

## Keeping more of what you earn

By the end of this parliament Universal Credit (UC) is expected to be fully rolled out. This new integrated benefits system for people both in- and out-of-work will shape the living standards of the lowest income families in the UK. Part of the rationale for UC was making sure people are better off working. It is right that families should be able to better their living standards through work, yet in the UK today, the majority of people experiencing poverty live in working households.

JRF is calling for people to be able to keep more of what they earn under Universal Credit in order to reduce in-work poverty, delivered by increasing work allowances.

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### Key points

- Working poverty is highest among lone parents and couples with children with only one earner or where no one works full time.
- Among households in working poverty that do not have all adults in full time work, over four in 10 have children of primary school age or below; two in 10 have children under the age of three. Some three in 10 contain a family member with a disability.
- JRF is calling for people to be able to keep more of what they earn under Universal Credit to reduce in-work poverty. Restoring the Work Allowances in Universal Credit to their original level would result in 340,000 fewer people in poverty in 2020/21. The majority of those benefitting would be lone parent families (150,000 fewer people in poverty) and couples with children (160,000 fewer). It would cost an estimated £3.4billion in that year.
- Priority should be given to lone parents and couples with children as they are more likely to face working poverty. Restoring the original work allowance for lone parents would cost £1.2billion in 2020/21 and for couples with children, £0.9bn.

## Who experiences working poverty?

Work provides protection against poverty as long as it is full time or - for couples - one full-time and one part-time worker. The likelihood of working poverty is greatest for families where no one is in full time work, couples with only one earner and lone parents.

Some 5.9 million working-age adults and children in working families are in poverty (not including those in families with self-employed adults). Almost three in 10 working-age adults and children in lone parent families are in poverty even when the adult works full time, and more than three in 10 in single-earner couple families with children are in poverty. By comparison, the likelihood of poverty is lower in families with two adults working full time (table 1).

Table 1: Poverty rate and number of people in poverty by family status and work status (working-age adults and children only, 2015/16)

Family type	Work status	Poverty rate	Number in poverty
Single, no children	Full time	9%	473,000
	Part time	28%	402,000
Couple, no children	Two full-time workers	2%	93,000
	One full-time worker, one part-time worker	5%	89,000
	One full-time worker, one not working	18%	348,000
Lone parent	One part time, no full time	26%	228,000
	Full time	28%	388,000
	Part time	36%	585,000
Couple with children	Two full-time workers	5%	277,000
	One full-time worker, one part-time worker	9%	562,000
	One full-time worker, one not working	36%	1,600,000
	One part time, no full time	62%	791,000
<b>TOTAL</b>			<b>5,900,000</b>

Source: JRF analysis of the Family Resources Survey. Analysis does not include families and individuals who are self-employed

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## Why don't people just work more hours to escape poverty?

Self evidently it would be difficult for lone parents already working full time and couples with two full-time earners to work more hours. Looking in more detail at families experiencing working poverty where the adults are not all in full-time work reveals why it might be difficult for some to work more hours:

- More than four in 10 (900,000 families) have children of primary school age or below;
- Two in 10 (400,000 families) have children under the age of three;
- Three in 10 (600,000 families) contain a family member with a disability.

The welcome introduction of the National Living Wage means pay is already being pushed up sharply for some of the UK's lowest earners, and it's important the government delivers on its commitment to keep increasing it. However, even with this commitment, further improvements to living standards will depend on families being able to keep more of what they earn. To achieve this goal JRF recommends increasing the Work Allowances in UC.

**“The one thing I would change about Universal Credit is the wages you're allowed to take home.”**

Quote from participant in Runcorn at JRF-run session on Universal Credit

## The cost and impact of increasing the Work Allowances in Universal Credit

The 2015 Summer Budget announced cuts to tax credits which were not implemented following concern over the impact on ordinary working families. However, cuts to the generosity of UC for people in work were implemented. The work allowances (the amount you can earn before benefits start to be taken away) were cut sharply (see appendix table A1). The taper (the speed with which benefits are taken away) was lowered in 2017 as a compensatory measure, but it falls well short of repairing the damage for some families (table 2). The work allowances cut took £3 billion from working families with the lowest incomes; the lower taper rate has put £0.7 billion back, and favours households with more earnings.

Table 2: Impact of UC changes on the budgets of selected household types, in 2022 (in 2017 prices, per week)

Family type	Impact of the work allowance cut	Impact of the taper being lowered
Lone parent, works full time on NLW	-£16	+£5
Couple with children, one person works full time on NLW, the other not working	-£9	+£5
Couple with children, one person works full time on the NLW, the other part time on NLW	-£9	+£8
Couple with children, both work full time on NLW	- £9	+£10

Source: Hirsch (2017, forthcoming).

Analysis by JRF shows increasing work allowances so they match their original design would result in 340,000 fewer people in poverty in 2020/21 (see appendix for details). Some eight in 10 people escaping poverty as a result would be living in families with children; 150,000 would be in lone parent families and 160,000 would be in couple families with children. These impacts are based only on modelling people being allowed to keep more of their earnings; in reality the effect could larger as it would also increase the incentive for people to work. JRF estimates fully restoring the original work allowance would cost £3.4billion in 2020/21.

Families with children should be the priority as they are more likely to experience working poverty, and are more constrained in the amount of work they can do due to caring responsibilities. What is more, growing up in poverty is known to have a damaging impact on children's life chances. Restoring the original work allowance only for lone parents would cost an estimated £1.2 billion in 2020/21. Doing the same for couples with children would cost £0.9billion.

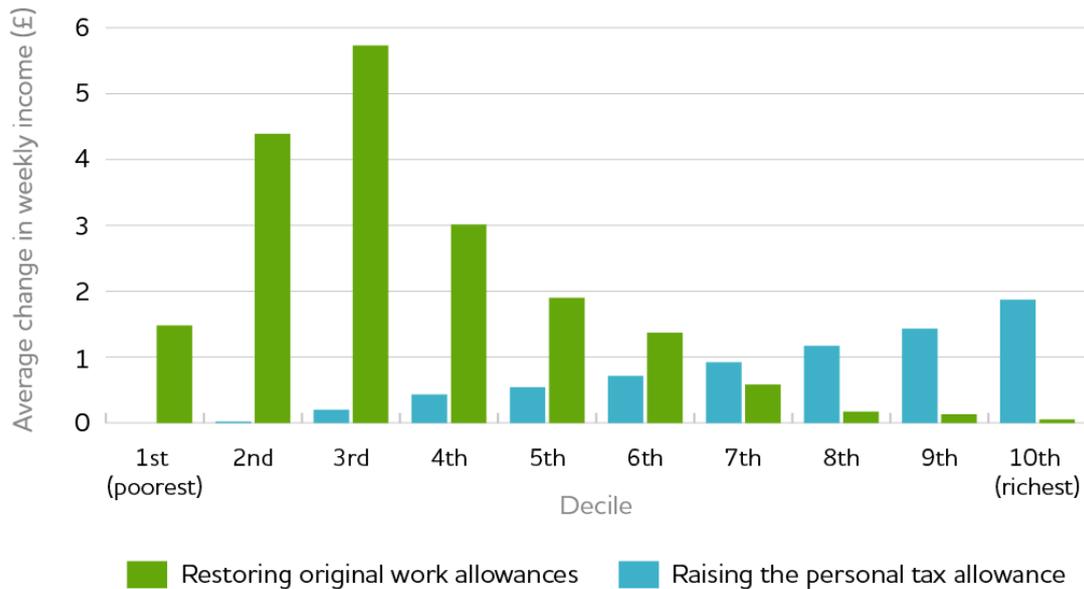
## Universal Credit is a more effective way to help low-income working families than increasing the personal tax allowance

Increasing work allowances is a more effective way to help low-income families than increasing the personal tax allowance (PTA). The Government is committed to raising the personal tax allowance to £12,500 by 2020, and the Higher Rate threshold to £50,000. The Office for Budget Responsibility (OBR) estimates this will cost £1.3 billion in 2020/21 (OBR 2017). This policy will not help people on the lowest incomes. Only £1 in £6 spent on raising the PTA will go to households

in the bottom half of the income distribution. Figure 1 shows the benefit of restoring work allowances to their original design is better targeted at helping low-income families than increasing the personal tax allowance.

JRF recommends delaying or cancelling the increase in the PTA and targeting the money at low-income families.

Figure 1 Average gain to families in different parts of the income distribution (£ per week) of increasing work allowances and increasing the personal tax allowance.



## References

Office for Budget Responsibility (2017) Economic and Fiscal Outlook: March 2017 Available at: <http://cdn.budgetresponsibility.org.uk/March2017EFO-231.pdf>

Hirsch, D (forthcoming, 2017) How is public policy affecting household living standards, York: JRF

## Appendix: methodological note

The analysis of the cost and impact of increasing work allowances was carried out using the IPPR Tax Benefit Model, which is based on the Family Resources Survey. The analysis compared the current work allowances to the original work allowances (see table). The base scenario is tax and benefit policy as announced at the 2017 Spring Budget. Assumptions about earning growth and inflation are as projected by the OBR at the time of the 2017 spring budget. In this scenario, tax thresholds are assumed to go up with CPI inflation.

Table A1: current and original work allowances

		Current work allowance	Original work allowance
Higher work allowance	Single no kids	£0	£111
	Lone parent	£397	£734
	Single/couple – limited capability for work	£397	£647
	Couple no kids	£0	£111
	Couple with kids	£397	£536
Lower work allowance	Single no kids	£0	£111
	Lone parent	£192	£263
	Single/couple – limited capability for work	£192	£192
	Couple no kids	£0	£111
	Couple with kids	£192	£222

The model was used to estimate the impact on relative income poverty (measured as 60% of the median income, equivalised for household size, after housing costs) and the cost of different policy scenarios. The poverty line was recalculated when a scenario had an impact on median income. The analysis assumes Universal Credit (UC) has fully replaced the benefits and tax credits system and does not incorporate transitional protections that will be available to some people when they migrate onto UC. It does not make assumptions about behaviour change. Where it refers to families the analysis is of benefit units. The analysis was carried out by Guoda Cibaite.

The priority scenario was selected on the basis of value for money, measured by the cost per person exiting poverty.

Work allowance scenarios tested:

- Restoring all work allowances to their original design;
- Restoring work allowances only for families with children to their original design;
- Restoring work allowances only for families without children to their original design;
- Raising work allowances in line with CPI from 2018/19; and
- Raising work allowances in line with increases to the personal tax allowance.

It was not possible to reliably model the impact of reversing the work allowance cut for people with limited capability for work.

Analysis of the circumstances of families in working poverty was done using the *Family Resources Survey* dataset. Where it refers to families the analysis is of benefit units.

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## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent organisation working to inspire social change through research, policy and practice.

JRF is working with governments, businesses, communities, charities and individuals to solve UK poverty. The majority of the ideas outlined above were drawn from our recent [strategy to solve UK poverty](#) which contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from [www.jrf.org.uk](http://www.jrf.org.uk)

If you would like to arrange a meeting with one of our experts to discuss the points raised please contact:

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