



Institute for
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The (changing) effects of universal credit

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Introduction

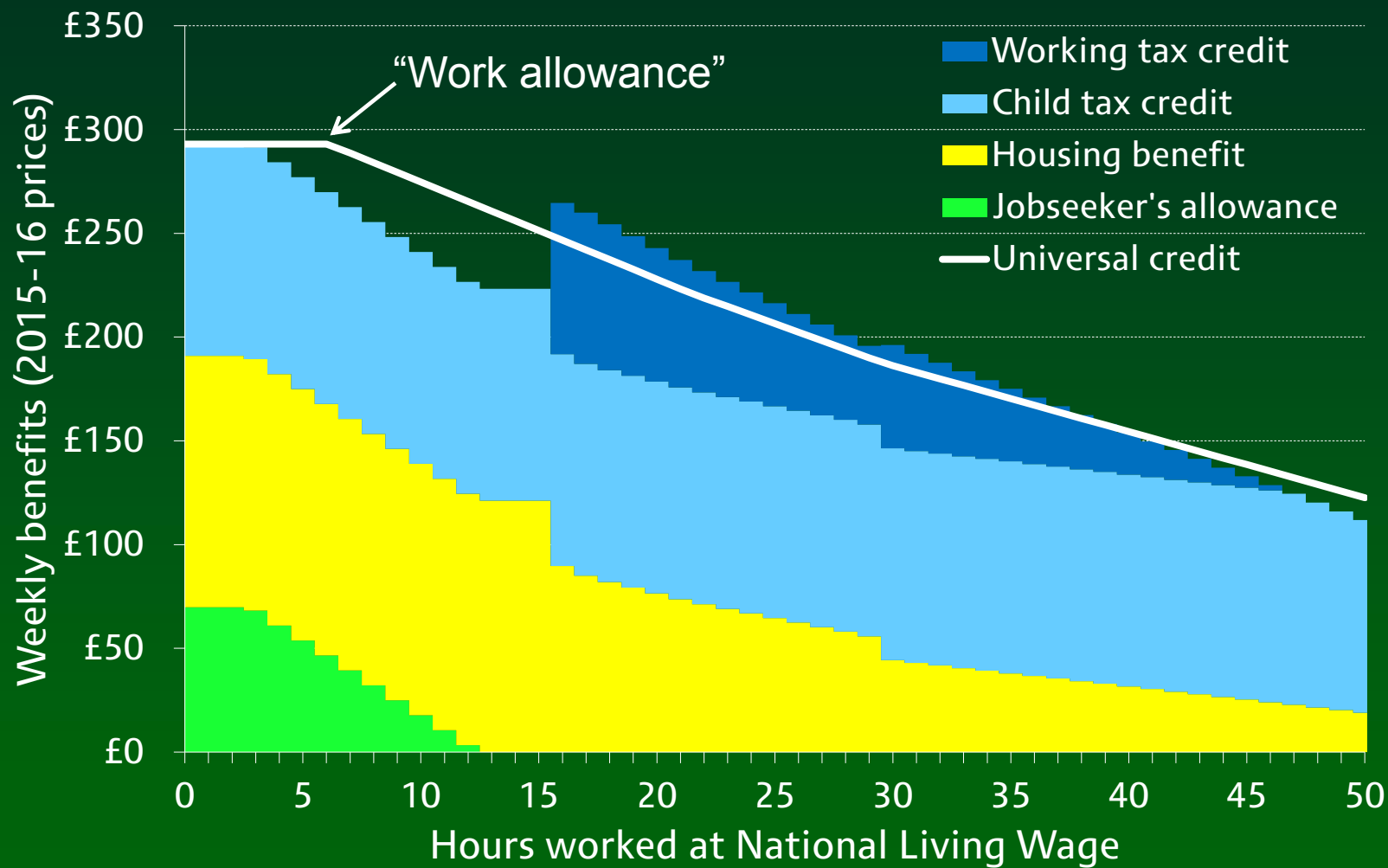
- Most means-tested benefits for working-age households being (very) gradually replaced by universal credit (UC)
 - 7 million households are entitled to at least one of the ‘legacy’ benefits being replaced by UC
- Important details repeatedly altered, including in July Budget
 - As a result, in long run UC will reduce entitlements by £2.7bn per year
 - But this hides many complexities in its effects
- Main aim here is to shed light on what the new UC plans mean for the incomes and work incentives of different groups

Scope of this analysis

- UC will come on top of cuts to ‘legacy’ benefits system, which largely carry through into UC
 - All affects broadly similar group of people
 - But cuts to legacy system much larger than cut from introducing UC
 - Focus here is just on impact of introducing UC
- Transitional arrangements mean existing claimants can’t lose at point when rolled onto UC
 - We ignore these: we analyse the long run effects

Means-tested benefits: legacy system and UC

Example lone parent with two children



Notes and sources: see Figure 10.3 of Green Budget document

Direct impacts on incomes (1)

Impacts of long run UC system on households entitled to legacy benefits



Notes and sources: see Figure 10.1 of Green Budget document

Direct impacts on incomes (1)

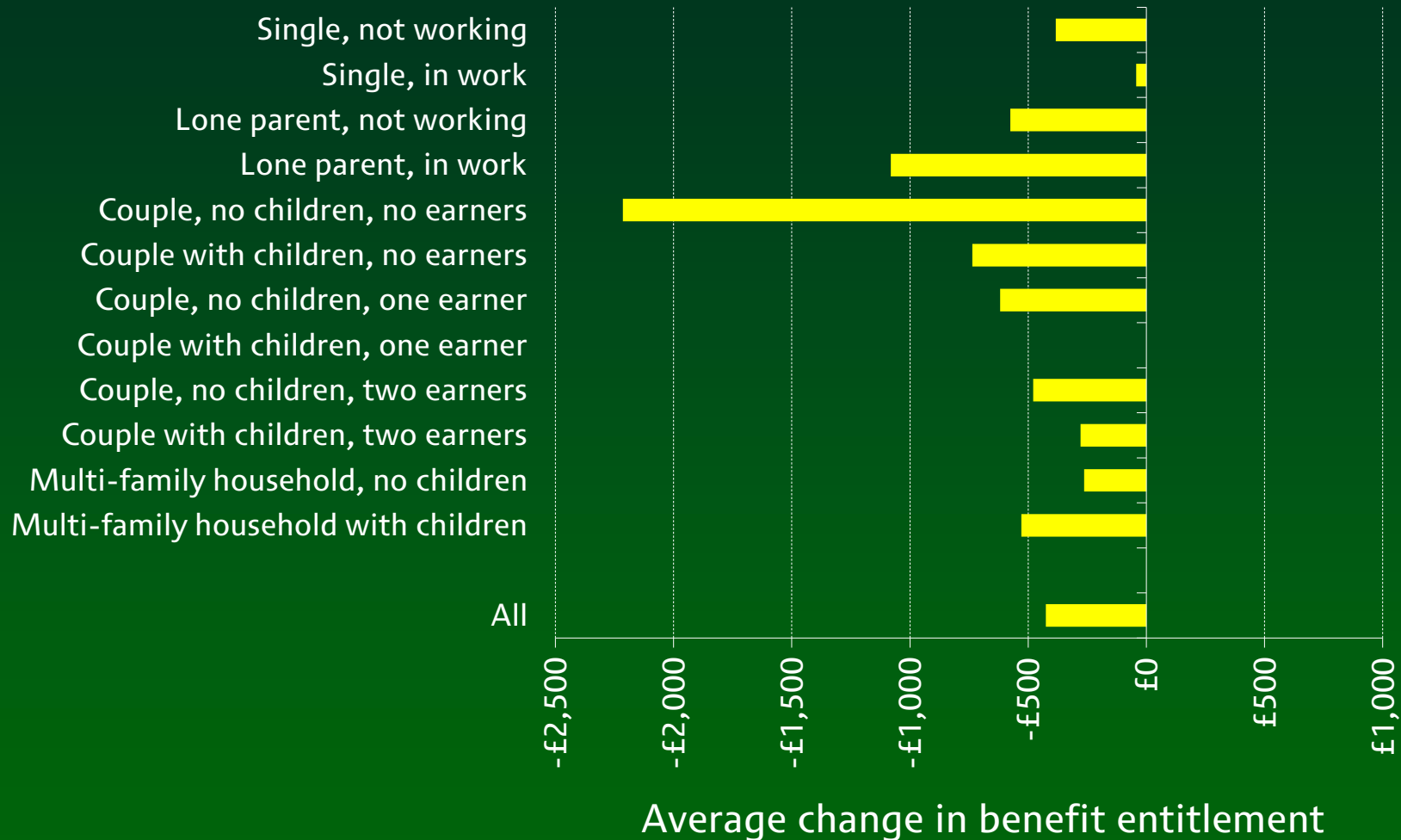
Impacts of long run UC system on households entitled to legacy benefits



Notes and sources: see Figure 10.1 of Green Budget document

Direct impacts on incomes (2)

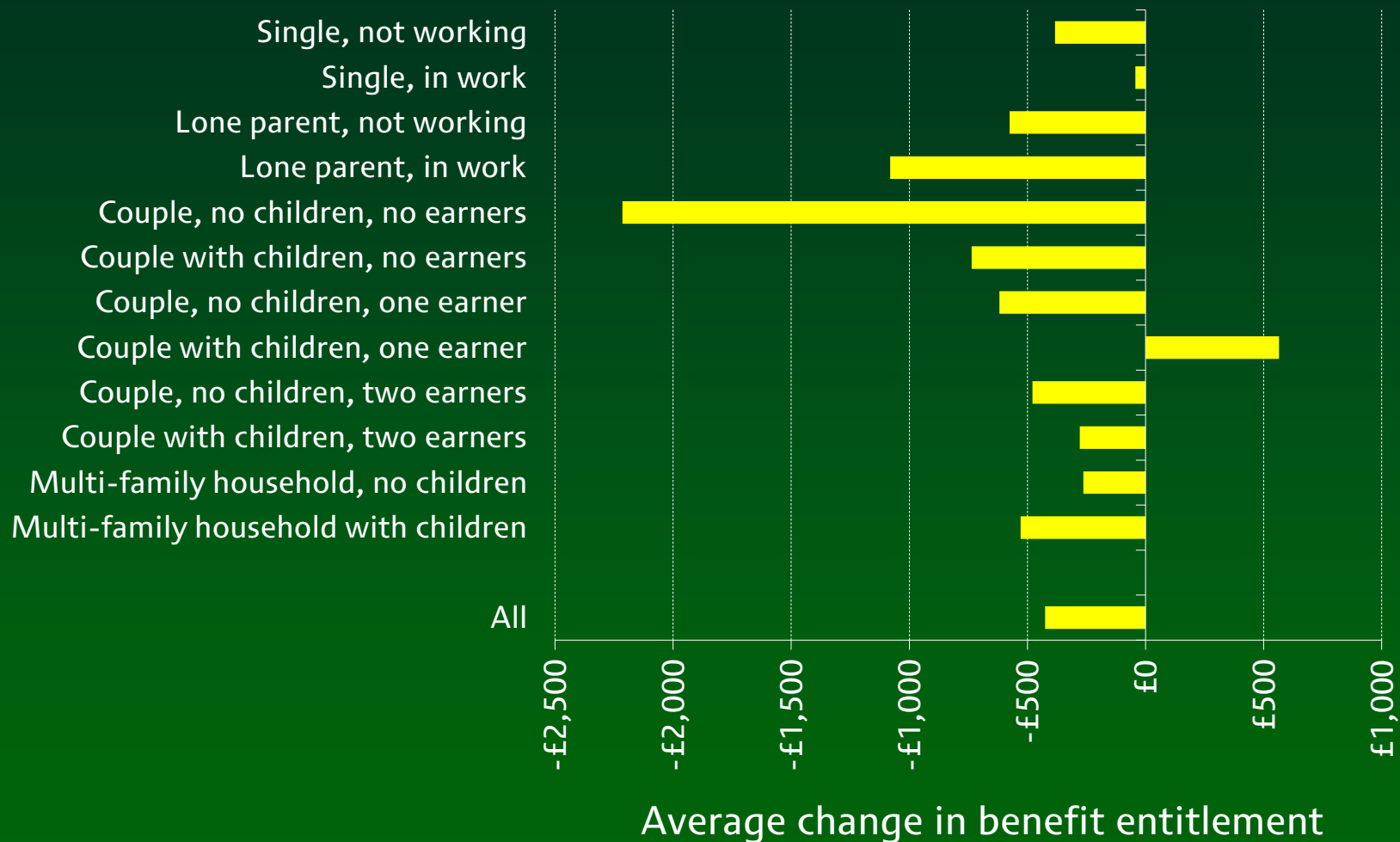
Impacts of long run UC system on households entitled to legacy benefits



Notes and sources: see Figure 10.7 of Green Budget document

Direct impacts on incomes (2)

Impacts of long run UC system on households entitled to legacy benefits



Notes and sources: see Figure 10.7 of Green Budget document

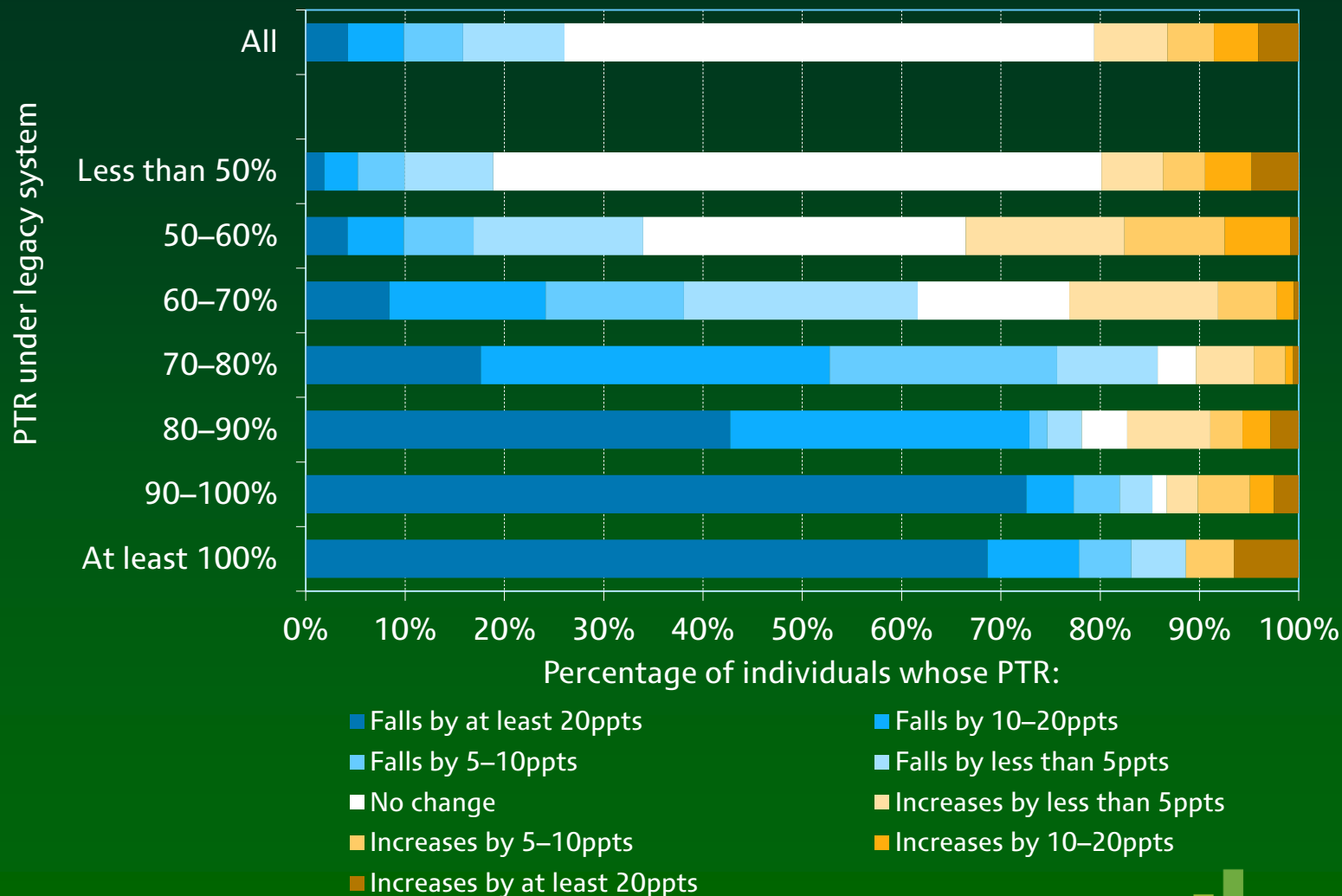


Does UC “make work pay”?

- We measure financial work incentives in two ways:
 1. Incentive to be in work at all
 - ‘participation tax rate’ (PTR)
 2. Incentive to earn a little more
 - ‘effective marginal tax rate’ (EMTR)
- Higher numbers mean weaker work incentives

UC focuses attention where incentives weakest

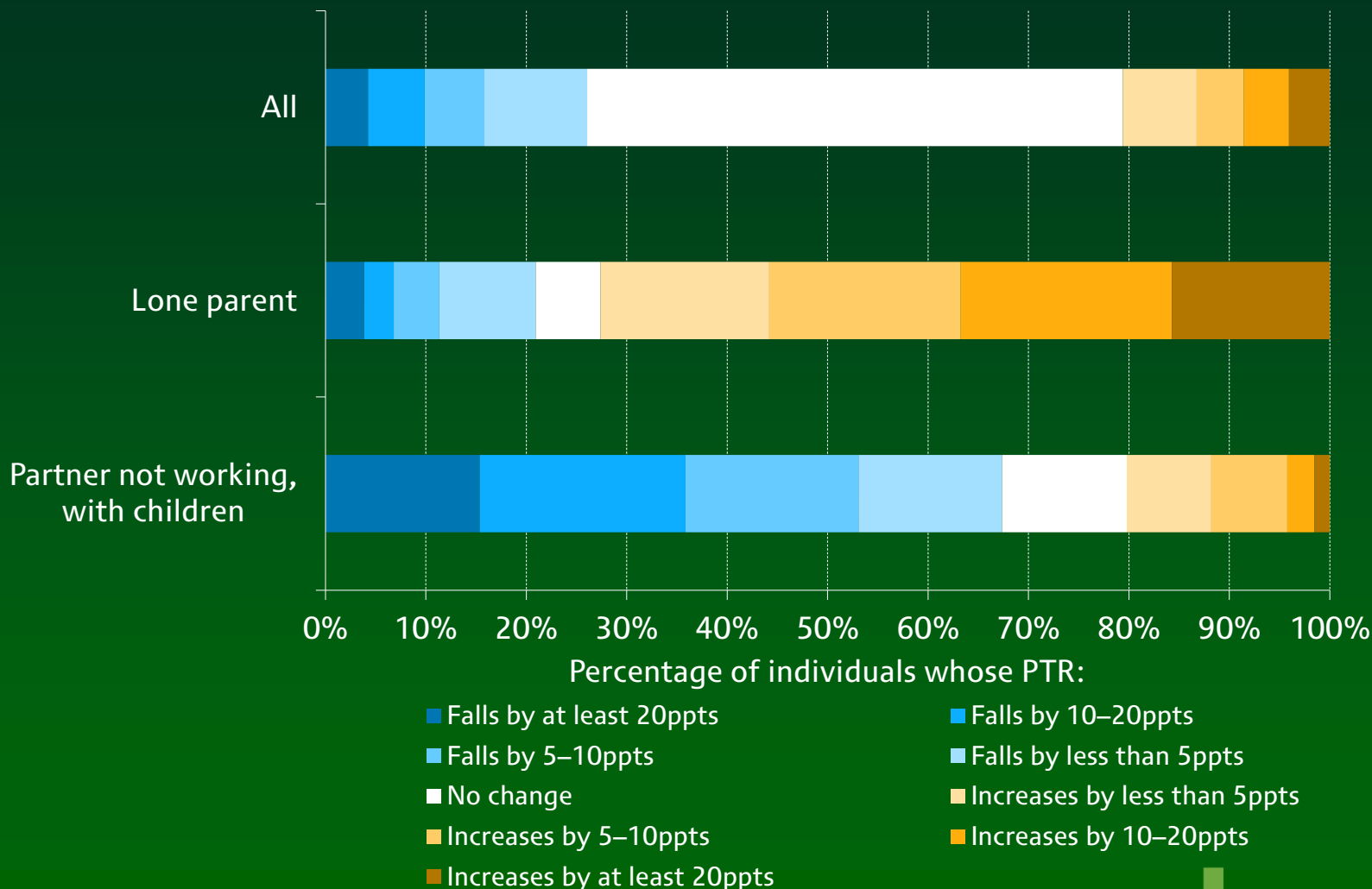
Effect of UC on PTR, by PTR faced under legacy system



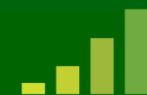
Notes and sources: see Figure 10.8 in Green Budget document



Lots of variation by demographic group

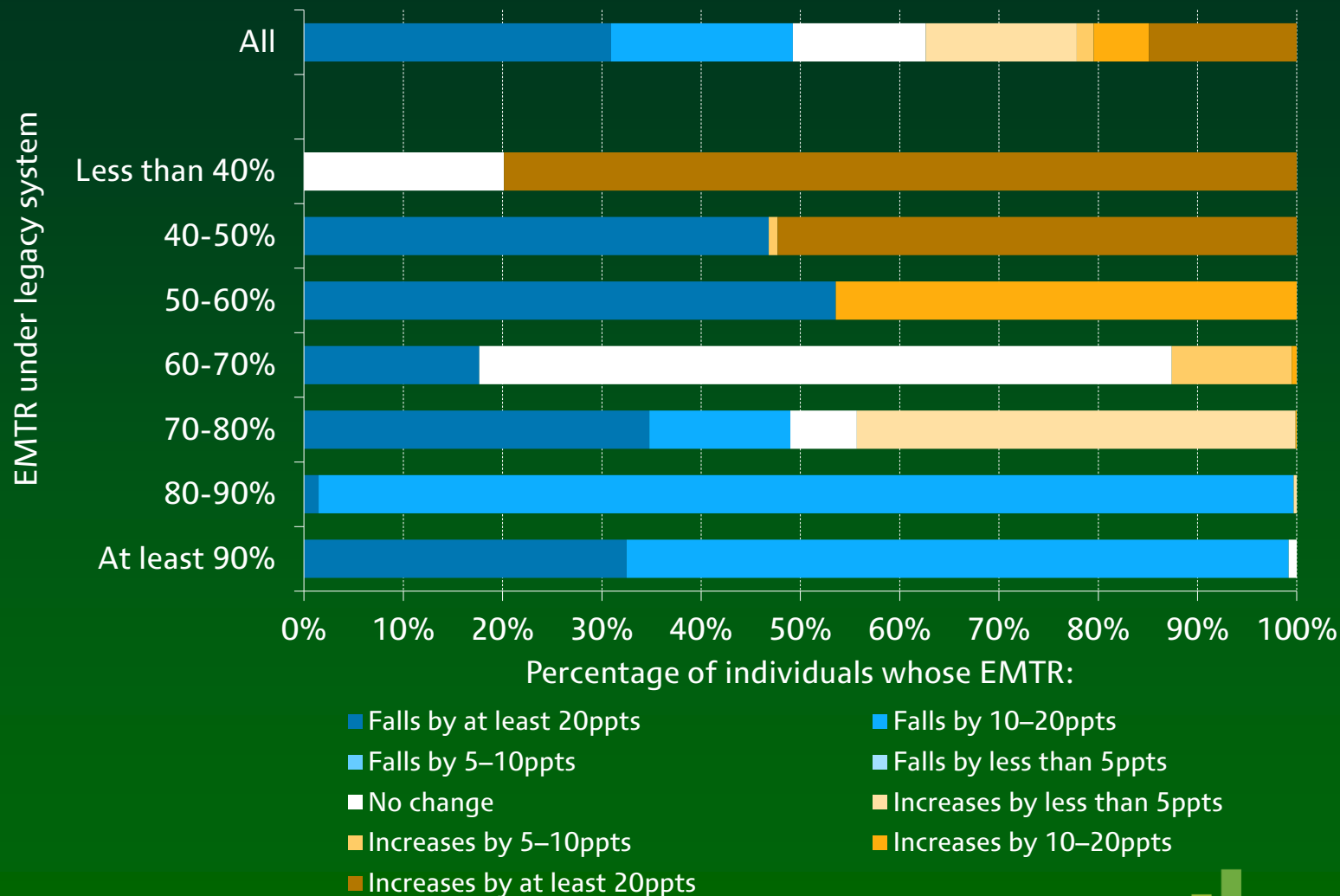


Notes and sources: see Figure 10.9 in Green Budget document

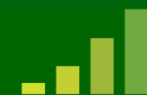


The incentive for those in work to earn more

Effect of UC on EMTR among workers entitled to legacy benefits, by EMTR faced under legacy system



Notes and sources: see Figure 10.12 in Green Budget document



Conclusions

- UC will be less generous than current system (and original plan)
 - But many winners as well as losers
- Impacts on financial work incentives are complex and have also changed due to revised plans
 - Though perhaps the most welcome effect remains: getting rid of most severe disincentives caused by current system
- Non-financial changes could also turn out to very important ...
- ...while administrative challenge of implementation may carry the greater risks to the program