Welfare Reform Bill Universal Credit

Equality impact assessment

November 2011

Department for Work and Pensions

Universal Credit equality impact assessment

Contents

1. Brief outline of the policy

1. This is an equality impact assessment (EIA) for the Universal Credit measures in the 2011 Welfare Reform Bill ('the Bill'). This is an updated version of the equality impact assessment published in March 2011 and reflects updated policy design issues as set out in the Universal Credit impact assessment.

2. With respect to Universal Credit, the Bill creates a statutory framework within which the new benefit will be implemented through regulations. Therefore the assessment of impact relates to the regulation making powers rather than to the Bill itself.

3. Universal Credit is an integrated working-age credit that will provide a standard allowance with additional elements for children, housing and other particular needs or circumstances such as caring, childcare and disability. It will support people both in **and** out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. Disability Living Allowance and Carers Allowance will not be affected by the introduction of Universal Credit. It will primarily support working age adults and children, up to an upper age limit linked to the qualifying age for Pension Credit.[1]

4. All modelling in this document is based on current policies. Precise estimates of costs and numbers with higher or lower entitlements will not be available until all elements of the policy design are finalised

Making work pay

5. The overarching objective of Universal Credit is to remove the financial and administrative barriers to work inherent in the current welfare system. The reform is designed, by virtue of the single withdrawal rate of Universal Credit, to ensure that work pays and to encourage more people to see work as the best route out of poverty.

6. As an integrated in- and out-of-work benefit, Universal Credit will mean that people will no longer have to take a risk by moving from one system of support to another, addressing the legitimate concern that many people have that they could fall into financial difficulties once their out-of-work claim ends but before their in-work support begins.

7. Universal Credit will make work pay. This will be achieved through a combination of earnings disregards, whereby earnings are not included in

[1] Couples with one partner over and one under the qualifying age for Pension Credit will be eligible for Universal Credit and not Pension Credit as is the case under current rules. This policy is outlined in more detail in annex 1 of the Universal Credit Impact Assessment: http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf

award calculations until they reach a certain point, followed by a simple 'taper' whereby benefits are reduced by a set amount (currently assumed to be 65p) for each additional £1 of post-tax income earned above the disregard.[2]

8. Universal Credit will substantially improve incentives to work in three ways:

- For those moving into work. Many people will be financially better off when they move into work than they would have been under the current system.
- For many, it will improve their incentives to increase hours of work. At present some 0.5 million of households in low paid work lose 80 per cent or more of any marginal increase in earnings and for some it can be as much as 100 per cent. Under Universal Credit, virtually no households will have deduction rates above around 76 per cent (excluding support for council tax). In particular, it moves away from the current system which discourages people from working below 16 hours, and encourages people to work particular levels of hours (for example 16 and 30).
- It will be a simpler system which removes some of the risks associated with moves into work, and makes much clearer the actual financial gains from working.

Delivery

9. Overall administration of the new benefit will be managed by a single delivery agency in one department – the Department for Work and Pensions. This will be radically simpler than current arrangements where delivery of benefits is administered through the different agencies of the Department for Work and Pensions, HM Revenue and Customs and local authorities.

10. Under Universal Credit, claims will be made individually by single people or jointly by both members of a couple. Most Universal Credit claims will be made online – consistent with the Department's aim to transform our services to claimants by putting digital services at the centre of the business.

11. Universal Credit will be more responsive to changes in income and other circumstances. The new system will adjust payments according to income reported through an upgraded real-time information version of the Pay-As-You-Earn tax system.[3] The system will reduce the need for claimants to inform the Government of changes in their income and will be more

[2] The actual level of earnings disregards and the taper will be set closer to the date of implementation.
[3] HM Revenue and Customs has consulted on *Improving the operation of PAYE: Collecting Real Time Information*.

dynamically responsive to those changes so as to ensure that people receive additional help quickly should their incomes fall; it will tackle the problems people have experienced with the annual, retrospective, calculation of tax credits. As a result claimants will be much clearer about their entitlements and the beneficial effects of increasing their earnings, for example by taking on more hours or overtime.

Conditionality

12. Claimants in receipt of some out of work benefits are expected to meet certain work-related conditions. In particular, jobseekers must actively search for and be available for employment as conditions of entitlement to Jobseeker's Allowance. Under Universal Credit, the Government will extend work-related requirement, where appropriate and dependent on the particular circumstances of individual claimants. For example, people with regular and substantial caring responsibilities, limited capability for work and work-related activity will not have any work related conditions placed upon them. All claimants will be required to accept a 'claimant commitment'. (Bill provisions covering conditionality are covered in a separate EIA).

Transitional protection

13. The move to a simpler system will change the level of entitlements for some households. Transitional protection arrangements will mean that there will be no cash losers as a direct result of the move to Universal Credit where circumstances remain the same. A policy briefing note on transitional protection has been published, which clarifies the position: some claimants will move to the Universal Credit system naturally as circumstances in a current claim change. Other people will be moved over in a process managed by DWP. Transitional protection will only be applied in the latter circumstances and where the Universal Credit payment would otherwise be lower than the total current award of benefits and tax credits, and circumstances remain the same. (http://www.dwp.gov.uk/docs/ucpbn-6-transitional-protection.pdf)

14. In the steady-state,[4] once all existing claims have been migrated to Universal Credit, it is estimated that some 2.8 million households will have higher entitlements than they would have done under the current system, while 2 million would be entitled to less.[5] In some cases the notional reduction in entitlement will be offset by the fact that people are taking up their entitlement for the first time.

[4] The phrase steady-state describes the situation when there are no longer any households on current benefits/tax credits and when transitional protection is no longer in payment.
[5] DWP Policy Simulation Model (based on 2008-09 Family Resources Survey).

2. Consultation and involvement

15. In July 2010 the Department published its consultation document *21st Century Welfare*. This set out the problems of poor work incentives and complexity in the benefits and tax credits systems, the principles for reform and some broad model options for reform. 1668 responses to the consultation were received and respondents overwhelmingly agree that the benefit system needs to be simpler to understand, while providing stronger positive incentives for people to leave benefits for work.

16. Of those expressing a specific preference for one of the models of reform outlined in the consultation paper a majority preferred Universal Credit. People also welcomed the more generous disregards and single taper. A formal summary report of the responses received to *21st Century Welfare,* including the Government's responses to the points raised, is available at www.dwp.gov.uk/consultations/2010/21st-century-welfare/

17. Respondents were also invited to send their views on the potential equality impacts of reform, and on how best to design a system so as to meet our duties to have due regard to equality. As the detailed policy design of Universal Credit continues, the Department may publish further Equality Impact Assessments. Meanwhile, the evidence will continue to be examined, and stakeholders consulted through DWP forums such as the Policy and Strategy Stakeholder Forum and DWP Customer Insight programmes.

3. Impact of the Universal Credit

18. This section provides a brief outline of the relative impact of Universal Credit on the different groups as defined by equality legislation. The Department has assessed the static impacts of Universal Credit on work incentives, household entitlement and poverty.

Impact on work incentives

19. The impact of work incentives has been measured using two key measures:

- It will increase the incentive to start work by increasing the proportion of earnings which people keep when they move into work – this is measured through changes in the **participation tax rates (PTRs),** which are calculated as the proportion of earnings which are lost in tax, national insurance or reduced benefit payments when a person moves into work. A higher PTR translates to a weaker financial incentive to take a job. Some 1.2 million households will benefit from a reduction of PTRs from above to below 70 per cent based on current policy assumptions.
- It will increase the incentive to increase hours of work and progress through the labour market by reducing **marginal deduction rates (MDRs) –** the proportion of any increase in earnings which is lost due to tax or reduced benefit payments. Because Universal Credit has a single taper of 65 per cent it removes the highest MDRs in the current system while increasing some of the lower MDRs. The Department estimates that around 1.2 million households currently in work will have lower MDRs, with around 0.5 million households benefiting from a reduction of MDRs from above 80 per cent to below 80 per cent. Around 2.1 million individuals will see their MDRs increase under Universal Credit, although the median increase will be comparatively small at four percentage points, compared to 27 percentage points for the median decrease.

Overall impact

20. Universal Credit will impact on the welfare of individuals by increasing the likelihood that they will be willing and able to move into work, or work an increased number of hours.

21. Separate from these dynamic effects, there will also be ‘static effects’ which will impact on an individual’s welfare. 2.8 million households will have a higher entitlement under Universal Credit than under the current system, while 2 million will have a lower entitlement. 2.7 million households will experience no change in entitlement as a result of the reform.

22. The changes in entitlement, along with increases in take-up, are anticipated to substantially reduce the level of poverty by around 900,000 individuals, including over 350,000 children and around 550,000 working age adults,[6] even before potential dynamic effects due to greater moves into employment are considered.

Treatment of Council Tax support

23. The analysis of changes to entitlements and poverty assumes that individuals continue to receive 90 per cent of their current CTB award in the current system analysis and that they receive exactly the same amount in payment alongside their Universal Credit awards. For the purpose of work incentives analysis council tax support has been excluded from both the current system and Universal Credit. The Government will make a further assessment of the likely impact in future, including taking account of the shape of local support for council tax as the detailed design is developed.

Definition of the population pool

24. A population pool has been defined for the purposes of assessing whether Universal Credit has a differential impact on different groups. Guidance from the Equality and Human Rights Commission (EHRC) states that the EIA should define the pool as being those people who may be affected by the policy (adversely or otherwise) and that the pool should not be defined too widely.

25. The population pool is defined as all households who would otherwise have been on the legacy benefits or tax credits[7] which are replaced by Universal Credit and those who become newly entitled as a result of the structure of Universal Credit. Unless stated otherwise, the analysis in this EIA is consistent with this definition of the population pool.

26. Poverty analysis is not restricted to the pool as people unaffected by the benefit reforms could still be affected by any change to median income.

3.1 Disability

27. The definition of disability for the purposes of equality law is now contained in the Equality Act 2010, previously defined by the Disability Discrimination Act 1995 (as amended) (DDA).[8] We estimate, under this definition, around 2.9 million of the potential Universal Credit households self-report at least one disabled person. However, only around 60 percent of these

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[6] Based on modelling from the DWP Policy Simulation Model (using data from 2008/09 Family Resources Survey).

[7] Includes Income Support, income-based Jobseekers Allowance; income-related Employment and Support Allowance; Housing Benefit; Working Tax Credit; Child Tax Credit; and Pension Credit for couples with one partner under and one over the qualifying age for Pension Credit.

[8] The Equality Act definition is wider than eligibility for specific disability related benefits.

households are likely to be entitled to a disability benefit (DLA, ESA or the disability element of WTC).

28. For the latter group, the Government will reform the current system of overlapping disability premiums and tax credits and create a simpler system. These are paid at different rates and have different qualifying conditions and different purposes. Within Universal Credit, the Government does not intend to replicate every aspect of this provision. Instead, the Government will recycle the savings from abolishing existing premiums to the most severely disabled people by providing all those in the support group an addition that is substantially higher than the current support component in ESA. A detailed account of the Department's policy proposals is included in Policy Briefing Note – Additions for longer durations on Universal Credit. [9]

29. This assessment reflects the impact of Universal Credit on disabled people using the wider Equality Act which extends beyond the reform of disability premiums in Universal Credit.

3.1.1 Impact on incentives to move into work

30. Table 1 shows the positive impact of Universal Credit for people moving into ten hours of work per week at the minimum wage. This improvement is seen for disabled people as well as non-disabled:

- The proportion of disabled people who have a PTR of below 60 per cent increases from 20 to 90 per cent under Universal Credit; for people without a disability the proportion with a PTR below 60 per cent increases from 46 per cent to 98 per cent.

- Four per cent of disabled people will face a PTR above 70 per cent under Universal Credit compared to 33 per cent[10] under the current system; Only one per cent of people without a disability would face a PTR above 70 per cent under Universal Credit

31. These substantial improvements reflect the design of Universal Credit, including the higher earnings disregard (particularly for households with children or with a disabled adult) and the single rate of withdrawal. Under Universal Credit disabled people see slightly higher PTRs than non-disabled people as disabled people are more likely to be claiming benefits outside of Universal Credit, such as Carer's Allowance or Contributory Employment and Support Allowance, which increases their PTRs. The interaction with contributory benefits and carers allowance also accounts for the small proportion of disabled households with PTRs in excess of 90 per cent under Universal Credit. The higher earnings disregards for disabled people, means that their work incentives are significantly improved from the current system.

[9] http://www.dwp.gov.uk/docs/ucpbn-1-additions.pdf
[10] Does not equal sum of relevant rows in table due to rounding.

Table 1: Distribution of PTRs for first earners in a workless household at ten hours per week.[11]

	Current		Universal Credit	
	Disabled	Non disabled	Disabled	Non disabled
Below 60%	20%	46%	90%	98%
60% to 70%	48%	22%	6%	*
70% to 80%	6%	2%	2%	*
80% to 90%	16%	12%	*	*
90% to 100%	10%	18%	1%	*
Total (millions)	**1.6**	**2.4**	**1.9**	**2.5**

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Percentages are rounded to the nearest percentage point.
Bottom row contains the total number of households in each column.
'*' denotes a proportion of less than one per cent.
First-earners of all workless households, including those not entitled to income-related benefits, tax credits or Universal Credit.

3.1.2 Impacts on incentives to increase hours of work

32. Table 2 shows the impact of Universal Credit on MDRs for people currently in work. The table shows that Universal Credit virtually eliminates the highest MDRs of more than 80 per cent for both disabled and non-disabled households. Under Universal Credit more earners, both disabled and non-disabled, have an MDR in the middle bands. The distribution of MDRs is broadly similar for disabled and non-disabled people both before and after the introduction of Universal Credit, although a lower proportion of disabled people see their MDR increase over 60 per cent compared to non disabled people.

[11] Departmental analysis estimates that there are approximately 400,000 workless households with PTRs in excess of 100 per cent under the current system and 100,000 with PTRs over 100 per cent under Universal Credit. Around three-quarters of the potential first earners of these households are disabled, under both the current system and Universal Credit. The vast majority of cases with PTRs over 100 per cent are households in receipt of contributory benefits and there are limitations in modelling the more detailed rules for this group.

Table 2: Distribution of MDRs for households in the population pool in work (working age only)

	Current		Universal Credit	
	Disabled	**Non disabled**	**Disabled**	**Non disabled**
Below 60%	29%	32%	27%	22%
60% to 70%	10%	9%	24%	24%
70% to 80%	45%	46%	47%	53%
80% to 90%	7%	9%	-	*
0ver 90%	9%	4%	1%	*
Total (millions)	**0.4**	**3.3**	**0.4**	**3.3**

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Percentages are rounded to the nearest percentage point.
Bottom row contains the total number of people in each column.
'*' denotes a proportion of less than one per cent.
'-' denotes no sample cases.
Only includes households entitled to income-related benefits, tax credits or Universal Credit.

3.1.3 Overall impact on incentives to work

33. Under Universal Credit, disabled people who are able to work will see significant improvements in their incentives to work. They will no longer face the punitively high PTRs or MDRs which characterise the current system and will, for the first time, face broadly the same profile of PTRs as non-disabled people.

3.1.4 Impact on individual welfare and incomes

34. This section analyses the pattern of entitlement changes for disabled and non-disabled people, and then assesses the impacts of these changes on poverty.

35. For adults, the Government will replace existing provision with two elements to reflect the extra costs of longer durations on Universal Credit. These elements will be based on limited capability for work (and also for limited capability for work-related activity). Resources released from abolishing the current premiums will be re-invested into the support component equivalent, raising it in stages as resources become available to around £77.[12] This would widen the current differential between that component and the work-related activity component.

36. For disabled children, the Government will mirror the two elements for adults. The higher rate will be based on the child being eligible for the highest rate of the DLA care component (and widened to include children who are registered blind). The lower rate will be based on the child being eligible for the other rates of DLA and would be less than now (£26.75 instead of £53.84) to mirror the limited capability for work element for adults. During the phasing-in period the higher rate for severely disabled

[12] 2011/12 benefit rates

children may exceed the adult rate as it will not be less than the Child Tax Credit equivalent. This change is intended to provide increased support for the most severely disabled children. Payments for disabled children and adults need to be aligned as between 2003 and 2010 the uprating of child payments increased at a faster rate than those of adults.

37. The Government believes that this represents the best allocation of resources as savings from changes to the current system are being used to support the most severely disabled people.

38. Within Universal Credit claimants will only qualify for a limited capability for work element or a carer element, not both. This reflects the fact that the elements are paid in respect of not being able to work through either a medical condition or by virtue of caring responsibilities. However, households will still be able to get a limited capability for work element for one member and the carer element for the other member.

39. Table 3 shows the impact of Universal Credit on entitlement in the steady-state after transitional protection has ended. It is segmented into disability status and shows the number of households who see an increase, reduction or no change in their entitlement along with the proportion in each group and the average weekly change. The key points are as follows:

- Households with a disabled person are substantially less likely to see a change in their entitlement compared to non-disabled households (54 per cent compared with 71 per cent), as they are more likely to be out of work.
- For those households who do see an increase in their entitlement, the average gain is higher for households with a disabled person (£33 per week) than households without a disabled person (£27).
- For households who will experience a lower entitlement than the current system, the average change is also larger for disabled households (£37) than for non-disabled households (£26). These larger than average gains and losses are due to the reallocation of resources within support for disabled people, where funding has been targeted at the most severely disabled. However, the transitional protection arrangements the Government will put in place will mean there are no cash losers as a direct result of the move to Universal Credit where circumstances remain the same.
- Disabled households in the population pool see a change in entitlement as a result of Universal Credit. However, once the improvement in take-up is considered, we estimate they will gain by around £6 per week overall from the reform. There is also an average gain in entitlement of

around £3 per week[13] for the most severely disabled (those receiving higher rate DLA care or those who are eligible for the severely disabled child element in CTC). Households without a disabled person will see an increase in entitlement of around £5 per week on average. The impact in entitlement for disabled households reflects the fact that a smaller proportion of disabled households experience an increase in entitlement (27 per cent) compared to households in the population pool where there is no disabled person (44 per cent). This is because disabled households are less likely to be in work, and Universal Credit is most beneficial to low-earning workers.

Table 3: Entitlement changes for households in the population pool: segmented by disability status.

		Higher entitlement	Lower entitlement	No change	Total
Disabled	Households	0.8m	0.8m	1.3m	2.9m
	% Change	27%	27%	46%	
	Average change (£pw)	£33	-£37	£0	-£1*
Not disabled	Households	2.0m	1.3m	1.3m	4.6m
	% Change	44%	27%	29%	
	Average change (£pw)	£27	-£26	£0	£5
All households	Households	2.8m	2.0m	2.7m	7.6m
	% Change	38%	27%	35%	
	Average change (£pw)	£29	-£30	£0	£3

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Caseloads rounded to the nearest 0.1m households. Entitlement changes are rounded to the nearest 10p. Percentages are rounded to the nearest percentage point.
* The modelling that underpins this estimate and all other estimates in this Equality Impact Assessment is consistent with that used to produce the Universal Credit Impact Assessment Update (October 2011). Due to modelling limitations, this estimate does not fully reflect the Government's intention to reinvest all savings from the disability reforms back into support for the most severely disabled. Taking account of full reinvestment it is likely that the average change in entitlement for disabled households would in fact be closer to zero.

[13] This estimate should be treated as indicative only as it is based on reported receipt of Disability Living Allowance in the Family Resources Survey and as such is subject to sampling limitations in the survey.

Impacts on poverty

40. Universal Credit will have a substantial positive impact on poverty in the steady-state. The Department estimates that the combined impact of take-up and higher entitlement will reduce poverty by around 900,000 individuals, including over 350,000 children and around 550,000 working-age adults. The static impact of Universal Credit is to reduce poverty for both disabled and non-disabled households. Some 250,000 individuals in households with a disabled person will be lifted out of poverty.

41. On this purely static analysis, disabled people are slightly less likely to be moved out of poverty. This reflects the fact that disabled people on Universal Credit are more likely to be out of work and the reduction in poverty from the introduction of Universal Credit will be primarily experienced by households in work. In addition, the analysis does not capture the potential impacts of greater employment as a result of the improvements in work incentives. In particular, if disabled people are able to move into work they will benefit from a generous earnings disregard of up to £7000.

3.1.5 Assessment of impact

Opportunities to promote equality

Improved taper and disregards

42. There will be significant opportunities to promote equality for disabled people through improving work incentives and smoothing the transition into work. For example, the single taper and a higher disregard for households with a disabled adult will support those disabled people who can, to work a few hours (especially those with fluctuating capacity to work, for example, because of mental health problems). The taper and disregard will replace the more complex current Employment and Support Allowance permitted work rules which allow people to undertake some work whilst retaining their ESA. The current permitted work lower limit allows someone to earn up to £20 per week indefinitely before any benefit is withdrawn and the permitted work higher limit allows someone to work for less than 16 hours per week, earning below £97.50 per week, for up to 52 weeks (indefinitely for those in the support group) before they lose their entitlement. 'Supported Permitted Work' is also allowed if working for no more than £97.50 per week.

A simpler system

43. The simplicity of the new system will also help reduce the risk and uncertainty felt by those moving into work, including disabled people. The system will be simpler for claimants to interact with as it will be possible to carry out most transactions online. Uncertainty will be reduced through the increased transparency of an integrated system so that people will be able to easily view and understand their benefit entitlement managed online,

and also through removing the need to apply for, and juggle, separate in and out-of-work benefits.

Risks of negative impact

Online access

44. The aim is that most people will access Universal Credit online. However there is a risk that not everyone has access to the internet or can use particular sites, which may include some of the protected groups under equality legislation.[14] To mitigate the risk that some disabled people may not be able to make claims online, alternative access routes will be offered, predominantly by phone but also face to face for those who really need it. It is expected that these channels will be reserved for the minority who cannot use, or be helped to use, online services and therefore the use of alternative services will be kept to a minimum. However Universal Credit also presents an opportunity to improve internet access for people who are currently digitally excluded.

45. As Universal Credit will remove existing complexities and inconsistencies set out in paragraphs 34 to 38, some disabled people could be entitled to less under Universal Credit than under the current benefits scheme. However, the Government believes this is justified as it is targetting funding at the most severely disabled. The improved earnings disregard under Universal Credit will mean that disabled adults who can work will be entitled to a higher Universal Credit under the new scheme.

Overall assessment of impact on disabled people

46. Universal Credit improves financial incentives to work for disabled people to approximately the same degree as for non-disabled households. On average it has less impact on the level of entitlement than for other groups because disabled people on Universal Credit are more likely to be out of work and so less likely to see their entitlement affected by changes to in-work support.[15] The combination of increased take up and changing entitlements (including 0.8 million households with a disabled individual seeing an increase in entitlement), contribute to a reduction in the poverty rate amongst disabled households.

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[14] FDS international, 2009, *Segmentation of Autumn 2009 Customer Insight Data based on Internet usage;* Dutton W et al, 2009, *The internet in Britain 2009*, Oxford Internet Institute; Whitfield G et al, 2010, *Literature review to inform the future digitisation of Jobcentre Plus Service Delivery*, research report 679.

[15] The impact of Universal Credit on a disabled household's entitlement will depend on the type of benefits a household receives in the current system. Households that contain a disabled person cover a wide spectrum of disability, differing by severity, household composition, and type of benefits received in the current system, as well as different levels of entitlements under Universal Credit. The heterogeneity amongst the disabled households should be noted when looking at average changes across the whole group.

47. The design of Universal Credit will help ease some of the barriers to work faced by disabled people. Many claimants will benefit from a reduction in PTRs and MDRs, and they also have the potential to benefit from the removal of non-financial barriers to work. The integration of in-work and out-of-work support considerably reduces the perceived risk of employment for disabled people, especially those who undertake work for fewer hours or whose ability to work fluctuates. There will be some areas, such as online access and frequency of payment, where more support may be needed and the Department will continue to look at the best way of delivering that support.

3.2 Gender

48. In this section there is an assessment of the impact of Universal Credit on gender. Unless otherwise stated the analysis is segmented into single males, single females, and couples.

3.2.1 Impacts on incentives to move into work

49. Table 4 shows the positive impact of Universal Credit on the distribution of PTRs for people moving into ten hours of work per week at the minimum wage. This improvement is seen for both men and women:

- 95 per cent of women and 95 per cent of men who are out of work would have a PTR of below 60 per cent. The increase in the proportion of people in this category is larger for females than for males as in the starting position of the current system they have a smaller proportion (26 per cent) in this category compared to males (43 per cent).
- Just two per cent of women and three per cent of men would face a PTR above 70 per cent under Universal Credit compared to 32 per cent and 33 per cent[16] respectively before reform.

50. These improvements are due to key aspects of the policy design of Universal Credit, including the higher earnings disregard in Universal Credit and the single rate of withdrawal, and support with childcare costs which are essential to support families return to or progress in work.

51. Help with childcare costs will be available to all lone parents and couples, where both members are in work, regardless of the number of hours they work. Removing the current requirement to work 16 hours before any help is provided will provide an important financial incentive to lone parents and second earners taking their first steps into paid employment.

[16] Does not equal sum of relevant rows in table due to rounding.

Table 4: Distribution of PTRs for first earners in a workless household at ten hours per week.[17]

	Current		Universal Credit	
	Male	**Female**	**Male**	**Female**
Below 60%	43%	26%	95%	95%
60% to 70%	24%	42%	3%	3%
70% to 80%	2%	5%	*	1%
80% to 90%	12%	15%	*	*
90% to 100%	18%	12%	1%	*
Total (millions)	**2.2**	**1.9**	**2.3**	**2.0**

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Percentages are rounded to the nearest percentage point.
Bottom row contains the total number of households in each column.
'*' denotes a proportion of less than one per cent.
First-earners of all workless households, including those not entitled to income-related benefits, tax credits or Universal Credit.

3.2.2 Impacts on incentives to increase hours of work

52. The Government will provide more support for childcare costs under the Universal Credit. Under the current tax credit rules, childcare is only available to parents who work more than 16 hours per week. Under Universal Credit, this requirement will be removed and support will be available to parents regardless of the number of hours they work. This means childcare support will be available to around 80,000 more households.

53. Table 5 shows the impact of Universal Credit on MDRs for people currently in work. The table shows that Universal Credit virtually eliminates the highest MDRs of more than 80 per cent for both male and female earners. Table 5 shows:

- Universal Credit has a similar impact on the MDRs of males as it has for females.
- there is an increase in MDRs to the middle bands: 19 per cent of male earners and 28 per cent of female earners have MDRs of between 60 per cent and 70 per cent under Universal Credit, and 60 per cent of male earners and 47 per cent of female earners have MDRs between 70 and 80 per cent.

[17] Departmental analysis estimates that there are approximately 400,000 workless households with PTRs in excess of 100 per cent under the current system and 100,000 with PTRs over 100 per cent under Universal Credit. There are slightly more male than female potential first earners among these households, under both the current system and Universal Credit. The vast majority of cases with PTRs over 100 per cent are households in receipt of contributory benefits and there are limitations in modelling the more detailed rules for this group.

Table 5: Distribution of MDRs for households in the population pool in work (working age only)

	Current		Universal Credit	
	Male	**Female**	**Male**	**Female**
Below 60%	28%	34%	20%	24%
60% to 70%	8%	9%	19%	28%
70% to 80%	50%	44%	60%	47%
80% to 90%	10%	8%	*	-
0ver 90%	4%	5%	*	*
Total (millions)	**1.6**	**2.1**	**1.6**	**2.1**

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Percentages are rounded to the nearest percentage point.
Bottom row contains the total number of people in each column.
'*' denotes a proportion of less than one per cent.
'-' denotes no sample cases.
Only includes households entitled to income-related benefits, tax credits or Universal Credit.

3.2.3 Overall impact on incentives to work

54. Under Universal Credit, both men and women will see significant improvements in their incentives to work. They will no longer face the punitively high PTRs or MDRs which characterise the current system. The increase in the incentive for female potential first earners to enter work is more pronounced than for men due to the fact that women have poorer incentives than men in the current system, whereas under Universal Credit, the vast majority of workless households in the population pool have a head of the household with a PTR below 60 per cent, regardless of their gender.

55. In addition, Universal Credit will provide greater stability of income and consistency of support, and so will significantly reduce the risks associated with moving into work. These changes will be of benefit to both men and women.

3.2.4 Impact on welfare and individual incomes

56. This section analyses the pattern of entitlement changes for single men, single women and for couples: it then assesses the impacts of these changes on poverty.

57. Table 6 shows the impact of Universal Credit on the level of entitlement in the steady-state after transitional protection has been fully eroded. It is segmented by gender and family type and shows the number of households who see an increase, reduction or no change in their entitlement along with the proportion in each group and the average weekly change. The key points are:

- Single people, whether male or female, are considerably less likely to see a change in their entitlement than couples. 55 per cent of single men and 45 per cent of single women will experience no change in their entitlement compared with just 14 per cent of couples. This is because a greater proportion of single people receiving Universal Credit are workless compared to couples.
- Almost half of couples see an increase in their entitlement compared with around a third of single females and a quarter of single males (25 per cent); couples are also more likely to see a reduction in their entitlement.
- Couples who see a change in their entitlement also face larger average changes compared to single people.

Table 6: Entitlement changes for households in the population pool: segmented by gender and family type.

		Higher entitlement	Lower entitlement	No change	Total
Single male	Households	0.4m	0.3m	1.0m	1.7m
	% Change	25%	20%	55%	
	Average change (£pw)	£24	-£24	£0	£1
Single female	Households	1.0m	0.6m	1.3m	2.9m
	% Change	33%	22%	45%	
	Average change (£pw)	£19	-£24	£0	£1
Couples	Households	1.4m	1.1m	0.4m	2.9m
	% Change	49%	37%	14%	
	Average change (£pw)	£36	-£36	£0	£5
All households	Households	2.8m	2.0m	2.7m	7.6m
	% Change	38%	27%	35%	
	Average change (£pw)	£29	-£30	£0	£3
Households with men	Households	1.9m	1.4m	1.4m	4.6m
	% Change	40%	30%	30%	
	Average change (£pw)	£33	-£33	£0	£3
Households with women	Households	2.4m	1.7m	1.7m	5.8m
	% Change	41%	29%	29%	
	Average change (£pw)	£29	-£32	£0	£3

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Caseloads are rounded to the nearest 0.1m households. Entitlement changes are rounded to the nearest 10p. Percentages are rounded to the nearest percentage point.

58. Of Universal Credit households, 69 per cent of single males and 54 per cent of single females are workless compared to only 27 per cent of couples. Overall across the working age population, single people are far more likely to be workless than couples and this differential continues to be seen in the Universal Credit caseload. The differential is reduced because the Universal Credit caseload (those on means-tested benefits) has a much higher ratio of workless to working households than the population as a whole.

59. The design of Universal Credit means that workless households are less likely to see changes in their entitlement. Where single males and females are in employment they are more likely to have incomes that have exceeded the level for entitlement to Universal Credit and to have moved beyond the scope of the means-tested benefit system. Of households where somebody is in work, couples are more likely to be in receipt of means-tested benefits because they are more likely to have children, which would increase their gross award and mean they would continue to receive benefits at higher incomes.

60. Table 6 shows that 49 per cent of couples and 33 per cent of single females see increases in their entitlements compared to 25 per cent of single men. This is partly because couples and single females are more likely to be in the groups who are receiving tax credits and other benefits. As a result they will benefit from the lower taper and also, if they have children, from the higher earnings disregard.

61. Of those with lower notional entitlements, the majority tend to be households with higher incomes who see an increase in their taper under Universal Credit. Couples are more likely to fall into this group as they have the potential to have two earners in the household and so are more likely to experience lower entitlements. There is also a smaller group of workless households who see reductions in their notional entitlements because Universal Credit brings non-earned income fully to account and because of announced policy changes to disability premiums.

62. Overall the average change in entitlement is higher for couples (£5) than for single females (£1) and single males (£1). In part this is because couples are considerably more likely to see increases in their entitlement and, where they do see increases, they are larger than for single people. Around 69 per cent of couples in the population pool are families with children. In addition, a higher proportion of households with children and particularly couples with children experience higher entitlements under Universal Credit than households without children. Couples with children are more likely to experience higher entitlements under Universal Credit than any other type of household. Therefore, couples tend to experience higher average gains under Universal Credit in comparison to single males and single females. Couples with one partner under and one over the qualifying age for Pension Credit may see a decrease in their entitlement as they would previously have qualified for the more generous allowances available under Pension Credit.

3.2.5 Impacts on poverty

63. Universal Credit will have a substantial positive impact on poverty in the steady-state. On reasonable assumptions, the combined impact of take-up and higher average entitlement will reduce poverty by around 900,000 individuals, including over 350,000 children and around 550,000 working-age adults. The reduction in the number of individuals in single male

households and single female households in poverty is approximately equal at around 100,000. Of the 350,000 children reduction in poverty, around 50,000 of this change occurs in female lone parent households with most of the remainder being in couple households.

64. The analysis of poverty impacts does not capture the dynamic impacts such as greater employment as a result of the improvements in work incentives.

3.2.6 Assessment of gender impact

Opportunities to promote equality

65. The majority of lone parents are women and the employment rate for lone parents, at 57 per cent, is 13 percentage points lower than the average[18]. Of those not working, many cite the reason for this as problems with finding work that offers them the hours and flexibility to meet their childcare needs, others highlight a preference for caring for their children themselves, and others are concerned with the costs of formal childcare.[19] Of all lone parents, around 80 per cent are either in employment, looking for a job, or would like to work.[20] Universal Credit presents an opportunity to promote equality with respect to employment and narrow the employment gap.

66. The new system is expected to be particularly beneficial to lone parents, including those who wish to work a small number of hours as the Government will now pay support for childcare for those working under 16 hours per week. Evidence suggests that most lone parents looking for work want to fit this in with their children's schooling, so are looking predominantly for work that is part-time and preferably within school hours.[21]

67. Incorporating childcare support into Universal Credit and its taper will protect work incentives and ensure that help with childcare costs is targeted towards low earning families. Once the increase in the take-up of benefits due to greater simplicity of the system is considered, changes to the structure of childcare will provide increased financial support for families. Extending childcare support also presents an opportunity to promote gender equality through helping parents take up employment.

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[18] DWP analysis of the Labour Force Survey for April - June 2011. They cover people aged 16-64 in Great Britain, and are not seasonally adjusted.

[19] See for example, *Lone parent Obligations: supporting the journey into work,Coleman et al DWP* RR 736 2011

[20] According to the latest Household Labour Force Survey (Quarter Four 2010), in the UK around 80 per cent of all lone parents and over two thirds of lone parents with a youngest child under seven years old are either working or would like to work.

[21] See for instance '*Lone Parent Obligations:destinations of lone parents after Income Support eligibility ends'* Casebourne et al, DWP RR710, 2010 and '*A question of balance: lone parents, childcare and work'* Bell et al, DWP RR230, 2005

Risks of negative impact

Incentives for second earners:

68. Universal Credit is designed to encourage work at a household level, and is expected to reduce the number of households in which there is no-one working by 300,000. As the focus of Universal Credit is to help reduce workless households there is a risk of decreased work incentives for second earners in couples (primarily women). Since having no parent in work has been shown to have an impact on young people's lives and attitudes to work,[22] the Government believes that helping at least one person into work could help break the cycle of worklessness in a family.

Payments for children and potential for 'purse to wallet' income transfers:

69. The way that Universal Credit is paid will smooth the transition from benefit to work by ensuring that the experience of people on Universal Credit will mirror the experience of those in work. In the same way that people can choose where their salary is paid, people on Universal Credit will be able to choose who their benefit is paid to within the household. Rather than allocation by the state, choice over payment of joint claims will also create a level starting point for all couple claimants and, in making a joint claim, both partners will be aware of and must meet the relevant conditions.

70. The Government intends to retain powers to split payments and to override nomination by members of a couple and to guide payments if required.[23] For example, where there is misuse of money by one partner, there will be safeguards in place where necessary.

Overall assessment of gender impact

71. Universal Credit improves financial incentives to work for women and men to broadly the same degree. The changes in entitlement, and increases in take-up will have strong positive impacts on poverty rates for women and on their work incentives.

72. Where there are small differences between the impact on men and women, this is caused by differences in the profiles of the genders, for example single females in the population pool are more likely to see a change in entitlement compared to single males largely due to the fact that single men on Universal Credit are more likely to be out of work.

73. Improving work incentives and ensuring more people move into work may have the dynamic results of improving family life. It is possible that in some families, second earners may be able to reduce or rebalance their hours or

[22] Prince's Trust report (2010), 'Destined for the Dole? Breaking the cycle of worklessness in the UK'; D. Page (2000), 'Communities in the Balance: the reality of social exclusion on housing estates', Joseph Rowntree Foundation Research Report, p.26

[23] The payment proposal, policy briefing note 2, http://dwp.gov.uk/docs/ucpbn-2-payment.pdf

to leave work. In these cases, the improved ability of the main earner to support his or her family will increase options available for families to strike their preferred work/life balance.

74. The Government is committed to making employment practices in the UK more flexible and family friendly and we have set out our proposals in a recent Consultation on Modern Workplaces. The Government are currently considering the response to this consultation.

3.3 Race

75. Around 16 per cent of the potential Universal Credit caseload is from an ethnic minority background, which is a larger proportion than in the population as a whole.

3.3.1 Impact on incentives to move into work

76. Table 7 shows the positive impact of Universal Credit on the distribution of PTRs for people moving into ten hours of work per week at the minimum wage. Individuals from both a white and an ethnic minority background see equal improvements in their incentive to move into work at this level as a result of Universal Credit. Under Universal Credit, 94 per cent of white individuals and 96 per cent of individuals from an ethnic minority background will now have PTRs below 60 per cent, compared with 35 per cent and 36 per cent respectively under the current system.

Table 7: Percentage distribution of PTRs for first earners in a workless household at ten hours per week.[24]

	Current		**Universal Credit**	
	Ethnic minority	**White**	**Ethnic minority**	**White**
Below 60%	36%	35%	96%	94%
60% to 70%	34%	32%	2%	3%
70% to 80%	1%	4%	1%	*
80% to 90%	13%	14%	*	*
90% to 100%	17%	15%	*	1%
Total (millions)	**0.5**	**3.5**	**0.6**	**3.8**

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Percentages are rounded to the nearest percentage point.
Bottom row contains the total number of households in each column.
'*' denotes a proportion of less than one per cent.
First-earners of all workless households, including those not entitled to income-related benefits, tax credits or Universal Credit.

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[24] Departmental analysis estimates that there are approximately 400,000 workless households with PTRs in excess of 100 per cent under the current system and 100,000 with PTRs over 100 per cent under Universal Credit. Around ten per cent of potential first earners in these households are people of ethnic minority background, under both the current system and Universal Credit. The vast majority of cases with PTRs over 100 per cent are households in receipt of contributory benefits and there are limitations in modelling the more detailed rules for this group.

3.3.2 Impacts on incentives to increase hours of work

77. Table 8 shows the impact of Universal Credit on the financial incentive to increase hours of work, as measured by MDRs. The table shows that Universal Credit drastically reduces the number of people with the highest MDRs of more than 80 per cent for individuals from both white and ethnic minority backgrounds as usually the maximum MDR under Universal Credit is around 76% rather than 91% in the current system. As a higher proportion of households with someone from an ethnic minority background are on lower incomes, they have a slightly higher tendency to be on the highest tapers in the current system (a combination of NI/Tax, tax credits and Housing Benefit). They are therefore more likely to have MDRs of over 80 per cent under the current system and benefit more from the removal of these highest MDRs under Universal Credit.

78. Table 8 also shows:

- Under Universal Credit there is an increase in MDRs in the middle bands: around 34 per cent of people of ethnic minority background now have MDRs of between 60 per cent and 70 per cent compared to 23 per cent of white people.
- Over half of earners, both of ethnic minority background and white, have an MDR of between 70 per cent and 80 per cent under Universal Credit.
- People of ethnic minority background are less likely than those of white background to have an MDR of below 60 per cent under Universal Credit, whereas under the current system there are similar proportions of each. This is due to differences in the earnings profile of each group, households with a member from an ethnic minority background are more likely, on average, to have lower earnings and are less likely to lose their entitlement to Universal Credit than those with higher earnings.

Table 8: Distribution of MDRs for households in the population pool in work (working age only),

	Current		Universal Credit	
	Ethnic minority	White	Ethnic minority	White
Below 60%	30%	32%	14%	24%
60% to 70%	16%	7%	34%	23%
70% to 80%	36%	48%	51%	53%
80% to 90%	11%	9%	-	*
0ver 90%	6%	4%	*	*
Total (millions)	**0.6**	**3.1**	**0.6**	**3.1**

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Percentages are rounded to the nearest percentage point.
Bottom row contains the total number of people in each column.
'*' denotes a proportion of less than one per cent.
'-' denotes no sample cases.
Only includes households entitled to income-related benefits, tax credits or Universal Credit.

3.3.3 – Overall impact on incentives to work

79. Under Universal Credit, all groups will see significant improvements in their incentives to work. The ethnic minority employment rate currently stands at ten percentage points below the national average[25] and this improvement in work incentives should provide an opportunity for all ethnic groups to improve their employment rate.

3.3.4 – Impact on individual welfare and incomes

80. This section analyses the pattern of entitlement changes for households with only white adults and households with an adult of ethnic minority background, and then assesses the impacts of these changes on poverty.

81. Table 9 shows the impact of Universal Credit on the level of entitlement in the steady-state. It is segmented by ethnicity and shows the number of households who see an increase, reduction or no change in their entitlement along with the proportion in each group and the average weekly change. The key points are as follows:

- A larger proportion of households with an adult of ethnic minority background see an increase in their entitlement compared to households with only white adults (48 per cent compared with 36 per cent), and of the households that see an increase, those with an adult of ethnic minority background see a slightly higher average change. This is largely because, in the population pool, a higher proportion of households with an adult of an ethnic minority background are couples

[25] Source: Labour Force Survey, 1st Quarter 2011

and couples tend to benefit more from Universal Credit including the increase in disregards set in Universal Credit.

- Households with an adult of ethnic minority background are less likely to see a reduction in their entitlement (17 per cent compared to 29 per cent) although their average reduction is likely to be slightly higher (£35 compared to £29).
- Overall the average change is much higher for households with an adult of ethnic minority background and is a gain of around £9 per week, compared to a gain of £1 per week for households with only white adults.
- Households in the population pool that have an adult of ethnic minority background are also more likely to be in low-earnings work (around 22 per cent have positive annual household gross earnings below £10,000 a year) compared to those households with adults of only white origin (of which only 16 per cent are low-earners).

Table 9: Entitlement changes for households in the population pool: segmented by ethnic background.

		Higher entitlement	Lower entitlement	No change	Total
White	Households	2.3m	1.8m	2.3m	6.4m
	% Change	36%	29%	36%	
	Average change (£pw)	£28	-£30	£0	£1
Ethnic minority	Households	0.6m	0.2m	0.4m	1.2m
	% Change	48%	17%	35%	
	Average change (£pw)	£32	-£35	£0	£9
All households	Households	2.8m	2.0m	2.7m	7.6m
	% Change	38%	27%	35%	
	Average change (£pw)	£29	-£30	£0	£3

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Caseloads are rounded to the nearest 0.1m households. Entitlement changes are rounded to the nearest 10p. Percentages are rounded to the nearest percentage point.

3.3.5 – Impacts on poverty

82. Universal Credit will have a substantial positive impact on poverty in the steady-state. On reasonable assumptions, the combined impact of take-up and higher average entitlement will reduce poverty for households with at

least one adult from an ethnic minority background by 350,000 individuals (200,000 adults and 150,000 children). This is a larger proportional reduction in poverty than that experienced by households with only white adults. This is consistent with the fact that households with a member from an ethnic minority background are more likely to gain, and to gain more on average, than other households, because they are proportionally more likely to be both in couples and in lower paid employment than households without a member from an ethnic minority background.

3.3.6 Assessment of impact

Opportunities to promote equality

A simpler system

83. Households from some ethnic minority groups may experience difficulties navigating the benefits system, for example language difficulties can compound the challenges posed by a very complicated system. This is evidenced by the lower take-up rates for some benefits amongst households from certain minority backgrounds; under the current system people may claim one benefit but not be aware they are also entitled to claim others. As a result of creating a single, integrated benefit for most major income-related working-age benefits, Universal Credit awards will include all the elements to which a household is entitled. People from ethnic minority groups currently experiencing difficulties with claiming should gain from the greater simplicity and automation within Universal Credit.

Risks of negative impact

Online access

84. Evidence suggests there is little difference in internet usage across ethnic groups – though some claimants may encounter problems accessing digital services because of difficulties reading and writing English.[26] Some claimants of ethnic minority background prefer face-to-face contact to a greater extent than white British claimants.[27] The Government is committed to ensure equality of access for all claimants so will mitigate this risk through ensuring that claimants who have difficulty with reading and writing English will still be able to access our services as they do now. A translation service will continue to be offered through the Big Word.[28] It is

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[26] Whitfield G et al, 2010, *Literature review to inform the future digitisation of Jobcentre Plus Service Delivery*, research report 679.
[27] Marangozov, R, Bellis, A, Barnes, H, forthcoming, Using Jobcentre Plus services – views and experiences of ethnic minority customers.
[28] "DWP currently uses translation services provided by thebigword to communicate professionally over the phone with customers who do not speak English. DWP staff can conduct a secure three-way call between a customer and a translator to ensure customer enquiries are effectively handled."

therefore believed that introducing online access will have little negative impact upon ethnic minority claimants.

Overall assessment of impact on people of ethnic minority background

85. Households with an adult of ethnic minority background experience a more positive impact from Universal Credit than other household types. They are more likely to see increases in their level of entitlement and less likely to see a reduction in entitlement. The average gain for those who benefit is also larger, although the average notional loss for those with a reduced entitlement is also larger. The average change in income for households with an adult of ethnic minority background is a gain of around £9pw, significantly higher than the average for other household types (£1pw). Due to above-average impacts on household income, people of ethnic minority background also see an above-average reduction in poverty.

3.4 Age

86. In this section age is considered. However, particular characteristics tend to be associated with certain age groups. For example, as noted below, around two thirds of 25-49 year olds are in households with children.

3.4.1. Impact on incentives to move into work

87. Table 10 shows the positive impact of Universal Credit on the distribution of PTRs for people moving into ten hours of work per week at the minimum wage. The table is segmented by the age of the head of the household[29] for whom the PTR is calculated, and shows that the improvement is seen across all age groups:

- Under Universal Credit the vast majority of households would have a PTR of below 60 per cent, for all age groups. This increase is highest for households where the head is aged 25-49 years as only 21 per cent of these households have a PTR of under 60 per cent in the current system. The proportion with the highest PTRs of over 90 per cent falls to virtually none for all age groups.

88. As with the other protected groups, this substantial improvement in PTRs is a function of key features of the policy design such as the higher earnings disregard in Universal Credit and the single taper.

[29] The terminology 'head of household' relates to the Family Resources Survey, but does not pre-empt joint claims in Universal Credit.

Table 10: Percentage distribution of PTRs for first earners in a workless household at ten hours per week[30].

	Current			Universal Credit		
	Under 25	**25-49**	**Over 50**	**Under 25**	**25-49**	**50+**
Below 60%	43%	21%	46%	98%	94%	93%
60% to 70%	20%	44%	28%	*	4%	4%
70% to 80%	3%	4%	4%	-	*	2%
80% to 90%	16%	14%	12%	1%	*	*
90% to 100%	18%	18%	10%	-	1%	1%
Total (millions)	**0.9**	**1.6**	**1.5**	**1.0**	**1.8**	**1.6**

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Percentages are rounded to the nearest percentage point.
Bottom row contains the total number of households in each column.
'*' denotes a proportion of less than one per cent.
'-' denotes no sample cases.
First-earners of all workless households, including those not entitled to income-related benefits, tax credits or Universal Credit.

3.4.2 – Impacts on incentives to increase hours of work

89. Table 11 shows the impact of Universal Credit on the financial incentive to increase hours of work, as measured by MDRs. The table shows that Universal Credit virtually eliminates the highest MDRs of more than 80 per cent across all age groups.

90. The proportion of under 25s with an MDR below 60 per cent falls from 53 per cent to 9 per cent as a result of Universal Credit. An increased proportion of under 25s face MDRs in the middle bands - around 90 per cent of people under 25 have MDRs between 60 per cent and 80 per cent, compared to 37 per cent in the current system. This is primarily a result of extending financial support through the Universal Credit for under 25s in work as they are not currently entitled to Working Tax Credit unless they have children or are disabled. As table 12 shows below a substantial number of households headed by someone aged under 25 gain as a result of the reform and bringing them onto the Universal Credit will increase their MDR but also means they are financially better off in work than they were previously.

[30] Departmental analysis estimates that there are approximately 400,000 workless households with PTRs in excess of 100 per cent under the current system and 100,000 with PTRs over 100 per cent under Universal Credit. These households have a similar age-composition under each system: approximately half of the potential first earners in these households are aged between 25 and 49; just over a third are over 50; and the remainder are under 25. The vast majority of cases with PTRs over 100 per cent are households in receipt of contributory benefits and there are limitations in modelling the more detailed rules for this group.

Table 11: MDRs for households in the population pool in work (working age only),

	Current			Universal Credit		
	Under 25	**25-49**	**Over 50**	**Under 25**	**25-49**	**Over 50**
Below 60%	53%	27%	34%	9%	22%	36%
60% to 70%	19%	7%	9%	61%	18%	19%
70% to 80%	18%	53%	42%	29%	59%	44%
80% to 90%	7%	10%	6%	-	*	*
0ver 90%	3%	4%	10%	*	*	*
Total (millions)	**0.5**	**2.6**	**0.5**	**0.5**	**2.6**	**0.5**

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Percentages are rounded to the nearest percentage point.
Bottom row contains the total number of people in each column.
'*' denotes a proportion of less than one per cent.
'-' denotes no sample cases.
Only includes households entitled to income-related benefits, tax credits or Universal Credit.

3.4.3 – Overall impact on incentives to work

91. Under Universal Credit, households of all ages will see significant improvements in their incentives to work.

3.4.4 Impact on welfare and individual incomes

92. This section analyses the pattern of entitlement changes for different age groups, and then assesses the impacts of these changes on poverty.

93. Table 12 shows the impact of Universal Credit on the level of entitlement in the steady-state, that is after transitional protection has been fully eroded. It is segmented by age of the head of the household and shows the number of households who see an increase, reduction or no change in their entitlement along with the proportion in each group and the average weekly change. The key points show that where the head of household is:

- under 25, they are by far the least likely to see a reduction in their entitlement (six per cent). They are also the most likely to see an increase in their entitlement (43 per cent), although the average gain for those who see an increase in entitlement is slightly smaller for under 25s (£24) than for households with a head aged between 25 and 49 (£28) and households with a head aged over 50 (£34). The Government expects that the age-related benefit rates will continue within Universal Credit (for example different rates for young people under age 25 compared to those over that age). Continuing this broad policy direction is justified as younger claimants have an expectation of lower earnings and are more likely to live at home with their family. However, younger people in work should benefit from the removal of the under 25 age restriction that currently operates in Working Tax Credit.

- 25-49, they are more likely to see an increase in their entitlement, and also less likely to see a reduction in their entitlement, than those with a head aged over 50. The majority of the changes are due to certain characteristics of the household that tend to change with age. For example, 68 per cent of heads aged 25-49 are in households with children. This compares to 38 per cent of under 25s and 19 per cent of over 50s. As a result those aged 25-49 are more likely to experience a change than the other groups and they are more likely to see an increase in entitlements.
- Over 50, they are the most likely to see a reduction in entitlement (37 per cent), the least likely to see an increase in entitlement (26 per cent), and of the households who see a reduction in entitlement, over 50s face the largest average reduction (£41pw). Head of households aged over 50 will now include couples with one partner under and one over the qualifying age for Pension Credit, and entitlement for this group may reduce as they will not qualify for the more generous allowances available with Pension Credit. This is reflected in the high average reduction in entitlement for this age group.

Table 12: Entitlement changes for households in the population pool: segmented by age of the head of the household[31].

		Higher entitlement	Lower entitlement	No change	Total
Under 25	Households	0.5m	0.1m	0.6m	1.2m
	% Change	43%	6%	52%	
	Average change (£pw)	£25	-£28	£0	£9
25-49	Households	1.9m	1.3m	1.4m	4.6m
	% Change	41%	28%	31%	
	Average change (£pw)	£28	-£25	£0	£4
Over 50	Households	0.5m	0.7m	0.7m	1.8m
	% Change	26%	37%	37%	
	Average change (£pw)	£34	-£41	£0	-£6
All households	Households	2.8m	2.0m	2.7m	7.6m
	% Change	38%	27%	35%	
	Average change (£pw)	£29	-£30	£0	£3

Source: DWP Policy Simulation Model (based on FRS 2008/9).
Caseloads are rounded to the nearest 0.1m households. Entitlement changes are rounded to the nearest 10p. Percentages are rounded to the nearest percentage point.

Impacts on poverty

94. Universal Credit will have a substantial positive impact on poverty in the steady-state. On reasonable assumptions, the combined impact of take-up and higher average entitlement will reduce poverty by around 700,000 individuals in households where the head of the household is aged between 25 and 49; the reduction will be an estimated 150,000 in households where the head is aged below 25 and around 50,000 in households where the head is aged over 50.[32]

Opportunities to promote equality

95. Currently Working Tax Credit is not available to those under 25 unless they have children or are disabled so younger people should benefit particularly from the reduced taper and integration of in and out-of-work support. This

[31] On the Family Resources Survey, the head of household is defined as the person with the highest income. Where more than one person in the household are in receipt of benefit, then the oldest person is defined as the head of household.

[32] Please note this is the number of individuals, therefore includes both children and adults.

should help to promote employment incentives and opportunities for younger people.

Risks of negative impact

Online access for older people

96. As noted above, if most claims and notifications are to be dealt with online this could in theory disadvantage older people. Older people are less familiar with the internet; and age is one of the important factors determining 'digital exclusion'.[33] This may present a risk that older people may find it harder to take up Universal Credit than the other benefits it replaces. However this risk can be mitigated through ensuring the opportunity is taken to help improve internet access for older people who are digitally excluded and to provide off-line routes for those for whom using online services is not possible.[34].

Migration to Universal Credit

97. In the move to Universal Credit couples with one partner under and one over the qualifying age for Pension Credit will see a decrease in entitlement as they will no longer qualify for the more generous allowances available with Pension Credit. These changes will only apply to new claims and will not apply to couples that are existing Pension Credit claimants. Although this will directly affect older couples, the Government believes this is justified to avoid people under pension age being supported through the benefit system without being subject to the appropriate work-related conditionality.

Other protected groups

98. The Equality and Human Rights Commission Triennial Review[35] highlights the areas where there are gaps in the information available about different protected groups. There is a lack of basic information about religion and belief and on transgender people. When the report was written, there was no reliable estimate of the number of people who identify themselves as lesbian, gay or bisexual (LGB).

[33] Whitfield G et al, 2010, *Literature review to inform the future digitisation of Jobcentre Plus Service Delivery*, research report 679.

[34] A separate EIA on digital services has been published:

http://www.dwp.gov.uk/about-dwp/customer-delivery/jobcentre-plus/publications-jobcentre-plus/impact-assessments/bt-eias/digital/

[35] Equality and Human Rights Commission, 2010, *Equality and Human Rights Commission Triennial Review 2010: How Fair is Britain; Equality, Human Rights and Good Relations in 2010,* http://www.equalityhumanrights.com/uploaded_files/triennial_review/how_fair_is_britain_-_complete_report.pdf .

Gender reassignment

99. The Department does not hold information on its administrative systems on gender reassignment. However, the Department does not envisage any adverse impacts on these grounds.

Sexual orientation

100. The Department does not hold information on its administrative systems on the sexual orientation of claimants. Neither is there currently any survey data with a large enough sample to provide a precise estimate of the size of the LGB population. In addition, many people chose not to answer the questions about sexual identity, so there is currently no consensus on the actual LGB population.

101. The Government does not envisage any adverse impact on the grounds of sexual orientation.

Marriage and civil partnership

102. The Department does not hold information on its administrative systems on the marital or civil partnership status of claimants. The Government does not envisage an adverse impact on these grounds.

Religion or belief

103. The Department does not hold information on its administrative systems on the religion or beliefs of claimants. The Government does not envisage an adverse impact on these.

Pregnancy and maternity

104. The Department usually only holds information on pregnancy and maternity on its administrative systems where it is the primary reason for incapacity. It cannot therefore be used to accurately assess the equality impacts. However, the Government does not envisage that any impact will be significant.

105. As with other aspects of the treatment of claimants' income, the treatment in Universal Credit of payments made specifically in regard of pregnancy and maternity – Statutory Maternity Pay (SMP) and Maternity Allowance (MA) – seeks to draw together the approach taken by existing benefits and tax credits.

106. In Universal Credit, SMP will be treated as earnings subject to the appropriate disregard and taper. This treatment recognises that such statutory payments are paid by employers and already treated as earnings in Housing Benefit and tax credits.

107. The current treatment of MA in the income-related benefits will be carried forward into Universal Credit, so MA will be taken into account in full in the same way as other contributory benefits.

108. The precise impact of these measures on claimants will depend on which combination of payments they would receive under the current system.

Monitoring and evaluation

109. The material in this Equality Impact Assessment covers the equality groups currently covered by the equality legislation: age, disability, gender, transgender, ethnicity, religion, sexual orientation, pregnancy/maternity, marriage and civil partnerships. DWP is committed to monitoring the impacts of its policies and evidence will be used from a number of sources on the experiences and outcomes of the protected groups.

a) Administrative datasets will be used, including the Department for Work and Pensions' Work and Pensions Longitudinal Study (WPLS), to monitor trends in the benefit caseloads for the protected groups and in the level and distribution of benefit entitlements. The administrative data will provide robust material for age and gender although not, as a rule, for the other protected groups. Information for the other protected groups will be incorporated where it is practical.

b) Where possible survey data will also be used, to assess trends in the incomes of the protected groups and collect information on age, disability, gender, ethnicity, sexual orientation, religion, marriage and civil partnerships.

c) Qualitative research and feedback from stakeholder groups will be used to assess whether there are unintended consequences for the protected groups, and whether the policy is likely to result in adverse consequences for particular groups.

d) Feedback from Departmental employee networks and internal management information will also be used. For example the level of complaints will be monitored in order to assess the broader impact of the policy.

e) Broader DWP research will be drawn on where appropriate, as well as any research commissioned specifically as part of the evaluation of the measure.

110. As part of our actions in the context of the data requirements under the Equality Act, it will be important to look across DWP activities to identify and address further gaps in data provision wherever reasonable.

Modelling Note

111. The Universal Credit White Paper, "Universal Credit: Welfare that Works", sets out the Government's intended overall design for Universal Credit. This Impact Assessment presents analysis of the impacts of Universal Credit based on that design and incorporates policy announcements since the previous assessment as set out in Annex 1 of the Universal Credit Impact Assessment (http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf). It includes analysis of changes in entitlements, distributional impacts and changes to work incentives. The analysis compares Universal Credit to the current benefits and tax credits system, assuming the current system incorporates all of the changes announced up to and including the 2010 Spending Review.

112. Unless otherwise stated, the modelling in this Impact Assessment is based on the DWP Policy Simulation Model which draws on data from the 2008/09 Family Resources Survey. All costs and benefits are reported in 2011/12 prices. Data from government administrative statistics and social research has also been used.

113. It is important to emphasise that the nature of the datasets and models means that it is not always possible to fully assess the potential impacts for all of the protected groups. This has been explained in the EIA where appropriate, alongside alternative methods that could be used.

4. Next steps

114. This EIA may be updated in the future as policy design is finalised and impacts may change.

5. Contact details

For further details about this assessment please contact us:

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