FABIAN SOCIETY

WHO LOSES?

THE IMPACTS OF PLANNED UNIVERSAL CREDIT CUTS ACROSS SOCIETY

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About the authors

Andrew Harrop is general secretary of the Fabian Society

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Standard Life Foundation funds research, policy work and campaigning activities to tackle financial problems and improve living standards for people on low-to-middle incomes in the UK. It is an independent charitable foundation registered in Scotland.

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1. Introduction

In April the government is planning to implement a huge cut in social security by reversing temporary benefit policies introduced at the start of the Covid-19 pandemic.

In the coming years the cut will reduce family incomes by £6.4bn annually and drag 760,000 people into poverty.[1]

The key improvement made last year was a rise in the main adult allowance for universal credit and working tax credit by around £20 per week. After a decade of sustained cuts to social security this was a very welcome measure and has sustained millions of households with zero or low earnings through the pandemic. Ministers are planning for it to disappear just as the government's main unemployment-prevention measures also come to an end in April.

In a previous report, **Double Trouble**, the Fabian Society examined the impacts of the planned cuts in the context of a possible surge in unemployment in 2021. In this paper we look beyond this immediate threat and examine their enduring impact over the medium term, once universal credit is fully rolled-out. We calculate the full impact of the cuts after everyone on legacy benefits has transferred to universal credit (this matters because the 2020 uplift was only applied to universal credit and its in-work predecessor, but not to legacy out-of-work benefits).

Our analysis shows that the main victims of the cuts will be working families and disabled people.

- 87 per cent of the cuts (£5.5bn per year) will hit working or disabled households
- 95 per cent of people pulled into poverty by the cuts (720,000 people) will live in working or disabled households

Many people who are working or disabled will see a cut in their incomes of around £1,000 per year, even though in most cases there is no expectation that they should be seeking to work or to increase their earnings. This raises fundamental questions of justice and morality. The chancellor should cancel the cuts and place the 2020 increases on a permanent footing.

The analysis uses the Landman Economics Tax-Transfer Model (TTM) to project the impact of the cuts once universal credit is fully rolled-out. It assumes employment levels have returned to the levels seen before the pandemic. TTM is a micro-simulation model of the tax-benefit system that uses data from the 2018/19 Family Resources Survey to analyse the impact of changes on household incomes and the public finances (see appendix 2).

2. Who is hit by the cuts?

Planned cuts to universal credit will overwhelmingly hit working families and disabled people who are not required to seek work. Half the cuts (£3.2bn) will fall on households where at least one adult is in work. A further 37 per cent of the value of the cuts (£2.4bn) will hit non-working households where at least one adult is disabled. Just 13 per cent of the cuts (£800m) will hit non-working, non-disabled households.

FIGURE 1: ONLY 13% OF THE TOTAL VALUE OF PLANNED UNIVERSAL CREDIT CUTS WILL HIT NON-WORKING, NON-DISABLED HOUSEHOLDS. HALF WILL HIT WORKING HOUSEHOLDS[2]

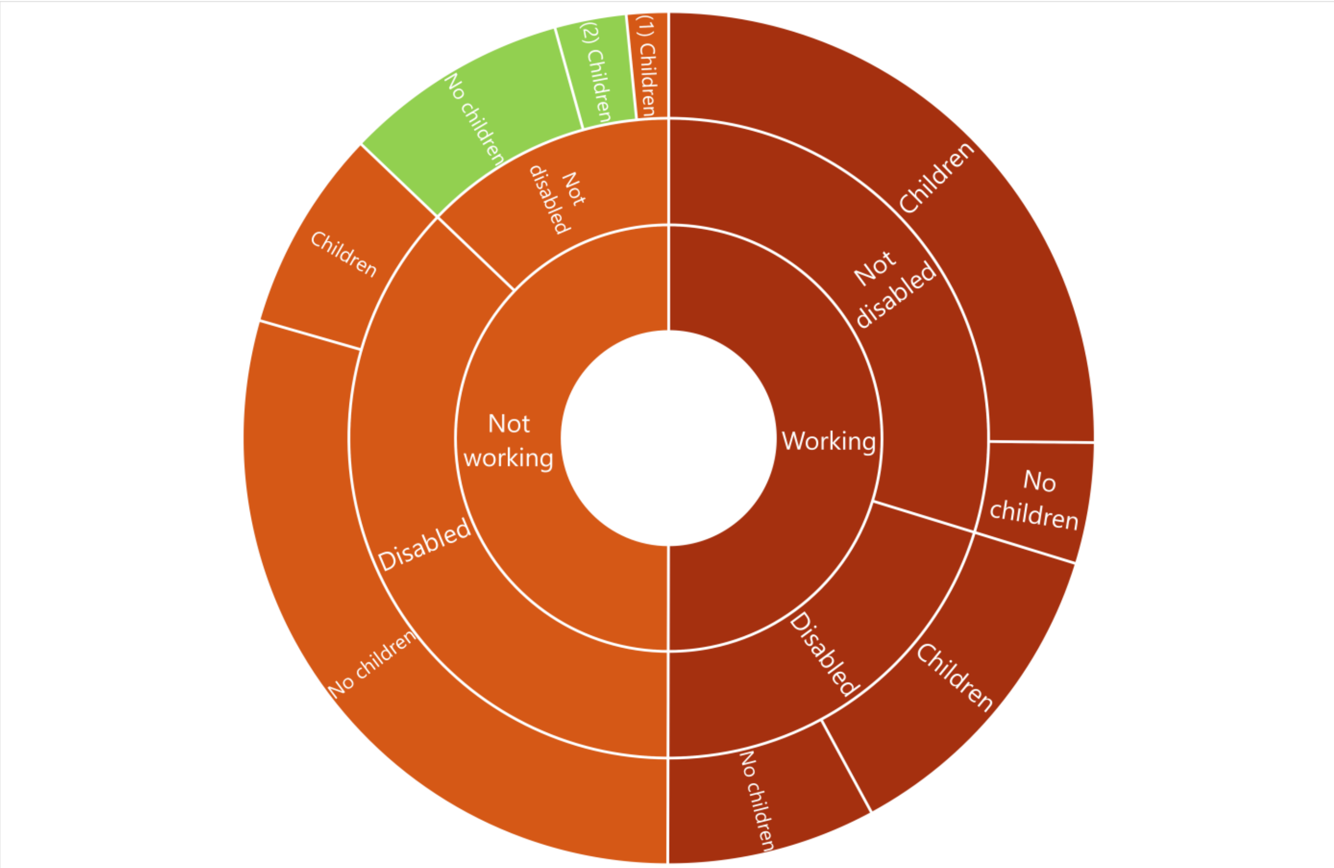


Figure 1 is a visualisation of the distribution of the cuts. The inner ring shows how the cuts are split between households in and out of work; the middle ring shows the division between households with and without a disabled adult; and the outer ring shows the divide between household with and without children. The green shading marks out-of-work households that will typically be expected to be job-seeking (ie households without a disabled adult, but excluding lone parents with a child aged 0-2).[3]

This analysis looks beyond the immediate economic crisis so does not take account of extra social security claimants who have become unemployed or lost earnings because of the pandemic (the number of households receiving universal credit grew by 2 million in the first six months of the Covid-19 crisis).[4] It shows the eventual impact of the cuts, once unemployment has returned towards normal levels and universal credit is fully rolled-out.

The breakdown reveals that:

- Households where someone is disabled will be hit by 57 per cent of the cuts (£3.7bn)
- Families with children will be hit by half the cuts (£3.2bn); and
- Households where someone is a carer will be hit by 12 per cent (£700m)
- Single adult households will face almost double the cuts of couples (£4.1bn compared to £2.3bn)

See appendix 1 for further results.

3. Who will fall into poverty?

The cuts to universal credit will reduce the living standards of households in many different circumstances. People already living in poverty will be dragged closer to destitution. Families with children on moderate earnings will find it harder to make ends meet. And some households will fall into poverty.

For this paper we've looked at how many people the cuts will pull into poverty using the standard international measure - ie 60 per cent of median contemporary income, after housing costs and adjusting for the size of household.

In total, over the medium term, the planned cuts will increase the number below the poverty line by 760,000 people.[5]

Only 40,000 (5 per cent) of those pulled into poverty by the cuts live in households where no one is working or disabled. By contrast 490,000 (64 per cent) are in working households, most of them working families with children:

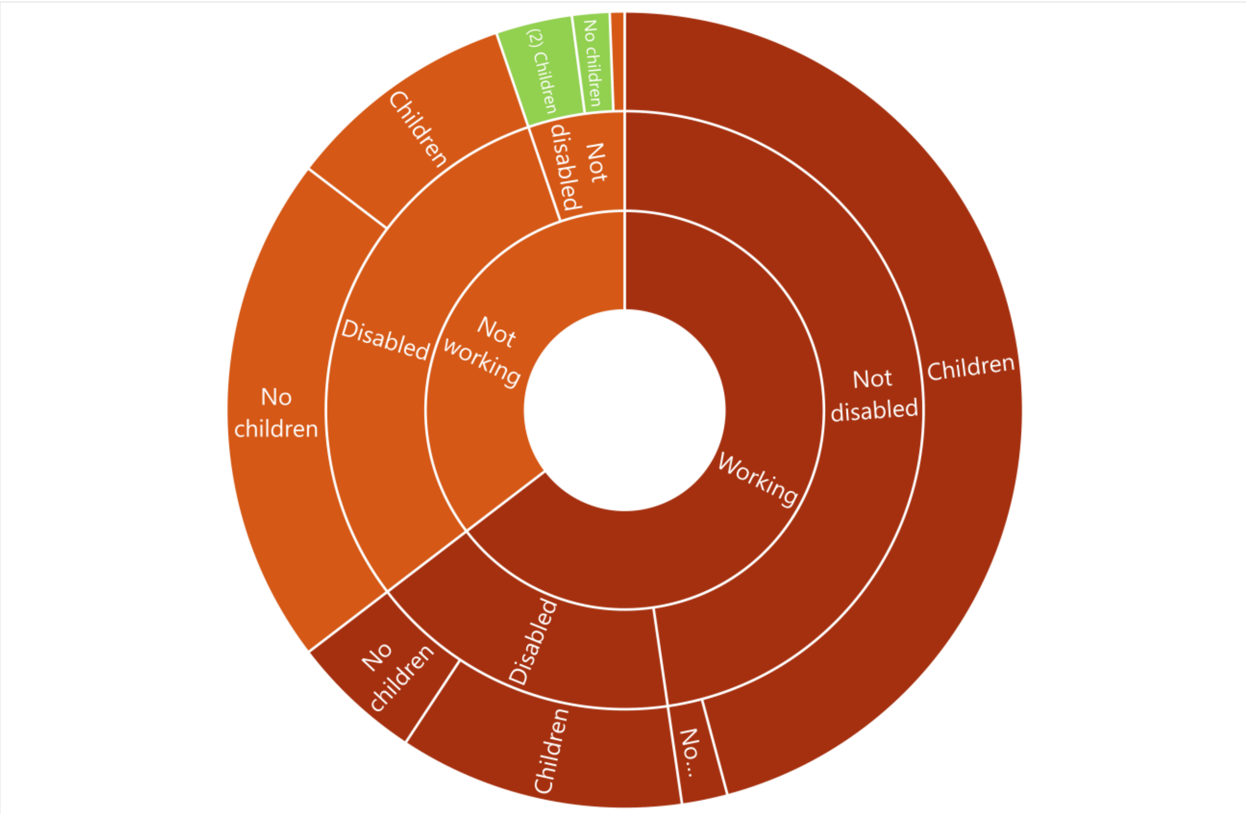
- 300,000 people – couples, in work, with children
- 140,000 people – single adults, in work, with children
- 50,000 people – single adults or couples, in work, no children

Figure 2 is a visualisation of how the growth in poverty is distributed between different types of household. It takes the same approach to dividing groups within each ring as figure 1.

In all, 540,000 (71 per cent) of the people falling into poverty live in families with children; 360,000 (47 per cent) live in a household with at least one disabled adult; and 100,000 (13 per cent) live in a household with a carer.

See appendix 1 for further results.

FIGURE 2: ONLY 5% OF PEOPLE PULLED INTO POVERTY BY THE CUTS ARE IN NON-WORKING, NON-DISABLED HOUSEHOLDS. 64% ARE IN WORKING HOUSEHOLDS[1]



Appendices

1. Types of household impacted by benefit cuts and numbers in each group pulled into poverty

	Benefit cuts £m	Percentage of total benefit cuts	Number of people pulled into poverty	Percentage of all pulled into poverty
All households	6,400	100%	760,000	100%
Single adult	4,100	64%	420,000	55%
Couple	2,300	36%	340,000	45%
Aged 18-24	670	11%	80,000	10%
Aged 24-60	5,200	82%	690,000	90%
Aged 61-65	470	7%	40,000	5%
No children	3,200	50%	220,000	29%
Children	3,200	50%	540,000	71%
No one in work (18-65)	3,200	50%	310,000	40%
One or more adult in work	3,200	50%	490,000	64%
No disabled adults	2,700	43%	400,000	53%
One or more disabled adult	3,700	57%	360,000	47%
One or more carer	730	12%	100,000	13%
Single, children	1,500	23%	200,000	26%
Single, no children	2,600	41%	220,000	29%
Couple, children	1,700	26%	340,000	45%
Couple, no children	590	9%	-	0%
Single, not working (18-65)	2,700	43%	250,000	33%
Couple, no one working (18-65)	450	7%	60,000	8%
Single, in work	1,400	21%	180,000	24%
Couple, one or more in work	1,800	29%	310,000	40%
Working, disabled, children	790	12%	90,000	12%
Working, disabled, no children	510	7%	40,000	5%
Working, not disabled, children	1,600	25%	350,000	46%
Working, not disabled, no children	290	5%	10,000	2%

Not working, disabled, children	490	8%	70,000	9%
Not working, disabled, no children	1,900	29%	160,000	21%
Not working, not disabled, children (no jobsearch requirements)	100	2%	-	1%
Not working, not disabled, children (jobsearch requirements)	170	3%	20,000	3%
Not working, not disabled, no children	540	9%	10,000	2%
Single, children, not in work	580	9%	60,000	8%
Single, children, working	880	14%	140,000	18%
Single, no children, not in work (18-65)	2,100	34%	190,000	25%
Single, no children, working	480	8%	50,000	6%
Couple, children, no one working	180	3%	40,000	5%
Couple, children, one adult working	900	14%	220,000	29%
Couple, children, both adults working	610	10%	80,000	11%
Couple, no children, no one working (18-65)	270	4%	20,000	3%
Couple, no children, one adult working	250	4%	10,000	2%
Couple, no children, both adults working	60	1%	-10,000	-1%

Note: Rises in poverty exceed 100 per cent for some sets of results. This is because the total increase in poverty reported is a net figure that includes a fall in poverty among some groups (eg over-65s). Results excluding pensioners can therefore add to more than 100 per cent.

2. About the microsimulation model

The analysis in this report uses the Landman Economics Tax-Transfer Model (TTM) to project the impact of public policy changes. TTM is a micro-simulation model of the tax-benefit system (originally developed for IPPR). It applies data from the 2018/19 Family Resources Survey to analyse the impact of direct taxes and social security. Prices are 2020/21. The model compares reform packages to the present tax-benefit system and can produce outputs for: net costs of policy reforms; distributional impacts; analysis of winners and losers; changes in poverty and inequality measures.

3. About the project

This is the second paper in a Fabian Society project Social Security Solutions supported by the Standard Life Foundation.

The Covid-19 crisis has thrown the debate on poverty, living standards and social security into sharp relief. Millions of people have lost their jobs or seen their incomes plummet and are turning to social security for support, often for the first time. The chancellor has temporarily increased the generosity of universal credit, a hugely welcome move but also a recognition that benefits are too low. And the Covid-19 crisis is shifting public attitudes to benefits, with further movement likely if the recession leads to mass unemployment.

This project aims to consider whether in light of the Covid-19 emergency a new consensus on social security can emerge, both broadly within society and across the political spectrum. The focus of the project is social security for working-age adults and children across Great Britain.

The project seeks to answer two questions:

- Can consensus be built for more **generous social security** over the medium term?
- Can consensus be built for a system that includes **stronger contribution-based and universal entitlements** in addition to means-testing?

In order to answer these questions the project is consulting with experts and policy makers; developing and analysing examples of possible reforms; convening an online citizens' jury to co-design policy options; and testing emerging conclusions with polling.

Endnotes

[1] Poverty is measured as 60 per cent of median contemporary income, after adjusting for housing costs and size of family. Note this is a different measure than we used in our previous report Double Trouble (for that study we used a fixed-line measure of poverty rather than a poverty line based on changes in median income, to avoid the perverse situation where rising unemployment leads to a fall in the cash value of the poverty line)

[2] These charts divide households with children where no one is disabled or out of work into two groups: (1) those with a lone parent and a child under 2 (no work requirements); (2) other households with children (work requirements). It does not identify whether work search is required for other household types – eg carers who do not need to seek work; non-working disabled households with a second adult who does need to seek work.

[3] The green shading is only indicative of whether a household is likely to include adults with job search requirements. See note 2

[4] Households on universal credit, March to August 2020, DWP Stat-Xplore, DWP 2021

[5] This is a net number that accounts for some people no longer being in poverty. People are treated as escaping poverty because the universal credit cuts lead to a reduction in median incomes and therefore in the poverty line. As a result people whose incomes do not change can move over the poverty line, although this has no impact on their actual living standards (eg low income pensioners).