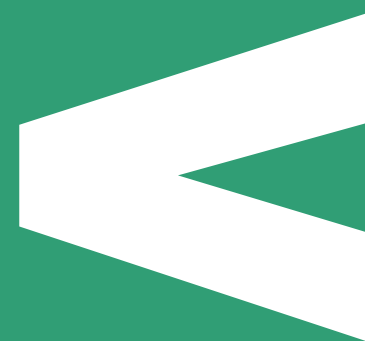




Benefits and tax credits

Hilary Hoynes, Robert Joyce and Tom Waters

An IFS initiative funded
by the Nuffield Foundation

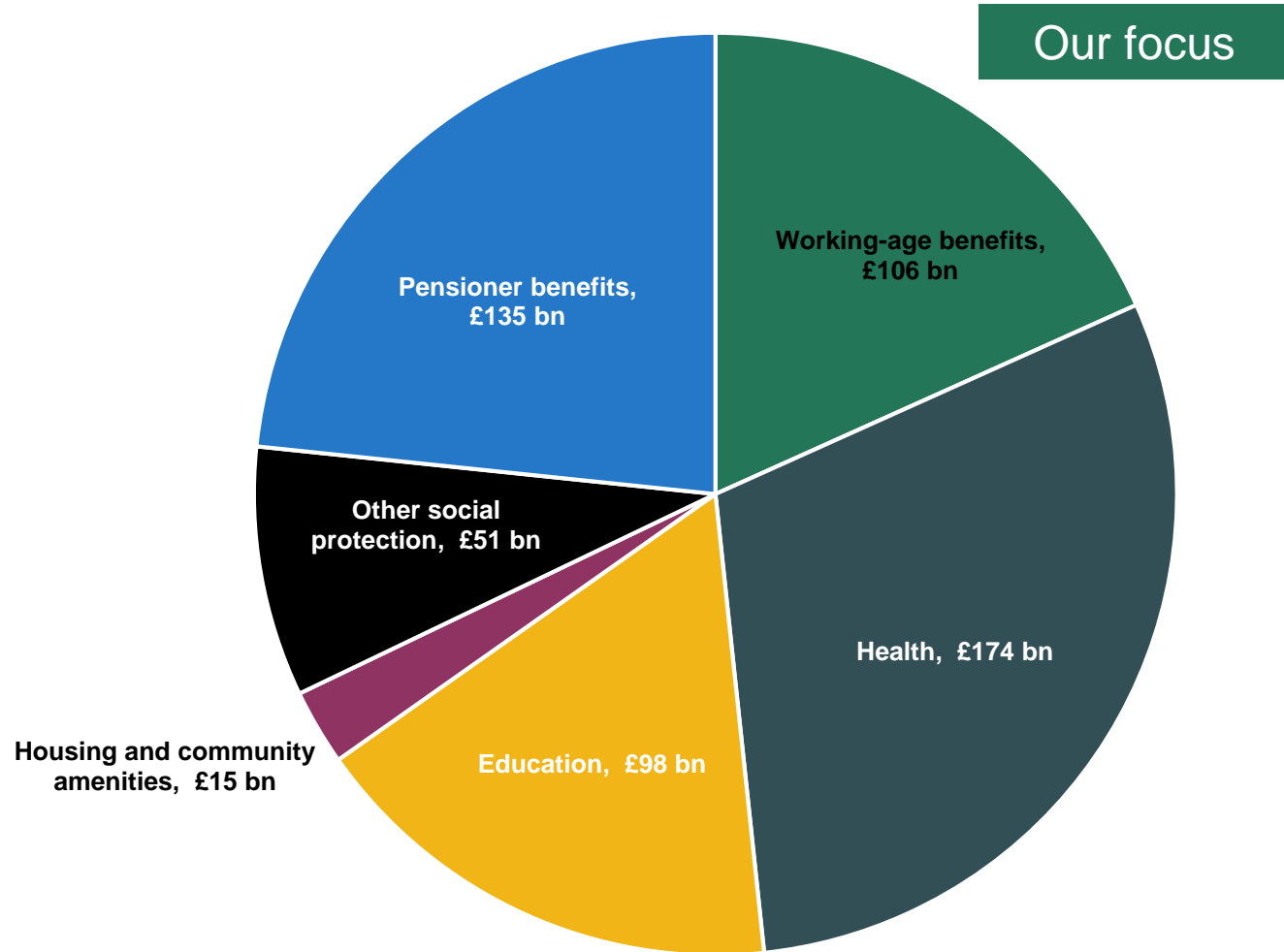


Inequality

The IFS Deaton Review

Scope

“Welfare state” spending, 2019-20



Note: Figures are for 2019-20, expressed in 2021/22 prices
Source: Figure 1 of Hoynes, Joyce and Waters (2023)

Working-age benefits

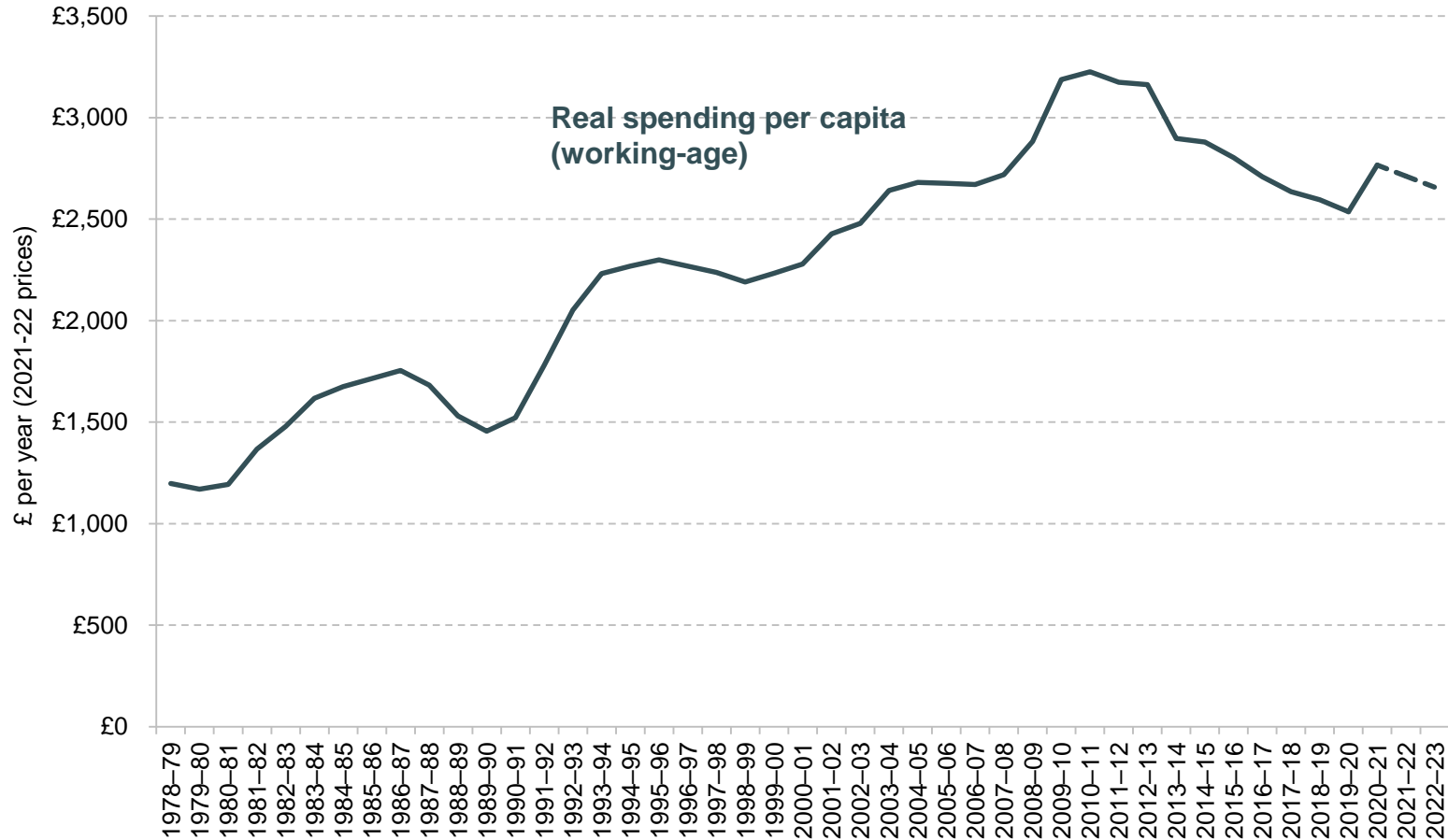
~£100bn per year: more than education, or defence and police combined

2 million households get 80%+ of their income from them

More than 1/4 of working-age households in receipt of means-tested benefits

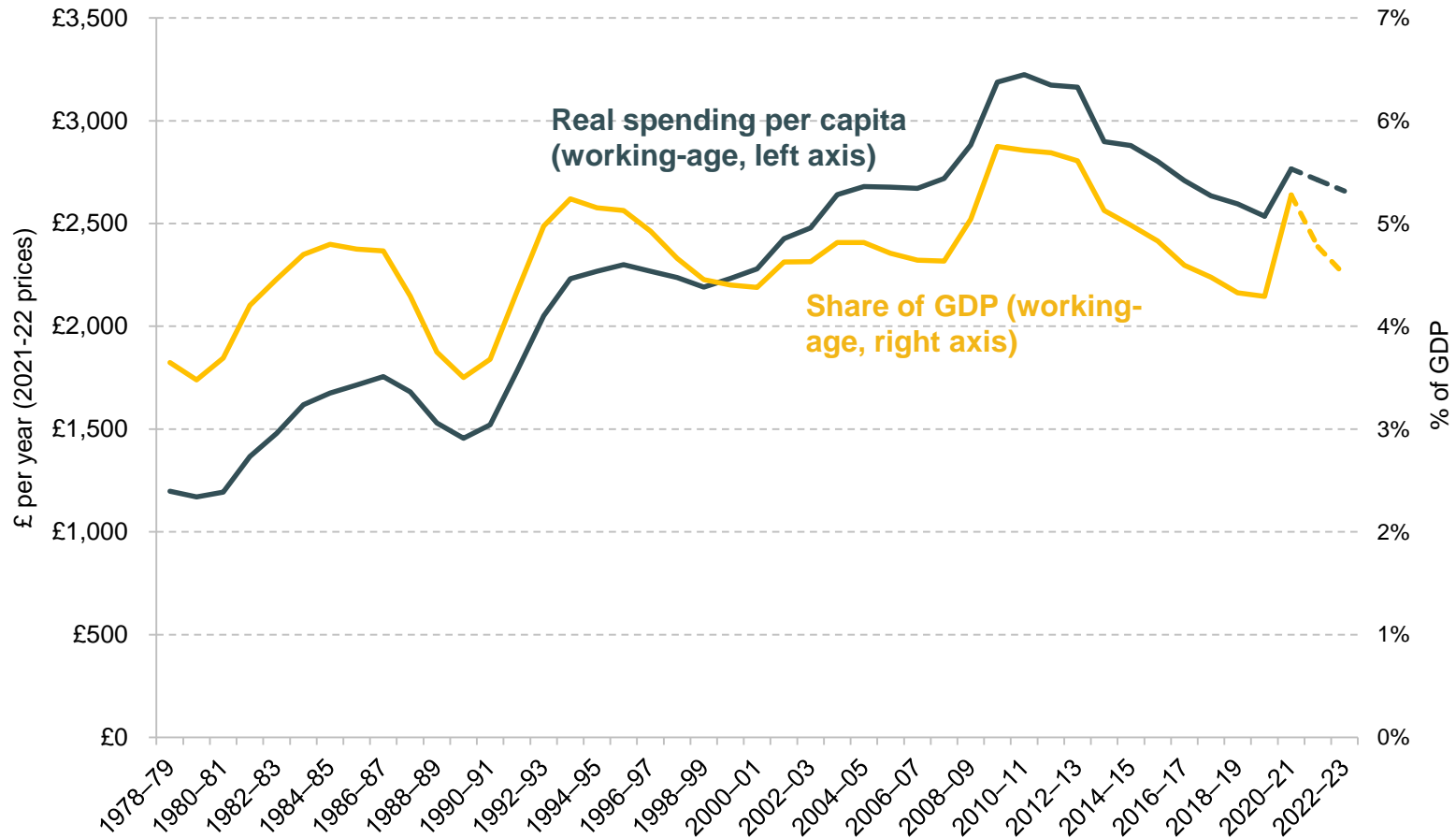
Most people will receive one at some point

Total spending per working-age adult 2.5x higher than in late 70s...



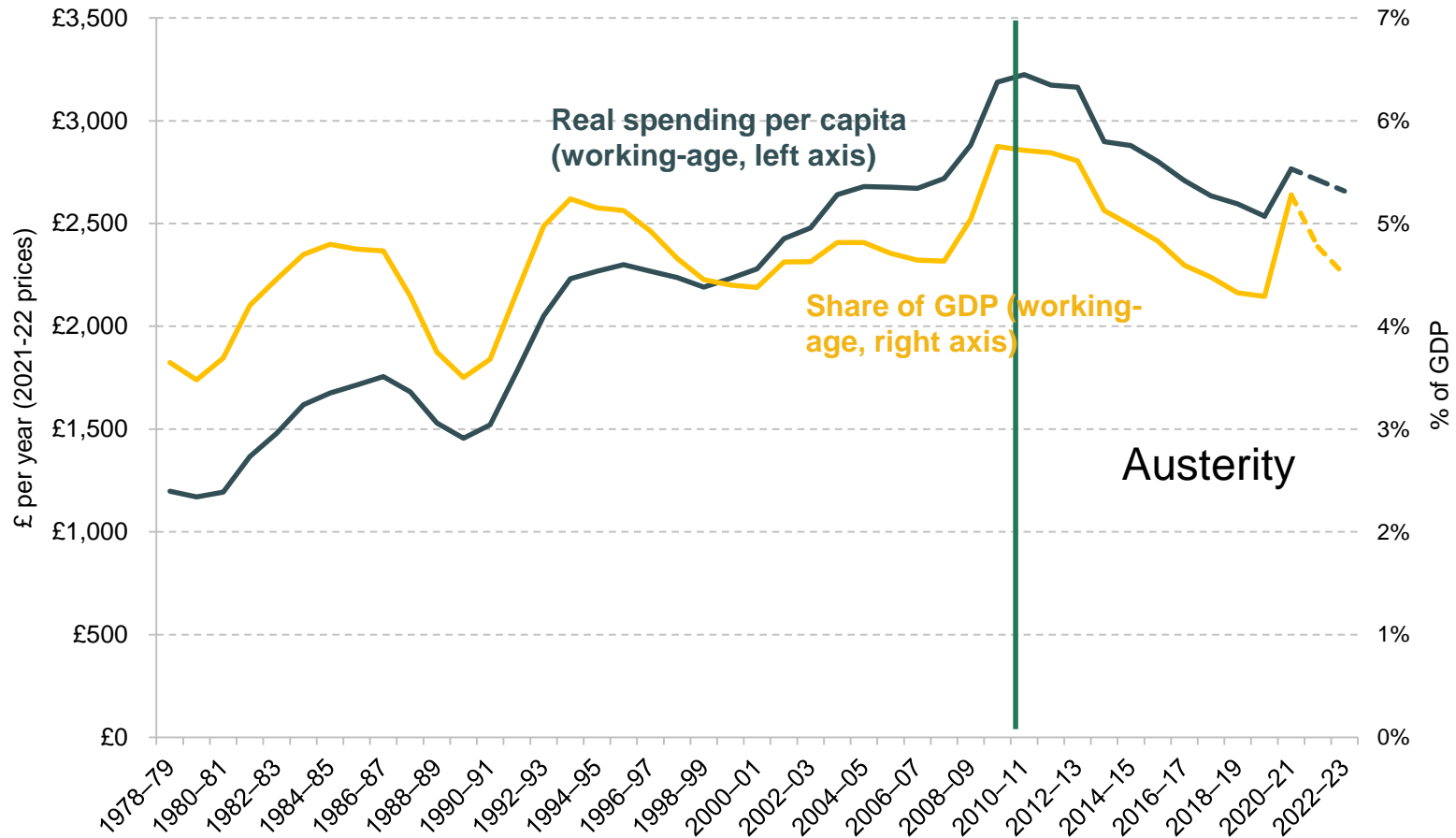
Note: reflecting how administrative data are provided, 'working-age' is here defined as being under the female state pension age (even for men).
Source: Figure 9 of Hoynes, Joyce and Waters (2023)

...and has generally risen as share of national income



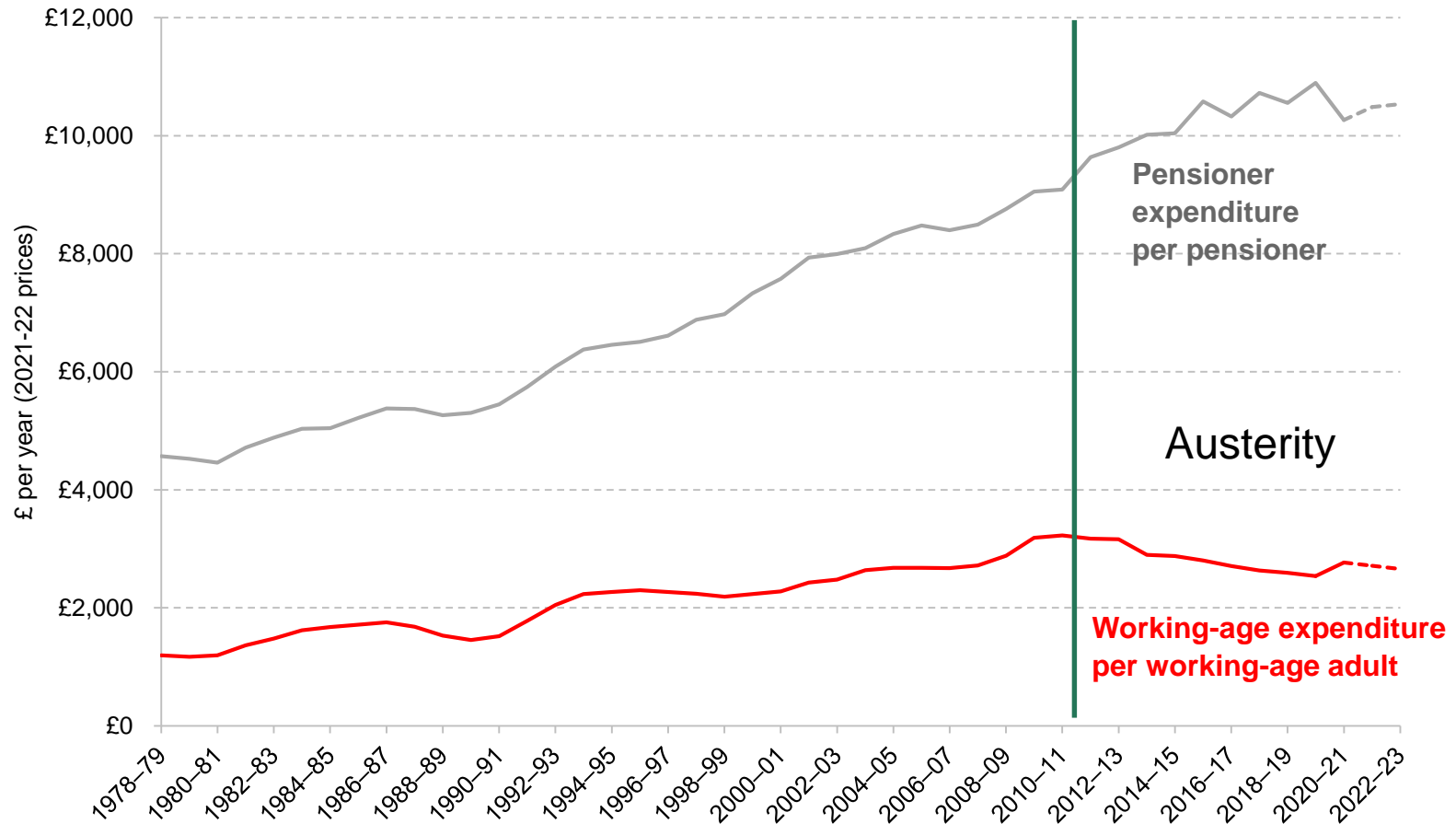
Note: reflecting how administrative data are provided, 'working-age' is here defined as being under the female state pension age (even for men).
Source: Figure 9 of Hoynes, Joyce and Waters (2023)

But clear impact of austerity between the last two recessions...



Note: reflecting how administrative data are provided, 'working-age' is here defined as being under the female state pension age (even for men).
Source: Figure 9 of Hoynes, Joyce and Waters (2023)

...which was concentrated on the working-age population

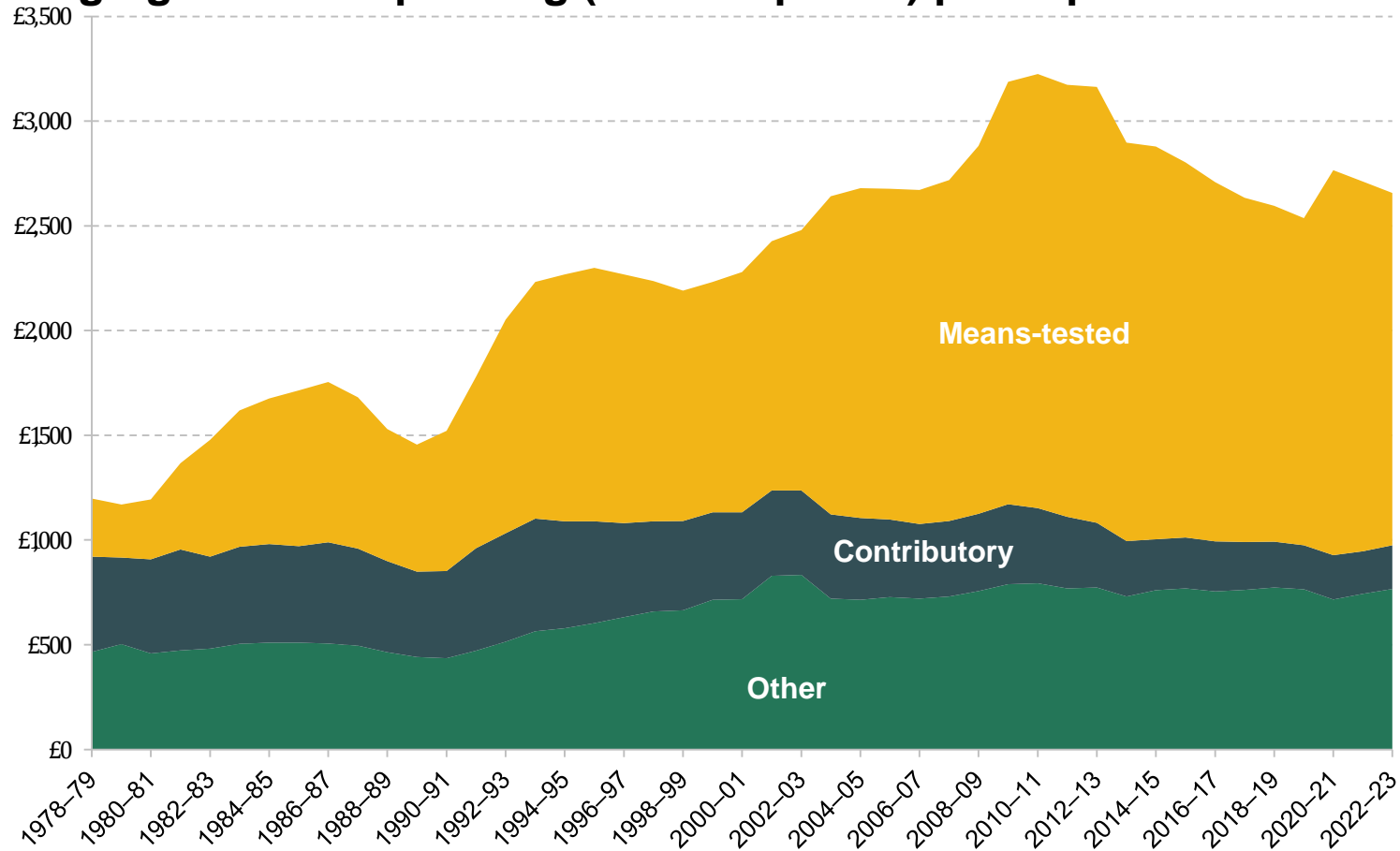


Note: reflecting how administrative data are provided, 'working-age' is here defined as being under the female state pension age (even for men) and 'pensioner' is defined as being above it.

Source: Figure 9 of Hoynes, Joyce and Waters (2023)

The rise and rise, and fall, of means-tested benefits

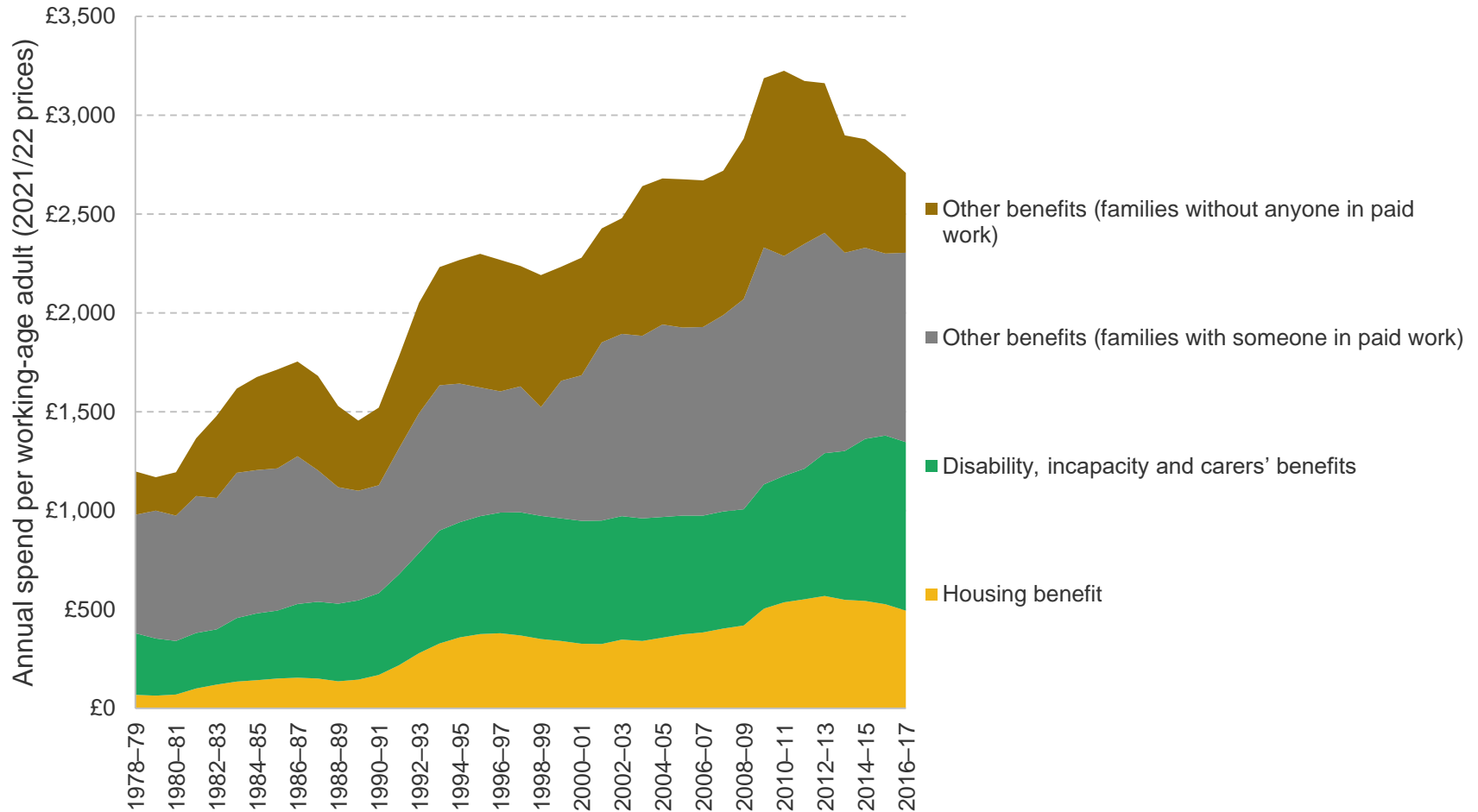
Working-age benefit spending (2021-22 prices) per capita



Source: Figure 18 of Hoynes, Joyce and Waters (2023)

Working-age benefits by type

Annual spend per working-age adult (2021-22 prices)



Source: Figure 8 of Hoynes, Joyce and Waters (2023)

Big changes to targeting of support

- **Away from working-age households and towards pensioners**

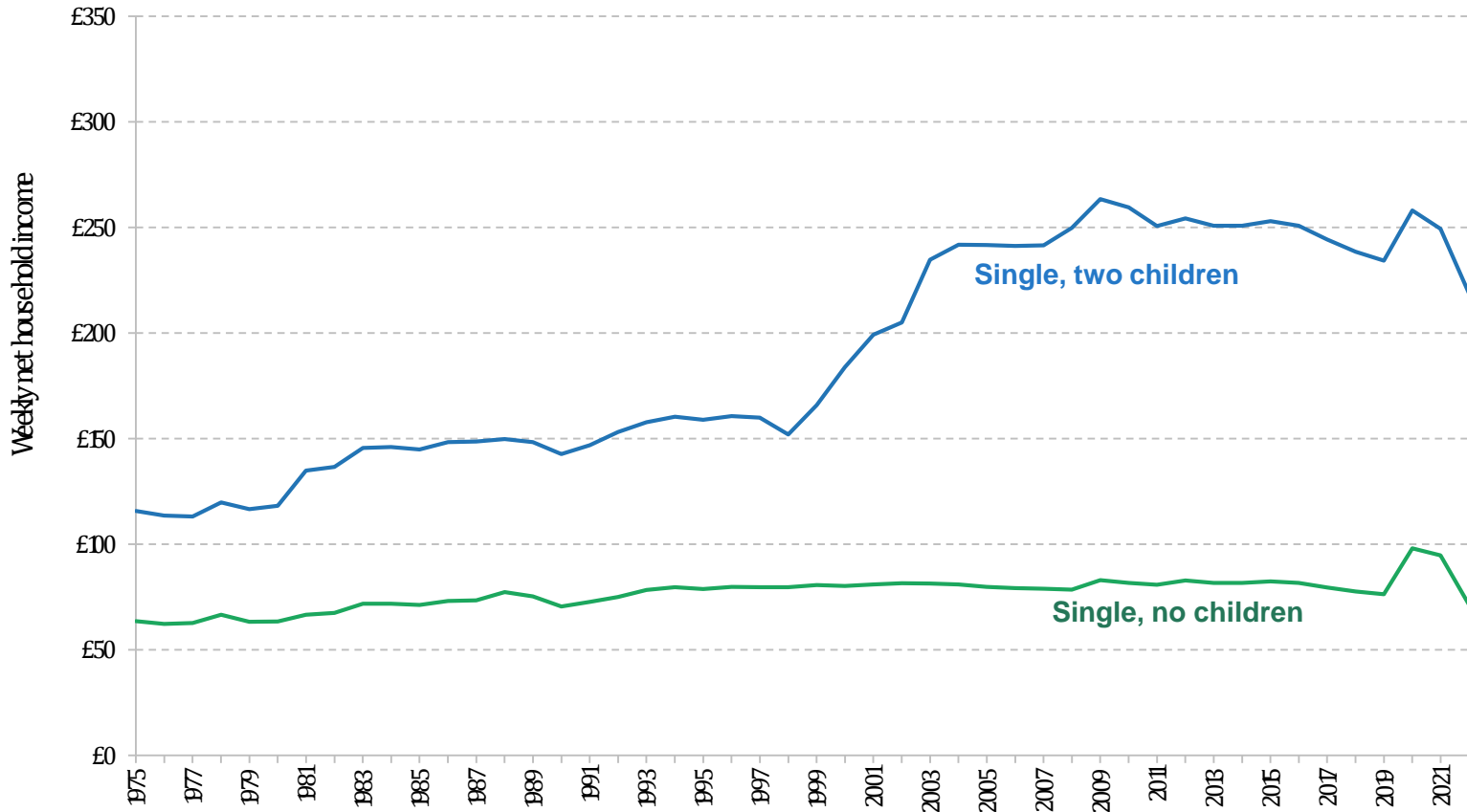
Big changes to targeting of support

- **Away from working-age households and towards pensioners**
- Within working-age population, shift towards:
 - **Families with children** - until 2010s austerity

Shift towards families with children



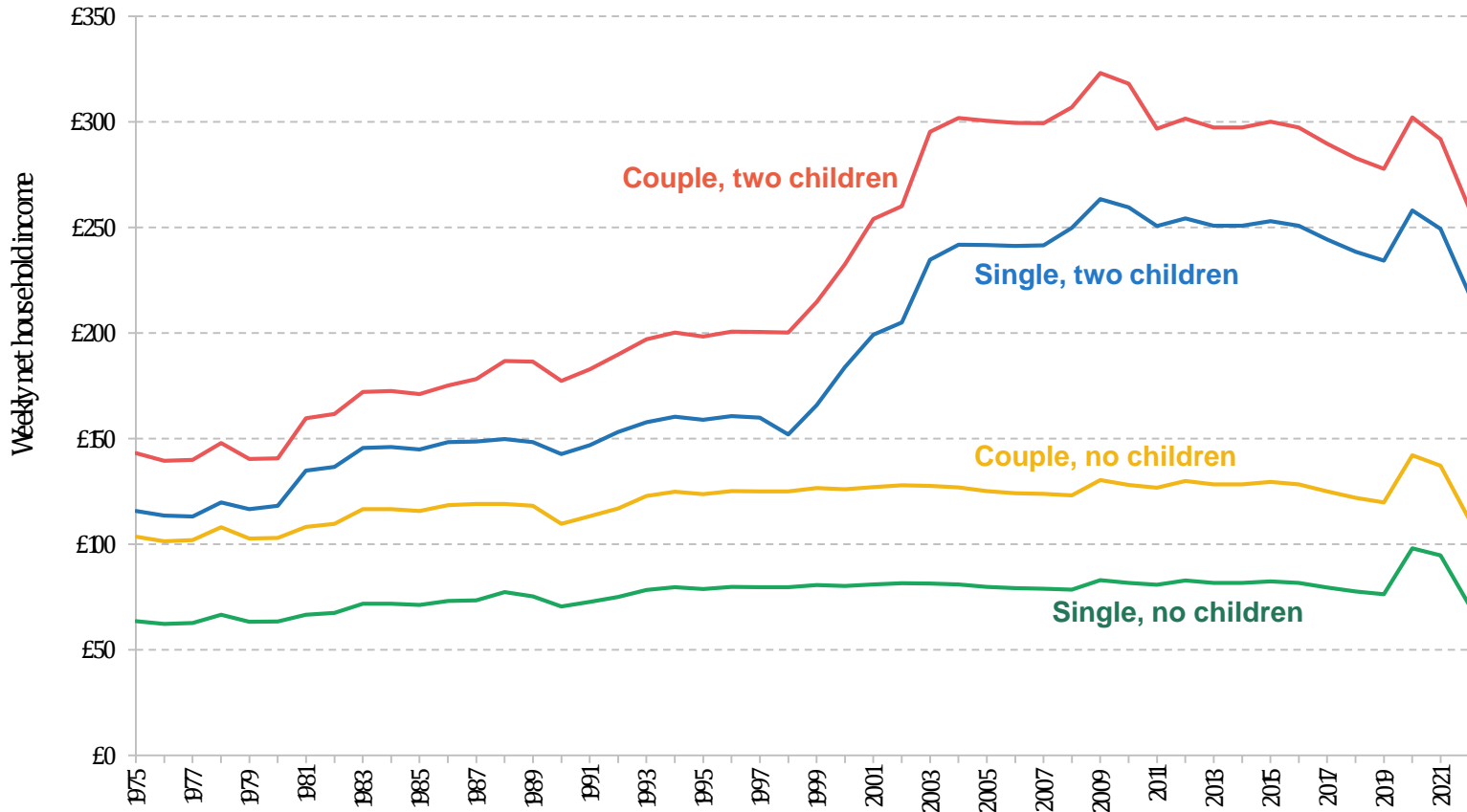
Weekly benefit rates for out-of-work families (2021-22 prices)



Source: Figure 13 of Hoynes, Waters and Joyce (2023)

Shift towards families with children

Weekly benefit rates for out-of-work families (2021-22 prices)



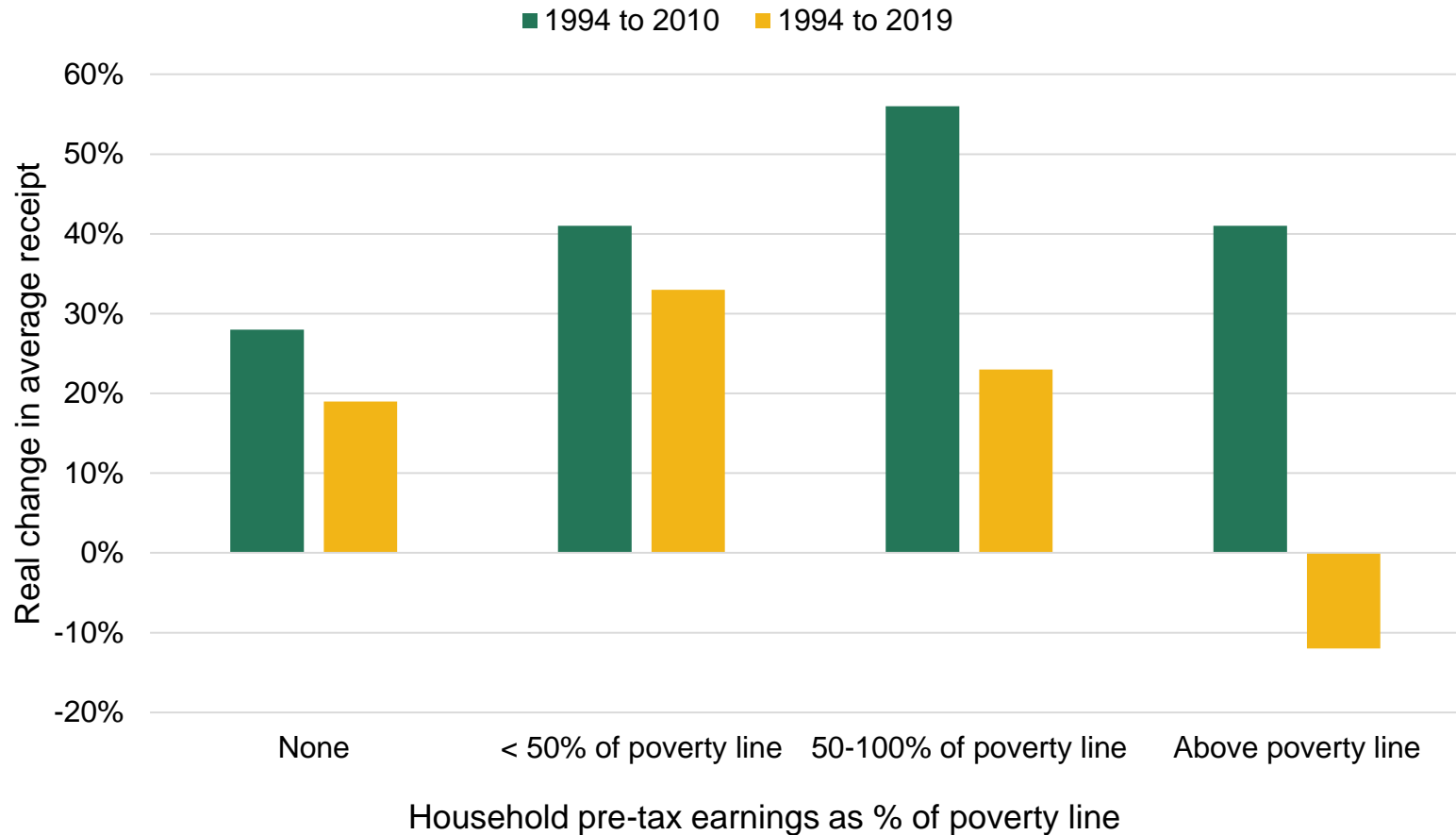
Source: Figure 13 of Hoynes, Waters and Joyce (2023)

Big changes to targeting of support

- **Away from working-age households and towards pensioners**
- Within working-age population, shift towards:
 - **Families with children** - until 2010s austerity
 - **Families with someone in work**

Shift towards in-work households

Real benefit spending per household, by household earnings



Source: Table 2 of Hoynes, Waters and Joyce (2023)

Little insurance against job loss

Replacement rates for families with one earner on average earnings

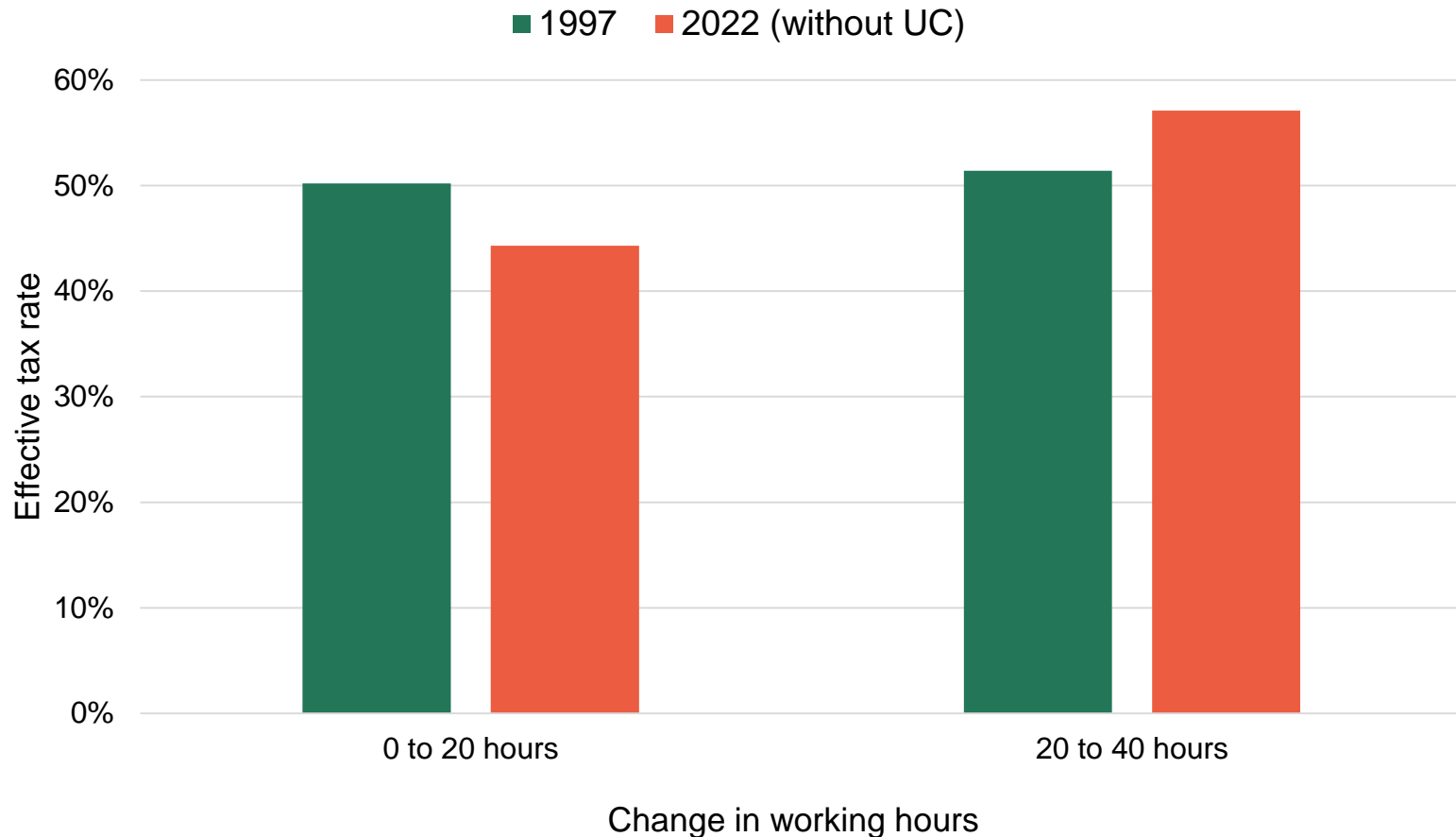
	UK	OECD, excluding contributory benefits	OECD, including contributory benefits
Single, no children	13%	20%	55%
Single, two children	35%	40%	66%
Couple, no children	20%	31%	57%
Couple, two children	41%	47%	66%

Note: Replacement rate is out-of-work income as a % of in-work net income. Last column shows replacement rates at age 40 for someone who was in uninterrupted paid work from age 19. All figures relate to the second month of unemployment. Ignores housing benefits. Children are assumed to be ages 4 and 6. OECD average measures across 36 countries (Turkey is excluded due to lack of data).

Source: Bourquin and Waters (2020): <https://ifs.org.uk/books/temporary-benefit-increases-beyond-2020-21>

Average effective tax rates

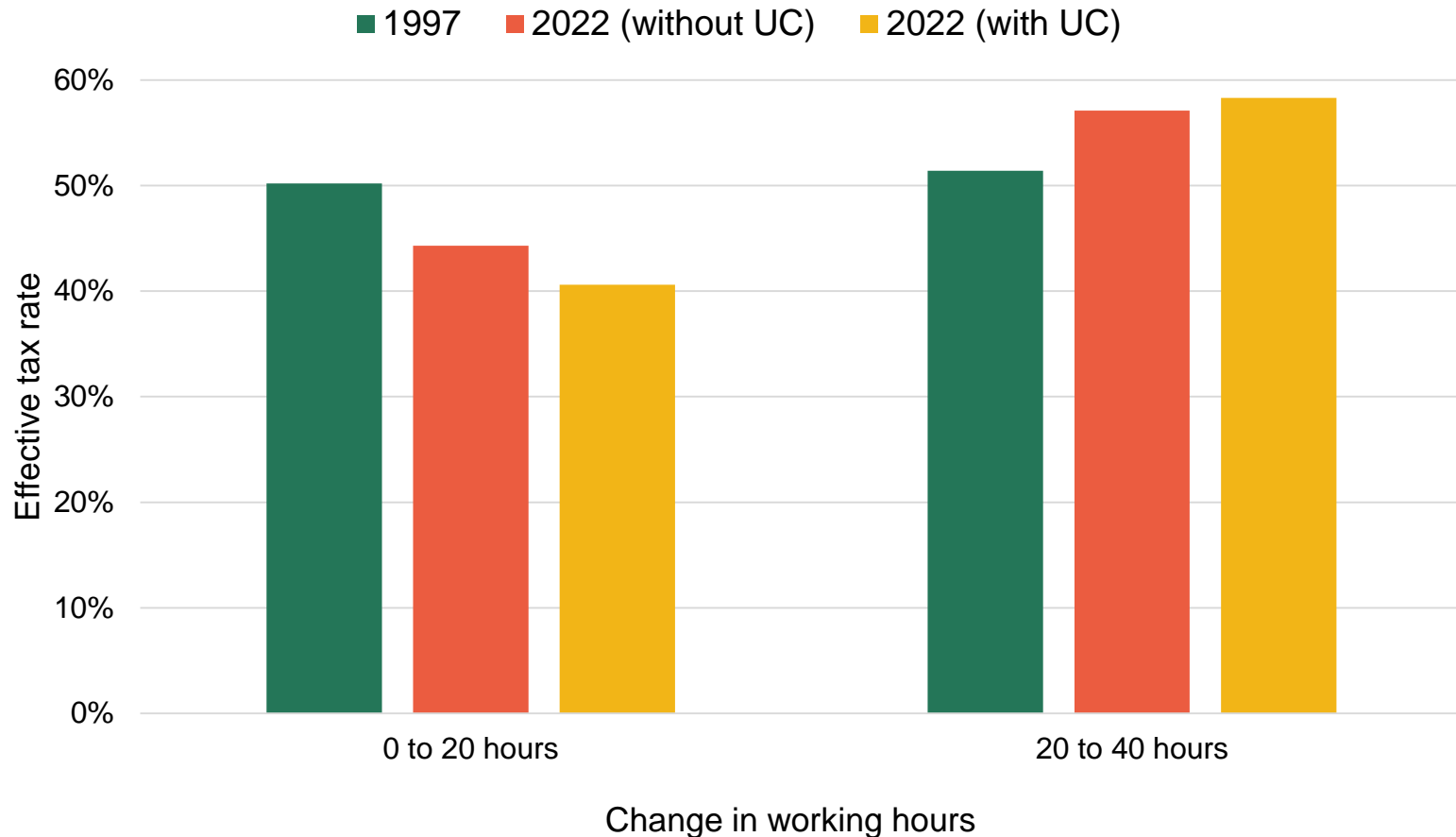
Parents in paid work and in low-earning (bottom tertile) households



Note: effective tax rate measures additional tax paid or benefits withdrawn as a % of the increase in pre-tax earnings.
Source: Table 3 of Hoynes, Waters and Joyce (2023)

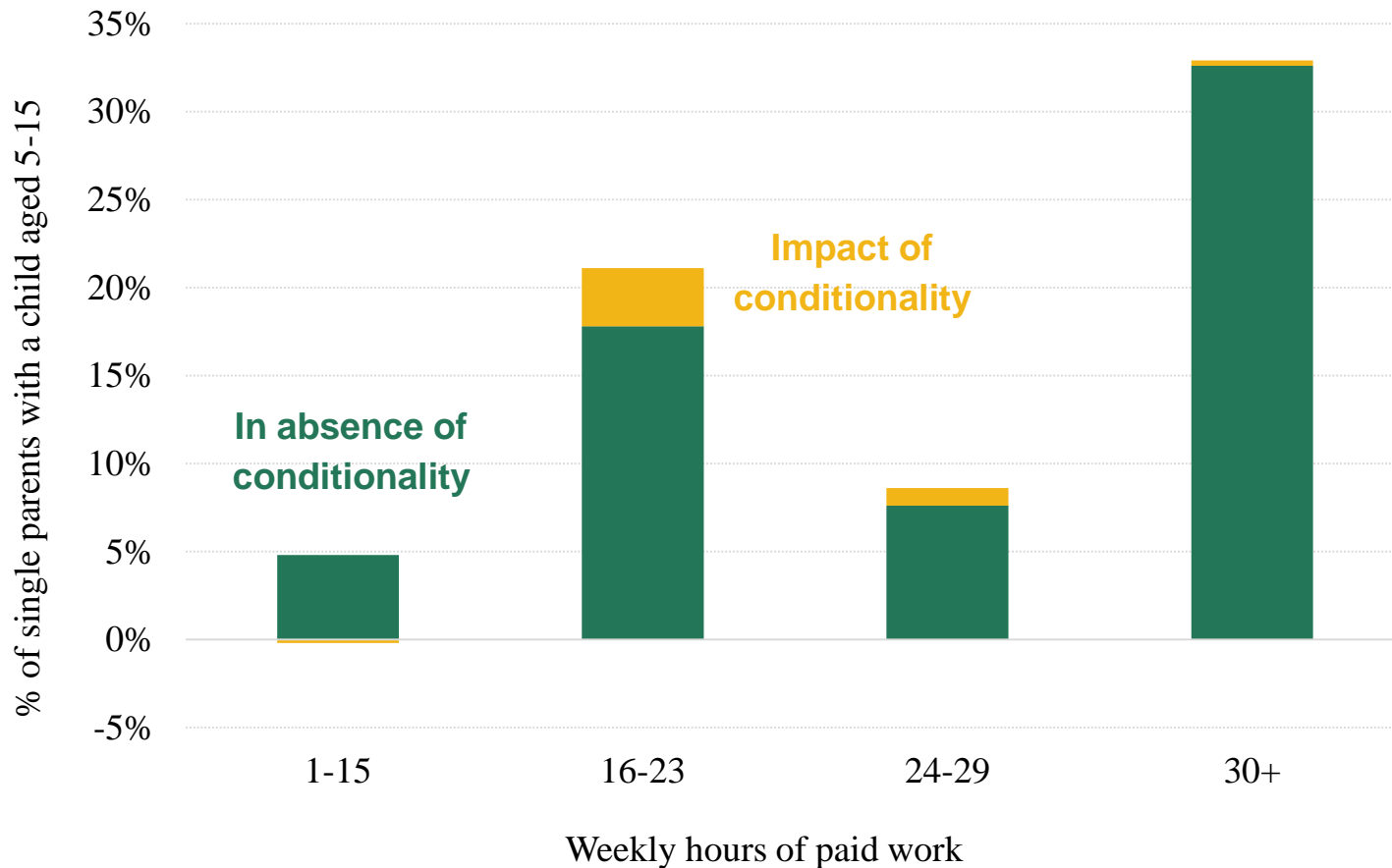
Average effective tax rates

Parents in paid work and in low-earning (bottom tertile) households



Note: effective tax rate measures additional tax paid or benefits withdrawn as a % of the increase in pre-tax earnings.
Source: Table 3 of Hoynes, Waters and Joyce (2023)

“Conditionality” also appears to lead only to more part-time employment



Note: Figures are estimated effects of the UK Lone Parent Obligation reforms, phased in between 2008-2012.

Source: Codreanu and Waters (2023)

Summary

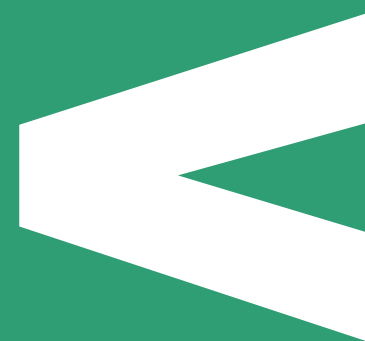
- Increased focus of policy on:
 - In-work support, largely with impact (often not explicit) of encouraging low numbers of hours
 - Families with children (but partly undone by austerity)
- Insurance against unemployment weak by international standards
 - Especially for those not on very low earnings, and without kids
- System has become heavily means-tested with all the pros and cons that brings
- It is a (necessary) patch over problems we haven't found better ways of addressing, like low pay, high housing costs and ill health



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