The benefits of moving

Managing the transition of existing claimants to Universal Credit

David Finch
September 2018
Summary

The long implementation of Universal Credit (UC) has been far from smooth and we’ve become all too used to negative stories about roll-out delays and, more seriously, payment problems and financial hardship for those accessing the new system. The government, however, is likely to have been cheered at least by the fact that the roll-out has picked up pace in recent months, with the full system set to be in place across all job centres in the UK by the end of the year. But implementation is shortly to enter its next and, arguably most difficult, phase: ‘managed migration’. This brings new risks, but opportunities too.

To date, all UC claims have been made by people who are newly entitled following a change in their circumstances. This ‘natural migration’ will continue over the coming years, but will be supplemented from the middle of 2019 by the gradual transition of existing benefit recipients onto UC. Successfully implementing this managed migration will be key if UC is to stand any chance of becoming accepted as an improvement on the current system.

Sharp budget cuts and significant processing issues have acted to erode many of the hoped-for gains associated with the introduction of UC, weakening what was once solid cross-party support. Going forward, the government must ensure it protects what now represents the main remaining argument for persisting with such a major programme of welfare reform; namely its potential to boost benefit take-up among recipients. This could be very significant, with the OBR estimating that 700,000 families could benefit by a total £2.9 billion a year under UC as a result of receiving all the support to which they are entitled.

Yet UC’s reputational issues put this gain at risk, with mistrust of the system potentially putting families off making claims in the first place. With that in mind, this note considers how best to avoid further implementation difficulties over the course of the managed migration – setting a course that instead gives UC the best possible chance of coming to be seen as a positive step forward.

Ahead of the parliamentary debate on the details of the migration plan expected this Autumn, we set out seven key principles which we believe should underpin the next phase of UC implementation.

» Despite facing criticism for delays, it’s vital that the government continues to tread carefully with the UC roll-out.
» To protect hoped-for take-up gains the government should ensure that it, rather than the individual, bears the risk of further teething problems during the managed migration.
» The claims process needs a reboot before managed migration starts, with the process only beginning once the DWP has met clear service level standards.
» Some managed migration cases will be simpler than others to transition; in the interest of efficiency and learning by doing these are the cases that the government should target first.
» In order to limit the risk of payment gaps for members of the managed migration population, deadlines for transitioning to UC should be aligned with existing benefit milestones.
» A smooth and ‘fair’ system of transitional protection will be key to rebooting the reputation of UC in the managed migration period. In particular, temporary increases in earnings should not
The benefits of moving

affect the value of a UC award with transitional protection.

The need for (and cost of) transitional protection has been increased by sharp cuts to UC work allowances, reinforcing the case for re-investing in these important elements of the new system.

Above and beyond these principles, there of course remains a strong case for restoring at least some of the funding cut from the UC budget over recent years – from both the wider perspective of supporting the living standards of low and middle income households and that of supporting financial incentives to work. But the practical recommendations we set out below are designed to hold even in a world in which such funding is not available.
The benefits of moving

The potential gains associated with the introduction of Universal Credit have been eroded over time, but there is still an opportunity to boost benefit take-up

When Universal Credit (UC) – the transformation of six in- and out-of-work benefits into a single scheme – was first mooted early in the 2010-15 parliament, it gained clear cross-party support. This positive response reflected two key advantages that the new system was expected to bring relative to the legacy system of benefits: namely improved financial incentives (bringing in work allowances and a new taper that boosted incentives to work and made the benefits associated with working more obvious to claimants) and increased take-up (with a single point of claim for the majority of support paid to working-age families facilitating a more comprehensive and consistent coverage even as individuals’ circumstances changed).

Subsequent sharp cuts in the generosity of UC at Summer Budget 2015, and in the size of work allowances in particular, have acted to undermine the first of these advantages however. Previous Resolution Foundation research has shown that more working families with children will lose entitlement (1.8 million) than gain in UC (1.4 million) for instance, and that it does very little to improve financial incentives – particularly for single parents and for second earners.[1]

Alongside problems associated with funding cuts – problems which would also bite under the legacy benefits system – process-related issues have also weakened the gains associated with UC in many people’s eyes. All too often the rigidity of the system’s processes have been shown to be poorly matched to the fluid reality of people’s lives, leading to numerous stories of payment delays and financial hardship. While the precise scale of such problems is difficult to gauge it is clear that many, often vulnerable, people have had a tough time.

As a result, the original cross-party consensus is now significantly weakened, and politicians in all parties have increasingly found cause to question the efficacy of persisting with the reform. Yet UC does still have the potential to represent a step forward from the status quo, as long as the government can protect the second of the originally hoped-for advantages; increased take-up. This is potentially a big deal, with the OBR estimating that the higher take-up associated with a simpler system could be worth as much as £2.9 billion to 700,000 families, equivalent to an average gain of £4,100 a year.[2]

Yet that advantage too is under threat as a result of the consistently bad press UC has garnered in recent years. Trust in the new system has faltered, and further high-profile difficulties would create a real risk that people are put off claiming at all on the assumption that the new system is a minefield in which everyone loses out. Protecting this potential advantage should therefore be a priority for the government over the coming months, particularly as the UC roll-out enters its final, and potentially most difficult, phase in which those who have not actively chosen to apply for the benefit are brought into the system.

From next summer, the DWP will start supplementing the existing ‘natural migration’ of new cases to UC with a ‘managed migration’ of around two million existing benefit cases (see Box 1 for a discussion on the different definitions). This will include around one million working families (with and without children, with and without housing cost needs, and with and without disability) and 745,000 Employment and Support Allowance (ESA) cases covering people who are unable to work due to long-term illness or disability.


Ahead of the start of this process comes an important period of parliamentary debate on the precise details of this migration, and in particular the rules surrounding the transitional protection available to those who would otherwise lose out. To help inform that period, this briefing note provides an overview of the key issues for consideration, setting out seven principles on the best way of approaching this crucial new phase in order to protect UC’s potential to boost benefit take-up.

Box 1: UC transition definitions

**Natural migration**: UC claims stemming from a change in a person’s circumstances (such as becoming unemployed) that causes them to make a new claim for benefit. All UC claims to date have taken this form.

**Managed migration**: Claims relating to existing working-age benefit recipients who have their support actively moved from the legacy system onto UC. This process will begin from summer 2019.

**Transitional Protection**: Payments made to cover any reduction in entitlement associated with the managed migration forming part of a UC award. After migration, any increase in the claimant’s earnings lowers their monthly UC payment (which includes their transitional protection). The protection comes to an end if the claimant’s circumstances change in a significant way (such as falling out of work or a change in relationship status) and is reduced if there is a change to an element of UC (such as an additional child element or change in rent). Once reduced, the transitional protection element cannot be increased and nor is it uprated each year in line with inflation.
1) Despite facing criticism for delays, it’s vital that the government continues to tread carefully with the UC roll-out

Figure 1 sets out the current estimated timetable for UC roll-out, showing how the managed migration process sits within the wider shift.

Figure 1: UC roll-out and managed migration timeline

The good news for the government is that UC’s introduction now appears to have built up a genuine head of steam. Around 50 job centres a month are currently converting to UC for all new claims for support, and by the end of the year all new claims to working-age benefits are set to come via UC. The introduction of managed migration from next summer will boost the overall caseload further, though it is worth noting that it is not actually until 2020-21 that cases are expected to move at anything approaching scale and it is only by 2022-23 that all of the roughly two million existing benefit cases are expected to have been migrated. At that stage, the overall size of the UC population is expected to be approaching seven million families.

Given both the many issues encountered to date with the UC roll-out and the potential vulnerability of many among the two million legacy system claimants to any interruption in support, we can expect the managed migration process to be subject to significant scrutiny. Some of that scrutiny is likely to relate to the government’s ability to stick to schedule, with any further delays in roll-out likely to draw criticism. Yet, while timeliness is of course important, any additional modest slowdown in the roll-out would be a trade-off worth accepting if it helped to ensure that the migration was a success – supporting the living standards of its recipients rather than undermining them.
First and foremost then, it should be a basic principle of the managed migration that significant numbers are not moved until it is clear that the system is ready to accommodate them. To support this principle, it’s important that external expert bodies such as the Social Security Advisory Committee (SSAC), the Work and Pensions Committee and the National Audit Office take an active role in monitoring and assessing progress. The DWP should also engage in early testing of different options involving organisations such as Citizens Advice in order to inform the design of the final approach.

2) To protect hoped-for take-up gains the government should ensure that it, rather than the individual, bears the risk of further teething problems

The onset of managed migration brings new risks to the reputation of UC, and therefore to its likely impact on benefit take-up. That’s because many within the legacy population comprise complex cases – such as working families with children – that are not yet well-established in the UC system and are therefore more likely to fall foul of continued procedural teething issues and limitations. Additionally some groups may have little or no ongoing relationship with DWP, indeed they may actively avoid one (such as single parents who may currently claim tax credit and Housing Benefit support but not DWP-administered benefits like income support or Jobseekers Allowance).

The government made a welcome move at the 2017 Autumn Budget to ease some of the payment problems faced by UC recipients brought into the system under the natural migration, overpaying Housing Benefit entitlements by two weeks in order to provide a bridge between the old and the new systems.

As well as better supporting families, this move represented a potentially important turning point. It effectively marked the first time the government had acknowledged that it should not be benefit claimants who directly bear the burden of the system’s failure to fit with their lives, but rather the government itself. In designing the managed migration process, this principle should again hold.

Recommendation 1

Managed migration should only start at significant scale when the DWP is entirely satisfied that the system is ready. To support its assessment, the DWP should ensure that the roll-out of this phase and the results of early testing of different approaches is opened up to monitoring by external experts including SSAC and the Work and Pensions Committee.

Recommendation 2

The design of the migration should follow the principle that individuals should not bear the burden of risk to their financial standing due to the migration to UC. Instead it should be borne by DWP.
3) The claims process needs a reboot before managed migration starts, with the process only beginning once the DWP has met clear service level standards

Despite progress in recent months, issues remain with the timeliness of the UC payments process. Figure 2 sets out the share of new UC claims made under the natural migration that were paid on time (five weeks after the initial claim since mid-February 2018, before that it could be up to six weeks)\(^3\) and in full over the course of 2017 and 2018. The improvement over the first half of 2017 was rapid, with the proportion of first payments made in full and on time rising from 55 per cent in January to reach 81 per cent in September. However, while these statistical releases are not regular, the February 2018 data shows that this figure has subsequently remained stubbornly anchored around four-fifths (83 per cent).

**Figure 2: Rapid improvement in payment timeliness in early-2017**

The fact that there has been little improvement since the summer of 2017 – that progress appears to have stalled – is of course a concern. But worrying too is the fact that the situation improves only gradually at subsequent payment dates. For example, the proportion paid in full and on time among those claiming in February 2018 only got to the 90 per cent mark some seven weeks after their initial claim. And the proportion only got to 95 per cent at the 10 week post-claim point.\(^4\)

DWP reports suggest that most of these problems are associated with claimants not having all the information required to process a claim in full – such as proof of rent, savings or formal

---

\(^3\) The length of time by which a first new payment could be made reduced from up to six weeks to five weeks in mid-February 2018 with the removal of a seven day waiting period before new claims start to be assessed.

\(^4\) Here we assume an initial five week wait between day of claim and when a first payment should be made.
The benefits of moving identification – within the first month’s assessment period. Such problems may have been anticipated in relation to particularly complex claims, but they have in practice been much more widely felt. The implication is that there is a systemic problem, with the stalling of improvement in recent months suggesting the burden on the claimant is too high.

Ahead of embarking on the managed migration process, it’s essential the government reviews this burden and therefore cuts the number of such problems. Payment delays could have especially negative consequences for those in the managed migration population, because their current benefit claim will be set to close once their UC claim starts. Processing delays could therefore leave them with a gap in financial support.

System processes and evidencing procedures should be reviewed if there are no further improvements in this area in the coming months. For the managed migration it may be possible to make use of existing benefit awards to help temporarily at least fill any gaps. Either way, before the managed migration extends beyond initial testing the DWP must be able to show that it can meet an “acceptable” processing standard for new claims as agreed by external experts including SSAC, the Work and Pensions Select Committee and NAO.

Specifying quite what constitutes “acceptable” is difficult of course, but it is worth considering the current approach in relation to Housing Benefit. This system targets a 14-day claims process, although on average it took 22 days to process a new claim at the end of 2017-18. Historically, authorities aimed to process at least 90 per cent of cases within 14 days once all relevant information had been collected. DWP has also indicated that they would like to see performance in this range. In line with such expectations we would therefore suggest that the government should ensure that a minimum of 90 per cent of new claims under the migration process will be paid in full and on time before pressing on with managed migration.

**Recommendation 3**

The claims process for UC should be reviewed to assess the burden of providing evidence. The managed migration should only begin when the DWP has shown service levels meet a standard agreed with external experts including SSAC and the Work and Pensions Committee. We suggest this should be that 90 per cent of new claims are paid in full and on time.

---

[5] DWP, Housing Benefit: statistics on speed of processing, 2018

4) Some managed migration cases will be simpler than others to transition; in the interest of efficiency these are the cases that the government should target first

Figure 3 shows the expected composition of the managed migration UC population over the coming years. While we have noted that around two million cases will be transitioned in total, here the caseload total never gets above 1.2 million. That’s because here we are focusing only on cases that are still considered to be ‘managed’ (and therefore potentially eligible for transitional protection) in each year. Those managed cases that have shifted onto UC but then subsequently experienced a significant change in circumstances are therefore taken to have flowed out of the managed migration population (though may still be part of the wider UC population).

What’s striking is that the relative composition of the group is little altered throughout the period to 2022. This implies that the DWP plans to move a representative mix of cases onto the system over time, perhaps by postcode as has been the case for UC during the natural migration roll-out. Beyond 2022 the ESA cases begin to dominate, suggesting that working families churn through the process relatively quickly.

It may be that this approach reflects the way in which the UC IT system has been developed to date. But it carries risks. First, it reinforces the possibility of the identification of a postcode lottery for benefit claimants. That is, families with very similar profiles might find themselves achieving...
different outcomes (or at least undergoing different claiming experiences) depending on where they live in the UK. But migrating all types of cases simultaneously also increases the risk that difficulties with complex cases spill over into payment problems for more straightforward cases.

Given the complexity of certain cases – such as where a person claims for support with childcare, or a household member is disabled – and the increased risk of hardship if the migration is not a smooth one, it would make sense to select migration phases by case type rather than purely by location. Clearly it makes sense to test the system in small areas and gradually phase in new types of cases geographically. While this may seem an increase in complexity it would allow more time for the DWP to sufficiently test and develop the most complex parts of the system, while maintaining roll-out momentum.

A further consideration in determining the ordering of transition should be whether a family is expected to fall within the UC conditionality thresholds, and so require support from Jobcentre Plus. Moving relatively higher earners across first would help minimise resource demands on job centre advisers and allow a greater focus on developing effective forms of practical support for those who do fall within the parameters.

Draft regulations already provide the power for the DWP to select which existing cases are migrated via the notification letter which sets off the migration (see Figure 4 below). Selecting the simplest cases first could help to both increase the overall caseload faster and provide greater time to develop the system for the most vulnerable cases.

5) In order to limit the risk of payment gaps for members of the managed migration population, deadlines for transitioning to UC should be aligned with existing benefit milestones

The DWP has set out a proposed process by which legacy benefit recipients will move to UC, as detailed in Figure 4. However, as the Child Poverty Action Group (CPAG) has highlighted, this process is less an automated migration from one system to another and more an enforced closing down of existing claims and obligation to re-apply. The process for the individual will start when the DWP serves notice that current entitlements will end and that UC must be claimed by a given migration day (at least a month from the notice date). Failure to claim UC after this point can ultimately mean families are left with no financial support.

The DWP proposes measures to help vulnerable claimants by providing them with extra time to claim UC and checking before existing entitlements are switched off that they are aware of what will happen. However, the effectiveness of this approach rests on the ability of the DWP (or external organisations that the DWP has appealed to for help in identifying such cases) to guarantee that it has identified all vulnerable claimants. There then remains the possibility that

---

[7] For example having earnings below the equivalent of a full-time job at the minimum wage could mean an individual is subject to requirements to seek additional work.

[8] CPAG, 2018, CPAG’s response to Social Security Advisory Committee consultation on Universal Credit managed migration, August 2018
Those who are contacted may either misunderstand, avoid engaging with the process, or fail to make a correct UC claim. And there is of course the possibility that ‘non-vulnerable’ claimants also fall foul of the process.

In all instances, where payment problems are found to lie with Jobcentre Plus, it is proposed that payments will be backdated. But in instances where this is not the case, such backdating will not be available. The proposed approach therefore places the financial burden of risk on the individual rather than on government – an order which, as we argued above, should be reversed. However, there are good reasons to avoid entirely automating the managed migration process.

Risks of delays, incorrect or entirely absent payments all stem from the decision to default to a position in which existing claims are closed by a given date. Automatically moving people onto UC (without requiring them to complete a new claim) could help resolve the worst immediate aspects of this problem, but it might simply store up trouble for later. That is, at some point those who are being migrated over have to recognise that they are functioning under a different system in order either to conform with differing obligations (such as the potential need to report actions in an online journal, or to contact advisors) or to understand that their level of award is subject to automatic change under the real-time income (RTI) mechanism.

Some form of hard deadline therefore appears inevitable in order to make it clear to the claimant that the nature of their interaction with the state has altered. But in order to best communicate such deadlines, the DWP should take advantage of existing milestones in the benefit system.

The approach to be taken should vary depending on the legacy benefits currently received. For tax credit recipients, our preferred option would be to retain a process much as the one set out in...
Figure 4, but to ensure that no existing claim is closed until the DWP ascertains that a recipient has made a UC claim and provided all required information to successfully process that claim (or else signalled that they do not wish to claim UC). This approach will require more intensive support from Jobcentre Plus advisers to help claims to be made, especially among more vulnerable cases.

Claimants should be encouraged to complete an application as soon as the migration notice is issued, but they would only face a hard deadline at the point at which their annual re-award process becomes due. At this point existing claimants could be told they must instead make a claim for UC and that their award will not be renewed. This of course raises the possibility that a substantial number of cases wait until the last moment to transition, creating a surge in applications and a significant administrative burden. However, it is worth remembering that some individuals will be better off under UC, and will therefore have an incentive to transition sooner rather than later. And the DWP can limit the risk of a backlog by choosing to stage the tax credit cases it transfers across to UC via the renewals process.

A share of tax credit cases transitioning onto UC will be in receipt of the Severe Disability Premium and so stand to lose out substantially under UC (which does not replicate this support). In the long-term, such a support for disabled groups should be addressed more fundamentally. More immediately, the DWP is proposing that these cases will only transition to UC under the managed migration process, meaning the loss of their premium is entirely covered by transitional protection. Such an approach makes sense, but specific protections should be put in place to ensure that such protection is not eroded by changes in circumstance such as changes to existing UC elements they are entitled to.

People on ESA – who represent the remaining bulk of those in the managed migration – should be approached differently. They are far less likely to see a change in circumstance during the process (given their low rate of outflow) making them a better fit for a more automated migration. These cases could therefore simply be moved onto the UC system with the same rate of benefit in payment (with the DWP identifying associated Housing Benefit claims from local authorities) and then Jobcentre Plus advisors could contact them over time to verify and explain the move to UC.

Again this should be considered a backstop measure, with notifications still issued as standard. Once more though, only when a claim to UC has been verified (with advisors actively offering one-to-one support to complete applications in this instance) should a previous ESA claimant be treated in line with UC requirements and have their existing payment switched off. And again this process of being verified onto UC can be aligned with existing processes where meetings with Jobcentre Plus advisors are regularly scheduled (for instance for those in the work-related activity group or support group members being re-assessed).

UC is less generous than equivalent ESA cases, due to both work capability tops ups and the lack of the Severe Disability Premium. Transitional protections should mean that cases in the managed migration have no reduction in their entitlement but, as with tax credit cases with disability, that protection should not be eroded by the addition of new elements within a UC claim. The DWP has only recently overseen a very difficult and controversial transition from DLA to PIP, and it should learn the lesson of that experience: namely that it is vital that the number of new processes through which individuals are put is kept at a minimum, that the risk of error or mis-payment should lie solely with the DWP itself to ensure people are not left worse off and inequities and inconsistencies in the treatment of different cases can lead to unforeseen policy changes (see Box 2 for further detail relating to the migration from DLA to PIP).
The benefits of moving

6) A smooth and ‘fair’ system of transitional protection will be key to rebooting the reputation of UC in the managed migration period

Transitional protection will be calculated as the difference between legacy system benefits (the total paid through tax credits, Housing Benefit, etc) and entitlement under UC. The DWP intends to undertake the initial calculation by utilising information from existing claims and further verification of details not held, such as savings. As with other aspects of the managed migration, we believe that existing claims should not be closed until this calculation has been made in full and all information verified.

To maximise potential take-up gains, we also believe the transitional protection calculation should be based on entitlement rather than the support currently being claimed, with the existing entitlements maintained under UC.

Box 2: Learning lessons from the transition to PIP from DLA

The Welfare Reform Act 2012 made provision for the replacement of Disability Living Allowance with a new system of Personal Independence Payments (PIPs), starting with a pilot in April 2013. The full roll-out was originally scheduled for October 2013, but has since been delayed several times due to a variety of problems implementing the policy, particularly those concerning the prime contractor Atos. Problems occurred with the assessment process for claims, and with the recruitment of staff to carry out assessments.

Furthermore, as the OBR explained in its March 2016 Economic and Fiscal Outlook, the transition from DLA to PIP saved far less money from the disability benefits bill than had originally been expected when the PIP transition was first discussed in 2010. The OBR’s June 2010 forecast assumed that 20 per cent of DLA claims reassessed under PIP would stop receiving payments, a costing based on the coalition government’s stated target for disability benefit spending cuts. In 2012, the OBR revised down its expected success rate for PIP payments to 74 per cent. But by March 2016, once evidence was available from the DWP’s ‘controlled start’ pilot programme for PIP, this success rate was revised up to 83 per cent, while average awards were also revised upwards.

Further changes to PIP rules are forthcoming after a December 2017 High Court judgment found that the regulations discriminate against some people with mental health conditions.

Recommendation 5

While the DWP should continue with its proposal to kick-start the transition of existing cases to UC by issuing migration notifications, it should tie hard deadlines to existing benefit milestones. For tax credit cases, the annual renewals process should serve as a hard cut-off. For ESA cases, tailored individual support should be provided, with existing entitlements maintained under UC.

For both tax credit and ESA cases, no existing benefit payments should be stopped outside of a standard renewals or re-assessment period unless the DWP has ascertained that the person has made a successful claim for UC or chosen not to do so.
The benefits of moving

regulations being unclear as to which approach is to be taken. This would mean that a claimant’s future UC entitlement should be compared not with their existing cash award but with their total legacy entitlement even if they currently fail to claim an element of support.

The other element of transitional protection that requires careful consideration ahead of the start of the managed migration is the pace at which its value changes for different claimants. Transitional protection is permanently eroded (that is, it is lowered and cannot subsequently be restored to its previous level) in instances where changes in an individual’s circumstances affect the elements of a UC award. For example if another child is born and an additional child element is paid, additional entitlement for that child will reduce the transitional protection award. Similarly if UC elements are uprated then transitional protection is reduced.

Transitional protection is removed entirely where there is a significant change in circumstances, including the forming or dissolution of a couple or where the family is effectively deemed to be unemployed for at least three months (see Box 3 for full details). Entitlement to transitional protection will also end if a family’s earnings increase enough to move them off UC for three months in a row.

Box 3: Calculating transitional protection

From summer 2019, around 2.1 million households currently in receipt of benefits will begin to migrate over to UC. If a household’s benefit entitlement under UC is smaller in cash terms, they should qualify for ‘transitional protection’ payments to make up the difference. This means that at the date when a household moves to UC, it should, in the short term at least, be no worse off in cash terms than under the old system. Most of the almost 7 million families moving to UC won’t qualify for transitional protection, however, as it is only applied to cases in the managed migration.

The rules for calculating a family’s entitlement to transitional protection may be summarised as follows:

» The household’s entitlement to UC is compared with their total monthly benefit and tax credit award under the old system, at the date when their previous benefits are due to cease and calculated from their existing awards. The benefit cap is applied to the calculation of both amounts. Note that the calculation doesn’t account for unclaimed benefits or sanctions and deductions.

» If their entitlement under UC is lower than under the old system, the family will qualify for transitional protection, which is awarded as an additional element within their monthly UC payment. Like any other element the amount received will depend on the family’s earnings.

» For self-employed UC claimants, transitional protection will not offset the effect of the minimum income floor (MIF) which caps awards to low earning self-employed. Instead transitional protection is calculated as if the MIF is not in place and does not adjust when the MIF is applied. Self-employed people who are managed-migrated to UC will not have the MIF applied during their first six months on UC.

» Transitional protection awards will end when a recipient has a ‘significant change in circumstances’, which covers:
  » the ending of their UC claim;
  » a change in their marital/cohabitation status; or
  » a sustained fall in earnings to the extent they are required to search for work

» The amount of transitional protection used in the UC award calculation will reduce if wider UC entitlement increases, for example if an additional child joins the household or rent increases.

» The transitional protection award will also end if a family leaves UC due to a sustained increase in earnings that lasts for at least three months.

» Transitional protection awards are fixed in cash terms, meaning they will fall in real terms relative to the current benefit system and other UC entitlement each new financial year when other benefits are usually uprated.

This publication is available in the Tax and Welfare section of our website @resfoundation
Because UC awards will still be tapered away if earnings increase in a given month there is an important difference from the tax credit system, where small earnings variations are effectively disregarded. This feels problematic when considering short-term variation in earnings.

Most families are likely to experience some form of earnings variation simply because pay periods tend to differ from the monthly UC assessment period. And even where a person is paid monthly bank holidays or payroll delays can mean two paydays fall within a single UC assessment period. However, this is especially the case for those with the most volatile incomes such as the self-employed or those on zero-hour contracts. Also people may choose to take on small amounts of short-term additional work, like overtime, to boost their income.

The DWP has made provision to prevent transitional protection being removed if such variation means claimants move off UC entirely for less than three months, which is a welcome move. But this approach is also likely to mean that temporary boosts to income through taking on an extra shift or overtime result in a lowering of an individual’s entitlement relative to what it would have been in the tax credit system. Rather than being effectively tapered away in line with short-term variations in earnings we believe that the UC award should only fall there if is a sustained increase in earnings equivalent to £2,500 a year (in line with the in-year disregard in tax credits) each month for at least three months.

Related concerns with how transitional protection interacts with complex circumstance have been partially addressed by the DWP’s proposals. For example, it is welcome that increases in support to cover the cost of childcare purchased so that people can work more will not affect transitional protection. To do otherwise would have led to perverse incentives to not alter working patterns.

Established self-employed people moved onto UC will not have the minimum income floor (MIF) applied to their income for an initial six month period. This will mean that the lowest earners have time to adjust to this new rule before their UC award can be affected by it. This exemption will clearly provide some help during the transition but it does not tackle the more fundamental need to reform how UC treats the self-employed. It is also important to note that transitional protection will not offset any reduction in entitlement due to the MIFs application.

Finally, UC introduces the capital rules that exist in the out-of-work system for working families. For those with savings below £16,000 it means an additional tapering of their award. For those holding more than £16,000 it will mean they do not receive UC at all. The DWP proposes sensible transitional rules that will mean the £16,000 cut off will not immediately apply. Instead, people will have six months to adjust, whether that is spending their savings or accepting they will get no UC. If we ignore the potentially perverse incentive to run down savings this presents, it is also a questionable priority for mitigation given other inequities that exist within UC.

---

[9] The Minimum Income Floor applies to people in UC who are self-employed for more than a year. It means that each month UC is calculated with a minimum assumption that earnings are equivalent to a full-time job at the minimum wage. It is intended to discourage inefficient forms of self-employment relying on UC to top up income. However, as structured it will adversely impact people with volatile incomes.

7) The need for (and cost of) transitional protection has been increased by sharp cuts to UC work allowances, reinforcing the case for re-investing in these important elements of the new system

A final concern with the managed migration process relates to the relatively rapid churn of working families through transitional protection. Figure 5 builds on the insight presented in Figure 3, by setting out the expected inflow to, and specific form of outflow from, the managed migration group in each year. Cases can exit the managed migration group due to either a change in circumstance (‘circs’) or because their entitlement to UC has been reduced to zero largely because their earnings have risen (‘erosion’).

Figure 5: Inflows and outflows of managed migration cases: 2019-20 to 2022-23

Notes: Out of work cases are those flagged as being in receipt of IS, JSA, ESA and a share of CTC-only cases though most are ESA cases. In-work cases include tax credit and housing benefit only cases.

Sources: RF analysis using OBR, Welfare Trends January 2018
The inflow is expected to be greatest in 2020-21 and 2021-22, when 657,000 and 818,000 cases are projected to move across. Outflows are initially modest, but increase significantly in 2021-22 and 2022-23 reaching over 300,000 cases a year by March 2023, with changes in circumstances accounting for the majority (68 per cent) of this. By the end of the period shown here (March 2023) only around a third (35 per cent) of cases still classed as part of the managed migration process are from working families.

This shifting composition is reflected in the pattern of expected transitional protection expenditure, set to peak at £1.3 billion a year in 2022-23, before almost halving to £0.7 billion a year by 2024-25. Overall we can expect transitional protection payments to be higher for ESA cases and lower for tax credit families because of the reductions in entitlement for disability related elements like the removal of the Severe Disability Premium. Those same cases can be expected to be less likely to have a change in circumstance so keep their protection for longer. Working members of the managed migration population therefore look set to see their transitional protection either reduced or removed entirely relatively rapidly. The extent to which it will help to offset cuts in generosity to UC will be very short-lived.

One response to such a quick turnover could be to extend the period over which transitional protection will apply. For example it could be paid for a minimum of six months. But there will be circumstances where in the tax credit system too entitlement ended quickly. And such a rule would be likely to significantly increase costs.

This approach would also fail to deal with the underlying issue – that cuts to support for working families have increased the cost and need for transitional protection. A single parent homeowner could, for example, be £40 a week worse off working 16 hours a week at the minimum wage than in the tax credit system. In contrast, they would have been better off under UC before the cuts to work allowances announced at the Summer Budget 2015 were applied.

Re-investing in work allowances and targeting support at single parents and second earners would help reduce these risks substantially. £0.5 billion of transitional protection costs will be paid to working families in 2021-22, with cuts to work allowances expected to contribute to around half of this amount.

And there are advantages beyond purely offsetting losses in financial support. For second earners in particular, introducing a new work allowance would substantially improve the incentive to enter work which in turn can help to boost the income of the household. For single parents it could mean they avoid becoming trapped at low hours of work with weak incentives to progress. Moving to UC could represent a longer term transition to boost the incomes of lower earning households and bring it back towards meeting its original aims.

**Recommendation 7**

To reduce dependency on transitional protection the government should re-invest in work allowances. To reduce the greatest losses among working families and strengthen financial incentives to increase earnings this should take the form of boosting work allowances for single parents and introducing a second earner work allowance.
Conclusion

The implementation of UC has been a prolonged and often painful process for politicians and more importantly the people who need support from it. The advantages that the new system were meant to bring have been gradually reduced through a succession of cuts to support. And the remaining gain – that of a significant boost to take-up – could be at risk of being lost if further problems continue to dog the implementation process. However, recent signs suggest that the roll-out of UC may just finally be going to something approximating the plan. The next big challenge will be negotiating the potentially tricky managed migration phase. If DWP can both maintain an open dialogue, ensure transitional protection truly protects the most vulnerable and secure reinvestment in UC to boost its generosity and incentives it could just be the moment the reform is put firmly on the path to success.
Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

» undertaking research and economic analysis to understand the challenges facing people on a low to middle income;
» developing practical and effective policy proposals; and
» engaging with policy makers and stakeholders to influence decision-making and bring about change.

For more information on this report, contact:

David Finch
Senior Research Fellow
david.finch@resolutionfoundation.org
0203 372 2960