100 of SMP. The couple in this situation will lose this support, whereas a couple who have no savings, but are fortunate enough to have relatives to help them with a deposit and may have already bought a house, could still be eligible for support.

*Imagine a couple with savings of £20,000. The father is earning £200/week and the mother is on maternity allowance. **When they have the baby they would at present get tax credits of £124/week. Under Universal Credit, a family in this position would get nothing.** They would have to use the money they were saving for a deposit on a house to manage through her maternity leave.*

- **How will childcare costs be incorporated into the Universal Credit?** It is important when this is considered that **effective marginal deduction rates** are taken into account. If the only way a lone parent can work is to pay for childcare then it is irrelevant to her whether her disposable income is reduced by paying more tax, receiving less benefit - or by paying more childcare costs herself. Under the present system parents living in rented accommodation have 80 per cent of their childcare costs taken into account in the tax credits system and a further 17 per cent in the housing and council tax benefit system<sup>2</sup>. This means that a parent in low-paid work with £80 of childcare costs for every £100 earned will get nearly the same amount of support as someone who can command a higher wage and therefore a lower ratio of childcare costs to earnings - £40 of childcare for every £100 earned. In both proposals put forward in the White Paper for supporting childcare in universal credit, the maximum help available will be 70 per cent of costs. This makes it very difficult for parents in low paid work and therefore a high ratio of childcare costs to earnings, to make work pay.
  - Disregarding childcare costs from earnings. One of the proposals in the White Paper is for childcare costs to be supported by subtracting costs spent on childcare from the amount of earnings used to assess entitlement to the universal credit. We believe that this model of support would be totally unacceptable and for many parents would simply not make work pay. If a parent paid childcare costs of £4.80/hr and earned £6 /hour then they would have an *effective* marginal deduction rate of more than 100% and yet this would be difficult for

<sup>2</sup> Even when support for childcare within tax credits drops to 70% in April 2011 parents will still be able to also receive a further 25.5% of childcare costs through the HB/CTB system making a total of 95.5% of childcare costs covered (down from 97% at present)

them to predict. In other words they would have less income as a result of working extra hours.

- Covering 70% of childcare costs through the universal credit. This is the second proposal put forward in the White Paper. If childcare costs were £4.80/hr and a parent earned £6 /hour then their effective marginal deduction rate would be 100% i.e. the person gains nothing from working extra hours.

Even if the ratio of childcare costs to earnings was lower, for example her costs were £3/hour and her rate of pay was £6/hour, then **the effective marginal deduction rate under a system that covers 70% of childcare costs would still be 91%**. Providing 70% of support towards costs also gives a much lower level of support at all levels of low earnings for parents in rented accommodation, than the present system.

*For example, a lone parent with two children in living in rented accommodation (£80 rent and £20 council tax) and paying half her earnings in childcare costs will have the following levels of income after costs:*

- *Earning £100/week: £277 under the present system £247 under UC*
- *Earning £150/week: £281 under the present system £254 under UC*
- *Earning £200/week: £288 under the present system £259 under UC*

The marginal deduction rates would be very similar to the present system and there are a series of tapers so it is barely less complicated – **the main result is considerably less income.**

- **Parents of disabled children.** The situation is likely to be worse for parents of disabled children who generally pay a greater ratio of their earnings in childcare costs<sup>3</sup>.

*If childcare costs are to be covered at 70% within UC, the disposable income for a lone parent with two children (one of whom is disabled and receiving DLA LR care), living in rented accommodation, earning £100 /week and paying £50 childcare costs, would be £299 under UC and £329 under the current system.*

*But if their childcare costs are higher, they will have to pay a greater proportion of their earnings in childcare (eg £80 childcare for £100 earnings). Under the current system their disposable income will only be £1 less (£328) than if they were paying £50 childcare costs for every £100 earned. However under UC the higher ratio of childcare costs to earnings will mean a £9 drop in their disposable income. It will drop by £9 to £290. **This will be £38 lower than their current disposable income.***

- We do not believe it is acceptable to have an effective marginal deduction rate of more than 90%.
- **How will extra support for people with a disability be incorporated and who will receive this support?**
  - **Criteria for entitlement to the earnings disregard for disabled people.** If the criteria are kept the same as for the disability element of working tax credit, because of other changes in the benefit system (changes to DLA and ESA) it is likely that many fewer people who need this support will be eligible for it.

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<sup>3</sup> Disability living allowance has been excluded from the calculations as these payments will remain separate from the universal credit.

- **Level of support for single disabled people (who meet the criteria).** Preliminary calculations indicate that many in this group will be worse off under Universal Credit. The same people are also likely to be badly affected by other changes in the benefit system, such as the introduction of the single room rent for people under 35 years old.

*E.g. a young person in **supported permitted work** earning £90, with housing costs of £100 will currently have a disposable income of £181. Permitted work at the higher rate in most cases is limited to one year to allow the person to ease gradually back into the work place. However, some people with very significant impairments and needing a lot of support in the workplace are allowed to do supported permitted work up to an earnings limit of £95 indefinitely. Under Universal Credit - unless further concessions are announced - s/he will end up with £149 (this assumes they keep the work related component of ESA). Under Universal Credit s/he may, if s/he is able, work longer hours, but this will not always be possible, and s/he would have to work more than double their present hours to earn the same income as working 15 hours a week in the current system.*

*A more typical example would be of someone who has been claiming ESA who is able to move into work of 16 hours/week but unable to work more hours because of their disability. If s/he earns £100 a week and has rent of £85 and council tax of £15 a week, s/he will have a disposable income of £139. Under Universal Credit their disposable income would be only £126 a week - **£13 a week less than in the current system**. CAB evidence finds that people in this position already struggle to manage financially and are frequently working as many hours as they are able. We are very concerned that this group of people are likely to face cuts in their basic income and cuts in their housing costs as well.*

- **Couples with disabilities.** There are some situations under the universal credit system where couples in which one or both has a disability will be considerably worse off when working, than they are under the present system.

*At particular disadvantage are couples who both have a disability, both work, and own their own home with or without a mortgage and therefore have no eligible housing costs. For this group, there appears to be just one earnings disregard per disabled household, whereas tax credits currently provide a disability element for each disabled adult in a couple. The example we model finds that a couple in this position under universal credit would have an income of £60 to £70/week less for a range of earnings than under the current system.*

- **What extra support will be available for carers?**

It is not clear what will happen to carers allowance but it is essential that carers allowance remains available to those not claiming universal credit. We would like to see an end to a formal limit on the hours carers can work, as this causes complexity and traps within the system. We would, however, like to see an earnings disregard, in recognition that carers are - in practice - limited in the hours they can work. We assume there will be a carers premium as in the present mean- tested system.

- **How will support for pensioners with children be incorporated into UC?** Pensioners who have an income of up to £16,190 and who are responsible for children, are currently eligible for full CTC. This helps many grandparents who take on responsibility for their own son or daughter's children if the children's parents are unable to look after them.



*A couple who have a combined income of less than £16,000 and who are responsible for two children, are currently entitled to £99 child tax credit per week. Above an income of £16,000, support tapers away at 39%, but even at £25,000 pensioners who are responsible for two children will still receive £35 child tax credit per week.*

People with this level of income will not be easily incorporated into the pension credit system as proposed in the White Paper. We would like to know how support for this group will be replicated in the new system.

## Questions affecting all claimants

The above calculations have assumed the personal allowance to include the same rates of benefit for the earnings replacement element and the housing costs as are used at present; however, support for both rent and council tax may be less generous. **Both of these factors will make most of the losses described above much worse.**

- **How will housing costs be assessed?** We understand that although initially the Government plans to carry forward the current provisions for help with housing costs into Universal Credit, their longer term ambition is to move towards a more flat rate approach for assessing housing costs. However, rents vary significantly depending on the type of landlord (private, housing association or council) and on geographical location. Housing costs also form a very significant part of most claimants' overall benefit. As a result, claimants will face major budgeting problems if the housing element of their UC does not accurately reflect their housing costs.

There is also the issue of ensuring that the housing element in UC is up-rated in line with real increases in claimants' housing costs, not a nationally based formula. It is certainly clear that, in the private rented sector, up-rating the housing element by CPI will not be adequate. In the ten years to 2007/8, median private rents increased by almost 70%, while CPI increased by less than 20%. In the social sector, benefit is currently calculated on the basis of the rent paid. To move away from this approach would risk significant financial instability for social landlords and a negative effect on lender confidence in the market.

- **Will financial support with council tax for people on low incomes be within or separate from Universal Credit?**
  - *If council tax benefit is subject to a separate tariff separate from UC, marginal deduction rates will be higher and complexity will be added. For someone paying tax and national insurance their marginal deduction rate will be 76%. If the £24 gain in income for every £100 is then subject to a further tariff of for example 20%, (20% of £24 = £5) meaning a £5 reduction in help with council tax for every extra £100 earned, then the **total marginal deduction rate will be 81%**.*
- **Will support for mortgage interest be restricted to those working fewer than 16 hours?** One of the strong justifications for Universal Credit is that it will prevent 'cliff edges'. However if support for mortgage interest is not included beyond 16 hours of work or a rough earnings equivalent at the minimum wage, this would produce a greater cliff edge than in the present system. For example:

### ***In the current system***

*A couple with one child have a mortgage on which they need to pay £80/week interest. They pay council tax of £20/week. The partner who is working loses his job. Under the present system they will be eligible for help with mortgage interest after 13 weeks – this will give them a total income of £278/week. If one of them then gets a job working 15 hours and earning*

£100/week their income will go up to £288/week. If they then manage to increase their hours to 25 and earn £150, their income will stay about the same as they will lose the help with their mortgage, but gain WTC – they will now have an income of £287. **Under the present system at no stage do the people in this scenario face a significant drop in income for working more hours.**

### **Under Universal Credit**

**If unemployed, they will have a personal allowance of £258 (assuming mortgage interest of £80) + child benefit of £20 = £278 disposable income.**

*If he gets a job **working 15 hours** earning £100/week the first £20 will be disregarded.*

*Their personal allowance will be reduced by 65% of £80 = £52*

*UC = £258- £52 = £206 plus £100 wages and £20 child benefit = **£326 disposable income.***

*If he is offered an increase to **25 hours** and earns £150 (£140 net) and loses the mortgage interest of £80 then his maximum personal allowance will drop to £178 (£258 -£80)*

*They will have £110 disregard. The personal allowance will be reduced by 65% of (£140 - £110) = 65% of £30 = £19.50*

*Personal allowance = £178- £19.50 = £158.50 + £140 earnings + £20 child benefit*

**Total income = £318.50 a lower disposable income for working 25 hours than for working 15 hours.**

**The above calculations show that if under universal credit support for mortgage interest stopped at 15 hours, a family in the above position would have £7.50 less disposable income when working 15 hours than when working 25.**

**If, instead, support for mortgage interest is dropped as soon as someone starts to work just a few hours, then someone earning £50 would be worse off than if they were not working at all.**

We would like to know if there are any plans to deal with this trap where a claimant is worse off as a result of working more hours if they are receiving help with mortgage interest when unemployed. Our calculation suggests that this trap could be more of a problem than in the current system.

## **Concerns for groups affected by proposed rules outlined in the White Paper**

It is already clear that there are a number of situations where people will be worse off than under the present system:

- **People with more than £16,000 in savings** who are currently eligible for tax credits, will not be eligible for any help under Universal Credit. Means-tested benefits have a savings limit of £16,000 but tax credits have no savings limit – the system just takes into account any income from savings above £300/year. There are several groups of people we are particularly concerned about:
  - Couples who, having saved for a mortgage deposit over a number of years, become parents but lose out greatly from support through the tax credit system. Better off couples who either have relatives who can help with the deposit and so have already bought their house will still be able to access that support as they are less likely to have savings.
  - Parents of disabled children who at present get a lot of extra help through the tax credit system to cover the extra costs of having a disabled child. They will lose very significantly if they have savings. The only help they will be eligible for is DLA.

- Couples in their fifties who have worked all their lives and collected modest savings. One becomes too ill to work, and they experience a large drop in income which is financially very difficult to cope with. The one who is still working would have been eligible for help through the tax credit system. When the effect of this measure is combined with the removal of ESA(contribution-based) after one year, the total impact is likely to be devastating, with people losing all their life savings.
- **Households with unearned income where someone in the household is working and eligible for working tax credit.** At present working tax credit treats income from – for example - ESA(CB) or Carers allowance (CA) the same as income from earnings; so for every £10 income from ESA(CB) or CA, £3.90 is deducted from their tax credits, whereas under UC they will lose £10 from their UC for every £10 ESA(CB) they receive.
- **Self-employed people** starting up in business. The current system takes into account actual earnings. UC will deem people to earn the minimum wage even if they have been unable to take a wage out of the business during the starting up period.

*At present someone who starts up as self employed will be entitled to full WTC (as long as the work they are doing is seen to be in expectation of payment i.e. the business has to be reasonably viable)*

*For example: a lone parent with one child - living in rented accommodation (£75 rent and £15 council tax)- who starts up in business and is unable during the first 6 months to take any earnings out of the business will be entitled to £253/wk from tax credits, HB/CTB and child benefit.*

*Under UC they will have a personal allowance of £210.*

*If she is working 40 hours/week she will be deemed to have an income of £237(min wage of £5.93 \* 40)*

*Earnings disregard of £40 = £237-£40= £197*

*65%of £197= £128 to be taken from personal amount of UC*

*Personal allowance of £210 - £128 = £82*

***Total income will be £82+ child ben£20 = £102 out of which she has to pay £75 rent and £15 council tax. Leaving her with £12 /week to pay for all food household expenses etc for her and her child***

***Under the present system she would have £163/week***

**This is clearly the difference between being able or not to set up in business.**

Many people will come into more than one of the above categories and so the reductions in income will be compounded – this could cause great difficulty for some people

### The calculation

Each household will be allocated a **personal allowance** based on current benefit rates. This will consist of an allowance for meeting weekly expenditure on food, utility bills, travel etc which - we understand - will match current rates for jobseekers allowance, income support or employment and support allowance, depending on the particular circumstances of the household. The personal allowance will also include an amount for housing costs (based on the local housing allowance rate where the claimant is a private tenant). We do not know yet how housing costs will be calculated for social tenants and also whether it will include an amount for council tax benefit. It is likely to also include premiums for those in special circumstances – see below for more detail.

If someone has no other income and has savings of less than £6,000, they will usually receive this personal allowance in full<sup>4</sup>. Households other than single adults who are not disabled will be able to earn a certain level of income (an earnings disregard) and still keep all their UC. Any income other than earnings,<sup>5</sup> and net earnings above the appropriate earnings disregard for that type of household, will be subject to a tariff of 65%. This means that for every £10 of extra net income their Universal Credit will reduce by £6.50. In other words if they earn an extra £10 they will be £3.50 better off. The following calculation demonstrates how this will work.

*A single adult who is living in rented accommodation costing £85 per week and paying council tax of £15 per week*  
*Personal allowance*  
*£65 basic JSA rate*  
*£100 housing costs (HB + CTB)*  
*Total personal Allowance = £165*

*Unemployed and earns nothing £165/wk.*

*Earns £10 he will lose 65% of £10 = £6.50 from his UC*  
*UC = £165 - £6.50 = £158.50*  
*+ £10 wages*  
*Total of £168.50*  
*i.e. £3.50 better off for every £10 he earns.*

*Earns £100 he will lose 65% of £100 = £65 from his UC*  
*UC = £165 - £65 = £100*  
*+ £100 wages*  
*Total of £200*  
***ie £35 better off for every £100 he earns.***

*Once he earns enough money to pay tax and NI he will pay £31 in every extra £100 he earns in tax and NI<sup>6</sup> – of the £69 remaining he will lose 65% of his UC - £45 – so will be left with £24 for every extra £100 earned*

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<sup>4</sup> Unless they are subject to sanctions such as 10% cut in their housing costs because they have been unemployed for a year

<sup>5</sup> such as occupational pension or income from savings

<sup>6</sup> NI is due to go up to 12% in April 2011 – but the final amount left when rounded is still £24 for every £100 earned

## Elements or premiums in Universal Credit

At present there is a complex system of extra support available through premiums in means tested benefits (the severe disability premium, enhanced disability premium and carers premium, as well as the work related component and support component) and elements in the tax credits system (the disability element and severe disability element for adults in WTC and children in CTC). These all increase the amount a person receives in benefit, although the way they operate is complex - see below for a more detailed analysis of how these work within the present system. We are assuming that further support will be available through extra premiums in the personal allowance of Universal Credit to mirror this support, but we do not yet have the detail as to how this will be done, nor the amounts.

*If the person in the above calculation had a premium of £25 added to his personal amount then*

*If unemployed and earning nothing*

*Personal amount =*

*£165 + £25 = £190*

*If he earns £10 he will lose 65% of £10 = £6.50 from his UC*

*UC = £190 - £6.50 = £183.50*

*+ £10 wages*

*Total of £193.50*

*If he earns £100 he will lose 65% of £100 = £65 from his UC*

*UC = £190 - £65 = £125*

*+ £100 wages*

*Total of £225*

*In the above case the person will always be £25 better off for a given level of earnings than if they were not eligible for the premium (unless they are earning sufficient to be eligible for less than £25 UC in total)*

**i.e. For every £10 of premium added to the personal amount, someone will be £10 better off no matter how much they earn until they are out of entitlement to any UC apart from the premium**

## Income in Universal Credit

Almost all forms of income - not just earnings - are taken into account in means tested benefits and tax credits. We would expect that a similar rule will apply in Universal Credit. However there are a number of unanswered questions about what will be taken into account as 'earnings' and what will count as 'income other than earnings' where the tax credit system and the means tested benefits system have differing rules – see the section on potential problems. 'Income other than earnings' will be lost £1 for £1 from the personal allowance and will not be eligible for earnings disregards, whereas for income considered as 'earnings', only 65p is taken from the UC entitlement for every £1 of earnings.

Savings in Universal Credit are to be treated in the same way as in means tested benefits. Savings below £6,000 will have no effect. **An income of £1/week will be assumed for every £250 of savings over £6,000 up to a maximum savings level of £16,000.** People with savings above £16,000 will not be eligible for UC.

## Disregards in Universal Credit

The White Paper indicates that there will be a number of earnings disregards for different types of household<sup>7</sup>. Other income as in the means tested system will not be eligible for disregards.

*If the person in the above calculation had the premium of £25 and also a disregard of £50:  
If he were unemployed and earning nothing – the disregard would have no effect*

*Personal amount =  
£165 + £25 = £190*

*If he earns £10, he will keep it all without losing anything from his UC*

*UC = £190*

*+ £10 wages*

*Total of £200*

*le he doesn't lose the 65% of his earnings he would have lost without the disregard*

*If he earns £100, he will keep the first £50 without losing anything*

*Then he will lose 65% of £50 = £32.50 from his UC*

*UC = £190 - £32.50 = £157.50*

*+ £100 wages*

*Total of £257.50*

He is £32.50 better off than without a disregard of £50 because he has gained 65% of £50 that would otherwise have been taken from his UC

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<sup>7</sup> <http://www.dwp.gov.uk/docs/universal-credit-annexes.pdf> (annex 3)

