

JRF Programme Paper
Minimum Income Standards

**DOES THE TAX AND BENEFIT
SYSTEM CREATE A 'COUPLE
PENALTY'?**

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This paper:

- calculates whether couples in a variety of family situations would be better or worse off living together or apart;
- analyses factors influencing the calculation of a 'couple penalty' or 'separation penalty' and wider issues of incentives and behaviour; and
- highlights implications for potential changes to the tax and benefit system.

The Joseph Rowntree Foundation (JRF) commissioned this paper as part of its programme on minimum income standards, which aims to define an 'adequate' income, based on what members of the public think is enough money to live on.

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Key points

- A 'couple penalty' suggests that families on low incomes with children are economically better off living apart than living together as a result of the tax and benefit system. The reverse situation could be called a 'separation penalty', whereby members of a couple lose out financially if they begin to live apart.
- To calculate such penalties, we need not just to look at the effect of taxes, benefits and tax credits on incomes, but also at how much more it costs to live apart than to live together. 'Equivalence scales' take such a view, but the ones used by the Government to compare household incomes are not based on evidence of actual costs. Research for the Minimum Income Standard (MIS) provides a more solid basis, and suggests that equivalence scales have underestimated how much cheaper it is for two people to live as a couple than separately.
- The simplest question that can be asked in testing the couple penalty is: does the benefits system provide a different proportion of a family's daily living needs if they live together and if they live apart? The clear answer from the calculations in this paper is no. The benefits system provides very similar living standards to families living together and apart. This is true whether measuring income as a percentage of needs as specified by the MIS or as a percentage of average income using official figures.
- In general, non-working families with children have about two-thirds of what they need for a minimum acceptable standard of living. The shortfall of one-third of required living costs is greater in cash terms for couples that split up, because their overall living costs are greater. Thus, in cash terms, there is a separation penalty for families on benefits, whichever form of measurement is used.
- For working couples, the situation is more complex. However, using the MIS basis there appears only to be a couple penalty where someone who lives alone without children is able to get a low-cost rent, for example through social housing, which seems unlikely to be a realistic expectation. On the other hand, a significant separation penalty can exist for people on very low wages, especially where there is only one earner.

- Using the official equivalence scale, there is no systematic evidence of a couple penalty for working families with a single earner, but with two earners there is, in general, such a penalty. Thus, a couple penalty only exists for a particular group under particular assumptions: for dual earner families on low incomes, where we assume that the relative needs of singles and couples are as arbitrarily described in an equivalence scale rather than as shown in researched evidence.
- Under Universal Credit, new conditions will apply, but its foundation stone will be basic out-of-work entitlements. It would be misguided to alter the relative value of these entitlements to become more favourable to couples compared with singles than the present system based on the false assertion that out-of-work benefits presently contain an incentive to split up.

“Yes, I do think it’s wrong that our benefits system gives couples with children more money if they live apart – and we will bring an end to the couple penalty.”
(David Cameron, Conservative Party Conference, 2008)

“It is vital that we find a way of addressing welfare need without creating perverse incentives for the parents of children on low to modest incomes to live apart.”
(Frank Field MP, in Draper, 2009)

Introduction

Is there a ‘couple penalty’ in our benefits and tax credits system? In answering this question, we need to start by thinking very carefully about what we mean by it.

A couple penalty would exist if, in some way, *two people are significantly better off (economically) living apart than living together as a result of the way the government transfers income to and from different types of household*. If the reverse is true, we could say that there is a ‘separation penalty’.

This immediately raises several crucial issues. The following are five questions about definition and coverage, and in each case a summary of how this paper proposes to address them to shed light on the existence or otherwise of a couple penalty.

- *What do we mean by ‘better off’, in economic terms?* Two households are more expensive to run than one. To judge whether people can have a higher living standard if they separate, we need to be able to work out whether any extra income that they gain from doing so is more than enough to cover this extra cost. This requires a sound basis for measuring the relative spending needs of singles and couples.

This paper shows how using a basis for relative requirements based on research into the needs of different households produces different answers than other, more arbitrary weightings used in official income comparisons. Specifically, it gives results based on two kinds of weighting: those identified through research on a Minimum Income Standard (MIS) and the more arbitrary official weightings used in government comparisons of household incomes.

- *Does it make sense to make a joint 'better off' calculation for individuals living in two households rather than one?* Across separated families, the allocation of joint income to meet the needs of different individuals is likely to differ from a family living together. This raises important issues around the well-being of mothers compared with fathers and of children compared with each parent.

While these issues are important, they are beyond the scope of this paper. Here, we are concerned principally with analysing whether it is true, as has been implied by those who state that there is a 'couple penalty', that there is a significant incentive to split up when looking at the joint income of all those involved. There is scope for empirical research following up such calculations by observing actual patterns of spending among couples who live together and who live apart, and their consequences for the well-being of mothers, fathers and children.

- *Which aspects of income and needs are we considering?* We would get different answers according to whether or not we include housing costs in these calculations, and if so what we assume those costs to be.

The analysis below focuses on the consequences of the present benefits and tax credits system on families' *disposable* incomes, after housing costs, recognising that differences in total income can give a highly inaccurate idea of effects on families' well-being where housing costs vary widely in different cases. However, in making these calculations we need to make assumptions about housing costs in some cases, and so we also consider what happens when these assumptions are varied.

Our focus on disposable income after housing costs reflects the fact that the purpose of this paper is to investigate whether families are better or worse off together or apart. Housing costs are more relevant to debates about the cost to the taxpayer of supporting two families rather than one – potentially paying two rents through Housing Benefit – but that is not the issue being considered here. We are testing the assertion that the system *encourages* families to live in a more expensive way to the taxpayer, by providing an extra incentive to do so. Where the additional cost paid for by the state all goes into additional rents caused by people living apart, this does not create an incentive in terms of them becoming materially better off.

- *Who are we interested in, in terms of whether people are in or out of work, and their earnings levels?* Our tax and benefits system does not give the

same relative treatment to people on all incomes. Thus we may get different answers according to whether we are considering the case of someone on the average income or above, on a just-adequate standard of living or on social security benefits below the poverty line.

This paper focuses on people on low incomes, whose living standards are most greatly affected by the size of transfers from the state. However, it does not look only at those on the very lowest incomes, who depend entirely on out-of-work benefits, but also at those in work but with low earnings, many of whom rely heavily on tax credits. Moreover, it considers mainly families with children, partly because these families have the greatest dependence on tax credits, but also because concern over a 'couple penalty' has been voiced principally in relation to the risk of the harm that it could do to children if it encouraged families to break up.

- *What assumptions should we make about the working patterns of two people according to whether they are living at home or living apart, and what are we assuming about childcare for those with children?* When considering working families, we need to be careful to make reasonable assumptions about how these patterns do or do not change in new household circumstances.

Here, we analyse the couple penalty/separation penalty by making the most straightforward assumption possible: that both members of the couple work the same amount of time whether living together or apart. We consider three such examples – with neither working, with just the father working and with the father working full time and the mother working part time. For each of these three cases, we compare the situation where the couple lives together with the situation where the mother lives with the children and the father lives on his own. For the final case, where a father is working full time and a mother part time, we assume that childcare is needed for half the working week, whether the couple is living together or apart.

At the heart of this analysis is the use of research from the Minimum Income Standard (MIS) project, giving real evidence on the relative needs of singles and couples (Bradshaw *et al.*, 2008; Hirsch, 2011). Since 2008, MIS has provided a set of household income requirements based directly on research into needs. It is based on judgements made by members of the public about what things different types of household would need to be able to buy in order to reach a minimum acceptable standard of living. This research allows a closer, more directly evidenced examination of how different entitlements for

couples and separated families relate to differences in their needs than previous research on the couple penalty (see Box 1).

Box 1 Previous measures of the couple penalty

Previous reports on the couple penalty have taken a less complete approach than the one used in this paper, especially to the comparison of differences in joint income with differences in joint living costs. Adam and Brewer (2010) only measure the income difference, without commenting on the extent to which this is offset by differences in costs, on the basis that a 'better off' calculation is in the eye of the beholder. Draper (2009) takes account of economies of scale in housing costs but not of other ways in which costs might change as a result of living arrangements. He simply asserts (without supporting evidence) that 'any saving in utility and food costs is unlikely to cancel out' the couple penalty that he identifies, and does not comment on other potential economies of scale such as the cost of furnishing and equipping an additional living room, kitchen and bedroom for adults living separately.

The Centre for Social Justice's *Dynamic Benefits* report (Centre for Social Justice, 2009), which has been the reference point for much subsequent comment on the couple penalty and on welfare reform, does make adjustments for the greater spending requirements of couples living apart. It uses the OECD equivalence scale to make the adjustment. As shown below, this scale does not provide an evidence basis for comparing the actual needs of different household types in the UK today. The *Dynamic Benefits* report argues, however, that this is the scale used by the Government to compare different families' incomes, and there is clearly an argument for policies that are consistent with this measure, however approximate it might be. However the actual calculations made in the report appear to include housing costs, without specifying what assumptions have been made about their level. The calculations are likely to be highly sensitive to such assumptions. In making comparisons with basic benefit levels, which are not supposed to cover housing costs, it is unclear why these costs are being included.

Dynamic Benefits also considers, based on modelling the situation of working couples with children in the Family Resources Survey, how many face a couple penalty. It finds that across a small band of earnings equivalent to working just over 16 hours per week on the minimum wage, a majority of families are materially better off living apart than living together. On other working patterns, the reverse is true for the majority of families. Oddly, the report uses this to argue

that there is a strong couple penalty, even though it suggests that overall the great majority of couples on low incomes would be *worse off* if they split up, and the report does not quantify the size of couple penalty being faced by some families (it could be that, for many, it is too small to have any real significance). It certainly seems unwarranted to use this evidence to argue that there is a systematic bias against couples staying together.

The following analysis starts in section 2 by looking at the existence or otherwise of a couple penalty under a number of scenarios, using alternative weightings for the needs of different family types. These are the main results calculated in answer to the central question being asked in this paper. The paper then goes into more detail, in section 3, in analysing some of the factors that influence these results, looking in turn at the significance of equivalence scales and of various features of the tax and benefit system. Section 4 reviews briefly some of the wider issues that may be asked about the couple penalty and its effect on incentives and behaviour. Section 5 draws conclusions.

Main calculations

Basis

The following calculations consider whether a father, mother and their children would be better or worse off living together than living apart, assuming certain patterns of living and earning. The measure of 'better or worse off' is based on how, in these two situations, total income compares to benchmarks of 'adequate' income that would give all the individuals involved a minimum acceptable living standard. Specifically, they look at how actual income compares to such a benchmark in terms both of the *percentage* of an adequate income that a family receives and the *absolute deficit or surplus (in £s)* in their income compared with the benchmark. For example, if a family living together got 80 per cent of what they needed, but living apart they got 85 per cent, there would be a 'couple penalty' representing 5 per cent of what they need. Or if they were £10 short of their total needs living together, but £20 short living apart, there would be a 'separation penalty' of £10.

Results using two main benchmarks are shown here. One is the MIS: a direct calculation of what is needed by different households. The second is a measure based on the official government 'equivalence scale' (the scale drawn up by the OECD) – a more arbitrary means of comparing the needs of different household types when comparing incomes (see section 3 below). In both cases, the definition of income 'adequacy' for a couple is set at a similar level, but the weightings used to calculate what would be adequate for that family living apart are different.

These comparisons look at the situation for one, two or three children respectively. They look at scenarios where nobody is working, where a father is working full time and a mother not working and where a father is full time and mother half time. (These examples of working patterns are by no means comprehensive, but give examples of some common patterns: mothers both in couples and as lone parents are more likely to work part time, or not to work at all, than fathers.)

We also assume:

- That a separation involves a father moving out and a mother staying with her children. This is not the universal pattern, but 92 per cent of lone parents are mothers.

- That each working adult earns £9 an hour (in our main scenarios). This is above the minimum wage (which relatively few people earn) and equates to about the lower quartile of earnings (one in four people earn less than this, three in four earn more). It can thus be seen as a ‘typical’ wage for someone in the lower half of the distribution. For working families, we also show results for a scenario with the minimum wage in our calculations for working families, with two children.
- The couple with children is living in council housing, but if the father moves out, he will have to find somewhere to live in the private sector. We have taken as an example a rent at the lower quartile of private rents for a one bedroom flat (cheaper than three quarters and more expensive than a quarter of flats of this type). These rents are designed to represent housing costs in the lowest category that one might expect to be available for low-income families in these circumstances. They incorporate the assumptions that the result of a father leaving a family with children would be to subject him to a higher category of rent (since he would not be prioritised for social housing), but that as someone on a low income he would still seek a modest rent within this category. An alternative scenario shows what would happen if the father is indeed able to get a council flat, shown for working families with two children. (For out-of-work families, we look only at the adequacy of benefits to cover post-rent costs, so the rent level is not relevant for our calculations.)
- The family with a full time and half time working parent needs to pay for half time childcare living together, and where they split up leaving the half time working parent responsible for children she requires half time childcare too.

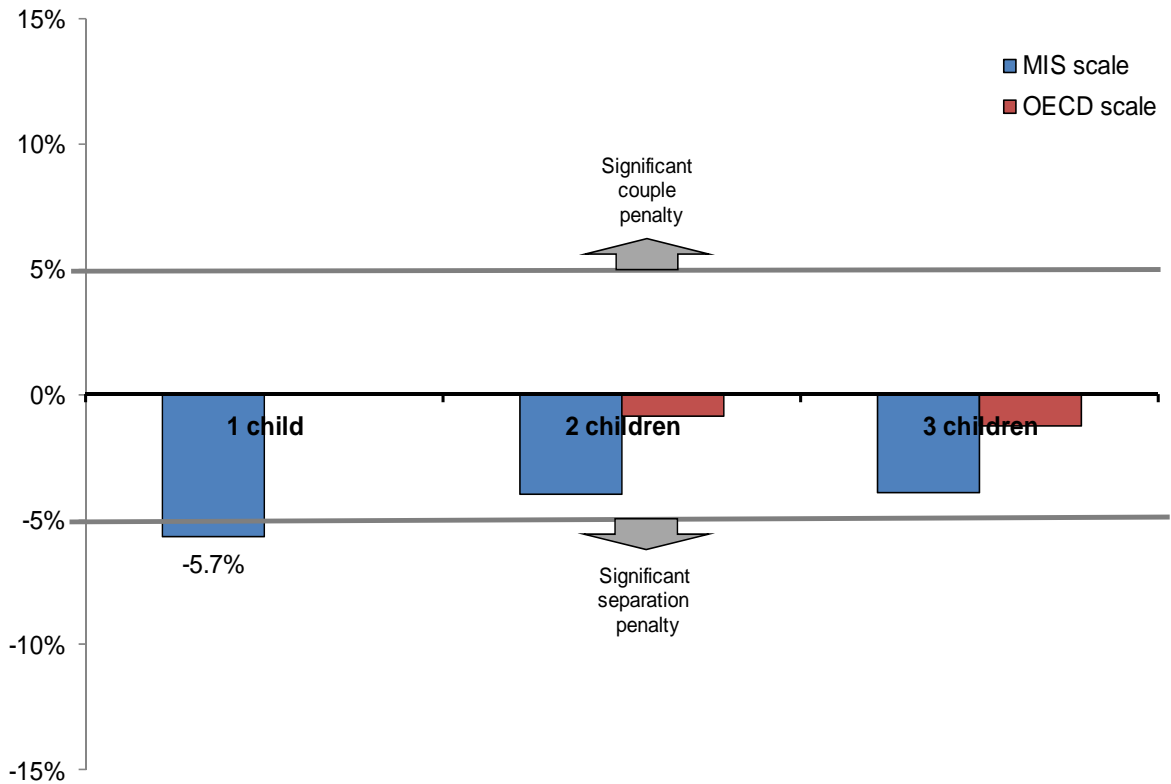
The full data for these comparisons are shown in Appendix 1.

Results for families on benefits

The simplest case to consider is whether the benefits system allows non-working families with children to be significantly better off living together or living apart. Basic benefits give families with children about two-thirds of what they need to reach a standard of living considered an acceptable minimum, according to the MIS based on what the public say are minimum needs. Figure 1 shows the extent to which this proportion is different for families living together and living apart, using two versions of the weighting of the needs of different households.

(This graph and the following ones compare the *combined* incomes of all members of these families with the needs of the household/s that they live in.)

Figure 1 Family on benefits: Couple penalty as percentage of family needs

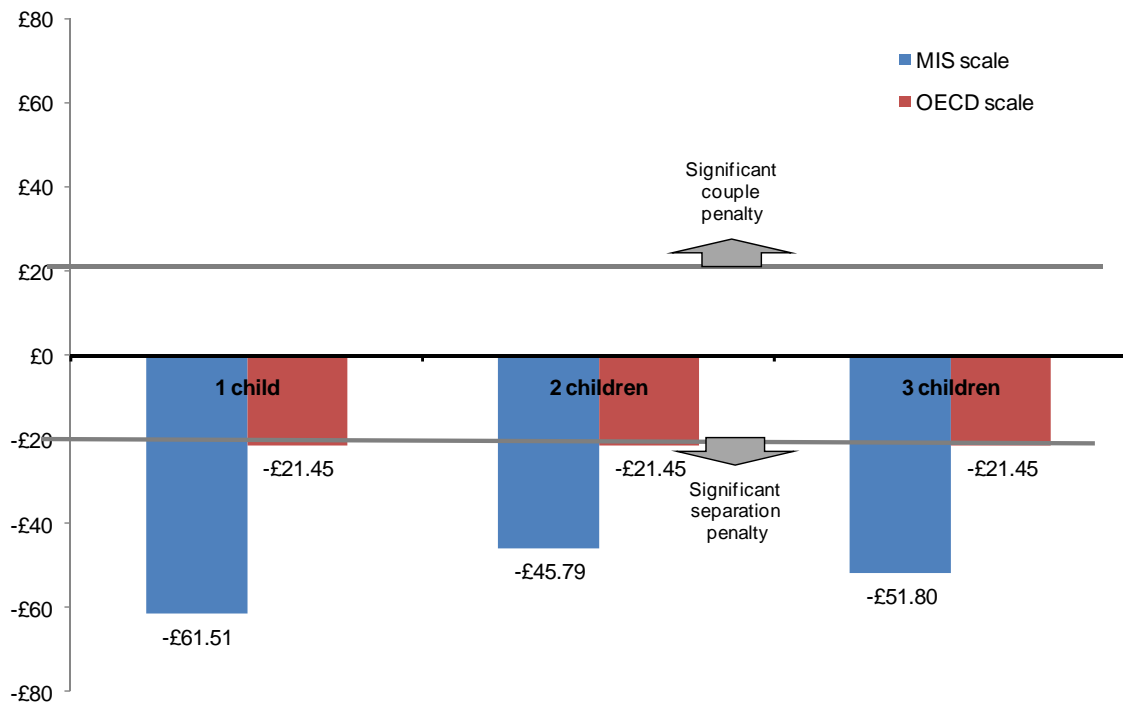


*Negligible couple penalty on OECD scale = 0.1%

Figure 1 shows that, regardless of whether MIS or the official equivalence scale is used, the UK's benefits system does not give substantially more or less to families, as a percentage of their needs, whether they live together or apart. Here and in the following graphs, we use a threshold of 5 per cent of overall needs to indicate whether a family is significantly better off together or apart. The only case where there is an effect in these terms is for a couple with one child, who are slightly better off staying together on the MIS basis. In no case is there a couple penalty on either basis, even one below the 5 per cent threshold.

Another way of looking at this is to consider in absolute rather than percentage terms how much families are falling short of what they need. On this basis, the comparison of families on benefits is shown in Figure 2.

Figure 2 Family on benefits: Couple penalty £ per week (relative to family needs)



In terms of an absolute shortfall, there is a marked separation penalty for families on benefits in all cases. (Here the threshold of a significant difference is set at £20 a week.) Using the MIS basis, the penalty for separation is very severe in these terms. To understand why, imagine that a family is getting exactly two-thirds of an 'adequate' income living together, and that after splitting up the total of what a mother living with her children and a father living alone get is also two-thirds of the total they would require for an adequate living standard. But this total of the two households is greater than it had been for the household when living together: you need more to live apart than to live together. Thus, the deficit of a third compared to needs adds up to more when separated, because it is a third of a larger amount.

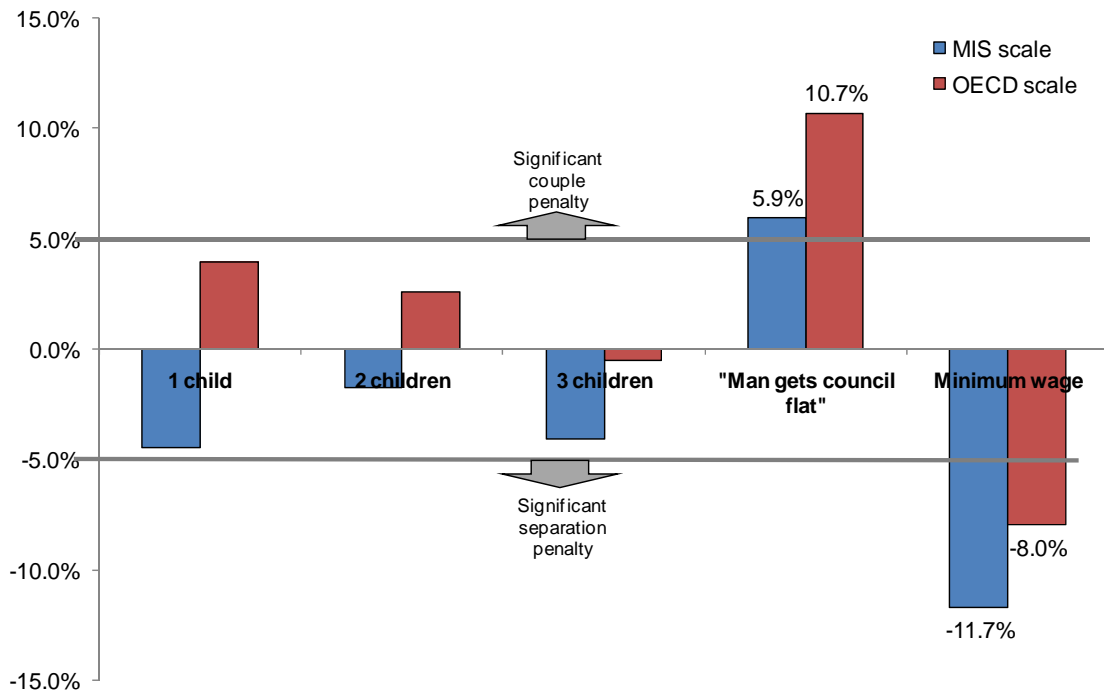
Is this greater absolute shortfall for separated families on benefits relevant? Not if you assume that the family's weekly spending is equal to their benefit income, and the hardship caused by this being one-third below what is needed is equally spread across family members. On the other hand, families trying to preserve acceptable living standards while out of work may find it harder to do so if separation increases the extra cost of doing so. For example, a temporarily workless family would have to run down savings or run up debts by more to meet

this extra cost. A related point is that parental sacrifice to help ensure that children get what they need is likely to be harder to mediate in a separated family – where both a co-resident parent and an absent parent are having to live at levels that prevent them from meeting their own needs, even before such a sacrifice.

Results for a single earner family

The next set of scenarios looks at a family in which one person is working full time. Figure 3 shows the extent of any couple penalty expressed as a percentage of family needs. The first three comparisons are based on the core assumptions of a wage of £9 an hour and social housing available where children are present, but not for a single person living without children. Regardless of the number of children, the results here show only insignificant differences, slightly in favour of living together using the MIS weightings and apart using the official OECD equivalence scale.

Figure 3 Only father working (full time): Couple penalty as percentage of family needs

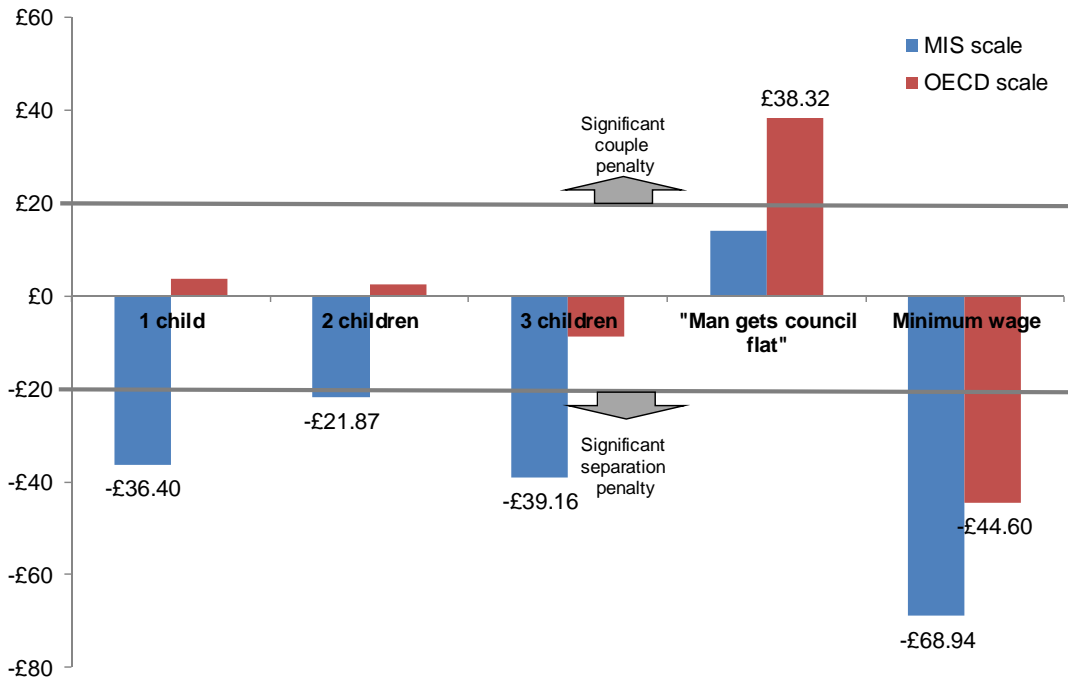


The last two pairs of bars in Figure 3 show variations, based on a two-child family. One scenario that would improve the incentive to live apart is if the

additional rent involved in running two households were contained because the single person was able to rent a flat from a social housing provider at a low rent: we call this the 'man gets council flat' scenario. It seems improbable that a couple splitting up would count on such an outcome, but on the other hand it illustrates how a couple already living apart on low rents for some reason may have a financial disincentive to move in together when having children, if the rent saving from doing so were therefore limited. In this scenario, there would be a significant couple penalty on both measures. On the other hand, in another scenario, in which the wage is assumed to be very low but other factors are the same as in the main two child case, there would be a separation penalty.

Overall, then, as with the non-working family, there is no systematic bias in favour of either living together or living apart for this single earner family in percentage terms. Figure 4 shows the same results in terms of the absolute deficit compared with an adequate income. This kind of family still has a shortfall of about 20 per cent compared with what they would need as a minimum, so having the larger requirements associated with living apart does make the shortfall worse in absolute terms. Figure 4 hence shows things tilted more in favour of staying together when considering the absolute shortfall than for the percentage calculation in Figure 3. On a MIS basis, there is no longer a significant couple penalty even if the single man is able to pay a social rent. On either basis, the separation penalty on the minimum wage is very substantial in absolute terms.

Figure 4 Only father working (full time): Couple penalty £ per week (relative to family needs)



Results for dual earner family

Finally, we look at an example of a family where a father is working full time and a mother part time. Even on modest wages, such a family can get close to what they need – for example, in the case of a couple living together with two children, earning £9 an hour, they would have £374 a week after childcare and rent, compared with the £397 that they would need according to the MIS. But to what extent is this ability to meet their needs affected by their living arrangements?

Figure 5 shows that, measured by the MIS, such a family faces a significant couple penalty if they have three children or if the man can rent a flat from a social landlord, but a separation penalty with one child. On the other hand, using the official OECD equivalence scale, there is a clear-cut couple penalty in all of the cases shown, except where there is just one child. Figure 6 shows the same pattern of results when looking at the couple penalty in terms of absolute rather than percentage shortfalls. (This similarity is due to that fact that in these examples, family income is similar to need, so separation no longer has the effect of greatly increasing the absolute amount represented by a given percentage shortfall, due to the higher total needs of the separated family.)

Figure 5 Father working full time, mother half time: Couple penalty as percentage of family needs

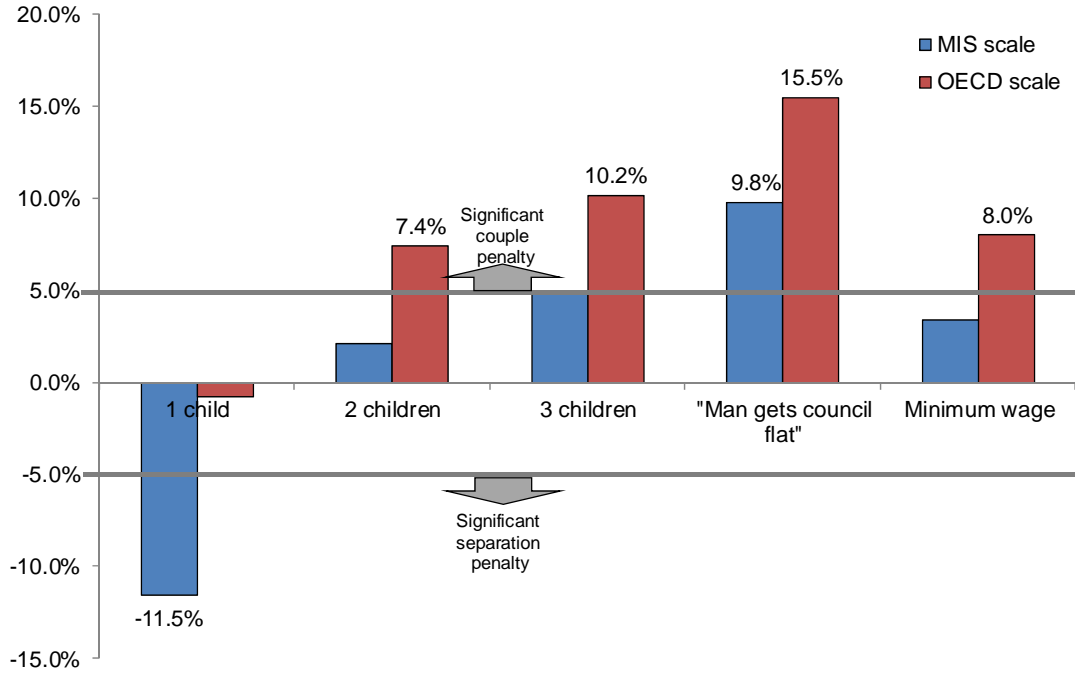
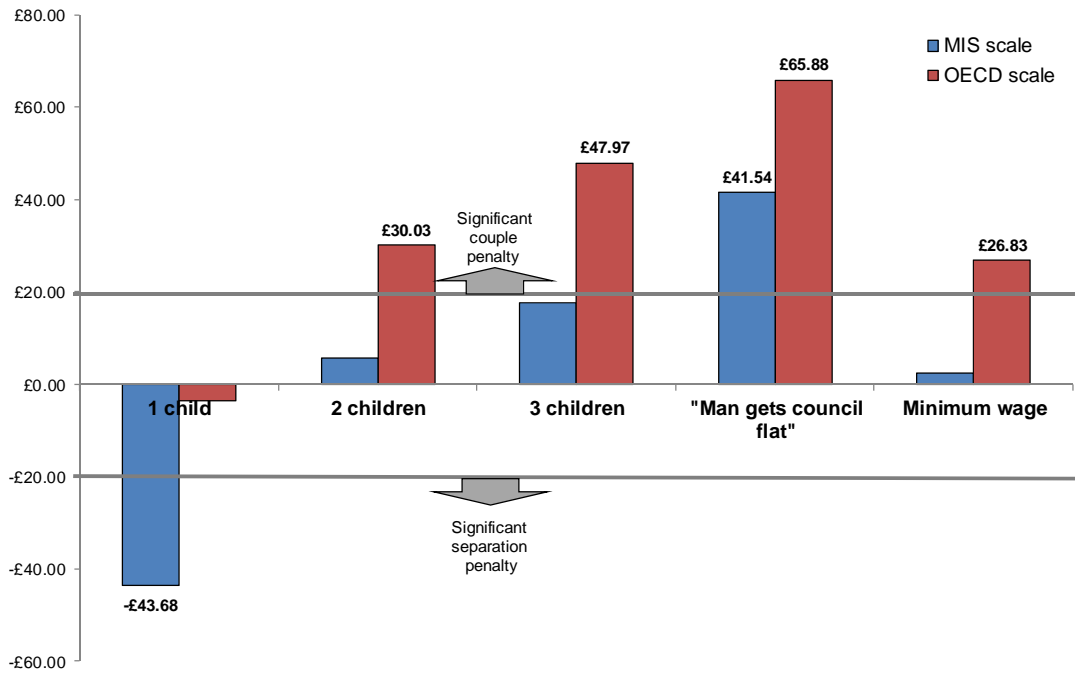


Figure 6 Father working full time, mother half time: Couple penalty £ per week (relative to family needs)



This final set of results shows the one combination of assumptions where a couple penalty is the dominant pattern. This is where it is assumed that there are two workers in the family and where relative needs are measured on the 'official' basis rather than according to the direct results of research into the relative needs of different families.

The above results have considered whether there is a couple or separation penalty in a range of specific scenarios. It is also possible to consider all combinations of the factors examined here (number of children, wages and housing status), to see whether there are more extreme cases. Doing so shows that the highest couple penalty, of 11 per cent or £53 a week (on the MIS basis), occurs for a family with three children, with both partners working for £9 an hour, where the father can get a council flat or similar low rent if he moves out. The highest separation penalty, of 13 per cent or £73, is for a family with one child with a single earner on the minimum wage, where moving out means going into private rented accommodation.

What lies behind these results?

It will by now be evident that the extent to which families are better off living together or apart, or neither, varies considerably according to one's assumptions and according to the specific circumstances of the family in question. This produces no clear overall 'couple penalty' or 'separation penalty'. But what lies behind the effects described here? The following analysis looks, respectively, at the issues of 'equivalence', or the relative needs of different family types, at how this relates to the basic benefits and at the shape of the in-work tax credit and benefits systems.

Equivalence: The relative needs of different households

It can be seen in the results that the official equivalence scales would tend to suggest somewhat higher couple penalties or lower separation penalties than the results of the MIS research. This is quite simply because MIS research finds that the additional cost of two adults living in separate households compared with living as a couple is greater than assumed by the equivalence scales (details below). Put another way, the equivalence scales underestimate economies of scale of living together, according to MIS research. Note also that the equivalence scale used in official comparisons before 2003, the McClements Scale, assumed even smaller economies of scale than the present (OECD) scale. Appendix 1 shows results for the McClements scale as well as for MIS and the OECD scale. In the first of these, the incentives to stay together are weaker than for the comparisons made so far, but the overall pattern is not very different from that described for the OECD scale.

Unlike for MIS, neither of the equivalence scales is linked to evidence about what different family types in the UK today actually do need in order to achieve an equivalent living standard (see Box 2). When the UK Government replaced the McClements scale with the OECD scale, it did so in order to permit international comparability of poverty measurement rather than based on evidence that the new scale more accurately represented need.

Box 2 Equivalence scales and relative income requirements

Economic research in the 1970s and the 1980s sought to use an indirect method of considering the relationship between household composition, income and economic well-being ('welfare'). This involved considering how spending patterns vary across different types of household according to income. Poorer households

spend proportionately more on certain categories of goods and services, and the extent to which a household's spending is concentrated on such items ('necessities') can be seen as an indicator of the family's welfare. If, for example, a larger family with twice the income of a smaller one spends the same on necessities, this method estimates that the larger family needs twice the income to achieve an equivalent welfare level.

One such study (McClements, 1977) was the basis for the scale used for measuring poverty in the UK until 2003. A review of how economic models had sought to construct such scales (Banks and Johnson, 1993) showed that the answers they provide are influenced by the assumptions fed into them and concluded: 'The construction of an ideal equivalence scale is likely to defeat the ingenuity of economists' (p72).

The OECD scale used in present poverty measurement by the UK Government was devised as a rough compromise between scales previously used in individual countries. Its main purpose was to have a common basis for comparison. It starts from the simple principle that the need of the second person in a couple is half that of the first (i.e. a single person requires two-thirds as much as a couple) – an entirely plausible assumption, which is easy to understand rather than scientifically accurate. The OECD itself has so little confidence in this scale that it has recently abandoned it for a new, equally arbitrary version, based on the assumption that the needs of a family are proportional to the square root of the number of people it contains (e.g. four people need only twice as much as one person, since the square root of four is two, and the square root of one is one). This was adopted because it makes equivalisation easier to compute in income studies, and produces similar results to the previous scale.

Thus, while equivalence scales have not been completely plucked out of the air, they cannot in any sense be described as estimates of the relative needs of different types of family in the UK in 2012. In their main purpose of estimating poverty levels, this may not matter much: the scale that is chosen does not necessarily change greatly the level of poverty reported and, as long as a consistent basis is used, it allows us to monitor trends over time. However, using such scales to assess the fairness of the tax and benefit system is more problematic. As shown in this paper, different scales produce different answers to questions such as 'is there a couple penalty?' Any policy decision based on the answer to such a question needs therefore to consider carefully whether the answer rests on a fair and robust assessment of the relative needs of different families.

On the other hand, the MIS now provides a less arbitrary basis for comparing the overall income needs of singles and couples. It can also be used to consider the extent to which relative benefit levels reflect relative needs.

One simple comparison is between, on the one hand, the weightings for single adults compared with couples produced by these different criteria and, on the other, the weightings for singles and couples in out-of-work benefits. Since basic benefits such as Income Support are not designed to cover rent, this initial calculation needs to consider relative needs net of housing costs. (At least in situations where housing benefits covered all of their rent whether a couple lived together or apart, the relationship between Income Support and everyday living costs after rent would determine incentives.)

In the McClements scale originally used in the UK, a single adult is considered to require 55 per cent as much as a couple, after housing costs. In the OECD scale, the equivalent is 58 per cent. In the MIS calculations, the figure is substantially higher (for details of calculations, see Appendix 2). A single person without children requires a budget 63 per cent as high as that of a couple without children, once taxes and rent have been paid. For families with children, when considering an equivalent figure comparing the needs of having one adult or two, the result is similar, although this adult-based difference actually varies somewhat according to the number of children in the family (which create different contexts for overall family spending). In the most common sized family, with two children, the figure is also 63 per cent. For some other families it works out higher (69 per cent with one child; 66 per cent with three children) but given that over two-thirds of single-unit non-pensioner households have either two children or no children, the 63 per cent figure represents a reasonable benchmark.

This finding from MIS that a single person needs 63 per cent as much as a couple, rather than 55 per cent or 58 per cent as assumed by the equivalence scales, suggests that these scales understate the real needs of singles compared with couples. Looked at another way, the MIS results show that two adults living apart together need 2×63 per cent or 126 per cent of a couple, so the couple needs $100/126$ or 79 per cent as much together as living apart. Thus, the couple needs 21 per cent less than the two singles (100-79), which represents the economy of scale gained from living together. The two equivalence scales referred to above imply much smaller economies of scale, amounting to just 9 per cent and 14 per cent respectively calculated on the same

basis.

Equivalence and basic benefit rates

We can now compare these weightings with the amounts paid to single adults and to couples in Income Support or Jobseekers Allowance. These amounts are presently £67.50 for a single person and £105.95 for a couple. In terms of 'after housing cost' income, this means that a single person has around 62 per cent as much as a couple.¹

Thus the disposable income of a single as a percentage of a couple on Income Support (62 per cent) is very similar to the percentage that MIS calculates is required (63 per cent). Using either of the equivalence scales, the benefits system would appear to overestimate the needs of singles compared with couples, at 55 per cent and 58 per cent respectively, after housing costs.

This finding raises the interesting question of why, if benefits overestimate needs in favour of singles using equivalence scales, there is no significant couple penalty on benefits shown in the main calculations used in this paper (even on the McClements scale it is only 1.5 per cent with two children). The answer is somewhat complex. In summary, the less favourable effect in terms of benefits for adults when they live together, relative to these scales, is offset by a more favourable effect, relative to household needs, of benefits for their children. The equivalence scales assume that children need rather little compared with adults: in the OECD scale, two children living with a couple are assumed only to add 40 per cent to the costs of the two adults. In fact, benefits for children provide more than this amount. So the presence of children helps reduce percentage shortfall compared with overall presumed need. However, the extent that it does so depends on the ratio of this 'surplus' children's income to the needs of adults. In separated families, the latter is higher: two adults need more when they live apart. So the relative degree to which 'more than adequate' children's benefits (using equivalence scales) offset inadequate adult benefits is smaller in separated families, making up for the fact that these families appear a bit better off in terms of adult benefits on these scales.

The structure of in-work tax credits and benefits

The variable results shown in the calculations about an in-work couple penalty in this paper reflect the fact that low income families face multiple conditions affecting their net incomes. These include eligibility or otherwise for Housing

Benefit and Council Tax Benefit and the structure of the 'tapering' (reduction with rising income) of tax credits. Families of different sizes and on different levels of earnings face different effects when living together or apart.

Overall, the results suggest more evidence of a couple penalty, or less of a separation penalty, where families earn somewhat more rather than less. In particular, staying together is relatively less favourable where there are two earners in a low-wage family than one, and where wages are somewhat above the minimum wage rather than on the minimum wage.

A general explanation for this is that for a family on very low earnings, there are very large in-work benefits and tax credits that do not increase proportionately to cover the new costs of the single person household of the partner who moves out (because in-work benefits for people without children are much less generous). Families with less low earnings have more modest entitlements as couples, and therefore less to lose in this respect. This applies especially to Housing Benefit, which runs out quickly as earnings rise above a very basic level.

Thus, it is interesting to note that, contrary to the popular assumption that the more dependent on the state families are the more they are being encouraged to break up, there is a significant influence in the opposite direction (at least within families on low incomes). In fact, using MIS assumptions, this shows not that somewhat higher earnings are likely to create a couple penalty, but that having very low earnings are likely to make separation more damaging than if the family earned a bit more. Appendix 3 sets out a specific example of exactly how the system can raise the separation penalty for a family on the lowest earnings.

An important question about in-work tax credits and the couple penalty is why the structure of the Working Tax Credit (WTC) does not appear to create a more systematic penalty for staying together. The WTC pays the same rate for a couple as for a lone parent, even though the former clearly have higher spending needs.

This feature of the tax credit system seems unfair to many people, and helps explain why most child poverty in working families occurs where parents are living together rather than apart. However, it does not necessarily create a direct incentive to split up, since where a couple receiving WTC separates, it does not follow that the value of WTC will double. In the case of a couple where a father who is the sole earner leaves to set up a new single person household, he will no longer be eligible for the family WTC rate, and in all probability will get no tax

credits at all (because he is above the income threshold), while his partner will receive Income Support rather than WTC (because she is not working).

If, on the other hand, both parents are working, in the pattern shown in this paper, the lone parent is likely to get WTC after splitting up, but the combined income of the couple may be too high to be eligible at all when together. Here, the favourability of the present tax credit system to a lone parent working part time for more than 16 hours does do much to help support the extra cost of separation (although does not necessarily overcompensate it). However, the single WTC rate itself is not the deciding factor.

Limitations and wider issues

This paper has set out to answer a fairly narrow question: does the tax and benefit system make families with children materially better or worse off if they live separately? This is an important question to answer because the suggestion that the answer is 'yes' could be used as a rationale for altering relative benefit entitlements. However, it is only part of the picture. Some wider factors likely to influence the overall picture are noted below. In addition to these factors, we must also acknowledge that the most important rationales for couples to live together or apart have nothing to do with public policy but with things such as love, faithfulness and the social and emotional well-being of children.

The dynamics of family formation

The above analysis has made a 'static' comparison between families living together and apart. However, in practice, there may be different considerations applying to whether a couple should move in together or to split up. One consideration will be the extent to which they know in advance what kind of living situation will result from such decisions. For example, a parent considering whether to move in with their partner and children may have a much better idea of the cost (especially for housing) of living on their own than someone who has to move out and seek accommodation.

Family arrangements cannot be switched on and off like a tap, and the consequences of a decision to live together or not can have effects over a long period – over which the earnings and employment status of those involved can vary considerably. Many people on low incomes have irregular working patterns.

Thus, while the above calculations make specific assumptions about work and wages, family decisions cannot be made based on reliable 'better off calculations' that accurately reflect an uncertain future. Were we to have concluded that, across a range of circumstances, there was a clear and systematic couple or separation penalty, this would be relevant for people's decision-making. Saying that in some circumstances you are better off and in some worse off as a couple is less likely to have an influence.

This paper has not considered repartnering. It would be difficult for tax and benefit incentives to be structured in a way that took this into account.

Housing options

An important difficulty with measuring a couple penalty, especially for working families, is that a calculation is heavily dependent on how much more it costs to live in two homes than one, which in turn depends on the specifics of housing costs. This paper has assumed that rent for the home with the children in remains constant, and shown two different examples of what a separated single adult might pay.

However, in practice, there may be many other specific individual circumstances in which housing choices play a significant part in determining the well-being of families with children. One scenario is that a couple living in unsatisfactory housing has less priority for social housing than would a lone parent if the family separated. This could create a perverse incentive for separation. This, however, is an issue for housing supply and/or allocation rather than for the benefits system.

Fraud

Some calculations of a 'couple penalty' have been based on the greater total transfers received from the state by people living apart than living together. While this does not account for the greater living costs in the former situation, it could be argued that this provides an incentive to *pretend* that you are living apart, without actually incurring the extra cost of doing so. The existence of such financial advantages may thus be said to encourage fraud.

Could this be an argument for restricting the amount the members of a family could gain, in absolute terms, in transfers from the state as a result of splitting up, in order to reduce incentives to fraud? This would be a dangerous argument, since it would be using the possibility of fraud to restrict the level of social protection given to people (such as abandoned lone parents) in genuine need. A similar argument could be used to reduce support for people unable to find work, in order to tackle fraud among people who work but pretend not to be working. A more appropriate response is to tackle the fraud itself.

Belief

In 2008, a poll of people on benefits and in part-time work, commissioned for the Centre for Social Justice's *Dynamic Benefits* report (p.114), showed that 53 per cent of respondents thought that couples on low incomes would be materially

better off living apart than together, and only 16 per cent thought the reverse. This belief has perhaps been encouraged by political statements about a couple penalty, which was becoming a prominent theme at that time. It may also be encouraged by anecdote and personal experience of cases where individuals are perceived to have 'played the system'. It is not, however, helpful to such perceptions if it is publicly suggested, against the evidence, that benefits specifically over-compensate lone parents for their family's living costs compared with what they would get as a couple. The risk is that this could help create the very behavioural effects that critics of a 'couple penalty' are concerned about.

Conclusion

This paper set out to ask whether there is evidence to show, as some have asserted, that there is a systematic penalty in the tax and benefit system for couples with children on low incomes to stay together. It has found that the clear answer to this question is no.

The calculation of such a penalty depends on which examples of family circumstances one chooses, and on crucial assumptions about the amount that single adults have to spend compared with couples in order to reach an equivalent standard of living.

Figure 7 gives a snapshot of the overall results. The most clear-cut evidence is for out-of-work benefits, where *no cases of a significant couple penalty were detected in this analysis*. This involved comparing the benefits received by families living together and living apart to their relative spending needs, ignoring housing costs, which are covered separately for people on benefits. Whether judging needs by the MIS or by the official 'equivalence scale', the greatest 'couple penalty' detected amounts to a negligible 0.1 per cent of what a family needs. Using the MIS criteria, splitting up would make families on benefits between 4 and 6 per cent worse off relative to their needs, depending on the number of children. Moreover, creating two separate households would 'raise the stakes' in terms of the absolute cost of making good the shortfall between benefit income and what families need to meet a minimum acceptable living standard. Typically, their disposable income is about a third below minimum requirements: borrowing to spend a higher proportion of these requirements would cost more where a family separation has raised the overall amount that family members require.

Figure 7 Summary of results

Scenario*	MIS scale					OECD scale				
	One child	Two child	Three child	Cncl flat	Min wage	One child	Two child	Three child	Cncl flat	Min wage
Out of work	Blue	Grey	Grey	Grey	na	Grey	Grey	Grey	Grey	na
Single earner	Grey	Grey	Grey	Red	Blue	Grey	Grey	Grey	Red	Blue
Dual earner	Blue	Grey	Grey	Red	Grey	Grey	Red	Red	Red	Red

Key

- Couple penalty at least 5% of family need
- Separation penalty at least 5% of family need
- Neither couple nor separation penalty

*Council flat scenario is where man gets council flat. That and minimum wage scenario are for families with two children. Wage is £9 an hour unless otherwise shown.

For working families on low incomes, the picture is more complex and varied according to specific circumstances. Wage rates, the amount of work in the family and housing costs interact with the benefits and tax credits system in complex ways. However, there is no consistent couple penalty for working families with low incomes. The factor that is most likely to create a couple penalty is if someone is able to move out of the family to a very cheap living situation, such as renting a council flat, and thereby contain the increase in the overall living costs of the individuals involved. On the other hand, other factors such as having a single earner on a low wage, or having only one child, appear to be associated with a high cost of separation.

The use of the MIS scale, which uses research into minimum living costs to show greater economies of living in a couple than the official equivalence scales, suggests that separation penalties are larger and couple penalties smaller than those scales would suggest. Indeed, it shows no case of significant couple penalty other than in the scenario where the absent parent is able to live cheaply in social housing. Moreover, even the official scale used by the Government (the OECD scale) does not show a clear-cut economic advantage for families on low earnings to split up. In the single earner cases shown here, it shows a couple penalty in one scenario, a separation penalty in one scenario and no difference in the other three. On the other hand, for a couple with two earners, it shows a substantial couple penalty in all but one of the five scenarios looked at here. So an in-work couple penalty can be identified for a particular group of couples on a particular set of assumptions.

When the precise terms of the Universal Credit are known, it will be possible to see whether it replicates or changes these patterns. For working families, a key decision will be exactly how much income to disregard in the case of lone parents and couples before withdrawing the credit with rising earnings. But the most basic question will be the level at which to set the main component of the credit itself: this will affect entitlements both in and out of work. Existing Income Support rates are the starting point for this decision. The implication of statements about benefit rates creating an incentive to split up is that the Government would like to increase the gap between the single adult and couple elements of this support. To do so on this basis would be profoundly mistaken. The most clear-cut conclusion of this paper is that there is no evidence of a couple penalty in out-of-work benefits.

Notes

1. Actually the single Income Support rate is 64 per cent of the couple rate, but a precise calculation that is compatible with the way 'After Housing Cost' income is calculated elsewhere requires water costs to be subtracted from income in both cases. Here, we use the researched MIS figures to represent water costs.

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Appendix 1

Detailed calculations of couple penalty by scenario

Table 1 Basis for benchmarks using equivalisation

2009/10 77% Median After Housing Costs (AHC)	274.12
Earnings increase (Labour Force Survey – October 2009 to April 2011, average weekly earnings)	1.034
April 2011 estimate	283.36

Equivalisation weightings AHC	OECD	McClements
First adult	0.58	0.55
Second adult	0.42	0.45
Child aged 12	0.2	0.25
Child aged 7	0.2	0.21
Child aged 3	0.2	0.18

Actual benchmarks shown in the following tables are derived by adding up weightings for the children involved, adding first and second adult for a couple together and two times first adult for living apart, and multiplying the total by £283.36. The benchmark for MIS adds together all living cost elements other than rent, council tax, childcare and water charges (water charges are counted as a housing cost), using the Minimum Income Calculator at www.minimumincome.org.uk. This calculator is also used to calculate net income in the different scenarios, from which council tax, childcare and water are subtracted.

A minor technical anomaly in the MIS calculations of water charges (due to differences in the water suppliers specified by different household groups), showing higher water costs for a lone parent with two children than for a couple with two children, is adjusted in these calculations in order not to imply a more favourable position for couples than actually exists (we assume lone parent has the same charge as the couple in this case).

Table 2 Results for one child case

Based on a couple plus one child aged 7. Wage is £9 per hour and rent is a council rent for the parent living with children and a private sector rent for the single (25th percentile, England, one bedroom).

Income benchmarks Apr 2011: AHC income not including childcare (£ per week)				
	OECD 77% median	McClements 77% median*	MIS	
Together	340.03	342.87	322.10	
Apart	385.37	371.20	407.50	
*McClements scale used for weighting, but base figure is equivalised income as calculated using OECD scale.				
Couple penalty: percentage above or below needs				
	Actual income net of rent, c tax, water	Comparison to benchmarks		
		% OECD	% McClements	% MIS
a) Neither working				
Together	177.53	-47.8%	-48.2%	-44.9%
Apart	201.42	-47.7%	-45.7%	-50.6%
%pts couple pen		0.1%	2.5%	-5.7%
b) Father working full time, mother not working				
Together	253.68	-25.4%	-26.0%	-21.2%
Apart	302.68	-21.5%	-18.5%	-25.7%
%pts couple pen		3.9%	7.6%	-4.5%

c) Father working full time, mother half time				
Together	334.75	-1.6%	-2.4%	3.9%
Apart	376.47	-2.3%	1.4%	-7.6%
%pts couple pen		-0.8%	3.8%	-11.5%
Couple penalty (£s) based on difference between actual income and needs				
	Actual net income	Comparison to benchmarks (difference)		
		OECD	McClements	MIS
a) Neither working				
Together	177.53	-162.50	-165.34	-144.57
Apart	201.42	-183.95	-169.78	-206.08
£s couple pen		-21.45	-4.45	-61.51
b) Father working full time, mother not working				
Together	253.68	-86.35	-89.19	-68.42
Apart	302.68	-82.69	-68.52	-104.82
£s couple pen		3.66	20.66	-36.40
c) Father working full time, mother half time				
Together	334.75	-5.29	-8.12	12.65
Apart	376.47	-8.90	5.26	-31.03
£s couple pen		-3.62	13.38	-43.68

Table 3 Results for two child case

Based on a couple plus one child aged 3 and one child aged 7. Wage is £9 per hour and rent is a council rent for the parent living with children and a private sector rent for the single (25th percentile, England, one bedroom).

Income benchmarks Apr 2011: AHC income not including childcare (£ per week)				
	OECD 77% median	McClements 77% median*	MIS	
Together	396.70	393.87	397.01	
Apart	442.04	422.21	466.69	
*McClements scale used for weighting, but base figure is equivalised income as calculated using OECD scale.				
Couple penalty: percentage above or below needs				
	Actual income net of rent, c tax, water	Comparison to benchmarks		
		% OECD	% McClements	% MIS
a) Neither working				
Together	241.98	-39.0%	-38.6%	-39.0%
Apart	265.87	-39.9%	-37.0%	-43.0%
%pts couple pen		-0.9%	1.5%	-4.0%
b) Father working full time, mother not working				
Together	319.32	-19.5%	-18.9%	-19.6%
Apart	367.13	-16.9%	-13.0%	-21.3%
%pts couple pen		2.6%	5.9%	-1.8%

c) Father working full time, mother half time				
Together	373.81	-5.8%	-5.1%	-5.8%
Apart	449.18	1.6%	6.4%	-3.8%
%pts couple pen		7.4%	11.5%	2.1%
Couple penalty (£s) based on difference between actual income and needs				
	Actual net income	Comparison to benchmarks (difference)		
		OECD	McClements	MIS
a) Neither working				
Together	241.98	-154.72	-151.89	-155.03
Apart	265.87	-176.17	-156.34	-200.82
£s couple pen		-21.45	-4.45	-45.79
b) Father working full time, mother not working				
Together	319.32		-74.5504	-77.69
Apart	367.13	-74.91	-55.08	-99.56
£s couple pen		2.47	19.47	-21.87
c) Father working full time, mother half time				
Together	373.81	-22.89	-20.06	-23.20
Apart	449.18	7.14	26.97	-17.51
£s couple pen		30.03	47.03	5.69

Table 4 Results for three child case

Based on a couple plus one child aged 3, one child aged 7 and one child aged 11. Wage is £9 per hour and rent is a council rent for the parent living with children and a private sector rent for the single (25th percentile, England, one bedroom).

Income benchmarks Apr 2011: AHC income not including childcare (£ per week)				
	OECD 77% median	McClements 77% median*	MIS	
Together	453.38	464.71	493.79	
Apart	498.71	493.05	569.48	
*McClements scale used for weighting, but base figure is equivalised income as calculated using OECD scale.				
Couple penalty: percentage above or below needs				
	Actual income net of rent, c tax, water	Comparison to benchmarks		
		% OECD	% McClements	% MIS
a) Neither working				
Together	301.26	-33.6%	-35.2%	-39.0%
Apart	325.15	-34.8%	-34.1%	-42.9%
%pts couple pen		-1.3%	1.1%	-3.9%
b) Father working full time, mother not working				
Together	389.88	-14.0%	-16.1%	-21.0%
Apart	426.41	-14.5%	-13.5%	-25.1%
%pts couple pen		-0.5%	2.6%	-4.1%

c) Father working full time, mother half time				
Together	426.54	-5.9%	-8.2%	-13.6%
Apart	519.85	4.2%	5.4%	-8.7%
%pts couple pen		10.2%	13.7%	4.9%
Couple penalty (£s) based on difference between actual income and needs				
	Actual net income	Comparison to benchmarks (difference)		
		OECD	McClements	MIS
a) Neither working				
Together	301.26	-152.12	-163.45	-192.53
Apart	325.15	-173.56	-167.90	-244.33
£s couple pen		-21.45	-4.45	-51.80
b) Father working full time, mother not working				
Together	389.88	-63.50	-74.83	-103.91
Apart	426.41	-72.30	-66.64	-143.07
£s couple pen		-8.81	8.19	-39.16
c) Father working full time, mother half time				
Together	426.54	-26.84	-38.17	-67.25
Apart	519.85	21.14	26.80	-49.63
£s couple pen		47.97	64.97	17.62

Table 5 Results for ‘man gets council flat’ case

Based on a couple plus one child aged 3 and one child aged 7. Wage is £9 per hour and rent is a council rent for all.

Income benchmarks Apr 2011: AHC income not including childcare (£ per week)				
	OECD 77% median	McClements 77% median*	MIS	
Together	396.70	393.87	397.01	
Apart	442.04	422.21	466.69	
*McClements scale used for weighting, but base figure is equivalised income as calculated using OECD scale.				
Couple penalty: percentage above or below needs				
	Actual income net of rent, c tax, water	Comparison to benchmarks		
		% OECD	%McClements	%MIS
a) Neither working				
Together	241.98	-39.0%	-38.6%	-39.0%
Apart	265.87	-39.9%	-37.0%	-43.0%
%pts couple pen		-0.9%	1.5%	-4.0%
b) Father working full time, mother not working				
Together	319.32	-19.5%	-18.9%	-19.6%
Apart	402.98	-8.8%	-4.6%	-13.7%
%pts couple pen		10.7%	14.4%	5.9%
c) Father working full time, mother half time				
Together	373.81	-5.8%	-5.1%	-5.9%
Apart	485.03	9.7%	14.9%	3.9%
%pts couple pen		15.5%	20.0%	9.8%

Couple penalty (£s) based on difference between actual income and needs				
	Actual net income	Comparison to benchmarks (difference)		
		OECD	McClements	MIS
a) Neither working				
Together	241.98	-154.724	-151.8904	-155.03
Apart	265.87	-176.1716	-156.3364	-200.82
£s couple pen		-21.45	-4.45	-45.79
b) Father working full time				
Together	319.32	-77.384	-74.5504	-77.69
Apart	402.98	-39.0616	-19.2264	-63.71
£s couple pen		38.32	55.32	13.98
c) Father working full time,				
Together	373.81	-22.89	-20.06	-23.20
Apart	485.03	42.99	62.82	18.34
£s couple pen		65.88	82.88	41.54

Table 6 Results for ‘minimum wage’ case

Based on a couple plus one child aged 3 and one child aged 7. Wage is £5.93 per hour (national minimum wage April 2011) and rent is a council rent for the parent living with children and a private sector rent for the single (25th percentile, England, one bedroom).

Income benchmarks Apr 2011: AHC income not including childcare (£ per week)				
	OECD 77% median	McClements 77% median*	MIS	
Together	396.70	393.87	397.01	
Apart	442.04	422.21	466.69	
*McClements scale used for weighting, but base figure is equivalised income as calculated using OECD scale.				
Couple penalty: percentage above or below needs				
	Actual income net of rent, c tax, water	Comparison to benchmarks		
a) Neither working		% OECD	%McClements	%MIS
Together	241.98	-39.0%	-38.6%	-39.0%
Apart	265.87	-39.9%	-37.0%	-43.0%
%pts couple pen		-0.9%	1.5%	-4.0%
b) Father working full time, mother not working				
Together	314.55	-20.7%	-20.1%	-20.8%
Apart	315.29	-28.7%	-25.3%	-32.4%
%pts couple pen		-8.0%	-5.2%	-11.7%

c) Father working full time, mother half time				
Together	320.67	-19.2%	-18.6%	-19.2%
Apart	392.84	-11.1%	-7.0%	-15.8%
%pts couple pen		8.0%	11.6%	3.4%
Couple penalty (£s) based on difference between actual income and needs				
	Actual net income	Comparison to benchmarks (difference)		
		OECD	McClements	MIS
a) Neither working				
Together	241.98	-154.72	-151.89	-155.03
Apart	265.87	-176.17	-156.34	-200.82
£s couple pen		-21.45	-4.45	-45.79
b) Father working full time, mother not working				
Together	314.55	-82.15	-79.32	-82.46
Apart	315.29	-126.75	-106.92	-151.40
£s couple pen		-44.60	-27.60	-68.94
c) Father working full time, mother half time				
Together	320.67	-76.03	-73.20	-76.34
Apart	392.84	-49.20	-29.37	-73.85
£s couple pen		26.83	43.83	2.49

Table 7 Results for ‘high couple penalty’ case

Based on a couple plus one child aged 3, one child aged 7 and one child aged 11. Wage is £9 per hour and rent is a council rent for all.

Income benchmarks Apr 2011: AHC income not including childcare (£ per week)				
	OECD 77% median	McClements 77% median*	MIS	
Together	453.38	464.71	493.79	
Apart	498.71	493.05	569.48	
*McClements scale used for weighting, but base figure is equivalised income as calculated using OECD scale.				
Couple penalty: percentage above or below needs				
	Actual income net of rent, c tax, water	Comparison to benchmarks		
		OECD	McClements	MIS
Father working full time, mother half time				
Together	426.54	-5.9%	-8.2%	-13.6%
Apart	555.70	11.4%	12.7%	-2.4%
%pts couple pen		17.3%	20.9%	11.2%
Couple penalty (£s) based on difference between actual income and needs				
Together	426.54	-26.84	-38.17	-67.25
Apart	555.70	56.99	62.65	-13.78
£s couple pen		83.82	100.82	53.47

Table 8 Results for ‘high separation penalty’ case

Based on a couple plus one child aged 7. Wage is £5.93 (national minimum wage April 2011) and rent is a council rent for the parent living with children and a private sector rent for the single (25th percentile, England, one bedroom).

Income benchmarks Apr 2011: AHC income not including childcare (£ per week)				
	OECD 77% median	McClements 77% median*	MIS	
Together	340.03	342.87	322.10	
Apart	385.37	371.20	407.50	
*McClements scale used for weighting, but base figure is equivalised income as calculated using OECD scale.				
Couple penalty: percentage above or below needs				
	Actual income net of rent, c tax, water	Comparison to benchmarks		
		OECD	McClements	MIS
Father working full time, mother not working				
Together	238.70	-29.8%	-30.4%	-25.9%
Apart	250.84	-34.9%	-32.4%	-38.4%
%pts couple pen		-5.1%	-2.0%	-12.6%
Couple penalty (£s) based on difference between actual income and needs				
Father working full time mother not working				
Together	238.70	-101.33	-104.17	-83.40
Apart	250.84	-134.53	-120.36	-156.66
£s couple pen		-33.20	-16.20	-73.26

Appendix 2

A weighting for singles compared with couples in the Minimum Income Standard

The following calculations consider the relative needs of single adults and couples in the MIS. These relative adult needs can vary somewhat according to the number of children in the family. For example, where a couple separates, the joint food bill will be greater because of fewer economies of scale (for example, by buying larger packs of food). However, the saving will be different in the context of a couple without children (having now to shop twice for one person rather than once for a couple) and a couple with two children (moving from a four-person shop to a one-person and a three-person shop), due to the specifics of the prices of food in different quantities.

Each calculation here compares the after housing cost budgets for couples and singles with a given number of children. The difference between these amounts represents the additional cost of having a second adult in the household. This is compared with the overall cost of a couple, using the MIS budget for a couple without children – just as equivalence scales express weightings relative to a benchmark case of a couple without children. The single person's weighting as a percentage of a couple is calculated as one minus the percentage difference between single person and couple costs.

Table 9 Equivalisation – Minimum Income Standard after housing costs 2011 (£ per week)

Number of children	Couple budget	Single adult budget	Difference £s (how much couple costs compared with single)	Difference as proportion of couple without children (£262.10)	Implied single weighting
No children	262.10	165.57	96.53	0.37	0.63
One child aged 1	302.49	222.01	80.48	0.31	0.69
Two children age 3 and 7	396.99	301.12	95.87	0.37	0.63
Three children aged 3, 7 and 11	493.76	403.89	89.87	0.34	0.66

Appendix 3

An example of how lower earnings can make people relatively worse off as a result of separation

The figures presented above show a substantial separation penalty, based on MIS figures, for single earner couples, which was £47 greater for someone on the minimum wage of £5.93 an hour in April 2011 than for someone earning the much higher wage of £9 an hour. Table 10 shows these figures, together with the different amounts that people receive from the state in each case.

The £47 difference in the separation penalty is accounted for by the fact that additional tax credit support available to help cover the extra cost of two households is £36 greater where the man earns £9 an hour than £5.93, while the additional Housing Benefit support is £11 higher.

The reason for this lies mainly with the amount that the couple with children receives in state support. The situation of the non-working partner who becomes a lone parent is unaffected by the wage of her partner. The situation of the working man who sets up a household on his own is affected only a bit, because even on the minimum wage he has only a small entitlement to tax credits and Housing Benefit. Once this has run out, he can keep 68 per cent of his additional earnings, after paying tax and national insurance. On the other hand, the couple with two children receive tax credits, Housing Benefit and Council Tax Credit, and lose all of these as they earn more. Along with tax and national insurance, this allows them to keep only about 5p of each extra pound that the man earns, up to about £9 an hour.

As a consequence, the man's additional earnings from the higher wage produce over £50 a week net when he is living on his own, but less than £5 when he is living in a couple. This makes things *relatively* more favourable for a family that splits up on this higher rate of pay – because more earnings are going into the father's pocket rather than being reflected in reduced entitlements. However, as noted above, this still does not create a couple penalty in this particular higher earning case: it just reduces the net cost of separation.

Table 10 Situation of a couple with one full time earner, on two different wage rates

Needs compared with income			
Min wage	MIS need	Actual	Difference
Together	397.01	314.55	-82.46
Apart	466.69	315.29	-151.40
£s separation penalty			68.94
£9/hr	MIS need	Actual	Difference
Together	397.01	319.32	-77.69
Apart	466.69	367.13	-99.56
£s separation penalty			21.87
What the state pays			
Min wage	Tax credits + Income Support	Housing Benefit + Council Tax Benefit	
Couple	156.64	32.01	
Lone mother	175.79	92.89	
Separated father	11.04	15.41	Total
How much less together than apart	30.19	76.29	106.48
£9/hr			
Couple	109.58	5.70	
Lone mother	175.79	92.89	
Separated father	0	0	Total
How much less together than apart	66.21	87.19	153.40

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www.jrf.org.uk/work/workarea/minimum-income-standards

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