

What's happening to the benefits system?

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Overview

2015 Conservative manifesto contained commitment to reduce annual benefit spending by £12bn by 2017-18

- On current plans, £12bn saving achieved by 2020-21

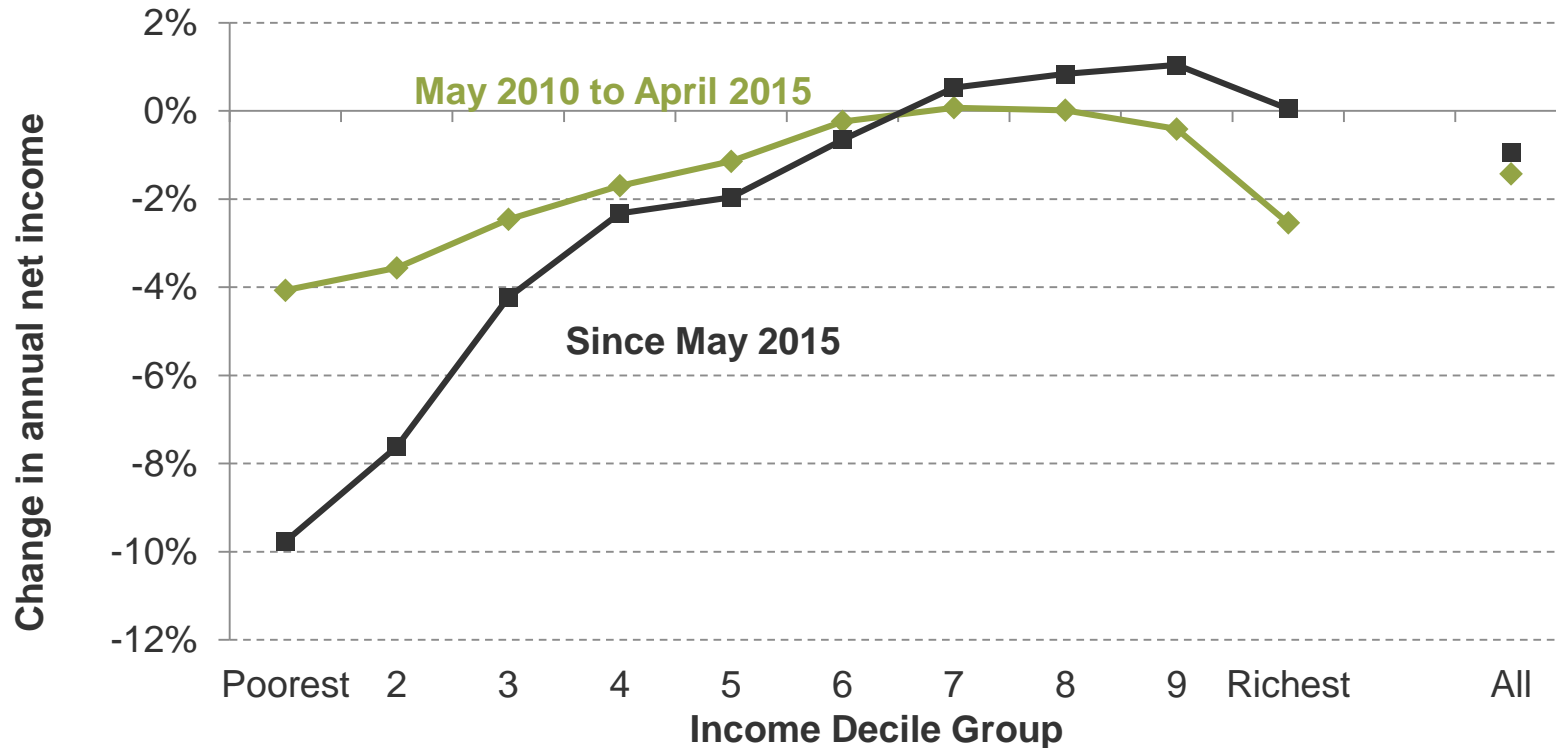
Much of the saving coming from policies that affect new claimants only

- Avoids particular claimants seeing 'overnight' falls in benefit income
- Means policies have larger effect in the long run than in 2020-21

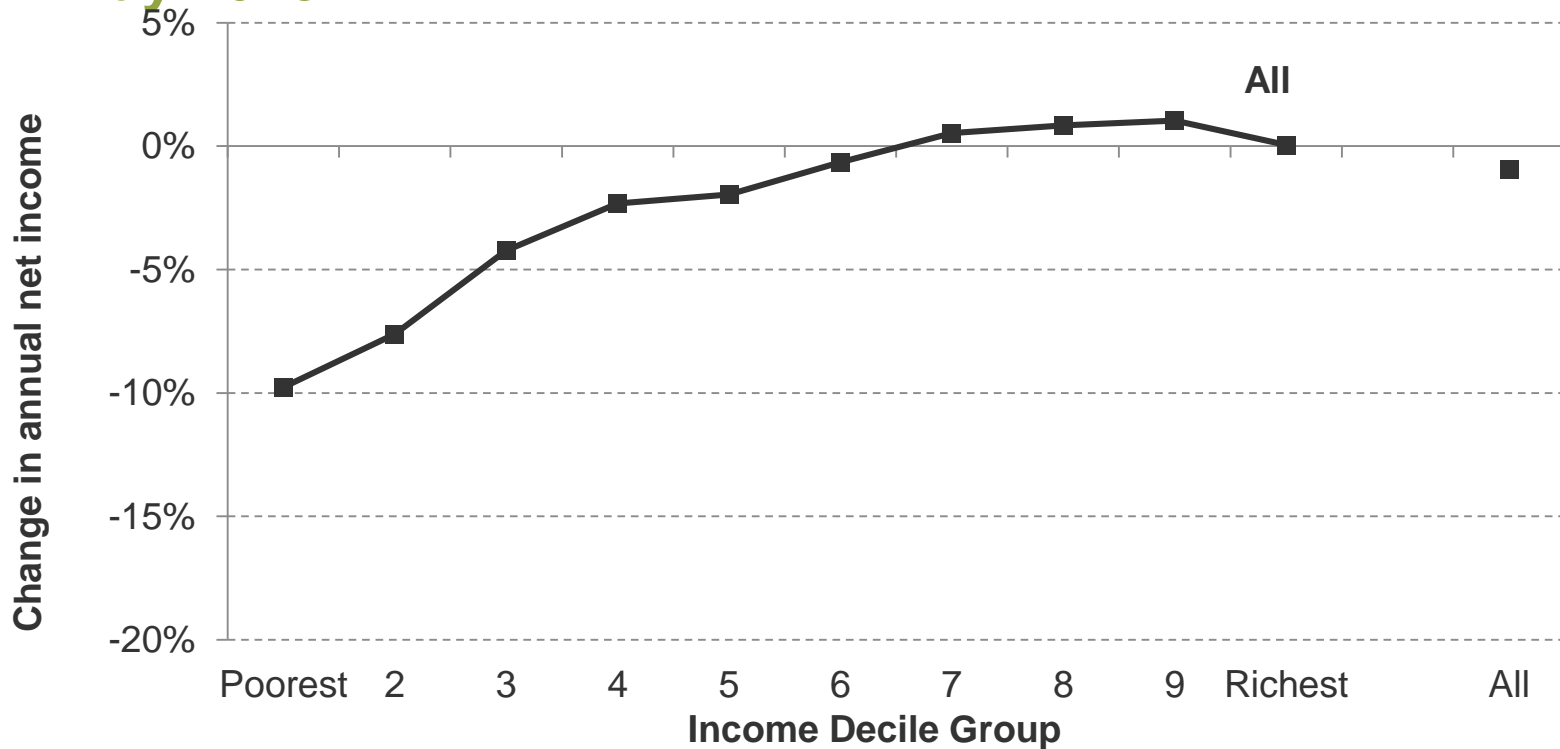
3 biggest policies (with their long-run savings)

1. The roll-out of universal credit (around £5bn a year)
2. Cuts to child tax credit (around £5bn a year)
3. Freezing most working-age benefit rates (over £3 bn a year)

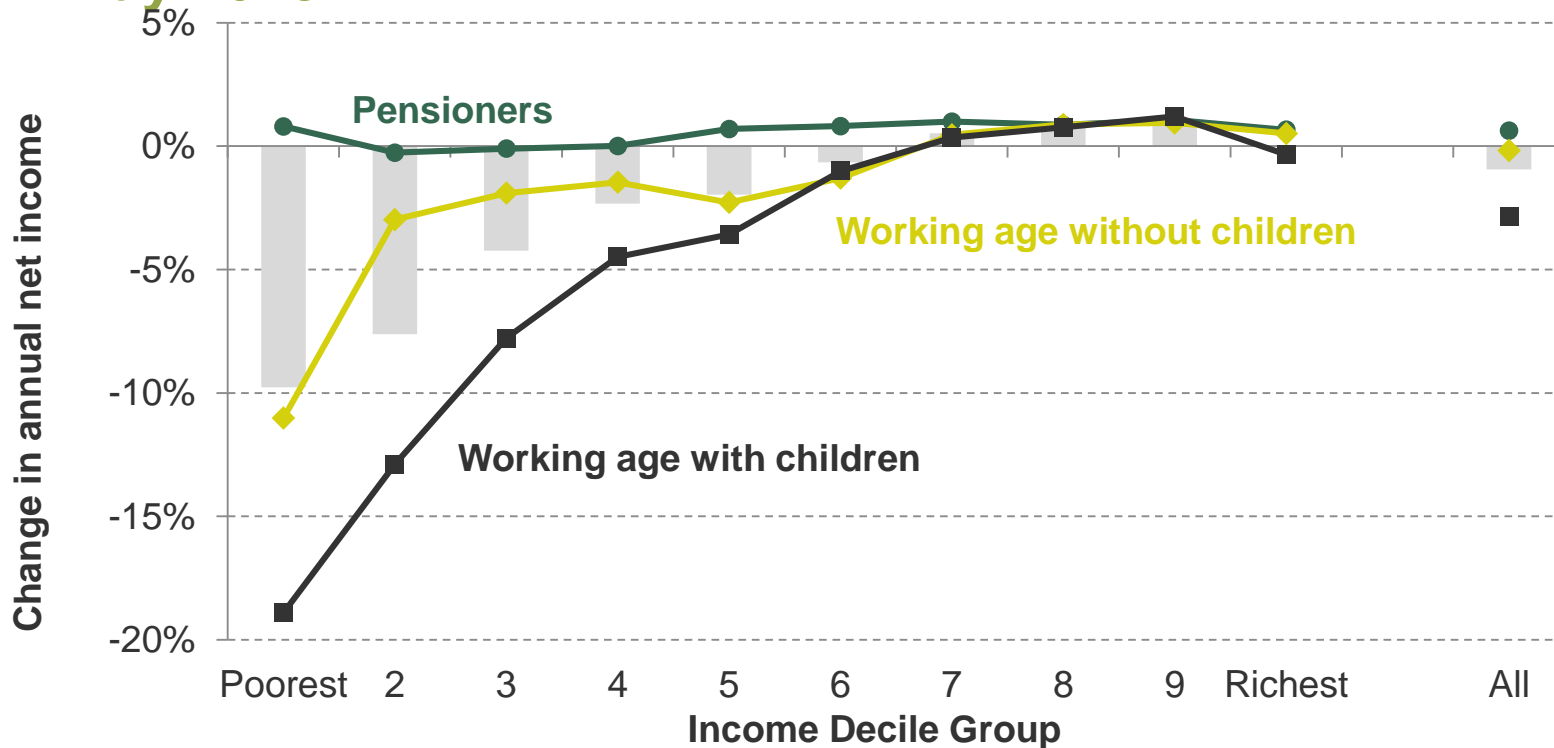
Long-run impact of tax and benefit reforms



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Universal credit

Universal credit (UC) replacing six major means-tested benefits

- Large potential benefits from simplification and getting rid of very weakest work incentives

Means-tested benefits: legacy system and UC

Example lone parent with two children

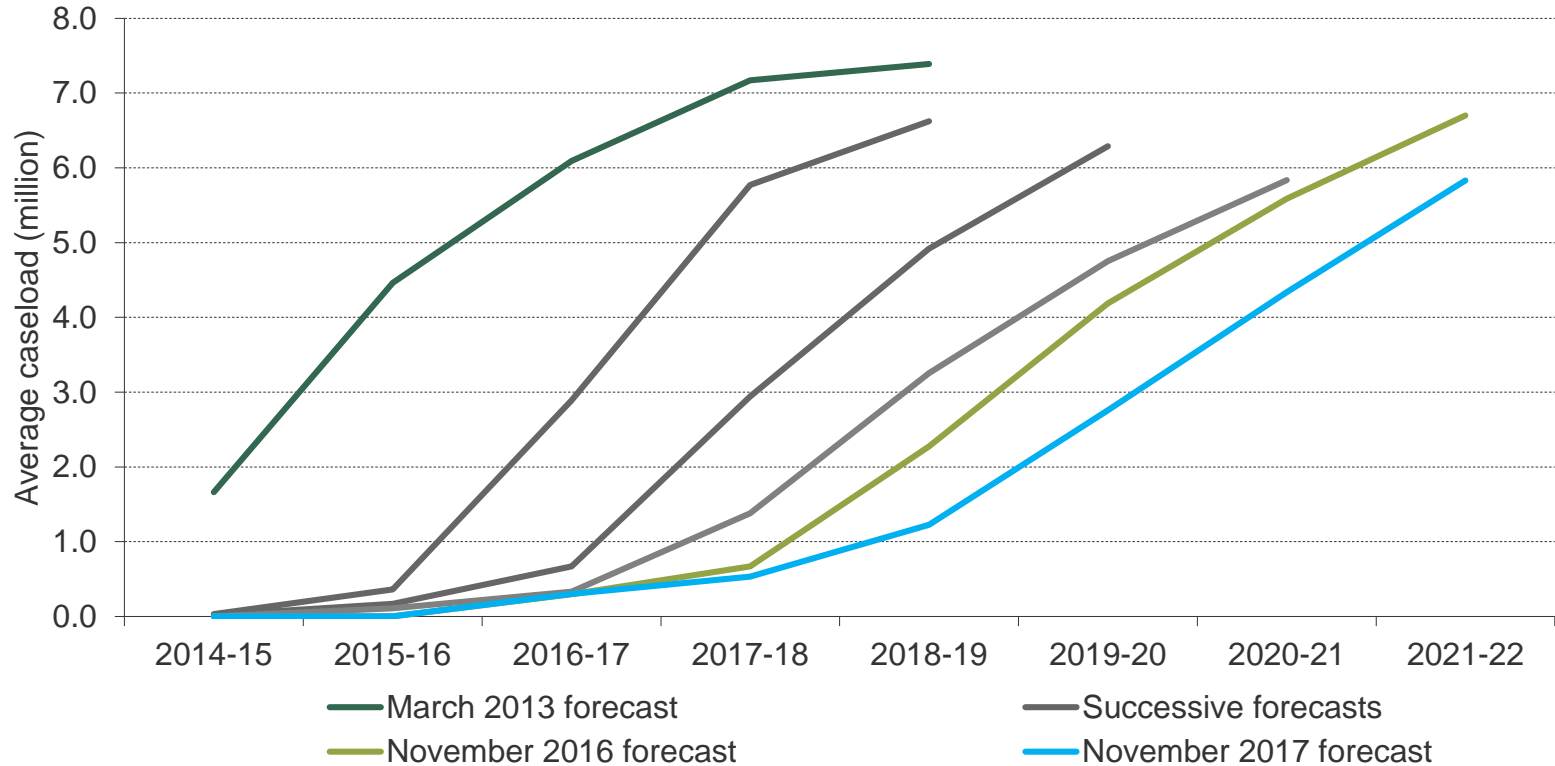


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- Large potential benefits from simplification and getting rid of very weakest work incentives
- Currently c. 700k claimants, rising to 7m by 2022-23
- But number of issues with roll-out – delayed repeatedly

Plans for rolling out UC – a history



Universal credit

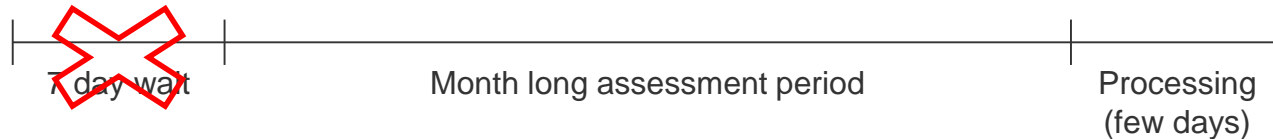
Universal credit (UC) replacing six major means-tested benefits

- Large potential benefits from simplification and getting rid of very weakest work incentives
- Currently c. 700k claimants, rising to 7m by 2022-23
- But number of issues with roll-out – delayed repeatedly
- And concerns about practical details of implementation – e.g. six-week wait

Recent changes to universal credit

3 changes announced in Autumn Budget 2017 to address 'six-week wait'

1. Abolition of 7-day waiting period – reduces wait for first normal UC payment from 6 to 5 weeks
2. Advance loans now up to 100% of expected entitlement – prev. 50% cap
3. Can now still get housing benefit for first two weeks of UC claim



Bigger picture: UC a cut in generosity

UC creates lots of winners and losers...

- Replacing complex system with simpler one

...but on average is a cut in generosity of entitlements (c. £5bn)

- Largely thanks to cuts in work allowances announced in 2015

Impact on benefit receipt likely to be partly offset by higher take-up

- Not possible to claim only part of UC entitlement

Universal credit: winners and losers

Winners (on average)

- One-earner couples with children: tend to lose less benefit entitlement when first earner moves into work than under legacy system
- In-work renters: UC withdrawn more slowly than combined housing benefit and tax credit entitlements

Losers (on average)

- Everyone else
- Those with substantial assets can lose a lot (UC asset test harsher than tax credits), also those with one member above SPA, and some disability benefit recipients
- Working lone parents also hit hard

Universal credit: a good idea?

In theory, yes

- Current system unnecessarily complex
- Multiple means-tests operating simultaneously leads to some very weak work incentives (weakest incentives mostly eliminated by UC)

In practice, implementation is proving difficult

- Challenges with IT systems & management have delayed roll-out
- Issues with wait at start of claim, ending direct payments to social landlords, changes to frequency of payments

Cuts to child-related benefits

Tax Credits and Universal Credit (UC) currently provide extra support for children. In 2016-17:

- First children increased entitlement by £3,325 p.a.
- Subsequent children increased entitlement by £2,780 p.a.

As of April 2017:

- New born first children no longer receive higher entitlement
- New born third and subsequent children no longer receive any support

As of November 2018:

- New claims (to UC) receive no support for third and subsequent children, regardless of the child's birth date

Cuts to child-related benefits: long-run impact

Limiting the child element to two children:

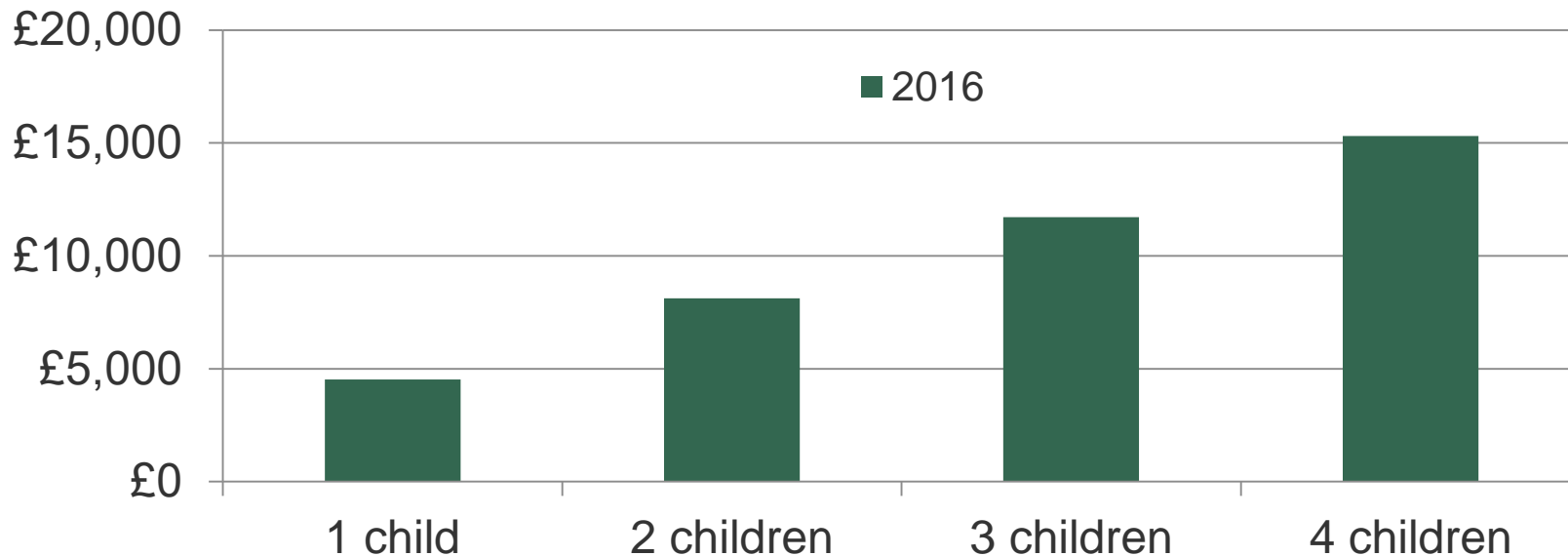
- Saves around £3bn a year
- Around 600k 3-child families lose £2500 p.a. on average
- Around 300k families with 4+ children lose £7000 p.a. on average
- Most affected families are in work

Abolishing the family element:

- Saves around £2bn a year:
- Around 4 million families will see entitlements fall
- Most will lose £545 p.a.

Planned support for larger families substantially lower than current levels...

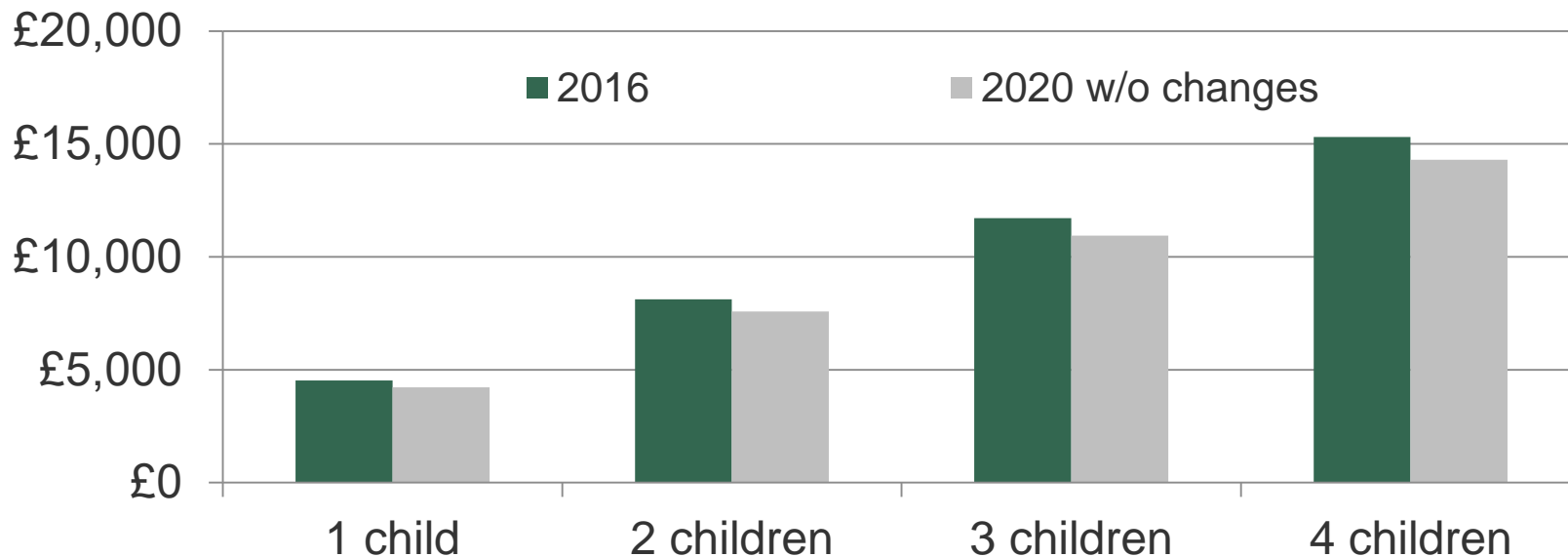
Real child-related benefit entitlement for a workless family (2017/18 prices)



Note: Figures include entitlement to Child Benefit, Child Tax Credit and child-related components of Income Support and Universal Credit. Housing-related benefits are not included. All amounts are calculated for a couple with no private income.

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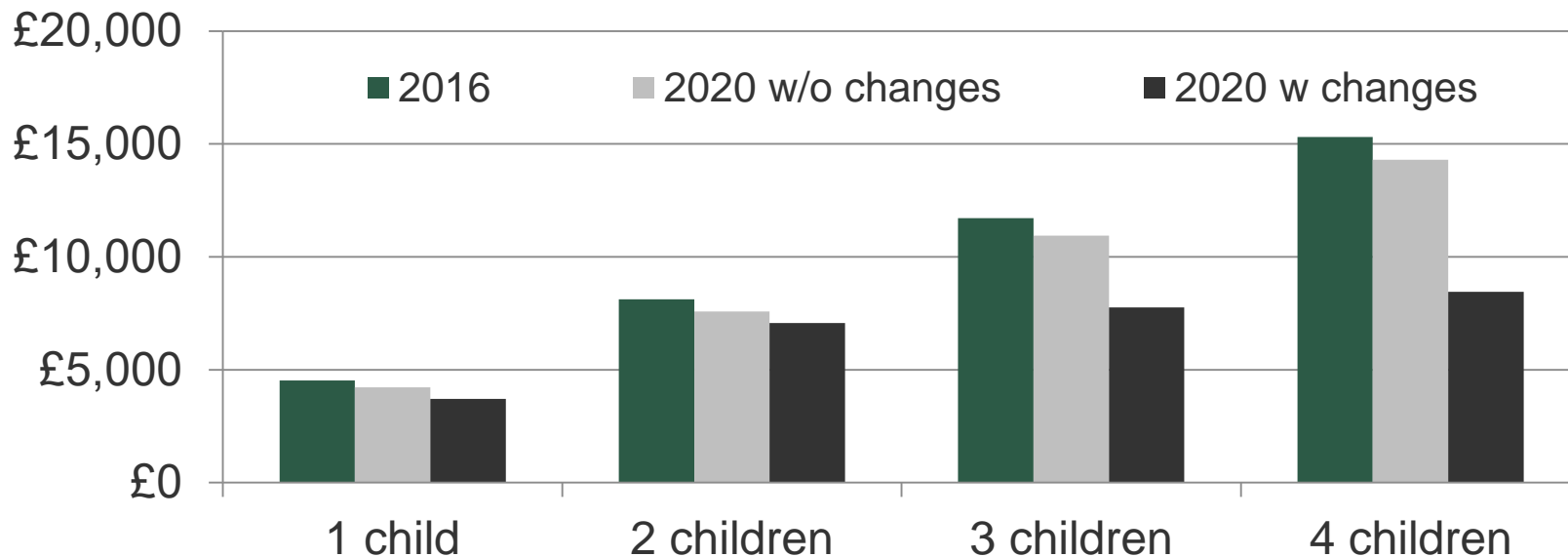
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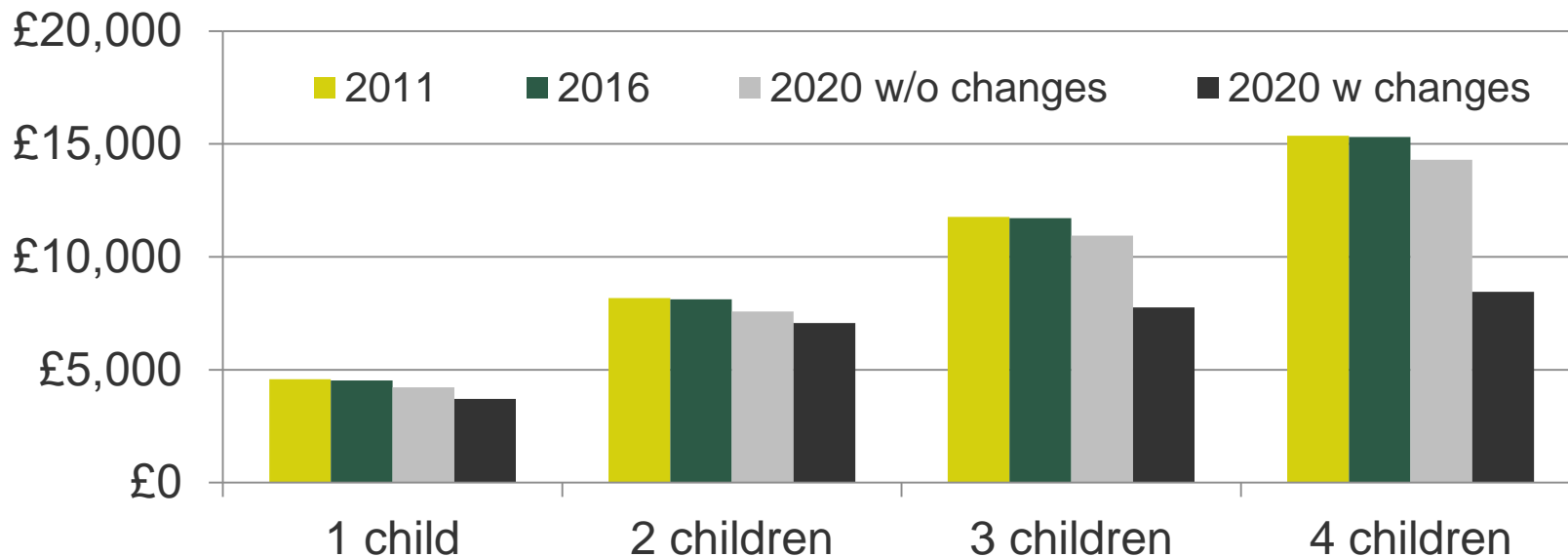
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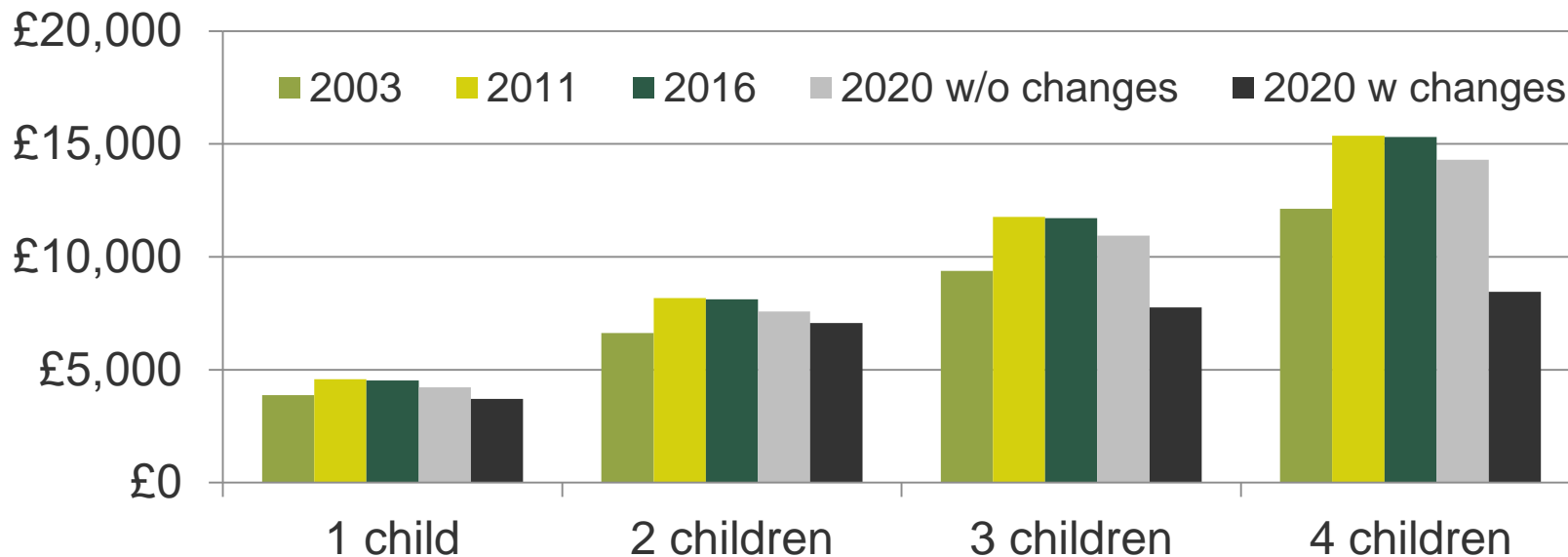
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...and lower than at any time since introduction of tax credits...

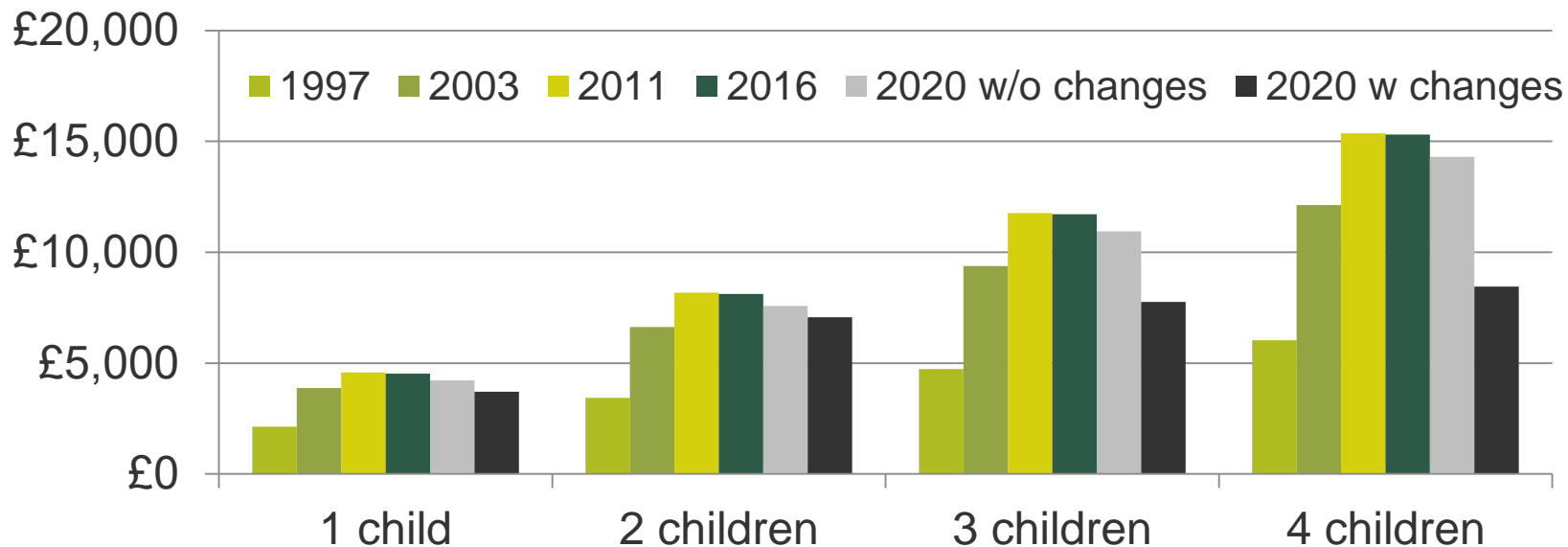
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...but still higher in real terms than 20 years ago

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Cuts to child-related benefits: assessment

Economies of scale may warrant lower support for subsequent children

- ... but no clear reason for such a large reduction in support at the 2/3 child boundary

Big reduction in benefit entitlement strengthens incentives to work

- ... but decision to include new claims creates very strong incentives not to move off benefits completely if at risk of returning
- ...and 65% of families affected already have someone in work

In long run, might lead to fewer low-income families choosing to have a third child

- Some evidence that fertility decisions respond to benefit reforms
- ... but also affects new claims even if all children are already born

Freeze in most working-age benefit rates

Cash levels of most working-age benefits fixed until April 2020

- Some disability benefits excluded

Latest OBR forecasts suggest this will reduce real value of affected benefits by nearly 6% between now and 2020

Around 11 million households affected

- Total average loss as a result of the freeze around £450 a year

Freeze in most working-age benefit rates: assessment

2 reasons govt. should kick the habit of setting benefit rates in cash terms

- Regardless of the desired level of generosity

1. From govt's perspective, this way of cutting benefits leaves size of cut and saving dependent on (unknown) future inflation

2. From claimant's perspective, hard to see why appropriate size of cut determined by what inflation turns out to be

- Impact of Brexit vote on sterling, and hence inflation, means cut will be bigger than originally planned

Abolition of WRAG component of ESA

From last April, new ESA claimants placed in WRAG receive £73.10 – no ‘premium’ relative to JSA

- Long run saving £650m, with ½m claimants losing £1,400 p.a on avg
- Around 50k-100k people start ESA claim and end up in WRAG per year

Who is in the WRAG?

- 4 in 5 have been claiming for over 2 years – compared to less than 1 in 5 for JSA claimants
- Around half suffer from mental and behavioural disorders
- Possible some will appeal decision to try to get into Support Group

Summary

Number of cuts to the generosity of working-age benefits currently being implemented

- Most significant are continued benefit freeze, cuts to child tax credit and roll-out of (less generous) universal credit

Long run impact on low-income households larger than impact of coalition reforms

- Though existing claimants largely protected

UC would be a big step forward in terms of system design

- If implementation challenges can be overcome