

# Pop goes the payslip

Making universal credit work for families

Detailed analysis and recommendations



## Executive summary

“Universal credit will mean that people will be consistently and transparently better off for each hour they work and every pound they earn.”<sup>1</sup>

We support the principles of universal credit and believe that work should always pay. An extra shift at work should mean more money in your pocket. However, our analysis shows that under universal credit whilst single people without children and relatively higher earners will generally gain for each hour of work, many working parents will not see any financial gain if they increase their hours of work. Extra earnings will be eaten up by reduced financial support and greater childcare costs. **In some cases, they will even end up worse off working more hours.**

This damages economic growth and equality. Last year in their *United Kingdom Overview*, the OECD concluded that “low to medium wage second earners and lone parents ... respond particularly strongly to improved incentives” and “better incentives for lone parents and second earners would increase the effectiveness of the benefit reform and thereby raise the economic growth potential and reduce inequality”.<sup>2</sup>

We are therefore proposing a small number of recommendations that would rebalance universal credit, give parents the choice and control that they need and help to ensure that taking on extra work never leaves anyone worse off.

### We recommend:

Recommendation	Cost to the Exchequer (£m)
Providing free school meals to all children in households receiving universal credit	780
Increasing the subsidy for childcare costs to 90 per cent	130
Allowing the second earner in a household to keep an additional £50 a month of earnings before their income from universal credit is reduced	200
Ensuring women on maternity leave get the same gain on maternity allowance as they would on statutory maternity pay	140
Introducing a widowed parents element of £10 per week	30
Increasing the overall funding in universal credit for disabled people	220
<b>Total</b>	<b>1,500</b>

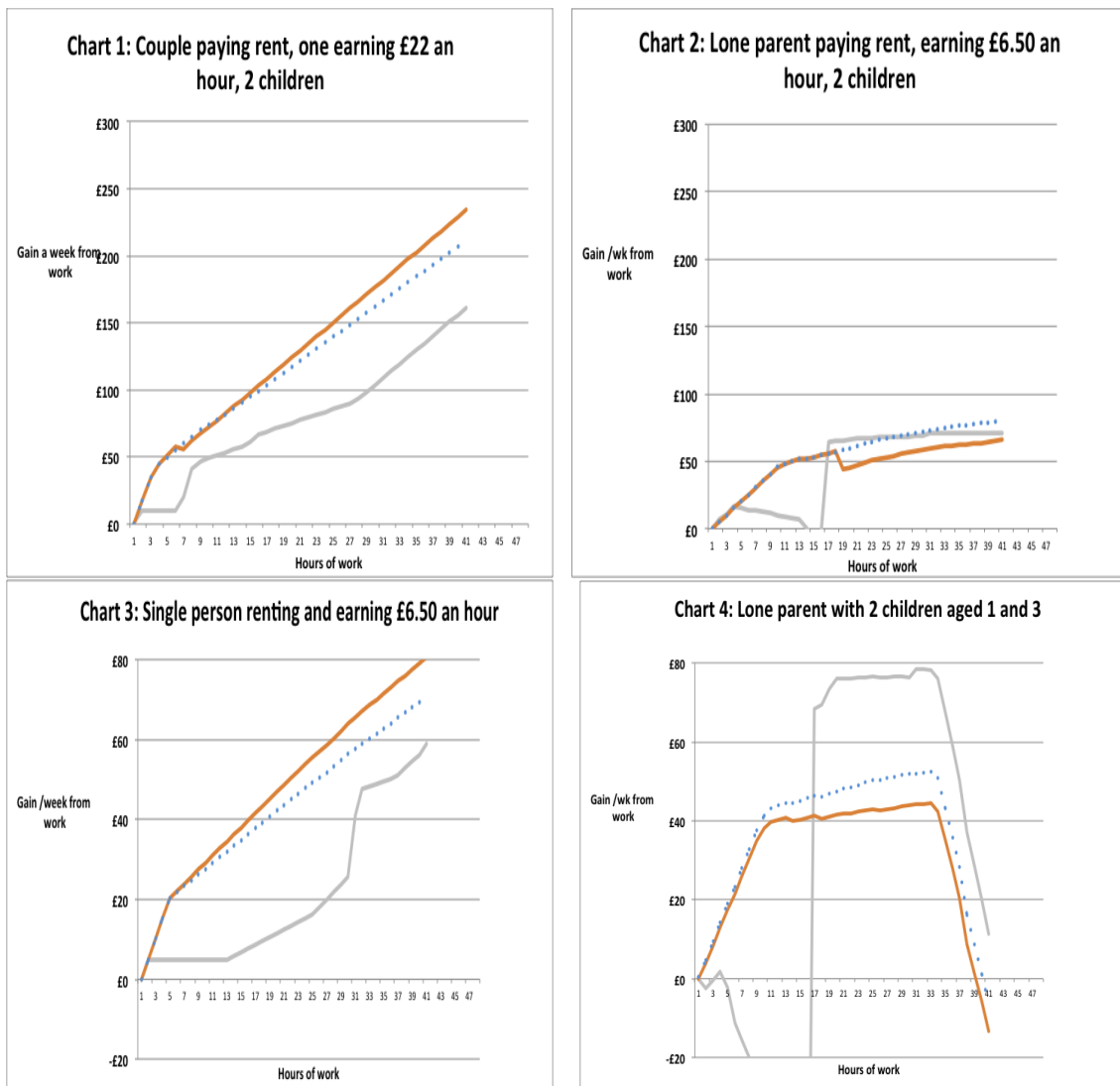
<sup>1</sup> Foreword to *Universal credit: welfare that works* by the Rt Hon Iain Duncan Smith MP, Secretary of State for Work and Pensions (November 2010).

<sup>2</sup> OECD Economic Surveys: United Kingdom Overview, February 2013.

Taken together, these recommendations would cost £1.5 billion and could be paid for by slightly adjusting the ‘taper’ rate at which universal credit is reduced as people’s earnings increase. Our analysis demonstrates that low income parents with the worst work incentives would gain much more from our proposals than they lose from the rise in the taper.

Those losing out from raising the taper rate would typically be those on higher incomes (as the more you earn the more you benefit from a low taper rate) and those who do not face the extra costs faced by parents. Under our proposals for universal credit, both of these groups will still have better incentives to work and to increase their hours of work than many low income parents.

The shape of the following charts<sup>3</sup> illustrates this. They show how the gain from work increases as the hours of work increase. Chart 1 shows the gains for a couple with two children and one earner who works full time earning £45,000 per year and Chart 3 shows the gains for a single person earning the national minimum wage. Both fare much better under universal credit (orange lines) than under the current system (grey lines). However Charts 2 and 4 show that lone parents earning the national minimum wage (with very young children or junior school age children) will do much worse under universal credit than under the current system. They may find that they lose money by working more hours. Our proposals (dotted blue line) help to restore the balance by ensuring that work pays for as many people as possible.



<sup>3</sup> Fuller versions of these charts together with the assumptions are in Appendices 2, 3 and 4.

The available funding for universal credit needs to be allocated as smartly as possible to maximise work incentives across the board.

**Our proposals even out the gains from work among all future universal credit recipients, so that as many people as possible, including parents at or near the national minimum wage, can see a real gain from increasing their hours of work.**

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## The problem

We advised over half a million parents with dependent children last year<sup>4</sup> and we know that all working parents struggle to juggle the demands of work, childcare and running a household. These problems are heightened for those on a low income because they lack spare cash to solve unexpected problems or meet extra costs. In addition people on low incomes are more likely to be in roles like retail, hospitality and social care.<sup>5</sup> Generally as these roles are customer facing there is likely to be reduced availability of flexible working arrangements like working from home or flexitime.

As a result, advisers in our bureaux frequently see parents on low incomes who are struggling to make work pay in the current system, or who want to work but can't find a job which really makes them better off.

This report examines whether universal credit will make things better or worse for parents on different incomes and in differing circumstances. It then recommends how the design of universal credit could be improved.

## The aims of universal credit

### Before universal credit

Our advisers help thousands of people who are struggling with the complexities of the current benefit and tax credit system every day. The interaction of the yearly tax credit system with a weekly housing benefit system for those in work, especially for those with childcare costs, is very difficult to understand and to navigate.

Under the working tax credit, couples with low hourly earnings or high childcare costs usually need to work 24 hours per week to be better off than if they weren't working. For lone parents, the equivalent figure is 16 hours. However, at these thresholds parents' gains from work increase very substantially and they also are entitled to support with their childcare costs. Parents on a low income have 95 per cent of their childcare costs covered. The scale of the gain at this threshold is so great that parents are still better off despite the loss of some passported benefits. However, beyond the threshold there is little incentive for parents with high childcare costs or high rents to increase working hours; parents can lose up to 96 pence for every extra pound they earn.

### Universal credit

Lord Freud, Parliamentary Under-Secretary for Welfare Reform, recently summarised the aims of universal credit as follows:<sup>6</sup>

*“The idea behind Universal credit is to create a much simpler and more flexible system that makes work pay ... ensuring claimants are better off in work than on benefits ... clearly showing how increasing hours increases earnings ... while continuing to provide support for those who need it most.”*

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<sup>4</sup> In the financial year 2012/2013, Citizens Advice saw 587,940 parents with dependent children.

<sup>5</sup> National Minimum Wage – Low Pay Commission Report 2013.

<sup>6</sup> Lord Freud summarised the aims of universal credit at a Capita Welfare Reform Conference chaired by Citizens Advice on 27 January 2014.

Universal credit aims to tackle the complexity of the system, the interaction of the tapers and the lack of an incentive to work more than 16 hours per week; these are objectives which we share. However our analysis shows that universal credit fails to meet these aims consistently.

#### How universal credit will work

A claimant with no other income will be allocated a 'maximum amount' of universal credit which will include an amount for living costs, an amount for housing costs, an amount for each child, and amounts if someone is not fit for work or is a carer. These components equate (with one or two exceptions) to benefits and premia in the current system.

Some people will also have a "work allowance", to give them a boost when they enter work. The amount depends on their circumstances. This is the amount of money they can earn before their universal credit award is reduced. After this point, their maximum award is reduced by £6.50 for every £10 they earn. Their maximum award is increased, when they are working, by 85 per cent of any childcare costs they incur.

## Why universal credit needs rebalancing

Universal credit has improved work incentives for single people and higher earners. But our analysis shows that it has created worse work incentives and even disincentives for lone parents and some low income second earners.

As it stands, universal credit will be reduced by £6.50 for every £10 earned. However, far from keeping £3.50 for every £10 earned, many parents may actually lose money by taking on extra work. This is because the extra fixed costs of working more hours (such as travel, contributions to their childcare costs or having to pay for school meals) are higher than this gain.

The groups most affected by this, lone parents and low income second earners, are the very groups who respond most strongly to work incentives.<sup>7</sup> Numerous studies have shown that significant numbers of lone parents want to work but feel there are barriers to them doing so.<sup>8</sup> Reform must therefore ensure that work still pays for these groups after the 'costs of working' have been taken into account.

The Secretary of State for Work and Pensions has stated that universal credit "will mean that people will be consistently and transparently better off for each hour they work and every pound they earn." To achieve this, the available funding for universal credit needs to be allocated as smartly as possible to maximise work incentives across the board.

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<sup>7</sup> OECD *ibid*.

<sup>8</sup> For example: Centre for Economic and Social Inclusion on behalf of the Department for Work and Pensions, *Lone Parent Obligations; work, childcare and the Jobseeker's Allowance regime*; Joseph Rowntree Foundation, *Poverty indicators*; and Resolution Foundation, *Careers and Carers; Childcare and maternal labour supply*.

**Our proposals therefore even out the gains from work among all future universal credit recipients, so that everyone, including parents at or near the national minimum wage, can see a real gain from work.**

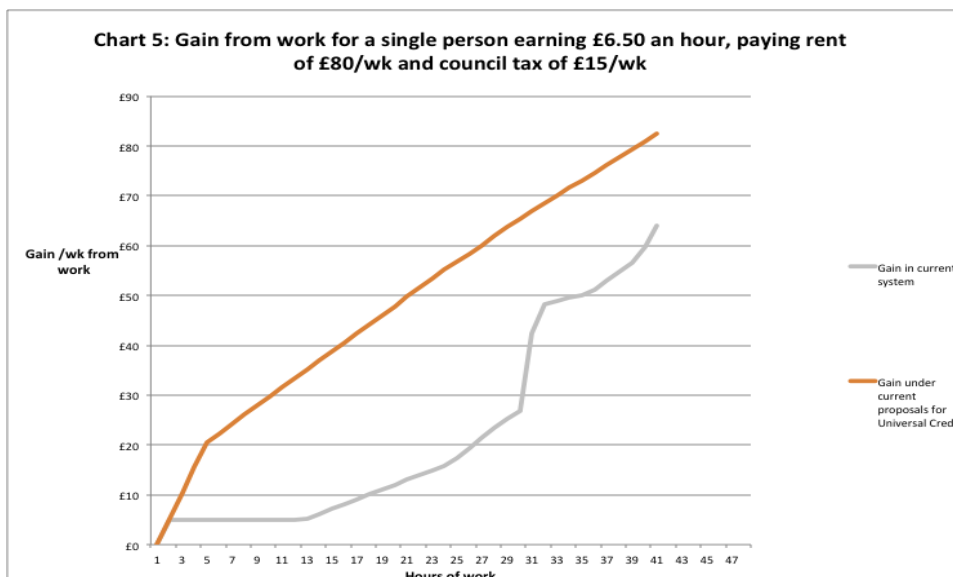


# Our analysis of work incentives in universal credit

We have analysed financial incentives to work for a large range of families under the current system, under universal credit as currently proposed, and under universal credit if our proposals were adopted. We have also looked at what this will mean for households without children. The full range of scenarios covered, graphs illustrating work incentives for these households, and the assumptions made are in the appendices. The following sections provide specific examples, drawn from this wider body of work, to illustrate our concerns with the current design for universal credit and to demonstrate how our proposals would rebalance it across the board. Our analysis is concerned with how well the structure of universal credit will work. It therefore looks at what the situation will be once universal credit is fully implemented and transitional protection has been exhausted.

## Universal credit – the ideal work incentive graph

Chart 5 shows the gains from work for Tom, who is single and living in rented accommodation and earning the national minimum wage. It demonstrates how, as hours of work (along the horizontal axis) increase, his gain from working compared to not working (the vertical axis) increases. The grey line shows the gain under the current system and the orange line the gains under universal credit as currently proposed.



In the current system, gains are poor until Tom works for 30 hours and starts to receive the working tax credit. Under universal credit the gain is steadily more substantial for each hour of work.

### Interpreting the graphs

- A flat, horizontal line means that as people work more hours they have no extra gain (and will lose money if extra hours mean extra costs such as travel).
- The steeper the line, the better the gain. A downhill section means that people are worse off if they work more hours.
- Where the line goes up and down, gains are unpredictable; even people who make complex budgeting calculations will find it very difficult to know if they will be better off or worse off by working an extra shift.

## Factors damaging work incentives

But most people – especially parents – are not in Tom’s position. Our analysis demonstrated that a number of other factors and costs impact a parent’s gains from work. These are:

- Loss of free school meals.
- Inadequate level of support for childcare costs.
- Lack of a work allowance for second earners.
- Loss of support for mortgage interest.
- Treatment of widowed parents allowance as unearned income.
- Poor support for many disabled parents in work.
- Other costs such as travel costs, the loss of passporting to other benefits such as free prescriptions, and paying for ad hoc childcare.

## How to improve work incentives in universal credit for parents

We have modelled work incentives in universal credit as currently designed, and under our proposals, for a large range of families. We have looked at different household types and different income levels and how the above factors affect work incentives. Our assumptions are set out in Appendix 2.

### Loss of free school meals

We welcome the Government announcement that all infant children in England will receive a free school meal from September 2014. This has become increasingly important as the cost of food has risen faster than inflation. Government figures show that the price of food and non-alcoholic beverages have risen by 31 per cent since 2007.<sup>9</sup>

However our analysis shows that under universal credit the loss of free school meals for junior and secondary school children will create a much more significant barrier to take on extra work than the current system. Under the current system free school meals are lost at the point that the parent(s) in the household are working sufficient hours to be entitled to working tax credits. They are therefore lost at the point when their disposable income receives a significant boost. Under universal credit, because gains from work will increase gradually rather than in one leap, there will be a sudden drop in income if meals have then to be paid for. It will take many hours of work to recover from this loss because the gains from work are small.<sup>10</sup>

**Our recommendation: All children in households receiving universal credit should be entitled to receive free school meals.**<sup>11</sup>

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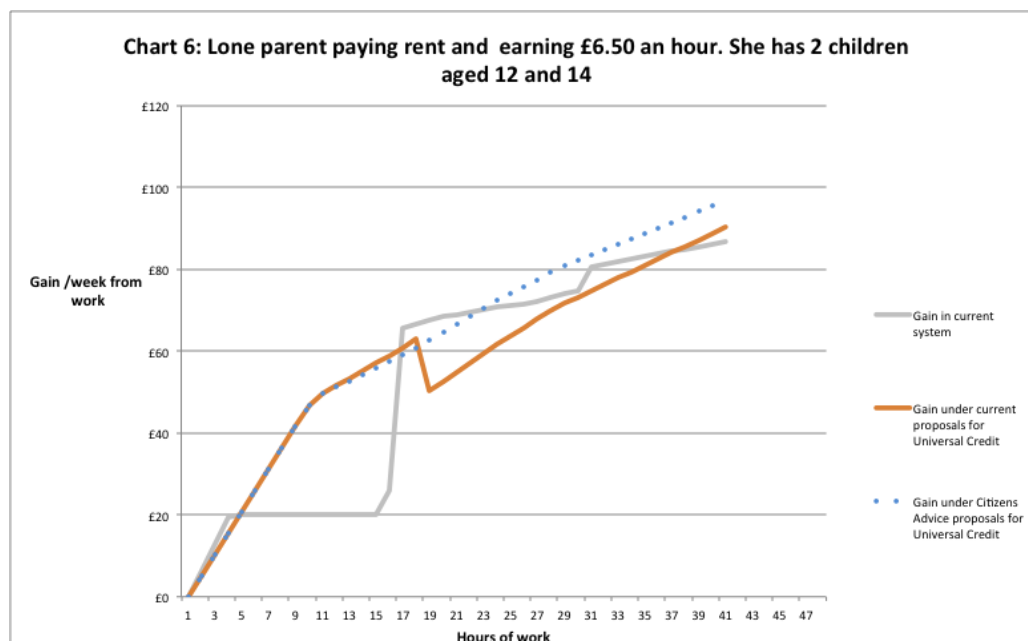
<sup>9</sup> DEFRA, Food Statistics Pocketbook 2013, based on ONS CPI data.

<sup>10</sup> The Government has not announced what the criteria for receiving a free school meal will be in universal credit but have stated that they want it to be cost neutral. We therefore think that it is likely that the earnings threshold over which free school meals will be lost will be about £6,000.

<sup>11</sup> Funding for free school meals has been devolved to Wales, Scotland and Northern Ireland. Decisions on provision are for devolved administrations to make. However, as the savings would come out of universal credit as a whole, our costings have included all of the UK. They assume that funding to cover paying for free

## The impact of the loss of free school meals in universal credit

Chart 6 shows the gains from work, compared to not working, for a lone parent, Emily, as her hours of work increase. She has two children at secondary school and we have assumed that she has no childcare costs.



Under the current system (grey line), Emily is cushioned from the loss of free school meals by the significant boost to her income at the 16 hour point.

Under current proposals for universal credit (orange line) the loss of free school meals is not cushioned in this way. This means that families on a low income will experience a sharp drop in their overall gain in disposable income from working at the point at which they have to pay for school meals.<sup>12</sup> When the reduction in council tax support is also taken into account, Emily would need to work for an extra seven hours at the national minimum wage to avoid being worse off.

Under our proposals (blue dotted line), Emily's children continue to receive free school meals as long as she is still entitled to universal credit. Despite the increase in the taper, even working full time she will still have more disposable income under our proposals (£91 gain from work) than if she was paying for school meals under the current proposals (a gain of £84).

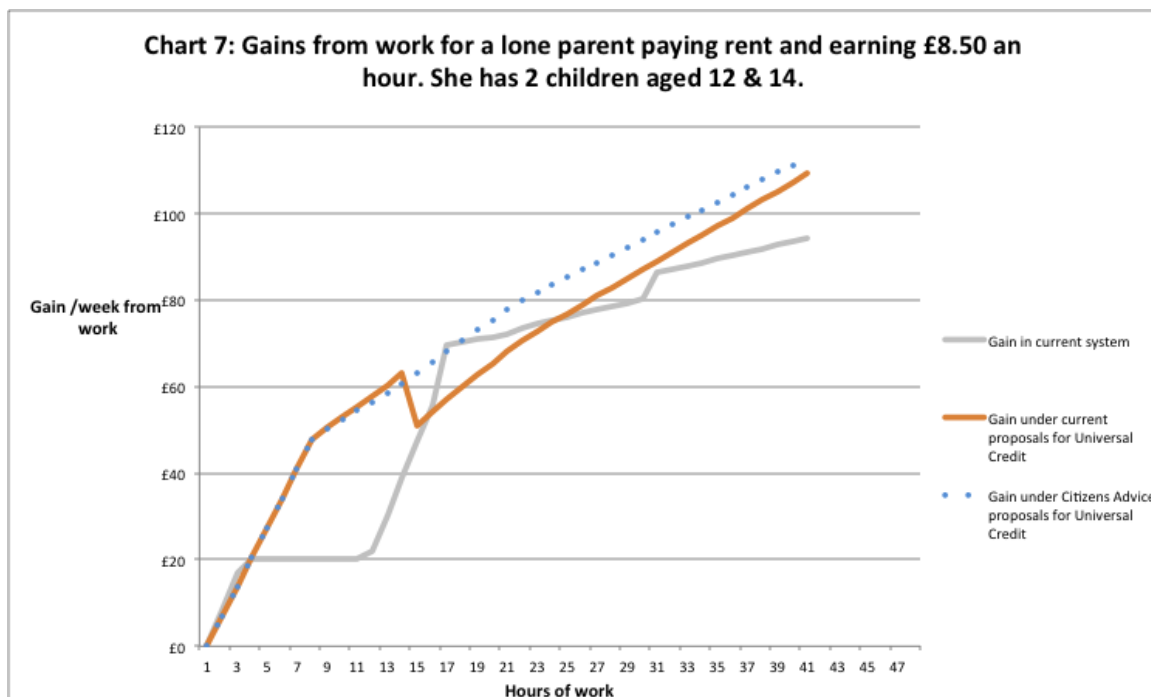
## Higher earners

As earnings increase the impact of the loss of free school meals lessens but doesn't disappear. Chart 7 shows the gains for Emily if she earns £8.50 an hour and has no childcare costs.

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school meals for all children in households receiving universal credit in those countries would be made available to Wales, Scotland and Northern Ireland to use as they see fit.

<sup>12</sup> The Government has not announced what the criteria for receiving a free school meal will be in universal credit but have stated that they want it to be cost neutral. We therefore think that it is likely that the earnings threshold over which free school meals will be lost will be about £6,000.



The outcomes under all three systems are similar to the national minimum wage scenarios, but it takes fewer hours of work (five hours at £8.50 an hour) to make up for the loss of free school meals.

## Inadequate level of support for childcare costs

We welcome the Chancellor’s Budget announcement that all parents on universal credit will have up to 85 per cent of their childcare costs covered. Given that childcare costs have risen 77 per cent in the last 10 years,<sup>13</sup> the change makes it more feasible for more parents with childcare costs to work. However, our analysis shows that this additional support to childcare costs is not enough to make extra hours of work pay for many parents, when they also have to start paying for school meals.

**Our recommendation: Support for childcare costs in universal credit should be increased to 90 per cent for all working parents.**

### Childcare in the real world

The following graphs assume that childcare providers are very flexible. In practice evidence from bureaux suggests that parents face many challenges trying to arrange this kind of childcare for reasons such as:

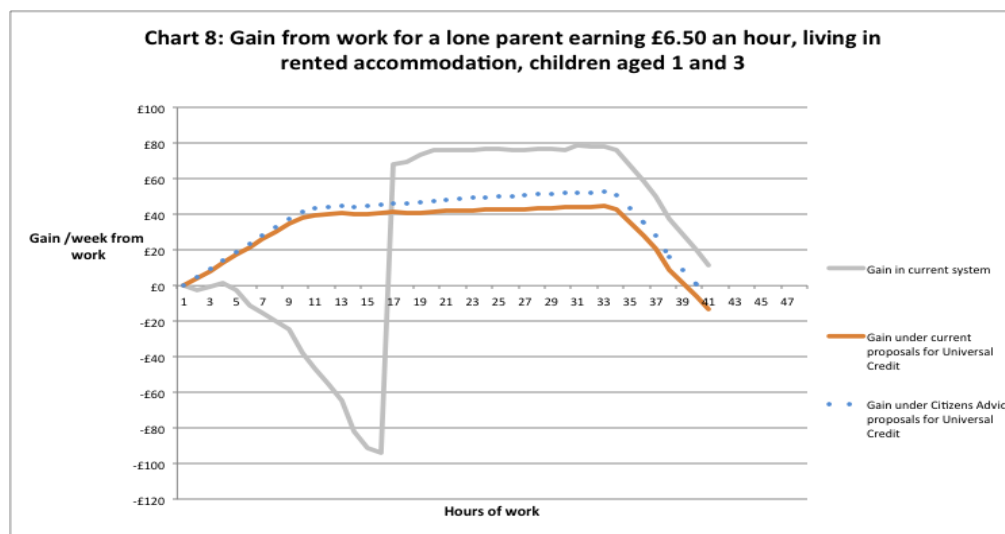
- Long waiting lists.
- Lack of provision during evenings and weekends.
- Long notice periods for changing arrangements.
- High upfront costs like deposits and payments in advance.
- Incidental costs including late payment fines, late pick up fines and the costs of food whilst at childcare.

We are currently undertaking further research into these challenges and the difficulties they present for families trying to return to work or increase their hours.

<sup>13</sup> Family and Childcare Trust, Childcare Costs Survey 2013.

## The impact of inadequate levels of support for childcare costs

Chart 8 shows what happens as Kate, a lone parent, returns to work on the national minimum wage from maternity leave after the birth of her second child. The grey line represents her gains under the current system, the orange line her gains under universal credit and the dotted blue line her gains under our proposals.



Under the current system Kate receives a 95 per cent subsidy for her childcare costs once she is working at least 16 hours per week. Her gain from work is shown by the grey line. She will lose money if she works less than 16 hours per week. However once she works 16 hours per week she will have a gain of £68 rising to £79 for 30 hours work.

The orange line on the graph shows her gains from work under the current proposals for universal credit. It doesn't fall, but it flat-lines at a much lower level than in the current system, at about 10 hours of work. Kate gains only five pounds for increasing her weekly hours from 10 to 32. It is very likely that it would actually cost her to work much more than 10 hours once she pays extra travel costs.

Under our proposals, (dotted blue line), there would be a small but significant increase in income. This could be enough to prevent Kate losing out by working more hours.

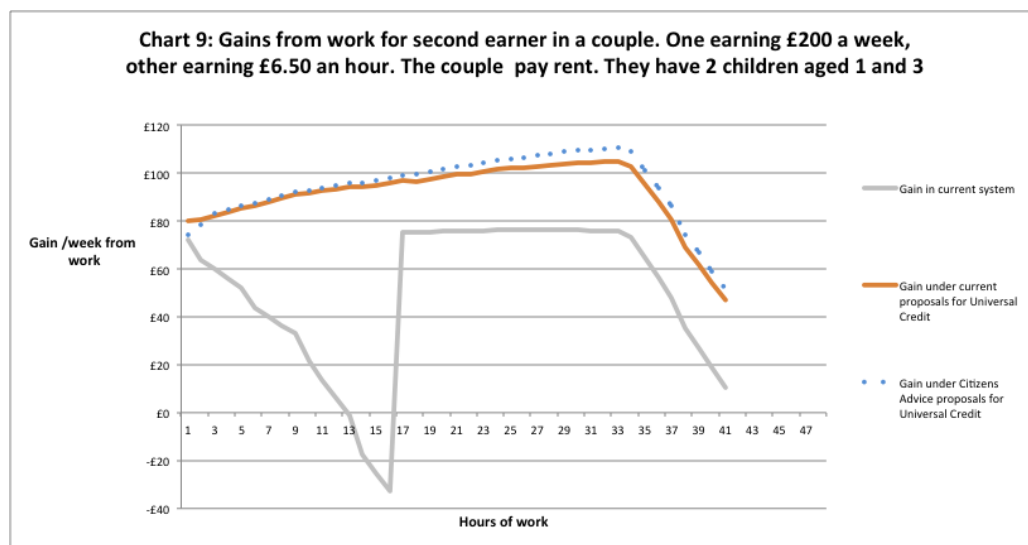
## Lack of a work allowance for second earners

Under current proposals for universal credit, lone parents have an initial gain from work because of the work allowance. However, the second earner in a couple has more difficulty in making any work pay as they have no work allowance; anything they earn will be subject to the taper straight away. If working means incurring childcare costs then it will be difficult to accrue any significant gains from work.

**Our recommendation: The second earner in a household should keep an additional £50 a month before their universal credit award is reduced.**

## The impact of the lack of a work allowance for second earners

The following graph (Chart 9) shows the household gains for a couple, Chris and Melissa, if Melissa returns to work. You can see that the household is already £80 better off from Chris's 30 hours' work. Melissa wants to return to work after maternity leave for their second child.



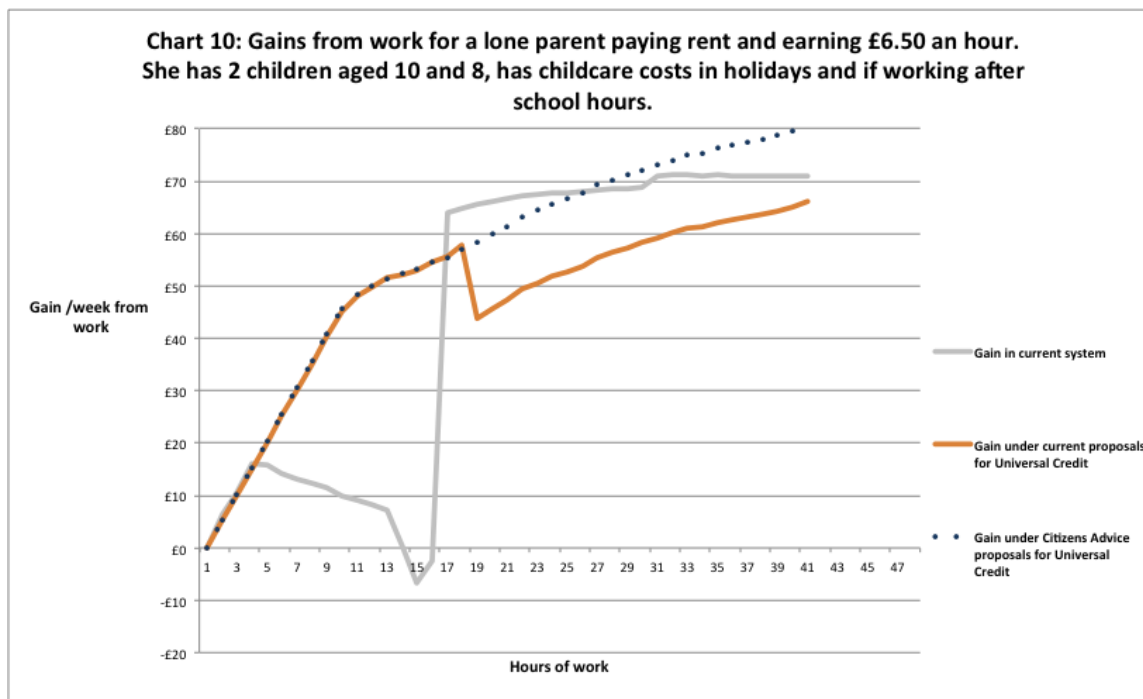
Under the current system it would be very difficult for Melissa to return to work. The couple loses money if she works less than 16 hours per week because they get no help towards childcare costs. But even if she works full time they never gain more than about £5 per week compared to what they would have if only Chris were working.

Under current proposals for universal credit, there is a small but steady gain from work. The line is steeper than Kate's, but Melissa's gain is much smaller because she has no work allowance. This means that if Melissa works for 20 hours per week, she and Chris will be £19 better off. This is better than the current system but is still unlikely to be worthwhile once her bus fares are considered. The current design of universal credit has an adverse impact on the ability of women like Melissa, who get paid at the national minimum wage, to choose to return to work and build a career of their own.

Under our proposals, the couple is better off even if Melissa only works a small number of hours, because of the introduction of a second earner work allowance of £50. Chris and Melissa would also benefit from more help with their childcare costs. This means that returning to work is more likely to be a feasible option for women like Melissa.

## Combined analysis: loss of free school meals and inadequate support for childcare costs

In practice, most lone parents in Emily's situation (see Chart 6) may also have some childcare costs. This increases the difficulties she faces in making work pay when she loses free school meals. Chart 10 shows what happens to gains from work if Emily had some childcare costs during school holidays and, as her hours increase, some costs before or after school.



Under the current system, her gain goes up substantially at 16 hours per week but then almost flat-lines.

Under current proposals for universal credit, Emily’s disposable income drops when she has to pay for school meals. But her contribution towards her childcare costs also rises, so it takes even longer to make up for having to pay for school meals. She will have to work for 12 more hours at the national minimum wage to make up what she has lost. Even working full time she is only £5 per week better off than working for 17 hours. It is very likely that when her extra travel costs are taken into account, she will be worse off.

Under our proposals the combined effect of free school meals and extra support with childcare costs means there is a steady gain from work as Emily’s hours of work increase.

## Different numbers of children

There were 1.1 million households (14 per cent of all households with children) with three or more children in 2013. Two parent households were more likely to have three or more children than lone parents.<sup>14</sup>

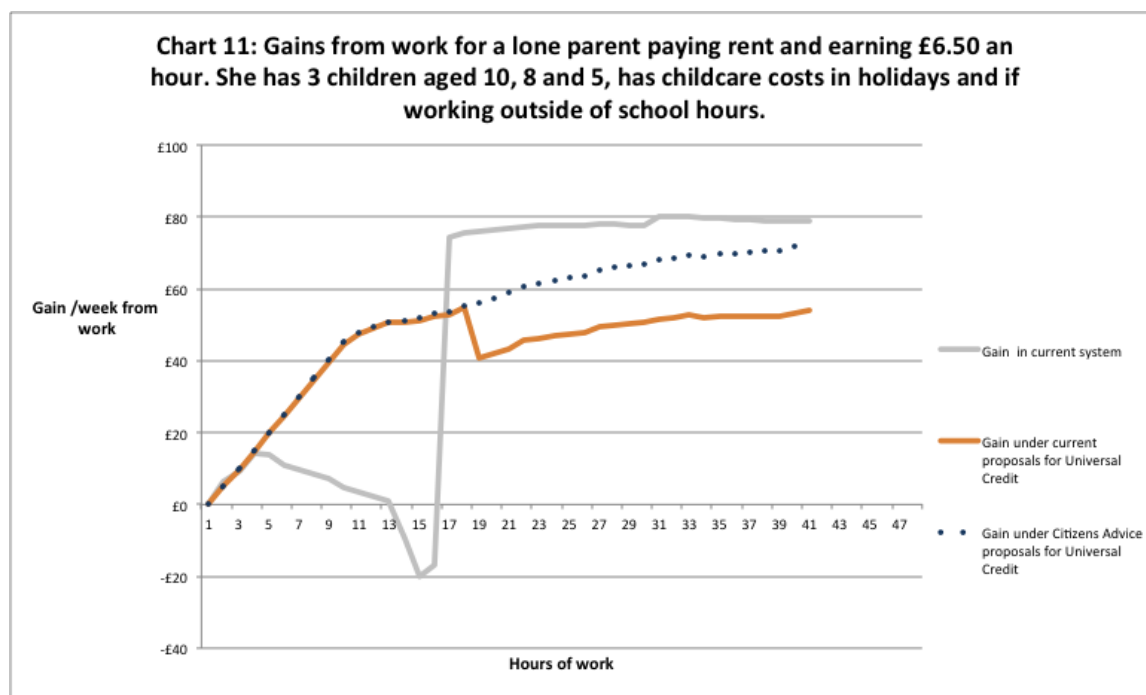
In the current system, the more children a parent has, the more earnings are disregarded in housing benefit and council tax support. This ensures that a parent who has three children and therefore loses more from the loss of free school meals and has to make more of a contribution to childcare costs can still make work pay.

The Government has a stated aim to ensure that “parents of larger families know how much better off they would be in work or working more hours.”<sup>15</sup> However, our analysis has shown that parents of more than two children will face greater barriers to working more hours under universal credit than under the current system. This is because under universal credit, there is no extra work allowance for extra children.

<sup>14</sup> ONS Families and Households statistical bulletin, 2013.

<sup>15</sup> HM Government, Consultation on the Child Poverty Strategy 2014-17.

Chart 11 shows the gains from work for Sam, a single father with three children of school age on the national minimum wage, one of whom receives a free school meal already because she is in the reception class.



Under the current system, once Sam works more than 16 hours he has a gain from work of around £80. Again the gain flat-lines with only a very small gain for any extra hours of work.

However under universal credit as currently proposed, he will face a disincentive to work more hours than the earnings threshold for free school meals. However many hours he works he will never be able to make up for the loss of free school meals because his childcare costs increase as his hours increase. If he works for 35 hours per week, his disposable income after paying for school meals for two children is £52. That is £3 less than the £55 gain he would have at 17 hours of work. This doesn't take into account any extra travel costs he has as a result of working more days. Finally, if all three of Sam's children were in junior school, he would be £10.50 per week worse off working 35 hours than working 17 hours. The problem gets worse for larger families.

Under our proposals, the combined effect of free school meals and extra support with childcare costs means Sam can again be confident that as he increases his hours of work, every hour of work will pay.

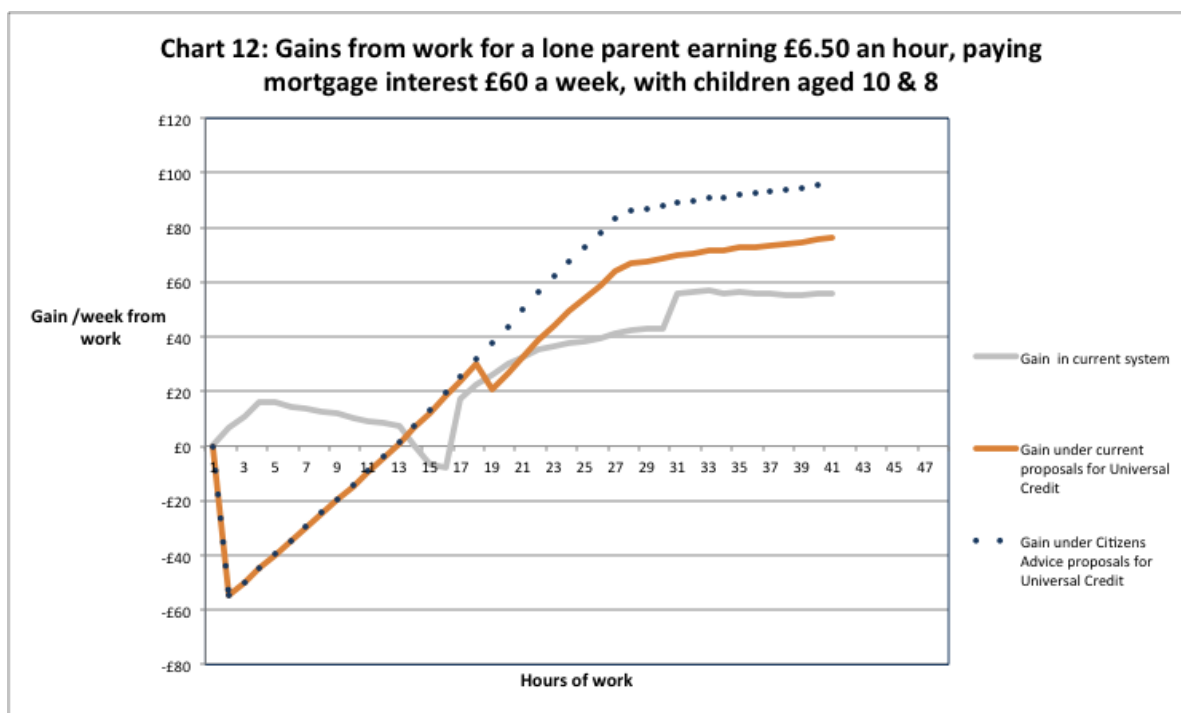
## Parents who have a mortgage

In universal credit, support with the costs of mortgage interest is only available to people who are not working. This means that parents who are paying mortgage interest and working part-time will face further problems in making work pay. About seven per cent of lone parents have a mortgage.<sup>16</sup>

<sup>16</sup> Centre for Economic and Social Inclusion on behalf of the Department for Work and Pensions, *ibid*.



Chart 12 shows the gains from work for Becca, a lone parent with two children in junior school. She took out a mortgage with her husband. They have separated and she is now paying the mortgage interest of £60 per week. She has been working 25 hours per week and managing to pay the mortgage, but she has had to reduce her hours due to changes at work. She now finds that she will be better off not working at all.



Under the current system Becca gains a little from working a few hours but this is eroded as her childcare costs increase. Her gain from work rises fairly steadily from the 16 hour point with another jump in the gain at 30 hours.<sup>17</sup>

Under universal credit as currently proposed, Becca has to work more than 12 hours per week to ensure that she is better off. Her gain then increases at a faster pace because she has a larger work allowance in lieu of a housing component in her universal credit award. She will still lose out when she reaches the earnings threshold for free school meals, but it will only take three additional hours of work to make up for having to pay for two school meals.

Under universal credit with the changes we have proposed, Becca will still have to work at least 12 hours per week to be better off. However beyond that she will have a steady gain from work.

## Extra costs

As well as the costs which can be accounted for in the benefits system there are extra 'costs of working' which aren't included but which will reduce any gains from work. Some of these, such as travel costs, will be faced by all claimants. Other costs, such as the extra

<sup>17</sup> Working tax credits has an extra element for those working 30 hours. The graph doesn't flat-line in the same way as previous graphs because there is no entitlement to housing benefit which increases the marginal deduction rate for those who rent.

costs of childcare, are only faced by parents. Some will affect the ability to return to work or increase hours beyond the thresholds for passported benefits. Others will increase as hours of work increase.

- **Loss of passporting of other entitlements** – There are a lot of extra entitlements outside of the benefits system which are passported depending on receipt of a certain benefit or a certain level of income. The entitlements range from no charges for prescription medicines, to reduced charges for certain courses, to reduced membership fees for some organisations and reduced charges for many local authority services or activities. Taken together they have a significant value.
- **Travel** – Costs of travel obviously increase if extra work involves working for more days. All claimants are equally likely to face these costs, but they create the most problems for those who already have the most marginal gains. Those parents who cannot get childcare provision located on the way to and from work will also bear the extra costs of the additional journeys to their childcare provider.
- **Miscellaneous** – People may need to run a car or buy smart clothes for work purposes.
- **Paying for extra childcare costs** – Parents may have to pay extra amounts to their formal childcare provider such as charges for meals, retainers when on holiday, or fines for late pick up if they can't avoid staying late at work or have transport problems. Parents who use informal childcare in addition to formal childcare provision may offer some payment or payment in kind to reimburse the informal childcare provider.<sup>18</sup>

It is therefore vital that there is not just a 'paper' gain from work but a real, substantial gain from work and from increasing hours of work to cover these additional costs.

## Households most likely to struggle to make work or more work pay

From the above analysis three types of households emerge who are most likely to struggle under universal credit to make work pay, or find that it makes sense to increase their hours of work:

- **Households needing to pay for school meals as hours of work increase** – Households with children in year three or above will have to pay for school meals if their earnings are higher than a set level of income. Even when the children are in their teens and don't need formal childcare, the loss of free school meals will undermine the ability of low income households to make work pay as their earnings increase. Young teenagers may not require formal childcare, but as hours of work increase it is likely that parents will need to pay for more activities such as football training during the school holidays so the children are not on their own at home for long periods.
- **Households needing formal childcare in order to do any work** – These households face the highest childcare costs. The Budget announcement that all parents on universal credit will have up to 85 per cent of their childcare costs covered is very welcome as it removes *some* of the work disincentives for parents. However

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<sup>18</sup>Daycare Trust, Interim report on informal childcare.

even with support at 85 per cent, parents may be paying £45<sup>19</sup> per week if they have high childcare costs for very young children. There is no free childcare for children under two years old, which means that parents returning to work after maternity leave will have very high childcare costs, especially if they also have older children. This is crucial as it is at this point that a parent who was previously employed is most likely to have a job to which she can return.

- **Households needing to pay for school meals and for some childcare costs as hours of work increase** – These households face the most serious barriers to work. Parents of children at junior school will have to pay for school meals if they pass the earnings threshold. However, as they increase their hours beyond this point, they are also likely to have to work for some periods outside of school hours. They will also of course have longer periods to cover in the school holidays. Having to pay for school meals and also having to make a contribution to childcare costs combine to create a huge barrier to working more hours.

## Parents who want to work longer hours will find it hard to do so

Under the current system, there is a relatively strong financial incentive for a lone parent to work for 16 hours per week, but very little incentive to work fewer or more hours than that. The Government acknowledges that “this fails to reflect the flexible working pattern that modern employers and individuals need.”<sup>20</sup>

Universal credit aims to improve this, but while it increases work incentives for those entering work on low hours, barriers to full time work remain significant. Many parents will face a disincentive to take on additional hours beyond the earnings threshold for free school meals. For those working at the national minimum wage, this is likely to be around 17 hours per week.<sup>21</sup> For those earning more per hour, free school meals would be lost earlier (for example, on £8.50 per hour, free school meals are lost at 13 hours per week).

This matters for employers and for parents who want to work longer hours. Labour Force Survey data shows how lone parents often enter work at the 16 hour point, and increase their hours over time.<sup>22</sup> After being in work for some time only 17 per cent of lone parents work 16 hours whilst 45 per cent work 30 hours or more. In addition attitudinal research suggests that “one in five mothers already in employment would like to take on more work – an extra 10 hours a week on average.”<sup>23</sup>

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<sup>19</sup> Universal credit will provide 85 per cent of childcare costs up to a maximum of £300 per week. This means that parents with childcare costs of £300 would be required to pay £45 towards childcare costs.

<sup>20</sup> Department for Work and Pensions, *Universal credit; welfare that works*, November 2010.

<sup>21</sup> We have assumed the earnings threshold for free school meals is likely to be around £6,000 a year. The same barrier will apply but at different hours of work if the threshold is different.

<sup>22</sup> Labour Force Survey, January to March 2011.

<sup>23</sup> <http://www.mumsnet.com/campaigns/childcare-mumsnet-resolution-foundation-survey-costs>

## Summary of our recommendations to make work pay in universal credit

Our analysis demonstrates that the following changes are necessary to ensure that work and extra hours of work pays for low income households with children:

Recommendation	Cost (£m)
Increasing the subsidy for childcare costs to 90 per cent	130
Providing free school meals to all children in households receiving universal credit	780
Allowing the second earner in a household to keep an additional £50 per month of earnings before their income from universal credit is reduced	200

## Other issues for specific groups

### Treatment of maternity allowance as unearned income

#### Maternity allowance and statutory maternity pay

Someone on maternity leave from work is likely to be entitled to either maternity allowance or statutory maternity pay. These benefits help to stabilise the income of a woman who has been working prior to taking maternity leave so she doesn't have to cope with a very large reduction in income when facing large extra costs. Whether she receives statutory maternity pay or maternity allowance will depend partly on the length of time she has been working for her current employer. If she had been working for the same employer before they became pregnant and during her pregnancy, and is earning above the national insurance lower earnings limit, then she will be entitled to statutory maternity pay. If she has average earnings of this amount and has worked enough weeks, but has changed employers at some point during this period, then she will receive maternity allowance at the same rate as statutory maternity pay. If she does not work enough hours to qualify for statutory maternity pay, she can get a reduced rate of maternity allowance.

Each year, around 68,000 mothers make a new claim for maternity allowance.<sup>24</sup> In the current system, someone who has been working and is entitled to maternity allowance is treated in the same way as those entitled to statutory maternity pay. As long as she was working prior to taking maternity leave, she is treated as still being in work during her leave and her working tax credits continue to be paid.

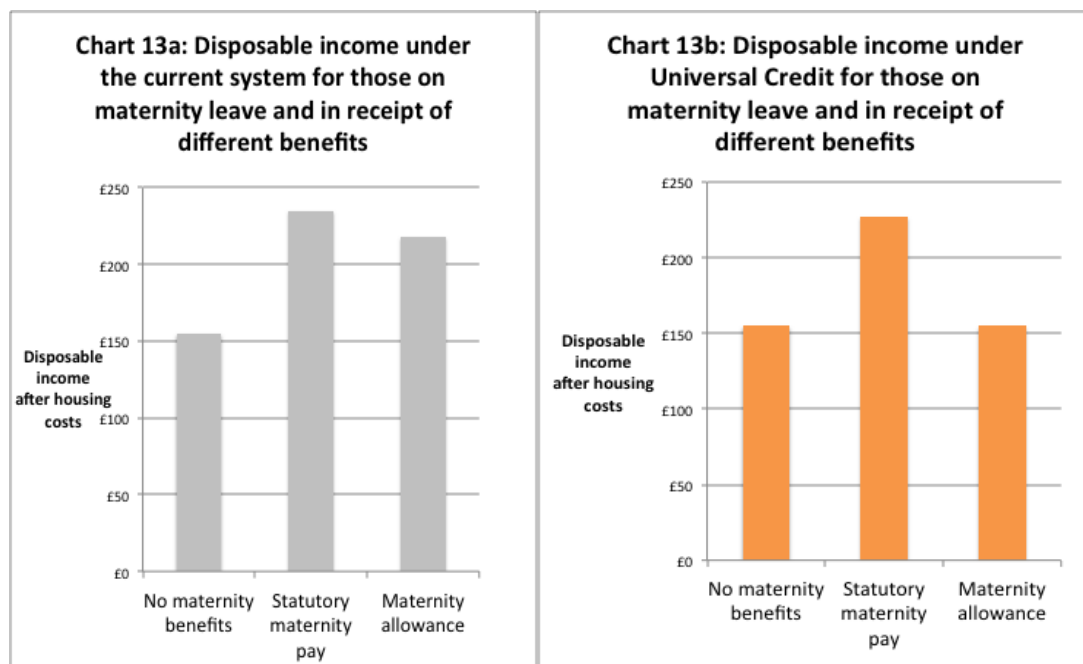
Under universal credit, a woman getting statutory maternity pay is treated very differently to a woman receiving maternity allowance.<sup>25</sup> Statutory maternity pay and maternity allowance

<sup>24</sup> Department for Work and Pensions, Maternity Allowance Quarterly Statistics.

<sup>25</sup> This is because statutory maternity pay is treated as earned income. This means that the work allowance and the taper are applied to it before the award of universal credit starts to be reduced. Maternity allowance is treated as unearned income and reduces the universal credit award pound for pound.

are usually paid at the same weekly rate. However, because of the difference in treatment in universal credit, a lone parent receiving maternity allowance (because she changed jobs shortly before getting pregnant) would be £72 per week worse off than a lone parent entitled to statutory maternity pay. For couples the effect will also be substantial. A couple will be £48 per week better off if a new mother is receiving statutory maternity pay rather than maternity allowance.

**Chart 13a and b: Difference between way maternity allowance and statutory maternity pay are treated in the current system and in universal credit**



**Our recommendation: Universal credit must treat new mothers receiving maternity allowance in the same way as mothers who qualify for statutory maternity pay.**

## Treatment of widowed parents allowance as unearned income

### Widowed parent's allowance

Widowed parent's allowance is paid to people who are widowed below state pension age with at least one dependent child. The amount paid is based on how much their late husband, wife or civil partner paid in national insurance contributions. The maximum widowed parent's allowance is £108.30 per week. Eligibility is lost if the person who is widowed has a new partner.

Currently work incentives for widowed parents follow the same pattern as for other lone parents who are working. However, under proposals for universal credit widowed parent's allowance will be treated as taxable unearned income. This means a widowed parent's

universal credit payment will be reduced pound for pound for the widowed parent's allowance they get.

In addition, if a widowed parent is earning enough to pay tax on their income, they will also be taxed on their widowed parent's allowance. As the universal credit calculation is likely to take into account the full amount of a widowed parent's allowance, not the amount following tax, they will actually be around £8 per week worse off if they claim widowed parent's allowance than if they didn't claim it.<sup>26</sup>

45,000<sup>27</sup> parents claim widowed parent's allowance each year. Not all of these parents will claim or be eligible for universal credit. Those that do should not risk being worse off because they have been bereaved; they should see a small financial gain on the basis of their late partner's national insurance contributions.

**Our recommendation: A widowed parent's element should be introduced within universal credit, worth at least £10 per week. This would ensure that widowed parents see a gain not a loss from having claimed this benefit.**

## Poor support for many disabled parents in work

Universal credit will have an adverse impact on some groups of disabled people, as set out in our report, *Holes in the Safety Net*. It is clear that disabled parents will face particular problems on top of those set out in this report once universal credit is fully implemented:

- Lone parents who are severely disabled and do not have an adult caring for them will be between £28 and £58 per week worse off. They will not be able to pay for the extra costs their households face, which may have a very serious impact on children who are already spending considerable time caring for their parents.
- Parents with disabled children who do not receive the higher rate of the care component of disability living allowance will receive £28 per week less direct support to pay for the extra costs that their households face. Parents with disabled children also face higher childcare costs, and need childcare for longer than other parents. This will make it even more difficult for these parents to make work and every hour of work pay.
- Disabled parents in work face additional costs that other parents do not face and which cannot be covered by the Access to Work scheme. We are concerned that, under universal credit, many fewer disabled people will be able to access the extra support that they presently receive through the disability element of working tax credits.

We will publish a more detailed report on this subject, with specific recommendations, this summer.

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<sup>26</sup> This is because widowed parents allowance is taxable. If the recipient is earning enough to pay tax then they will pay an extra £21.66 in tax on the widowed parent's allowance. However this is likely to be collected by changing the tax code on their earnings. Their net earnings will be reduced by the amount of the tax they have to pay on their widowed parent's allowance. However their widowed parents allowance will be deducted in full from universal credit. They therefore lose 35 per cent of £21.66, which is about £8 per week.

<sup>27</sup> DWP Quarterly statistical summary August 2013.

## Summary of our recommendations

<b>Policy change</b>	<b>£million</b>
Increasing the subsidy for childcare costs to 90 per cent	-130
Providing free school meals to all children in households receiving universal credit	-780
Allowing the second earner in a household to keep an additional £50 per month of earnings before their income from universal credit is reduced	-200
Ensuring women on maternity leave get the same gain on maternity allowance as they would on statutory maternity pay	-140
Introducing a widowed parents element of £10 per week	-30
Increasing the overall funding in universal credit for disabled people	-220
Changing the rate at which universal credit is reduced by people's earnings from 65 per cent to 70 per cent	+1,500
<b>Total spend</b>	<b>0</b>

## Rebalancing universal credit: bigger wins than losses

As it stands, universal credit will be reduced by £6.50 for every £10 earned. However far from keeping £3.50 for every £10 earned, many parents may actually lose money by taking on extra work. This is because the extra fixed costs of working more hours (such as travel and contributions to their childcare costs or having to pay for school meals) are higher than this gain.

Under our proposals, the taper would increase slightly to £7 for every £10 earned. However those parents with the worst work incentives would gain much more than they lose from the rise in the taper. Those losing out from the raising of the taper rate would typically be those on slightly higher incomes (as the more you earn, the more you benefit from a low taper rate) and those who do not face the extra costs faced by parents. Under our proposals for universal credit, both of these groups will have better incentives to work and increase their hours of work than low income parents.

The charts below directly compare work incentives for relative losers (on the left of the page) and winners (on the right of the page) from our proposals. **Our analysis clearly demonstrates that our proposals produce better work incentives across different types of households and those commanding different wages than the current proposals for universal credit.**

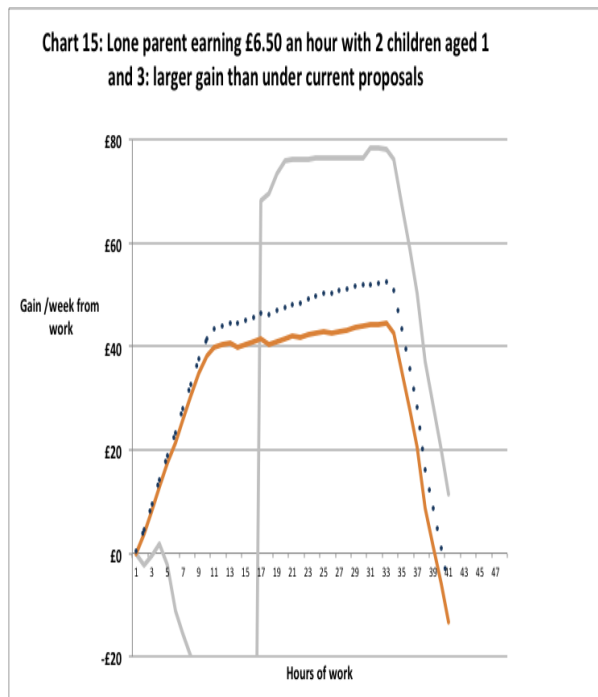
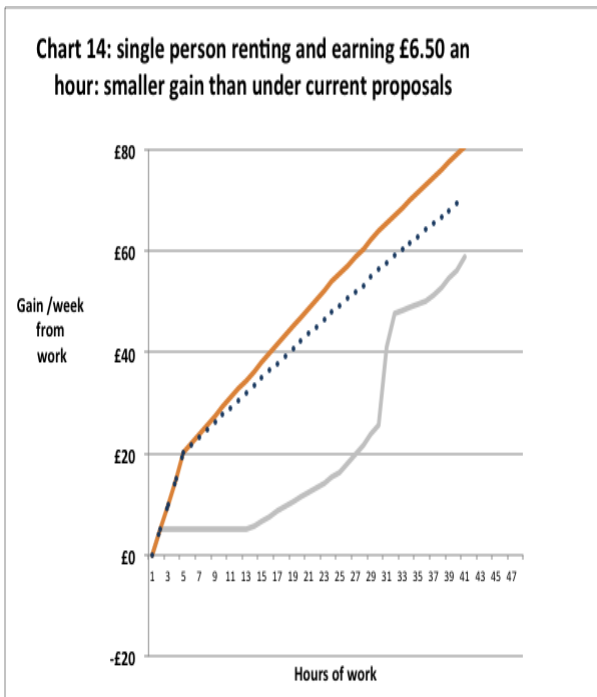
### Lone parents and single people

Chart 14 shows the gains from work, compared to not working, for a single person with no children who is earning at the national minimum wage. Under the current system (grey line) their work incentives are limited until they approach full time work. Universal credit as currently proposed (orange line) significantly improves this situation.

However, Chart 15 shows that the incentive to work beyond 16 hours for a lone parent with childcare costs for very young children is good under the current system (grey line) but much weaker for those working 16 hours under universal credit as currently proposed (orange line).

Our proposals are shown on both graphs as a dotted orange line. The single person gains less under our proposals because of the increase in the taper, but still gains in comparison to the current system whilst retaining a clear incentive to work and to increase their hours of work. The lone parent gains under our proposals but their incentives are still not as strong as the incentives for the single person.





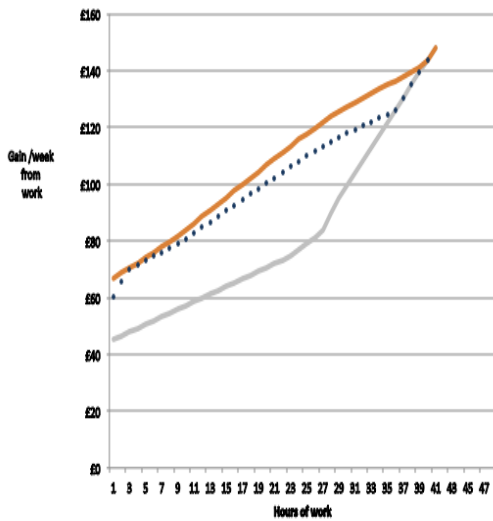
## Couples with and without children

Chart 16 shows the gains from work for a couple without children. One of the couple is working full time and earning £200 per week. The graph shows the household gain if the second earner returns to work earning the national minimum wage. Under the current system (grey line) the household's gain from the second income is poor until the second earner starts working 16 hours or more each week. Universal credit as currently proposed (orange line) significantly improves this situation.

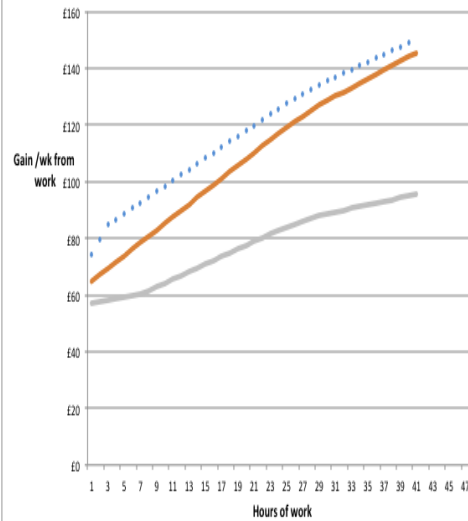
Chart 17 shows a similar scenario for a couple with children. They also have a better work incentive under Universal credit as currently proposed (orange line) than under the current system (grey line).

Under our proposals (blue dotted line), the couple without children would benefit from the second earner work allowance. Whilst they have a slightly smaller gain than under the current proposals for Universal credit our design ensures that they still gain in comparison to the current system. Importantly, the couple with children, who are also likely to face extra costs not accounted for in the chart such as needing to pay for childcare in the school holidays, will gain from our proposals.

**Chart 16: Couple with no children. One earning £200 a week, other earning £6.50 an hour: smaller gain than under current proposals**



**Chart 17: Couple, one earning £200 a week, other earning £6.50 an hour. They have 2 children: larger gain than under current proposals**



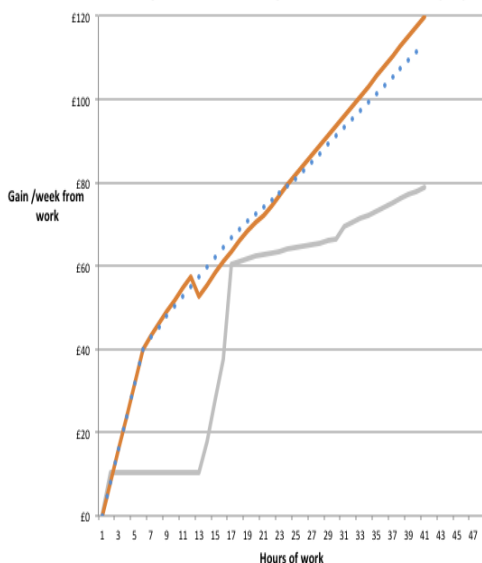
## Parents with and without childcare costs

Chart 18 shows the gains from work for a couple with two children aged five and eight and no childcare costs. One of the couple is working and earning £10 per hour, the other is not working. Under the current system (grey line) the gain from work is not smooth. Universal credit as currently proposed (orange line) significantly improves this situation.

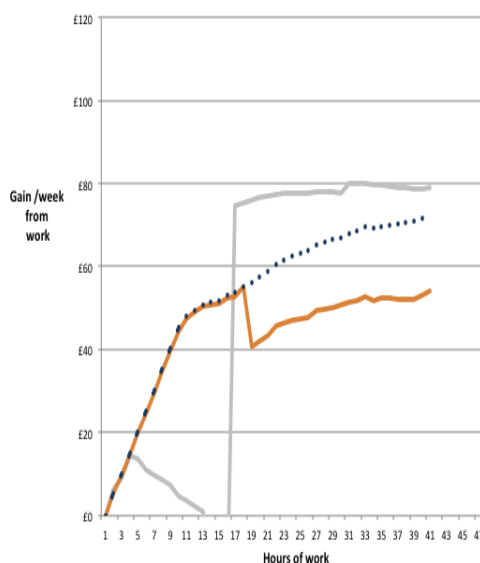
Chart 19 shows that the incentive to work for a lone parent with three children aged 10, eight and five and working at least 16 hours is good under the current system (grey line) but the incentive to work under universal credit as currently proposed (orange line) is lower.

Under our proposals (blue dotted line), the couple still has a clear incentive to work and to increase their hours of work. However, the important change is that the lone parent with three children does now have an incentive to increase their hours of work.

**Chart 18: Couple, one working and earning £10 an hour: they have 2 children aged 5 & 8 :smaller gain than under current proposals**



**Chart 19: Lone parent earning £6.50 an hour with 3 children aged 10, 8 and 5: larger gain than under current proposals**

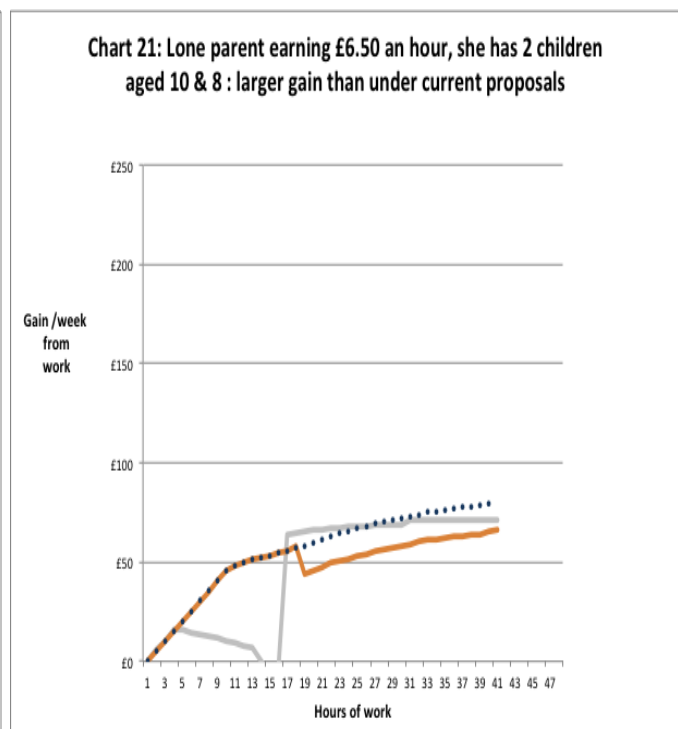
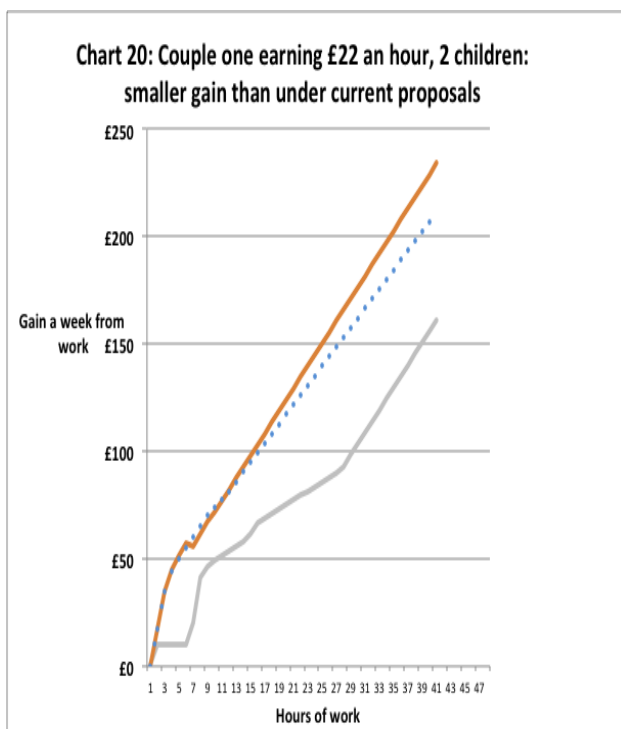


## Households on different wages

Chart 20 shows the gains from work for a couple with two children. One of the couple is working and earning £22 per hour (this equates to a full-time annual salary of £45,000). Under the current system (grey line) they do have an incentive to increase their hours of work. However universal credit as currently proposed (orange line) significantly improves this incentive.

Chart 21 shows that for a lone parent earning the national minimum wage the incentive to work at least 16 hours, with some childcare costs is good under the current system (grey line). However the incentive to work under universal credit as currently proposed (orange line) is lower and offers little incentive to increase hours of work beyond the earnings threshold for free school meals.

Under our proposals for universal credit (blue dotted line), both families would have an incentive to work and to increase their hours of work. The couple will still be £51 better off even under our proposals than they are in the current system. And importantly, the lone parent on the national minimum wage does now have an incentive to work more hours.



## Conclusion and recommendations

This report is the first comprehensive analysis of the impact of universal credit on families with children. It highlights a simple problem; universal credit will not work for working parents who can only command low hourly earnings. This is because in many cases the high extra costs they face destroy the very work incentives that universal credit set out to create. And in practice the 'real world' situation for some families is much worse than our analysis demonstrates.

Although universal credit in its current form has improved work incentives for single people and higher earners, it has prevented some lone parents and low income second earners from making work, and extra hours of work, pay. This is particularly undesirable because these groups are among the most responsive to work incentives; making work pay for these groups would not only increase the effectiveness of universal credit but would also do more to contribute to economic growth and reduce inequality.

If the aims and vision of universal credit are to be realised for those working on a low hourly wage, it is vital that more support is provided with the costs of working than is planned under current proposals. The available funding for universal credit must also be allocated as smartly as possible to maximise work incentives across the board. We therefore propose that Universal credit is rebalanced, evening out the gains from work among all future recipients, so that more people, including parents at or near the national minimum wage, can see a real gain from work.

The following changes should be made to universal credit:

- Increasing the subsidy for childcare costs to 90 per cent;
- Providing free school meals to all children in households receiving universal credit;
- Allowing the second earner in a household to keep an additional £50 a month of earnings before their income from universal credit is reduced;
- Treating maternity allowance the same as statutory maternity pay;
- Introducing a widowed parents element of £20 per week;
- Increasing the overall funding in universal credit for disabled people; and
- If necessary to fund our proposals, raise the taper to 70 per cent.

## Appendix 1: Summary of households covered in our analysis and the assumptions made

To analyse the impact on work incentives of the current proposals for universal credit and of our proposals, we looked at the gains from work as hours of work increase across a wide range of households.

All of our analysis compares what happens under:

- the current system (grey line on the graphs),
- what will be the impact of universal credit as currently proposed (orange line) and
- what would happen to household gains if our changes were implemented (blue dotted line).

The main focus of the analysis has been on how households with children will fare under universal credit.

There are two main sections in the appendices that show this analysis:

- Appendix 2 dealing with the impact of universal credit on lone parents
- Appendix 3 dealing with the impact on couples with children.

However, the change in the taper will also impact households without children. We have therefore analysed work incentives for these groups in Appendix 4.

All of the graphs use the following assumptions:

- costs and benefit rates are based on rates for 2013 to 2014;
- impact of council tax support is included in the analysis as for many parents it will become much less generous under universal credit (local discretion applies but we have used the default system; and
- where a mortgage is included we have assumed they are paying mortgage interest of £60 per week.

There are additional specific assumptions for households with children which are detailed on the next page.

Throughout the analysis the following variables change:

- rate of pay; and
- rent amounts

From the changing shape of the graphs, as the variables change, it is possible to generalise more widely about the impact of universal credit on households with children.

## Specific assumptions for households with children

The assumptions for our analysis change as the ages of the children in a household change. We looked at three different scenarios to reflect the impact of children as they grow up:

### 1) A woman returning to work after maternity leave with two children aged one and three years.

We make the following assumptions:

- The three year old will have 15 hours of free childcare during term-time but there is no free childcare for one year olds. This means that parents without access to informal childcare will have a relatively high ratio of childcare hours for each hour of work.
- Their nursery has allowed them to spread their free 15 hours childcare for 38 weeks across the year, meaning that they have 11 hours of free childcare across 52 weeks.
- They pay £4.44 per hour for nursery. According to the Family and Childcare Trust the average cost for a nursery place was £4.26 per hour last year. We have adjusted this in line with a 4.2 percent rise in childcare costs last year. This is considerably higher than CPI.
- She is doing four hour shifts and needs to book five hours of childcare for each shift. Some childcare providers offer provision in sessions rather than on an hourly basis but we have assumed that she is paying per hour.
- After 20 hours of work any extra work requires the same amount of hours of childcare because she extends existing shifts rather than taking on additional shifts. So after 20 hours of work an extra four hours of work only require another four hours of childcare.
- The children do not have any disabilities. Parents of disabled children tend to face higher childcare costs.

### 2) A household with two children in junior school

We make the following assumptions:

- There are likely to be some childcare costs for after and/or before school care once the family moves towards full-time work. There will also be childcare costs during the school holidays. This scenario will generally reflect a medium ratio of childcare hours to hours of work.
- The earnings threshold above which school meals will need to be paid for will be £6000.
- They will pay for school meals for the children if they don't qualify for free school meals.
- The average cost of school meals for a week is £10.<sup>28</sup> A child in a household below the earnings threshold for free school meals would receive a free meal for 39 weeks. We have averaged the loss of disposable income over the whole year making a loss of £7.50 per child per week. So for two children this would be a loss of £15 per week.
- They are paying £4.10 per hour for a childminder after school. According to the Family and Childcare Trust the average cost of a childminder last year was £3.93 per hour.<sup>29</sup> We have adjusted this in line with a 4.2 percent rise in childcare costs last year. This is considerably higher than CPI.
- Their after school costs build up slowly so that by 20 hours of work she is paying for 5 hours of after school care for each child.
- School holiday childcare costs are £2.75 per hour<sup>30</sup> and they can access this by the

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<sup>28</sup> The Children's Food Trust: annual survey 2012 survey

<sup>29</sup> Family and Childcare Trust: Annual Costs Survey 2013.

<sup>30</sup> Family and Childcare Trust: Holiday Childcare Costs Survey 2013.

hour. Some school holiday childcare providers offer provision in sessions rather than on an hourly basis, but we have assumed that they are paying per hour.

- They only need to pay for eight weeks holiday costs as they will have five weeks' annual leave that they can take from work. We have assumed that they can take all of their annual leave during the school holidays. We have not assumed they have to pay a retainer fee for the childminder during the school holidays, although some childcare providers do charge a retainer fee to keep a childcare place available for term time use.
- There are no extra costs when the school may be closed or the children are too ill to go to school.
- The children do not have any disabilities. Parents of disabled children may well face higher childcare costs.

### **3) A household with two children in secondary school**

We make the following assumptions:

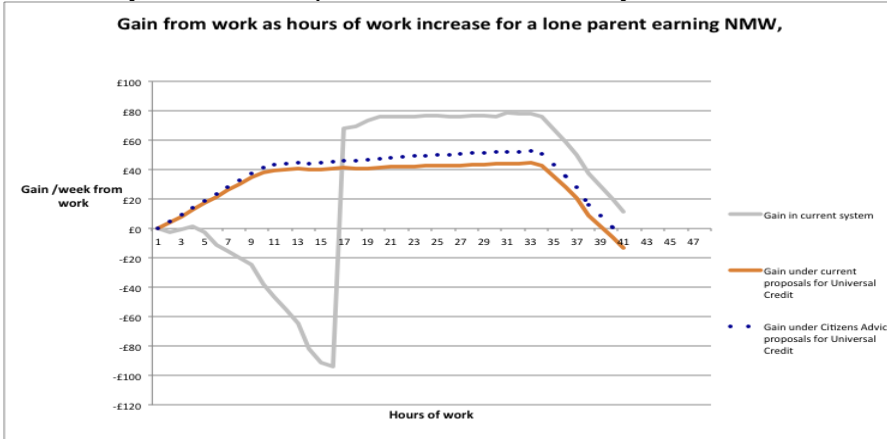
- There are no childcare costs as the children are older and can be at home alone. However there are likely to be increased costs for activities during the school holidays so that the children are not left at home alone for long periods of time. We have not included these extra costs in our analysis.
- They pay for school meals for their children if they don't qualify for free school meals.

# Appendix 2: Work incentives for lone parents

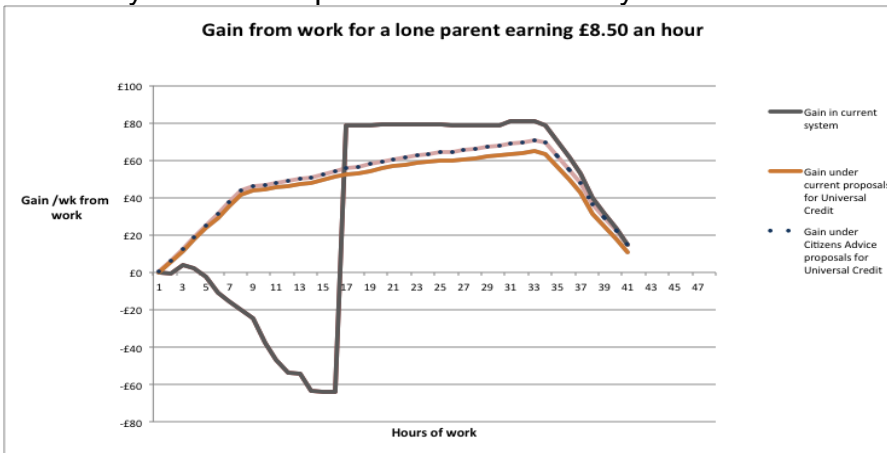
## Lone parents who rent

1. A lone parent returning to work after maternity leave. They pay rent and have two children aged one and three.

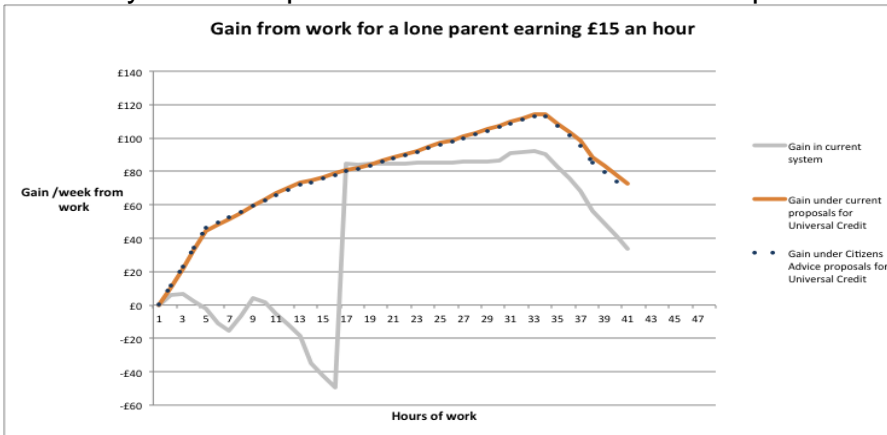
1a. If they earn £6.50 per hour and have any level of rent.



1b. If they earn £8.50 per hour and have any level of rent.



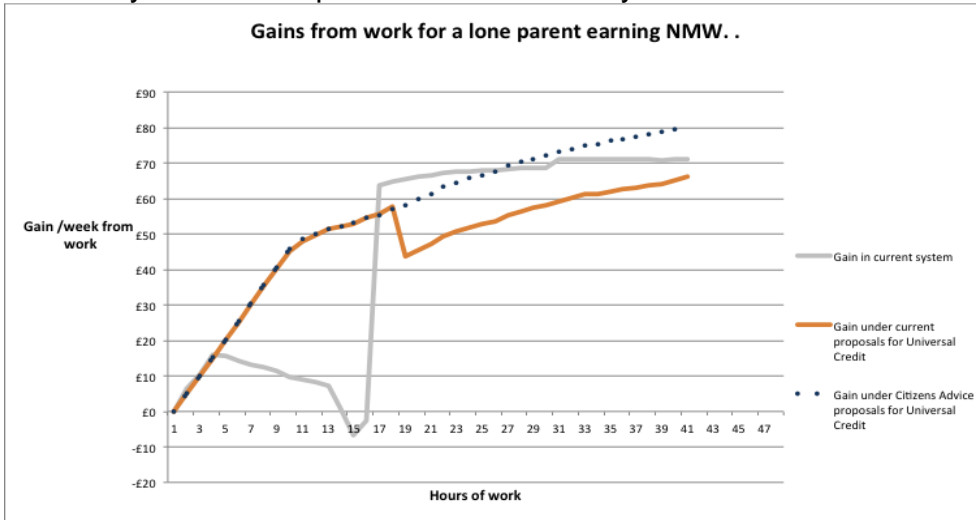
1c. If they earn £15 per hour and have rent over £80 per week.



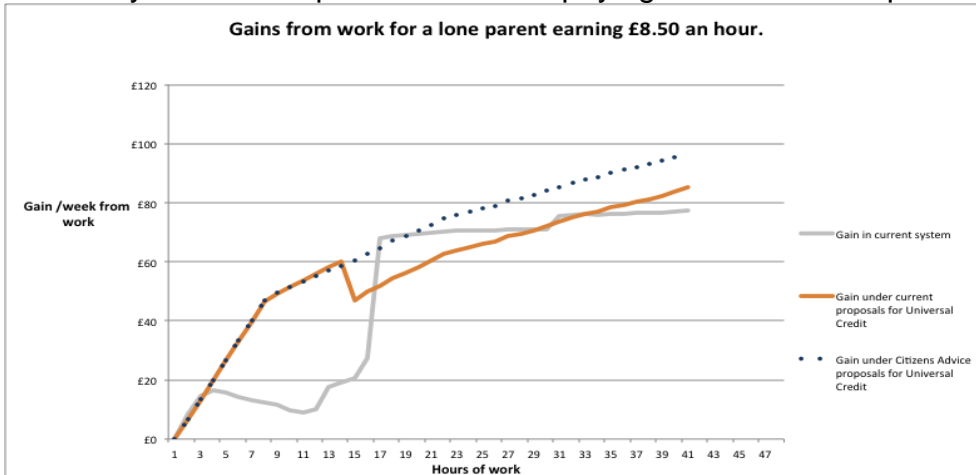


**2. A lone parent with two children at junior school who pays rent.**

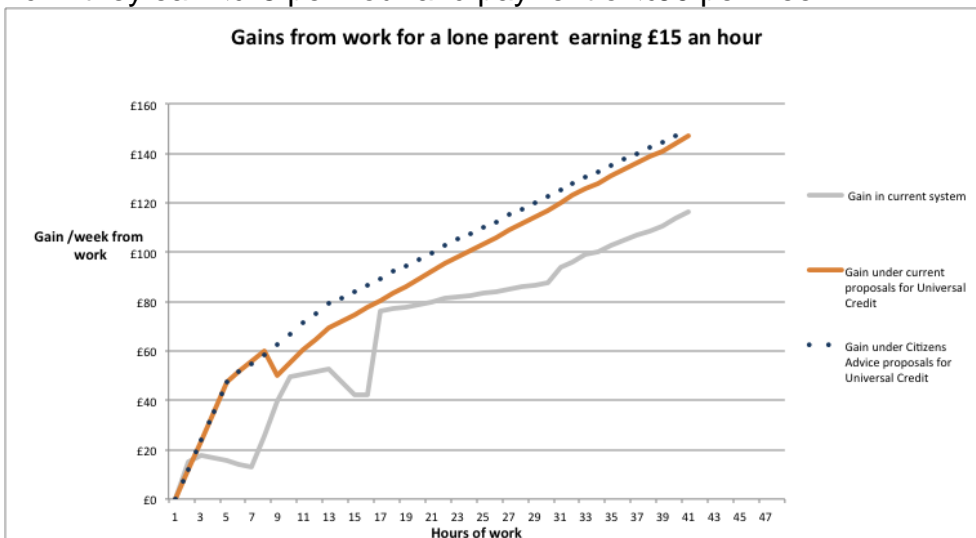
2a. If they earn £6.50 per hour and have any level of rent.



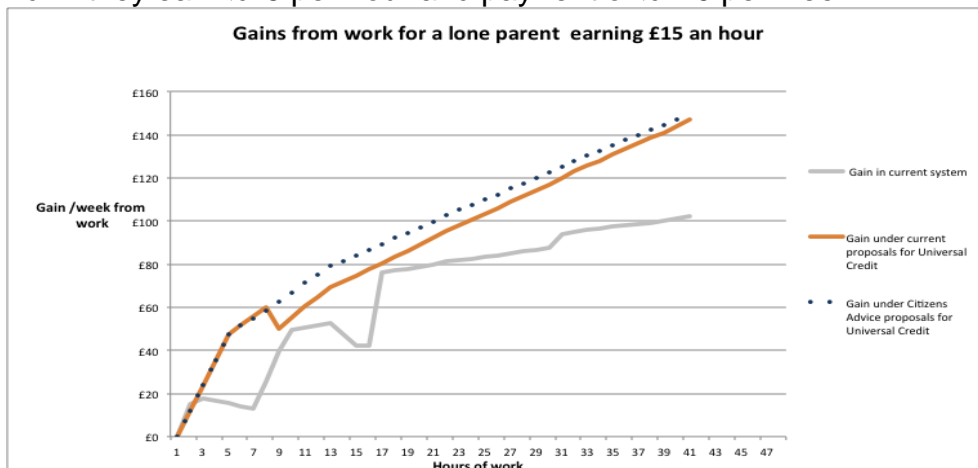
2b. If they earn £8.50 per hour and are paying rent above £60 per week.



2c. If they earn £15 per hour and pay rent of £90 per week

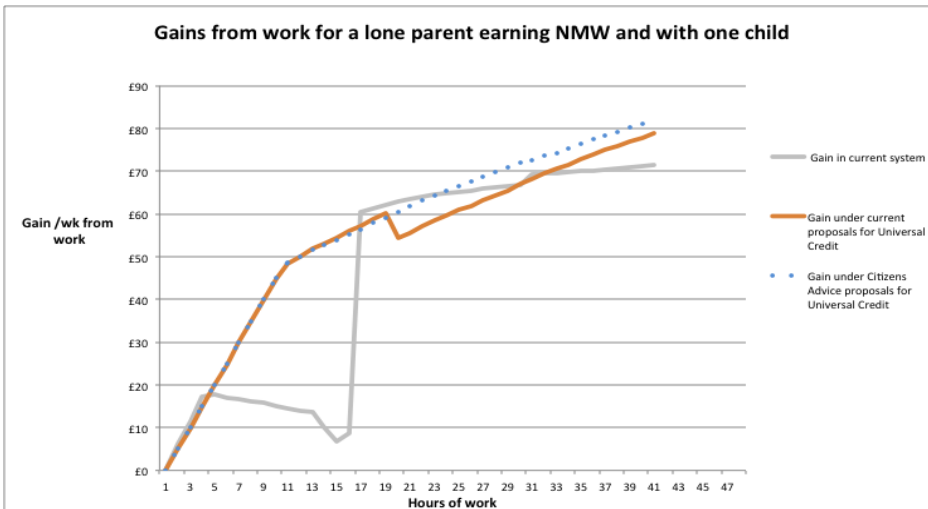


2d. If they earn £15 per hour and pay rent of £140 per week

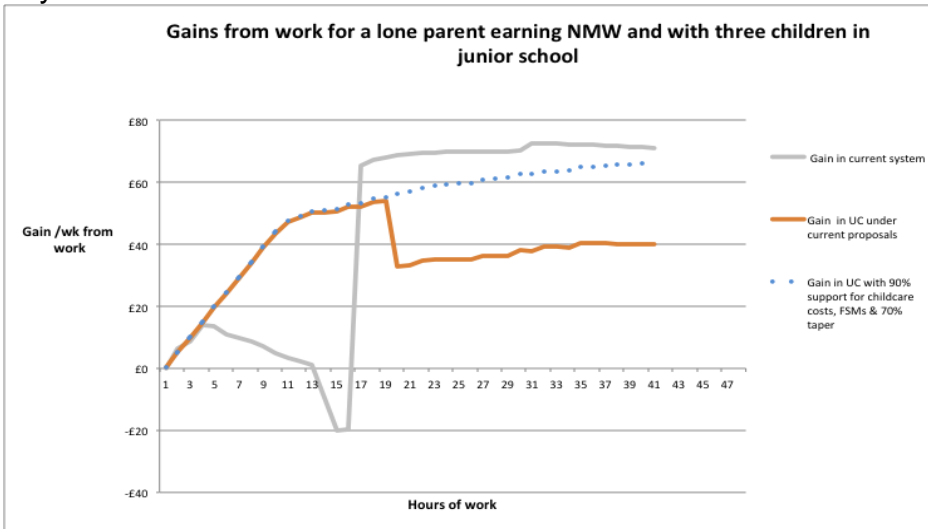


### 3. Different amounts of children for a lone parent scenario

3a. A lone parent with one child at junior school earning £6.50 per hour and paying any level of rent.

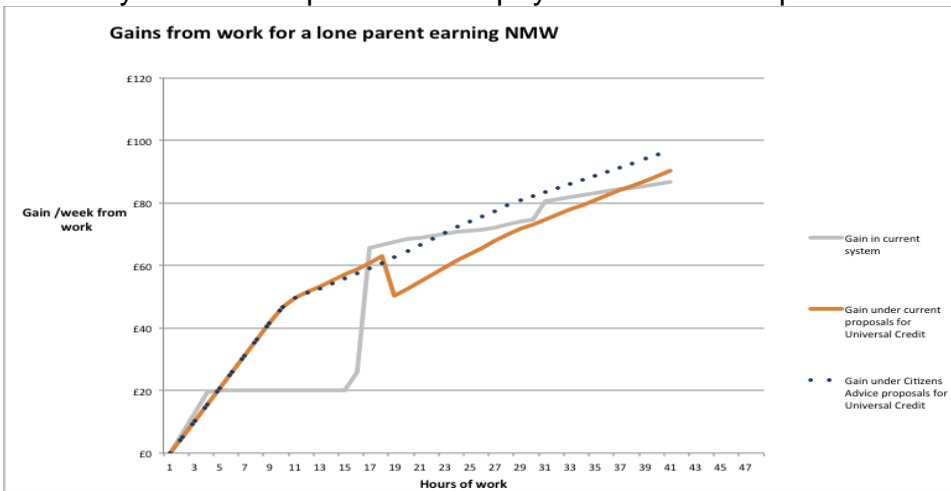


3b. A lone parent with three children at junior school. They earn £6.50 per hour and have any level of rent.

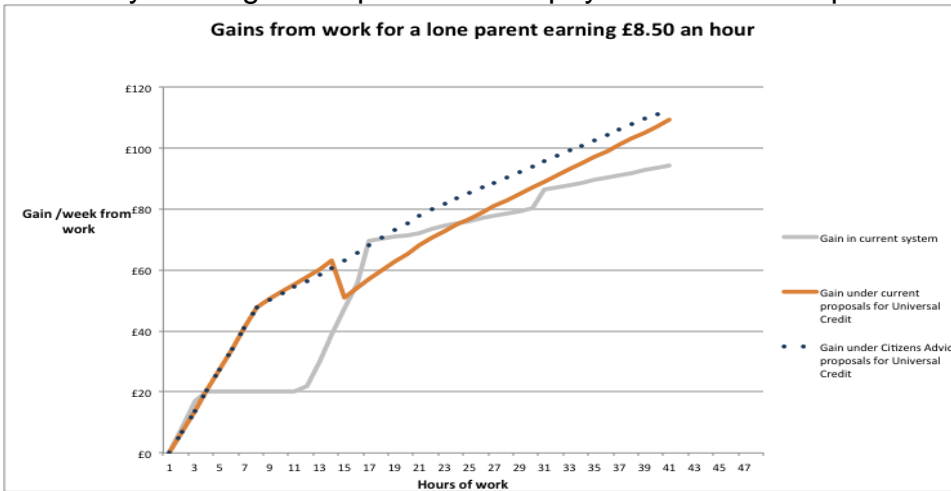


**4. A lone parent with two children at secondary school. They pay rent.**

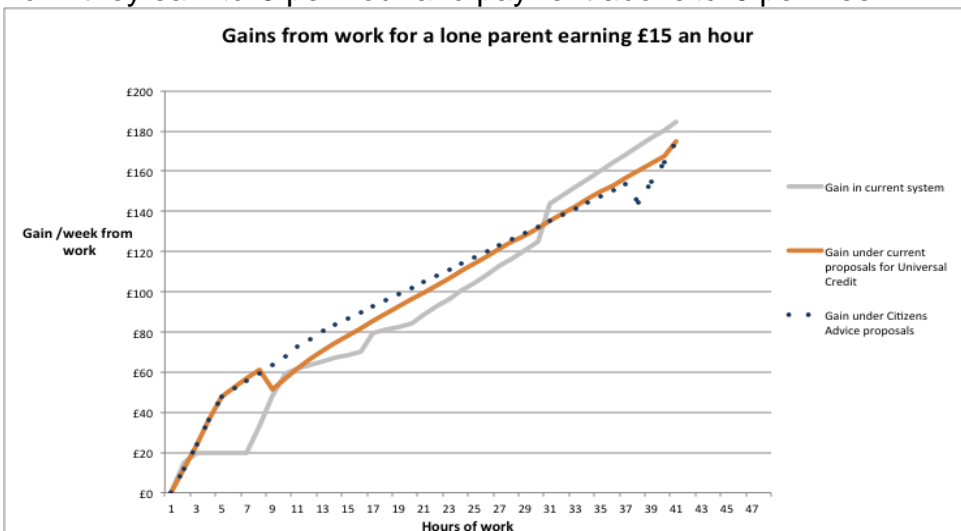
4a If they earn £6.50 per hour and pay rent above £85 per week.



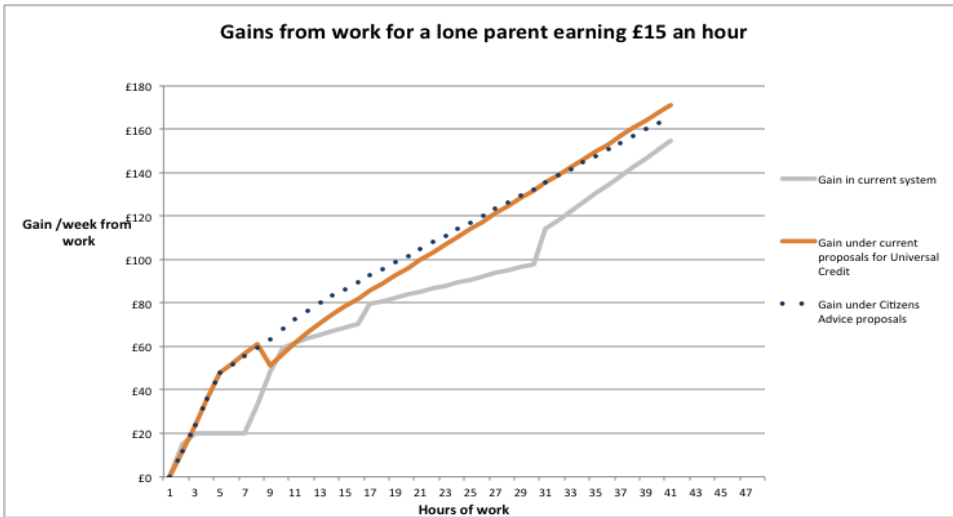
4b. If they earning £8.50 per hour and pay rent above £90 per week.



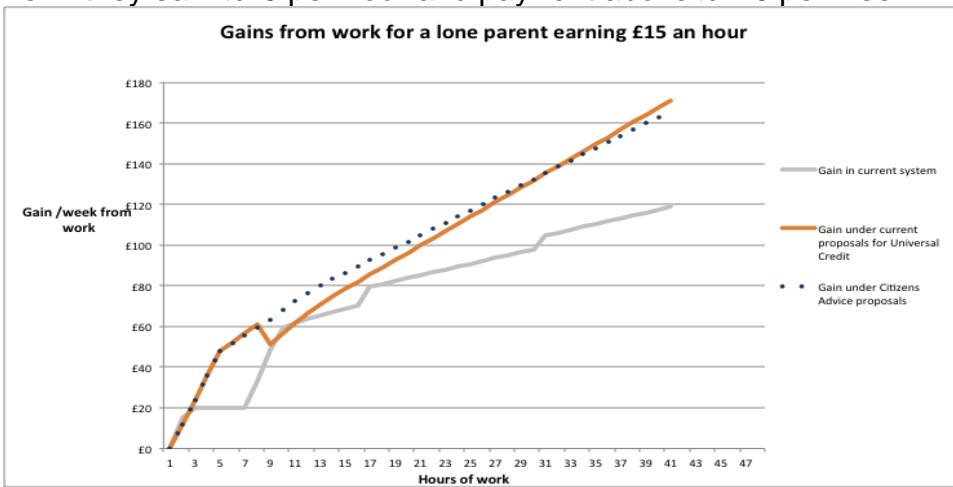
4c. If they earn £15 per hour and pay rent above £70 per week.



4d. If they earn £15 per hour and pay rent above £100 per week.



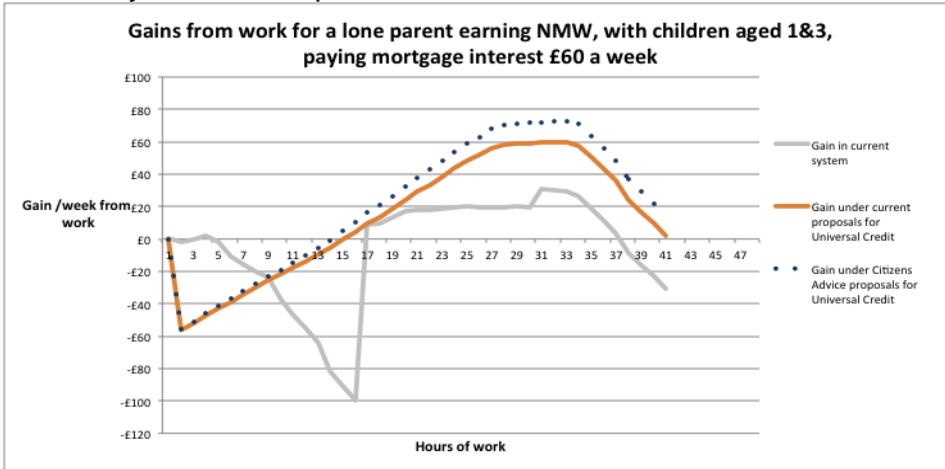
4e. If they earn £15 per hour and pay rent above £140 per week



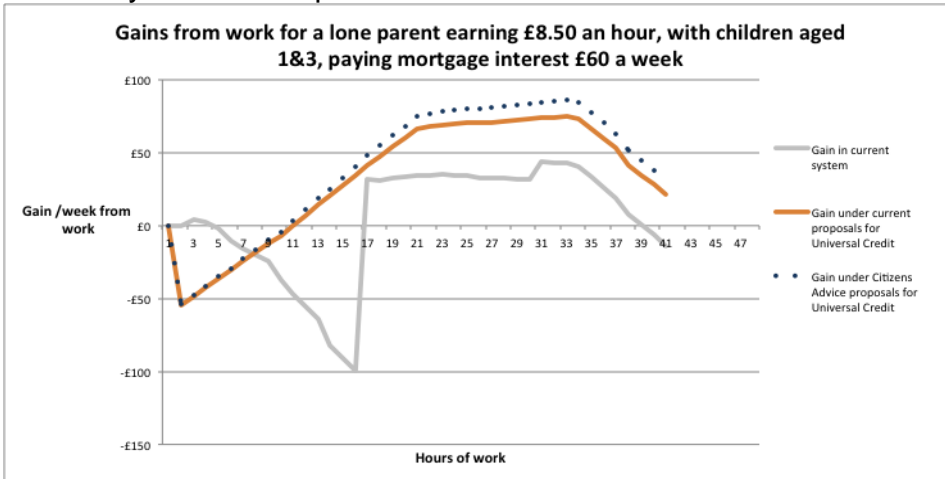
## Lone parents who have a mortgage

5. A lone parent returning to work after maternity leave. They have two children aged one and three and have a mortgage.

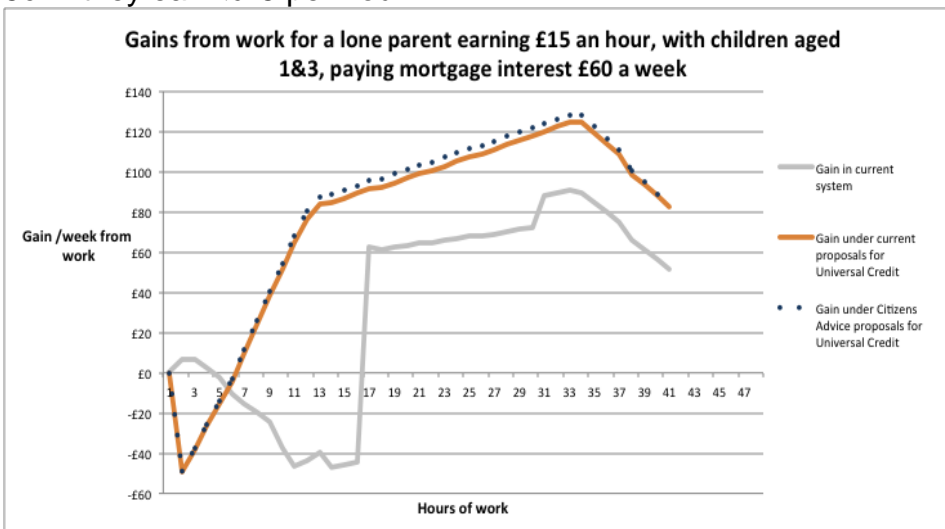
5a. If they earn £6.50 per hour.



5b. If they earn £8.50 per hour.

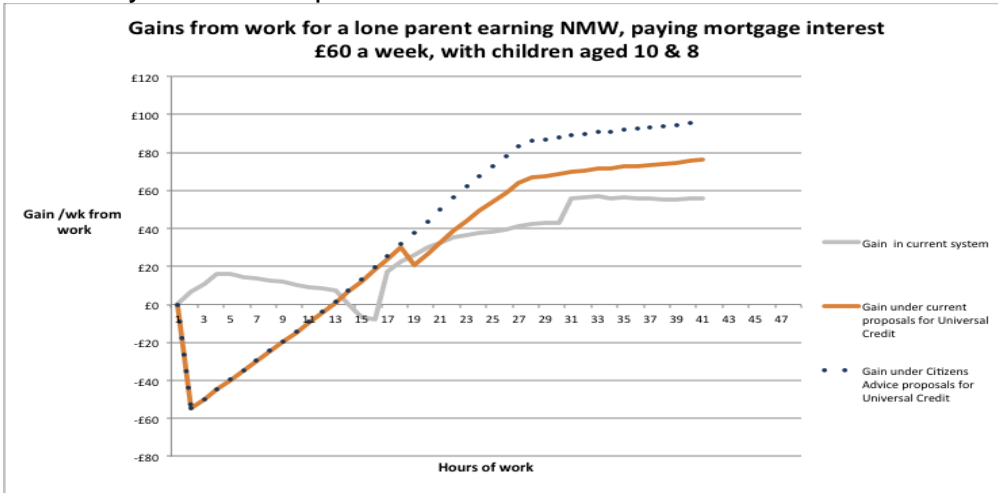


5c. If they earn £15 per hour.

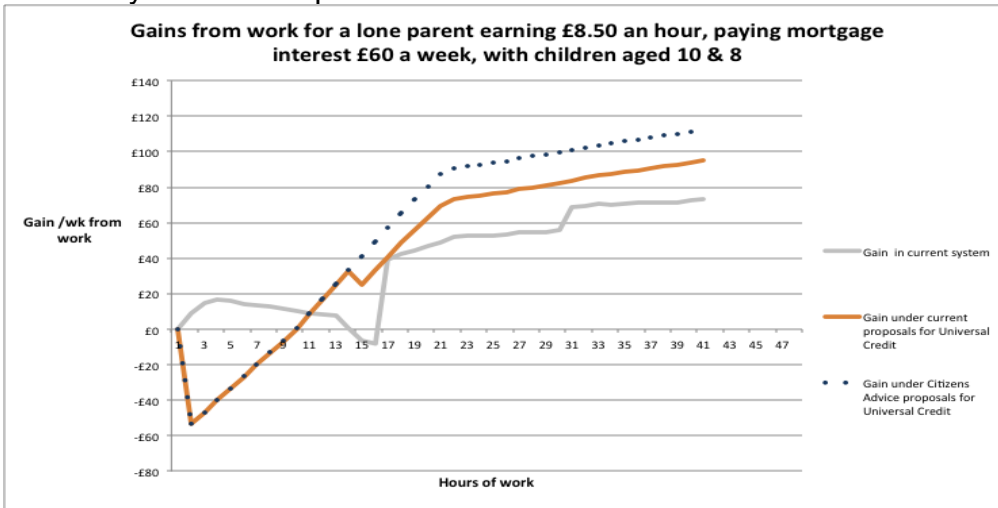


**6. A lone parent with two children at junior school. They pay a mortgage.**

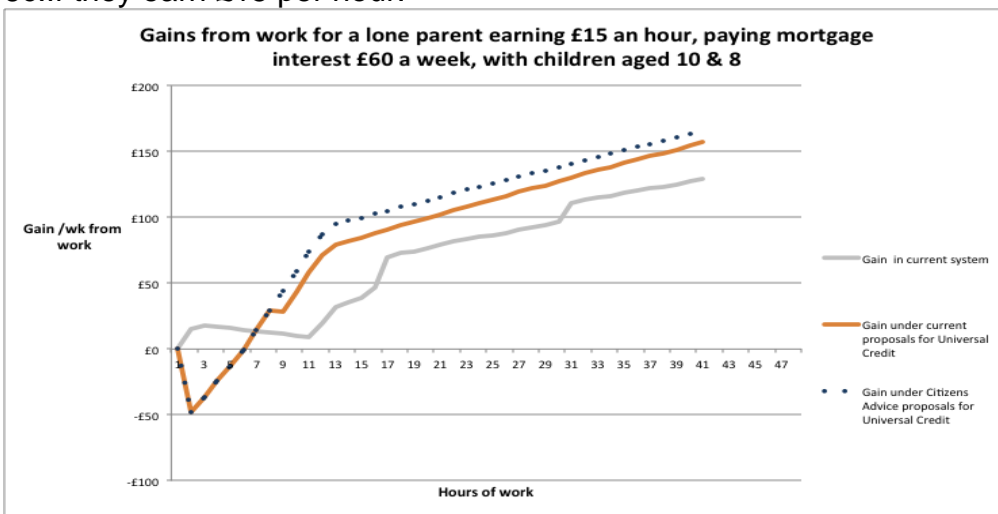
6a. If they earn £6.50 per hour.



6b. If they earn £8.50 per hour.

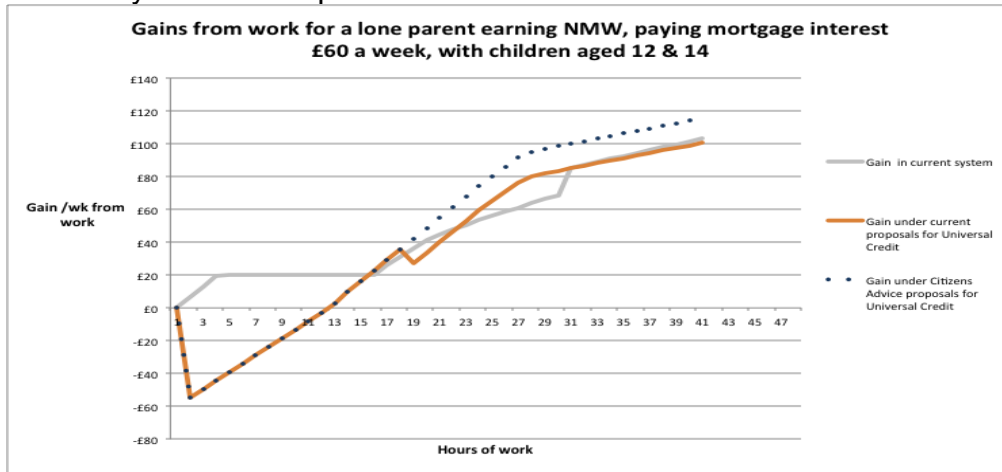


6c. If they earn £15 per hour.

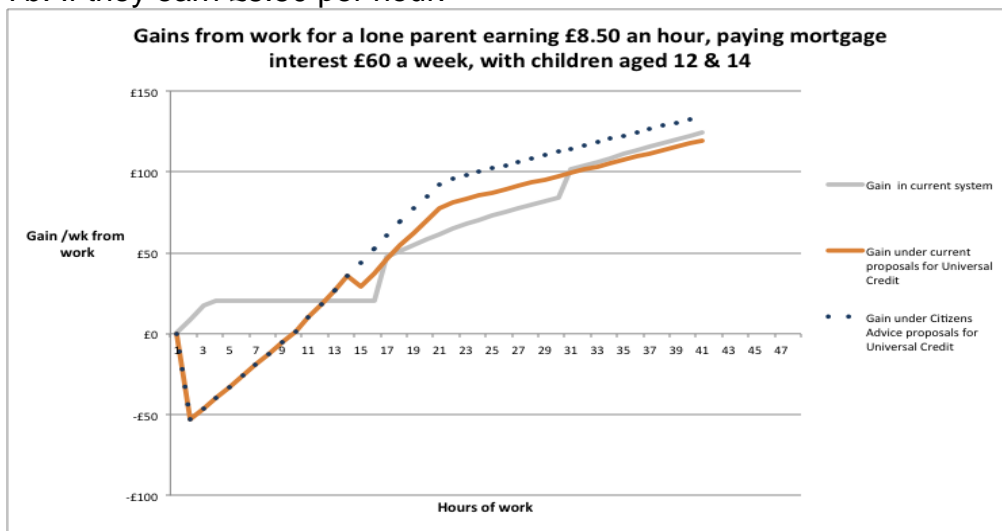


## 7. A lone parent with two children at secondary school. They pay a mortgage.

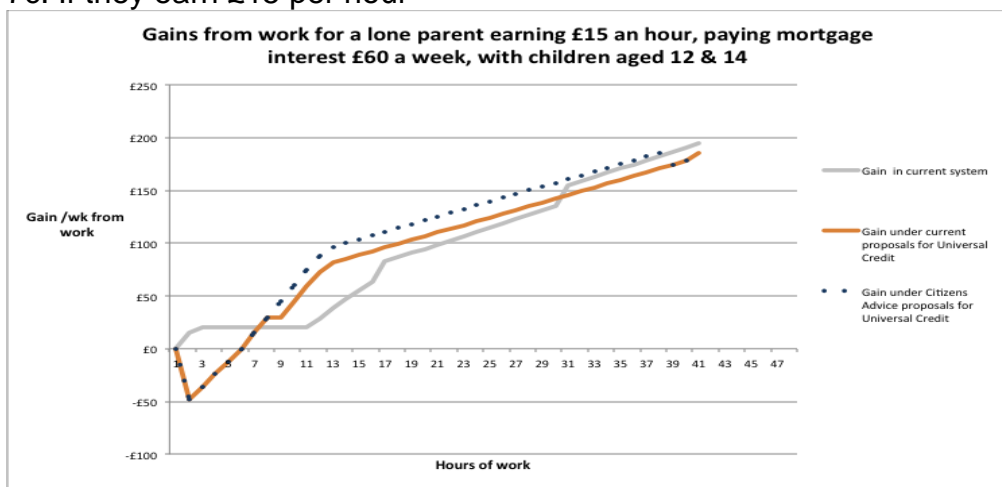
7a. If they earn £6.50 per hour.



7b. If they earn £8.50 per hour.



7c. If they earn £15 per hour



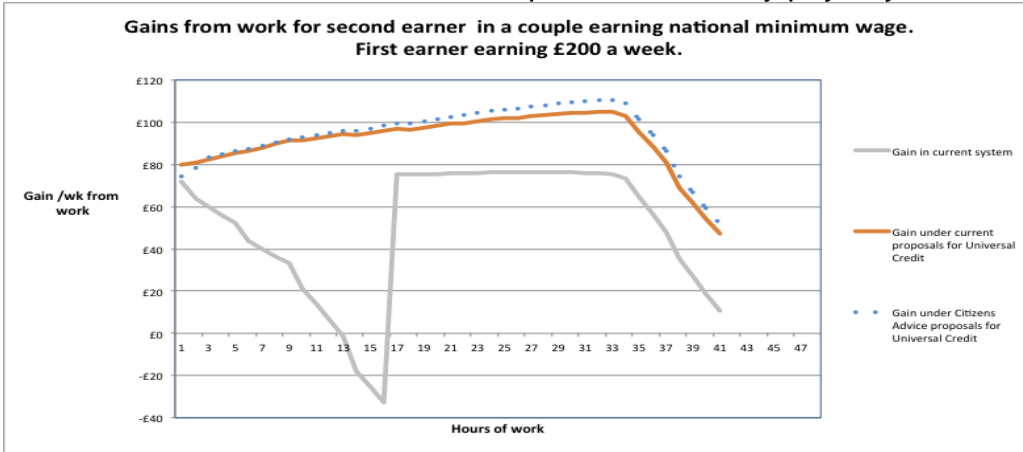


# Appendix 3: Work incentives for couples with children.

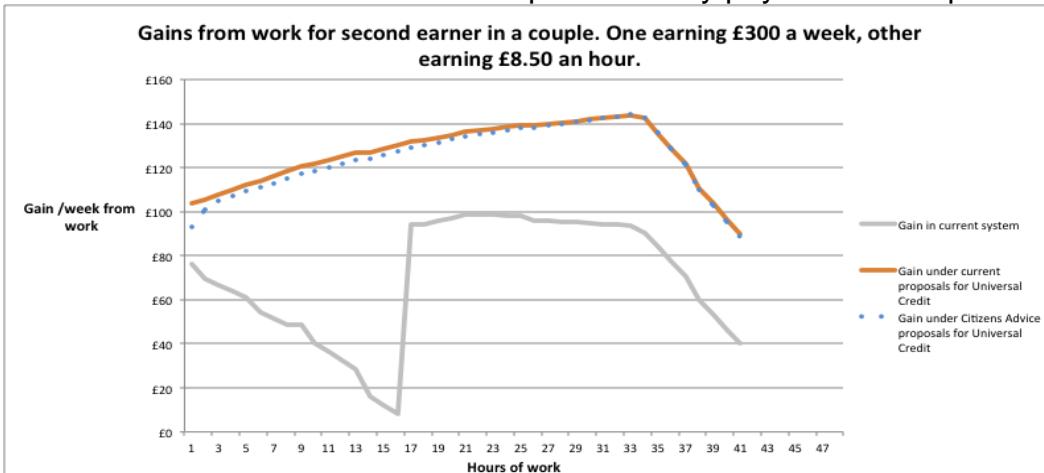
## Couples who rent

1. A couple with a second earner is returning to work after maternity leave. They pay rent and have two children aged one and three.

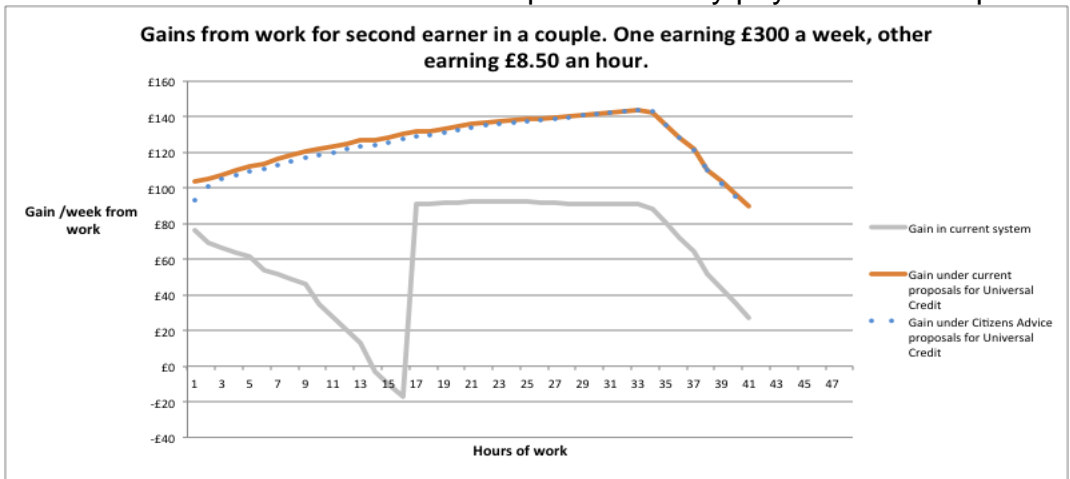
1a. If the second earner earns £6.50 per hour and they pay any rent above £70 per week.



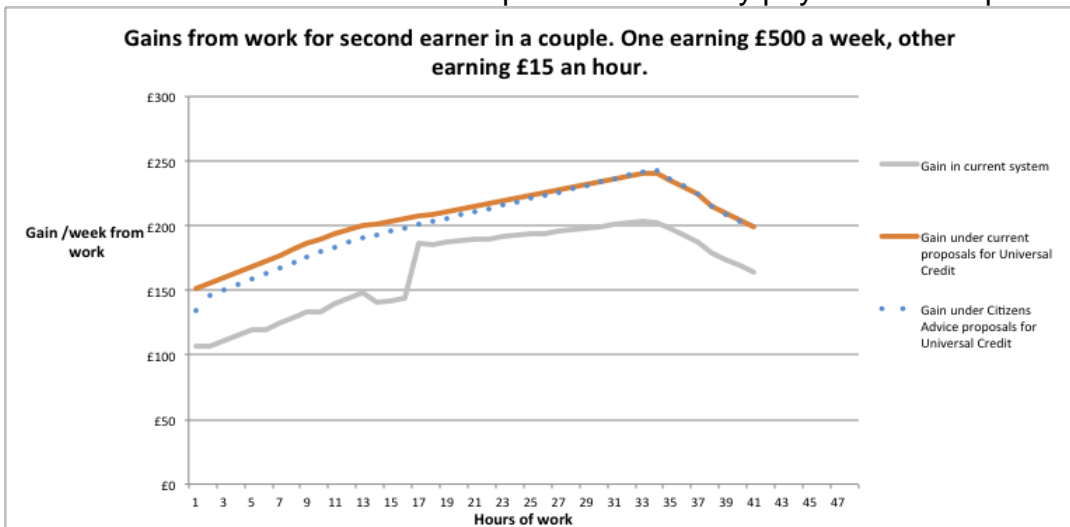
1b. If the second earner earns £8.50 per hour they pay rent of £90 per week



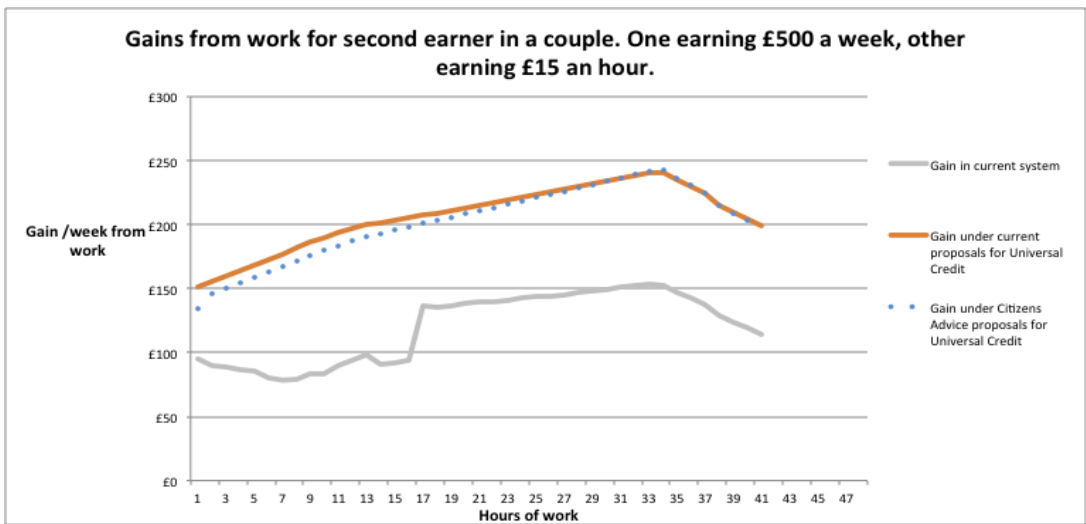
1c. If the second earner earns £8.50 per week they pay rent of £140 per week.



1d. If the second earner earns £15 per hour and they pay rent of £90 per week.

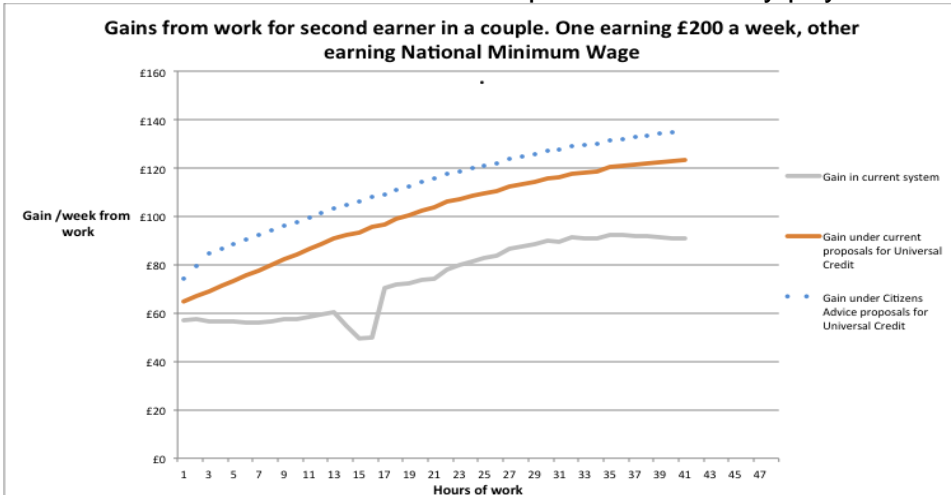


1e. If the second earner earns £15 per hour and they pay rent of £140 per week.

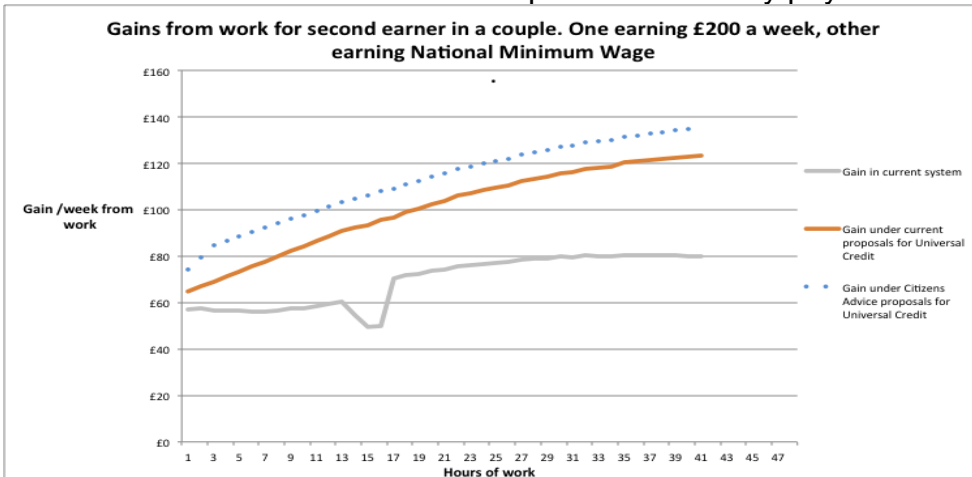


## 2. A couple with two children at junior school.

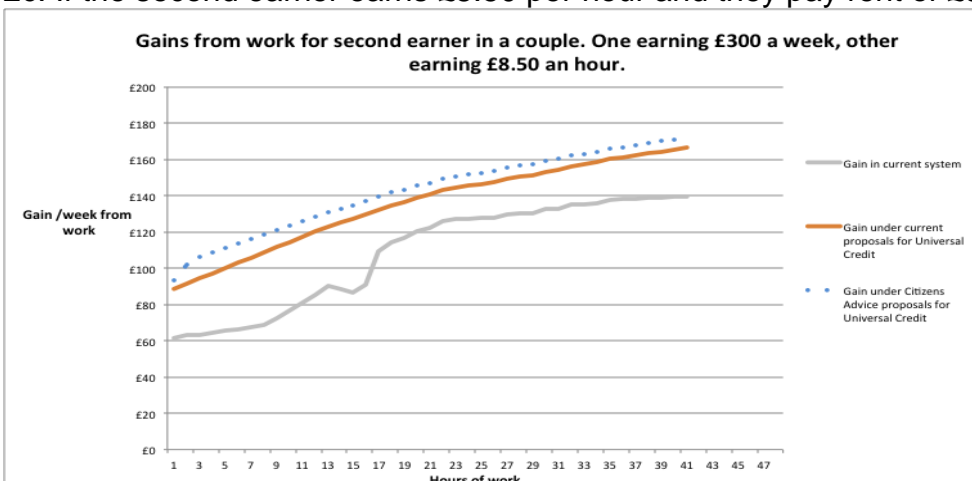
2a. If the second earner earns £6.50 per hour and they pay £90 rent per week.



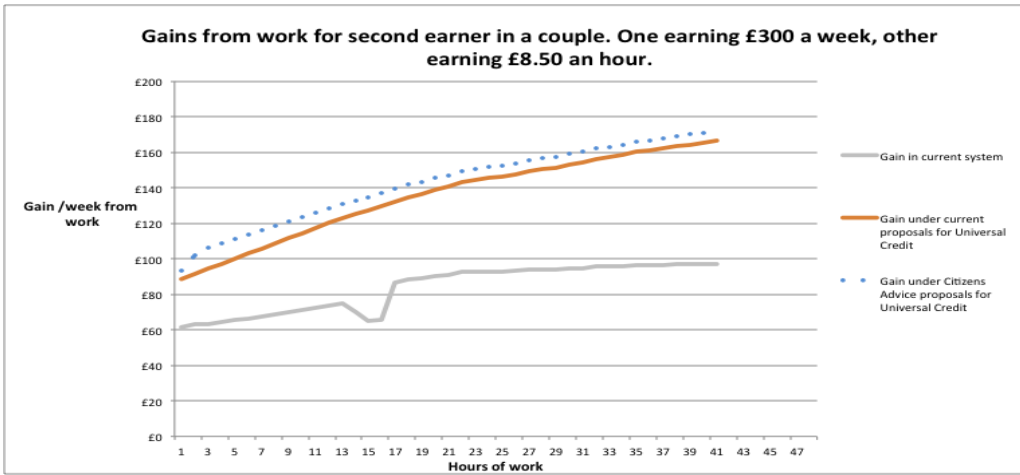
2b. If the second earner earns £6.50 per hour and they pay £140 rent per week.



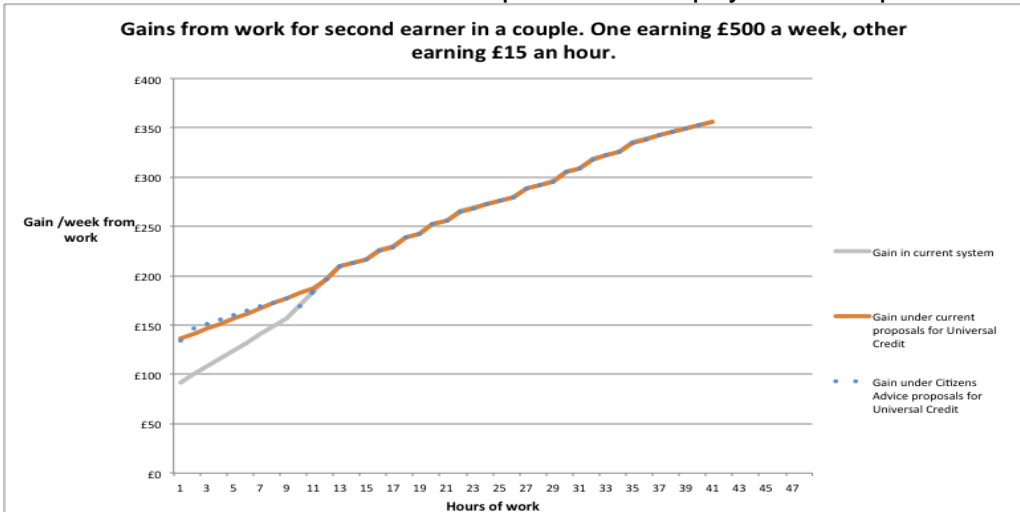
2c. If the second earner earns £8.50 per hour and they pay rent of £90 per week.



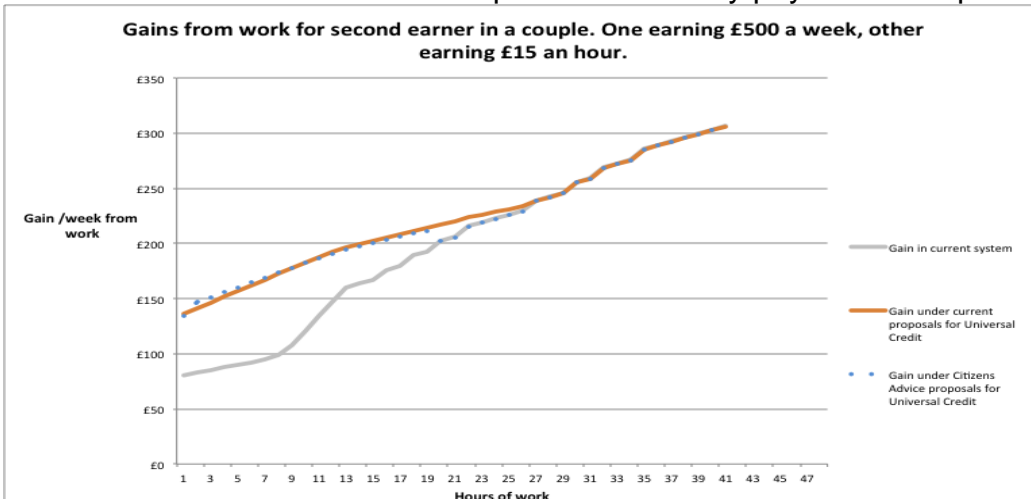
2d. If the second earner earns £8.50 per hour and they pay rent of £140 per week.



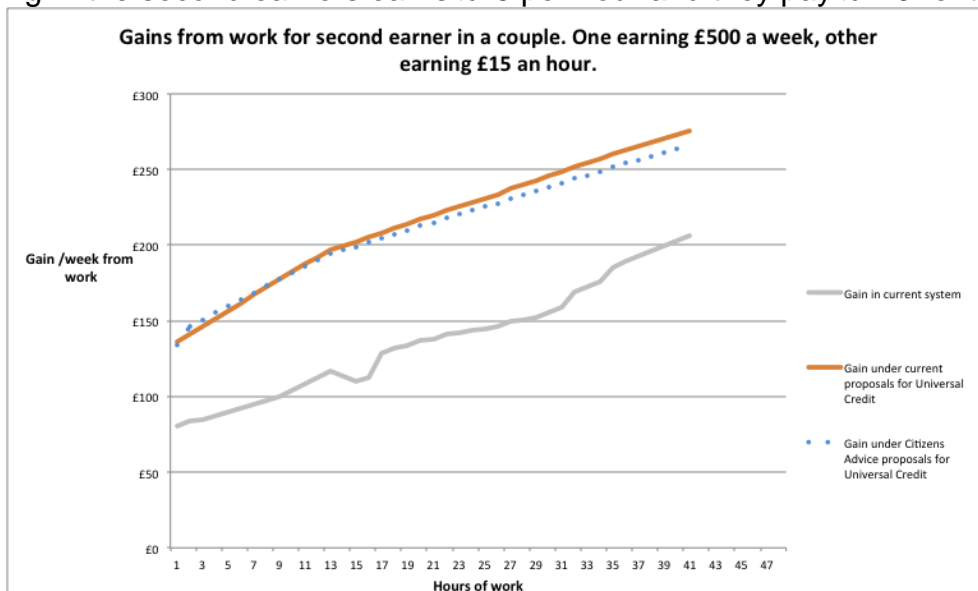
2e. If the second earner earns £15 per hour and pay £90 rent per week.



2f. If the second earner earns £15 per hour and they pay £140 rent per week.

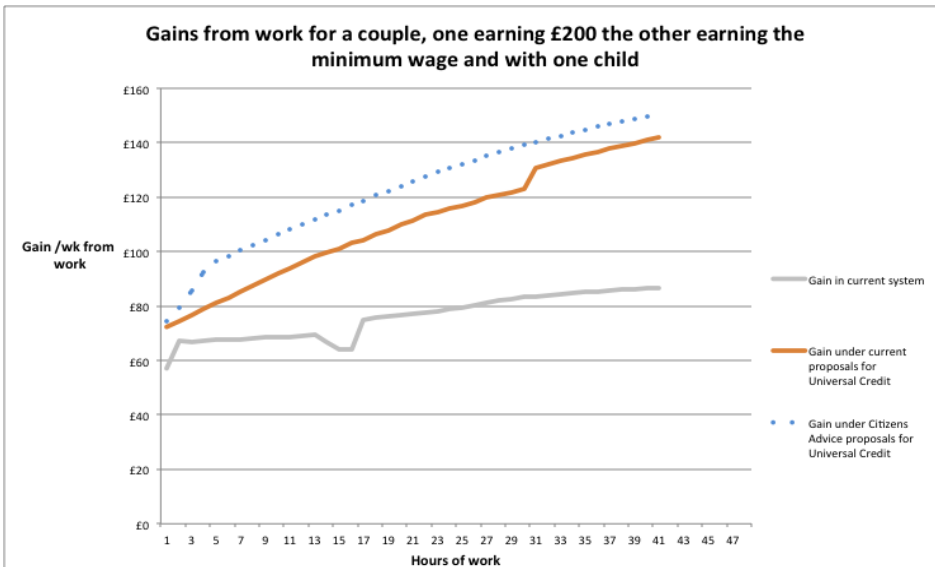


2g. If the second earners earns £15 per hour and they pay £240 rent per week.

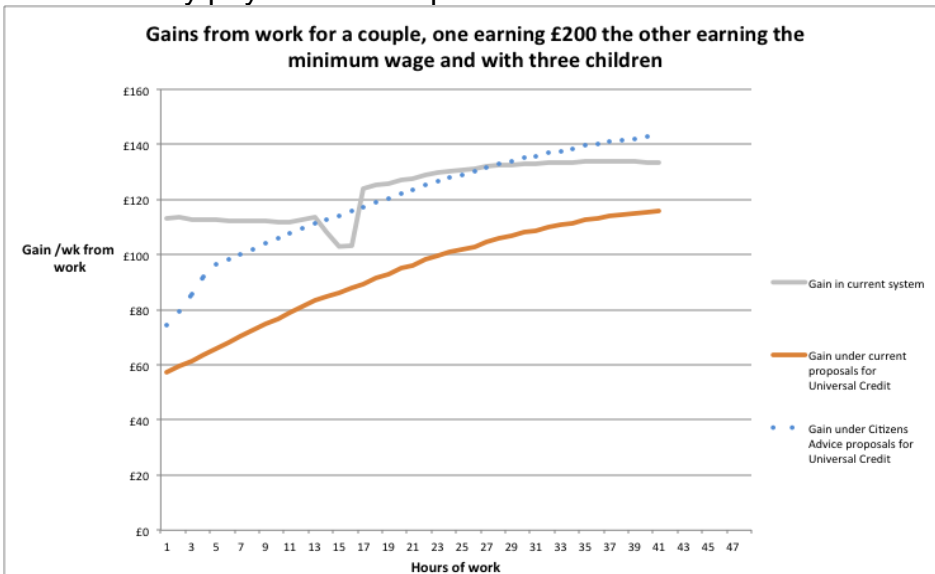


### 3. Different amounts of children for a couple scenario

3a. A couple with one child at primary school if the second earner earns £6.50 per hour. They pay rent of £125 per week.

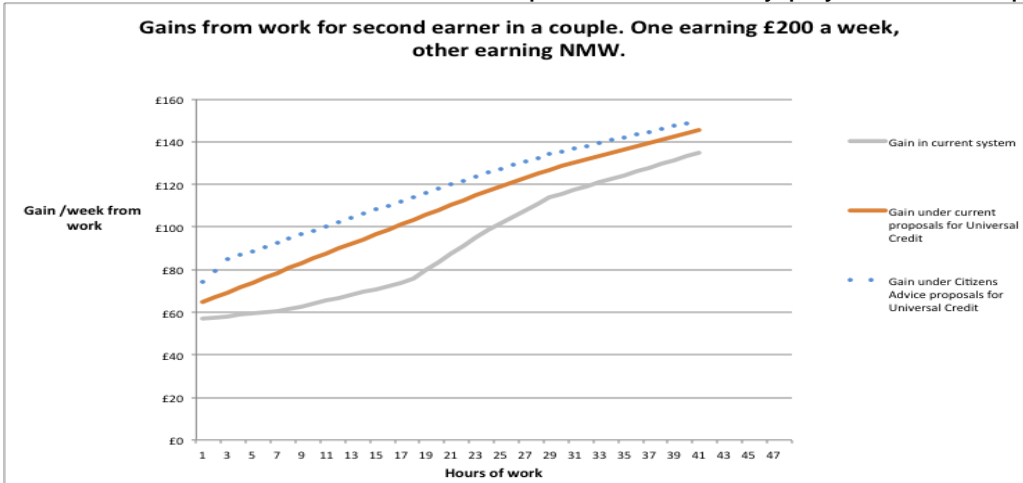


3b. A Couple with three children aged 8, 10 and 13. If the second earner earns £6.50 per hour and they pay rent of £90 per week.

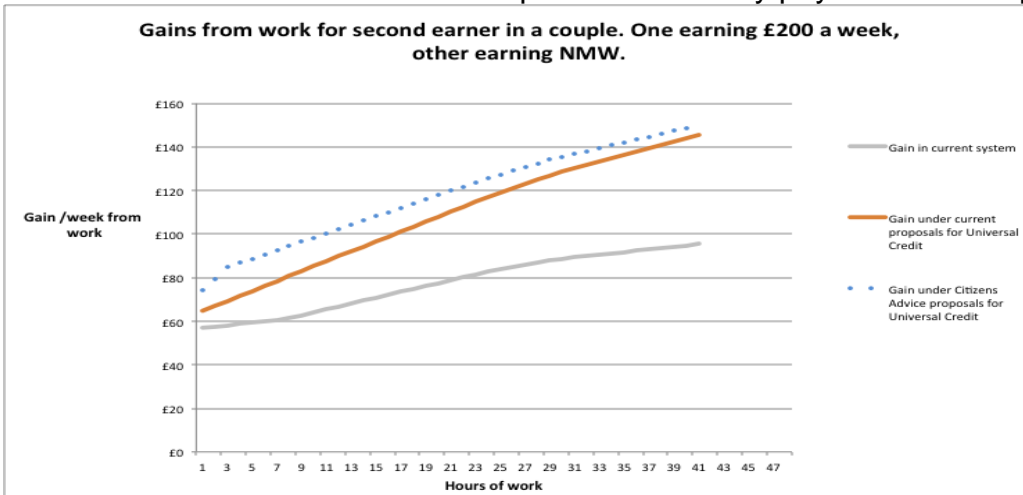


**4. A couple with two children at secondary school. They pay rent.**

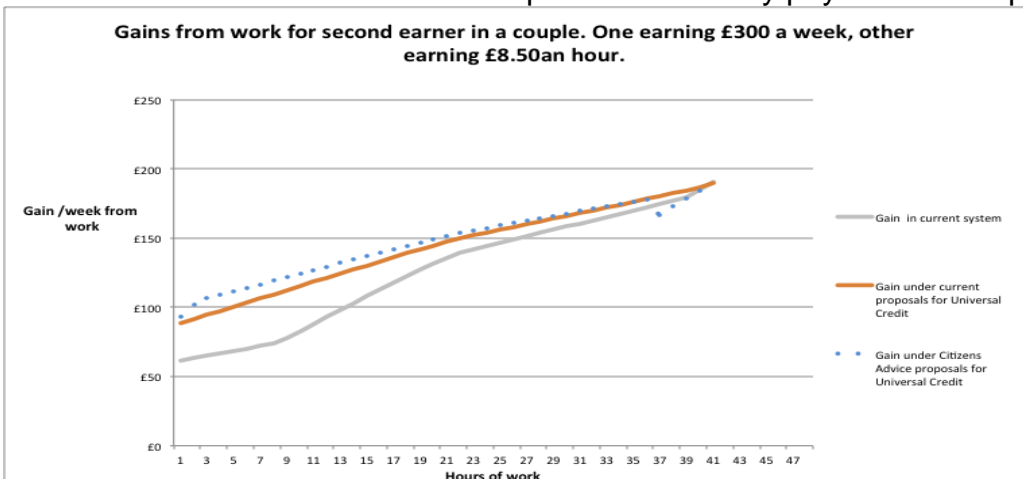
4a. If the second earner earns £6.50 per hour and they pay rent of £90 per week.



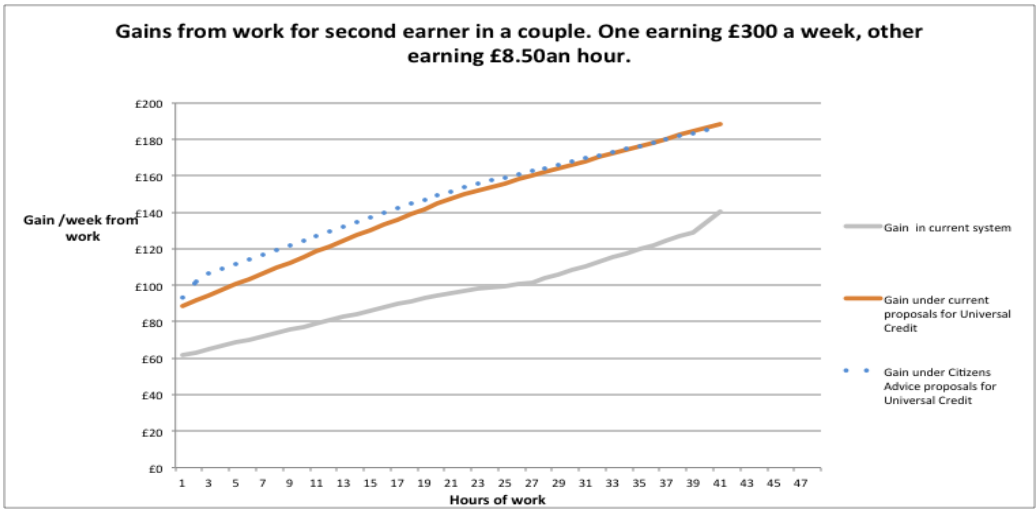
4b. If the second earner earns £6.50 per hour and they pay rent of £140 per week.



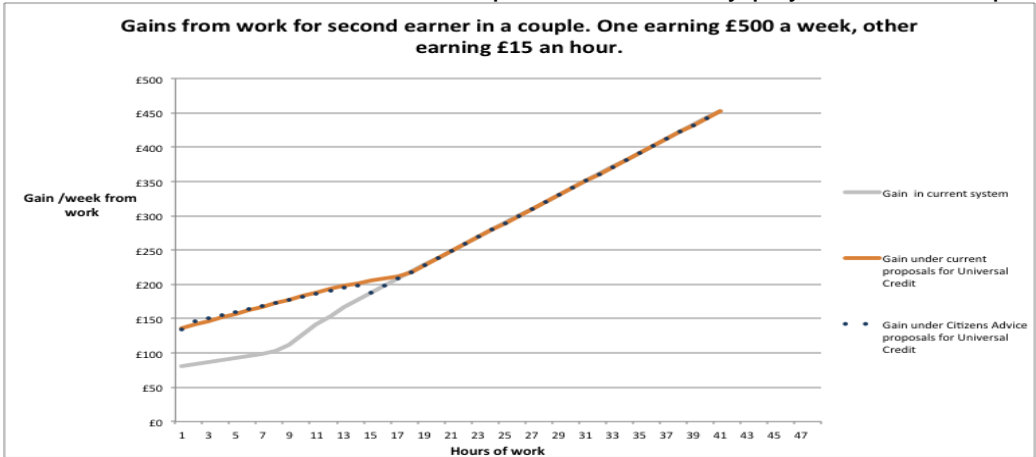
4c. If the second earner earns £8.50 per hour and they pay rent of £90 per week



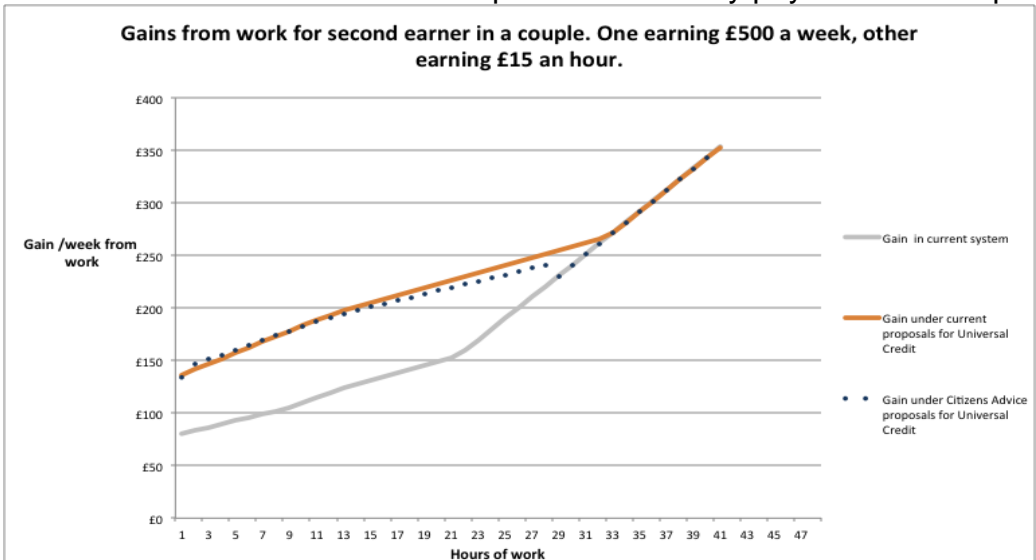
4d. If the second earner earns £8.50 per hour and they pay rent of £140 per week



4e. If the second earner earns £15 per hour and they pay rent of £140 per week



4f. If the second earner earns £15 per hour and they pay rent of £240 per week

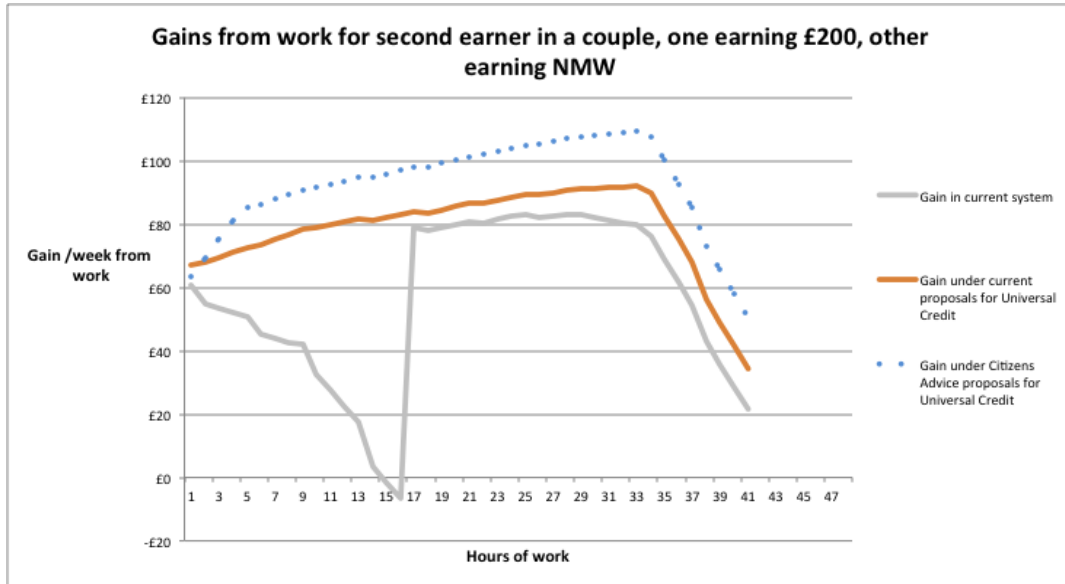




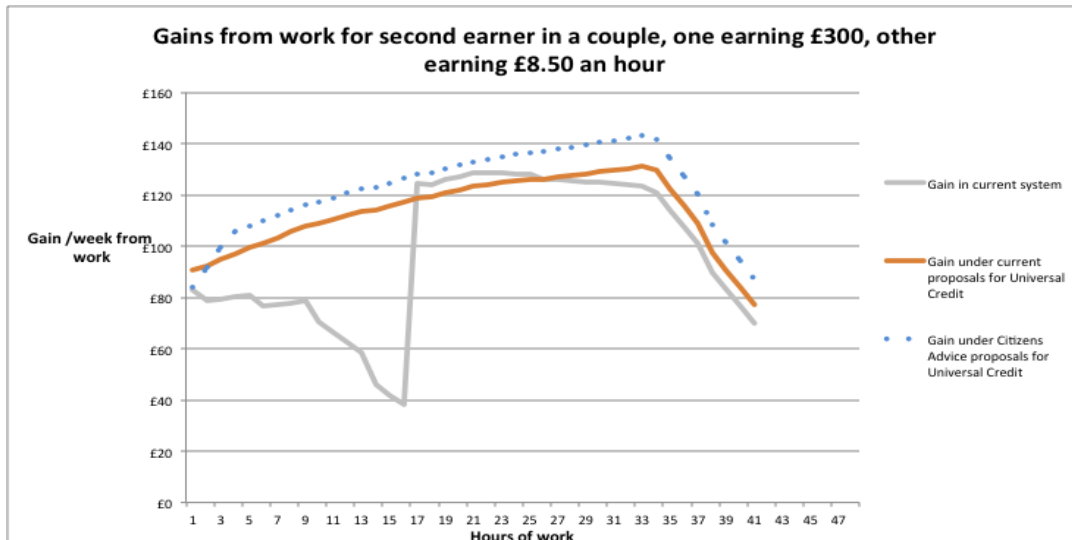
## Couples with mortgages

5. A couple with a second earner returning to work after maternity leave. They have a mortgage and two children aged one and three.

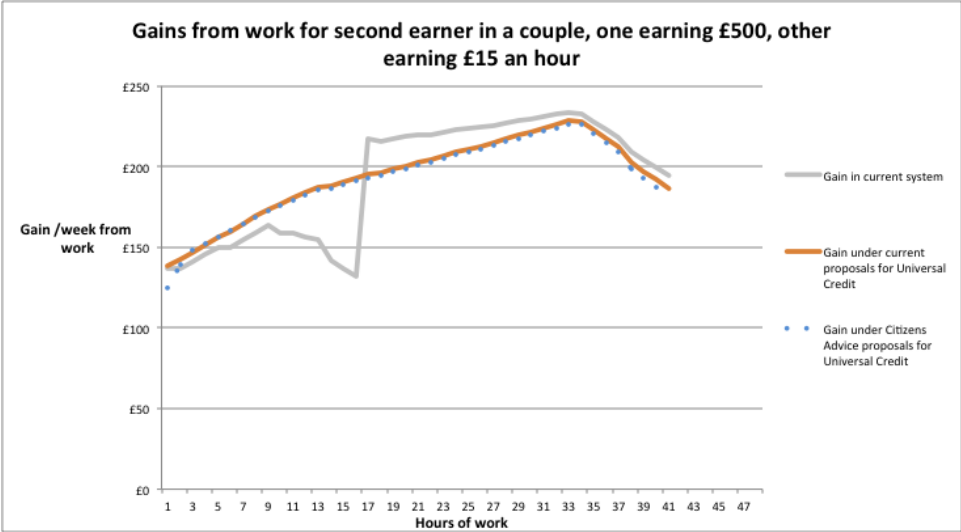
5a. If the first earner's income is £200 per week and the second earner is paid £6.50 per hour.



5b. If the first earner's income is £300 per week and the second earner is paid £8.50 per hour.

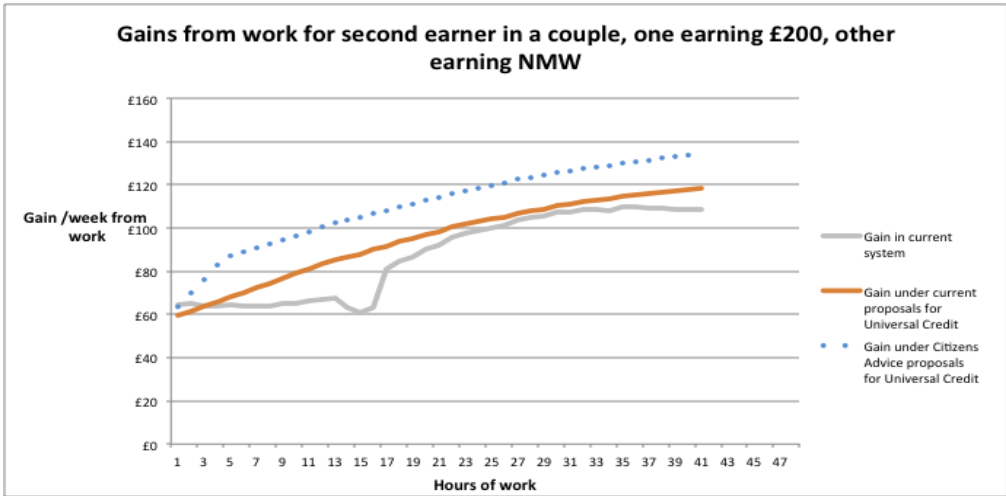


5c. If the first earner's income is £500 per week and the second earner is paid £15 an hour

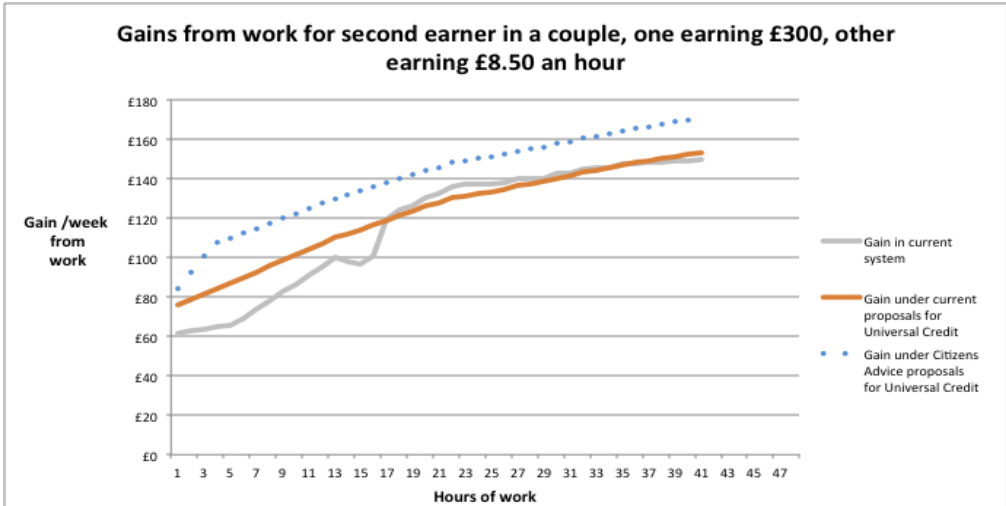


**6. A couple with two children at junior school. They have a mortgage.**

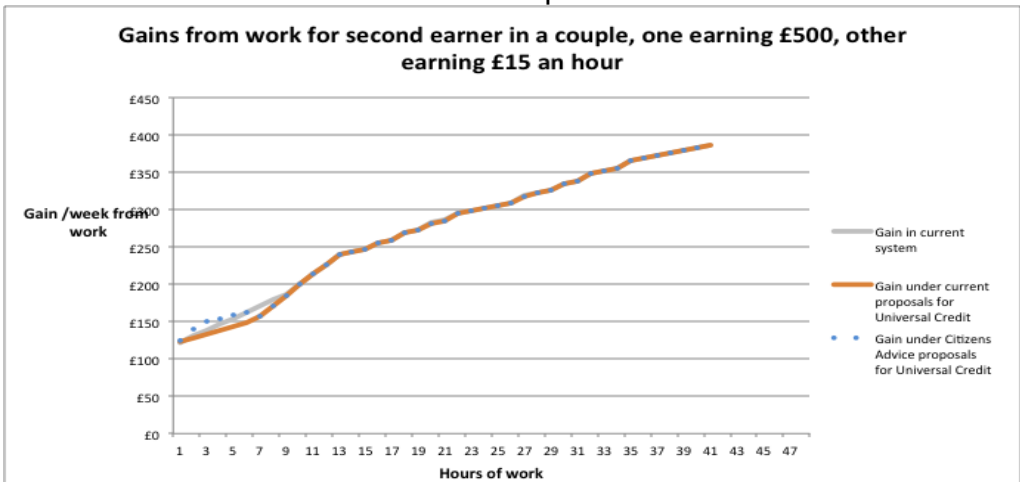
6a. If the first earner's income is £200 per week and the second earner is paid £6.50 per hour.



6b. If the first earner's income is £300 per week and the second earner is paid £8.50 per hour.

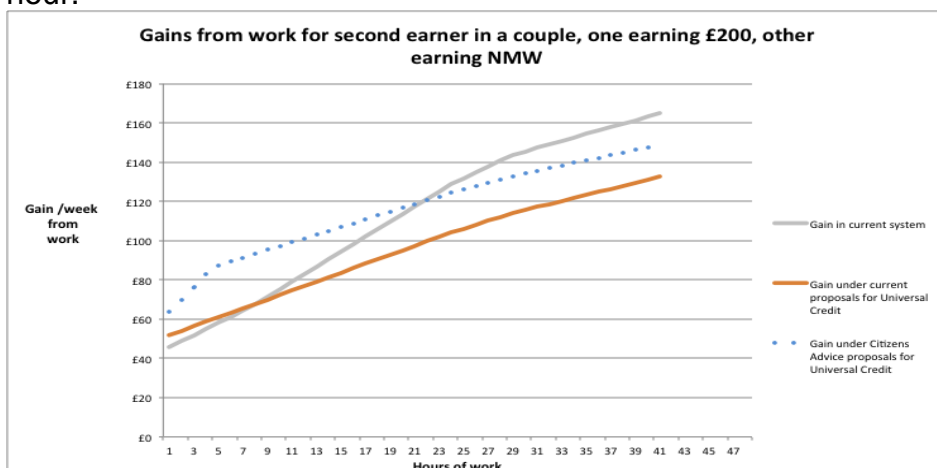


6c. If the first earner's income is £500 per week and the second earner is paid £15 per hour.

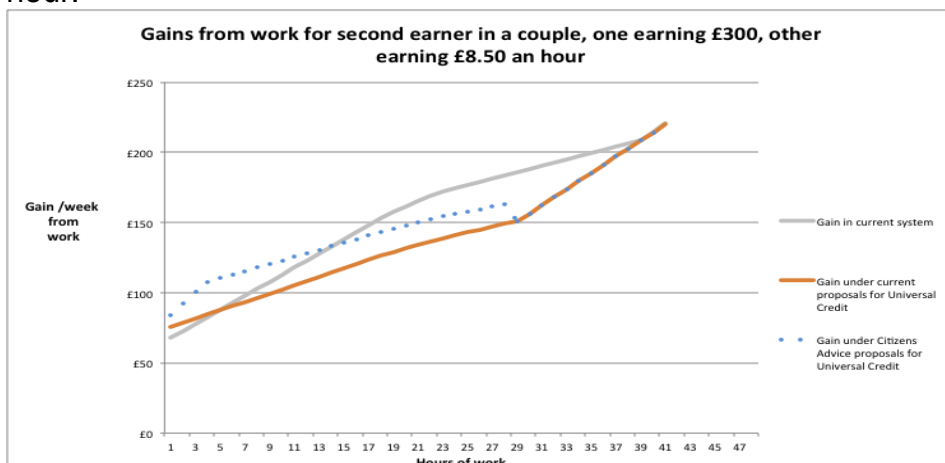


**7. A couple with two children at secondary school. They have a mortgage.**

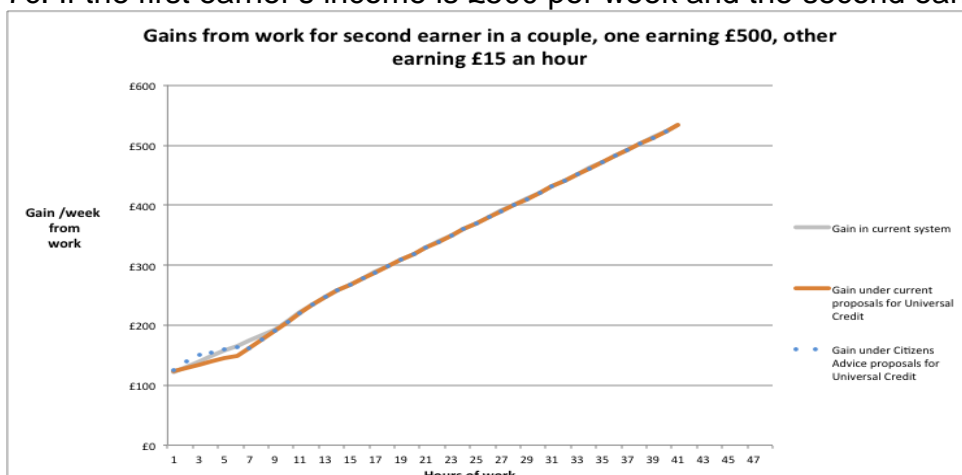
7a. If the first earner's income is £200 per week and the second earner is paid £6.50 per hour.



7b. If the first earner's income is £300 per week and the second earner is paid £8.50 per hour.



7c. If the first earner's income is £500 per week and the second earner is paid £15 an hour.

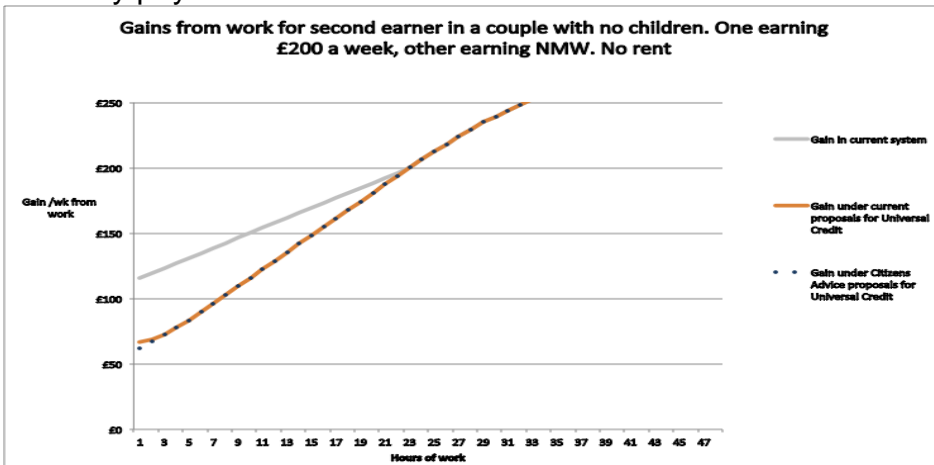


# Appendix 4: Work incentives for households without children

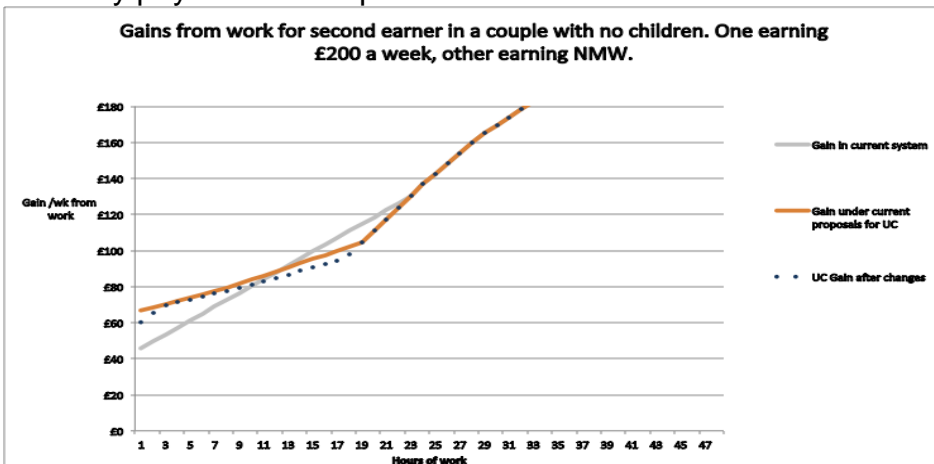
## Couples with no children

1. A couple where one earns £200 per week and the other earns £6.50 per hour.

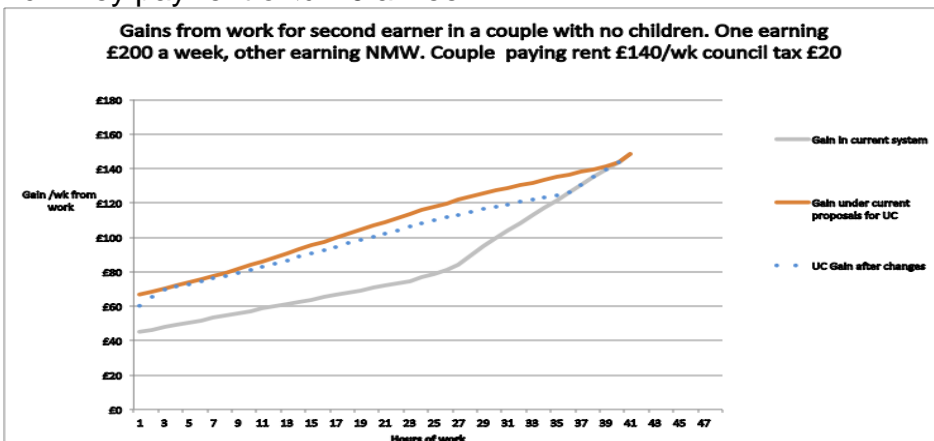
1a. They pay no rent.



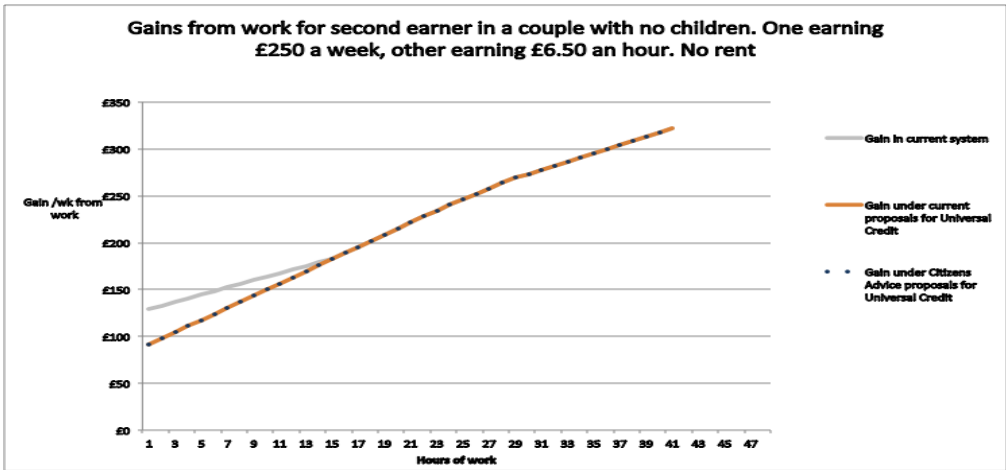
1b. They pay rent of £70 per week.



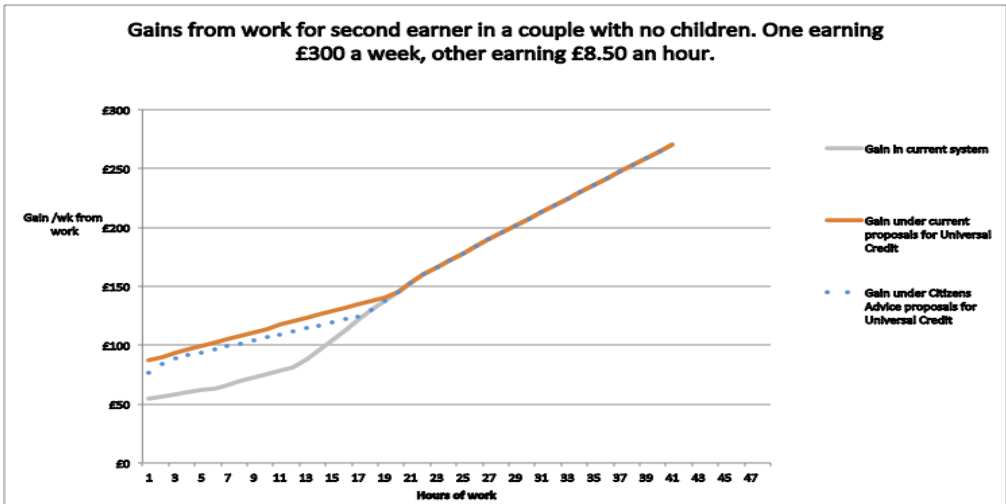
1c. They pay rent of £140 a week.



2. A couple where one earns £250 per week and the other earns £6.50 per hour. They pay no rent.



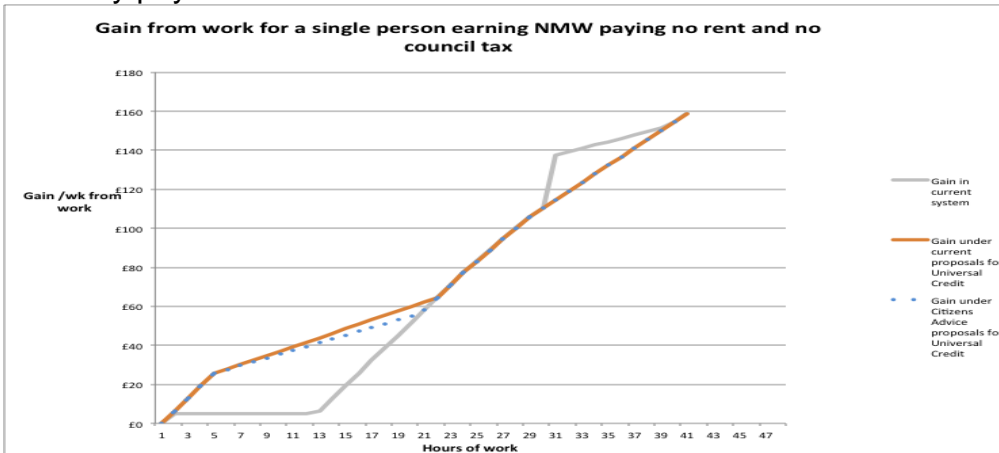
3. A couple where one earns £300 per week and the other earns £8.50 per hour. They pay rent of £140.



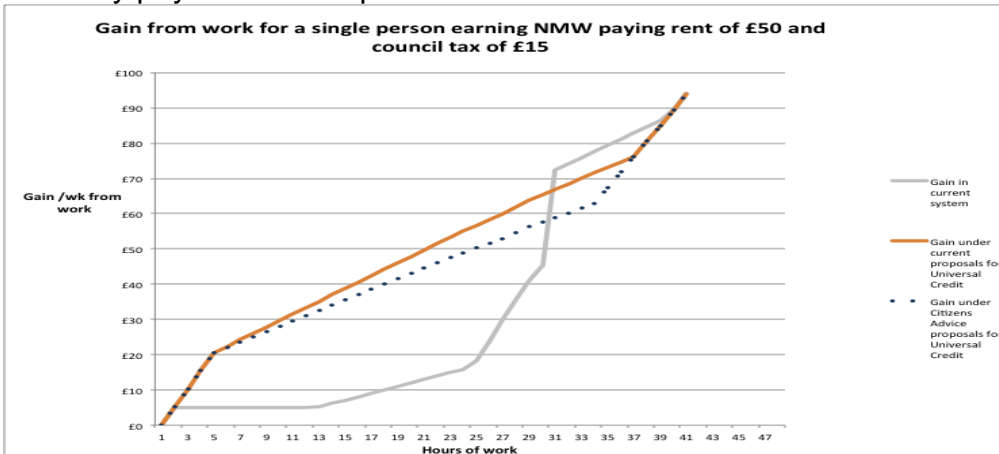
# Single people with no children

## 1. A single person earning £6.50 per.

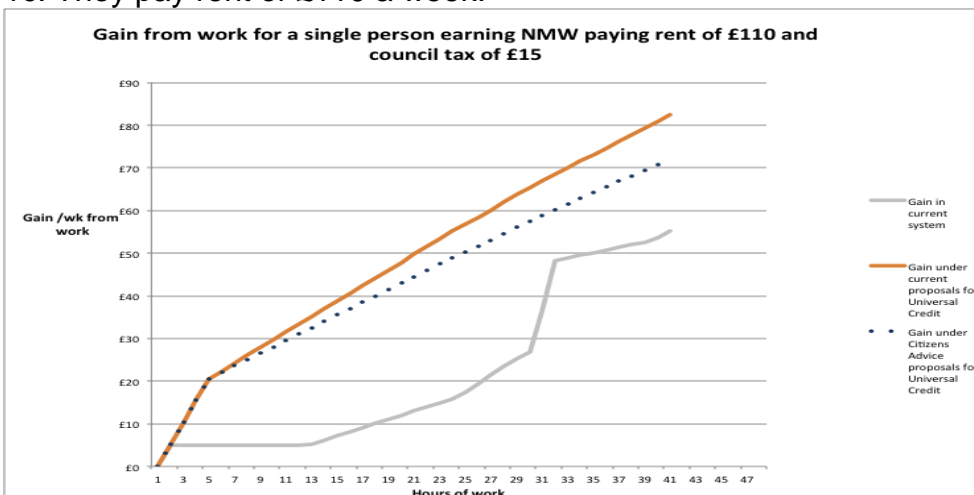
### 1a. They pay no rent.



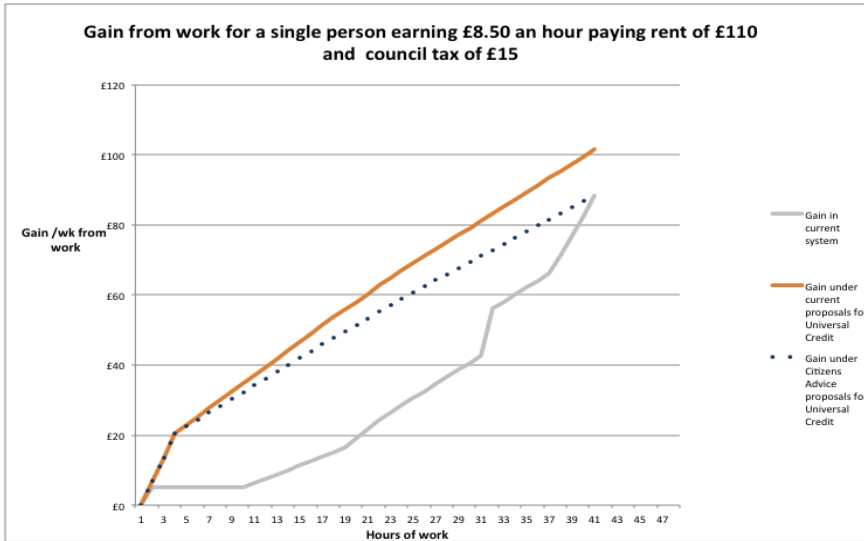
### 1b. They pay rent of £50 per week.



### 1c. They pay rent of £110 a week.



**2. A single person earning £8.50 per hour. They pay rent of £110 a week.**





## Appendix 5: Costings

### Changing the taper

The Government has put the annual cost to the Exchequer of reducing the taper rate by one percentage point at £300 million per year.<sup>32</sup>

We have therefore assumed that a 5 percentage point change to reduce the taper to 60 per cent would cost around £1.5 billion and that equally raising the taper to 70 per cent would save the same amount. This does not account for behavioural changes, which would be likely to reduce costs further because the gains for low income households with children outweigh losses experienced by other groups.

### Childcare raised to 90 per cent support for all

The Government has previously calculated that raising support from 70 per cent to 85 per cent for all families in Universal credit would cost £400 million.<sup>33</sup> We have used this figure to estimate the cost of raising support to 90 per cent for all at £130 million.

### Free school meals

There are 1.9 million schoolchildren in infants schools in England will become entitled to a free school meal, at a cost of £600 million<sup>34</sup>. There are 5.6 million more schoolchildren in other year groups. Funding meals for all of these children would therefore cost around £1.8 billion.

Around half of these children will be in families entitled to Universal credit<sup>35</sup> but of those one million of all children currently receive free school meals as a result of their parent's income. The percentage of all children in households receiving Universal credit but not entitled to free school meals as a percentage of children in state schools in England not entitled to free school meals is therefore 42 percent. (Of 7.5million children, 2.75million will be in households on Universal credit but not already entitled to free school meals on income grounds out of a total of 6.5million children not already entitled to free school meals on income grounds). We have therefore assumed the cost of providing free school meals for all households in England will be £740 million.

We have adjusted this to give an estimate of £880 million costs for the whole of the UK.<sup>36</sup> However we have assumed 10 per cent less take up if school meals are for those on universal credit rather than available for all children. Our final estimate is therefore £780 million.

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<sup>32</sup> PQ 178428, 9 December 2013.

<sup>33</sup> PQ 159583, 18 June 2013.

<sup>34</sup> Extra 1.55million get free school meals <https://www.gov.uk/government/news/nick-clegg-announces-155-million-more-children-to-receive-a-free-school-meal> and 0.37 already entitled.

<sup>35</sup> 50% of children are estimated to be in households entitled to universal credit. This is equivalent to around 3.8 million children in state maintained schools: [www.theyworkforyou.com/wrans/?id=2012-0116b.89324.h&s=universal+credit+timms+section%3Awrans+section%3Awms#g89324.q0](http://www.theyworkforyou.com/wrans/?id=2012-0116b.89324.h&s=universal+credit+timms+section%3Awrans+section%3Awms#g89324.q0)

<sup>36</sup> ONS 2011 census pop and household estimates for UK.

There are likely to be extra capital costs related to free school meals in the first few years as universal credit rolls out and numbers increase. However we believe these will be more than covered by the savings made from transitional protection if our proposals were enacted

## Second earner disregards

In answer to a parliamentary question by Baroness Grey Thompson, the Government estimated that the cost per year of increasing work allowances for second earners in universal credit where both members of the couple are in work by £50 would be around £200 million per year.<sup>37</sup> This would apply once universal credit is fully rolled out.

## Maternity allowance

Approximately 46,000 claimants a year receive full maternity allowance<sup>41</sup>. The cost of treating maternity allowance as earnings in the same way as statutory maternity pay will cost more for lone parents than for couples. We have assumed a ratio of 2:3 lone parents to couples based on numbers of both in work and the numbers of children.

If lone parents receive full maternity allowance and it is treated in the same way as statutory maternity pay then they will be £83.50 per week better off over the course of their 39 week maternity leave. This is because they have the work allowance before the taper takes effect. This will cost £3290 per claimant affected. Given that approximately 18,000 lone parents receive full maternity allowance the cost of this will be £60million. In addition approximately 9000 lone parents receive partial maternity allowance of an average of £90 per week. This would cost a further £24 million.

Couples with one person in work who receive full maternity allowance will be £41 per week better off over the 39 weeks maternity leave. This is less than lone parents as the first earner will have already used up any personal allowances and any maternity allowance will be subject to the taper in full. This will cost £1600 per claimant affected. Given that 27,600 receive full maternity allowance the total costs will be £44 million. In addition approximately 13,000 couples receive partial maternity allowance. This would cost a further £14 million.

The total cost of treating maternity allowance as earnings in the same way as statutory maternity pay would be £140million.

## Widowed parent's element

The Government has estimated, in, that it would cost £300 million<sup>42</sup> to ignore widowed parent's allowance as income for the purposes of universal credit. As it would cost £108 per person per week to ignore it as income, the cost of awarding a widowed parents element of £10 would be around £30 million.

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<sup>37</sup> HL4831, 4 February 2014.

<sup>41</sup> Based on statistics from:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/229622/ma\\_quarterly\\_feb13.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229622/ma_quarterly_feb13.xls)

<sup>42</sup> Committee stage debate in the Lords on the Pensions Bill