Title: Universal Credit	Impact Assessment (IA)
Lead department or agency: Department for Work and Pensions	**Date:** December 2012
	Stage: Final
	Source of intervention: Domestic
Other departments or agencies: Local Authorities Her Majesty's Revenue and Customs	**Type of measure:** Primary legislation
	Contact for enquiries:

Summary: Intervention and Options

RPC Opinion: RPC Opinion Status

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
			No	N/A

What is the problem under consideration? Why is government intervention necessary?

Welfare dependency has become a significant problem in Britain with a huge social and economic cost. There are two fundamental problems with the current welfare system: poor work incentives and complexity. As a result the current system hinders rather than helps millions of individuals on low incomes and facing welfare dependency. For people often reliant on benefits, the incentives to move into work or to increase earnings once in work can be very low. In around **1.1 million households, a person would currently lose between 70 per cent and all of their earnings if they move into work of ten hours a week**. The incentives to increase hours once in work are also very weak. **Under the current system around 700,000 individuals in low paid work would lose more than 80 per cent of an increase in their earnings because of higher tax or withdrawn benefits**. The current system of benefits provides targeted support to meet specific needs, but the net effect is a complex array of benefits which interact in complicated ways, creating perverse incentives and penalties, confusion and administrative cost. This has the effect of preventing many in our society from seeing work as the best route out of poverty. It also increases the risk of error and the opportunities for fraud.

What are the policy objectives and the intended effects?

The policy will restructure the benefit system, to create one single income-replacement benefit for working-age adults which unifies the current system of means-tested out of work benefits, tax credits and support for housing. It will improve work incentives by allowing individuals to keep more of their income as they move into work, and by introducing a smoother and more transparent reduction of benefits when they increase their earnings. It will reduce the number of benefits and the number of agencies that people have to interact with and smooth the transition into work. This will make it easier for claimants to understand their entitlements and easier to administer the system, thus leaving less scope for fraud and error. It will ensure that appropriate conditions of entitlement are applied to claimants. The effects of the policy will be to reduce the number of workless households by always ensuring that work pays.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Five options were set out in the consultation document 21st Century Welfare;

1) Universal Credit,
2) Single Unified Taper,
3) Mirrlees Model,
4) Single Working Age Benefit,
5) Single benefit/negative income tax model.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 2014/15

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: David Freud Date: 7/12/12

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate:**

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate			£0.3bn	

Description and scale of key monetised costs by 'main affected groups'

Overall, it is estimated that additional net transfer payments from the Government to households will be around £0.3bn higher once Universal Credit is fully implemented and transitional protection has been exhausted. This results from an increase in cost to the Exchequer due to entitlement changes and increased take-up, and offsetting savings due to reduced error and overpayments together with changes to the de minimis rule that currently exist in tax credits.

Other key non-monetised costs by 'main affected groups'

Households will be protected from changes in benefit entitlement if they are actively moved to Universal Credit from legacy benefits or tax credits, where their circumstances remain the same, through a package of transitional protection. However in the long run around 2.8 million households would have notionally lower benefit receipt under Universal Credit than in the current system. Since these individuals are typically on lower than average incomes the impact on individual welfare may be proportionately higher.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate			£0.7bn	

Description and scale of key monetised benefits by 'main affected groups'

Overall, households will benefit by £0.3bn. The increase in benefit payments will generate welfare gains to households, with around 75 per cent of those with higher entitlements being in the bottom two quintiles.

The introduction of Universal Credit will result in an annual reduction of administrative expenditure of £0.2bn annually.

There will be a reduction in fraud to the value of £0.2bn annually. This has a social benefit.

Other key non-monetised benefits by 'main affected groups'

Around 3.1 million households will have higher household entitlement under Universal Credit. Since these individuals are typically on lower than average incomes the impact on individual welfare may be proportionately higher. This generates a positive redistributional effect.

Universal Credit will lead to an increase in employment due to improved financial incentives, simpler and more transparent system, and changes to the requirements placed on claimants. Overall this could lead to the equivalent of up to 300,000 additional people in work from improved financial incentives. These estimates take into account cases where people may be less likely to participate in the labour force, or may reduce their hours. The overall increase in employment would lead to direct economic value, as well as having a positive impact on health impacts and crime levels. There would also be an improvement in social welfare from increasing entitlements for those at the bottom end of the income distribution.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5%

Unless otherwise stated, the estimates of costs/savings are calculated from the Department's Policy Simulation Model (PSM). The modelling is carried out in steady state. This is based on a comparison of Universal Credit with the benefit and tax credit system projected forwards to 2014/15, taking account of projected changes in demography from the Office for National Statistics and the economy from the Office for Budget Responsibility. The modelling also takes account of the full effect of the benefits uprating measures announced in this Autumn Statement. Clearly any estimates into the future will have an element of uncertainty; however, this analysis uses the best available data to provide a robust assessment of the likely pattern of impacts resulting from these changes.
It is very difficult to estimate the dynamic impacts of Universal Credit due to the radical nature of the reform. As such, estimated employment impacts should be treated with caution.
All work incentives analysis in this Impact Assessment excludes the impact of Council Tax Benefit in the current system and does not include council tax support as an element within Universal Credit.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OIOO?**	**Measure qualifies as**
Costs:	**Benefits:**	**Net:**	Yes/No	IN/OUT/Zero net cost

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	**Legislation or publication**
1	21st Century Welfare - (http://www.dwp.gov.uk/docs/21st-century-welfare.pdf)
2	Universal Credit: Welfare That Works (http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf)
3	Welfare Reform Bill Impact Assessment Universal Credit (http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf)
4	Welfare Reform Act 2012 (http://www.legislation.gov.uk/ukpga/2012/5/contents/enacted/data.htm)
5	Autumn statement policy costing note, Annex 1 on Universal Credit: http://cdn.hm-treasury.gov.uk/as2012_policy_costings.pdf
6	Department for Work and Pensions welfare reform pages http://www.dwp.gov.uk/policy/welfare-reform/

Summary

- Universal Credit will radically restructure the way in which benefits are calculated. The rationalisation of the benefit calculation rules will remove the more perverse features of the current system, and will substantially improve work incentives. It will replace Income-based Jobseeker's Allowance, income-based Employment and Support Allowance, Income Support, Child Tax Credit, Working Tax Credit and Housing Benefit[1].

- As a result of the changes in benefit calculation, Universal Credit will restructure the pattern of entitlements; combined with increased take-up and the impact of greater simplicity, Universal Credit has an overall long-run net cost to the Exchequer of around £0.1bn[2] in benefit expenditure.[3] This does not allow for the potential benefits from the dynamic impacts which are the policy intention. There is an increase of £2.3bn due to changes in entitlement rules and increased take-up, which is offset by an estimated £2.2bn of savings due to reduced fraud, error and overpayments together with changes to the current earnings disregards in tax credits. The net impact of Universal Credit will be to redistribute income to households with lower incomes.

- In the longer term, reduced complexity has the potential to lead to savings of more than £0.2bn a year in administrative costs.

- The analysis presented here shows the impact of Universal Credit on household entitlement adjusted to allow for changes in the proportion of people who take-up their benefit entitlement. As it is a steady-state analysis it does not allow for transitional protection and will not be a full reflection of the impacts on existing claimants during the transition period.

- It is estimated that around 3.1 million households will have higher entitlement as a result of Universal Credit, with around 75 per cent of these households in the bottom two quintiles of the income distribution. The average gain for this group is estimated to be £168 per month. Around 1.9 million households see an increase in entitlement of more than £100 per month.

- A package of transitional protection will ensure that there will be no cash losses for any households that are actively moved to Universal Credit from legacy benefits or tax credits where their circumstances remain the same.

- In the longer-term approximately 2.8 million households will have notionally lower entitlement than they otherwise would have done as a result of Universal Credit, although the majority of these will have a reduction of less than £100 per month. The average reduction in entitlement for this group is estimated to be £137 per month.

- The average impact of Universal Credit across all households is estimated to be an increase in entitlement of £16 per month.

- The greater simplicity of Universal Credit will lead to a substantial increase in the take-up of currently unclaimed benefits, with most of the impact being at the lower end of the income distribution. After accounting for imperfect take-up in the current system and improved take-up under Universal Credit, the entitlement gain for the bottom two income deciles are £25 and £22 per month respectively.

- Universal Credit will substantially improve the incentives to work. The number of households who lose between 70 per cent and all of their earnings through taxation and benefit withdrawal on moving into ten hours of work will fall by around 1.1 million under Universal Credit.

- Universal Credit improves the incentives to increase hours of work for many; as a result of the single withdrawal rate around 1.5 million individuals will see a reduction in their marginal deduction rate

[1] Contributory ESA and JSA will exist as stand-alone benefits and will be taken into account as income in assessing entitlement to Universal Credit.
[2] 12/13 prices. Unless otherwise stated, all expenditure refers to Great Britain not the United Kingdom.
[3] This is composed of £0.3bn that constitutes a net increase in transfers from the government to individuals plus a £0.2bn reduction in fraud (a social benefit).

(MDR) and there will now be virtually no households with MDRs above 80 per cent. Although a higher number of people see their MDRs increase than decrease, these increases tend to be low.

Introduction

1. The White Paper, Universal Credit: Welfare that Works, sets out the principles of the reform of the benefit system which the Government is planning to undertake. The purpose of these changes is to remove or mitigate the many financial and administrative barriers to taking up work which are inherent in the current system. This Impact Assessment provides the Government's current assessment of the broad impacts of Universal Credit as set out in the following sets of regulations:

   - The Universal Credit Regulations 2013;
   - The Employment and Support Allowance Regulations 2013;
   - The Jobseeker's Allowance Regulations 2013;
   - The Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Decision and Appeals) Regulations 2013;
   - The Universal Credit (Transitional Provisions) Regulations 2013;
   - The Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payment) Regulations 2013; and
   - The Social Security (Payments on Account of Benefit) Regulations 2013.

   Changes to the policy since the last Impact Assessment, published in October 2011, are set out in Annex 1.

2. The policy rationale is to remove the financial and administrative barriers to work inherent in the current welfare system. The reform is designed to ensure that work always pays and to encourage more people to see work as the best route out of poverty. In the longer-term, it will reduce the economic costs of worklessness and reduce the number of children and adults living in poverty. The Government is currently consulting on ways to measure child poverty that reflect the experience of growing up in poverty in the UK.

3. In the current benefit system, the financial returns to work can often be very weak. Many claimants would have most of any increase in earnings deducted from their benefits/tax credits, with some households facing deduction rates as high as 91 per cent.[4] These deductions often vary in unpredictable ways depending on the level of earnings and the combination of benefits and tax credits received.

4. Similarly, the incentives to move into work can be weak, particularly at low earnings or hours. Under the current system, if one person in a workless household moves into work then a very high proportion of their earnings is offset by reduced benefits and tax credits. For example around 1.1 million households face losing between 70 per cent and all of their earnings if they move into work of ten hours a week at the National Minimum Wage.

5. This problem is compounded by the administrative complexity of the system. There are separate systems for out-of-work and in-work support delivered by different parts of Government. A move into work therefore entails a recalculation of entitlement, multiple communications and possible delays and gaps in payment. As a result, many people are not prepared to take the risk of moving into work.

6. The Universal Credit system will improve work incentives in three ways:
   - ensuring that support is reduced at a consistent and predictable rate, and that people generally keep a higher proportion of their earnings;
   - ensuring that any work pays and, in particular, low-hours work; and
   - reducing the complexity of the system, and removing the distinction between in-work and out-of-work support, thus making clear the potential gains to work and reducing the risks associated with moves into employment.

7. In addition, the simpler system will reduce the scope for fraud, error and overpayments thus ensuring that the right benefit is paid to the right people at the right time.

[4] This is the highest MDR excluding Council Tax Benefit.

Universal Credit Model and the Baseline

8. This Impact Assessment provides the Government's current assessment of the broad impacts of Universal Credit as set out in the Universal Credit Regulations 2013 and associated regulations. 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 credit system, assuming the current system incorporates all of the changes announced up to and including Autumn Statement 2012. Universal Credit and the current system benefits and tax credits are uprated as set out in the Autumn Statement. Claimants will receive Universal Credit in place of income-based Jobseeker's Allowance, income-related Employment Support Allowance, Income Support (including Support for Mortgage Interest), Working Tax Credits, Child Tax Credits and Housing Benefit.

9. The previous version of the Impact Assessment, published in October 2011 to coincide with the introduction of the Welfare Reform Bill to the House of Lords included a number of policies announced since the publication of the White Paper[5]. The impacts set out in the current document also reflect changes to the policy since then. These policies include changes to the work allowances (previously referred to as earnings disregards), the Minimum Income Floor for the self-employed, simplification of rates for the under 25s. They are outlined in more detail in Annex 1.

10. Unless otherwise stated, the modelling in this Impact Assessment is based on the DWP Policy Simulation Model[6] which draws on data from the 2010/11 Family Resources Survey. All costs and benefits are reported in 2012/13 prices. Unless otherwise stated, all impacts are provided in the steady-state; that is once Universal Credit is fully implemented and transitional protection has been fully exhausted. Rollout will occur over a number of years and the starting position is set out in the section on the Pathfinder below. Housing costs are not deducted from household income anywhere in the analysis. Caseloads are calibrated to the administrative data.

11. The analysis presented here shows the impact of Universal Credit on household entitlement adjusted to allow for changes in the proportion of people who take-up their benefit entitlement. As it is a steady-state analysis it does not allow for transitional protection and will not be a full reflection of the impacts on existing claimants during the transition period.

Treatment of council tax support

12. The distributional analysis assumes that individuals continue to receive 90 per cent of their current Council Tax Benefit award in the current system and that they also receive 90 per cent of their current Council Tax Benefit alongside their Universal Credit award[7]. For the purpose of work incentives analysis council tax support has been excluded from both the current system and Universal Credit – this is a modelling assumption that is necessary in the absence of detailed information about the nature of local council tax support and in order to isolate the impact of Universal Credit.

Fiscal Impacts

13. Once Universal Credit has been fully implemented and transitional protection has been exhausted it is estimated that benefit expenditure will be around £0.1bn higher. This includes an increase of £2.3bn due to changes in entitlement rules and increased take-up. Offsetting this it is estimated that there will be savings of around £2.2bn due to reduced fraud and error and changes to the de minimis rule (for changes in earnings) and over-payments. This includes £0.2bn in reduced fraud.

14. There will be three categories of fiscal costs during the transition period to Universal Credit:

    - costs of implementing Universal Credit and transitioning cases to the new system;
    - costs of paying transitional protection to ensure that there are no cash losers; and

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[5] Changes to disability payments, council tax support, a childcare element within Universal Credit and the treatment of couples with one partner under and one over the qualifying age for Pension Credit, under Universal Credit

[6] An explanatory costing note can be found on the HM Treasury website: http://cdn.hm-treasury.gov.uk/as2012_policy_costings.pdf

[7] Decisions at the national and local level about how council tax support schemes are designed, and in particular whether any claimants should be protected, will affect overall council tax support.

- costs of higher entitlement and take-up as people move over to Universal Credit.

15. To fund the transition to Universal Credit during the 2010 Spending Review period, £2bn has been set aside. This will include both the administrative costs and any increase in benefit expenditure. In the long-run, Universal Credit has the potential to lead to savings of £0.2bn a year in administrative costs. The estimated savings are lower than the last Impact Assessment as they now reflect re-investment into the expanded delivery of labour market conditionality.

16. The policy intention is to improve work incentives and so encourage more people to move into work and to progress in work. The estimates of the fiscal impacts do not include any savings from these dynamic impacts.

Benefit entitlement and take-up

17. Universal Credit changes the benefit entitlement rules and so generates fiscal costs and savings. In addition, because Universal Credit is a simpler system it is anticipated that there will be an increase in the proportion of people who take-up their benefit entitlement. In steady-state the net impact of the entitlement changes and increased take-up is to increase benefit expenditure by around £2.3bn. The drivers behind the direction and distribution of changes to entitlement and take-up are explored in more detail in a subsequent section.

Fraud, Error and Simplicity

18. The greater simplicity of the Universal Credit scheme will generate savings by reducing the scope for fraud and error and by making benefit payments sensitive to even small changes in income. In steady-state the Department anticipate the savings to be of the order of £2.2bn per annum. The savings fall into three categories:

    - Universal Credit covers both in-work and out-of-work claimants, so there will no longer be errors due to the requirement of claimants to switch between in-work and out-of-work benefits as their working patterns change.
    - Access to real time earnings data and better sharing of information will reduce the amount of fraud and error due to changes in circumstances which are reported late or not at all.
    - When Universal Credit is introduced, tax credits will contain a de minimis rule (or disregard) for changes of earnings, whereby increases of up to £5,000 per annum and reductions of up to £2,500 do not have to be reported. Under Universal Credit the de minimis rule will be removed which will lead to a net reduction in expenditure.

19. Savings that arise from reduced fraud can be regarded as a net social benefit from the introduction of Universal Credit. These will amount to around £0.2bn.

Impact on Individual Welfare

Transitional Protection

20. Universal Credit will simplify the rules used to calculate entitlement by introducing a system of tailored work allowances and a single taper rate. As a result, some households will be entitled to more than under the current system, while others will be entitled to less. For those currently receiving benefits or tax credits there is a commitment to ensure that no one will experience a reduction in the benefit they are receiving at the point of migration to Universal Credit, where circumstances remain the same. A package of transitional protection will ensure that there will be no cash losses for any households that are actively moved to Universal Credit from legacy benefits or tax credits where their circumstances remain the same.[8]

21. At the point of transfer a comparison will be made between the household's total receipt of in scope legacy benefits and tax credits and the amount of their Universal Credit entitlement. In the majority of cases, Universal Credit will provide a level of support that is at least as high as the current system so there will be no need for transitional protection. Where the Universal Credit entitlement

[8] For further detail on transitional protection see the policy briefing note: http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-act-2012/welfare-reform-draft-regulations/

is lower, transitional protection will be awarded as a cash amount to make up the difference. As a result they will not be worse off in cash terms at the point of change.

22. Over time the value of transitional protection will be eroded as the claimant's Universal Credit award changes, and transitional protection will end if the claimant's circumstances change significantly. As a result, in steady-state, there will be some households whose benefit income is notionally lower than it would have been under the old system. However, in many cases these households will be able to increase their income because of the improved gains to work provided by Universal Credit.

23. Transitional protection calculation will be carried out prior to the Minimum Income Floor for the self-employed being applied (see Annex 1 for more detail). Once the Minimum Income Floor is applied (following a six month grace period for claimants who are actively moved onto Universal Credit) the household will retain their transitional protection amount, but no further protection will be provided. This will ensure that claimants' circumstances other than those related to earnings are protected, and that there is no incentive to under-report earnings.

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. The population pool is defined as all households who would otherwise have been on the legacy benefits or tax credits[9] which were abolished by the Welfare Reform Act 2012, and those who become newly entitled as a result of the Universal Credit payment rules.

Changes in household income

25. This section analyses the long-run impact of Universal Credit on household entitlement. As it is a steady-state analysis it does not allow for transitional protection and will not be a full reflection of the impacts on existing claimants during the transition period.

26. Universal Credit is a fundamental reform of the current complex system of benefit rules and therefore leads to both increases and reductions in the level of entitlements. In addition, it will lead to increased take-up of benefits. Households that are currently entitled to more than one means-tested benefit may not always take them all up. Under Universal Credit there will be increased take-up as all elements of support are applied for through a single process. There may also be increases in take-up overall due to awareness of the new benefit. In combination, changes to entitlement and take-up lead to changes in household income.

27. The number of claimants in our modelling has now been calibrated to reflect forecasts of benefit caseloads that are consistent with the total managed expenditure forecasts published by the Office for Budget Responsibility. Also note that while the analysis in previous versions of the Impact Assessment focussed on increases and decreases in theoretical entitlement to benefits, the impacts are now based on modelling of the estimated take-up of benefits. The impacts presented here reflect the best available information about who takes up benefits in the current system, and how take-up will increase under Universal Credit. As such the figures presented here are not directly comparable to those in the previous Impact Assessment.

28. As in previous Impact Assessments the analysis is based on elements of the move to Universal Credit that can be reasonably assessed using the Family Resources Survey. This does not include changes in fraud, error or overpayments. Nor does it include the removal of the de minimis rule in the tax credit system.

29. Table 1 shows the change in entitlement by the position of the household in the income distribution. It shows that around 3.1 million households have higher entitlement than they would have under the current benefit and tax credit system, in the long run around 2.8 million households would have notionally lower benefit entitlement. Analysis suggests that 2.4 million households, who are mostly workless, would experience no change as a result of the move to Universal Credit. Although our

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[9] 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.

modelling compares benefit receipt for the same households before and after the introduction of Universal Credit, in practice there would be a large turnover of households on benefit before and after roll-out. Any households that are actively moved from legacy benefits or tax credits and would receive less as a result will receive transitional protection.

30. Most of the increase in entitlement goes to households in the lowest two quintiles of the income distribution. As demonstrated in the income distribution section below, the changes in entitlement combine with higher take-up to have a progressive impact on the income distribution.

31. The number of households with higher entitlement under Universal Credit is around 300,000 higher than reported in the previous Impact Assessment. This change is driven by a number of factors, including changes to the policy, modelling improvements, and changes to the data and assumptions underlying the modelling. For example a change in the policy in the current system (a reduction in the generosity of Working Tax Credits) leads to greater gains under Universal Credit. In addition updates to the economic assumptions (for example assumptions around inflation and earnings growth) mean that more households would be in the lower part of the income distribution where increases in entitlement from Universal Credit are greater.

32. In the long run the number of households with notionally lower entitlement under Universal Credit is also greater. Again, this reflects a number of factors. Changes to the composition of households in the underlying data are an important factor - lower earnings growth means that more households have entitlement to tax credits in the current system, and some of these have lower or no entitlement to Universal Credit. In addition there are changes in entitlement arising from policy changes such as the introduction of the Minimum Income Floor for the self-employed, changes to the work allowances, and the simplification of rates for the under 25s (see Annex 1).

33. As discussed the figures in this analysis reflect estimated take-up of current benefits and Universal Credit, and are calibrated to reflect the best available information about the number of households taking up benefits. The result of modelling take-up is to reduce the number of households with higher income from Universal Credit, since not all households that see an increase in their entitlement will take-up the benefits they are entitled to. It also reduces the number of households with lower entitlements as reductions in entitlement are offset by increased take-up of Universal Credit compared to current benefits. The calibration of households in the modelling to forecasts based on administrative data increases the number of households in each category by a similar proportion.

Table 1 – Changes in household entitlement[10] across the distribution of equivalised income

	Higher Entitlement	No Change	Lower Entitlement (before cash protection)[11]
Bottom Quintile	1,000,000	1,500,000	700,000
2nd Quintile	1,300,000	600,000	1,100,000
3rd Quintile	500,000	200,000	700,000
4th Quintile	200,000	100,000	300,000
5th Quintile	*	*	*
Total	**3,100,000**	**2,400,000**	**2,800,000**

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15
Includes households who would otherwise have been on the legacy benefits or tax credits which were abolished by the Welfare Reform Act 2012, and those who become newly entitled as a result of the Universal Credit payment rules.
*Fewer than 50,000 households
Figures may not sum due to rounding.

34. Table 2 shows that around half of households who have a change in entitlement will have a change of less than £100 a month. However, the wide ranging scope of the reform does mean that the

[10] Changes in household income captured here only reflect changes in transfer payments (benefits and tax credits) as a result of the move to Universal Credit.
[11] Transitional protection will ensure that there will be no cash losses for any households that are actively moved to Universal Credit from legacy benefits or tax credits, where their circumstances remain the same..

range of potential changes in entitlement is large. This can be due to changes in entitlement or increased take-up. For example a household that previously had no entitlement to tax credits because the claimant was under 25 (with no children and no disabilities) could see a large rise in their income. Households that were not taking up any benefits in the current system but take up their entitlement to Universal Credit could also see a significant increase in their income. Around 900,000 households with higher entitlement see an increase of £100 to £200 per month.

Table 2: Banded Changes in household entitlement[12] (pounds per month)

	Higher Entitlement	**Lower Entitlement** (before cash protection)
More than £300	500,000	300,000
£200 to £300	500,000	400,000
£100 to £200	900,000	600,000
£40 to £100	600,000	900,000
Up to £40	600,000	600,000
Total	**3,100,000**	**2,800,000**

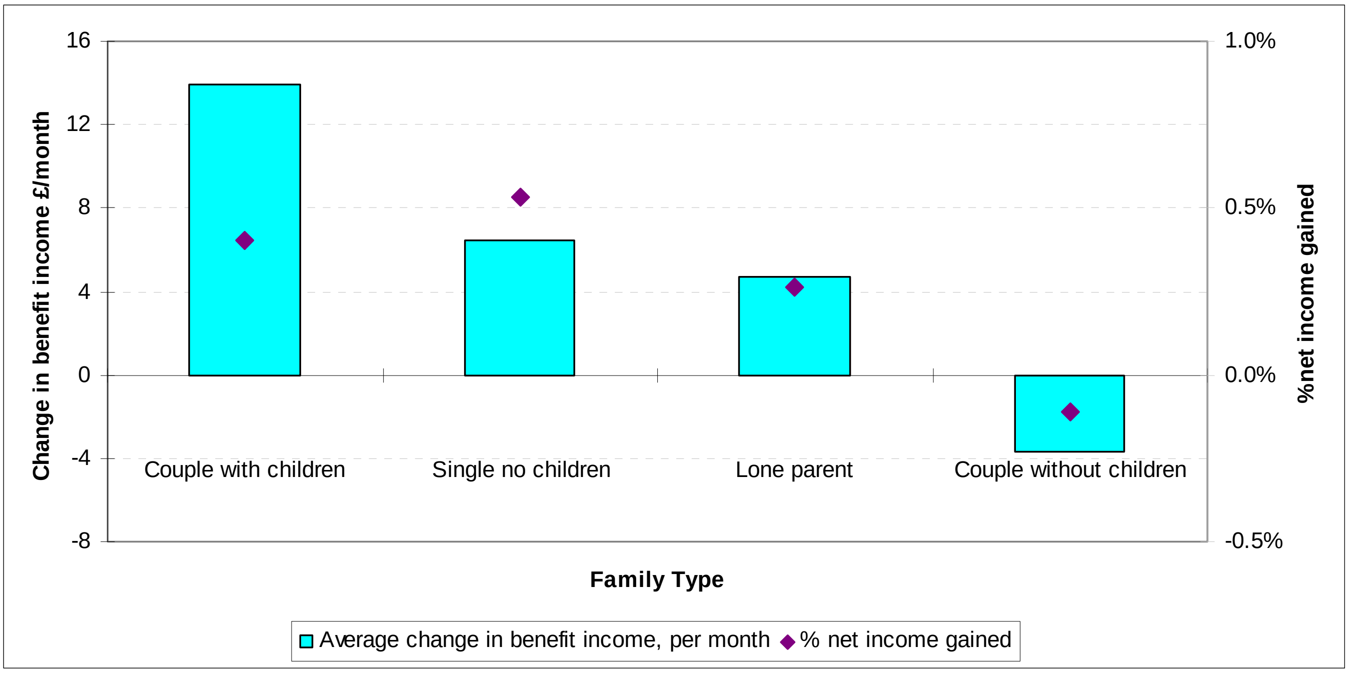
Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15
Includes households who would otherwise have been on the legacy benefits or tax credits which were abolished by the Welfare Reform Act 2012, and those who become newly entitled as a result of the Universal Credit payment rules.

35. Chart 1 below shows the impact of Universal Credit on household entitlement for different family types, for all working age households. It shows the average cash and percentage change in disposable income (before housing costs) in the steady-state.

36. When looking at the pattern of changes, couples with children see the biggest increase in cash terms, gaining an average of around £14 per month (around 0.4 per cent of net income for families of this type). Lone parents see a smaller cash increase. Couples without children, in the long-term, see a small notional reduction in their entitlement both in cash and percentage terms. Both members in such households would generally be expected to actively seek work. Some of the larger notional losses for couples without children are in cases where one member is of working-age and one is currently eligible for Pension Credit. Under the reform they will be eligible for Universal Credit as opposed to Pension Credit in order to ensure that the partner of working age remains focused on a return to work. Transitional protection will ensure that there will be no cash losses for any households that are actively moved to Universal Credit from legacy benefits or tax credits, where their circumstances remain the same...

[12] Changes in household entitlement captured here only reflect changes in transfer payments (benefits and tax credits) as a result of the move to Universal Credit.

Chart 1: Average change in net income[13] by family type (all working age households) before cash protection



Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15
Monthly change in net income presented in 2012/13 prices.
Includes households not impacted by Universal Credit.

37. Table 3 develops this point by showing the distribution of changes in entitlement by family type and household tenure, for all households in the population pool. In all family types there are significant numbers of households with higher or lower entitlement than under the current system. This largely reflects the fact that Universal Credit introduces a system of benefit entitlements which removes the unnecessary complexities of the current system. There is an expectation that work is required for those who can, and Universal Credit will put in place appropriate incentives and a simpler system to support this. Therefore, the pattern of changes is driven as much by the simplification to the calculation rules and increases in take-up as by the membership of a particular demographic group.

38. Table 3 shows that 66 per cent of renting couples with children have higher entitlement as a result of Universal Credit, with only 18 per cent seeing a reduction. The reason for this is that this group benefits from the combination of more generous work allowances and a reduced benefit withdrawal rate which creates the more substantial increases in entitlement. Universal Credit takes the first steps to address the penalty on couples imposed by the benefit system by rewarding families with children. There is also further investment in support for childcare and a number of additional families with children also benefit from provision to cover the costs of childcare below 16 hours.

39. Table 3 shows that a higher number of lone parents would receive lower awards under Universal Credit than the current system. However, for lone parents, the average reduction for those with a lower entitlement (£87 per month) is smaller than the average increase for those with higher entitlements (£128 per month). As a result this group gains overall from Universal Credit (by £5 per month, see chart 1). Note also that this is a static analysis, which does not take into account, for example, the increased incentives of lone parents who are out of work to take their first steps into employment.

[13] Changes in household entitlement captured here only reflect changes in transfer payments (benefits and tax credits) as a result of the move to Universal Credit.

Table 3: Changes in household entitlement[14] by family type and household tenure type (row percentages in brackets)

	Higher Entitlement	No change	Lower Entitlement (before cash protection)
Under 25 No Children[15]	300,000 *(40%)*	300,000 *(47%)*	100,000 *(12%)*
Single No Children	700,000 *(29%)*	1,100,000 *(47%)*	600,000 *(25%)*
Couple No Children	300,000 *(35%)*	100,000 *(16%)*	400,000 *(48%)*
Lone Parent - Renting	400,000 *(28%)*	500,000 *(36%)*	500,000 *(36%)*
Lone Parent - No Rent	300,000 *(39%)*	100,000 *(9%)*	400,000 *(52%)*
Couple with Children - Renting	700,000 *(66%)*	200,000 *(17%)*	200,000 *(18%)*
Couple with Children - No Rent	400,000 *(39%)*	*	600,000 *(58%)*
All	3,100,000 *(37%)*	2,400,000 *(29%)*	2,800,000 *(34%)*

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15
*Fewer than 50,000 households
Figures may not sum due to rounding
Includes households who would otherwise have been on the legacy benefits or tax credits which were abolished by the Welfare Reform Act 2012, and those who become newly entitled as a result of the Universal Credit payment rules.

Why does entitlement change under Universal Credit?

40. To understand the drivers behind some of the changes in entitlement under Universal Credit it is important to consider the structure of Universal Credit:

- A tailored system of work allowances which are generally higher than the earnings disregards in the current system. This allows people to keep more of their earnings, thus improving work incentives. The work allowances are set out in Annex 1. Different work allowances will exist to reflect the needs of different families and ensure that work pays for those who need the most support. There will be considerably higher work allowances for lone parents and couples with children, and lower work allowances for single people without children, where the obstacles to working are fewer.

- Claimants in receipt of large amounts of housing support will have a higher award of Universal Credit than those with low or no housing support. In order to address this and target resources fairly, claimants who receive no support with their housing costs will be allowed to keep more of their earnings without loss of benefits. This will be done by setting higher work allowances in these circumstances.

- A single withdrawal rate of 65 per cent (on net income after tax and National Insurance), which can be higher or lower than the current withdrawal rate depending on the combination of benefits/tax credits currently received by the household, but which eradicates the very high withdrawal rates currently faced by many.

- Removal of Working Tax Credit (WTC) which tends to have higher amounts in payment for people working 16 and 30 hours, and lower amounts for hours worked in between.

- Childless 18-24 year olds (who are not disabled) can not claim in-work tax credits under the current rules, but will be able to claim Universal Credit.

- Applying a capital limit for people with capital of more than £16,000. There is a capital limit in the current out of work benefits and Housing Benefit which is set at £16,000 but tax credits currently treat capital differently. Under tax credits there is no limit on eligibility as a result of capital but the investment income from capital is taken into account after a small annual

[14] Changes in household entitlement captured here only reflect changes in transfer payments (benefits and tax credits) as a result of the move to Universal Credit.
[15] This group includes households where all members of the benefit unit are under 25. Households are included in the category that is highest up the table, and not in subsequent rows.

disregard. The support offered by Universal Credit is focused on those with insufficient resources to meet their needs.

- Support for childcare will be extended to below 16 hours of work. This will provide an important financial incentive to those taking their first steps into paid employment.

- Benefit rates for those with limited capability for work will be simplified under Universal Credit.

- Couples with one partner under and one partner over the qualifying age for Pension Credit will be entitled to Universal Credit and not Pension Credit, in order to ensure that the partner of working age remains focused on a return to work.

- The structure of disability payments will be simplified in Universal Credit, removing unnecessary complexity and cliff-edges. Elements for disabled children will be aligned with those for adults.

- A Minimum Income Floor will be introduced for the self-employed. (See Annex 1).

- Benefit rates for claimants who are under 25 will be simplified. (See Annex 1).

41. Universal Credit has very simple rules for calculating entitlements, but the move away from the complexities of the current system means that some of the changes in entitlement will be driven by interactions between the different changes. Transitional protection will ensure that there will be no cash losers amongst any households that are actively moved to Universal Credit from legacy benefits or tax credits, where their circumstances do not change.

42. Changes in entitlement due to increased take-up are determined by a claimant's current entitlement and take-up. For example if a claimant is currently entitled to Housing Benefit and Jobseeker's Allowance, but only takes up their Jobseeker's Allowance, once Universal Credit has been introduced they would receive support for housing costs as it would be part of the same, single claiming process. It is also assumed that some households not taking up any benefits in the current system would take up Universal Credit. This includes some households who are not entitled to benefits in the current system, but who would be entitled to Universal Credit. There are no groups for whom a reduction in take-up under Universal Credit is anticipated, therefore changes in take-up are only responsible for increases in income.

43. Table 4 segments the changes in entitlement by employment status and type of eligibility under the current system. The table illustrates the point that there is no straightforward mapping between current eligibility and changes in income. Transitional protection will ensure that there will be no cash losses for any households that are actively moved to Universal Credit from legacy benefits or tax credits where their circumstances remain the same.

Table 4: Changes in household entitlement[16] by work status and Tax Credit eligibility

	Higher Entitlement	No change	Lower Entitlement (before cash protection)
Workless[17]	600,000	2,400,000	1,100,000
Not eligible for tax credits due to age	200,000	-	-
Not Eligible for WTC because working too few hours	300,000	*	100,000
Working part-time[18] and receiving tax credits plus other benefits	100,000	*	200,000
Working part-time and receiving tax credits, but no other benefits	400,000	-	200,000
Working full-time and receiving tax credits and other benefits	200,000	-	100,000
Working full time and only receiving tax credits	900,000	*	1,200,000
Not receiving tax credits	300,000	-	*
All	3,100,000	2,400,000	2,800,000

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15
* Fewer than 50,000 households
- Indicates no sample cases
Includes households who would otherwise have been on the legacy benefits or tax credits which were abolished by the Welfare Reform Act 2012, and those who become newly entitled as a result of the Universal Credit payment rules.

44. The pattern of impacts in Table 4 can largely be explained by changes in entitlement.

45. In most cases workless households experience no change in their entitlement in static financial terms. This is because they do not benefit from the work allowances, and their basic benefit rates are as in the current benefit and tax credit system. However, some workless households in receipt of disability premiums, aged under 25, or couples with one under and one over the qualifying age for Pension Credit are affected. Workless households experiencing higher entitlements will do so as a result of changes to the disability premiums and rates, which target support to the most severely disabled.

46. Claimants under 25 who are in work, childless and not disabled, are currently unable to claim Working Tax Credit and are therefore likely to benefit from the removal of this exclusion within Universal Credit. Likewise households who are working part-time and who receive tax credits and other benefits, will gain from the fact that they will have a lower withdrawal rate than under the current system and because they are likely to have a higher work allowance.

47. Many cases where a household has a lower notional entitlement under Universal Credit can be explained by specific elements in the design of the current system. Claimants who fall in to one or more of the following categories are more likely to see a reduction in entitlement:
- those currently in receipt of a large amount of WTC;
- mainly in-work households with substantial amounts of capital; and
- higher earners on tax credits only.

48. Many people who currently receive a large amount of support through WTC, for example those who receive the 16/30 hour elements, will generally have lower entitlements under Universal Credit because the specific generosity of their WTC entitlement at certain hours is not replicated under Universal Credit. However Universal Credit provides a system which rewards each hour of work and will give people greater flexibility to choose the hours most appropriate for them. For some

[16] Changes in household entitlement captured here only reflect changes in transfer payments (benefits and tax credits) as a result of the move to Universal Credit.
[17] Households are included in the category that is highest up the table, and not in subsequent rows.
[18] Part-time is defined as working less then 16 hours.

households the impact of this change will be offset by the impact of the higher work allowances and a lower withdrawal rate.

49. Working households who are currently only in receipt of tax credits will have a higher withdrawal rate under Universal Credit. These households currently face a 41 per cent taper rate on gross income or a 73 per cent MDR after tax and NI. However, under Universal Credit the taper rate will increase to 65 percent on net income or a 76 percent MDR after tax and NI. Therefore, these households are more likely to have a lower entitlement where this effect is not offset by the impact of the higher work allowances under Universal Credit.

50. Of the households receiving Universal Credit or the current benefits that it will replace, households with children are more likely to be affected by the reform than those without children. Of households with children, 41 per cent have higher income and 40 per cent have lower income, whereas 32 per cent of households without children have higher income and 27 per cent have lower income. This is largely due to the fact that households with children are more likely to be eligible for Universal Credit whilst being in work where changes to entitlements occur. They will also be affected by the reform of childcare support which is incorporated into these estimates (which includes extending eligibility to households working less than 16 hours).

Impact on household income for protected groups

51. Households that include someone with a protected characteristic (as defined by the Equality Act 2010) tend to be affected according to their work status and position in the income distribution. The average impact for households in the population pool[19] with a disabled person is smaller than for other households. This reflects the fact that these households are more likely to be out of work, and out of work households are less likely to experience a change in entitlement. Other changes to levels of support for people with disabilities are designed to be cost neutral across the group. The average change in entitlement for disabled[20] households is an increase of £8 per month, taking into account take-up. This compares to £16 per month for all households in the population pool. However where there are changes in entitlement they tend to be greater, reflecting the reallocation of resources within support for disabled people, designed to target additional help at people with the most severe disabilities.

52. Ethnic minority groups tend to benefit more from the move to Universal Credit compared to the general population. This is because they are more likely to be among the group of low earners who benefit most from changes in entitlement. On average households in the population pool with an ethnic minority see an increase in their entitlement of £51 per month.

53. The impacts on different age groups are driven by changes in policy. The policy to include households with one partner over and one partner under pension age within Universal Credit means that where the head of the household is over 50 the household is more likely to see a reduction in their entitlement (the average change in household income is a reduction of £27 per month). Where the head of the household is under 25 the average change in entitlement is an increase of £20 per month. This reflects a combination of increases in entitlement for those in work who are newly entitled to benefits, and the simplification of rates.

54. On average single men and women both experience a small increase in monthly entitlement. The increase is around £8 per month higher for single men. However, when looking at all households within the population pool, households with men experience a similar impact on average to households with women (an increase in entitlement of around £17 per month and £14 per month respectively).

Entitlement changes and transitional protection

[19] A population pool has been defined for the purposes of assessing whether Universal Credit has a differential impact on different groups. The population pool is defined as all households who would otherwise have been on the legacy benefits or tax credits which were abolished by the Welfare Reform Act 2012, and those who become newly entitled as a result of the Universal Credit payment rules.

[20] As defined in the Equality Act 2010.

55. As outlined above, the move to a simpler system will mean that some households will be entitled to more than under the current system, while some will be entitled to less.

56. For those currently receiving benefits or tax credits there is a commitment to ensure that no one will experience a reduction in the benefit they are receiving at the point of migration to Universal Credit, where circumstances remain the same. A package of transitional protection will ensure that there will be no cash losses for any households that are actively moved to Universal Credit from legacy benefits or tax credits, where their circumstances remain the same.

57. At the point of transfer a comparison will be made between the household's total receipt of in scope legacy benefits and tax credits and the amount of their Universal Credit entitlement. As already demonstrated, for a majority of households Universal Credit will provide a level of support that is similar to or higher than that in the current system so there will be no need for transitional protection.

Impacts on Income Distribution and Poverty

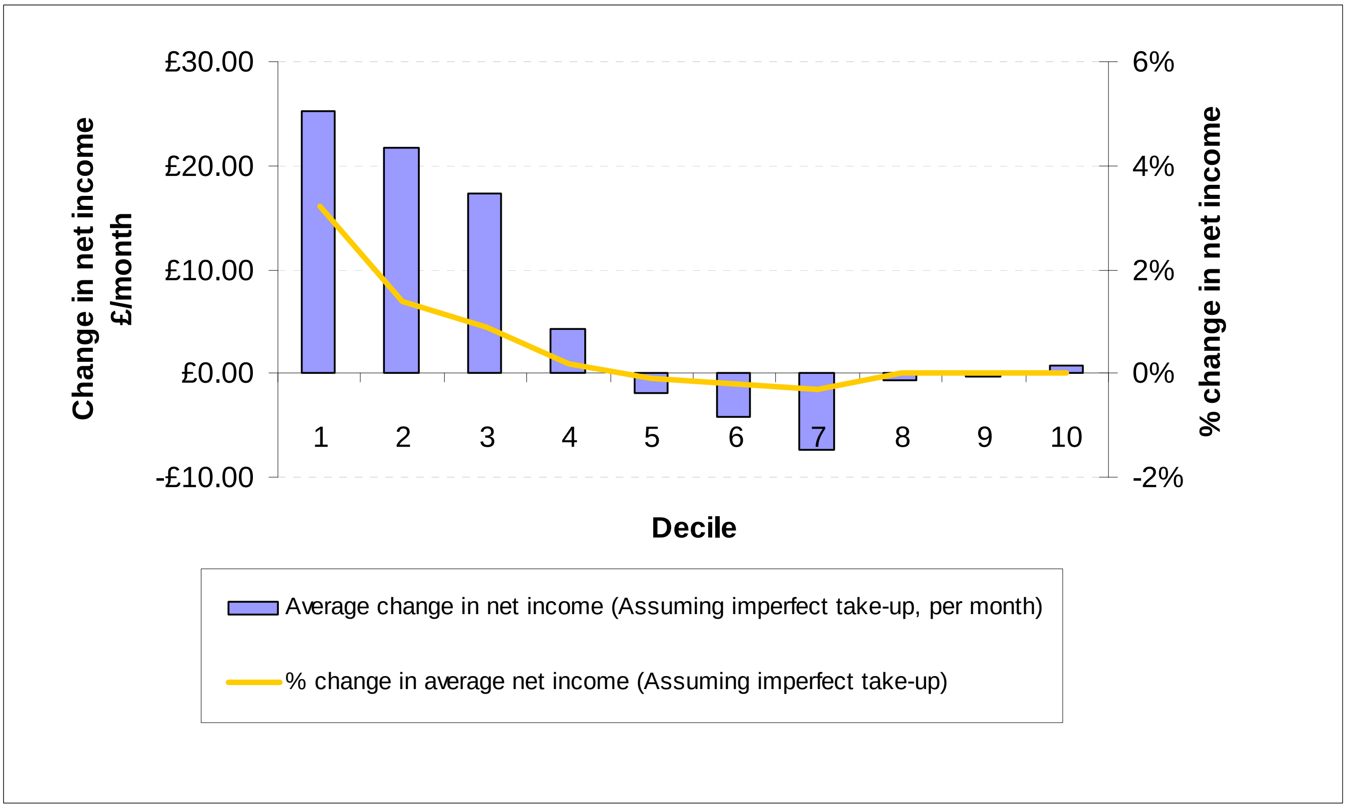
58. Universal Credit removes many of the complexities and inconsistencies of the current benefit and tax credit system and replaces it with increased support for low-income families and consistency in support as income rises. However, this simplification will mean that, in the long term, some households will be entitled to less under Universal Credit than they would have been had the current benefit and tax credit system continued. It is important to note that the design of the current system creates greater incentives to work at a particular number of hours, particularly 16 and 30. These might not be the optimum choice for people if the support was more evenly distributed.

59. Under Universal Credit, all hours of work are rewarded not just a few particular points. The aim is to improve work incentives and to support progression in work. It is reasonable to expect some individuals to respond to incentives and work more hours, so this analysis may be overstating the actual number of households with lower income in the long run as it does not take account of any behavioural change. These notional losses will arise gradually over time, as new claimants take up Universal Credit and the circumstances of current benefit and tax credit claimants change. The analysis does not include changes in fraud, error or overpayments. Nor does it include the removal of the de minimis rule in the Tax Credit system. These are not included in the distributional analysis.

60. Chart 2 below illustrates this long-term impact after transitional protection has been fully eroded, showing the average change in income for the working age population (all households) in each ten per cent band (decile) of the equivalised income distribution. The chart shows that Universal Credit will benefit low-income families, with those with the lowest incomes gaining the most as a proportion of their income. Chart 2 shows that the bottom two deciles gain around £25 and £22 a month respectively (accounting for imperfect take-up in the current system and improved take-up under Universal Credit). For the bottom decile this represents a 3 per cent increase in weekly income.

61. The most substantial reductions are in the sixth and seventh decile, where the reduction in household income would be around £4 and £7 a month respectively. One of the reasons is that those in the sixth and seventh decile are most likely to be in receipt of Working Tax Credit and no other elements of the current system; they will tend to have lower entitlements as outlined above.

Chart 2: Long term Distributional Impact – Average income[21] changes by income decile (all working age households)

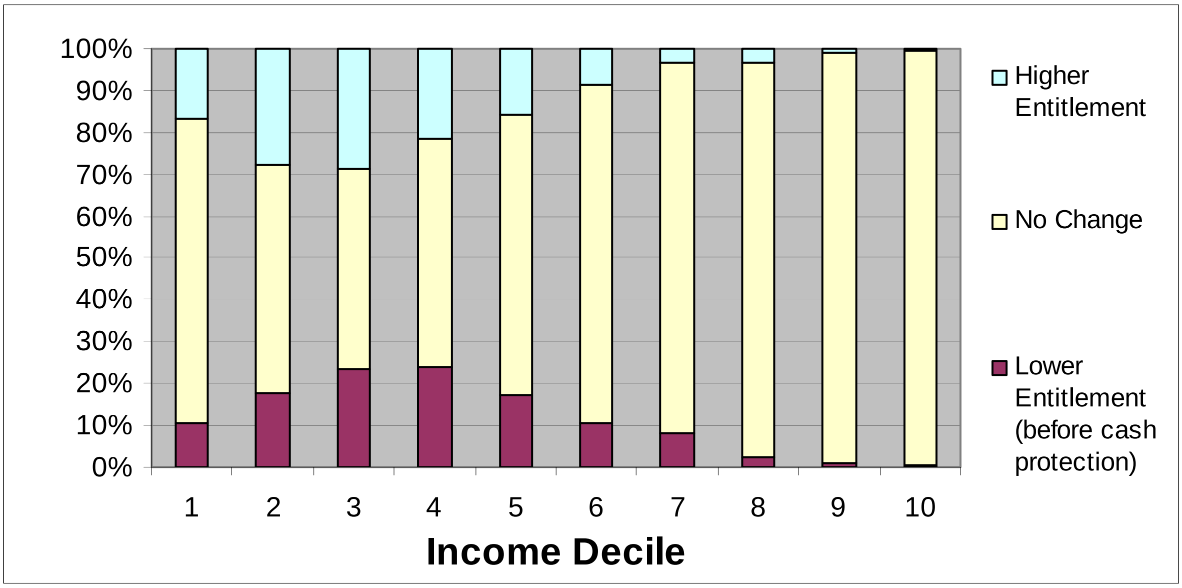


Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15
Monthly change in net income presented in 2012/13 prices.
Note: households in the highest decile see an increase in net income. This is driven by a small number of households, most of whom are multiple benefit unit households where household members other than those entitled to Universal Credit are on high incomes.

62. Chart 3 below shows the distribution of changes in household income by decile, for all working age households. In the first three decile groups there are more households with higher entitlement than lower entitlement. As outlined above, households in the middle of the income distribution will be impacted by the removal of Working Tax Credit and the announced changes to disability premiums, and in decile four a slightly higher proportion have reduced entitlement compared to increased entitlement (although the average increase is higher, so that this decile sees, on average, an increase in entitlement). Households in the top half of the income distribution are less likely to be affected by the introduction of Universal Credit. This is because they are currently not entitled to means-tested benefits and are therefore unlikely to be affected by the changes.

[21] Changes in household income captured here only reflect changes in transfer payments (benefits and tax credits) as a result of the move to Universal Credit.

Chart 3: Impact of entitlement changes[22] by decile (all working age households) before cash protection



Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15

63. Economic theory says that as income rises people value each additional £1 less. This is known as diminishing marginal value of income, and means that, on average, people on lower incomes value an additional £1 more highly than people on higher incomes. Since Universal Credit is a redistributive policy overall, it generates an improvement in societal welfare.

64. Universal Credit will reduce child poverty through making work pay and providing an effective route out of poverty. Universal Credit will improve work incentives by allowing individuals to keep more of their income as they move into work, and by introducing a smoother and more transparent reduction of benefits when they increase their earnings.

65. Universal Credit will also reduce child income poverty by re-focusing of entitlements on lower income in-work households and having a simpler system that should lead to a considerable increase in the take-up of Universal Credit compared to the current complex system of benefits and tax credits.

Impact on Work Incentives

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

- 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 **participation tax rates (PTRs).**
- It will increase the incentive to increase hours of work and progress through the labour market for many, by reducing the proportion of any increase in earnings which is lost due to tax or reduced benefit payments – this is measured through the **marginal deduction rates (MDRs).** This will be balanced against the incentive for some to move to lower hours as the distortions created by the 16/30 hour rules are removed under Universal Credit.
- It will be a simpler system which removes some of the risks associated with moves into work and makes much clearer the actual financial gain from working.

67. The current system mainly rewards those working 16 or 30 hours. Conditionality ends for most people once their earnings reach a certain level which can be as low as £70 a week (equivalent to less than 12 hours work at National Minimum Wage for a claimant over 21). Under Universal

[22] Changes in household entitlement captured here only reflect changes in transfer payments (benefits and tax credits) as a result of the move to Universal Credit.

Credit, all hours of work will be rewarded and the Department for Work and Pensions will explore ways to extend conditionality so as to incentivise Universal Credit claimants who are earning over £70 a week to work more and reduce their dependency on benefits.

68. The higher work allowances and lower taper-rate means that many households will be able to keep a higher proportion of their earnings. In particular, Universal Credit provides strong incentives for workless households to take up jobs at a low number of hours per week. These 'mini jobs' could be important in helping individuals who have spent long periods in unemployment take steps into the labour market, particularly those on ESA (Work Related Activity Group) and lone parents or others with caring responsibilities.

Modelling work incentives

69. Work incentives are modelled based on entitlement to benefits. This reflects the incentives put in place by the benefit system itself, rather than the response in terms of take-up. The caseload affected is calibrated to maintain consistency with the published caseload forecasts. For the purpose of work incentives analysis, childcare support is excluded from the baseline and Universal Credit model[23]. To reflect the fact that council tax support will be localised it has been excluded from both the current system and Universal Credit. For this analysis no assumptions are made about how council tax support will be provided by local authorities.

70. The work incentives outlined in this Impact Assessment differ from those in previous iterations as a result of announced policy changes such as changes to the work allowances. See Annex 1 for more detail on policy changes.

Impact on Employment incentives - Participation Tax Rates

71. The participation tax rate (PTR) measures the incentive for someone to enter work at all. At a given level of gross earnings it reflects how much will be withdrawn in tax/National Insurance contributions and reduced benefit payments. The lower the PTR faced by an individual at a particular level of earnings, the more incentive they have to move into work at those earnings. A key aim of Universal Credit is to encourage people currently out of work to take their first steps into employment. Consequently, the work allowances and taper rate are aimed at radically improving the incentive to take-up work of a few hours per week.

72. PTRs are obviously important for individuals considering the decision to enter work. However, for Universal Credit to have the desired effect it will also be important that individuals understand the system and can see the gain to work. Therefore the greater transparency of the new system will be an important component in ensuring the improved PTRs lead to better employment outcomes.

73. Table 5 below illustrates the change in PTRs for first earners in workless households at different hours worked. It is assumed that those entering work do so at the National Minimum Wage (NMW). It shows that under Universal Credit there is a large reduction in the number of households facing PTRs of over 70 per cent. For example, for those who go into ten hours of work, the number of households facing PTRs over 70 per cent falls by around 1.1 million under Universal Credit. For those entering 16 hours of work, the number of households who face PTRs in this range falls by around 1 million.

[23] As opposed to analysis of changes in household entitlements, work incentives analysis requires an assumption to be made about the increased cost of childcare associated with an increase in hours worked or a movement into work. As this cost will vary significantly according to individual circumstances, it is difficult to capture this accurately in the modelling of work incentives at a population-wide level.

Table 5: PTRs[24] for first earners in a workless household at various hours (millions, individuals)

First earner PTRs	10 hours		16 hours		25 hours		37 hours	
	Current System	Universal Credit	Current System	Universal Credit	Current System	Universal Credit	Current System	Universal Credit
Under 60%	0.3	3.8	2.1	3.7	2.6	3.7	2.6	3.4
60% to 70%	2.4	*	0.6	*	0.5	0.1	0.7	0.5
70% to 80%	*	*	0.1	*	0.6	*	0.6	*
80% to 90%	0.3	*	0.6	*	0.1	*	0.1	*
90% to 100%	0.8	*	0.4	*	0.1	*	*	*
Over 100%	*	*	0.1	*	*	*	*	*

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15[25].
Figures may not sum due to rounding.
* Rounds to less than 50,000
Note that there are a small number of households under Universal Credit with PTRs above 60 per cent at each point of hours worked. For example at 16 hours there are 100,000 households, but the numbers in each band round to zero.
The table captures households receiving benefits or tax credits either in the current system or under Universal Credit.

74. These reductions occur for two reasons:

- Universal Credit provides higher work allowances for many more people than the current system does; and
- for those households earning above their work allowance, the single taper-rate is lower than the 100 per cent taper which they face under current out of work benefits, or the very high withdrawal rate if they face the simultaneous tapers for Housing Benefit and tax credits.

75. Changes in the incentives to enter work under Universal Credit have occurred since the publication of the last Impact Assessment due to the redesign of work allowances. In particular, work allowances for most renting households have been increased, leading to a reduction in PTRs for some of those who previously had higher PTRs in Universal Credit. While this has been partly offset by an increase in work allowances for non-renting households, these households typically had lower PTRs already, and they remain relatively low.

76. The Modelling is now based on households in the 2010/11 Family Resources Survey (previously 2008/09) and the caseloads have been calibrated. This changes the pattern of PTRs in both the current system and Universal Credit.

77. Table 6 below shows the PTRs for potential second earners in a household, where one partner is already in work. The second earner is assumed to enter work at the NMW. In general, second earners face higher PTRs than first earners under Universal Credit because the work allowance is exhausted by the earnings of the main earner. Furthermore, two earner households are likely to have a higher income and therefore are less likely to face simultaneous tapers in the current system on more than one benefit or tax credit. For this reason second earners do not benefit as much from the reduced taper under Universal Credit. Under Universal Credit resources are targeted towards reducing the number of workless households, by increasing the incentive for at least one member of the household to enter work.

78. More broadly, as Universal Credit delivers a more progressive tax and benefit system, a couple with two earners who have a higher income tend to lose slightly more in terms of state support.

79. Table 6 shows that Universal Credit has less effect on second earner PTRs. However it is also important to note that the highest PTRs for second earners in the current system are virtually eliminated under Universal Credit, providing additional support for potential second earners with the highest financial barriers to entering work. In some instances there is an increase in PTRs for the second earner, primarily for those households who are currently in receipt of tax credits but no

[24] PTRs calculated on a pre Council Tax basis in the current system and under Universal Credit – meaning that these are somewhat lower than are currently the case.
[25] Modelling is based on entitlement changes only.

other benefits; this is primarily because their current MDR of 73 per cent is lower than the 76.2 per cent[26] which will apply under Universal Credit.

80. Although the number of workless households will reduce, it is possible that in some families, second earners may choose to reduce or rebalance their hours or leave work. In these cases, the improved ability of the main earner to support his or her family will increase the options available for families to strike their preferred work/life balance. The Universal Credit policy is gender neutral. Where men and women are in the same circumstances they are treated equally under Universal Credit.

Table 6: PTRs for potential second earners at various hours (millions, individuals)

	10 hours		16 hours		25 hours		37 hours	
	Current System	Universal Credit	Current System	Universal Credit	Current System	Universal Credit	Current System	Universal Credit
Under 60%	0.6	0.7	0.6	0.7	0.6	0.8	0.6	0.8
60% to 70%	0.3	0.4	0.3	0.4	0.3	0.4	0.3	0.4
70% to 80%	0.2	*	0.2	*	0.2	*	0.2	*
80% to 90%	0.1	*	0.1	*	0.1	*	0.1	*
90% to 100%	*	*	*	*	*	*	*	*
Over 100%	*	*	*	*	*	*	*	*

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15[27].
Figures may not sum due to rounding
* Rounds to less than 50,000
The table captures households receiving benefits or tax credits either in the current system or under Universal Credit.

Employment incentives by Family Type

81. Table 7 shows that Universal Credit significantly reduces the number of households with higher PTRs (above 60 per cent) making it much more worthwhile for all family types to consider work at ten hours a week. Single adults without children are most likely to face the highest PTRs under the current system. In the current system they have a very small earnings disregard (£5 a week unless they have a disability in which case it is £20[28]) and then face a pound for pound taper on their ESA/IS/JSA.

Table 7: PTRs for the first earner in a workless household if they were to enter work at 10 hours per week (working age only) by family type (millions, individuals)

PTR for first earners	Couple with children		Couple without children		Lone parent		Single without children	
	Current system	Universal Credit	Current system	Universal Credit	Current system	Universal Credit	Current system	Universal Credit
Below 60%	0.1	0.3	*	0.4	0.1	0.9	0.1	2.1
60% to 70%	0.2	*	0.3	*	0.8	*	1.1	*
70% to 80%	*	-	*	-	-	*	*	*
80% to 90%	0.1	*	0.1	*	-	*	0.1	*
90% to 100%	-	-	*	*	*	*	0.8	*
Over 100%	*	*	*	*	*	*	*	*

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15[29].
Figures may not sum due to rounding
* Rounds to less than 50,000
- Denotes no sample cases
The table captures households receiving benefits or tax credits either in the current system or under Universal Credit.

[26] This is the combined effect of the withdrawal of Universal Credit, income tax and National Insurance.
[27] Modelling is based on entitlement changes only.
[28] The analysis does not consider temporary work incentives measures in the current system, such as permitted work for claimants with a disability.
[29] Modelling is based on entitlement changes only.

Employment incentives by protected groups

82. It is possible to look at the pattern of PTRs across some of the protected groups (segmenting by disability status, gender, age and ethnicity). At 10 hours, the pattern under Universal Credit is similar for each group, with virtually everyone seeing PTRs under 60 per cent. People with disabilities and women are slightly less likely than the overall population to see the highest PTRs in the current system.

Impact on Earnings incentives – Marginal Deduction Rates

83. Marginal deduction rates (MDRs) measure the incentive for someone to increase their hours of work. As the earnings of a household increase, means-tested benefits and tax credits start to be withdrawn. In addition, above a certain level of earnings, the increase in their wages will also be partially offset by income tax and National Insurance contributions. The MDR is calculated as the proportion of a small increase in earnings which is lost in lower benefits/tax credits and/or higher income tax and National Insurance payments.

84. Under the current system, many households have very high MDRs which substantially damage their incentive to increase their hours of work. There are two particularly notable circumstances in which very high MDRs occur:

- firstly, MDRs are 100 per cent for anyone working while in receipt of income-related benefits and whose earnings are above the disregard level; and
- people who have exhausted their IS/ESA/JSA but are simultaneously in receipt of Housing Benefit and tax credits can have MDRs as high as 91 per cent[30].

85. Universal Credit replaces the multiplicity of tapers for in-work support with a consistent taper of 65 per cent on net income, and removes the 100 per cent taper for out of work benefits. As a result Universal Credit will reduce the highest MDRs, as illustrated in tables 8 and 9 which compare the distribution of MDRs under the current and the new system. The tables illustrate the fact that, to all intents and purposes, no-one in work will face an MDR of above 76.2 per cent under the new Universal Credit system. Tables 8 and 9 combined show that one of the key impacts of Universal Credit is that around 700,000 people who currently have MDRs above 80 per cent, in many cases substantially above, will see their MDR reduced to 76.2 per cent or lower.

86. Over time, the Government will have the scope to balance affordability constraints with the taper rate to further increase work incentives.

87. It is important to note that MDRs are partially driven by the generosity of the benefit system. There is a trade off between increasing entitlements and reducing MDRs. It is possible to reduce MDRs by reducing entitlements. However, under Universal Credit many households will receive higher entitlements and some of these households will see their MDRs increase as a result. For example, some households become entitled to state support for the first time under Universal Credit; as a result the Universal Credit taper will be combined with tax/NI thus increasing their MDR. Therefore, for these households, the increase in MDRs is associated with an increase in their income.

88. As with PTRs, MDRs differ from those reported in the previous impact assessments due to the incorporation of policies announced since the last publication and modelling changes. For example, some of the higher MDRs in Universal Credit have fallen due to changes made to the work allowances.

89. Alongside financial work incentives it is also important to remember that there will be a system of conditionality helping to encourage and support as many people into work as possible. Additionally, the effectiveness of reducing MDRs on work incentives will be supported by the greater simplicity and transparency of the new system.

[30] Basic rate tax and National Insurance together take 32 pence from each pound earned; tax credits then take an additional 41 pence from each pound earned therefore 73 pence in total is taken from each pound leaving 27 pence. Housing benefit then tapers at 65 percent of income net of tax and tax credits – taking 65 percent of the 27 pence which is left is around 18 pence. Added together this is a reduction of 91 pence (73 pence plus 18 pence) for each pound earned while these benefits are being simultaneously withdrawn.

Table 8: MDRs[31] for those in work (working age only), earning below the tax threshold

MDR for non-taxpaying earners	Current System *(millions)*	Universal Credit *(millions)*	Difference *(millions)*
Up to 60%	0.8	0.3	-0.4
60%-70%	0.2	1.0	0.8
70%-80%	0.1	-	-0.1
80%-90%	0.1	-	-0.1
Over 90%	0.1	*	-0.1

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15[32]
Figures may not sum due to rounding
* Rounds to less than 50,000
- Denotes no sample cases
The table captures households receiving benefits or tax credits either in the current system or under Universal Credit.

Table 9: MDRs[33] for those in work (working age only), earning above the tax threshold

MDR for taxpaying earners	Current System *(millions)*	Universal Credit *(millions)*	Difference *(millions)*
Up to 60%	0.5	0.5	*
60%-70%	0.1	0.1	*
70%-80%	1.6	2.1	0.5
80%-90%	0.5	*	-0.5
Over 90%	0.1	*	-0.1

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15[34].
Figures may not sum due to rounding
* Rounds to less than 50,000
The table captures households receiving benefits or tax credits either in the current system or under Universal Credit.

Distribution of Changes in MDRs

90. Table 10 summarises the impact of Universal Credit on the distribution of MDRs, and segments them into first and second earners in the household. Some 1.8 million first earners will have higher MDRs under Universal Credit but the median increase will be comparatively small, at around four percentage points. Many of these cases will have above-average income for Universal Credit claimants, and move from an MDR of 73 to 76.2 per cent. There are also a number of individuals who would not receive benefits in the current system, but would receive Universal Credit. Because these individuals would now face a 65 per cent taper on their benefits, they will face higher MDRs. In this case, the increase in the MDR is associated with an increase in their net income. This includes:
    - a group of households on higher incomes who are on the Universal Credit taper, but would have seen all of their benefits tapered away in the current system;
    - under-25 year olds without children and without a disability who were not entitled to tax credits, but will be entitled to Universal Credit;
    - households who do not take up their benefits entitlement in the current system, but would take up Universal Credit.

91. Around 1.3 million first earners will have lower MDRs under Universal Credit with a median reduction of 14 percentage points; this reflects the virtual elimination of the highest MDRs under Universal Credit and the move to a maximum MDR of 76.2 per cent. This also includes those that would not receive Universal Credit but who are in receipt of benefits or tax credits in the current system, for example due to capital limits.

[31] MDRs for those receiving income related benefits or tax credits in the current system or receiving the new Universal Credit. Self employed and students are excluded.
[32] Modelling is based on entitlement changes only.
[33] MDRs for those receiving income related benefits or tax credits in the current system or receiving the new Universal Credit. Self employed and students are excluded.
[34] Modelling is based on entitlement changes only.

92. Around 300,000 second earners will face higher MDRs under Universal Credit and around 200,000 second earners will experience reduced MDRs. The median increase is higher for this group than for first earners, reflecting the fact that second earners already tend to have lower MDRs. A second earner who does not earn enough to pay income tax or National Insurance (in 2011/12 an individual would start paying NI at £146 a week (approx £7615 a year) and tax at £8,105 a year), but whose household income is sufficiently high to place them on the tax credit taper would have an MDR under the current system of 41 per cent. This would increase to 65 per cent under the new system, which explains the median increase of 24 percentage points.

Table 10: Changes in MDRs

	MDR increases (millions)	MDR decreases (millions)	Mean increase (ppt)	Mean decrease (ppt)	Median increase (ppt)	Median decrease (ppt)
First earners	1.8	1.3	20	-30	4	-14
Second earners	0.3	0.2	24	-35	24	-41
Total	2.1	1.5	20	-30	4	-14

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15[35].
Figures may not sum due to rounding
The table captures households receiving benefits or tax credits either in the current system or under Universal Credit.

Earnings Incentives by Family Type

93. Table 11 segments the banded MDRs by family type, while table 12 shows the increases and decreases. Table 11 shows that for all household types only a small number of people are left on the highest MDRs. In absolute terms, families with children are the greater beneficiaries from this change because they are more likely to have a high MDR in the first place.

94. Couples with children are more likely to see an increase than a decrease in their MDRs. The median increase is comparatively small (4 percentage points) which reflects the fact that they are more likely to have incomes which place them in the group, described above, whose MDRs move from 73 per cent to 76.2 per cent as a result of Universal Credit[36].

Table 11: MDRs[37] for those in work (working age only) by family type

MDR for benefit recipients	**Couple with children (*millions*)**		**Couple without children (*millions*)**		**Lone parent (*millions*)**		**Single without children (*millions*)**	
	Current	UC	Current	UC	Current	UC	Current	UC
Below 60%	0.6	0.4	0.1	0.1	0.2	0.2	0.3	0.1
60% to 70%	0.1	0.4	*	0.1	0.1	0.3	0.1	0.3
70% to 80%	0.9	1.1	0.1	0.2	0.5	0.6	0.2	0.2
80% to 90%	0.3	*	*	*	0.2	-	*	-
0ver 90%	0.1	*	*	-	*	-	*	-

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15[38].
Figures may not sum due to rounding
* Rounds to less than 50,000 people
- Denotes no sample cases
The table captures households receiving benefits or tax credits either in the current system or under Universal Credit.

[35] Modelling is based on entitlement changes only.
[36] Where someone pays contracted out NI, the increase would be four percentage points.
[37] MDRs for those receiving income related benefits or tax credits in the current system or receiving the new Universal Credit. Self employed and students are excluded.
[38] Modelling is based on entitlement changes only.

Table 12: MDRs average changes

	Couple with children	Couple without children	Lone parent	Single without children	All
MDR increases (millions)	1.1	0.1	0.5	0.4	2.1
MDR decreases (millions)	0.7	0.2	0.5	0.2	1.5
Mean increase (ppt)	17	32	8	41	20
Mean decrease (ppt)	-29	-52	-25	-31	-30
Median increase (ppt)	4	44	4	45	4
Median decrease (ppt)	-14	-41	-14	-35	-14

Source: DWP Policy Simulation Model (based on FRS 2010/11), 2014/15[39].
Figures may not sum due to rounding
The table captures households receiving benefits or tax credits either in the current system or under Universal Credit.

95. For those people for whom MDRs fall, the reductions are substantial across all of the family types, but especially households without children. A reduction of 41 percentage points is typical of a family who would be entitled to tax credits in the current system but would not be entitled to Universal Credit, for example because they have capital in excess of the limit. The increases are more variable, with households without children experiencing the largest average increase. The numbers affected by these larger increases will be comparatively small, and some of them will be people who become newly entitled to support as a result of Universal Credit, and so experience an increase in their net income at the same time.

Earnings incentives by protected groups

96. There are some differences in the pattern of MDRs for protected group. Households which include someone from an ethnic minority have a higher tendency to be on lower incomes, and as a result are slightly less likely to have MDRs below 60 per cent under Universal Credit. This is because they are more likely to be receiving Universal Credit and therefore to be on the 65 per cent taper.

97. The proportion of under 25s with an MDR under 60 per cent decreases from 50 per cent to 12 per cent as a result of Universal Credit. However this is primarily a result of extending financial support to under 25s who were previously not entitled to Working Tax Credit, as discussed above. The 25 to 49 age group is more likely than other groups to face the highest MDRs in the current system, and generally benefits from lower MDRs in Universal Credit.

98. Women are slightly less likely than men to face MDRs in the 70 to 80 per cent range under Universal Credit due to their position in the income distribution (and more likely to face lower MDRs). They are also less likely to face higher MDRs in the current system. There are no notable differences in the pattern of MDRs by disability.

Other impacts on work incentives under Universal Credit

99. Universal Credit will not only improve financial incentives to work. It will also considerably ease the movement into work by reducing the uncertainty people will experience around the return to work. Under the current system, someone moving into work needs to have their benefits and tax credits reassessed and may have to deal with three government agencies in the process. This creates considerable uncertainty around the value of their in-work support and about when they will start to receive it. A number of changes have been made to the current system to address this, for example through having a ‘run-on’ period in Housing Benefit. However these are only partial solutions.

100. Under Universal Credit, the complexity of dealing with many agencies is reduced. Claimants will have a single relationship with a single organisation. There will be a single assessment which will result in a single payment. The simpler system will also make the financial implications of changes in circumstance much more transparent to claimants, who will have immediate online access including calculations to estimate the benefit of working at any number of hours. Many of the changes in

[39] Modelling is based on entitlement changes only.

circumstances which affect benefit entitlements, such as changes in hours, will be handled automatically. Support for council tax will remain outside Universal Credit, to be administered by local authorities as part of the council tax system.

101. There will also be changes to the conditionality regime for claimants. All claimants will be required to make a claimant commitment – with the specific conditionality requirements varying across different sets of people. The structure of Universal Credit will also bring new categories of claimant into the all-work requirements as they start to be treated as current Jobseeker's Allowance recipients – being expected to look for work and take a job and meet requirements designed to help them achieve that.

102. An estimated that up to 1 million extra claimants will be brought into conditionality under Universal Credit. For example, people currently claiming only Housing Benefit or Child Tax Credits are currently not subject to any work search requirements. Similarly, whilst entitlement to Universal Credit is calculated on a household basis, conditionality will be determined on an individual basis, bringing many partners of those who are out of work back into contact with the labour market and the conditionality regime. Those awaiting Work Capability Assessments will also fall by default into the all work search requirements group.

103. The new system means that any Universal Credit received will be conditional on meeting worksearch requirements according to individual capability and circumstance. Some claimants, for example those with regular and substantial caring responsibilities or people with limited capability for work-related activity will not have any work-related conditions placed upon them.

Labour Market Impacts of Universal Credit

104. Universal Credit represents a fundamental structural change to the welfare system. It will radically alter incentives to work for many, and will reduce uncertainty for those returning into employment. Because of the dramatic changes that will be brought about by the introduction of Universal Credit any analysis of these impacts is subject to a high degree of uncertainty. It is very difficult to capture the effects of factors including:

- increased transparency of work incentives;
- reduced administrative complexity associated with a move into work, and related to this, reduced risks of interruptions in benefit payments;
- reinforcement of the conditionality regime;
- the interaction of different factors affecting the incentive to work; and in the long run
- reinforcement of pro-work social norms.

105. Due to these factors the estimates set out in this section should be treated as indicative. Note that the labour market impacts set out here are not reflected in the analysis of changes in benefit receipt and work incentives set out in previous sections.

106. The labour market response to Universal Credit will fall into four categories. The estimated impact in each is set out below.

Response to changes in financial incentives

107. Universal Credit will change the financial gains from work. It is expected that this will affect decisions about whether to participate in the labour market (whether to work or not) and about how many hours to work. It is estimated that the change in financial incentives brought about by the introduction of Universal Credit will result in a net reduction in the number of workless people by 100,000 to 300,000. This reflects the fact that some people will be more likely to move into employment, while others would be more likely to move out of work. In addition it is estimated that people already employed will increase their hours by a total of 1 to 2.5 million hours per week. Again, this takes into account cases where a reduction in hours may be likely. These impacts are expected once Universal Credit is fully implemented and individuals and employers have had time to respond to changes. These estimates do not take into account non-financial aspects of the move to Universal Credit, which would increase the overall impact and are discussed below.

108. The impact of financial incentives is estimated combining academic evidence on responses to welfare system changes based on previous reforms, and the department's Policy Simulation Model. Academic evidence examined a range of previous welfare reforms to estimate people's responses to changes in gains from work.[40] The Policy Simulation Model was used to estimate changes in gains from work and disposable income for different groups due to the introduction of Universal Credit.[41] Response levels were then applied to these to estimate net movement into employment, and changes in working hours for those currently employed. The estimates of increased participation take into account the probability of individuals being in work, including cases where the probability of employment falls. The estimates for changes in hours worked also reflect the fact that people currently working at the tax credit thresholds may respond to Universal Credit by decreasing the hours that they work. Whilst the results are plausible, it is acknowledged that estimating the impact is highly uncertain due to the uniqueness of the reform.

Response to improvements in simplicity and smoothing

109. It is estimated that around 50,000 to 100,000 people may move into work as a result of improvements in simplicity and a smoother transition to work. This impact is very difficult to measure and should be regarded as indicative.

110. There is a wealth of evidence that many people are deterred from working even when they would be financially better off in work because they:

- do not know how much better off in work they would be, e.g. because they don't know what in-work benefits and credits they would be entitled to; and
- are put off by the administrative costs of moving into work and risks associated with moving into work, for example in terms of cash flow.[42]

111. Past initiatives to deal with these issues have demonstrated significant positive impacts[43]

112. Universal Credit will simplify the benefit system so that the gains from working are more transparent and certain. This will make it easier for people to understand their financial incentives. As well as improving transparency, Universal Credit will smooth the transition to work. It will reduce the administrative barriers to entering employment because claimants will not need to re-apply for different benefits with different rules. It will also make it easier and quicker for people to update their circumstances.

113. The estimates are based on the impact of past initiatives to improve transparency and to smooth the transition to work. Evidence about initiatives to improve information about in-work entitlements such as work-focused interviews and better-off in work calculations was used[44]. Evidence on the impact of past initiatives intended to smooth the transition to work (the In-Work Credit) was also taken into account[45]. In both cases estimating the impact is difficult, in particular because: Universal Credit will apply to a larger and more diverse population than previous initiatives; transparency will be greater; and there will be simultaneous improvements in financial incentives. Because it is difficult to extrapolate with confidence a cautious approach has been adopted. In particular it has been assumed that:

- only certain groups respond to the more transparent and certain gains from work (i.e. those who research shows tend to misunderstand and under-estimate their in-work entitlement);

[40] Meghir, C and Phillips D, Labour Supply and Taxes, Institute for Fiscal Studies, March 13, 2008
[41] The estimates do not take into account the impact of local support for council tax.
[42] Bashir, N, Crisp, R, Gore. T, Reeve, K and Robinson, D, Families and work: Revisiting barriers to employment, 2011 DWP RR 729
[43] Cebulla, A. and Flore, G. with Greenberg, D. "The New Deal for Lone Parents, Lone Parent Work Focused Interviews and Working Families' Tax Credit: A review of impacts".
[44] New Deal for Lone Parents Evaluation: Findings from the Quantitative Survey DWP Working Age and Employment Report 147
[45] The lone parent pilots after 24 – 36 months: the final impact assessment of In-Work Credit, Work Search Premium, Extended Schools Childcare, Quarterly WFIs and New Deal Plus for Lone Parents; DWP RR 606, Supporting lone parents' journey off benefits and into work: a qualitative evaluation of the role of In Work Credit; DWP report 712;

- the increase in 'smoothness' only affects groups that research shows are deterred from entering employment due to administrative barriers;
- the impacts are at lower end of the range of past impact estimates; and
- the additional employment is part-time and at low wages.

114. This is a conservative approach, particularly since awareness of the changes brought about by the introduction of Universal Credit will be high. These impacts would be in addition to (or would increase) the impact of improvements in financial incentives.

Response to changes in conditionality

115. There is a robust evidence base on the effectiveness of labour market interventions. The evaluation of the introduction of Jobseeker's Allowance, for example, showed that introducing mandatory work search (as well as a number of other changes to benefit rules), monitored through Fortnightly Job Reviews had a short-term and a lasting effect on unemployment; it was estimated that there was a permanent reduction in the claimant count of 0.8 percentage points.

116. It is estimated that up to 1 million extra claimants could be brought into conditionality as a result of the introduction of Universal Credit. Analysis (based on existing evaluation evidence[46]) of the impact of interventions on the additional groups could, as a stand-alone measure, result in the equivalent of 50,000-100,000 people moving into employment. It is difficult to assess the extent to which this impact would be additional to the response to other financial and non-financial incentives under Universal Credit.

Response to the introduction of the Minimum Income Floor for the self-employed

117. Under Universal Credit a Minimum Income Floor will be introduced for the self-employed. Where a self-employed claimant's declared earnings are lower than the Minimum Income Floor, the Minimum Income Floor will be used to calculate the claimants Universal Credit award (see Annex 1). It is likely that some claimants would respond to this by acting to increase their earnings from self-employment, or find other forms of employment to increase their income. Others might stop their self employment activity and search for other work and some may not change their behaviour.

118. It is difficult to estimate the overall impact on employment, but the intention of the policy is to reduce the number of people who do not progress from low earning activity and who participate in activities that are not self-sufficient in the long term.

Other aspects of the move to Universal Credit

119. This section discusses aspects of the move to Universal Credit not covered in the analysis so far.

Universal Credit Pathfinder

120. The Pathfinder will begin in April 2013 to test the core structure, functionality and capability of Universal Credit in a live environment. It will target a small subset of the unemployed population in the North West of England (Tameside, Wigan, Oldham and Warrington). Those claimants who do not meet the criteria for the Pathfinder group will be directed towards claiming the appropriate existing benefits or tax credits.

121. To be eligible to claim Universal Credit on the Pathfinder (as opposed to legacy benefits), a person must:

- live in a specified postcode area but not be homeless, in supported or temporary accommodation or a homeowner;
- be single, childless, a British citizen and aged between 18 years and 60 years and 6 months;
- be fit for work;
- not be pregnant or be within 15 weeks after the date of confinement;

[46] Rayner et al. Evaluating Jobseeker's Allowance: A Summary of the Research Findings Department of Social Security Research Report No 116, 2000 and Middlemas, Jobseekers Allowance intervention pilots quantitative evaluation, Department for Work and Pensions, Research Report No 382, 2006.

- not be receiving legacy benefits or tax credits or awaiting a decision on, or be appealing against a decision not to award any of those;
- not be in receipt of DLA/PIP;
- have expected earnings no higher than £270 per month (under 25s) or £330 per month (25 or over) per month and not possess capital in excess of £6,000;
- not have any caring responsibilities;
- not be self-employed, in education or have to rely on an appointee; and
- have a valid bank account and National Insurance Number.

122. If a person on the Pathfinder subsequently forms a couple with someone who does not meet the Pathfinder criteria, the new partner will form a joint claim with the original Universal Credit claimant and all entitlement to legacy benefits and tax credits will cease. If the couple then separate, both parties to the joint claim will be eligible to make a single claim to Universal Credit within one month, otherwise they will have to claim legacy benefits if they do not otherwise meet the Pathfinder criteria.

123. Where one partner is under, and one partner is over the qualifying age for Pension Credit, couples will be able to choose whether to claim Pension Credit or Universal Credit during the Pathfinder.

124. April 2013 will mark the start of a phased approach as Universal Credit becomes available for more and more claimant groups and as new claims for Universal Credit replace those to current benefits. Existing claimants will gradually be moved over to Universal Credit either as their circumstances change or they will be informed by the Department of their move to Universal Credit. It is expected this process will take until the end of 2017, at which time the migration to Universal Credit will be complete.

125. Since the Pathfinder will be restricted to a small subset of claimants we are unable to do any analysis of the specific impacts for this group. Pathfinder representation will be dependent on the circumstances of the household; however, the impact of the Universal Credit Pathfinder on protected groups under the Equality Act will be limited. For example, the Pathfinder group will, for implementation and delivery reasons, exclude new claims from those in receipt of DLA, those already on ESA and those who otherwise consider themselves unfit for work. Similarly there are limitations in the Pathfinder based on age and nationality. Individuals who would not be eligible for the Pathfinder will however be included on Universal Credit if they form a couple with an existing Universal Credit claimant.

Consequences of Universal Credit for pensioners

126. A number of changes will need to be made to Pension Credit as a result of the introduction of Universal Credit, as set out in the Welfare reform Act 2012. The changes are set out here:

- Rent support for pensioners will be delivered through the introduction of the Housing Credit as an additional element of Pension Credit, alongside the Guarantee Credit and Savings Credit.
- It is also anticipated that assessed income periods will be extended to the Housing Credit.
- There will be a full disregard of War Pension income in Universal Credit. Treatment of War Pension income in the modified Pension Credit is still under consideration.
- Child Tax Credit and Working Tax Credit will be abolished. Support for those over Pension Credit Qualifying age with dependent children will be provided through the introduction of a Child Addition to the Guarantee Credit element of Pension Credit.

127. Current estimates of take-up indicate that there are a number of pensioners who are in receipt of Housing Benefit but aren't taking up the Pension Credit that they are entitled to[47]. When these individuals are migrated onto Pension Credit they will be automatically assessed for entitlement to Pension Credit, leading to an additional 100,000 pensioners taking up their entitlement. The changes will also result in a number of Pension Credit recipients taking up their entitlement to rent support.

[47] *Income Related Benefits: Estimates of Take-up in 2009-10*, Section 3.4.16 – see http://statistics.dwp.gov.uk/asd/income_analysis/feb2012/chapter_3_text.pdf

128. These impacts are not reflected in the analysis of changes in benefit receipt or work incentives in this document. However, they are included in the estimated cost of Universal Credit. Further analysis will be set out in the Impact Assessment for Pension Credit regulations next year.

The sanctions and the hardship regime

129. Sanctions play a vital role in encouraging claimants to comply with requirements that are designed to help them move into or prepare for work. Research shows that compliance with requirements, for example, active job search, increases the chances that claimants find work more quickly than they would otherwise.

130. The Universal Credit sanctions regime will feature four levels of sanction. The type of sanction a claimant may receive will depend on the failure, and their conditionality group and the requirements placed on them as a result. The Universal Credit sanctions regime will largely mirror the current Jobseeker's Allowance and Employment and Support Allowance regimes.

131. Claimants subject to higher, medium and low level sanctions will be sanctioned an amount equivalent to 100 per cent of their standard allowance amount for Universal Credit (or half of the household standard allowance amount for joint claims). Unlike the current Jobseeker’s Allowance regimes, low level sanctions in Universal Credit will be open-ended until a claimant meets a requirement, followed by a short fixed period. This is intended to encourage compliance with the requirement. Where a claimant is in receipt of their maximum amount of Universal Credit the sanction will not exceed the standard allowance amount. Claimants subject to lowest level sanctions and 16/17 year olds will be sanctioned an amount equivalent to 40 per cent of their standard allowance amount. In cases of dual entitlement to Universal Credit and Jobseeker’s Allowance or Employment and Support Allowance, the sanction will be applied to the Universal Credit award. The total outstanding sanction period that can be applied to a claimant at any one time is to be capped at three years. Sanctions will be terminated if a claimant is working with an income at or above the level reasonably expected of them for at least 26 weeks.

132. There is some variation in the application of sanctions by protected group in the existing system. Sanctions data for Jobseeker’s Allowance suggests that people with a disability and women are currently less likely than the overall population to receive a sanction overall.[48] This is partly due to disabled JSA claimants being able to show ‘good reason’ for failing to meet a work-related requirement. At an overall level there is no notable difference in the probability of a sanction for different people in different ethnic groups. However there are certain types of sanctions that are more frequently applied to certain ethnic groups. For example non-white groups are more likely to receive the equivalent of a medium level sanction. A significant factor in this is likely to be claim duration, which will lead to a greater or lesser frequency of certain types of sanction. Younger claimants are disproportionately likely to receive a sanction. A 2006 report suggested that some younger claimants might have a more relaxed attitude towards sanctions as a result of being supported financially by their families.[49]

133. Under Universal Credit claimants who receive a sanctioned payment can apply for hardship payments when they meet their labour market conditions and can show their household is unable to meet their immediate and most basic and essential accommodation, food, heating or hygiene needs. To receive hardship payments the claimant or joint claimants must accept that payments are recoverable from future non-sanctioned benefit payments and make every effort to access alternative sources of support and to cease to incur any expenditure that does not relate to their immediate and most basic and essential needs.

134. To calculate a hardship payment the sanction reduction is converted to a daily amount. The hardship daily amount is 60 per cent of that figure and is paid for the number of days from the date the claimant meets the conditions to be in hardship to the day before their next Universal Credit payment is due (or would be due if not reduced to zero). A claimant must apply for a hardship payment each assessment period in order to demonstrate they cannot meet their needs and that they are continuing to make every effort to reduce non-essential costs and to seek alternative

[48] The sanctions data come from the DWP Sanctions Evaluation Database and the JSA population data from the National Benefit Database. The JSA database population is a snapshot of the count on 13 October 2011.
[49] A Review of the Sanctions Regime: Summary Research Findings (p 17). Available at http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_313.asp

sources of support. Hardship payments are recoverable. Recovery of hardship payments will be suspended where the claimant or household enter work with an income at or above the level reasonably expected of them and will cease to be recoverable if they are at this level for at least 26 weeks.

Monthly payments

135. A key aspect of Universal Credit is that it should mimic work and receipt of a salary. In order to help households understand what money they receive and how choices over work affect it, Universal Credit will be paid monthly. This reflects the fact that over 70 per cent of people are paid earnings monthly in arrears. Monthly payment of benefit will also make it easier for households to take advantage of cheaper tariffs for essential costs such as utility bills.

136. The Government wishes to place responsibility for household budgeting with the household so a single monthly payment of Universal Credit will be made to an account nominated by household members. Households will be required to pay living expenses, such as rent, themselves.

Passported Benefits

137. Claimants who are currently entitled to out-of-work means tested benefits or tax credits can also be eligible for a range of other support, including free school meals and health benefits such as free prescriptions, free dental treatment and assistance with legal aid. These are known as 'passported benefits'. Defining the entitlement criteria for certain passported benefits is the responsibility of respective government departments and the devolved administrations. Where criteria is based on the benefit system government departments and the devolved administrations are redefining the eligibility criteria for their passported benefits under Universal Credit.

138. To assist in that process, in May 2011 the Department for Work and Pensions commissioned the Social Security Advisory Committee to undertake an independent review of passported benefits and how they link with Universal Credit in May 2011. The SSAC's review focussed in particular on the need to reduce the complexity of passported benefits, support work incentives, but deliver change on a cost neutral basis. The report[50] provides a number of guiding principles and suggestions to help departments and the devolved administrations develop new eligibility criteria for Universal Credit claimants from 2013 and suggestions for how more radical changes to passported benefits may be delivered in the long term.

139. The Department for Work and Pensions is working with other Government departments and devolved administrations to assist in consideration of amendments to the eligibility criteria for their passported benefits with a view to providing a cost neutral level of support to claimants under Universal Credit. Changes required to achieve this are the remit of owning departments and devolved administrations and the impact of any changes to passported benefits are not included in this Impact Assessment.

[50] This report and the Government's response can be found at http://www.dwp.gov.uk/docs/ssac-rev-of-pass-bens.pdf

Annex 1: Policy and modelling updates

1. This Annex sets out changes to the policy and modelling which have been made since the publication of the Universal Credit Impact Assessment in October 2011.

Changes to the earnings disregards

2. The structure of earnings disregards set out in the last Impact Assessment has been revised to create a simpler set of work allowances.

3. The work allowances no longer vary according to the level of housing costs. Instead, the work allowance depends on family circumstances including whether the household receives support with housing costs in Universal Credit.

4. The work allowances focus available resources on those groups, such as lone parents, who face the highest barriers to entering employment and who can be shown to respond best to improved work incentives.

5. A significant increase is also included for households where one or more people have a limited capability to work. This reflects the fact that such households can face significant barriers to entering employment and are likely to spend longer on benefits.

6. People who do not have their housing costs met through Universal Credit are also treated slightly differently. Claimants in receipt of large amounts of housing support will have a higher award of Universal Credit than those with low or no housing costs. In order to address this and target resources fairly, we intend to allow those claimants who receive no support with their housing costs to keep more of their earnings. We intend to do this by setting higher work allowance in those circumstances.

Table 1: Universal Credit Work Allowances

Higher work allowance (taking the highest of whichever of following amounts is applicable) for households who do not have their housing costs met through Universal Credit —		
Single claimant—		
	not responsible for a child or qualifying young person	£111
	responsible for one or more children or qualifying young persons	£734
	has limited capability for work	£647
Joint claimants—		
	neither responsible for a child or qualifying young person	£111
	responsible for one or more children or qualifying young persons	£536
	one or both have limited capability for work	£647
Lower work allowance (taking the highest of whichever of the following amounts is applicable) for households who have their housing costs met through Universal Credit —		
Single claimant—		
	not responsible for a child or qualifying young person	£111
	responsible for one or more children or qualifying young persons	£263
	has limited capability for work	£192
Joint claimants—		
	not responsible for a child or qualifying young person	£111
	responsible for one or more children or qualifying young persons	£222
	one or both have limited capability for work	£192

The work allowance levels are expressed in 2013/14 prices. It is assumed that all the Universal Credit earnings disregards will be up-rated by 1 per cent in 2014/15 and 2015/16 and from 2016/17 onwards they are assumed to be up-rated by CPI.

Minimum Income Floor for the self-employed

7. Self-employed claimants of Universal Credit will need to declare their earnings to DWP. In Universal Credit, established self-employed claimants will be assumed to earn at least the Minimum Income Floor.

8. The Minimum Income Floor is an assumed level of income brought to account within the Universal Credit calculation. Where households including at least one self-employed earner declare earnings below their Minimum Income Floor (including zero earnings), that individual will be assumed to be earning at the level of the Minimum Income Floor instead of at the level they have declared. The household's Universal Credit calculation is then carried out as usual, but based on the self-employed claimant's Minimum Income Floor plus any other earnings from the other member of the couple.

9. There will be an initial "start up" period of a year for new self-employed businesses (with less than a year of activity) where the Minimum Income Floor does not apply. Claimants in such new businesses will be paid Universal Credit based on the earnings they declare, rather than the Minimum Income Floor, for that year. Furthermore, households that are actively moved onto Universal Credit will be exempt from the Minimum Income Floor for 6 months.

10. The purpose of the Minimum Income Floor is to:
    - Encourage self-employed claimants to increase their earnings.
    - Reduce fraud, including fraudulent claims of self-employment and fraudulent under-declaration of earnings from self-employment;
    - Prevent long-term subsidy of activities which do not make the self-employed claimant financially self-sufficient;

11. The Minimum Income Floor level will be set at the number of hours an individual is expected to work or be looking for work in Universal Credit multiplied by the National Minimum Wage for their age, minus notional income tax and NI contributions. The expected hours depends on the claimants circumstances, for someone over 25, who has no limitations on the hours of work the level would be set at 35xNMW. Where a person has limitations on the hours they can work the MIF level will be reduced accordingly.

12. Only those claimants who are in the All Work Related Requirements group will have a Minimum Income Floor applied. Other claimant's who fall into the Work Preparation Group, Work Focused Interview only group or the No Conditionality group, will not have a Minimum Income Floor applied. They will be required to report self-employed earnings and their Universal Credit award will be calculated on the actual earnings reported.

13. The Minimum Income Floor will ensure that the self-employed cannot continue to be supported indefinitely by the benefit system in activities that do not provide an adequate level of earnings.

Simplification of rates for the under 25s

14. In the current system there is considerable complexity around the rates for young people with some differences between benefits. Not all single claimants under 25 get the same rate and the couple rates are not aligned (they link to age 18 not 25). There will be a simpler structure in Universal Credit with just four categories (compared with 15 in Employment and Support Allowance):

    a. single claimants under age 25;

    b. single claimants aged 25 or over;

    c. couples where both members of the couple are under age 25; and

    d. couples where one or both members of the couple are aged 25 or over.

15. The rates for under 25s are to be lower than the rates for those aged 25 or over. This reflects the fact that young people generally have lower living costs and lower wage expectations. It will also reinforce the stronger work incentives that Universal Credit will create for this age group.

Other changes to the policy or modelling

16. A number of other minor changes have been made to the policy or modelling:
    - A non-dependent is someone living with a claimant on a non-commercial basis, such as a relative. They are assumed to make a contribution towards rent, and this amount is deducted from the claimant's housing costs (the 'non-dependent deduction'). Within Universal Credit there will be a single assumed housing cost contribution rate for non-dependants (with certain exemptions). Under 21s will not be assumed to make a contribution to rent if they are a non-dependent.
    - Income from war pensions and guaranteed income from the armed forces compensation scheme will be disregarded in full. This acknowledges the unique contribution ex-service personnel have made to safeguarding the country's security.
    - Contributions to occupational and personal pension schemes will be disregarded in full in the assessment of net earnings in order to maximise support for pension savings for those on low to middle incomes.
    - As set out in the previous Impact Assessment payments for those with limited capability for work will be simplified under Universal Credit. The analysis in this document assumes that the simplification of Benefit Rates continues to be cost neutral.
    - Under Universal Credit, the housing costs element for all claimants renting in the private sector will be the lower of their eligible rent and the relevant Local Housing Allowance rate. Some existing claimants in the private rented sector still have their Housing Benefit assessed under the Rent Referral and Regulated Tenancy arrangements that applied before LHA was introduced; they will move to the Local Housing Allowance when they migrate to Universal Credit (and will be subject to the Universal Credit transitional protection arrangements at that point). This was not previously included in the Universal Credit modelling but has now been incorporated.

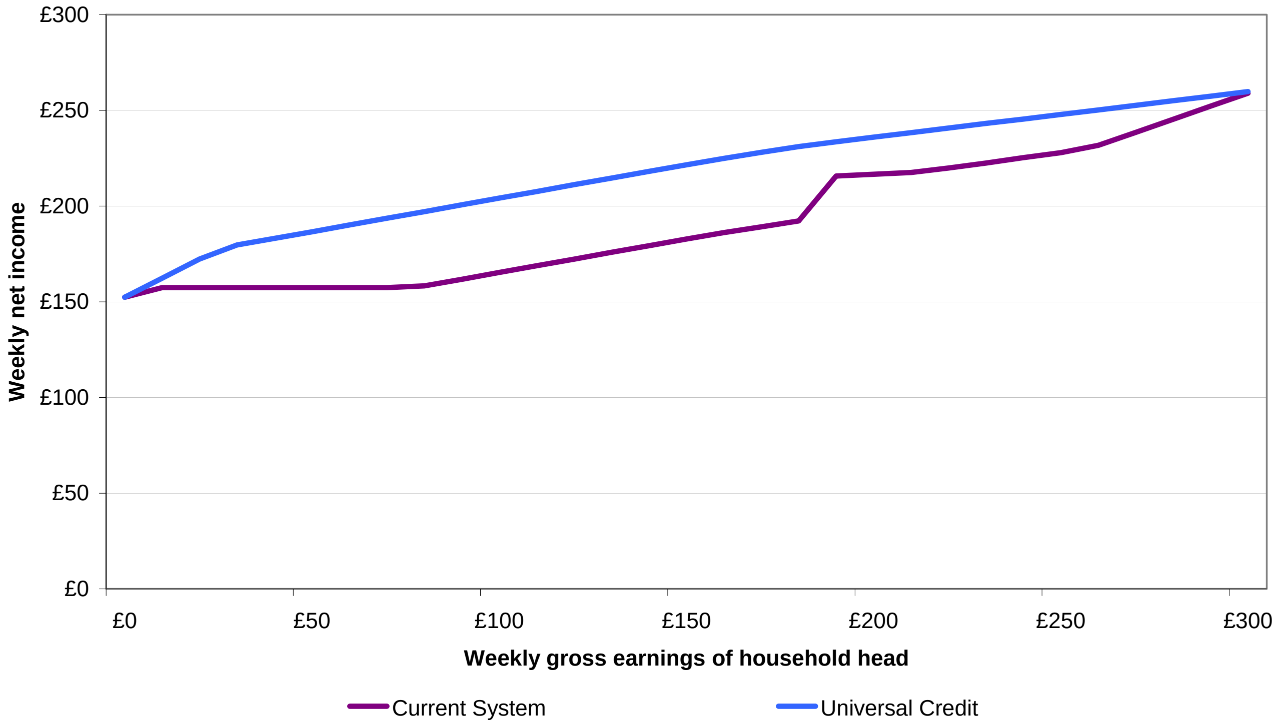
Annex 2: Examples of impacts on work incentives

1. Annex 2 looks at work incentives for four hypothetical family types, comparing their budget constraint under the current system and Universal Credit. Throughout the analysis no council tax support is included in either the current system or as part of Universal Credit. The budget constraints show how net income changes as earnings increase. The level of the budget constraint shows the net income received at particular levels of earnings, while the slope is an indication of the MDR faced by the households.

2. Charts 1 to 4 assume the household pays £80 rent and earns the National Minimum Wage. The charts illustrate the simple structure of Universal Credit and the improvement in work incentives:

- Under Universal Credit support is withdrawn at a consistent rate of 65 per cent which is reflected in the stable slope of the budget constraint. The budget constraint under the current system is considerably more complex.
- Many individuals face a lower MDR under Universal Credit than the current system. Under Universal Credit the gain from working more is predictable and the MDR does not rise above 76.2 per cent.
- At most levels of earnings the individual is financially better off under Universal Credit.
- Under Universal Credit there is an opportunity to work much more flexibly, where all hours of work pay not just 16 or 30 hours.
- There are much higher gains to taking the first steps into work at low earnings levels under Universal Credit, in particular for first earners in a household, compared to the current system.

Chart 1: Budget Constraint for a single person (excluding council tax support)[51]



[51] Charts are expressed in 14/15 prices.

Chart 2: Budget Constraint for a couple with two children (excluding council tax support)

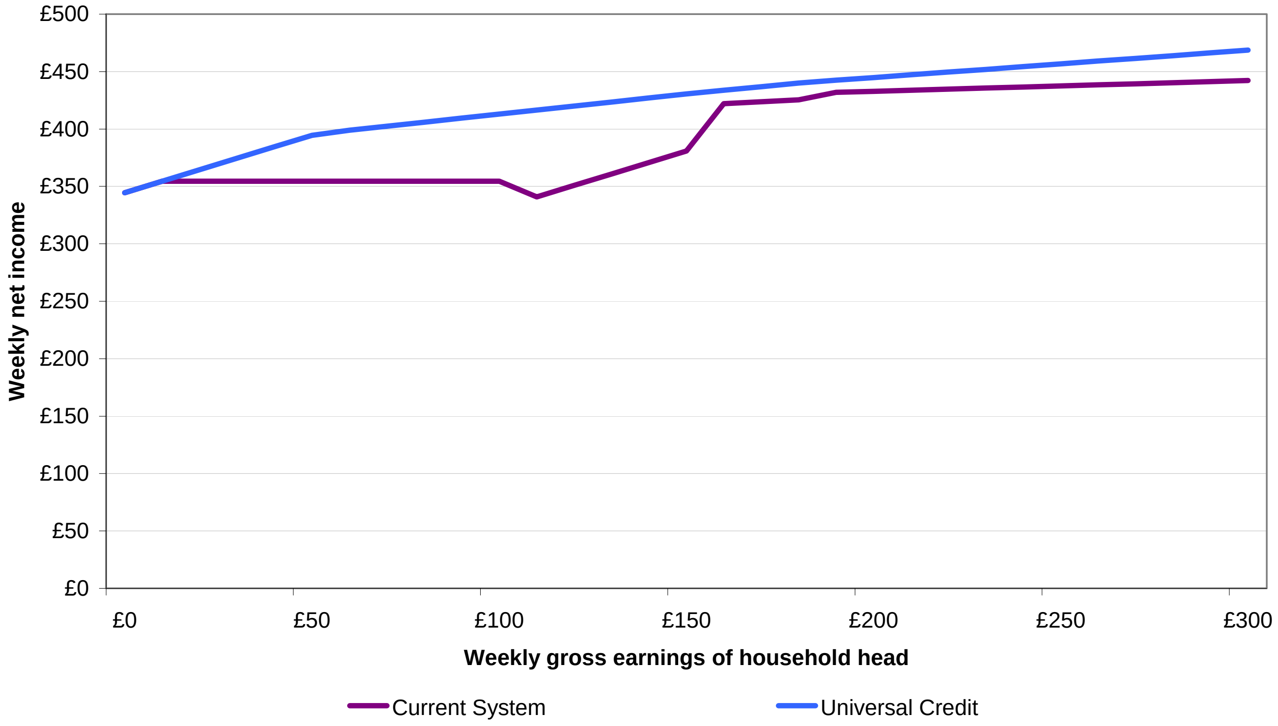


Chart 3: Budget Constraint for a lone parent with two children (excluding council tax support)

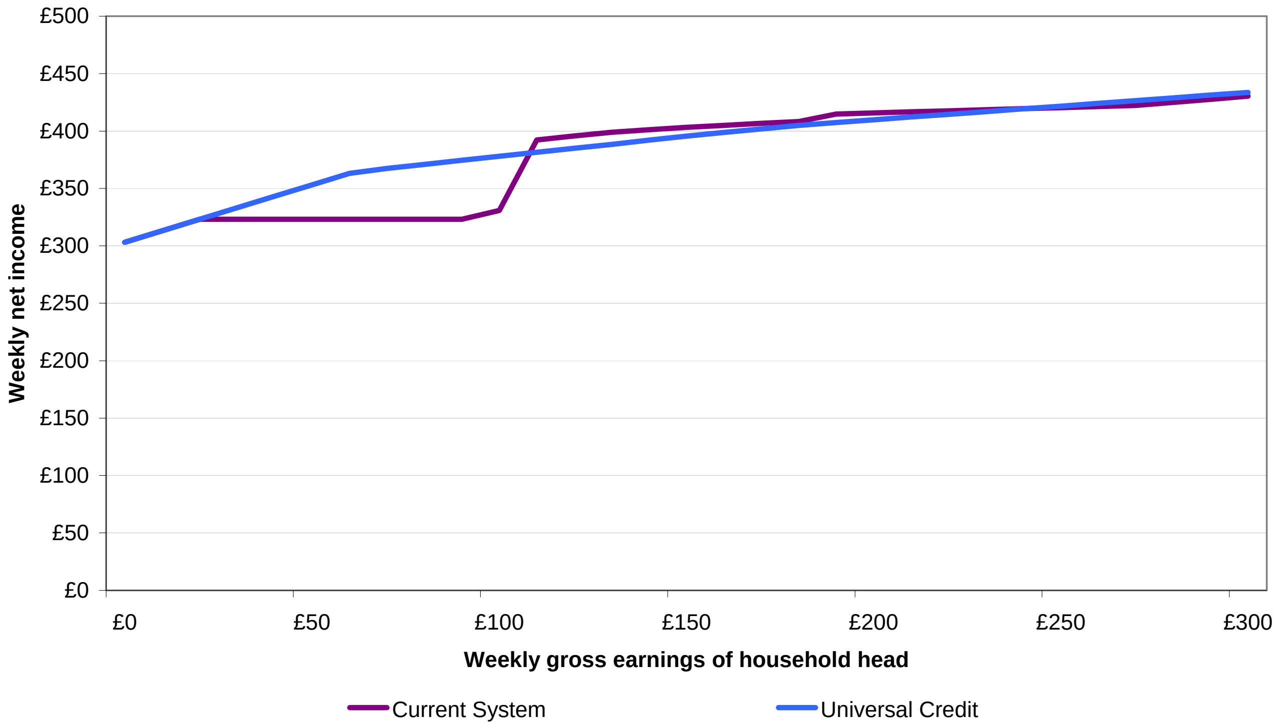
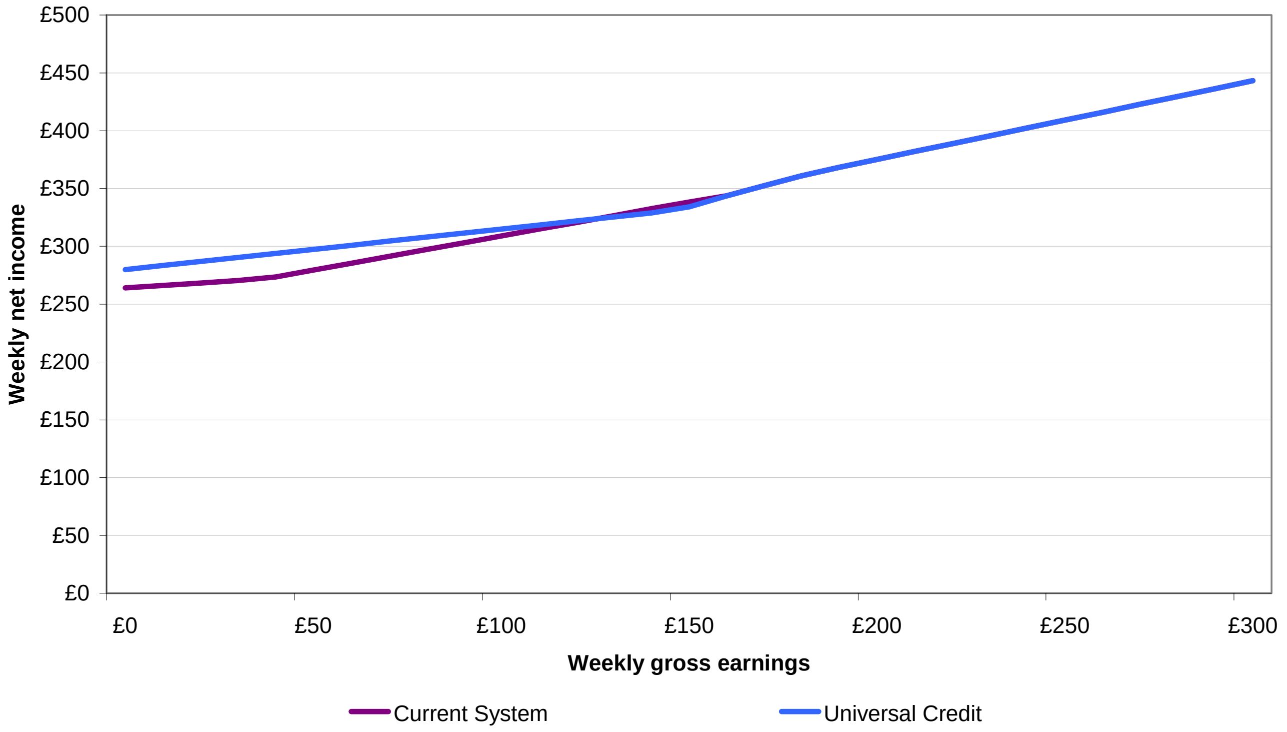


Chart 4: Budget Constraint for a second earner (excluding council tax support)



Annex 3: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review:

The impact of the policy changes will be reviewed and monitored as roll out takes place. All analysis in the review will be subject to the ongoing availability of the required underlying administrative and survey data.

Review objective:

To assess whether Universal Credit meets the broad objectives set out in the Impact Assessment.

Review approach and rationale:

A mixture of approaches will be used including:

1) Analysis of internal administrative datasets,

2) Analysis of survey data such as Family Resources Survey,

3) Other bespoke analysis to cover questions not addressed by the other approaches.

The review will use a mixture of approaches, reflecting the fact that a range of datasets and methodologies are required to assess all of potential impacts of the policy and the interactions with other welfare reform policies.

Baseline:

Projected trends in caseload, expenditure and other key variables under the current benefit and tax credit system in the absence of the change.

Success criteria:

Criteria will include indicators such as total benefit expenditure, caseload trends on the main out of work benefits, work incentives, movements into work, duration of unemployment, as well as some of the wider impacts outlined in this document.

Monitoring information arrangements:

A comprehensive evaluation programme is being developed for Universal Credit. The evaluation will need to provide operational information for those leading on delivery; offer strategic evidence and provide insight for future policy development. It will also provide a sound evidence base with which to inform the wider programme of welfare reform. The evaluation will need to meet the immediate need for feedback and evidence on implementation issues, as well as reflecting the long timescale and complexity of the policy. Broadly, the evaluation will comprise a number of inter-related components including ongoing monitoring, evaluation and analysis; a 'live running review' of implementation and delivery; a fuller evaluation of implementation and delivery and ongoing analysis of outcomes and impacts. Elements of the programme will be undertaken internally and others will be commissioned externally.

Reasons for not planning a PIR:

Not applicable

Annex 4: Risks and opportunities to promote equality

This Annex supplements the main Impact Analysis by looking in more detail at some of the wider impacts of Universal Credit on protected groups under the Equality Duty.

Disability

Opportunities to promote equality

Disabled people particularly benefit from the removal of non-financial barriers to work. In particular, Universal Credit removes the distinction between in-work and out-of-work support (whilst still recognising the presence of a limited capability for work). This considerably reduces a significant barrier to work (especially for those wanting part-time work or whose ability to work fluctuates).

The Universal Credit conditionality regime will extend appropriate work-focused requirements to a wider range of claimants. Just over a quarter of the partners who will be affected by the revised conditionality arrangements under Universal Credit have a disability. Those with Limited Capability for Work can be required to undertake work experience and work placements as work-related activity. These requirements, plus Work Programme support, has the potential to increase labour market equality for disabled people. The payment by results tariff will also ensure that there are higher payments in respect of claimants with the most barriers to work. Those with Limited Capability for Work related Activity will have no conditionality requirements applied to them.

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 a single claim to a more integrated system thereby removing the need to keep a number of separate in and out-of-work benefits updated.

Mitigating factors

The aim is that most people will access Universal Credit online. However, 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 claimants on a needs basis. So where claimants have particular needs, or their claims are complex, processes will be in place to identify this and where appropriate, refer to an agent where this cannot be dealt with digitally.

The move to single monthly household payment is a significant change to the way most benefits are currently paid and will require some adjustment for many claimants, including those with a disability. Personal budgeting support will be available which will include a mix of budgeting advice services (delivered across all channels) and financial products. For a minority of claimants alternative payment arrangements may be required in addition to budgeting support. This may include making more frequent payments, paying housing costs directly to landlords or splitting payments between partners. Such exceptional arrangements will be time-limited and delivered in conjunction with appropriate support. The detailed circumstances about when payment exceptions will be appropriate will be set out in guidance, rather than in regulations, enabling cases to be assessed on their individual merits.

As Universal Credit will remove existing complexities and inconsistencies set out above, some disabled people could be entitled to less under Universal Credit than under the current benefits scheme. However, the Government's overall approach is to provide funding for the more severely disabled and Transitional Protection will be available for those moved across from existing legacy benefits.

Gender

Opportunities to promote equality

The new system is expected to be particularly beneficial to 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. Groups with higher barriers to work such as lone parents (the majority of whom are women), will face improved financial incentives to taking their first steps into work. In addition, Budgeting Advances will be available to cover upfront childcare costs for claimants who have a confirmed job offer, which in turn will have a positive impact on equality for this group of claimants and provide financial support for low income families. This will also present an opportunity to promote gender equality through helping more parents access the right support to take up employment.

The Universal Credit conditionality regime will extend appropriate work-focused requirements to a wider range of claimants. For example, around 70 per cent of the partners who will be affected by the revised conditionality arrangements under Universal Credit are female. Such individuals will be placed in the relevant conditionality group according to the full range of their circumstances. Universal Credit therefore presents an opportunity to promote equality in work and narrow the employment gap.

Mitigating factors

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,[52] the Government believes that helping at least one person into work could help break the cycle of worklessness in a family.

Ethnicity

Opportunities to promote equality

Currently, households from some ethnic minority groups (for example those with English as a second language) may experience difficulties navigating the benefits system, leading to low take-up. However, by creating a single, integrated benefit, Universal Credit awards will include all the elements to which a household is entitled and any ethnic minority groups currently experiencing difficulties with claiming should gain from the greater simplicity and automation within Universal Credit.

The Universal Credit conditionality regime will extend appropriate work-focused requirements to a wider range of claimants. Around 15 per cent of the partners who will be affected by the revised conditionality arrangements under Universal Credit are from an ethnic minority background. According to survey evidence from the evaluation of Work Focused Interviews for Partners and New Deal for Partners[53], a significant majority of partners (88 per cent) from an ethnic minority said that English was not their first language. Such individuals will be placed in the relevant conditionality group according to the full range of their circumstances. Extending work-related expectations to a wider group of claimants (with additional support available through the Work Programme) is a reasonable step forward and will help narrow the employment gap. However we will ensure that any requirements always take into account support, including particular language needs.

Mitigating factors

Evidence suggests there is little difference in internet usage across ethnic groups – though some claimants may encounter problems accessing digital services because of language issues, whilst others prefer face-to-face contact.[54] Anyone who has language difficulty will still be able to access our services as they do now and translation services will continue to be offered.[55]

[52] 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

[53] *Coleman, N. et al (2006) "Work Focussed Interviews for Partners and Enhanced New Deal for Partners: Quantitative Survey Research", DWP research report 335*

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

[55] "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."

Age

Opportunities to promote equality

With the introduction of 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. The Government believes this is justified to ensure people under pension age remain supported through the benefit system whilst also having to meet the appropriate level of work-related requirements. The change will only apply to new claims and will not apply to couples that are existing Pension Credit claimants.

Mitigating factors

There is a risk that older people, due to being more unfamiliar with the internet, may find it harder to take up Universal Credit than the other benefits it replaces. This risk can be mitigated by ensuring improved internet access for older people. We recognise that there will continue to be some claimants who cannot use digital on-line services and as such, we will look to signpost them to the most appropriate channel for their needs. For those claimants unable to self serve, the telephony and High Street services will provide needs based support including help with making their on line claim and one to one support.

Other protected groups

The department does not hold information on its administration system on gender reassignment, sexual orientation, marital status or civil partnership status and religion/belief. However, the Department does not envisage any adverse impacts on any of these grounds.

Monitoring and evaluation

The material in this Annex covers the equality groups currently covered by the equality legislation: age, disability, gender, transgender, ethnicity, religion, sexual orientation, pregnancy/maternity, marriage and civil partnerships. The Department's Equality Objectives were published in April 2012 and, as part of this, the Universals Credit Programme committed to monitoring the impact of the policy change. Evidence will be used from a number of sources on the experiences and outcomes of the protected groups.