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@TheIFS

Should the government remove the two-child limit?



Economic
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Research Council



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ANALYSIS OF
PUBLIC POLICY

There is lots of attention on the two child limit

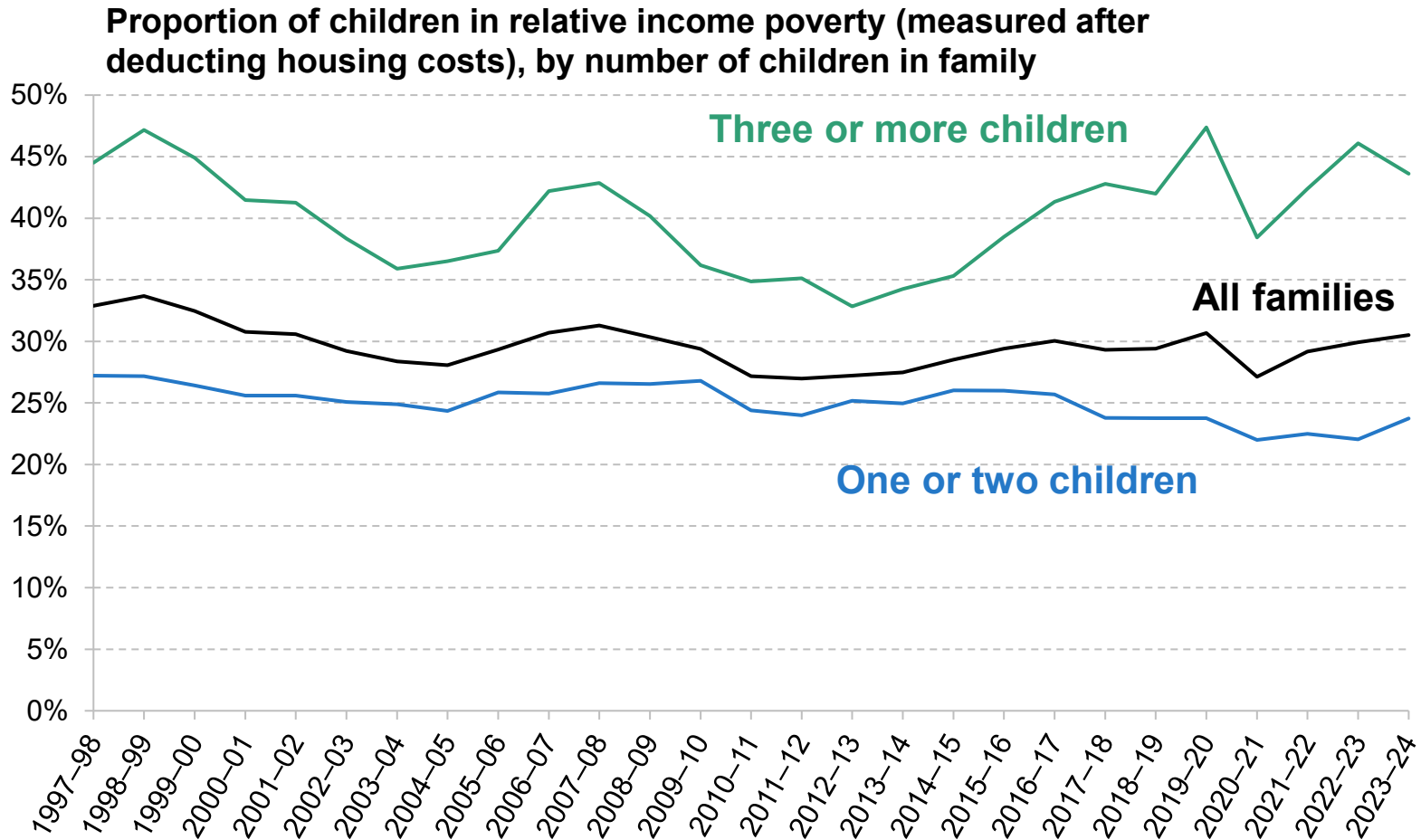
- With budget and child poverty strategy fast approaching, there is much speculation on future of the two-child limit
- Labour manifesto committed to bringing child poverty down, and reversing two-child limit one of the most obvious options to do so
- This presentation:
 - Summarise the **latest trends in child income poverty**
 - Review some of the evidence on the **effects of the two-child limit** on income poverty and wider outcomes
 - Compare the government's **options**



What has happened to child poverty?

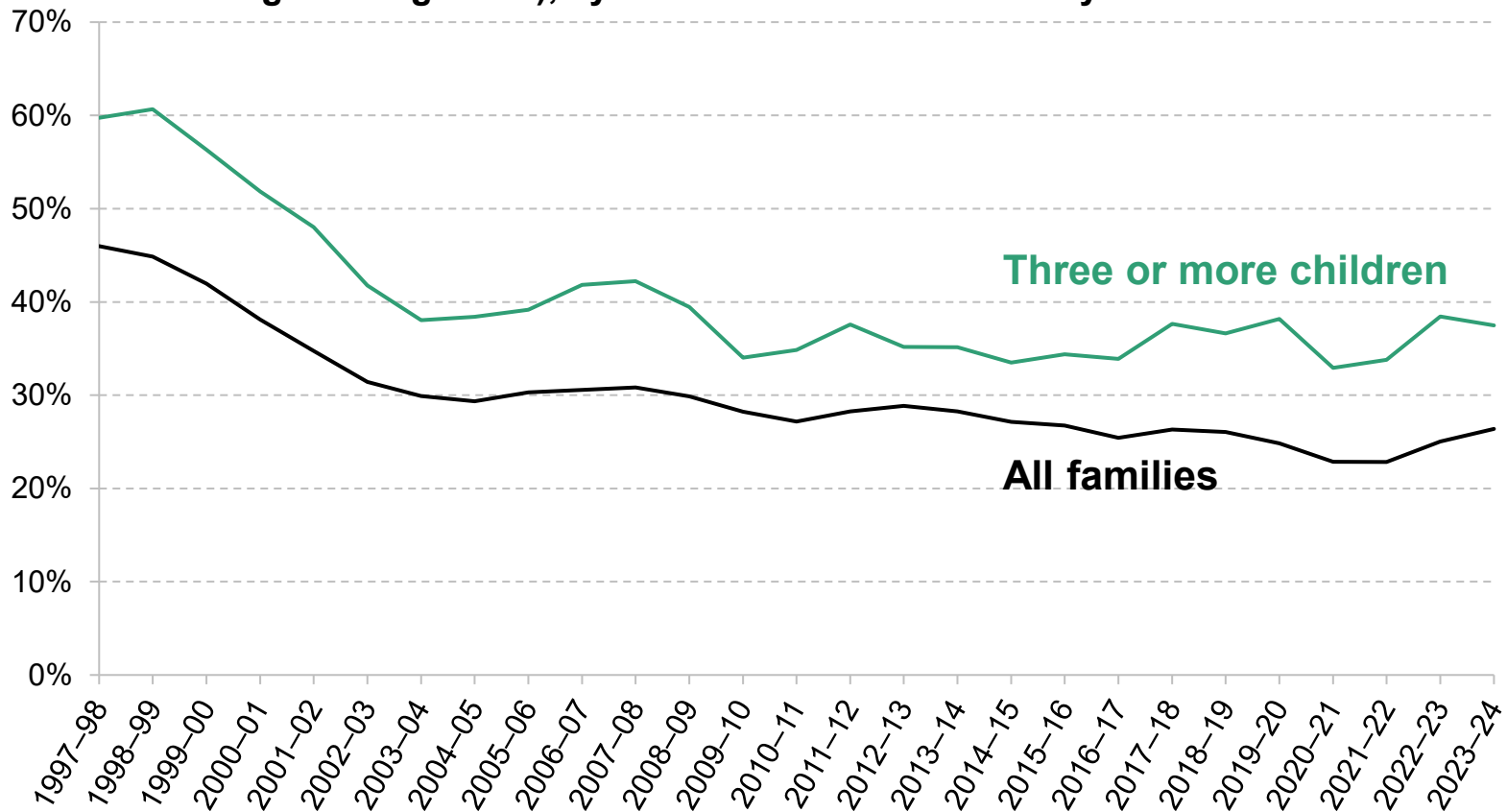
Should the government scrap the two-child limit?

Relative child poverty has increased since 2010–11, driven by larger families



Absolute poverty for larger families has also risen since 2010–11 (very slightly)

Proportion of children in absolute income poverty (measured after deducting housing costs), by number of children in family





How does the two-child limit affect family incomes?

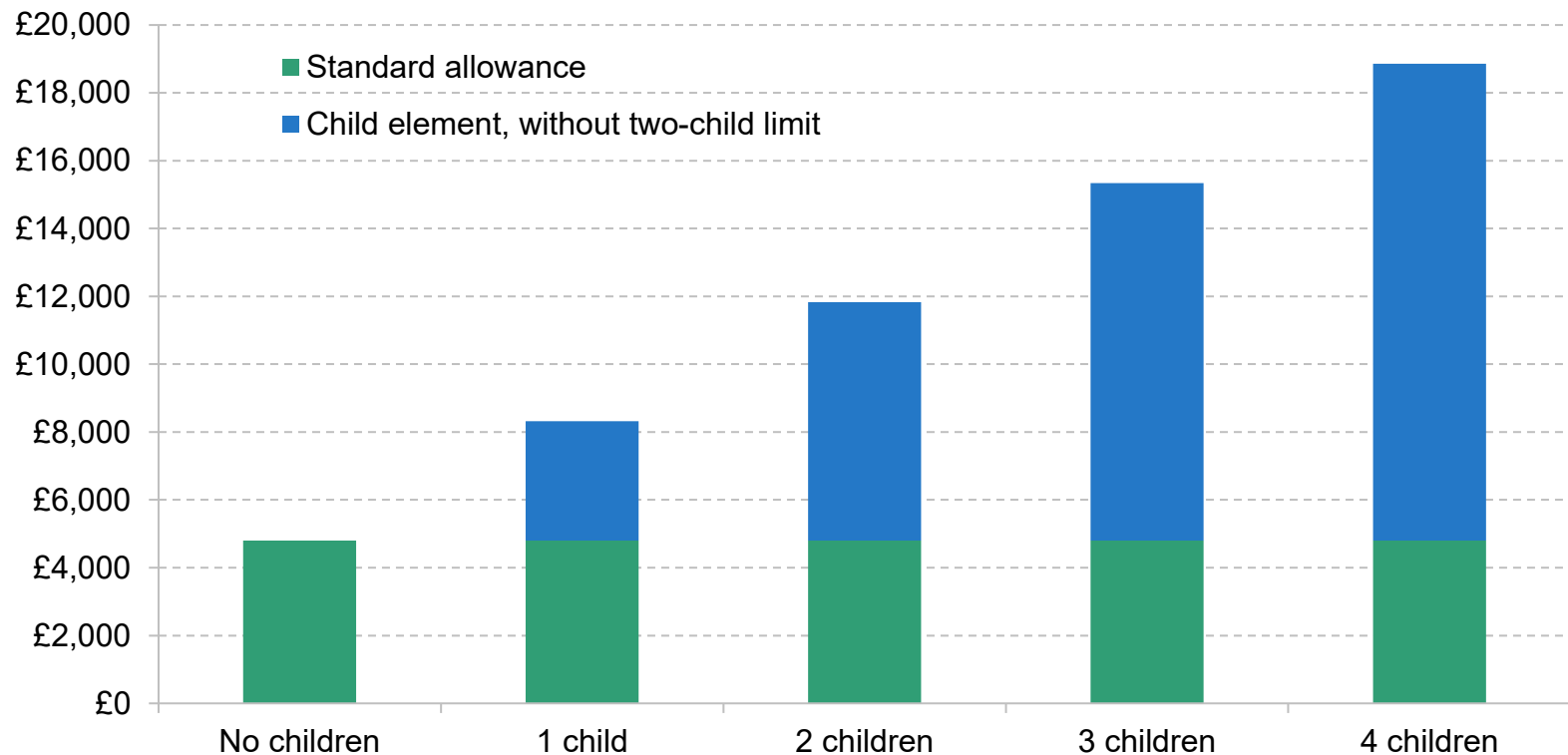
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How does the two-child limit work?

- Families on universal credit typically a “child element” worth **£3,500 for each additional child**
- But the “two-child limit” means families receive **no additional child element for third and subsequent children born from 6 April 2017**
 - (they will still receive extra child benefit)

The two-child limit reduces means-tested benefit entitlements for larger families

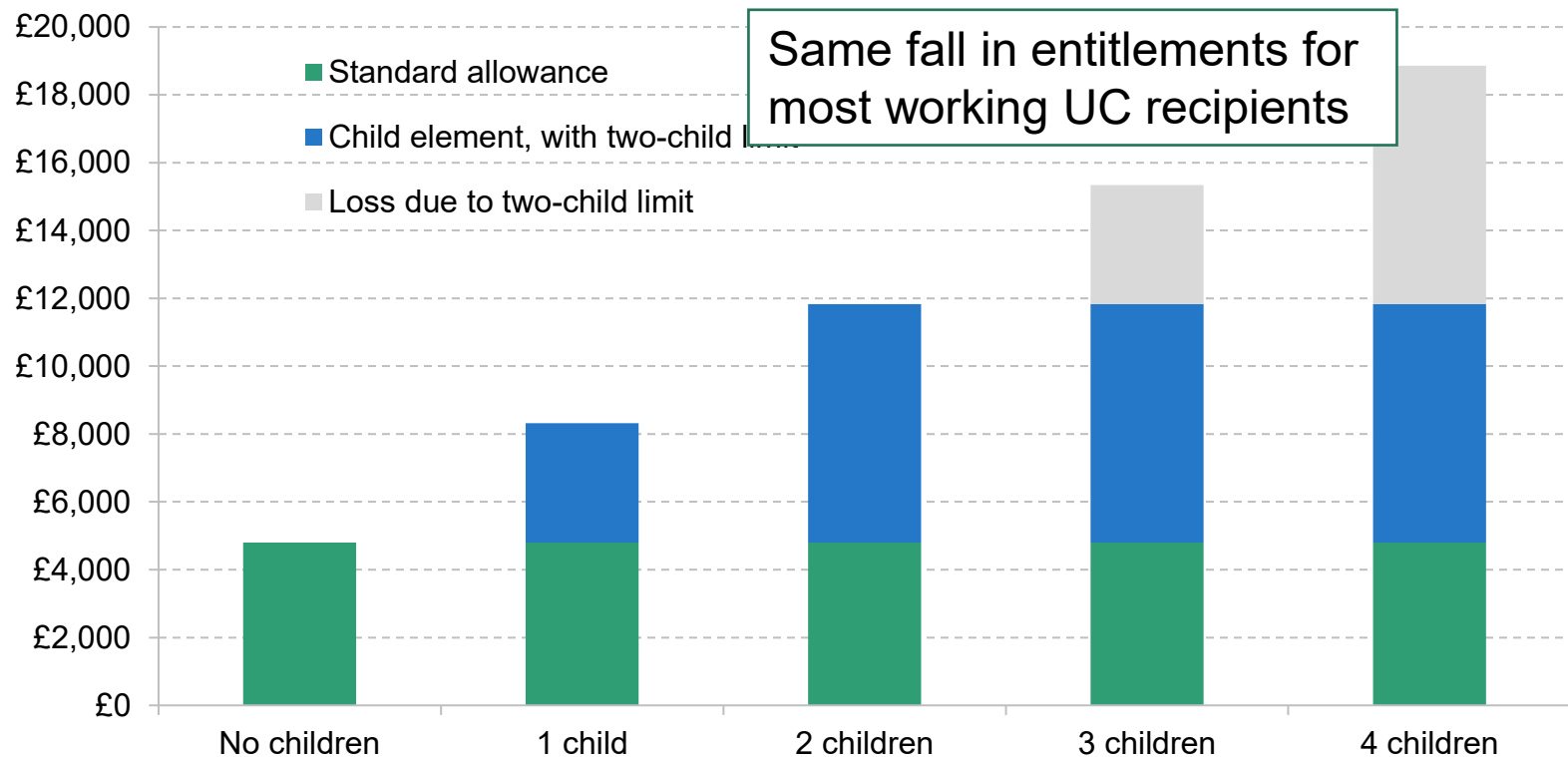
Annual universal credit entitlement for single adult, not in paid work, excluding housing support for renters



Note: excludes the family premium

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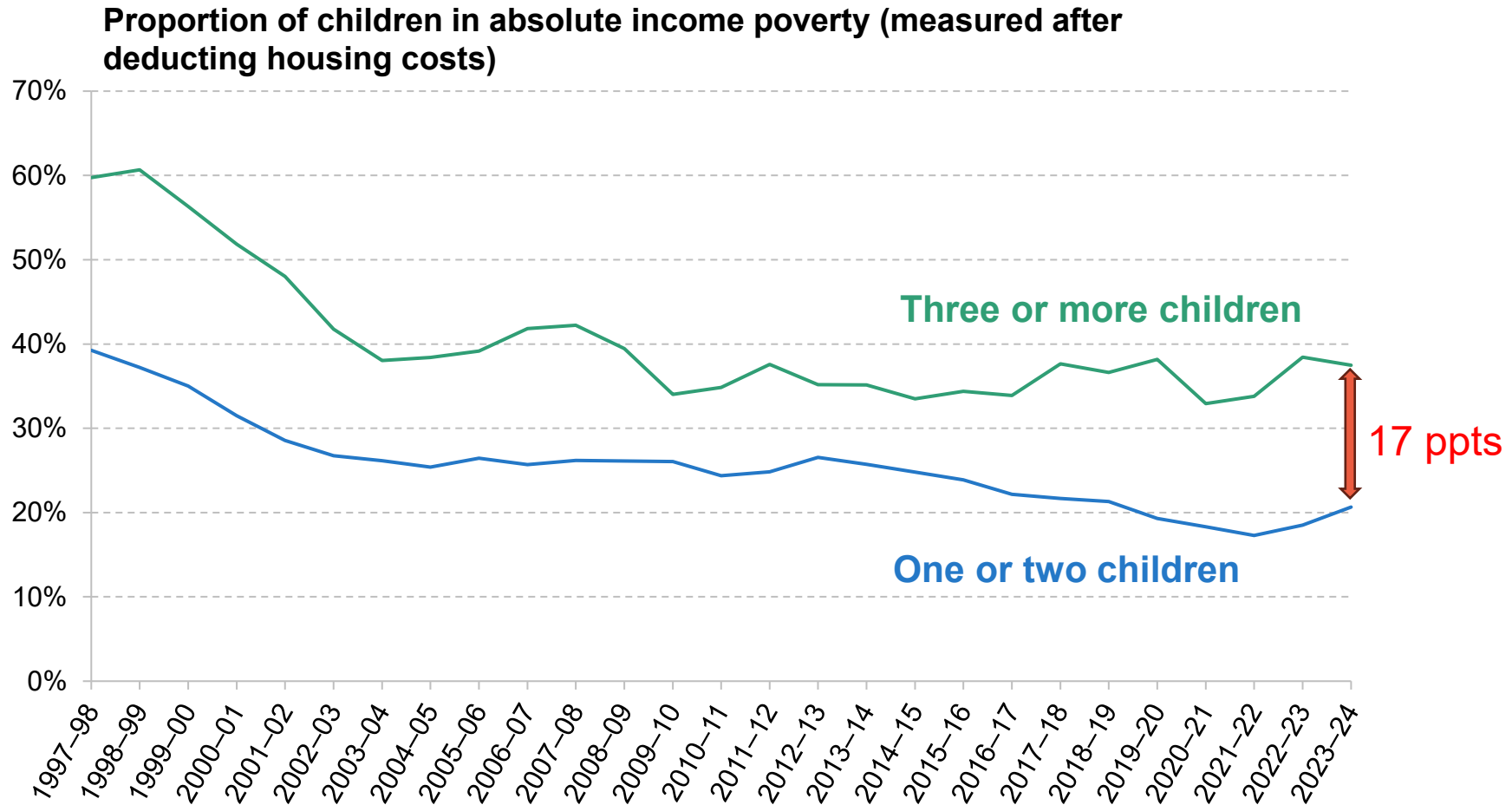


Note: excludes the family premium

The two-child limit is contributing to rising child poverty in larger families

- This date of birth cut-off means the number of affected families is **growing over time**, but the rollout is roughly $\frac{3}{4}$ complete
- **Around 60% of families with three or more children** are entitled to UC, so will **see their entitlements reduced by the limit** when it is fully rolled out
- Once fully rolled-out, the limit **will save the exchequer £3.6bn**, but **630,000 extra children will be in absolute income poverty** due to the policy (equivalent to 4.3 percentage points)

Reversing the two-child limit would shrink but not eliminate the gap



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- Once fully rolled-out, the limit **will save the exchequer £3.6bn**, but **630,000 extra children will be in absolute income poverty** due to the policy (equivalent to 4.3 percentage points)
- Reversing the policy would be one of the most cost-effective ways to achieve a large reduction in child poverty



How does the two-child limit affect other outcomes?

Should the government scrap the two-child limit?

The impact on parents' decisions

- A study using census data found the two-child limit **increased the employment** rate of affected mothers by 3 percentage points, when their affected child was 4 years old (Cook, 2025)
 - For these families, an increase in their earnings may offset the lost benefit income, and lead to further revenues for the exchequer
- A recent study examining parents' decisions to have children found **no evidence of parents having children slightly earlier** to avoid the two-child limit (Reader et. al., 2025)
 - Remains an **open question** whether we can expect to see longer-term effects

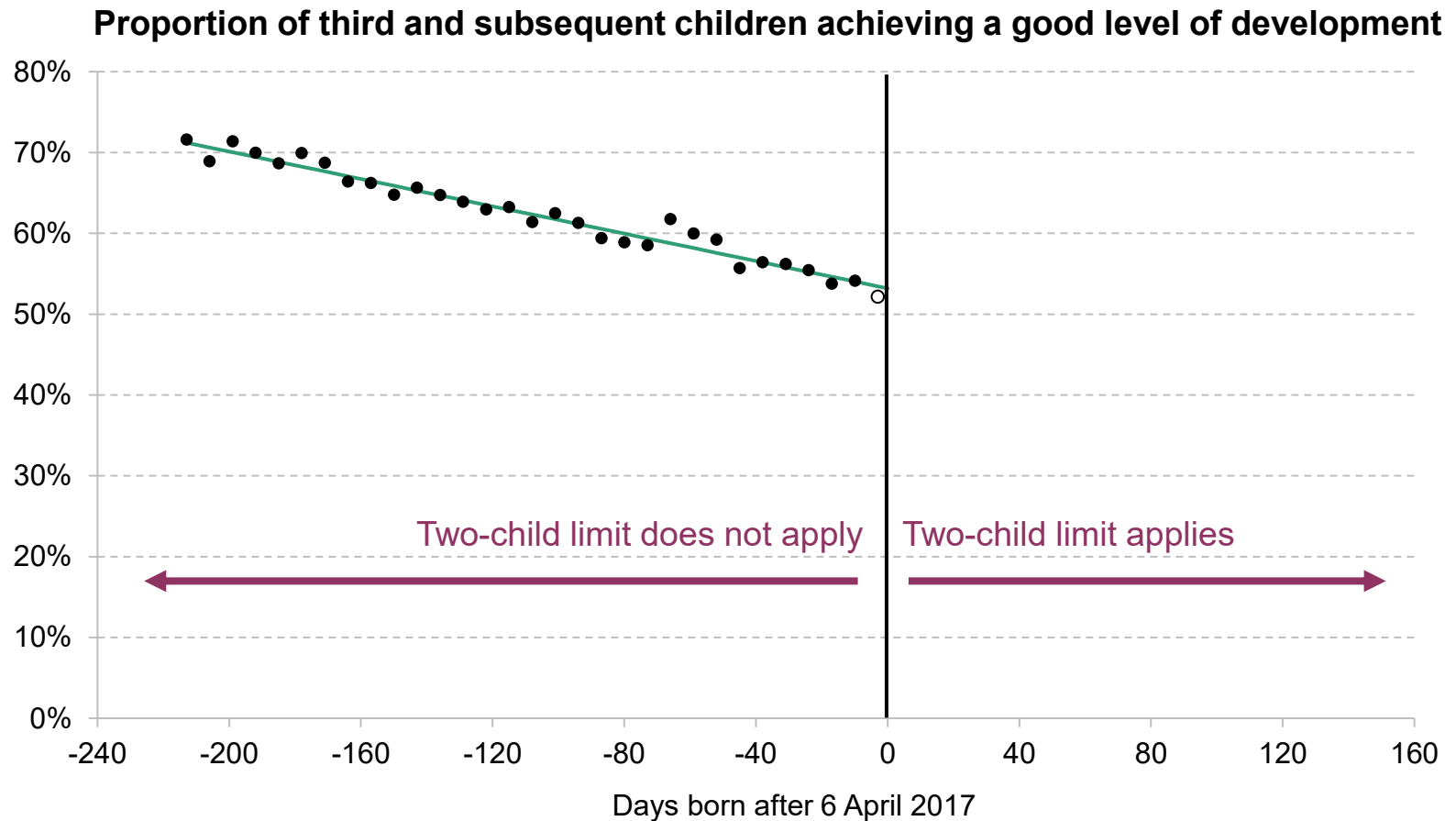
Child income poverty is correlated with a range of other outcomes for children, but this is not entirely causal

- **Poorer children experience worse outcomes** than their richer peers in a range of areas, including education, health, later employment
- Lots have warned child poverty, and the two-child limit in particular, may have lasting consequences for children's development
- But these correlations with income are **not necessarily (entirely) causal** – international research often has found a causal effect, but some recent high-quality papers have found little impact
- On the two-child limit in particular: too early to comment on most outcomes, but a recent IFS report gives us evidence on school readiness

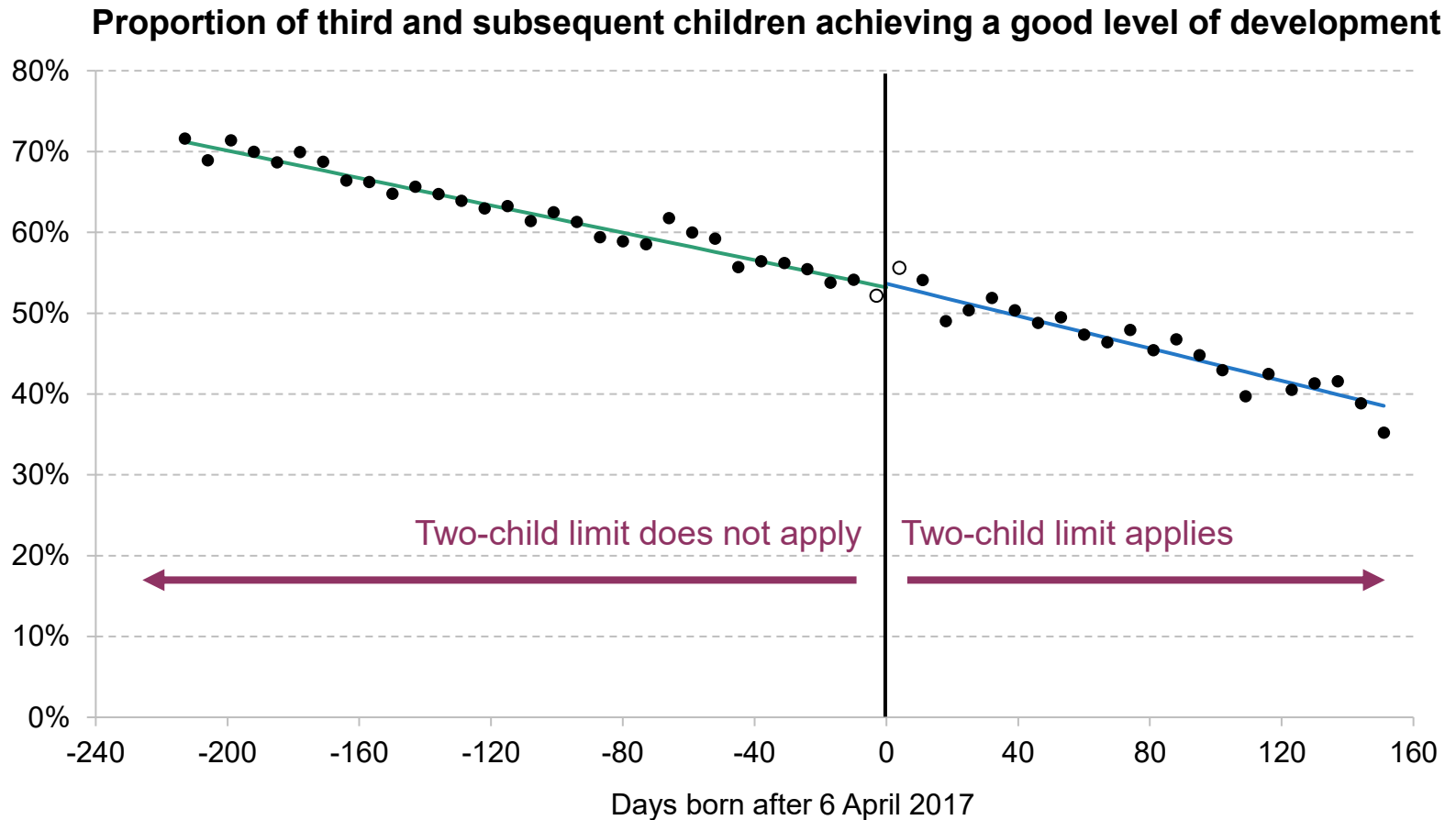
We examined the causal effect of the two-child limit on school readiness

- School readiness is **measured at the end of reception by teachers**, and encompasses a range of areas including literacy, numeracy, and social and physical development
- The government's flagship measure called the “**good level of development**” (GLD) – about **two-thirds** achieve it
 - Their target is to increase this to three quarters

The two-child limit had no substantial effect on school readiness



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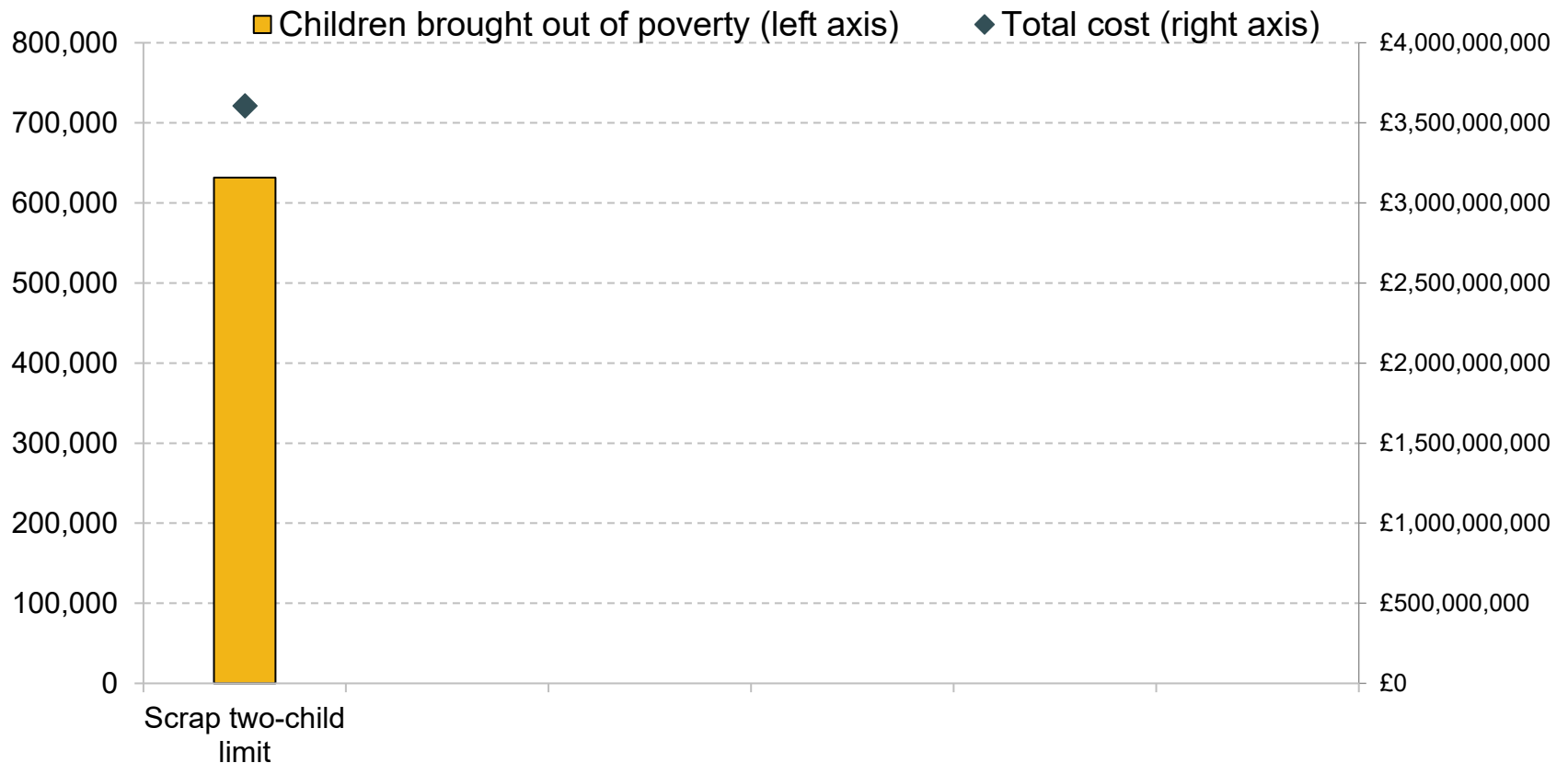


What are the government's options?

Should the government scrap the two-child limit?

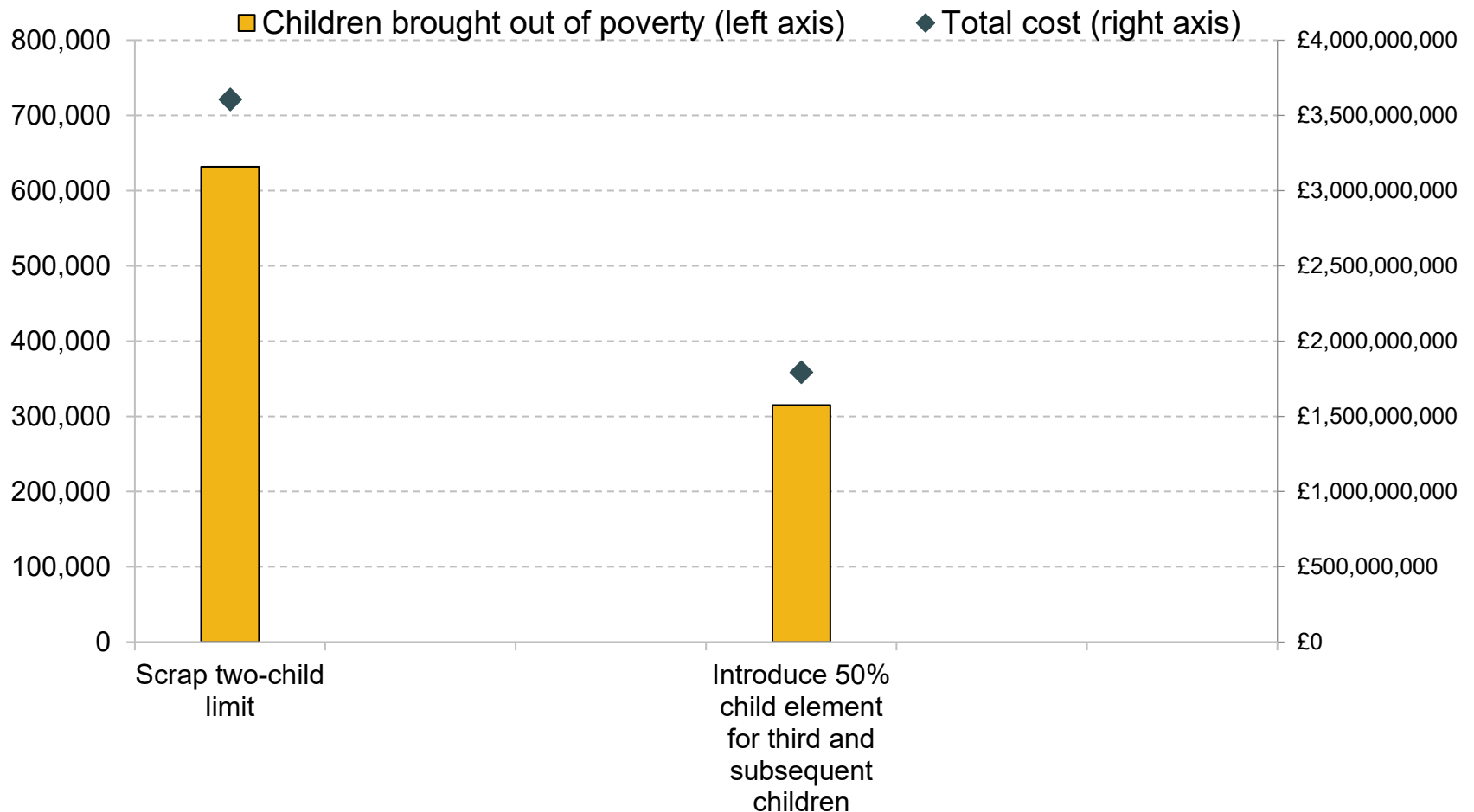
Intermediate options would cost less, but lift fewer children out of poverty

Number of children out of poverty, and total annual cost, by policy option



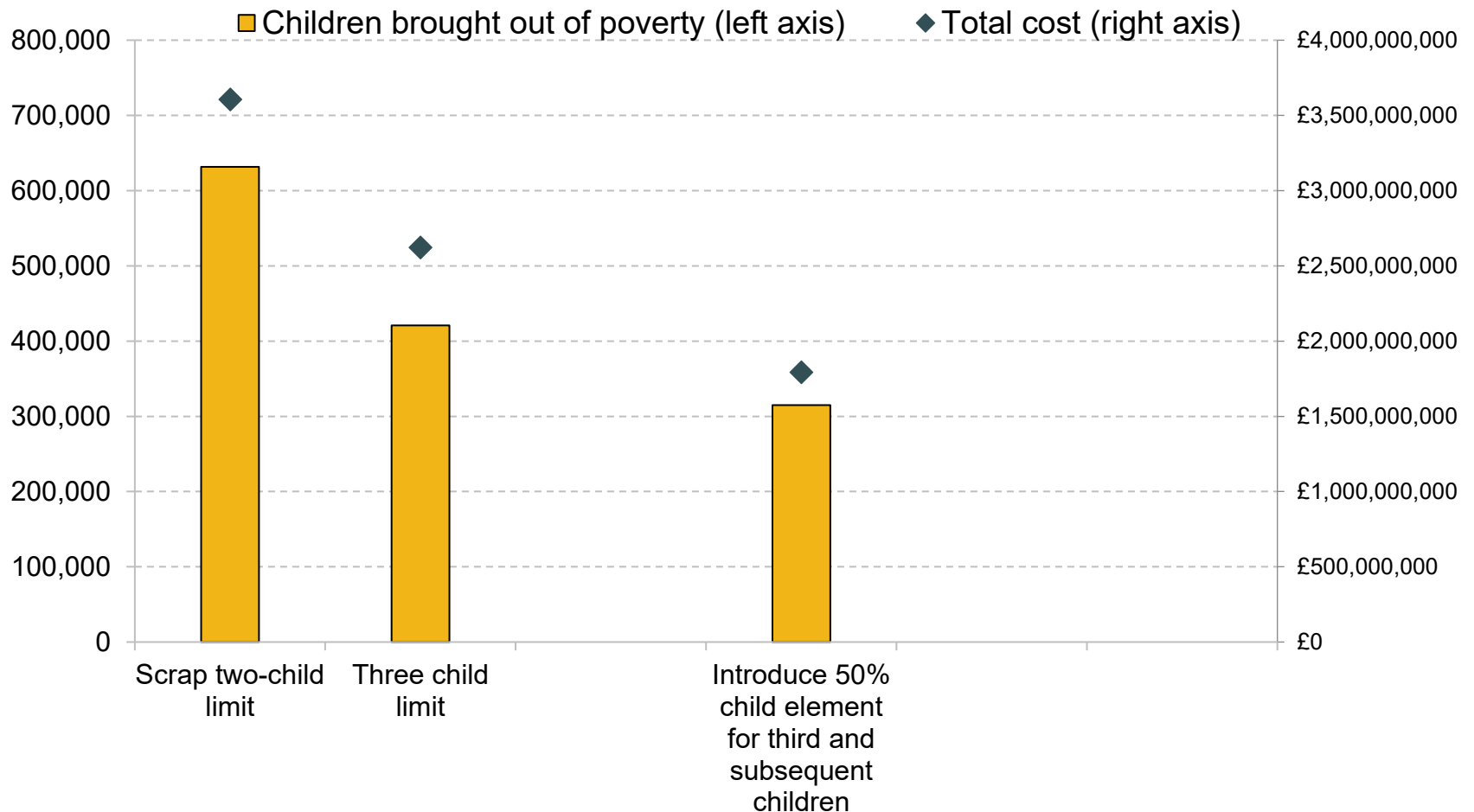
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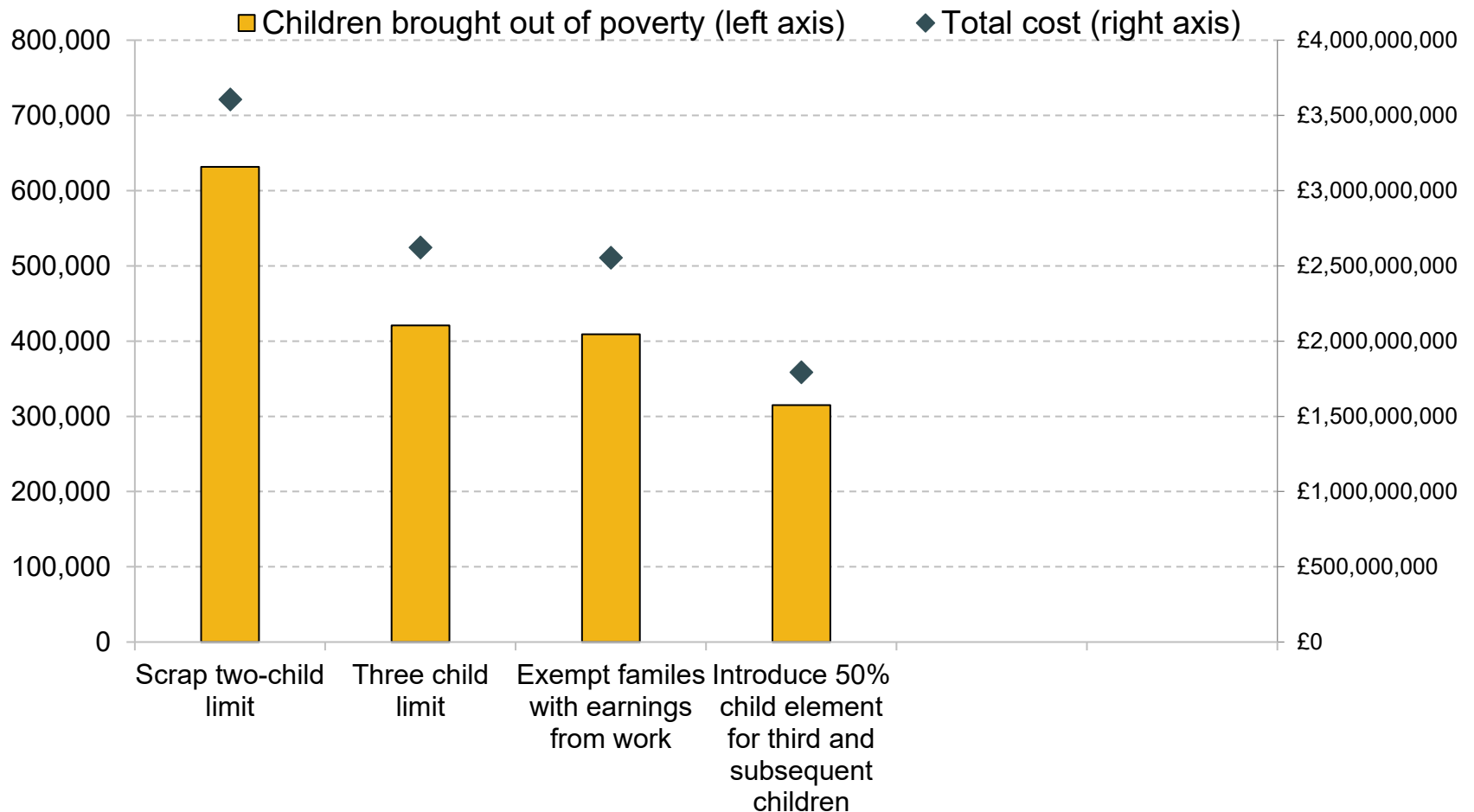
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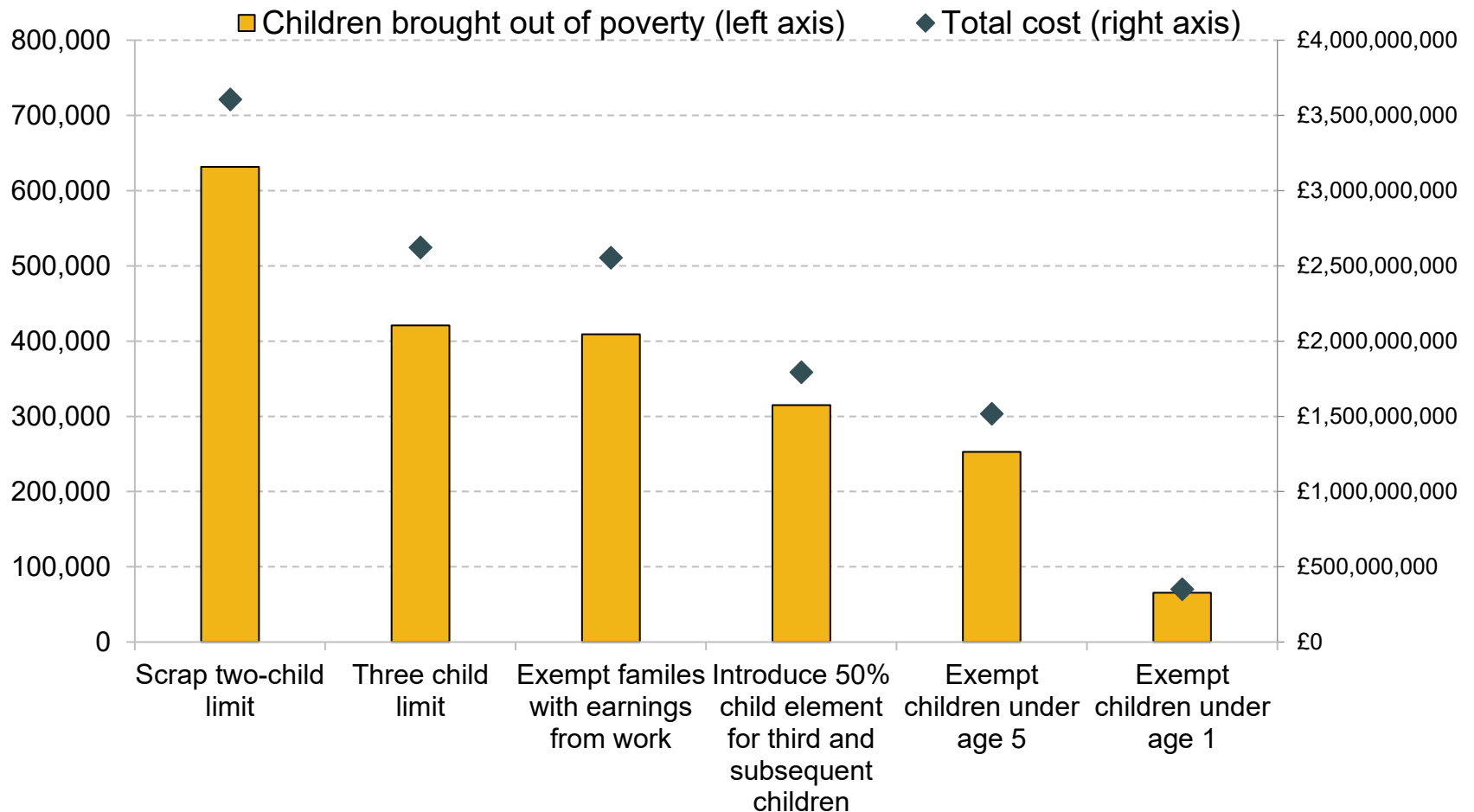
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Conclusions

- In deciding what to do with the two-child limit, the government needs to weigh the **impact on child poverty**, and the **costs to the exchequer**
- Between full reversal and the status quo, **a range of intermediate options** exist, with different advantages and disadvantages
 - All would cost less, but also pull fewer children out of poverty
- Beyond the headline stats on costs and poverty, it also needs to consider **who it wants to help**, and **what role it wants the benefit system to play**
- Scrapping the two-child limit is **no silver-bullet** for closing the range of inequalities that exist between richer and poorer children

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