

Universal Credit & incentives to progress

What works for work incentives: moving off benefits, MiSoC

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November 2017

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Overview



- Context
- Financial incentives:
 - Moving into work
 - Progressing in work
- Making UC fit for purpose



CONTEXT

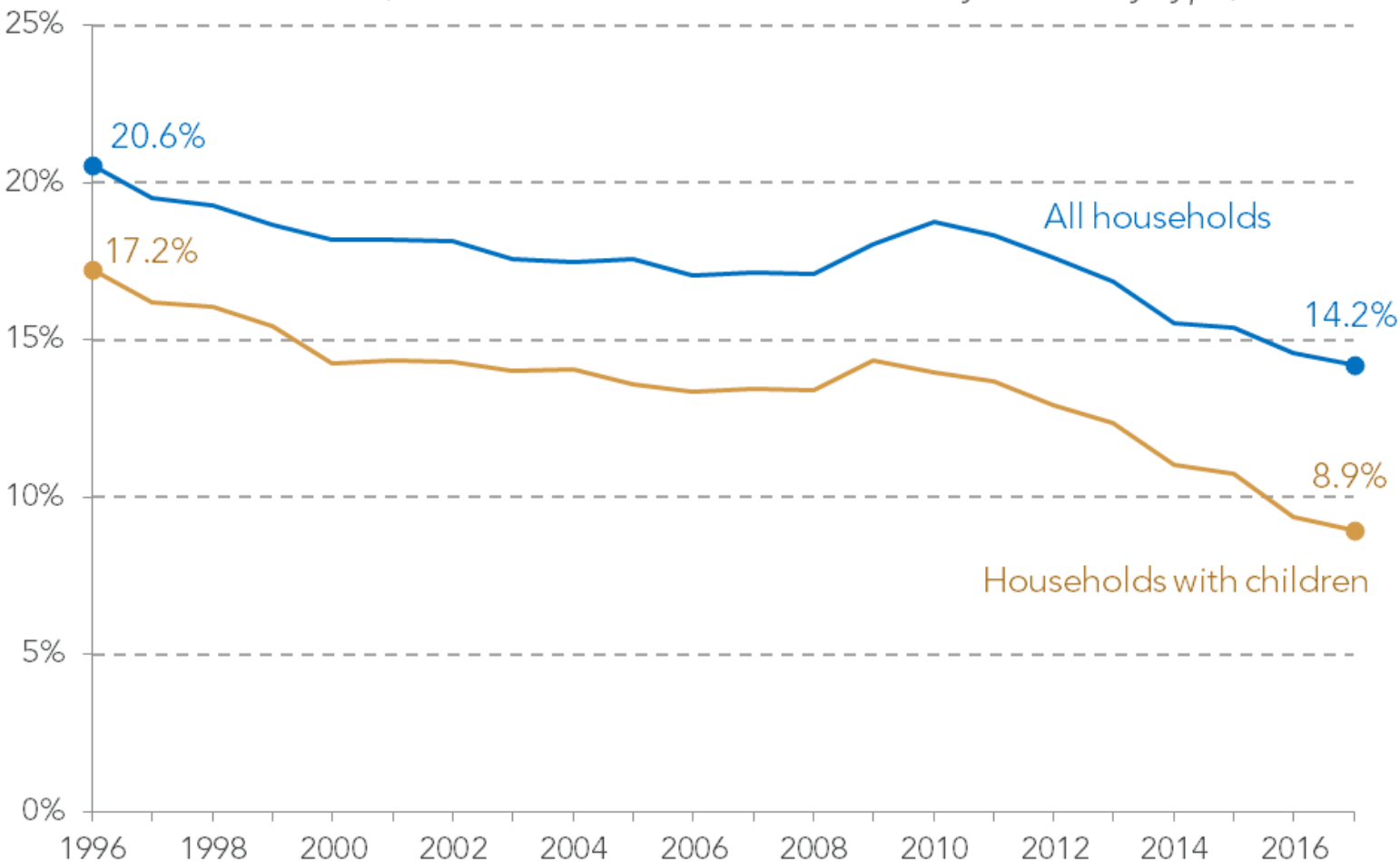


Universal Credit could improve on current system

- Simplify the system by combining six benefits into one
- Strengthen incentives to work and progress:
 - Removing fear of losing out on entitlement when entering work
 - Greater financial return from entering and progressing in work
- Support living standards of low and middle income households

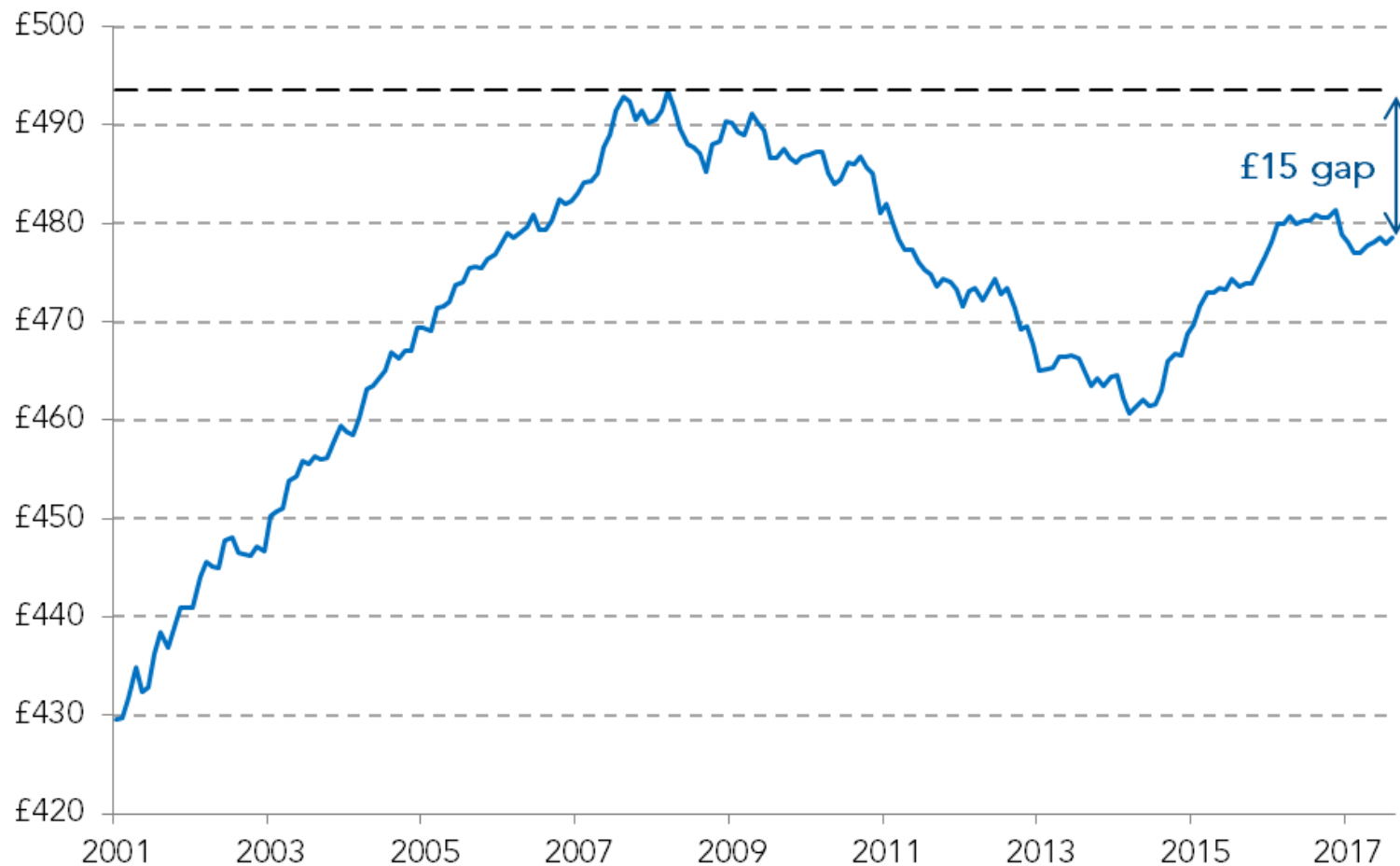
A changing labour market: Fall in workless households

Workless households (share of households with 16 to 64 year old by type)



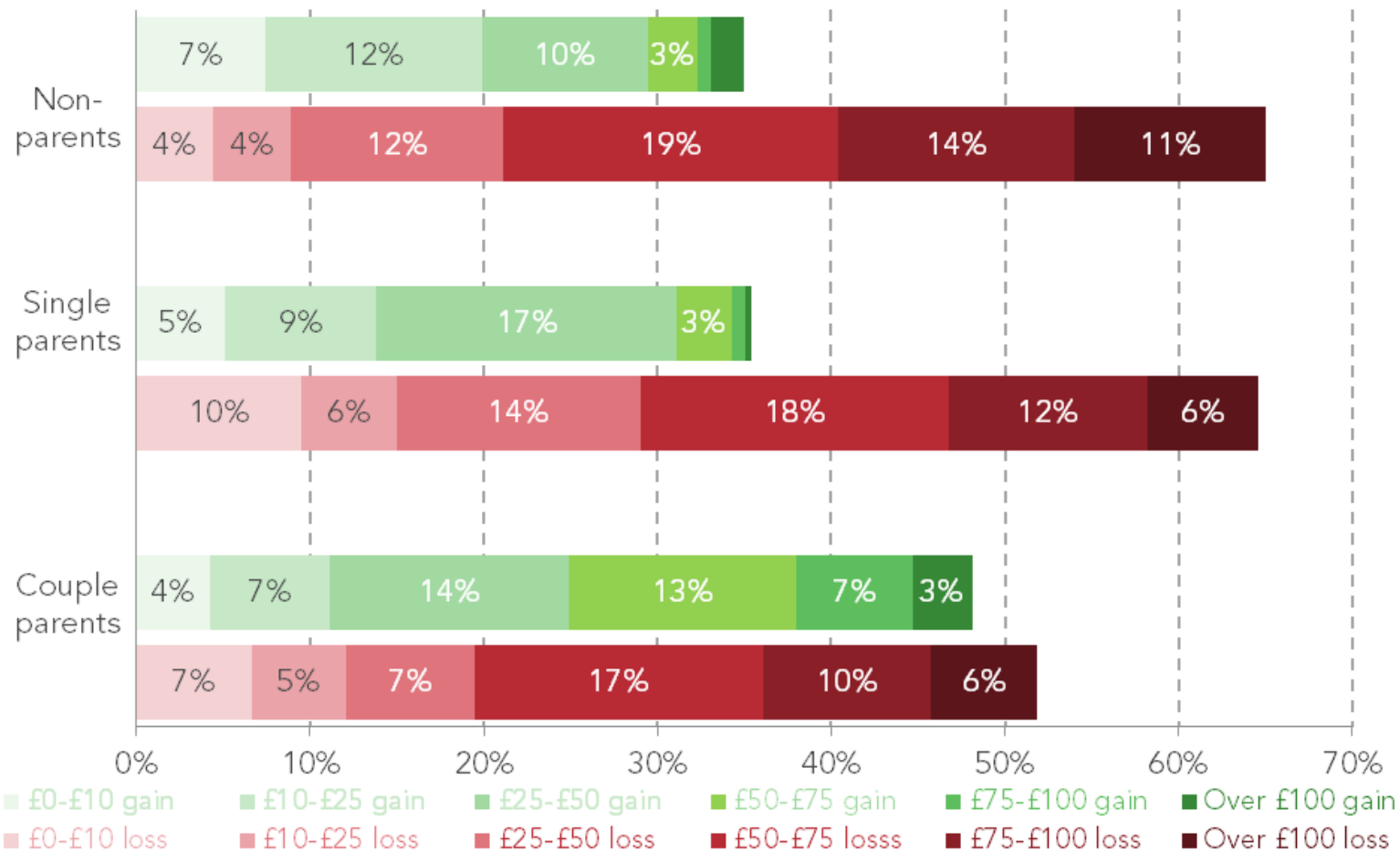
A changing labour market: Poor pay performance

Real average weekly earnings (regular pay adjusted for CPIH inflation)



A change in generosity of UC: More working families will lose than gain

Distribution of gains and losses for working families as a share of family type

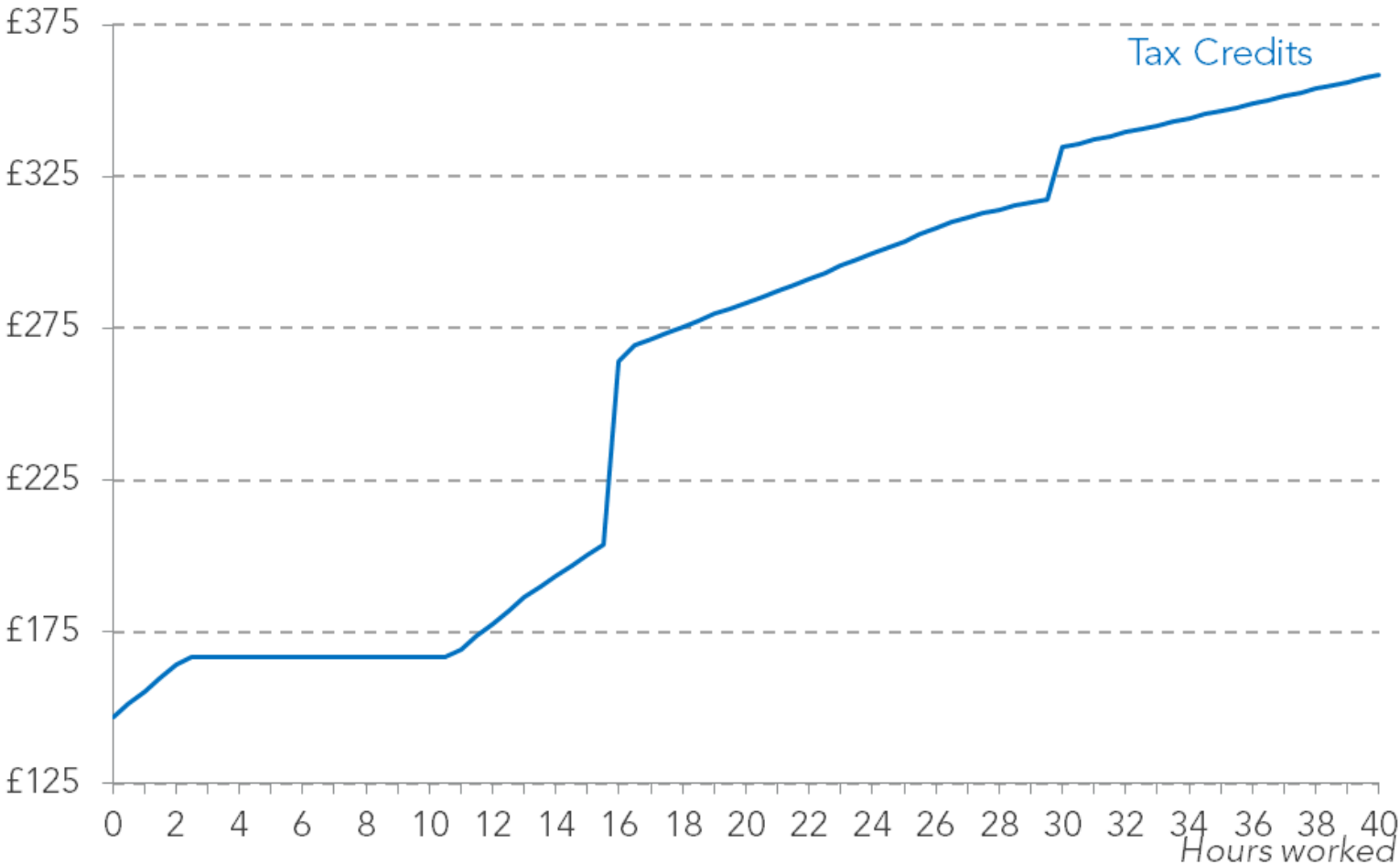




FINANCIAL INCENTIVES

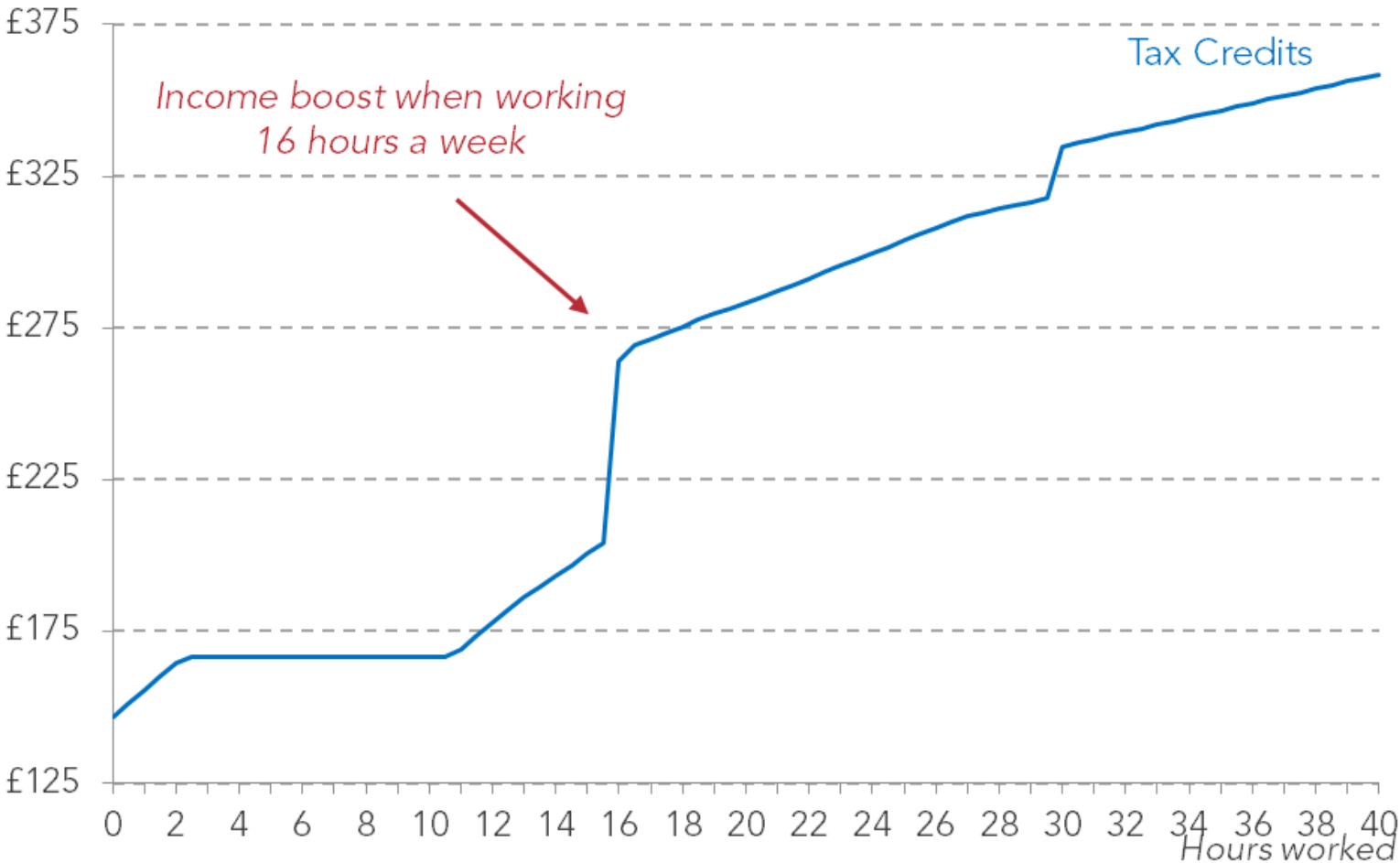
Impact on financial incentives to enter work: single parents

Net income by hours of work: Single parent, homeowner, one child (£ per week)



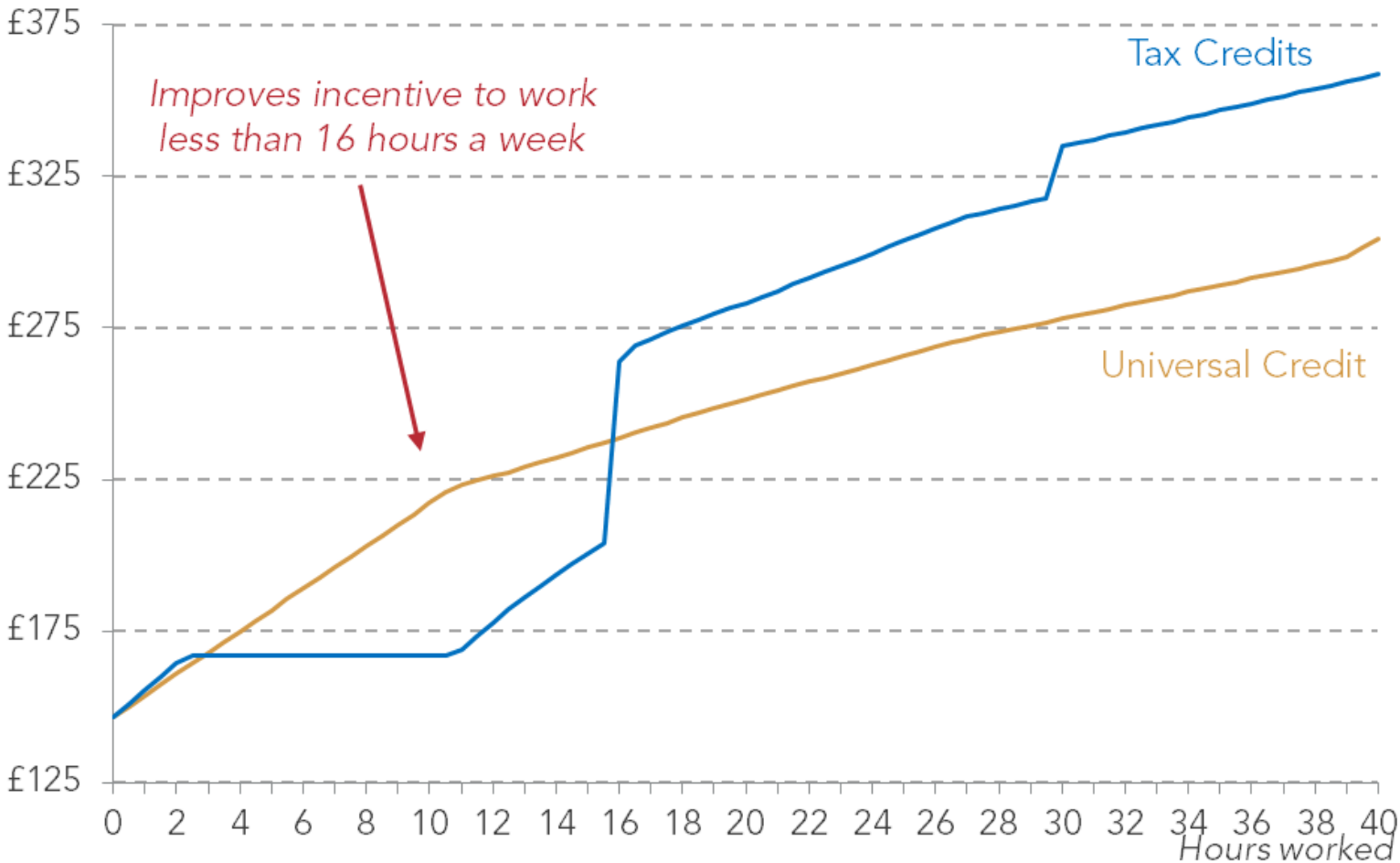
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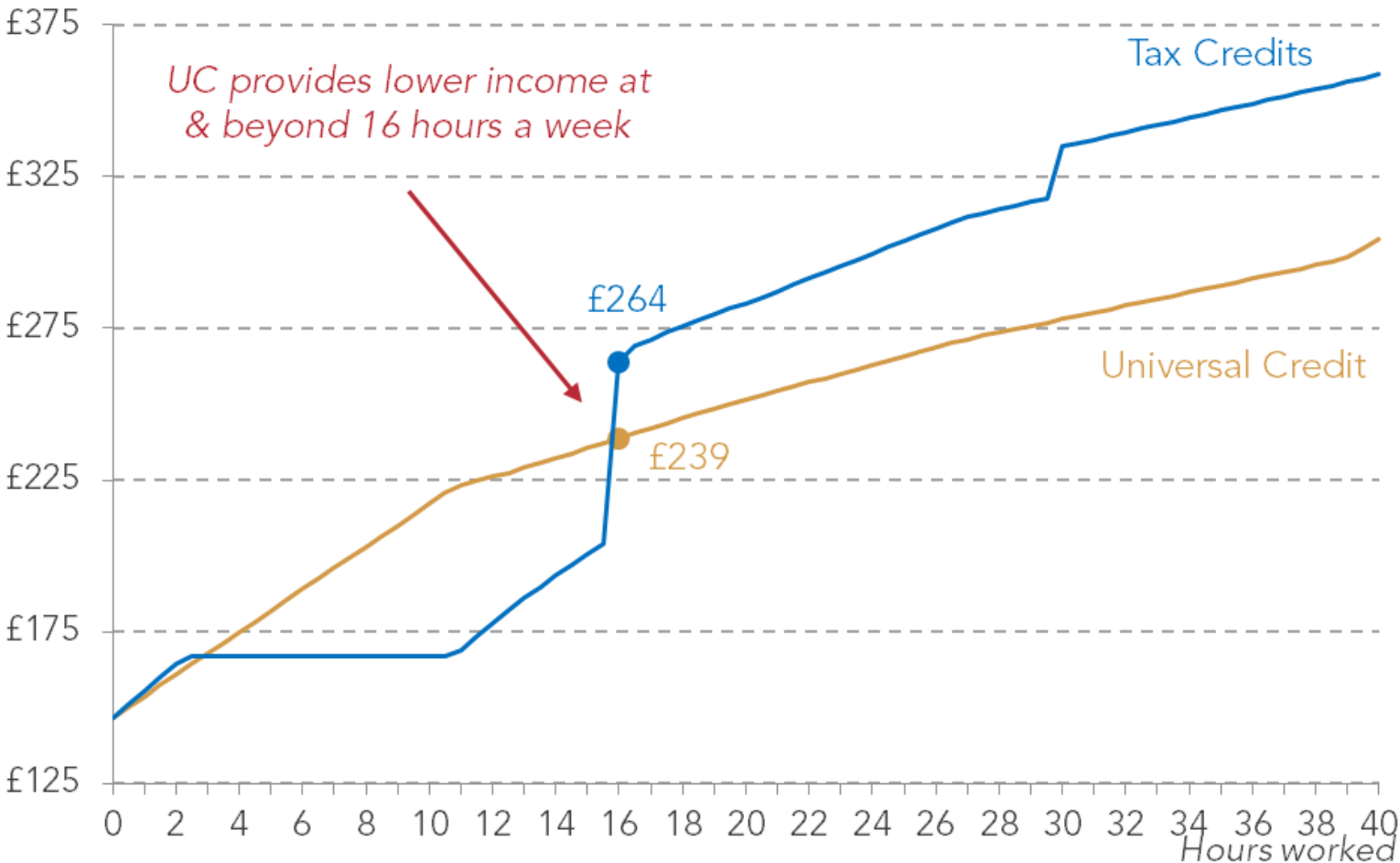
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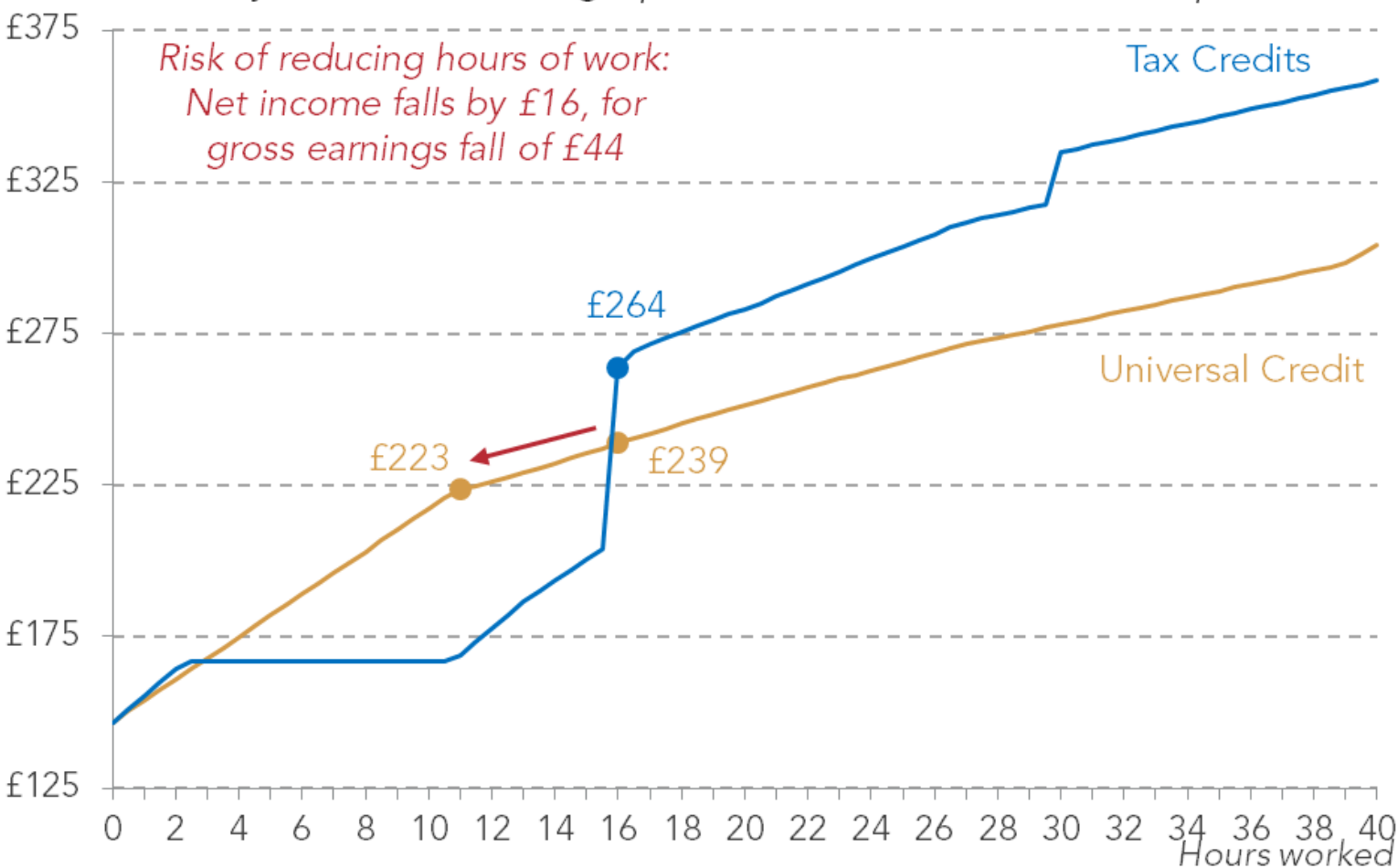
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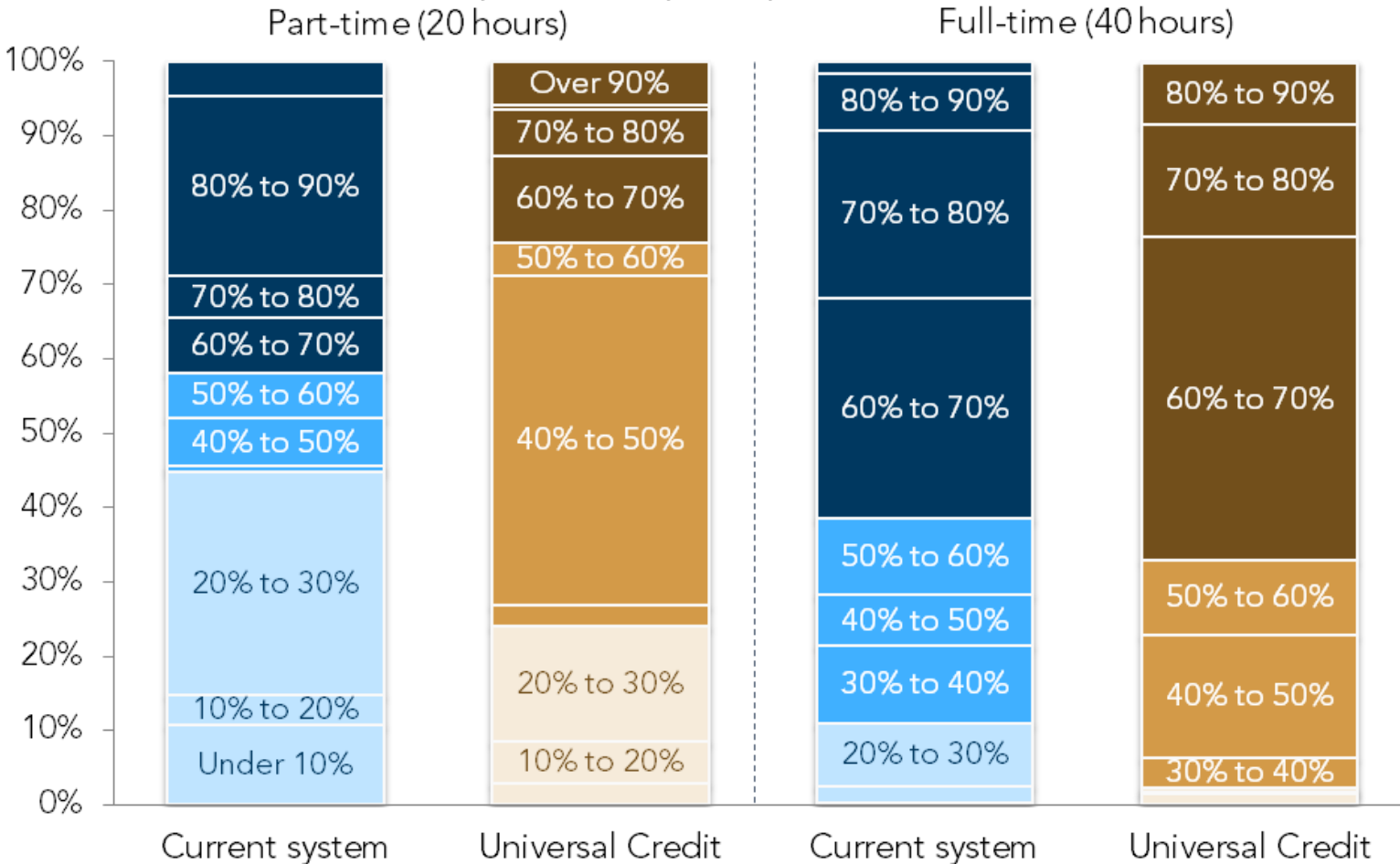
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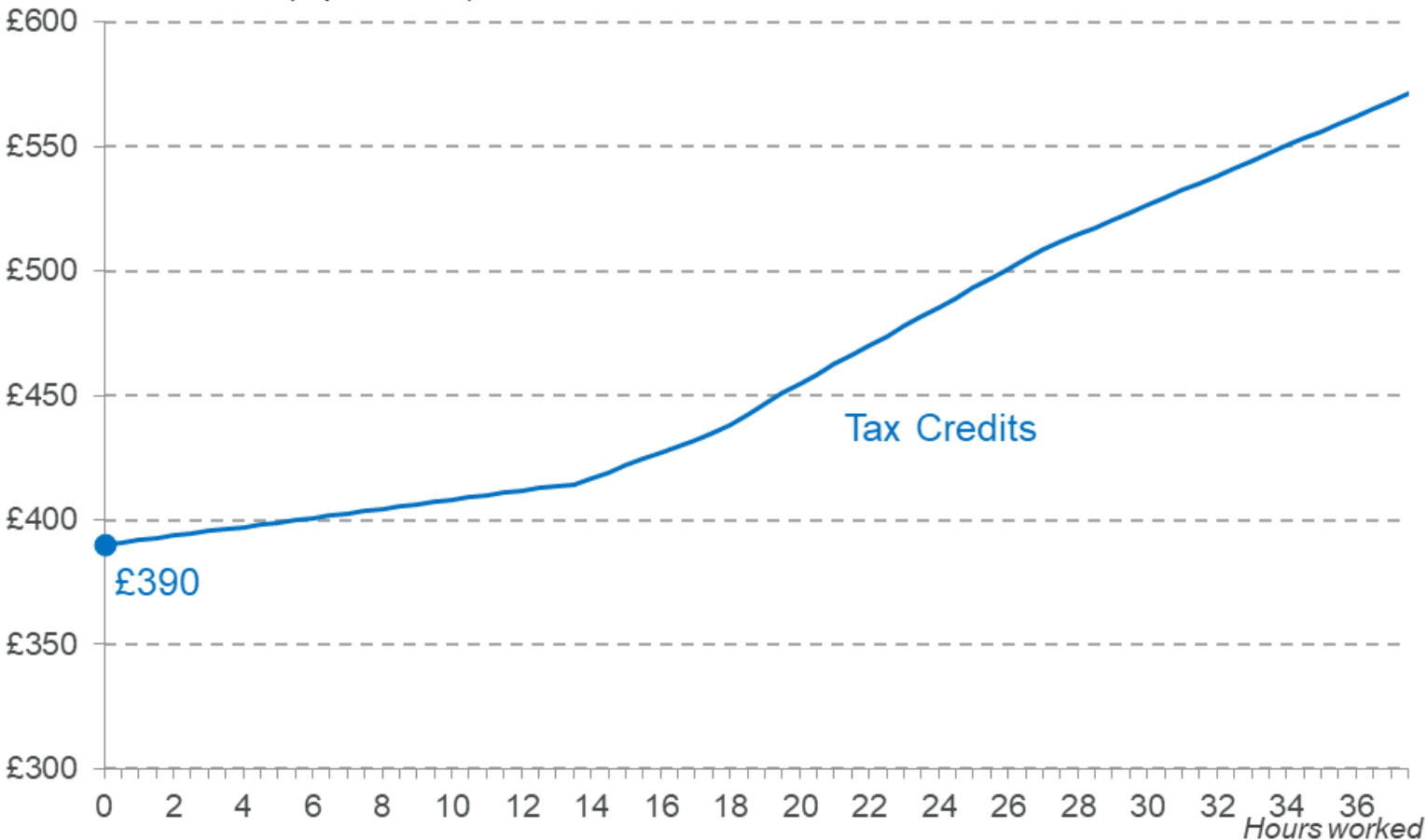
Share of out-of-work single parents by participation tax rate



Source: RF analysis using jppr tax-benefit model

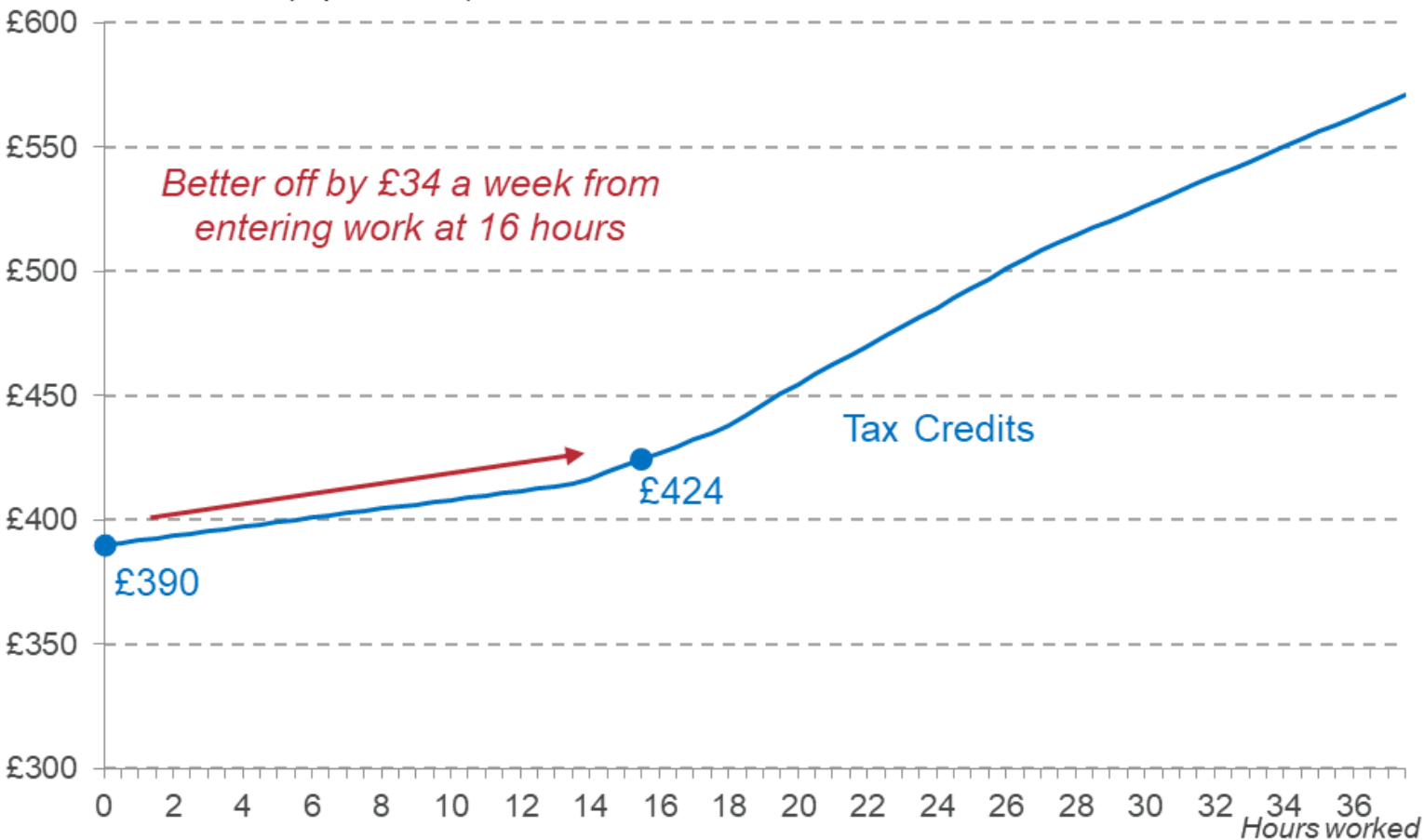
Impact on financial incentives to enter work: second earners – renter

Net income by hours of work: Second earner, spouse works full-time, both earn NLW, renter, one child (£ per week)



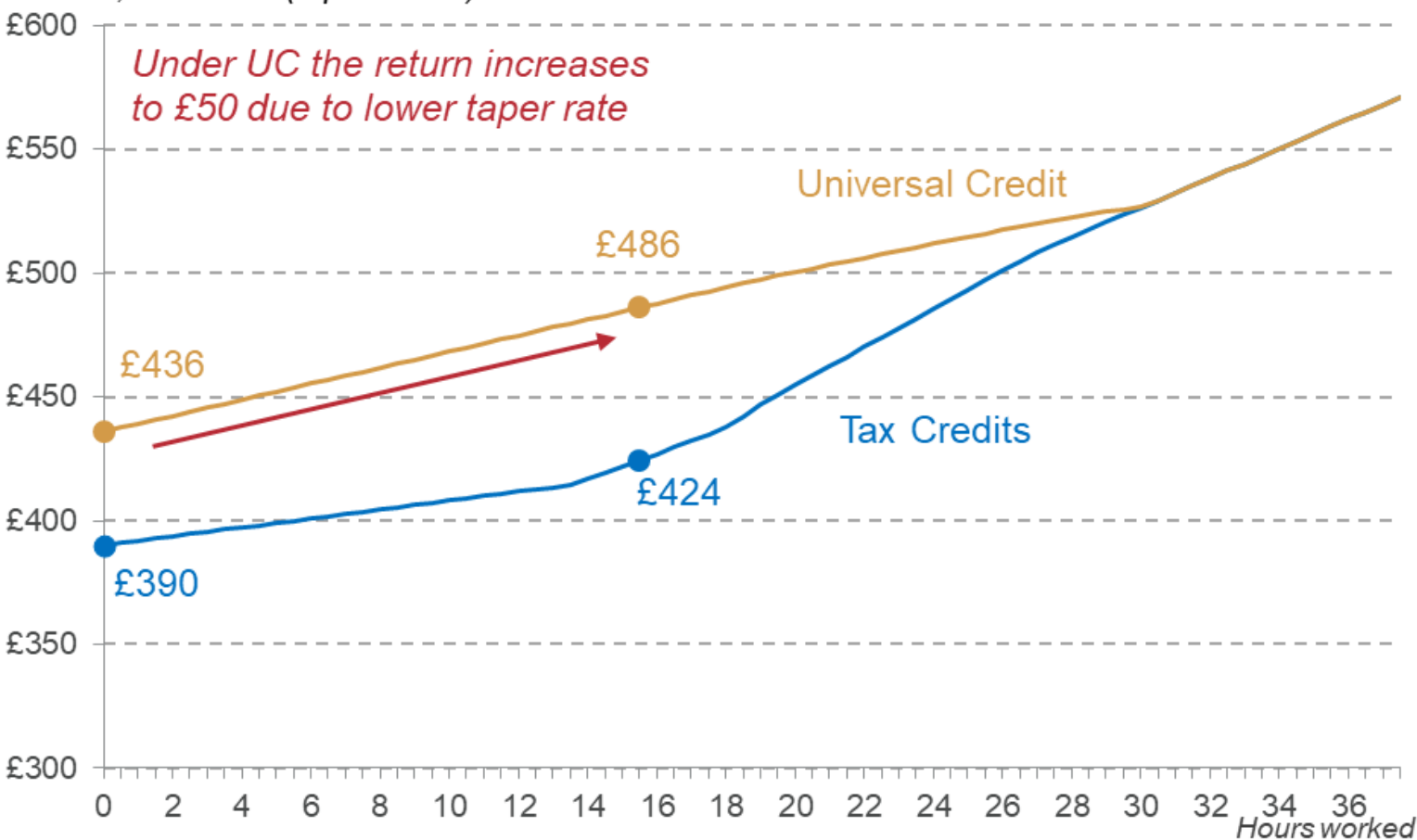
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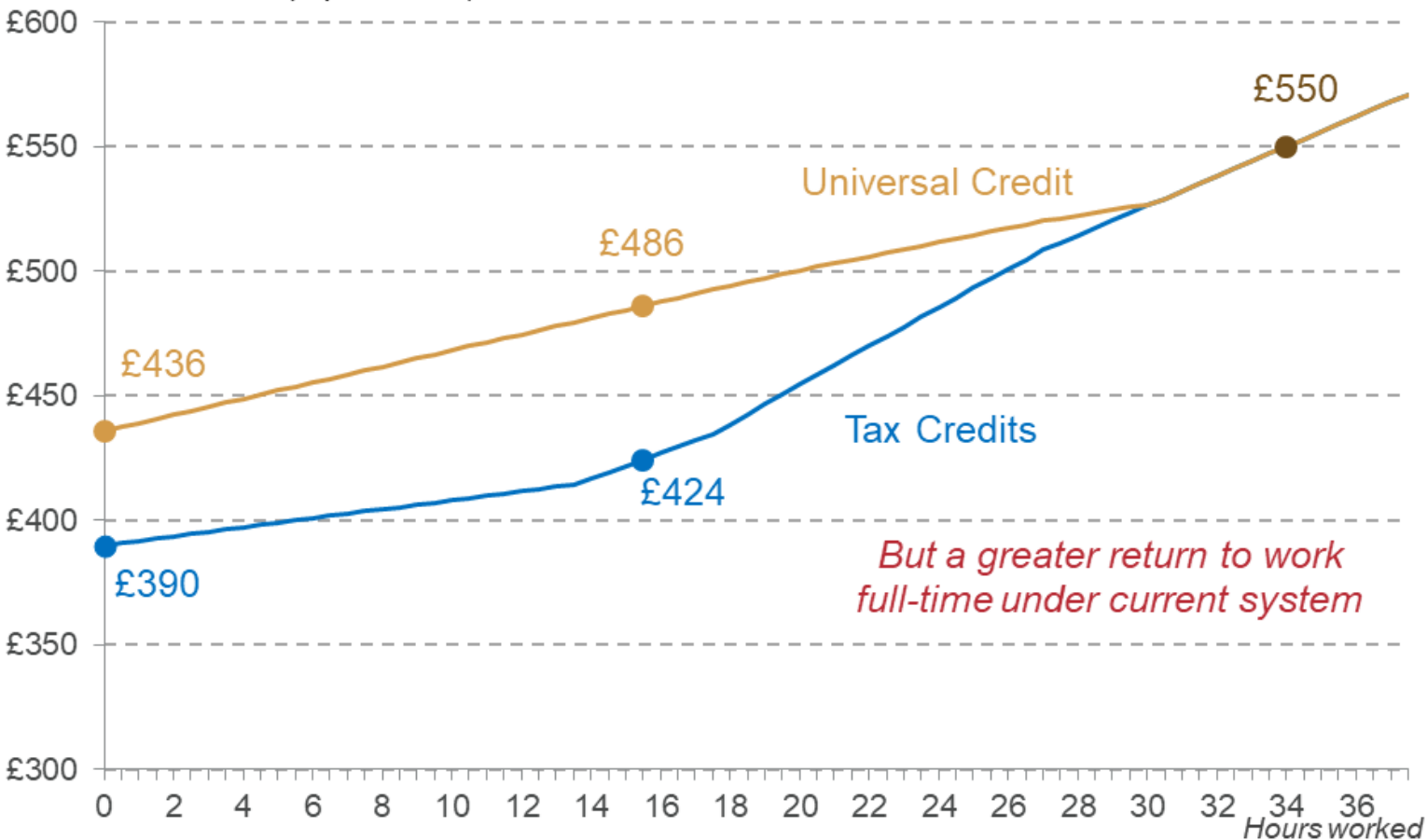
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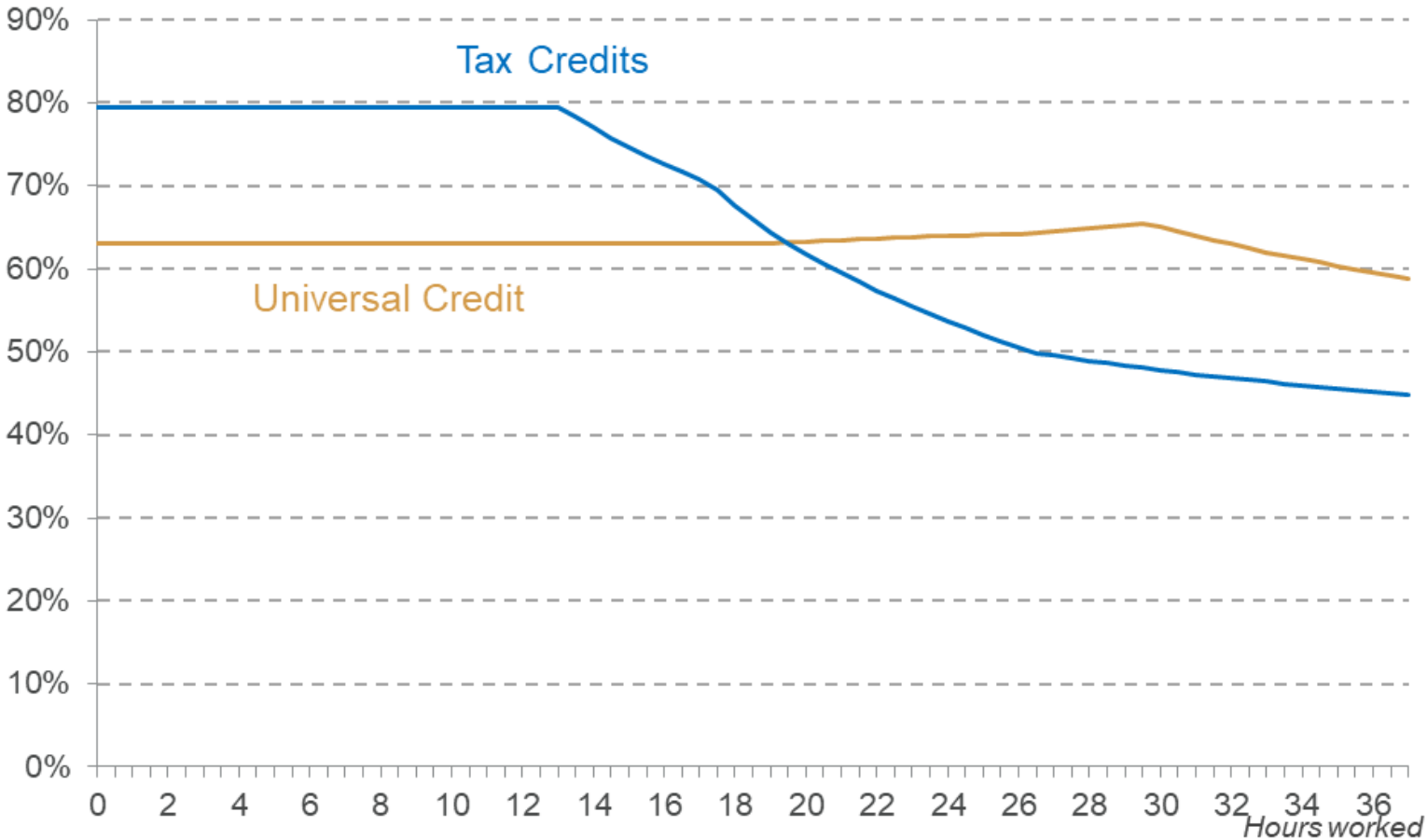
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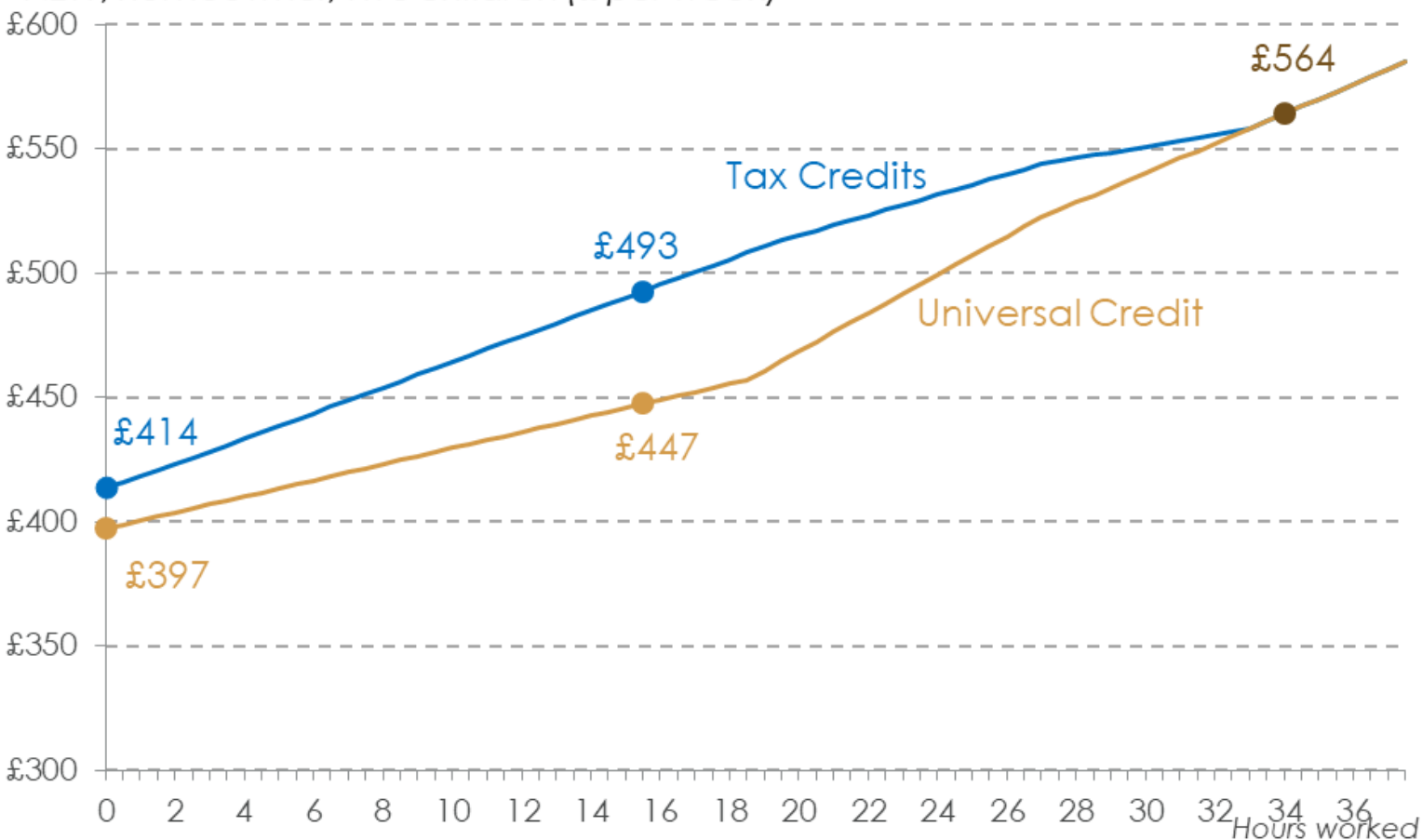
Participation Tax Rate: Second earner, spouse works full-time, both earn NLW, renter, one child



Source: RF analysis using RF microsimulation model

Impact on financial incentives to enter work: second earners – homeowner

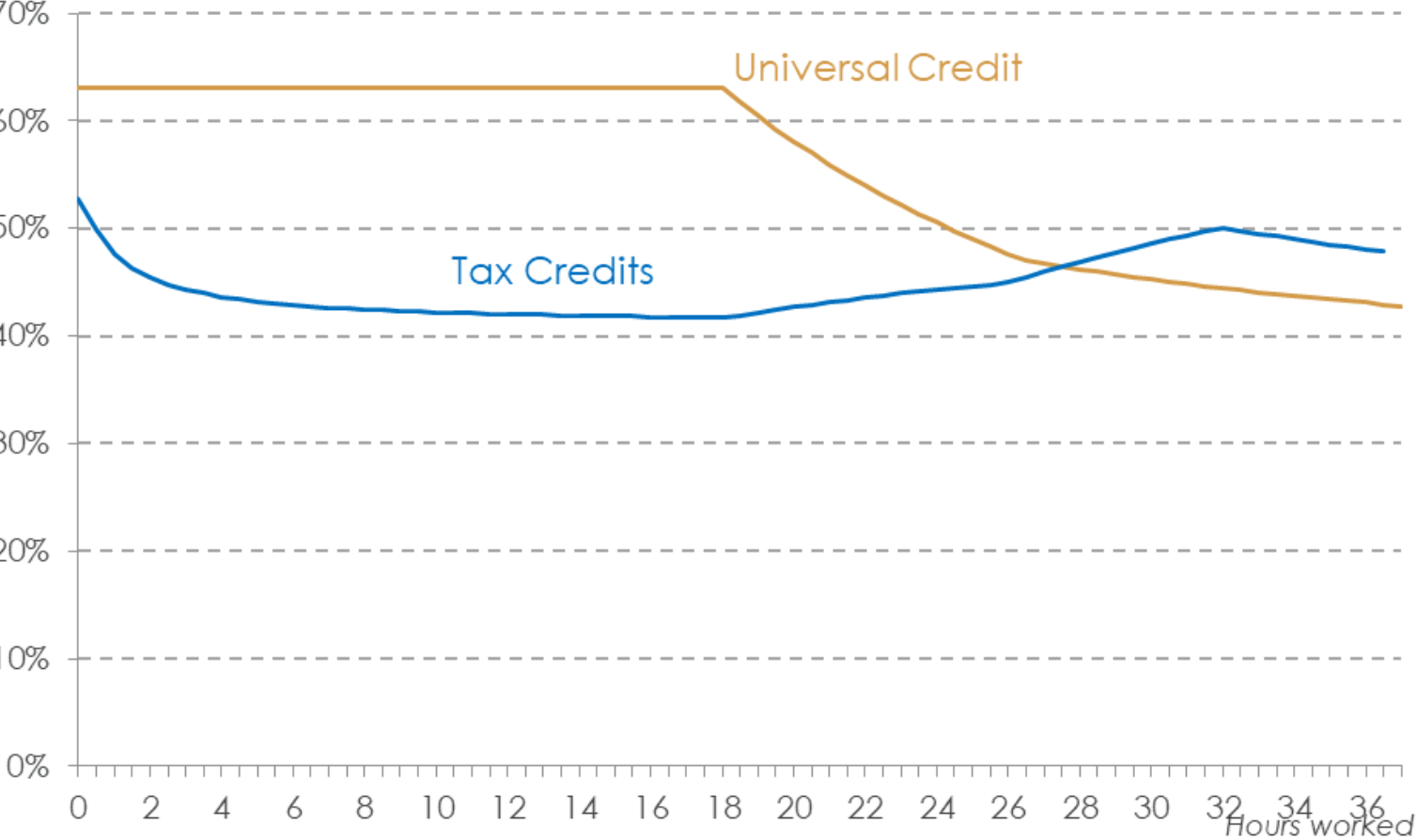
Net income by hours of work: Second earner, spouse works full-time, both earn NLW, homeowner, two children (£ per week)





Impact on financial incentives to enter work: second earners – homeowner

Participation Tax Rate: Second earner, spouse works full-time, both earn NLW, homeowner, two children



Source: RF analysis using RF microsimulation model

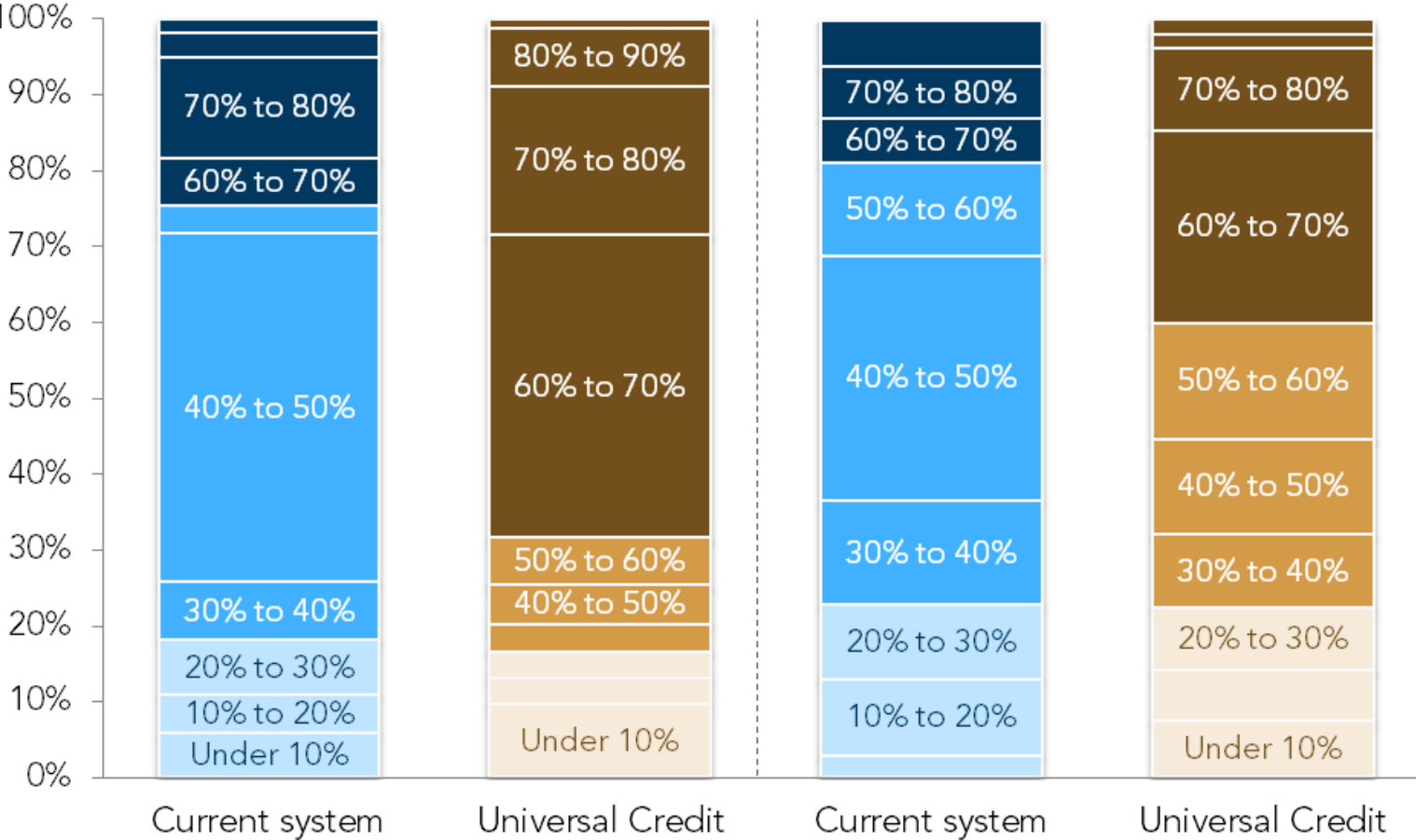


Impact on financial incentives to enter work: second earners

Share of out-of-work second earners by participation tax rate

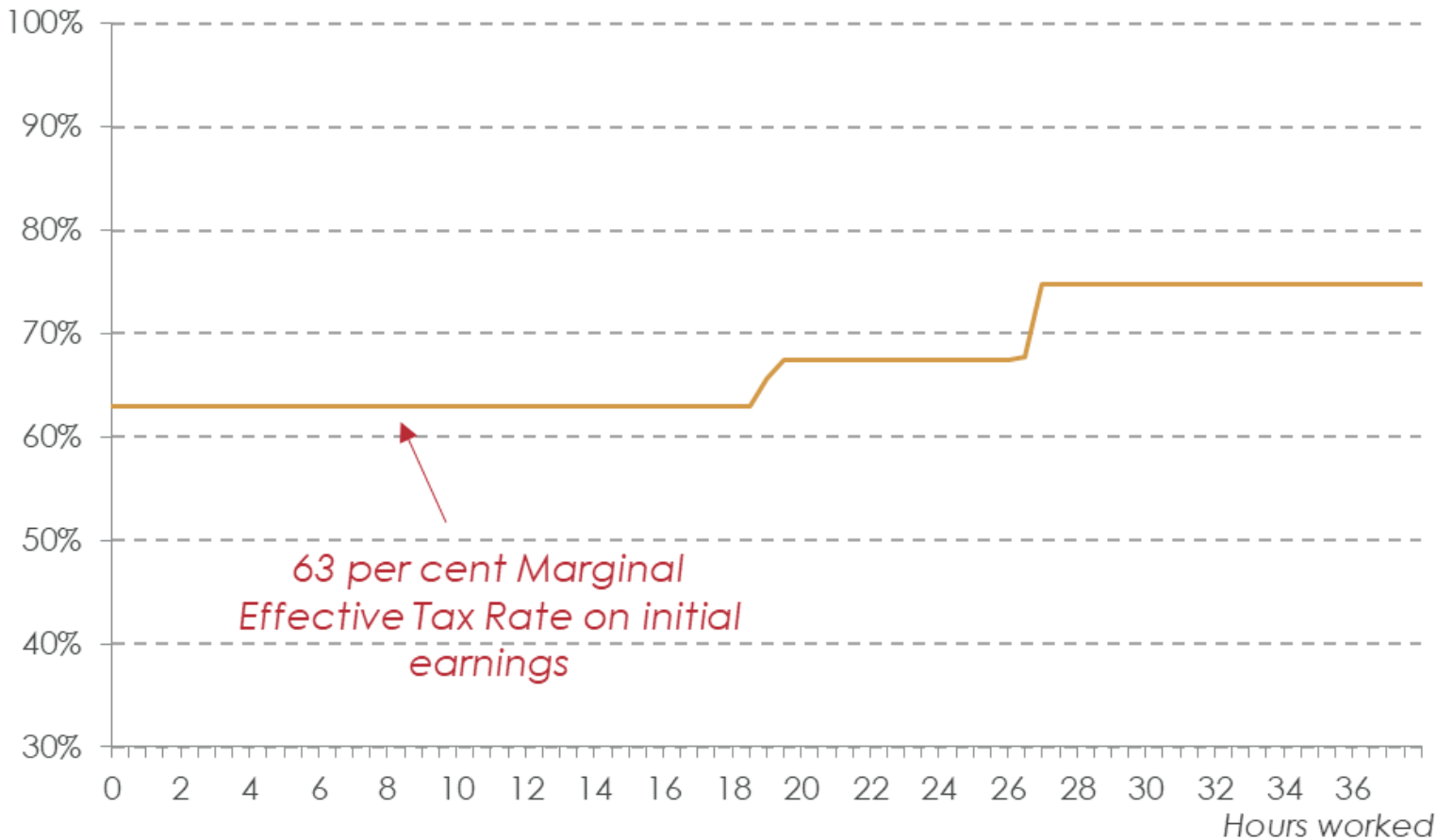
Part-time (20 hours)

Full-time (40 hours)



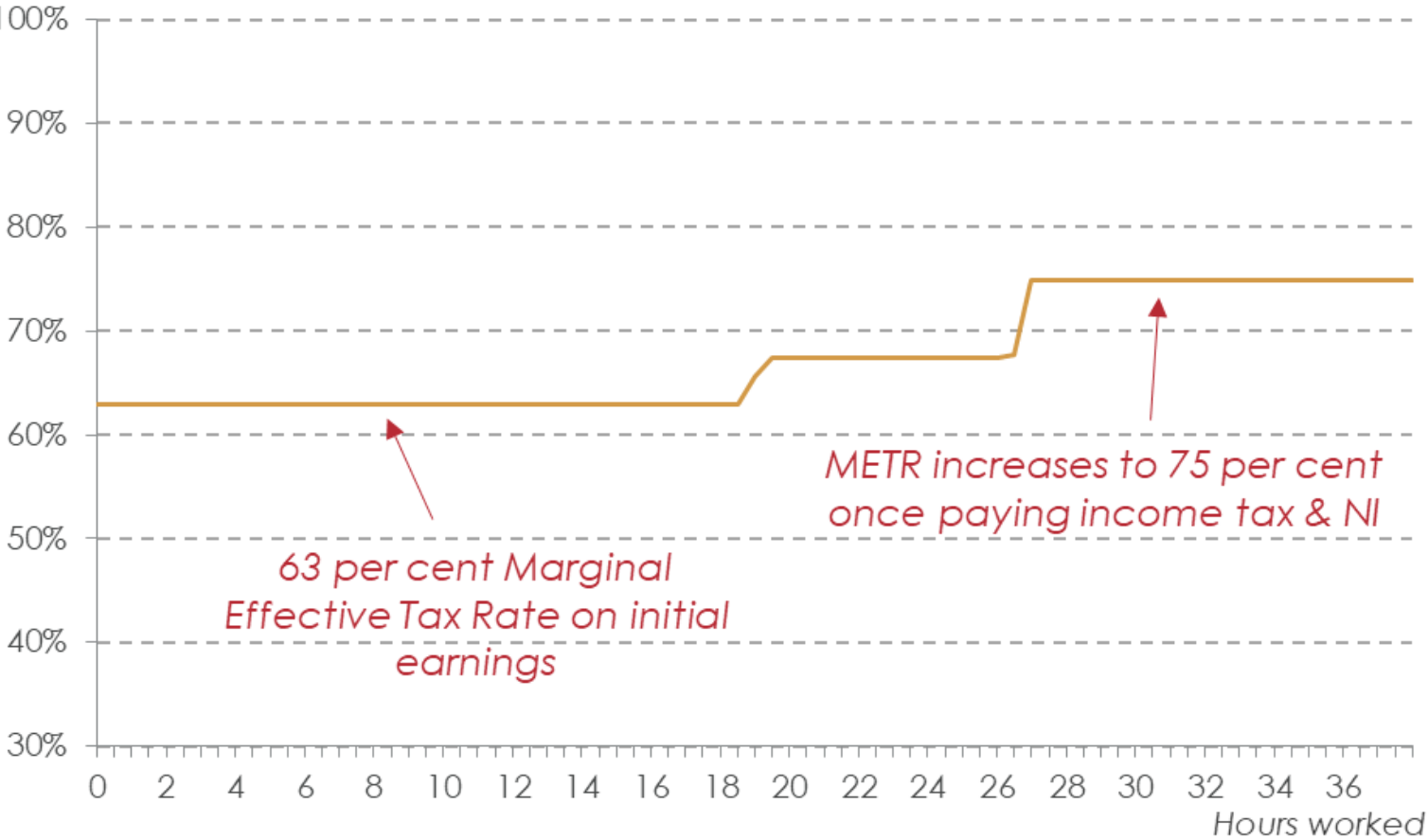
Progression incentives remain weak

Marginal effective tax rate: Second earner, in couple where partner works full-time, renting and with two children aged 1 and 4



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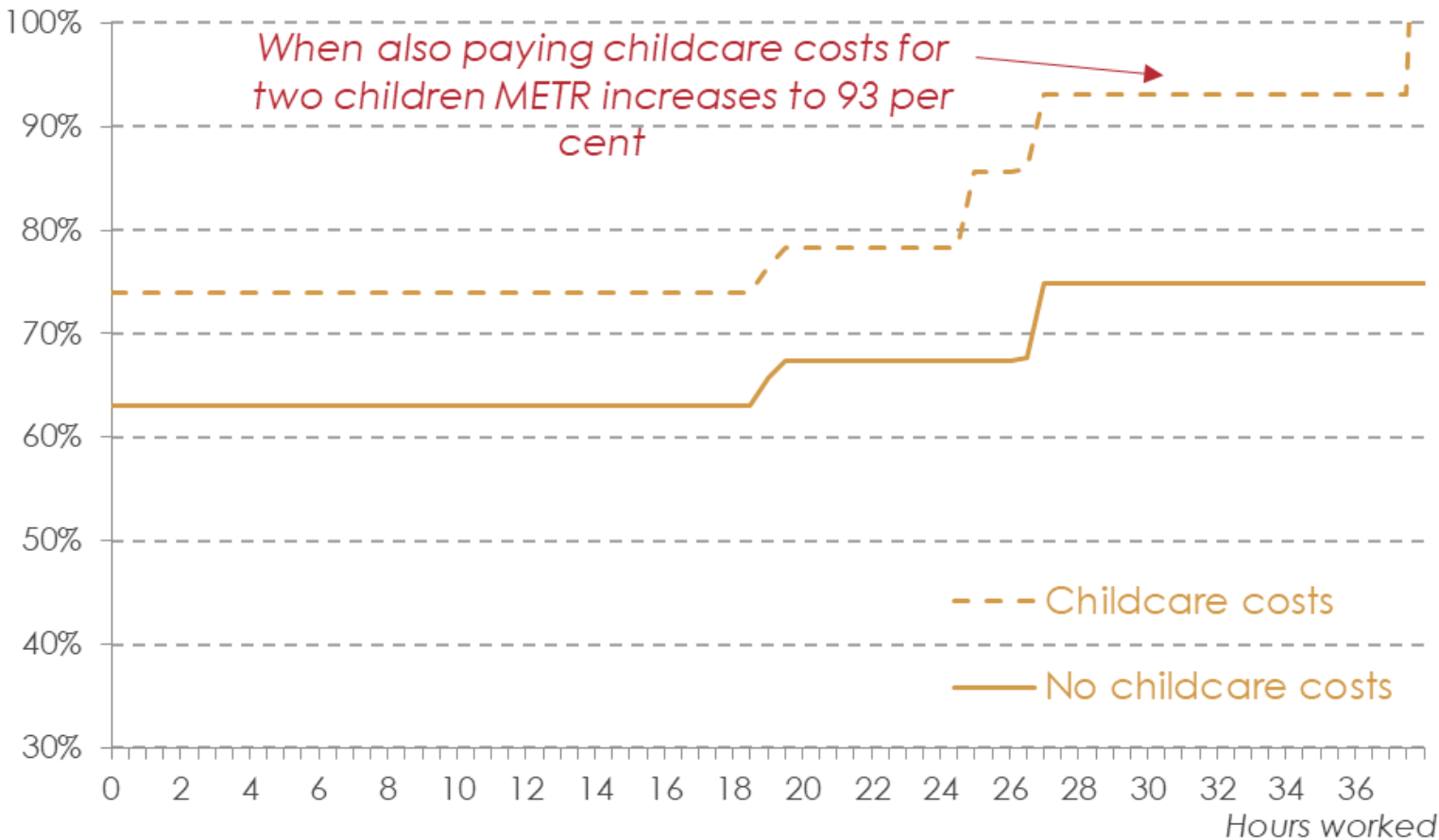
Marginal effective tax rate: Second earner, in couple where partner works full-time, renting and with two children aged 1 and 4



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Progression incentives remain weak: especially when paying for childcare

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In-work conditionality is an opportunity



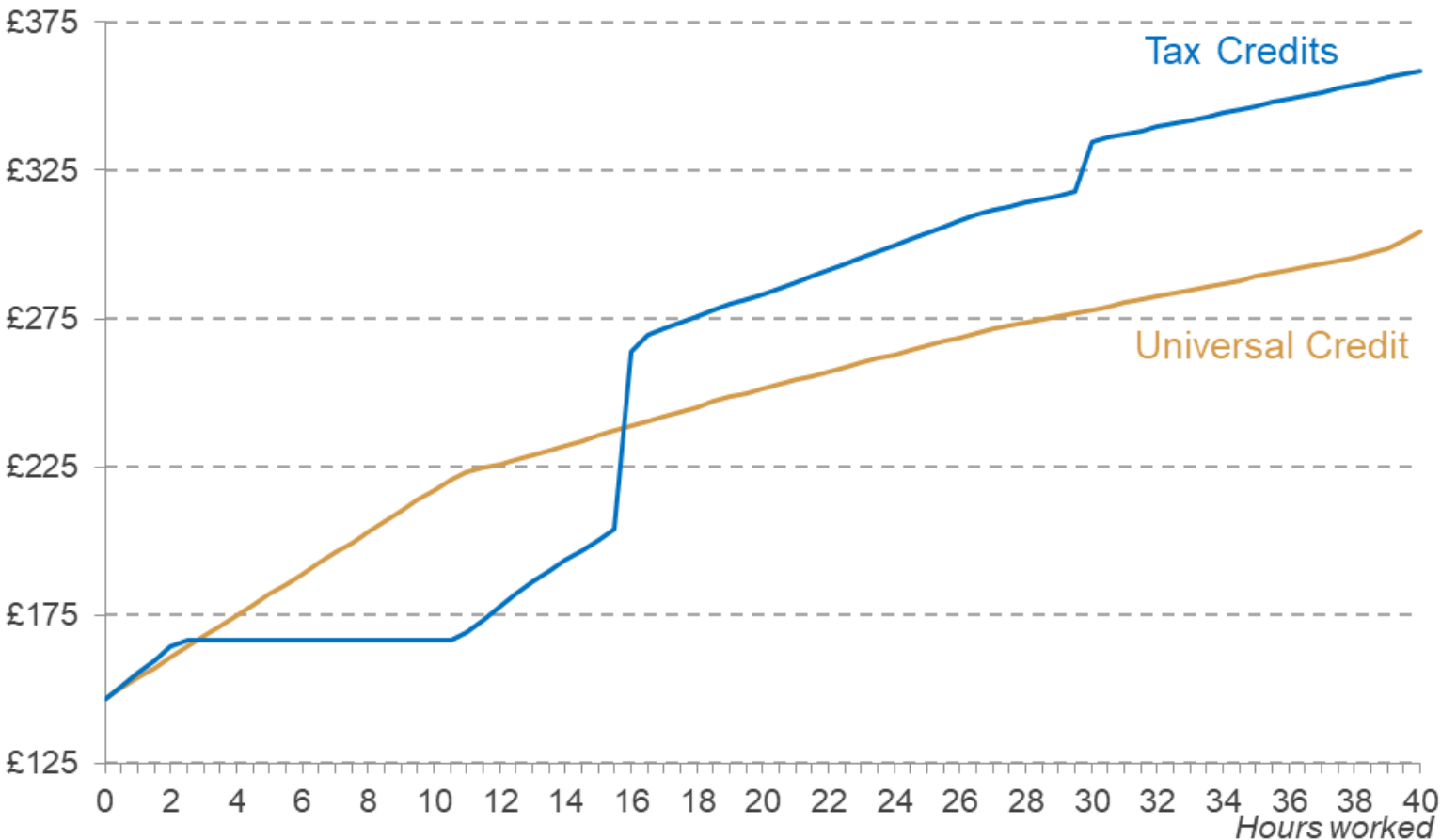


In-work conditionality is an opportunity but limited in scope

- Earn equivalent of 35 hours a week at wage floor (now up to £252 a week)
- Reduced hours for main carer of child age 3 to 13 to fit with school/childcare hours
- No in-work requirements for:
 - Main carer with youngest child under 3 (but 16 hrs expected if in work)
 - Full-time carer of severely disabled person
 - People with work-related activity limiting illness/disability
- Couples share their combined earnings requirements

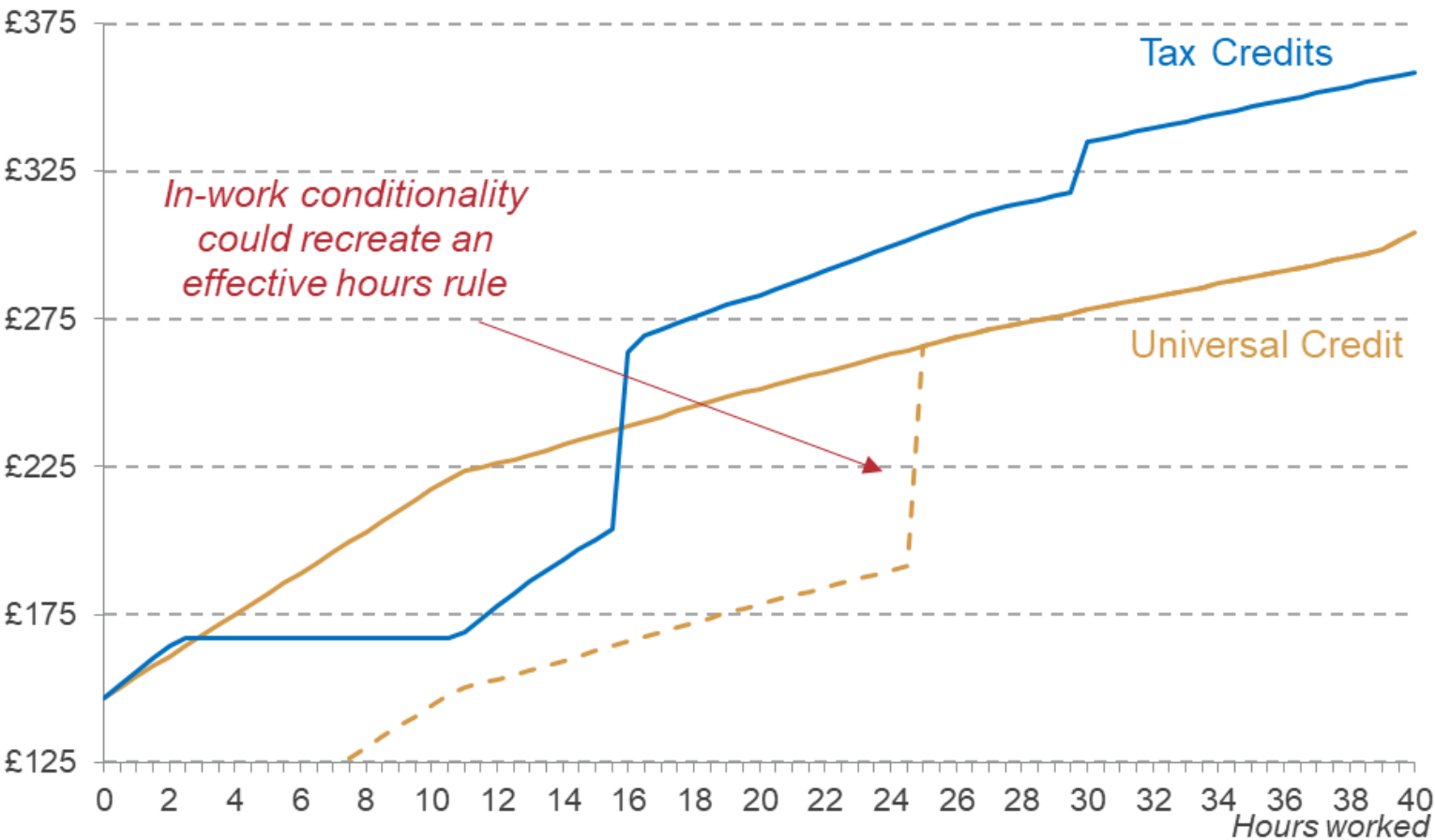
In-work conditionality is an opportunity but limited in scope

Net income with increasing hours of work: Single parent, homeowner, one child
£ per week



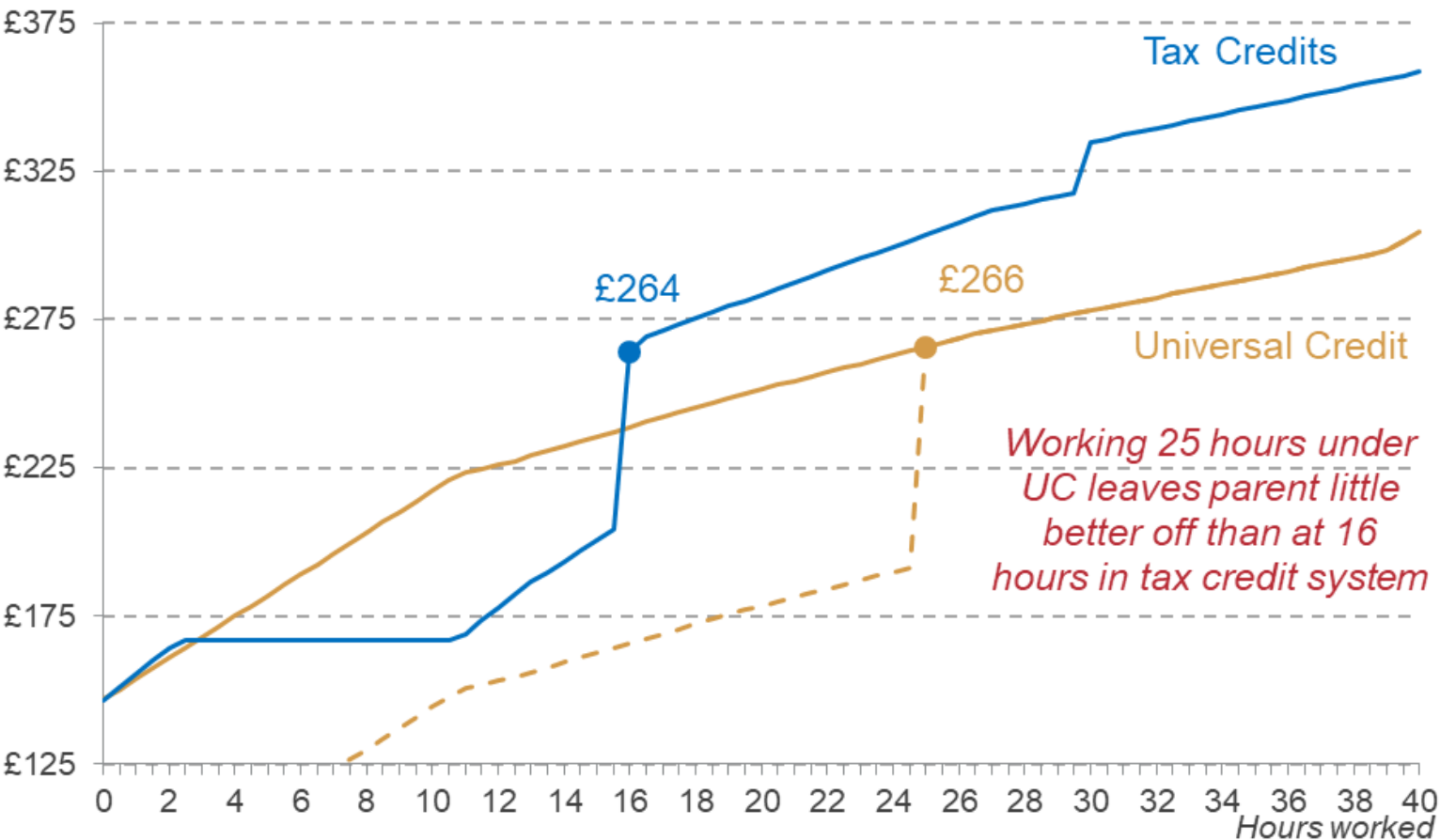
In-work conditionality and incentives

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In-Work Progression trial is limited...

- Trial of 15,000 claimants lasting 12 months
- Three groups for trial:
 - meet with work coach every 8 weeks with mandatory work search reviews
 - meet with work coach every 2 weeks with mandatory work search reviews
 - ‘Light touch’: telephone conversation at start of claim and after 8 weeks with voluntary actions agreed



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 - 'Light touch': telephone conversation at start of claim and after 8 weeks with voluntary actions agreed
- Test lower taper rates for different groups
- Trial time-limited conditional progression payments



Conclusion: making UC fit for purpose

Strengthen incentives to enter work

- Increase single parent work allowances
- Introduce a second earner work allowance

Improve progression incentives

- Gradual taper reduction
- Commitment to extensive trials
- Additional support with childcare costs

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