Press Release

Universal credit cuts support for working families, but helps make work pay where current system creates worst problems

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During this parliament the government plans to replace most of the means-tested benefits system for working-age families with a single payment called universal credit (UC). A series of pre-emptive cuts means that introducing UC will in the long run reduce the generosity of the benefit system – including to working families, in a reversal of the original intention. But it will still do a lot to help make work pay for many of those who currently face the most severe disincentives.

These are among the findings of new analysis by IFS researchers which forms part of the forthcoming **IFS Green Budget 2016**, produced in association with **ICAEW** and funded by the **Nuffield Foundation**. It is the first comprehensive analysis of UC's effects since the cuts to its generosity announced in the July Budget: cuts that were left untouched in the Autumn Statement, despite the U-turn on cuts to tax credits. The analysis focuses on the long run impact of introducing UC: transitional measures mean that existing claimants will not see their entitlements cut at the point when they are moved onto UC.

Considering first **the long run impact of universal credit on work incentives,** we find that it strengthens financial work incentives only slightly on average, but this masks significant effects in both directions for different groups:

- **UC will dramatically reduce the number facing very weak financial incentives to move into or stay in work.** The number of people who lose more than 70% of their pay in taxes and withdrawn benefits (or would lose that much if they moved into work) will fall by two-thirds from 2.1 million to 0.7 million.
- **UC will tend to weaken the incentive for single parents to be in work, and to strengthen the incentive for couples to have one person in work (rather than none or two).** On average, working single parents will effectively keep 8% less of their earnings under UC than under the system it is replacing, because of the way UC is withdrawn as their earnings rise (a disincentive to work made significantly greater by the July Budget cuts).
- **Looking at the financial incentive for those in work to earn more (e.g. by increasing hours of work or moving to a better paid job), UC again tends to strengthen incentives where they are currently weakest.** The 800,000 working individuals who would currently keep less than 20p of an additional pound earned (of whom 600,000 would keep less than 10p) would all keep at least 23p if the long run UC system applied now.

Turning to **the long run impact of universal credit on incomes:**

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- **Introducing UC will cut annual benefit spending by £2.7 billion in total.** (This is on top of other benefit cuts such as the four-year freeze to most benefit rates.) When first proposed UC was intended to be more generous than the current system, but cuts to how much recipients can earn before their benefits start to be withdrawn have reversed this.
- **Among working households, 2.1 million will get less in benefits as a result of UC's introduction (an average loss of £1,600 a year) and 1.8 million will get more (£1,500 average gain).** Among the 4.1 million households of working age with no-one in paid work, 1 million will get less (average loss of £2,300 a year) and 0.5 million will get more (average gain of £1,000 a year).
- **Working single parents and two-earner couples are relatively likely to lose, and one-earner couples with children are relatively likely to gain.** Among those currently receiving one of the benefits being replaced by UC, working single parents would be over £1,000 a year worse off on average if the long run UC system applied now, but one-earner couples with children would gain over £500 a year on average.
- **Owner-occupiers and those with assets or unearned income are relatively likely to lose, but working renters are relatively likely to gain.** This has the implication that UC will likely focus support more on those with long-term (rather than just temporary) low incomes, but it also weakens the incentive for some to save.

There are many other changes associated with UC which could also be significant. Expanding job search conditions to more people and removing the need to start new benefit claims when moving into work could act to increase employment and earnings. Early evidence suggests UC has had a positive impact on employment among the small group already affected, but it is not possible to draw firm conclusions from this about its impact when fully in place. Moving towards monthly benefit payments to one member of the household and removing direct payments to landlords may be riskier.

Robert Joyce, an Associate Director at the IFS and an author of the report, said: "The long run effect of universal credit will be to reduce benefits for working families on average – a reversal of the original intention. However, the potential gains from simplifying the working-age benefit system remain mostly intact: universal credit should make the system easier to understand, ease transitions into and out of work, and largely get rid of the most extreme disincentives to work or to earn more created by the current system."

ENDS

*We are delighted to have produced this year's Green Budget in association with **ICAEW** and with funding from **ICAEW** and the **Nuffield Foundation**. We are also grateful to the **Economic and Social Research Council** for funding much of the day-to-day research at IFS that underpins the analysis in this report.*

Notes to Editors

1. 'The (changing) effects of universal credit' by James Browne, Andrew Hood and Robert Joyce is a pre-released chapter from the IFS Green Budget 2016, edited by Carl Emmerson, Paul Johnson and Robert Joyce. It is available here.

2. The full Green Budget 2016 publication, with analysis from IFS and additional analysis from ICAEW and Oxford Economics, will be launched at 10:00 on Monday 8 February 2016 at the Guildhall, City of London (http://www.ifs.org.uk/events/1252). Please email events@ifs.org.uk if you wish to attend.

3. ICAEW is a world leading professional membership organisation that promotes, develops and supports over 146,000 chartered accountants worldwide. They provide qualifications and professional development and share their knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession. As leaders in accountancy, finance and business ICAEW members have the knowledge, skills and commitment to maintain the highest professional standards and integrity. Together they contribute to the success of individuals, organisations, communities and economies around the world. Because of this, people can do business with confidence. ICAEW is a founder member of Chartered Accountants Worldwide and the Global Accounting Alliance.

4. The Nuffield Foundation is an endowed charitable trust that aims to improve social well-being in the widest sense. It funds research and innovation in education and social policy and also works to build capacity in education, science and social science research. The Nuffield Foundation has funded this project, but

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