

Lone parents working under 16 hours a week (‘mini-jobs’)

Findings
Informing change

October 2007

This report examines whether encouraging lone parents to work in jobs of less than 16 hours a week (‘mini-jobs’) could increase the employment rate of lone parents, tackle the high rates of poverty among this group, and allow lone parents to make choices about how to combine work and family life on a more similar basis to mothers in couples.

Key points

- Around 2.5 million people have a mini-job where they work less than 16 hours a week. But the financial incentives for lone parents to work in mini-jobs are weak, and they are less likely to work in mini-jobs than mothers in couples.
- Increasing the amount that lone parents can earn before benefits are withdrawn (the earnings disregard) in means-tested benefits would be an effective way to encourage lone parents to work in mini-jobs.
- Provided that take-up of Housing Benefit and Council Tax Benefit improved among working lone parents, an earnings disregard set so that 16 hours’ work a week at minimum wage led to no reduction in means-tested benefits could cost the Government £790m a year, and increase lone parents’ employment rate by 5.4 percentage points. This would equate to a cost per job far lower than that for Working Families’ Tax Credit.
- This reform would encourage almost all lone parents to do mini-jobs, and lone parents on Housing Benefit and Council Tax Benefit to work in jobs of longer hours. It would particularly benefit lone parents with the weakest incentives to work, and those on the lowest incomes.
- If the Government were worried that this policy would encourage lone parents to work fewer hours, or trap lone parents in mini-jobs, then a time limit – of say 12 months – could be placed on these higher disregards.

The research

By Kate Bell from One Parent Families|Gingerbread, and Mike Brewer and David Phillips from the Institute for Fiscal Studies.

Background

The Government has targets to increase the proportion of lone parents in work to 70 per cent by 2010 and to have halved child poverty by the same date. Increasing the lone parent employment rate is central to its child poverty strategy. Partly through strengthened incentives to work in jobs of 16 or more hours a week, the lone parent employment rate has risen by over 10 percentage points over the past ten years, and now stands at 56.6 per cent. However, the incentives to work in jobs of less than 16 hours a week ('mini-jobs') have hardly changed and remain very weak. Around 2.5 million people have a mini-job. The proportion of lone parents working in such jobs has remained relatively stable over the past decade, and far fewer lone parents work in mini-jobs than do mothers in couples.

This study examined the potential of encouraging lone parents to work in mini-jobs, in order to increase their employment rate, tackle the high rates of relative poverty among this group, and allow lone parents to

choose how to combine work and family life on a more similar basis to mothers in couples.

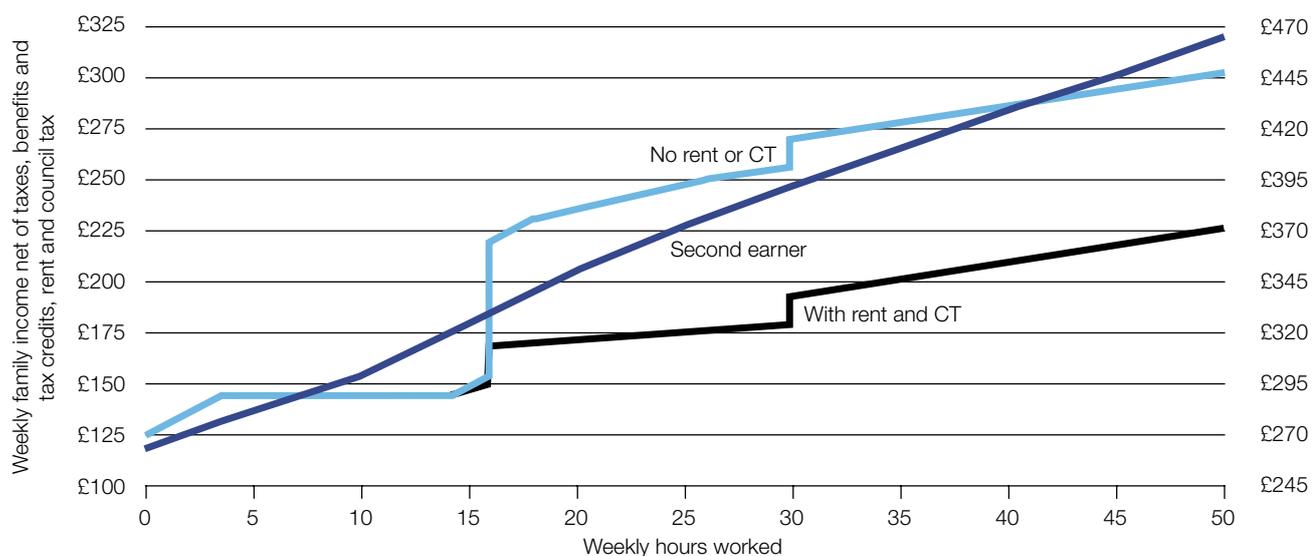
Incentives to work in mini-jobs

The structure of the current tax and benefits system means that lone parents have very weak incentives to work in jobs of less than 16 hours a week, with poor financial encouragement to enter such jobs. As one lone parent who wrote to One Parent Families put it:

“The benefits system is appallingly complicated. Three different departments all with different benchmarks. If I earn more than £20 per week I lose Income Support, if I work less than 16 hours I get no tax credits.”

Figure 1 shows budget constraints for lone parents with and without housing costs, and for second earners in couples. Lone parents on Income Support can earn up to £20 a week before the benefit is reduced pound for pound, but must work 16 hours a week before gaining access to the financial support of Working Tax Credit. For lone parents with one child who are eligible for Housing Benefit and Council Tax Benefit, the gain to working at minimum wage is around £20 a week for four hours' work, around £24 a week for 15 hours' work, but around £44 a week for 16 hours' work (all before childcare and other work-related expenses). New analysis of the Labour Force Survey (LFS) showed that these incentives appeared to affect the hours worked by lone parents. Among those lone parents

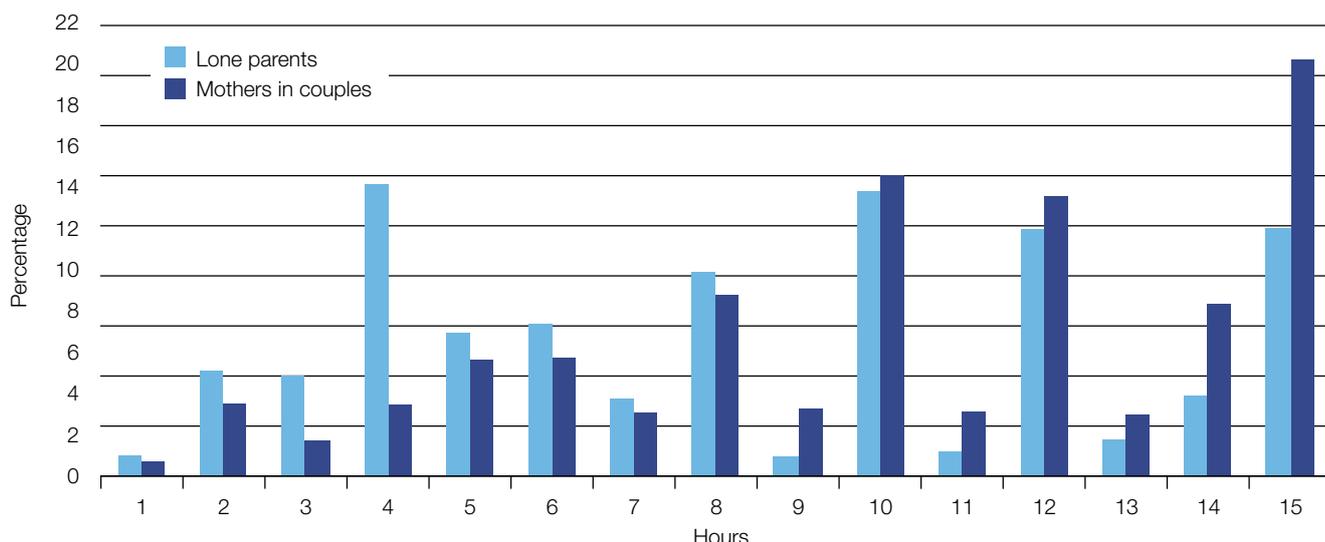
Figure 1: Example budget constraints for lone parent and second earner with one child, earning minimum wage, April 2007-08 tax and benefit rates



Notes: Assumes lone parent earns £5.52 an hour and has one child aged at least one. Ignores childcare costs. The line with rent and Council Tax (CT) assumes rent of £60 and CT of £16.53 a week. The line for second earner in couple assumes the first earner earns £350 a week and the second £5.52 an hour. The line with rent and CT coincides with that for no rent and CT until hours reach 16.

Source: Authors' calculations using Institute for Fiscal Studies (IFS) tax and benefit model, TAXBEN.

Figure 2: Hours worked by lone parents and mothers in couples in mini-jobs



Source: authors' calculations from household LFS 2005-06

working under 16 hours, the most common choice was to work four hours a week; among mothers in couples, the most common choice was 15 hours a week (see Figure 2).

Mini-jobs and who does them

Across the whole population, mini-jobs tend to have lower responsibility and be less stable than longer part-time and full-time jobs, and to be done by people with fewer qualifications. However, other research has revealed a substantial overlap between the jobs done by mothers working in mini-jobs and those by mothers working longer hours. Moreover, while the lower skill level of mini-jobs was generally reflected in lower pay, there was no evidence that those in mini-jobs consistently received lower wages than those working full-time.

Lone mothers are consistently less likely to work in mini-jobs than mothers in couples; 8 per cent of employed lone mothers work these hours compared with 17 per cent of mothers in couples.

Working patterns

Qualitative evidence suggests that lone parents are keen to access jobs with relatively short hours when returning to employment. The fact that more mothers in couples – who have similar caring constraints but do not face the same poor incentives – work in mini-jobs may be seen as evidence that lone parents would value working in mini-jobs as a way of balancing labour-market participation with caring responsibilities.

Debate exists over whether a mini-job acts as a 'stepping-stone' into working longer hours. Although few lone parents work in mini-jobs, they are a more common choice for lone parents returning to work than among all working lone parents. There are good reasons for believing that any experience of work is likely to improve future chances of employment – particularly for lone parents who have spent long periods out of work. However, quantitative research has so far been inconclusive.

Policy options

The study identified two ways of increasing the financial gains to mini-jobs: first, reducing the required number of hours worked to claim Working Tax Credit and, second, increasing the amount that can be earned before benefits are withdrawn (the earnings disregard) within some or all means-tested benefits.

The study then considered the possible cost, and likely impact on lone parents' work choices, of three policy options:

- a cut in the qualifying hours for Working Tax Credit;
- an increase in the earnings disregard for Income Support;
- an increase in the earnings disregards for Income Support, Housing Benefit and Council Tax Benefit.

A recent Green Paper by the Government suggests that some groups of lone parents should claim Jobseeker's Allowance rather than Income Support. Disregards in this benefit could be increased for lone parents in the same way as for Income Support.

The above reforms would increase the employment rate of lone parents, and allow them to make the sort of choices about how to combine work and family life available to mothers in couples. The reforms would be of most benefit to relatively low-income lone parents, with the greatest impacts on those close to the poverty line. Although this study's analysis cannot predict exact impacts on child poverty, it suggests that these reforms could help to tackle the high poverty rates among lone parent families.

The most attractive reform would be an increase in earnings disregards within Income Support, Housing Benefit and Council Tax Benefit, especially if accompanied by further efforts to reduce processing times for in-work Housing Benefit/Council Tax Benefit claims, and increased awareness of these two benefits as in-work benefits. Such a policy would strengthen incentives for almost all lone parents to work in mini-jobs. It would also strengthen incentives for lone parents eligible for Housing Benefit and Council Tax Benefit to work in jobs of 16 or more hours.

The study's modelling suggested that substantially increasing the earnings disregard in all means-tested benefits to the value of 16 hours work at the minimum wage could lead to up to a 5.4 percentage points increase in the proportion of lone parents in paid work. Provided that take-up of Housing Benefit and Council Tax Benefit improved among working lone parents, the cost to Government would be around £790 million, a cost per job far lower than for Working Families Tax Credit. It could also increase lone parents' income by £1.40 for every £1 spent by the Government. Given that the Government is still some way from meeting its target of 70 per cent of lone parents in employment by 2010, this would appear an attractive option. Increasing just the Income Support disregard to this level would have a more modest impact, increasing lone parent employment by 2.3 percentage points at an accompanying more modest price tag. It would, however, create a new distortion in the incentives to

work above and below 16 hours. For this reason, were such a policy implemented, the authors recommend that it should be time-limited for a year.

A reduction in the required hours worked to claim Working Tax Credit would encourage mini-jobs but have a less significant impact on employment. However, if the Government's aim were solely to decrease the number of benefit claimants, this policy might have more appeal.

Although these policies would increase the number of lone parents in paid work and in mini-jobs, the Government might be concerned that they could also lead some lone parents to work fewer hours, and that some mini-jobs might not be sustainable. Both these concerns could be addressed by time limits.

About the project

This report was written by Kate Bell from One Parent Families|Gingerbread, and Mike Brewer and David Phillips from the Institute for Fiscal Studies. The authors reviewed the literature on the role played by mini-jobs in the labour-market experiences of lone parents and mothers in couples. They also carried out new analysis of the Labour Force Survey to look at the characteristics of mini-jobs and the impact of the 1992 reform to Family Credit. To evaluate a series of potential benefit and tax credit reforms, the authors used Family Resources Survey data, the IFS tax and benefit micro-simulation model TAXBEN, and a model of lone parents' labour-market behaviour which was previously used to evaluate the impact of Working Families Tax Credit.

For further information

The full report, **Lone parents and 'mini-jobs'** by Kate Bell, Mike Brewer and David Phillips, is published by the Joseph Rowntree Foundation.

It is available as a free download from www.jrf.org.uk.

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