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BRIEFING

A fraying net

The role of a state safety net in supporting young people develop and transition to an independent, healthy future

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Intergenerational Centre

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The Health Foundation

The Health Foundation is an independent charity committed to bringing about better health and health care for people in the UK.

Our aim is a healthier population, supported by high-quality health care that can be equitably accessed. From giving grants to those working at the front line to carrying out research and policy analysis, we shine a light on how to make successful change happen. We use what we know works on the ground to inform effective policy making, and vice versa.

We believe good health and health care are key to a flourishing society. Through sharing what we learn, collaborating with others and building people's skills and knowledge, we aim to make a difference and contribute to a healthier population.

About the young people's future health inquiry

The Health Foundation's Young people's future health inquiry is a first-of-its-kind research and engagement project that aims to build an understanding of the influences affecting the future health of young people.

The two-year inquiry, which began in 2017 aims to discover:

- Whether young people currently have the building blocks for a healthy future
- What support and opportunities young people need to secure them
- The main issues that young people face as they become adults
- What this means for their future health and for society more generally.

The Health Foundation commissioned the Resolution Foundation as part of the policy strand of this project. This, along with six other commissions, aims to understand some of the structural and policy issues facing young people.

Alongside this policy programme, the inquiry involved engagement work with young people, site visits in locations across the UK, as well as a research programme run by the Association for Young People's Health and the UCL Institute of Child Health. A findings report for the programme will be published in autumn 2019.

Summary

Young adulthood – ages 16-24 – entails big changes that affect the course of people's lives, including completing education and beginning work, living independently, and forging key relationships. Experiences and choices at this age have a large bearing on young adults' chances of living independently and healthily when older. For many young adults, interactions with the tax and benefit system play a big role in these experiences and choices. That's why, as part of its Young people's future health inquiry, the Health Foundation has commissioned this review of the state-provided financial safety net available to young adults, and how it has changed over time.

A range of evidence shows that while young people's aspirations haven't shifted much over time, their living standards experiences have. Youth earnings and incomes have performed particularly poorly, and home ownership has been on a precipitous decline. At the same time, the risks that young people face have increased due to less job security, living longer in the private rented sector, and less secure future pension expectations. The good news is that families have increasingly been there to provide more support, be that via housing adult children, providing funds for house purchase or providing more ad-hoc financial assistance. But not all young adults have access to this family support and not all families have the resources to provide it, meaning that a rising reliance on families risks leaving some young adults behind.

It is here that the state safety net traditionally steps in, and could be expected to play more of a role for young adults in the face of these headwinds. But benefits have come to play less of a role in the incomes of households headed by young adults over time. From a high of 23 per cent in 1995-96, the share of young people's income that is derived from benefits has declined by 9 percentage points to 14 per cent in 2017-18. This is much larger than the 4 percentage point fall for those aged 25-State Pension age. As well as providing less support, this adds to the increased risk that young people today face, particularly those with little access to financial or practical support from families.

This outcome will partly be driven by a range of economic factors, including rapid reductions in unemployment since 2010. But it also reflects a long-term trend of successive governments deprioritising welfare support for young people, relative to older working-age adults and pensioners. Changes include the introduction and then spread of lower awards for under-25s on out-of-work benefits that started when Jobseeker's Allowance (JSA) was brought in in 1996; lower housing benefit awards via the 'shared accommodation rate' (SAR); and the abolition of the Child Trust Fund in 2011. Some of these changes reflect efforts to keep the benefit system in step with wider social trends. For example, a rising proportion of better-off young adults share private-rented houses due to rising housing costs and squeezed incomes, an outcome that itself may

have implications for all young adults' long-term health and independence but is much broader than the role of the benefits system itself. This context notwithstanding, these changes to the benefits system add up to a much less generous offer for under-25s today than for older adults, and for under-25s of previous generations.

Universal Credit (UC) – the new benefit currently being rolled out that merges six in- and out-of-work benefits into one – represents a positive step for young adults in many respects. It offers a simpler system that aims to sharpen work incentives and, on average, improves generosity for renters. It extends in-work support to under-25 year old non-parents for the first time, as under the old system they were ineligible for working tax credits (WTC). And crucially, our estimates suggest that the hoped-for take-up gains that derive from boiling multiple claims processes down into one bring the biggest relative gains to young people.

But 16-24 year olds are still set to lose out marginally when moving over to UC from the legacy system. On the central take-up assumption, this reduction amounts to an average of £100 per year across all 16-24 year old families (including those not engaging with the benefits system). This figure underlies much deeper reductions for young single-parent benefit recipients. UC essentially transfers the £15.20 per week lower youth rates in JSA and Employment and Support Allowance over to both out-of-work and in-work single parents. This means that 67 per cent of 16-24 year old single-parent benefit recipients face income reductions as a result of the switch to UC, compared to 56 per cent of older single-parent recipients.

Beyond the introduction of UC itself, cuts to the value of working-age benefits across the age range (including the benefits freeze, the two-child limit and reduced UC work allowances) have borne down hard on young adults, as they have on older ones. Focusing on benefit cuts and tax changes since 2015, 18-24 year olds, who typically have lower incomes than older age-groups to start with, face an average income fall of around 0.6 per cent. This is a deeper fall than that experienced by adults in their late 20s or aged 50 and above. But the worst-affected age group is those in their early 30s to mid-40s, who face an average loss of over 1 per cent of income. These income reductions are concentrated among families with children, and so have implications for the current and future health and independence of teenagers in those families.

While many elements of the financial safety net available to young adults have reduced in generosity, the state has been expanding support in other areas. One of these is both financial and in-kind support towards childcare. Measures include the tax-free childcare scheme, increased support towards childcare costs within UC, and the extension from 15 to 30 hours of free childcare for three and four year olds with working parent(s). However, young parents with young children are less likely to benefit from this area of welfare state expansion. This is because they are less likely to be working than their older counterparts (only 48 per cent are, compared to 88 per cent of families with children headed by those aged 25 and over), and because they are more likely to make use of informal childcare offered by their own parents and grandparents.

State spending (including income support via grants and loans) on those in higher education has also increased over the long term, albeit with more recent changes meaning many graduates make a greater financial contribution towards (rising) costs later in their lives. This is positive for the 16-24 year old age group as a whole. But alongside reduced welfare support it represents a regressive step due to the different profiles of those young adults who go to university, compared to both those most reliant on benefits and those pursuing the vocational education route which has not benefited from the same increase in resource.

Finally, it's worth noting that alongside lower benefit awards, 16-24 year olds often have lower earnings due to lower minimum wage rates, particularly since the introduction of the National Living Wage for those aged 25 and over. These lower rates reflect justified concerns that youth minimum wages set too high can in fact damage young people's incomes overall by reducing the number of jobs available to them. These concerns must be born in mind alongside young adults' strong consensus that their minimum wage rates should be equalised with the 25 and over rate on the basis of parity of esteem.

Overall, young people today have a more limited safety net than in the past, and one that is set to shrink further in the years to come. In order to address some of the challenges that the research in this paper has raised, policy makers should explore:

- Halting or reversing benefit cuts that are underway and bear down on incomes at all ages, for example by reversing some of the effects of the benefits freeze.
- Rethinking some of the lower awards that young people face in the benefits system, for example by removing the penalty that young single parents face in the switch to UC.
- Ensuring that young people have the financial resilience to cope with the increased risks and insecurities they face, for example by revisiting asset-based welfare schemes akin to the Child Trust Fund.
- Taking steps to reduce the number of minimum wage rates or narrow the gap between youth rates and the 25 and over rate, something that both main parties have committed to, to different extents. These changes should be made with a close eye on the evidence of any adverse employment effects for young people.
- Ensuring that young people get the support they need and that benefit and

childcare take-up are maximised, via good advice and guidance systems sitting around the benefit system.

Via steps such as these, policy makers can ensure that the financial safety net available to young adults today balances priorities like fairness in relation to other groups in society, and overall cost, against the need to ensure that all young adults have the tools to transition to an independent and healthy future.

Financial support provided by the state in young adulthood is a key bedrock of an independent and healthy future

Between the ages of 12 and 24, young people go through life-defining experiences and changes. During this time, most will aim to move through education into employment, become independent and leave home. This is also a time for forging key relationships and lifelong connections with friends, family and community. That is why the Health Foundation's Young people's future health inquiry[1] is focusing on this period, in order to understand the assets and experiences that underpin a healthy future.

With changes to social attitudes and circumstances, the nature of this journey has shifted over time. For instance, young people are choosing to settle down and have children at much older ages than they would have previously. Nonetheless, the fundamental milestones on the journey to adulthood have largely remained the same across generations. But today's young people face opportunities and challenges that are very different to those experienced by their parents and carers, and from those they imagined themselves to be facing. As set out in detail by the Resolution Foundation's Intergenerational Commission,[2] and in its first intergenerational audit for the UK,[3] young people's living standards have performed poorly across earnings, incomes, wealth accumulation and housing security.

Young adults were among the worst affected by the post-crisis pay squeeze, as well as a slowdown in pay growth that pre-dates this. They also face much higher housing costs than previous generations did and are far less likely to own their own home as they progress into their late 20s and 30s, making it more difficult to take those crucial steps towards independence and a healthy adulthood.

The good news is that, in these circumstances, families have stepped in to help. For many this has come via support towards the cost of their first home from the so-called 'bank of mum and dad'.[4] Young parents increasingly benefit from childcare from both parents and

1 M Kane & J Bibby, Listening to our future: Early findings from the Health Foundation's Young people's future health inquiry, Health Foundation, June 2018
2 Resolution Foundation, A New Generational Contract: The final report of the Intergenerational Commission, May 2018
3 G Bangham et al., An intergenerational audit for the UK: 2019, Resolution Foundation, June 2019
4 S Clarke & J Wood, House of the rising son (or daughter): The impact of parental wealth on their children's homeownership, Resolution Foundation, December 2018

grandparents.[5] And, as young people participating in a policy roundtable as part of this project emphasised, many benefit from day-to-day financial or in-kind support from their wider families:

"I have financial support from my mum and dad."

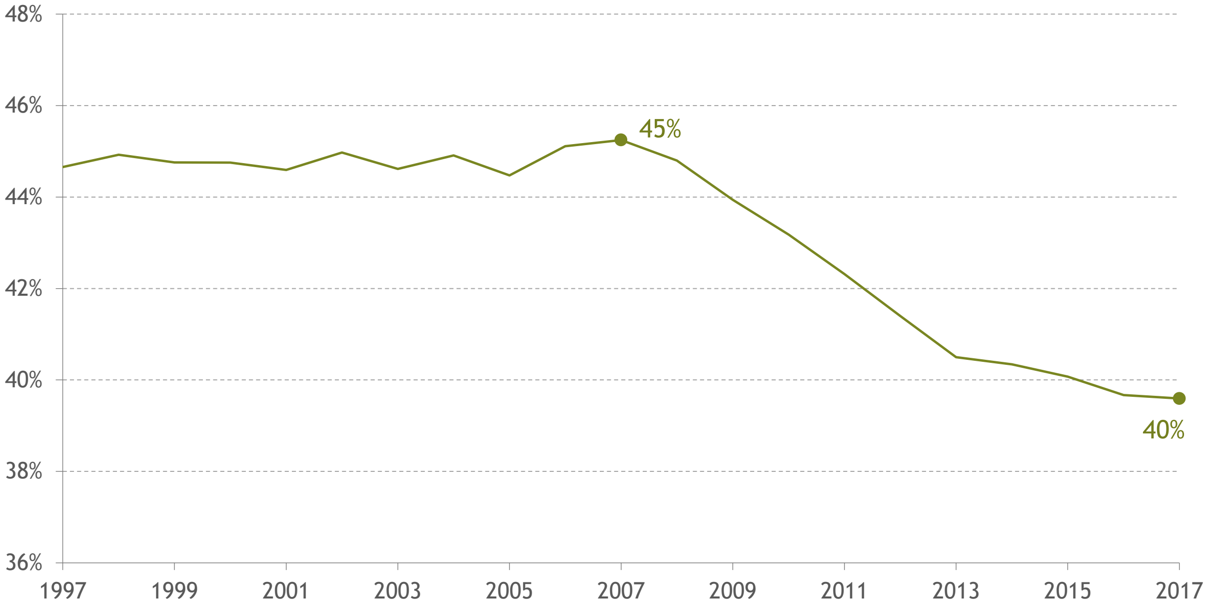
"Cuts in social care can stop support but a lot comes from family."

- Young adults speaking at July 2019 policy roundtable

Other young people are supported by the ability to remain in their parental homes for longer in order to save up, or simply minimise their living costs. This is apparent in the declining proportion of 16-24 year old young people living independently, shown in Figure 1. In the 10 years since 2007, the proportion of young people living independently has fallen by 5 percentage points, from 45 to 40 per cent. This is partly due to a continuing increase in the number of young people going to university, with students being more likely than non-students to live with their parents. But a big part of the rapid decrease post-2007 has been due to the financial pressures placed on young people by the crisis and continued housing related challenges.[6]

FIGURE 1: **The proportion of young people living independently has been in decline for the past 10 years**

Proportion of 16-24 year old family units living independently: UK



NOTES: Living independently is defined as those not living with their parents. Students are included in this analysis, and classed as living as independently if they live anywhere other than their parents' home.

SOURCE: RF analysis of ONS, *Quarterly Labour Force Survey*

5 Grandparents Plus, Grandparenting in Europe, June 2010
6 G Bangham et al., An intergenerational audit for the UK: 2019, Resolution Foundation, June 2019

As such, the financial and practical support on offer to young people from families as they make the transition into adulthood has grown in importance over recent decades. But while the growing role of familial support is mitigating some of the impact of declining living standards among young people, there is a risk that it may push up intra-cohort inequalities and hold back social mobility. Those who do not have access to parental financial or practical support from family are increasingly left behind, with potentially damaging consequences for their long-term health.

In relation to this concern, our policy roundtable included interesting discussions about whether it should always fall to families to provide a safety net for young adults. A related question was whether, even when families are available, turning to them always provides the best foundations for young adults' future independence and health. This may be due to where in the country they live, or older family members' own support needs in return. These questions reflect ideological positions and shifting social norms regarding the role of the state in supporting people of different ages and in different circumstances, questions that we touch on later in this paper. But whatever one's position, at a time of constrained living standards progress for young people, it is clear that there are some young adults without family support (or for whom turning to family is very far from optimal) for whom the financial safety net outside the family itself is increasingly important.

This is particularly the case in view of the fact that both the Intergenerational Commission and past research on long-term health outcomes emphasise the potentially damaging consequences of the increased risks and insecurities (e.g. across job security, private-rented housing and future pension expectations) that young adults face. Long-term health risks come via both behaviour and via physiological 'wear and tear' during this period of rapid biological and neurological development[7] There is an additional concern that alongside damaging their long-term health in and of themselves, these insecurities are also preventing young people from taking 'positive' risks that might enhance future living standards.[8] These might include moving for work or financing their own education, steps that have the potential to improve long-term health. Such risk-aversion was evident among the young people who participated in our policy roundtable:

"I could apply for loans and student finance but there is a worry that if you don't do well or drop out you still need to pay those loans back."

- Young adult speaking at July 2019 policy roundtable

7 P Präg & L Richards, 'Intergenerational social mobility and allostatic load in Great Britain', Journal of Epidemiology & Community Health 73:2, November 2018; M Kelly-Irving, Allostatic load: How stress in childhood affects life-course health outcomes, Health Foundation, August 2019

8 This concern is supported by research detailing long-term outcomes for children growing up in low-income single parent households, including a lack of financial buffer and a low appetite for risk. See: J Millar & T Ridge, Work and relationships over time in lone-mother families, Joseph Rowntree Foundation, July 2017.

Any reduction in the level of financial support provided by the state adds to these risks by reducing the platform that young people, especially those without access to family support, have to build on. So it is very worrying that the welfare state has got weaker for young people over the longer term. These trends have been continued recently, not least via £12 billion of welfare cuts currently being rolled out.

The remainder of this paper seeks to understand the state-provided safety net available to young adults in detail. It starts by setting the safety net in its current form, and the changes to it that are underway, in the context of long-term trends. It describes the state financial safety net for young people across three key dimensions:

- Long-standing and growing age differences within the benefits system that result in lower awards for young people.
- The transition from the legacy benefits system (tax credits, housing benefit and out-of-work benefits) to UC – the new benefit combining six in- and out-of-work benefits into one.
- Broad welfare cuts that affect people across the age range. These have been a feature of changes to the welfare system since 2010, but we focus mainly on changes introduced since the 2015 Summer Budget which aimed to deliver on the 2015 Conservative manifesto promise of a further £12 billion of welfare cuts.

We also reflect on the main areas in which the welfare state has been expanding over recent years: increased childcare provision, support towards childcare costs, and increased state spending on people studying at university. And we set changes to the state financial safety net for young people against increased age differentiation within the UK's minimum wage architecture.

In the concluding section of this paper we reflect on the implications of these findings for policy, drawing on a roundtable with young people, academics, researchers and policy makers held in July 2019.

Unless otherwise specified, our focus throughout this paper is on young people aged 16-24.[9] The report focuses mainly on comparisons of the safety net offered to 16-24 year olds and that offered to those aged 25 and over, as well as how the safety net for young people has changed over time. We disaggregate results for specific groups, such as single parents or those out of work. However, due to the limitations of the data used for analysis and the scope of this project, we are unable to disaggregate results for all possible groups or across regions. By describing its changing shape in broad terms we attempt to

9 The Health Foundation's Young people's future health inquiry focuses on the age range 12-24. This report focuses on those aged 16 and above as this is the age at which young people begin to engage with the world of work, and the tax and benefit system.

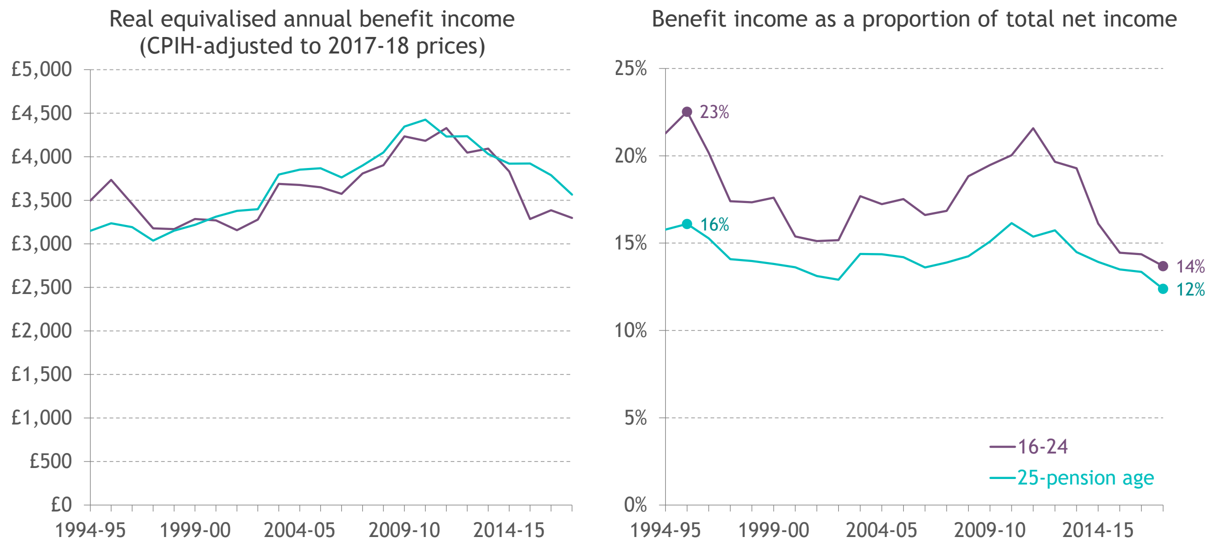
provide a useful insight into the impacts of the state safety net for young people in the UK today.

State welfare support for the young has declined over the longer term

Stepping back from changes to the benefit system that are currently underway, the big-picture outcome over almost a quarter of a century is that working-age households – particularly younger ones – derive a lower share of their income from benefits. This is illustrated by Figure 2, which shows the decline in benefit incomes since the mid-1990s. The left-hand panel shows that having risen throughout the 2000s, the average value of income derived from benefits across all adults has been in decline since 2010, particularly for young people. Part of this will be due to rapid reductions in unemployment since 2010 – the 16-24 year old unemployment rate has declined from 22.5 per cent in late 2011 to 11.6 per cent today. But, alongside this, 2010 marked the beginning of a programme of reduced benefit spending.

FIGURE 2: **16-24 year olds derive a lower share of income from benefits than they did two decades ago**

Household benefit income, by age of head of household: GB



NOTES: Net income is measured after housing costs. For further details on methods, see: A Corlett et al., The Living Standards Audit 2019, Resolution Foundation, July 2019

SOURCE: RF analysis of DWP, *Households Below Average Income*

The right-hand panel shows these trends relative to overall net income. It shows that independent young households have always derived a larger share of their incomes from benefits, meaning that they will be more vulnerable to changes in state support. At the same time, this group has experienced the biggest falls in the share of their income coming from benefits since the mid-1990s. From a high of 23 per cent in 1995-

96, the share of young people's income that is derived from benefits has declined by 9 percentage points to 14 per cent in 2017-18. This is compared to a fall of 4 percentage points (from 16 per cent to 12 per cent) for those aged between 25 and State Pension age. Again, the falls in the post-2010 period are particularly stark, but the share of young people's income that is derived from benefits also fell rapidly throughout the late-1990s.

This outcome will be driven by a range of factors. These include changes to employment income and housing costs within different groups (see the parallel Health Foundation-commissioned papers on young people's housing and labour market experiences for further discussion[10]), and the rising incidence of young people living with their parents.[11] But clearly, reduced welfare support is also a factor.

While we focus mainly on recent changes in this paper, this outcome reflects a much longer-term, and cross-party, trend of the state deprioritising welfare support for young people, relative to older working-age adults and pensioners in the more recent period. This includes:

- The introduction and expansion of lower rates of out-of-work benefit for under-25s. The replacement of Unemployment Benefit with JSA in 1996 introduced a rate for 18-24 year olds that was 21 per cent lower than the main adult rate.[12] This approach was then carried into the main out-of-work disability benefit when Employment and Support Allowance (ESA) began replacing Incapacity Benefit in 2008. And the introduction of UC since 2013 extends these lower rates to under-25 single parents, including those who are working and receiving in-work support.[13]
- Lower rates of support towards housing costs, via the introduction of the SAR in 1996, which reduced the housing benefit awards that most single private renters under the age of 25 could receive to the reference rent for a room in a shared house or flat (rather than a one-bed). It aimed "to ensure that Housing Benefit does not encourage young people to leave the parental home unnecessarily or to take on higher priced accommodation at the taxpayers' expense than they could afford from their own earnings."[14] The October 2010 Spending Review then extended the SAR to most single claimants under the age of 35, from 2012 onwards.
- Plans to remove support towards housing costs entirely for 18-21 year olds, which were introduced in 2017 for UC recipients, but then rescinded in 2018.[15]

10 See: Health Foundation, Young people's future health inquiry
11 More young people living with their parents could result in those young adults who live independently today being relatively higher income in the past, and so less likely to draw income from benefits. This analysis necessarily focuses on households, and so only those households headed by young adults are captured within the 16-24 year old group. This means that young adults living in their parent(s)' home are contained within the older age group.
12 Institute for Fiscal Studies, Fiscal facts: tax and benefits
13 Working coupled parents under the age of 25 are also affected by this age-based reduction in entitlement, but the overall generosity of UC for coupled parents of all ages (particularly renters) tends to offset this.
14 W Wilson, Housing Benefit: Shared Accommodation Rate, House of Commons Library, November 2014
15 L Judge & D Tomlinson, Home improvements: Action to address the housing challenges faced by young people, Resolution Foundation, April 2018

- The abolition of the Child Trust Fund (introduced in 2005) in 2011. This was the UK government's major recent foray into 'asset-based welfare'. The government contributed £250 (£500 for lower-income families) to a savings account for children opened by their parents at birth, and the same again at the age of seven. Family members and others could make tax-free contributions too, and the savings were not accessible until the child was 18.[16] Given the role of assets in helping people to cope with the kind of risks and insecurities we describe above, such asset-based approaches for young adults merit further consideration in today's context.
- Aside from the Child Trust Fund, a focus on groups other than young people in the Labour Party's expansion of welfare support during the 2000s. Examples include the exclusion of non-parents under the age of 25 from WTC eligibility when it was introduced in 2003, the treatment of young adults in ESA when it was introduced in the late 2000s, and a general focus on tackling child poverty and pensioner poverty.

Although benefit spend for young people has been reduced over the long term, there are other areas in which state support has grown. These include increased support for childcare and state spending on higher education, which do not show up in figures on welfare spend but do constitute a significant portion of the state safety net on offer to young (and older) people. These components of the safety net will be discussed in further detail in the latter half of this paper. Prior to this we seek to understand young people's interaction with the welfare state and how this has changed in recent years.

The tax and benefit system is today less generous to under-25s

As set out above, since the 1990s, under 25s have increasingly received lower levels of welfare support than older adults. Focusing initially on the legacy (i.e. pre-UC) system that still dominates today (UC is still less than a third of the way through its roll-out[17]), the key differences between the treatment of under-25 year olds and those aged 25 and over relate to out-of-work benefits, and housing benefit in the private-rented sector.

Both JSA and ESA differentiate by age, such that in 2019-20, 18-24 year olds on these benefits receive just £57.90 per week, while older adults receive £73.10. By contrast rates of Income Support (IS) are equal for parents aged 18 and above. We estimate that these lower rates reduce benefit entitlement by £600 million annually across the UK.

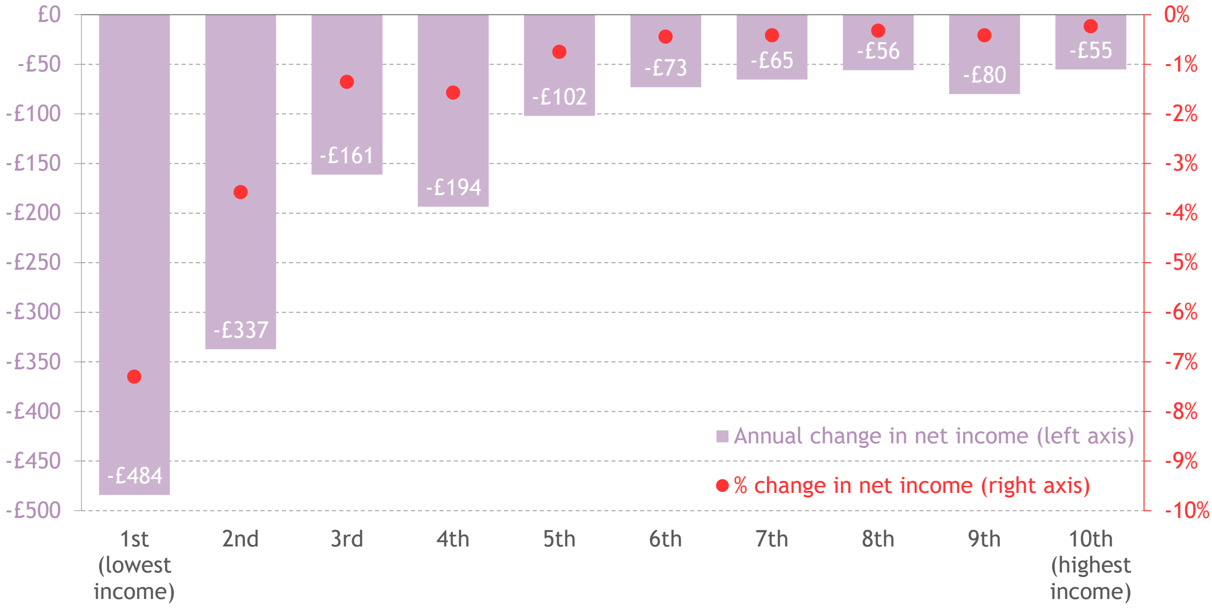
As these benefits are targeted towards those who are not in work or on low incomes, those most affected by the lower rates are those towards the bottom of the income distribution, who are likely to need the most support. This can be seen in Figure 3, which shows the annual effect of age differentiation within the out-of-work benefits system

16 G Bangham, The new wealth of our nation: The case for a citizen's inheritance, Resolution Foundation, May 2018
17 T Bell & L Gardiner, Feel poor, work more: explaining the UK's record employment, forthcoming, Resolution Foundation

on young people's incomes, by income decile. Those in the first and second deciles have incomes that are £484 and £337 lower than they would have been if the rates were equalised. In contrast, those in the top five deciles lose between £80 and £55 per year.

FIGURE 3: **Those with the lowest incomes lose out most from lower out-of-work support**

Effect on incomes of lower out-of-work benefit rates for 18-24 year olds, by income decile among family units headed by 16-24 year olds: UK, 2019-20



NOTES: The distribution is based on income after housing costs. This analysis includes young family units living with others in the distribution; for example, adult children living in their parents' home. However, only their own income is taken into account in the assessment of income changes.

SOURCE: RF analysis using IPPR tax-benefit model

Non-parents are also ineligible for WTC, the main in-work benefit, until the age of 25. However, the requirement for those without children to work a least 30 hours a week in order to be eligible for WTC, coupled with a rising minimum wage that has effectively eroded the value of WTC, mean that very few non-parents, of any age, have low-enough incomes to be eligible for WTC. In addition, WTC is one of the six legacy benefits being replaced by UC, in which this age cut-off will no longer apply.

The other significant age differentiation in today's pre-UC benefit system relates to the 'shared accommodation rate' (SAR) used to calculate housing benefit entitlement for single private renters. The logic of its introduction in 1996 and extension in 2012 was partly to ensure that young people are not unnecessarily encouraged to leave the parental home.

The incentive for young people to remain in their parents' home for longer periods could be seen to impede the transition to adulthood by limiting the ability for young people to take vital steps towards independence, with the extension of the SAR to age 35 lengthening this transition. In addition, some American research suggests that co-residence in the parental home as a young adult can be bad for mental health.[18]

On the other hand, it is important to consider why these policies have been enacted. The costs of renting have increased across the board, meaning that sharing has become much more common within the wider young adult population. And this is reflected in the decision to extend the SAR to age 35, with the key policy objectives of the change citing the need to ensure that "Housing Benefit rules reflect the housing expectations of people of a similar age not on benefits."[19] In this sense, the state safety net for young adults has been reduced in order to retain a sense of 'fairness' in the face of wider housing market trends.

Of course, this wider trend of young people sharing private-rented accommodation for longer periods of their adult lives may have some detrimental effects for the long-term health of this group, and echoing this through the benefit system is likely to reinforce such a trend. But this raises questions about role of the benefit system as a fix for broader trends in the housing market. This is unlikely to be a workable long-term solution with valid political opposition based on the notions of fairness mentioned above. So the policy challenge here is as much about the housing market as the welfare safety net.

That said, not all young people affected by the policy have the same needs and for those with complex needs, sharing accommodation may be inappropriate and have a negative impact on long-term health. Young people with dependents and those that qualify for severe disability allowances or need carers are currently exempted from the SAR, but evidence shared in our policy conversations suggests that these can be too narrow, poorly understood and inconsistently applied.[20]

Beyond the restriction on the type of housing young people are eligible for support towards, broader issues with the levels at which private-rented sector housing benefit rates are set bear down particularly hard on young people. All Local Housing Allowance (LHA) rent levels, including the SAR, have been frozen in recent years. This means that the value of LHAs has not tracked market rents, creating a shortfall in the housing benefit that many people receive. Research by Shelter estimates that this shortfall is largest for young people, with those in some regions facing average shortfalls of over £200 per month in 2017.[21] The parallel report in this Health Foundation series about the private-

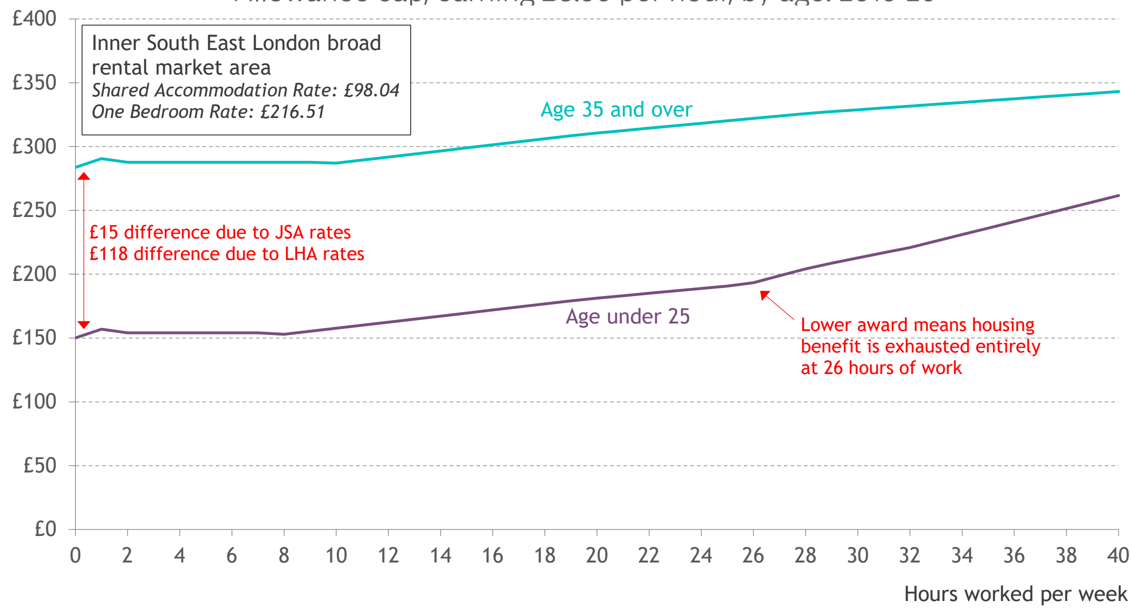
18 J Caputo, Parental Coresidence, Young Adult Role, Economic, and Health Changes, and Psychological Well-being, Society and Mental Health, November 2018
19 W Wilson, Housing Benefit: Shared Accommodation Rate, House of Commons Library, November 2014
20 CIH paper reference
21 J Pennington & H Spurr, Briefing: Local Housing Allowance freeze, Shelter, March 2017

rented sector by the Chartered Institute for Housing contains further detail on the effects of LHA freezes for young people.[22]

Over time, the introduction of the SAR, its extension to under-35s and the impact of the LHA freeze have contributed to a generational decline in the relative value of housing benefit. Previous research by the Resolution Foundation has shown that private renting millennials (born 1981-2000) with incomes low enough to be eligible for support have just 13 per cent of their rent covered by housing benefit on average at age 25; compared with a figure of 20 per cent among their generation X counterparts (born 1966-80).[23] Moreover, the combined effect of lower out-of-work support and lower housing benefit entitlement means that the state safety net for young single private renters today is much more limited than that provided to those aged over 35. Figure 4 shows that the lower rates contribute to lower incomes for under 25 year olds without children when compared to over 35s with the same circumstances. For a single out-of-work adult renting privately in Lewisham, this difference in income is £133 per week, with a £15 difference deriving from the difference in JSA and a further £118 difference deriving from lower housing benefit rates under the SAR.

FIGURE 4: **Lower out-of-work support and housing support means that young single private renters have a more limited safety net**

Net weekly income (gross of housing benefit) for a single adult renting privately in Lewisham at or above their age-specific Local Housing Allowance cap, earning £8.50 per hour, by age: 2019-20



SOURCE: RF analysis using RF microsimulation model

22 CIH paper reference
23 Resolution Foundation, A new generational contract: The final report of the Intergenerational Commission, May 2018

Furthermore, a lower housing benefit award means that at 26 working hours per week, housing benefit has been completely withdrawn for this young single private renter in Lewisham.

These two examples illustrate how the benefit system currently offers less support to younger adults, an outcome that has resulted from a range of policy changes over recent decades. Baked into this are assumptions about the availability of parental support is and how much young adults need to consume relative to older adults. There may be good reasons for some differentiation on this basis; young adults typically have lower incomes than older adults, as earnings are lower on entry to the labour market than they are on exit. And it makes sense that housing support enables young people on benefits to afford what a typical person of the same age can afford.

But designing benefits for young people with assumptions about parental support can be problematic for those who do not have access to this, or who are themselves responsible for supporting their own parents. For the latter group, the declining support for young people is likely to be compounded by broader reductions in state support to families, doubling the impacts on their living standards. And insofar as young people are increasingly living with their parents because they cannot afford to move out, doing so may contribute to overcrowding, with implications for young people's health and well-being both in the short and long-term.

Having discussed age differences in the pre-UC benefits system, the next sections detail how the introduction of UC affects this picture.

The switch to Universal Credit reduces incomes for young people on average, although they are the biggest winners from hoped-for take-up gains

At its core, UC has laudable intentions. It sets out to simplify an overly complex benefit system, with multiple benefits that each have their own eligibility and withdrawal criteria. By combining six in- and out-of-work benefits into one, the ambition was to create a simpler, easier-to-understand system that boosts take-up, as well as improving financial incentives and removing practical barriers to entering and progressing in work. Given evidence that young people stand to benefit most from increased take-up (discussed below), and evidence that long periods spent unemployed when young can damage future earnings and health outcomes,[24] these aims fit well with the needs of young adults.

The health benefits of entering and progressing in work are twofold. In the first instance, work itself can promote positive self-esteem and mental health. Secondly, progression in

24 For evidence on the earnings side, see: P Gregg & M Tominey, 'The wage scar from male youth unemployment', Labour Economics 12:4, August 2005

work means higher incomes which can reduce the stresses associated with the struggle to make ends meet. But consideration must be given to type of work that people do. Low-quality work or work in dangerous or hazardous environments can have opposite effects for both mental and physical health.

Alongside the central goals of boosting take-up and sharpening work incentives, UC entails wide-ranging reforms to benefit processes (such as payments being made monthly and in arrears), and the introduction of in-work conditionality. Given our focus on the generosity of the safety net, a detailed look at these reforms sits outside of the scope of this paper. However, it is worth pausing on their link to short- and long-term health outcomes. Early evidence has suggested that a combination of issues with the system and its roll out have contributed to poorer mental health outcomes.[25] For instance, in many cases poor implementation has resulted in delayed payment for many and volatility in the levels of payment received. The design of the compliance regime has made it more difficult for people to navigate the system or to claim their full entitlement. And the increased use of benefit sanctions (a trend that pre-dated UC but has continued with its introduction) can affect health negatively. For those in the formative stages of adulthood, such processes may be particularly challenging to deal with.

UC is currently in the process of being rolled-out across the country. It was first introduced in 2013, but delays have meant roll-out is currently expected to be completed in 2024. By August 2019, there were 2.4 million people on UC, 420,000 of whom were aged 16-24. Once roll out is complete, over 7 million people will be eligible, around 1.3 million of whom will be aged 16-24.

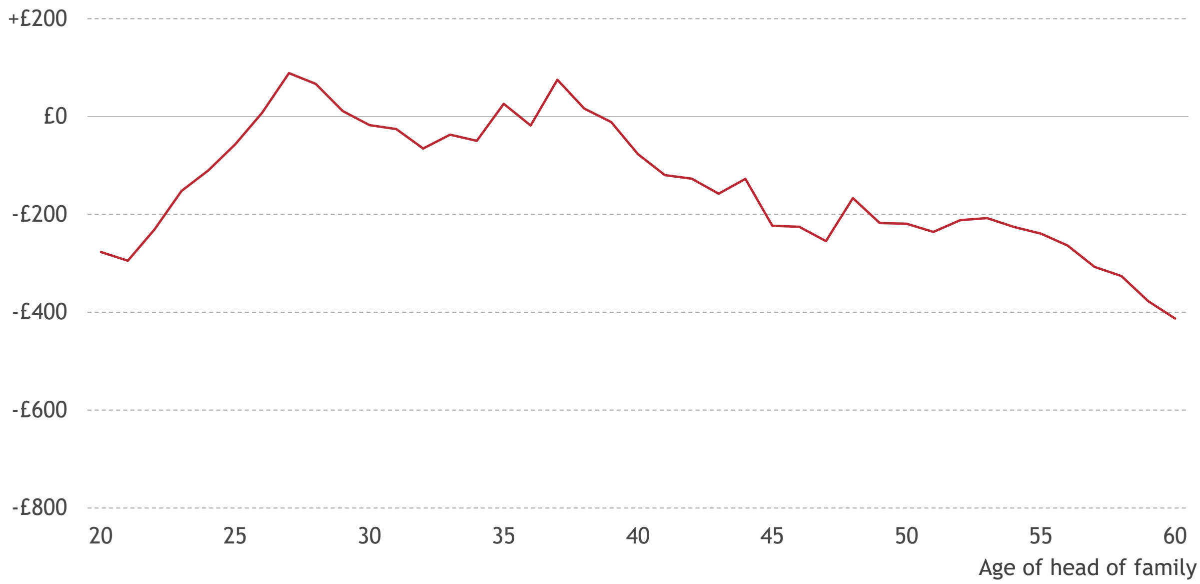
While the aims of UC are positive, the overall generosity of the system means it offers lower entitlements than the legacy system to many, particularly young people and older people. Figure 5 shows that in terms of benefit eligibility (i.e. assuming that everyone who is entitled to support under either UC or the legacy system takes it up), it is both younger and older recipients that lose out the most in cash terms. This amounts to an average reduction of around £230 annually for all 16-24 year old families (including those not engaging with the benefits system). A large part of this will be due to the fact that younger adults are less likely to be parents and are therefore overwhelmingly affected by the reduced support offered to working non-parents under UC,[26] and that UC treats young single parents relatively more harshly than the legacy benefit system (discussed in more detail below). For older adults, the higher average losses are more likely to be due to reduced support for home owners, the self-employed and those eligible for the severe disability premium.

25 For example, see: M Cheetham, S Moffatt & S Addison, The impact of the roll out of Universal Credit in two North East England localities: a qualitative study, November 2018

26 UC 'work allowances' (the amount that can be earned before benefits start being tapered away) for non-disabled, non-parents were removed in 2015. Unlike work allowances for parents, these were not restored in the 2018 Budget. Given that young adults in receipt of UC are more likely to not (yet) be parents than older ones, this represents something of an age-targeted policy.

FIGURE 5: **Older and younger families face the biggest reductions in entitlement due to the switch to UC**

Annual net family income (nominal) under Universal Credit system compared to legacy benefit system, assuming full take-up, by age: UK, 2020-21



NOTES: We model a baseline scenario in which the current tax credit system is fully in place, and compare that to a scenario in which UC is fully in place. In both scenarios, we assume that cuts to family support (the removal of the family element and limiting of support for two children) have been fully implemented and that transitional protection has ceased. This is to isolate the impact of the change in support for working families in the steady state system. Estimates are on an entitlement basis, with no adjustment for take-up. This analysis includes young family units living with others; for example, adult children living in their parents' home. However, only their own income is taken into account in the assessment of income changes. Analysis excludes the effects of asset tests.

SOURCE: RF analysis using the IPPR tax-benefit model

Due to data limitations, this picture misses out one way in which UC is more favourable to younger people than older ones. UC introduces an asset test not present in the legacy system, such that those with financial assets above £16,000 are ineligible.[27] Young people typically have lower savings than older adults and 59 per cent of 18-29 year olds have no savings at all.[28] Likewise, they are much less likely to receive any private pension income than older working-age adults, which is also treated more harshly in UC than in the legacy system (but is included in our modelling). This means that relative to older adults, young people on low incomes are more likely to qualify for support. In this sense, UC better targets spending away from those with savings or assets, and towards those without (who are much more likely to be young).

Furthermore, the design of UC is better adapted to insecure work, which is more prevalent among young people. The shift to a monthly assessment period means that the system can better respond to volatility in people's pay patterns that result from more

27 Recipients with financial assets between £6,000 and £16,000 receive a diminishing amount of the benefit.
28 RF analysis of ONS, Wealth and Assets Survey

insecure work. As such, despite lower overall entitlement, this can be viewed as a slight strengthening of the system's safety-net function.

It is also important to note that the figures above are more positive than they may have been due to recent changes to the system. This includes increasing work allowances for working families and people with disabilities in recognition of the hardships caused by UC-related income losses. A smaller change, but one that is particularly important for young people, relates to the housing cost element of UC. As mentioned above, the 2015 package of benefit cuts included the removal of entitlement to the housing element from most 18-21 year olds. But in March 2018, recognising the potential effects – particularly in relation youth homelessness – the decision was taken to reinstate the entitlement, with the condition that affected young people take on a 'youth obligation' which offers them targeted support into work.

The figures discussed so far are based on people's entitlement to UC and legacy benefits, meaning they assume that everyone who is entitled to benefits is receiving them. But if we add in take-up assumptions for both UC and the legacy system – factoring in UC's targeted take-up gains – the estimates are slightly more favourable to UC. These assumptions are based on the idea that UC will increase benefit take-up among the eligible population in comparison to take-up within the legacy system, due to the get-one-get-all nature of merging of six claims processes into one and the lack of separation between in- and out-of-work benefits.[29]

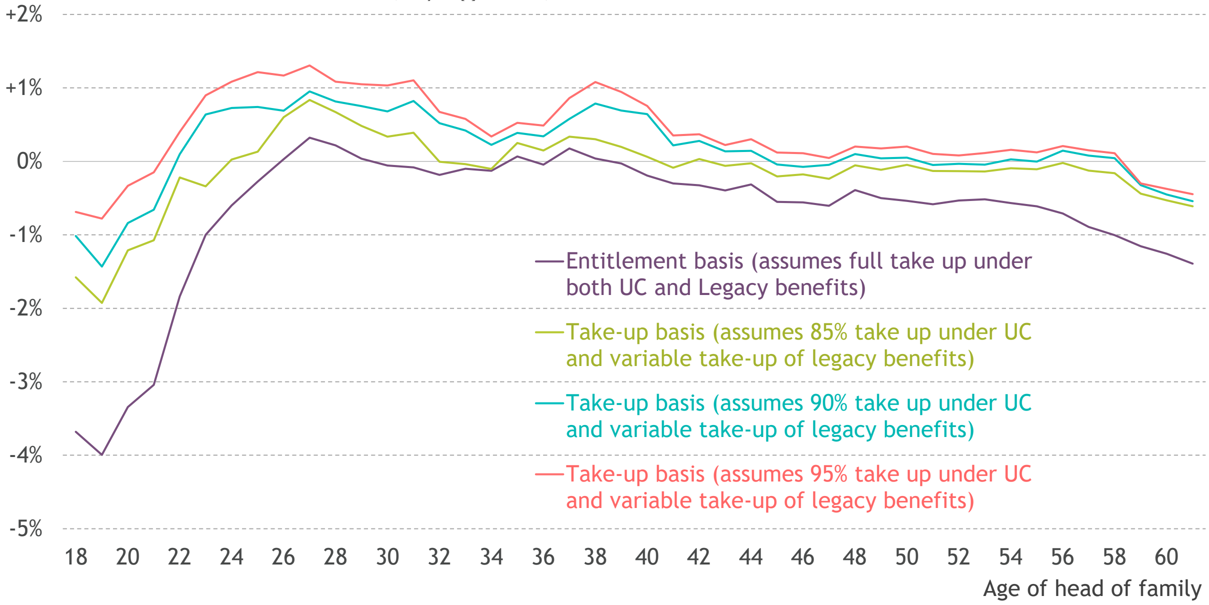
Figure 6, which shows income falls under the full eligibility scenario and with different take-up assumptions for UC (holding take-up rates for legacy benefits constant), suggests that young people's incomes are most affected by relative take-up gains. Take-up estimates are not disaggregated by age; rather, this result is likely to be driven by the fact that and single people without children are expected to experience among the biggest take-up gains from the switch to UC (whereas working parents – more likely to be older – get much less of a take-up boost).[30]

For those aged between 18 and 24, higher take-up increases incomes by around 1.6 per cent on average on the lowest UC take-up assumption, and by 2.6 per cent on the highest take-up assumption. In contrast, increases for those aged 25 and over average 0.4 per cent on the lowest assumption and 0.8 per cent on the highest assumption.

29 Department for Work and Pensions, Income-Related Benefits: Estimates of Take-up, November 2018
30 Based on estimates used in the IPPR tax-benefit model.

FIGURE 6: **Higher take-up will reduce the average income loss caused by the switch to Universal Credit**

Change in net family income (nominal) under Universal Credit system compared to legacy benefit system, different Universal Credit take-up scenarios, by age: UK, 2020-21



NOTES: We model a baseline scenario in which the current tax credit system is fully in place, and compare that to a scenario in which UC is fully in place. In both scenarios, we assume that cuts to family support (the removal of the family element and limiting of support for two children) have been fully implemented and that transitional protection has ceased. This is to isolate the impact of the change in support for working families in the steady state system. This analysis includes young family units living with others; for example, adult children living in their parents' home. However, only their own income is taken into account in the assessment of income changes. Analysis excludes the effects of asset tests.

SOURCE: RF analysis using the IPPR tax-benefit model

In cash terms, the take-up assumptions reduce the income loss for 16-24 year olds from an average of £230 on an entitlement basis (i.e. assuming full take-up under both systems) to £100 with 85 per cent UC take up. The latter is the level that corresponds with the Office for Budget Responsibility's expectations for the take-up boost that UC will deliver.[31] This shifts to an average gain of £35 with 95 per cent UC take-up. While it remains the case that individual losses are in many cases significantly higher than the average, the potential for an overall increase in young people's incomes presents a broadly positive picture.

It is worth noting that the implications of improved benefit take-up for long-term health are unclear because those less likely to take up benefits in the legacy system are those with relatively low entitlements, or who choose not to engage with out-of-work benefit conditionality. Nonetheless, to the extent that any increase in take up from a simpler system boosts young people's incomes, higher take-up is a good thing to target from a long-term health perspective.

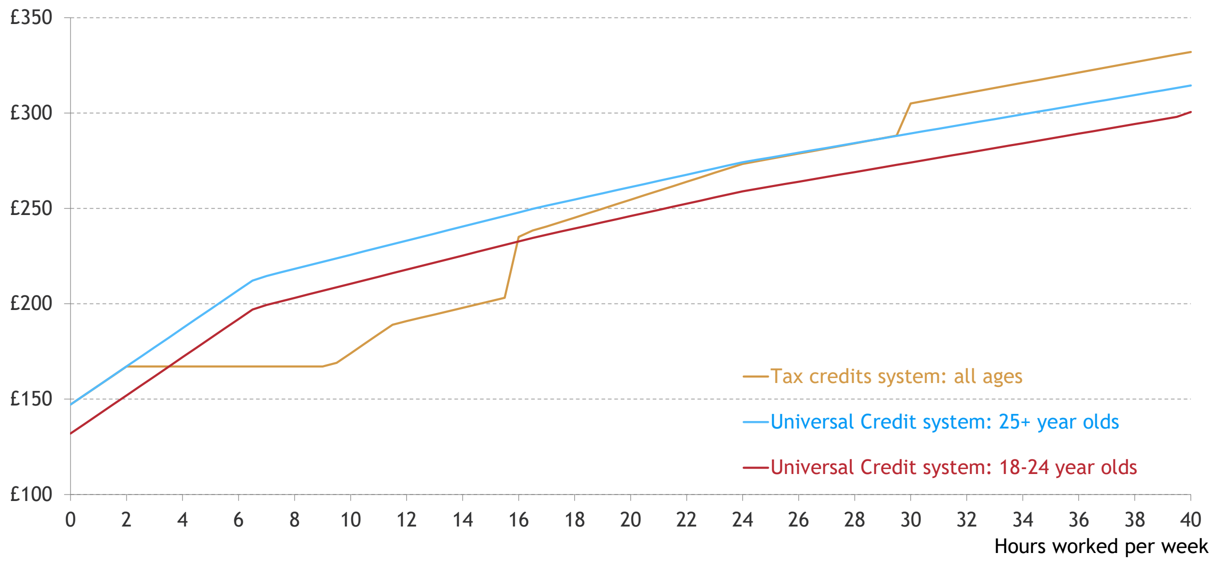
31 L Gardiner & D Finch, Back in Credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018

Young single parents overwhelmingly lose out under Universal Credit

While take-up gains potentially improve outcomes for young people as a group, young single parents overwhelmingly loose out even when factoring in these gains. This is because in the legacy system, out-of-work single parents aged 18-24 with a youngest child aged under 5 are eligible for the main rate of Income Support (as opposed to JSA and ESA, on which 18-24 year olds receive £15.20 per week less than those aged 25 and over). Likewise, there is no age differentiation in tax credits for both working single parents and coupled parents. In integrating these different benefits within one system based on a basic allowance plus allowances for children, health and housing costs, UC essentially transfers this age differentiation over to all single parents and working coupled parents via a single age-based basic allowance. Figure 7 demonstrates the effects of these changes for an example single parent with one child.

FIGURE 7: **The switch to Universal Credit reduces entitlements for young single parents**

Net weekly income after housing costs for a renting single parent with one child, Universal Credit system compared to tax credits system, by age: UK, 2020-21



NOTES: This analysis assumes that UC is fully rolled out, as are cuts to support for families across the UC and legacy systems (the removal of the family element and limiting support to two children). For simplicity, we ignore council tax and the (now localised) system of support towards paying council tax bills. Tax and National Insurance thresholds are those announced in Budget 2018. Earnings are assumed to be £10 per hour and rent is assumed to be £60 per week.

SOURCE: RF analysis using RF microsimulation model

As a result, we estimate that 67 per cent of 16-24 year old single-parent families will face income loses when moving to UC, even factoring in higher take-up. This is shown in Table 1. In contrast, 56 per cent of single parents aged over 25 lose out. While in-work couples with children also lose out from the rate change, a higher proportion of couples with children gain (72 per cent) due to increased work allowances and greater generosity for renters on average. Overall, Table 1 shows that the difference between the proportion of families losing and the proportion gaining is higher for younger families than older ones, at 18 percentage points compared to 12 percentage points.

TABLE 1: **Two-thirds of 16-24 year old single parents lose out from the switch to UC**

Number of 'gainers' and' losers' from the transition to Universal Credit among families receiving either UC or legacy benefits, 85 per cent UC take-up scenario: UK, 2020-21

	Families headed by 16-24 year olds		Families headed by 25-59 year olds	
	Gainers	Losers	Gainers	Losers
Couples with kids	46, 000	18, 000	886, 000	780, 000
	72%	*28%*	*52%*	*46%*
Single parents	51, 000	109,000	597, 000	822, 000
	32%	*67%*	*41%*	*56%*
Non-parents	206, 000	365, 000	763, 000	1, 311, 000
	26%	*46%*	*33%*	*57%*
Total	304, 000	492, 000	2, 247, 000	2, 914, 000
	30%	*48%*	*41%*	*53%*

NOTES: We model a baseline scenario in which the current tax credit system is fully in place, and compare that to a scenario in which UC is fully in place. In both scenarios, we assume that cuts to family support (the removal of the family element and limiting of support for two children) have been fully implemented and that transitional protection has ceased. This is to isolate the impact of the change in support for working families in the steady state system. This analysis includes young family units living with others; for example, adult children living in their parents' home. However, only their own income is taken into account in the assessment of income changes. Analysis excludes the effects of asset tests. Percentages do not sum to 100 due to families experiencing no change in income.

SOURCE: RF analysis using the IPPR tax-benefit model

Cuts to the value of working-age benefits across the age range have borne down hard on young and older adults alike

In addition to the move to UC, the other main change to the benefit system has been the cumulative impact of cuts first launched under the coalition government in 2010. These include £12 billion of benefit cuts announced in the 2015 Summer Budget, just under half of which are yet to take effect.[32] Reductions include the working-age benefits freeze up to 2019-20; net reductions in UC's generosity due to work allowance cuts in 2015; the reduced family element and the removal of the two-child limit for new benefit claims; reduced support for the Employment and Support Allowance work-related activity group; and the reduction in the benefit cap. These have been rolled out alongside tax cuts mainly benefiting better-off households.

It's worth noting that there have been a number of changes since the initial announcements, which, in response to widespread pushback, have restored some of the generosity of the pre-2015 system. The UC taper rate was reduced in the 2016 Autumn Statement, and UC work allowances (the amount that can be earned before benefits start being withdrawn) were increased for parents and disabled people in the 2018 Budget. This means that for renters who are either parents or have a limited capability for work, and who earn above their work allowance, the cuts announced in 2015 have been more than reversed.[33] However, work allowances were removed entirely for non-disabled non-parents in 2015, and were not restored in the 2018 Budget. Given that young adults in receipt of UC are more likely to not (yet) be parents than older ones, this leaves many still falling short.

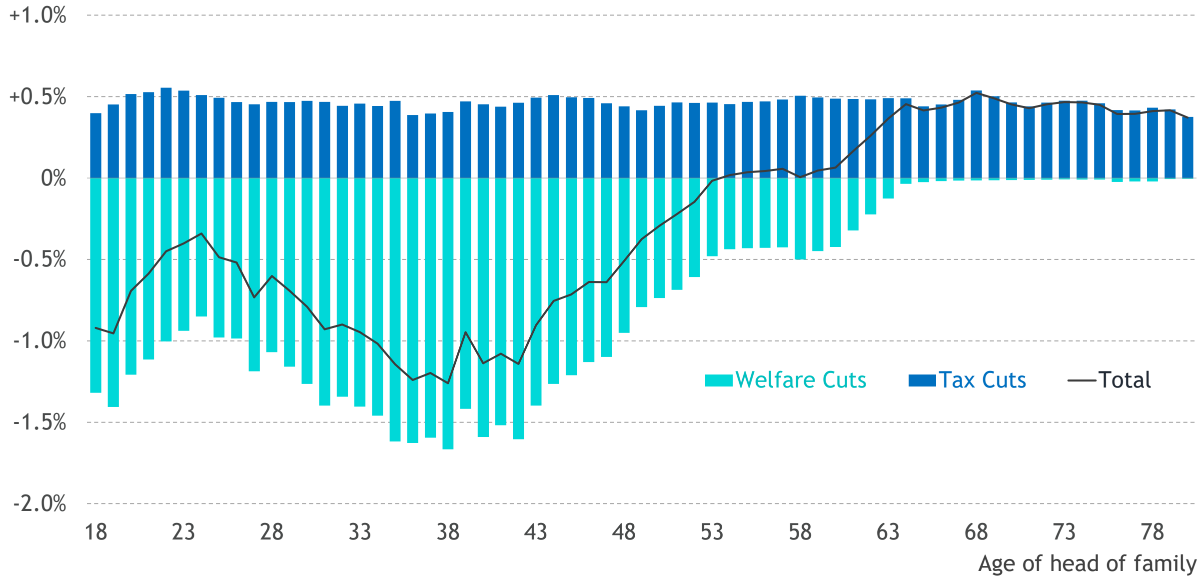
Focusing on benefit cuts and tax changes since 2015, young adults face some of the biggest relative income falls, as shown in Figure 8. On average, 18-24 year olds face an income fall of around 0.6 per cent per annum. These average losses are to some extent offset by tax cuts, many families will lose income to benefit cuts with no offsetting tax cuts.

In contrast to the falls for young people, and working-age adults more broadly, benefits have been largely protected for pensioner families. Coupled with the impact of tax cuts, this means that they have fared particularly well in light of post-2015 benefit reductions. And especially so considering increases in pensioner spending via the triple lock prior to 2015.

32 Resolution Foundation, Super, smashing, great: Spring Statement 2019 response, March 2019
33 L Gardiner & D Finch, Back in Credit? Universal Credit after Budget 2018, Resolution Foundation, November 2018

FIGURE 8: **Young adults face the biggest relative income falls due to post-2015 tax and benefit changes**

Proportional change in annual net family income as a result of tax and benefit changes announced since the 2015 election, by age: UK, 2020-21



NOTES: Income tax cuts include related National Insurance changes. Only those policies that directly affect household incomes are modelled.

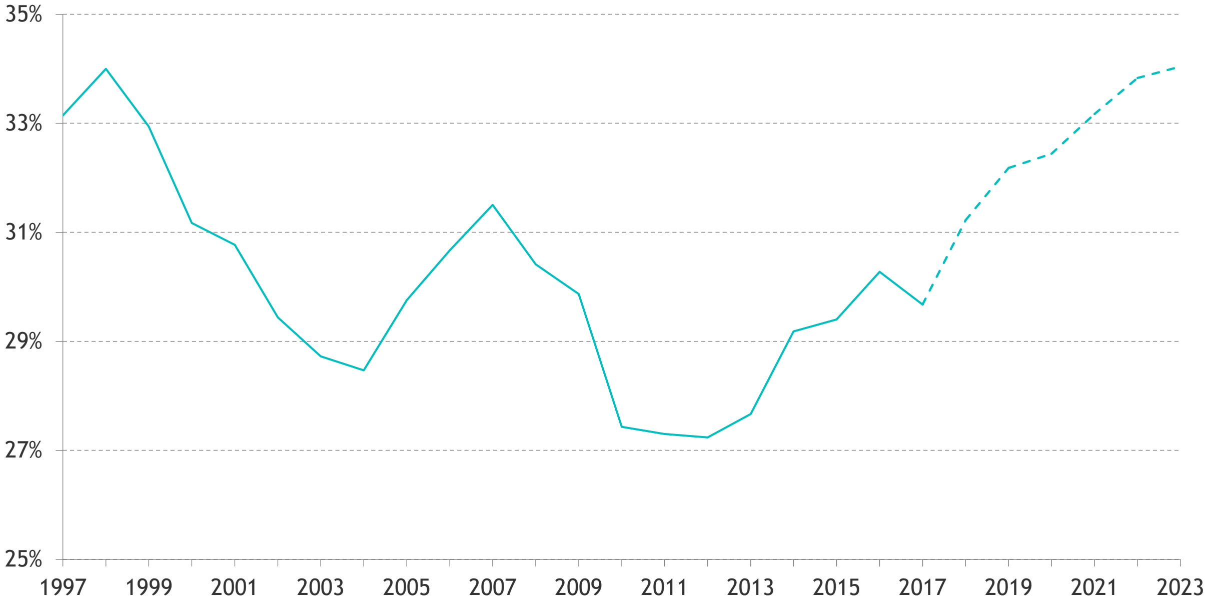
SOURCE: RF analysis using IPPR tax-benefit model

The worst-affected age group is those in their early 30s to mid-40s, who face an average loss of over 1 per cent of their annual incomes, or £440 per year in cash terms. This is relevant to our study because these are the ages at which people are typically raising children – many of whom will fall into the broader 12-24 age group. In this sense, the deep cuts that endure for families with dependent children have implications for these children's prospects of transitioning to an independent and healthy future when older. And, if the impact of the cuts endure, today's cohort of children and young adults will experience a less generous system as they move through adulthood and then into parenthood themselves. This was something that many participants in our roundtable discussion (including young people themselves) were concerned about: namely, the multiplicative effect of young people growing up in low-income households facing reduced welfare support, and then being confronted by those same constraints themselves once they engage with the benefits system independently after the age of 18.

The result of deep cuts in welfare support for families with children is that child poverty has risen over recent years and is set to rise further in the 2020s, as shown in Figure 9. Child poverty fell from the mid-1990s onwards to a low of 27 per cent in 2012. Since then, it rose to 30 per cent in 2016 and is set to reach a joint high of 34 per cent by 2023.

FIGURE 9: **Over a third of children are set to be in poverty by 2023**

Actual and projected proportion of under 18s in relative poverty (after housing costs): UK



NOTES: Relative poverty is defined as living in a household with an income that is below 60 per cent of the median income across households.

SOURCE: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*

This is important because poverty in childhood is associated with poorer health outcomes and lower educational attainment. And these outcomes are carried through the life course leading to worse health outcomes and life chances in adulthood.[34]

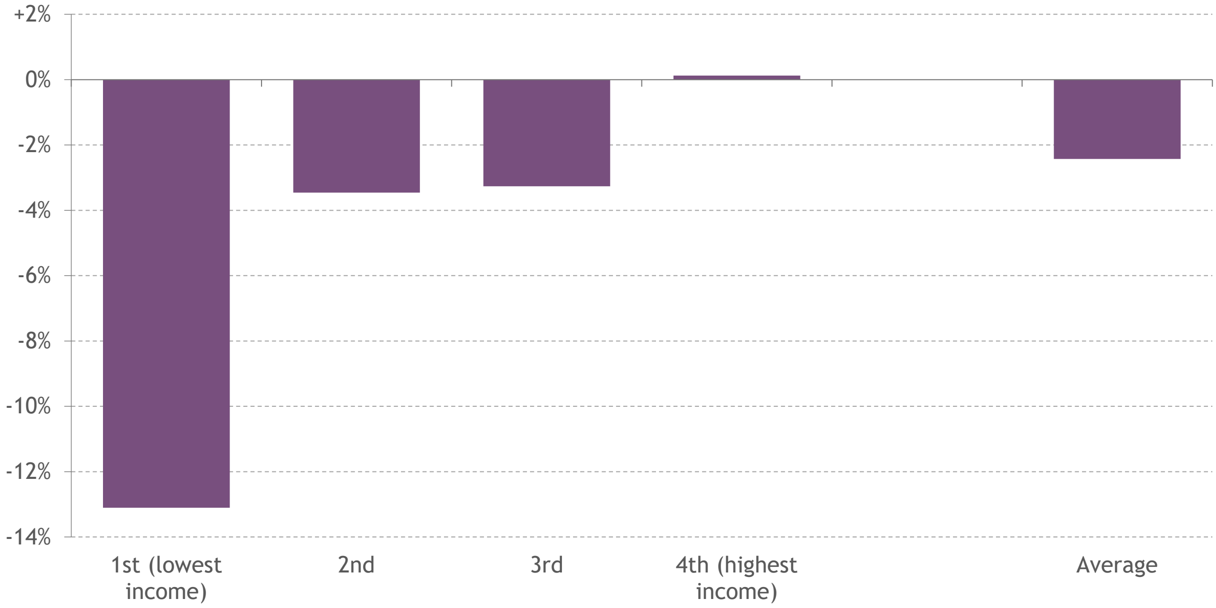
The link between the retreat of the state safety net and poverty underscores its importance to those on particularly low incomes. Returning to the 16-24 age group, as with age differences in the benefit system discussed above, it is the poorest young people that lose out the most from post-2015 changes. Figure 10 shows that 16-24 year olds facing the biggest income falls are overwhelmingly in the bottom income quartile. On average, this group will face a 13 per cent reduction in incomes, compared to an average loss of just over 2 per cent. And being in the lowest-income group means that the 13 per cent loss is more likely to result in people struggling to afford essentials.

This degree of income change underscores the importance of the welfare safety net for low-income young adults. And given that this group may also be less likely to have access to lots of parental support (to the extent that their parents may also be on low-incomes, and therefore less able to provide resources than higher-income parents), the paring back of the safety net has the potential to reinforce growing intra-generational inequality and affect young people's health in the long term.

34 S Wickham et al., 'Poverty and child health in the UK: using evidence for action', Archives of Disease in Childhood 101:8, 2016

FIGURE 10: **Poorer young people face the biggest relative income loss**

Proportional change in annual net family income as a result of tax and benefit changes announced since the 2015 election, by income quartile among 16-24 year olds: UK, 2020-21



NOTES: The distribution is based on income after housing costs. Income tax cuts include related National Insurance changes. Only those policies that directly affect household incomes are modelled. This analysis includes young family units living with others in the distribution; for example, adult children living in their parents' home. However, only their own income is taken into account in the assessment of income changes.

SOURCE: RF analysis using IPPR tax-benefit model

In relation to financial support available to young adults, a high-profile change that came before the post-2015 period we focus on was the 2010 abolition (in England) of Education Maintenance Allowance (EMA), which provides support to young people on low incomes who remain in education beyond the age of 16. Given EMA supports 16-19 year olds in education, who are most likely to still be living in the family home, it mainly accrues to young adults before they interact with the tax and benefit system independently. In this sense the recipients are a different group to those who we focus on throughout the rest of this analysis. However, to the extent that those who grow up in low-income families are more likely to themselves have low incomes when older, many of those who benefit from EMA may be the same people who are most likely to interact with the tax and benefit system later. As such, Box 1 discusses EMA in further detail.

BOX 1: Education Maintenance Allowance

Education Maintenance Allowance (EMA) was first introduced in 1999 to encourage young people to stay in school beyond the legal school leaving age of 16. It was thought that providing the incentive would tackle financial barriers to education, make the choice to stay on in school easier. But, the effectiveness of the scheme was hotly disputed,[35] and was scrapped in 2010 for students in English schools and replaced by a much smaller bursary fund targeted at those most in need. EMA remains available to students in Scotland and Northern Ireland, but with slightly different eligibility criteria.

At its peak, EMA was available to young adults with household incomes below £30,810. It paid £30 per week to the least well off young people, and £10 per week to those at the higher thresholds, along with three £100 bonuses at the end of each school term. The eligibility criteria and the impact of EMA on young people's finances are shown in Table 2. For young people receiving the full amount, EMA would provide an annual income of £1,470.

TABLE 2: **Estimated Education Maintenance Allowance eligibility: UK, 2017-18**

Household income	Weekly amount	Annual amount (including bonuses)	No eligible 16-18 year olds	as a % 16-18 year olds
Less than £20, 817	£30	£1, 470	346, 700	17%
£20, 818 to £25, 241	£20	£1, 080	192, 700	9%
£25, 522 to £30, 810	£10	£690	189, 900	9%
Total			728, 900	36%

35 H Chowdry & C Emmerson, An efficient maintenance allowance?, Institute for Fiscal Studies, December 2010

If EMA were still available in England today and offered the same cash amounts, around 17 per cent of young people across the UK would potentially be eligible for the full award based on their household income. In total, 36 per cent of young people would be eligible for some payment. That is, around 728,900 young people.

The ability of EMA to increase educational attainment was the subject of much debate throughout the course of its existence. In 2007, research from the Institute of Fiscal Studies found that "it increased the proportion of eligible 16-year-olds staying in education from 65% to 69%, and increased the proportion of eligible 17-year-olds in education from 54% to 61%".[36]

However, just prior to its abolition in England in 2010, a report from the Department for Education found that while "around a third of young people who do not participate in learning after leaving school think that they would have done some education or training if they had received more financial support… only 12 per cent of young people overall receiving an EMA believe that they would not have participated in the courses they are doing if they had not received an EMA".[37] This formed a key part of the justification to replace the scheme with something more targeted toward those in the most need.

The 16-19 bursary fund which replaced EMA is targeted specifically at defined vulnerable groups,[38] providing those who meet the criteria with an annual bursary of up to £1,200. A further discretionary bursary is available to meet individual needs as assessed by educational institutions. However, general ongoing support for young people from low-income families is no longer available.

A 2014 impact evaluation of the bursary fund found that that move away from EMA did impact educational participation rates among young people in England. It estimated that the policy change led to a 1.2 percentage point fall in full-time participation amongst year 12 students who would have been eligible for the full £30 per week, and a 1.1 percentage point fall among those eligible for any EMA. For year 13 students, the equivalent falls were 1.8 percentage points and 1.5 percentage points respectively.[39]

In addition, the importance of the support provided by EMA was a strong theme in the Health Foundation's discussion with young people in Northern Ireland and Scotland, with many on the threshold of the eligibility criteria speaking about the negative effects of not having it. In the same vein, participants in our policy roundtable thought that EMA

36 L Dearden et al., 'Conditional Cash Transfers and School Dropout Rates', The Journal of Human Resources 44:4, March 2007
37 T Spielhofer et al. Barriers to participation in education and training, Department for Education, March 2010
38 Vulnerable groups include people who are in care, care leavers, young people who are financially independent or responsible for a dependent and in receipt of benefits, and people receiving disability benefits in their own right.
39 J Britton et al., The 16 to 19 Bursary Fund impact evaluation -Interim Report, Department for Education, June 2014

criteria based on parents' income did not always reflect the level of support parents actually give to young adults:

"The money you get in college is based on your parent's income even if they don't help you financially."

- Young adult speaking at July 2019 policy roundtable

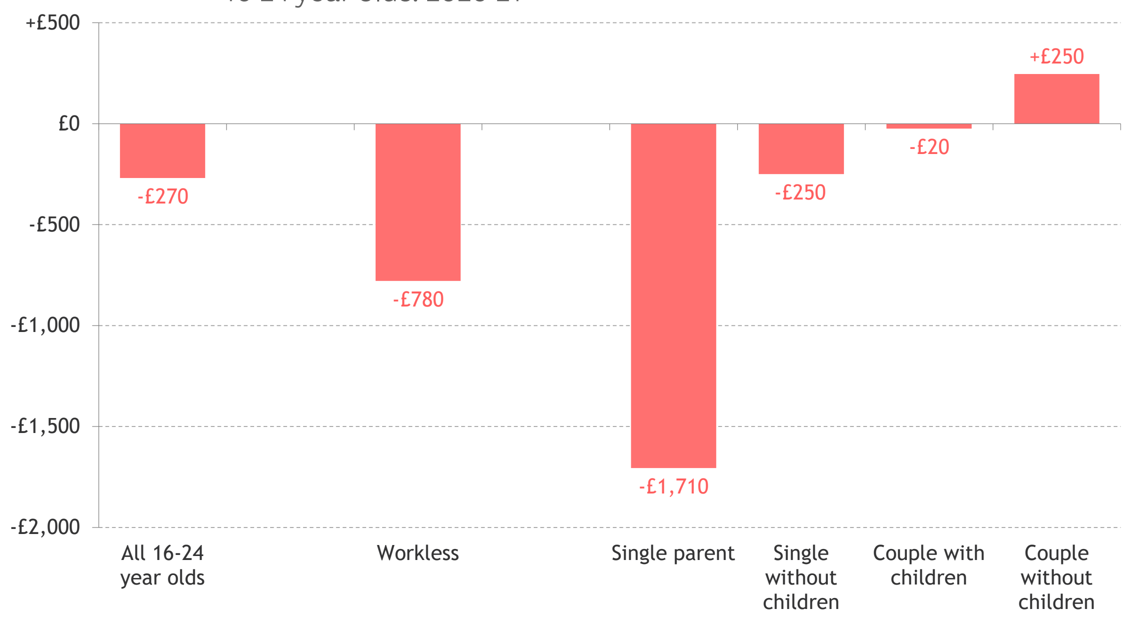
For those in England where EMA no longer exists, young people often spoke of financial barriers to education, such as transport costs.

Single parents and workless young adults are among the worst affected by benefit cuts

As well as disproportionately affecting the poorest young adults, post-2015 cuts are concentrated among certain groups of young people. Figure 11 shows that workless adults and single parent families face the biggest income falls as a result of the cuts. This is due to the fact that these groups typically have lower incomes and rely more on state support. For example, workless households face an average annual loss of around £780.

FIGURE 11: **The income reduction is largest for single parent families and workless households**

Proportional change in annual net family income as a result of tax and benefit changes announced since the 2015 election, by characteristic, 16-24 year olds: 2020-21



NOTES: Income tax cuts include related National Insurance changes. Only those policies that directly affect household incomes are modelled.

SOURCE: RF analysis using IPPR tax-benefit model

Historically, for people suddenly facing additional vulnerability, either due to a loss of work or another change in circumstances, jobcentres operated a system (the 'Social Fund') of community care grants or crisis loans which offered discretionary cash to cover transition periods. While they were not necessarily the main beneficiaries, the existence of these schemes may have been of particular importance to young people as they are the least likely group to have savings to fall back on, as mentioned above. However, the Government claimed that the loans were not working as intended, had become complex to administer and were open to abuse, leading eventually to their being cut and replaced by much less generous localised systems. The loss of discretionary cash in the system to support people across the age range in times of need has had a large impact on the efficacy of the safety net. Box 2 discusses this in further detail.

BOX 2: **Changes to discretionary welfare support**

The Social Fund is a scheme that provides payments to individuals to meet certain costs. Initially, the fund consisted of two parts. The first is the regulated social fund which provided maternity, funeral, cold weather and winter fuel payments. The second was the discretionary social fund which provided Community Care Grants (CCG), Budgeting Loans and Crisis Loans.

In 2013, the CCG and Crisis Loan elements of the fund were abolished. The CCG supported people on out-of-work benefits faced with exceptional circumstances. For instance, cash would be provided to support someone leaving residential or institutional care in order to live independently. Crisis Loans, on the other hand, were interest free, repayable loans intended for those unable to meet immediate short term needs, such as living costs or necessary expenses, either in an emergency or as the result of a disaster.

The discretionary cash provided under these two schemes helped bridge gaps during transition periods and would have been of incredible importance to people without an alternative safety net, such as access to help from parents or other networks. However, the Department for Work and Pensions concluded that they were "complex to administer, poorly targeted, and open to abuse," and considered that local authorities were better placed to "determine the support needs of local vulnerable people."[40] As such, the responsibility for running replacement schemes was devolved to local councils.

40 Department for Work and Pensions, Annual Report by the Secretary of State for Work and Pensions on the Social Fund 2012/2013, June 2013

Although the schemes themselves were localised, funding for the schemes continues to be provided by central government. However, the funding provided has fallen significantly over the past decade. In 2010, £330 million was provided to fund the scheme but in 2013-14, the first year of localisation, just £178 million was provided. By 2017-18, funding had fallen to less than £47 million. Moreover, the funding is not ring-fenced, and local authorities have no obligation to provide the schemes.

Research by Greater Manchester Poverty Action finds that the provision of services varies greatly across the country, with at least 22 local authorities offering no such scheme, affecting 7.75 million people in England. Schemes in a further 29 local authorities are under threat.[41] In the period from 2015-16 to 2017-18, they estimate that the proportion of successful applications has fallen by 11 per cent, and around two-thirds of local authorities do not provide cash grants or loans. Support is instead provided in the form of vouchers, referrals and advice, but this may reduce the levels of choice and control that people can exercise over their lives, with potential mental health implications.

In total, the loss of the centralised schemes coupled with cuts to funding provided to run replacements, has reduced the transitional support offered by the state safety net to people in vulnerable situations.

One headwind to a picture of a welfare state in retreat has been increased childcare support – but the young are less likely to make use of this

In contrast to the array of welfare cuts discussed above, childcare is one area in which the welfare state has been expanding in recent years. This encompasses both direct financial support and in-kind support via free provision. The key changes include:

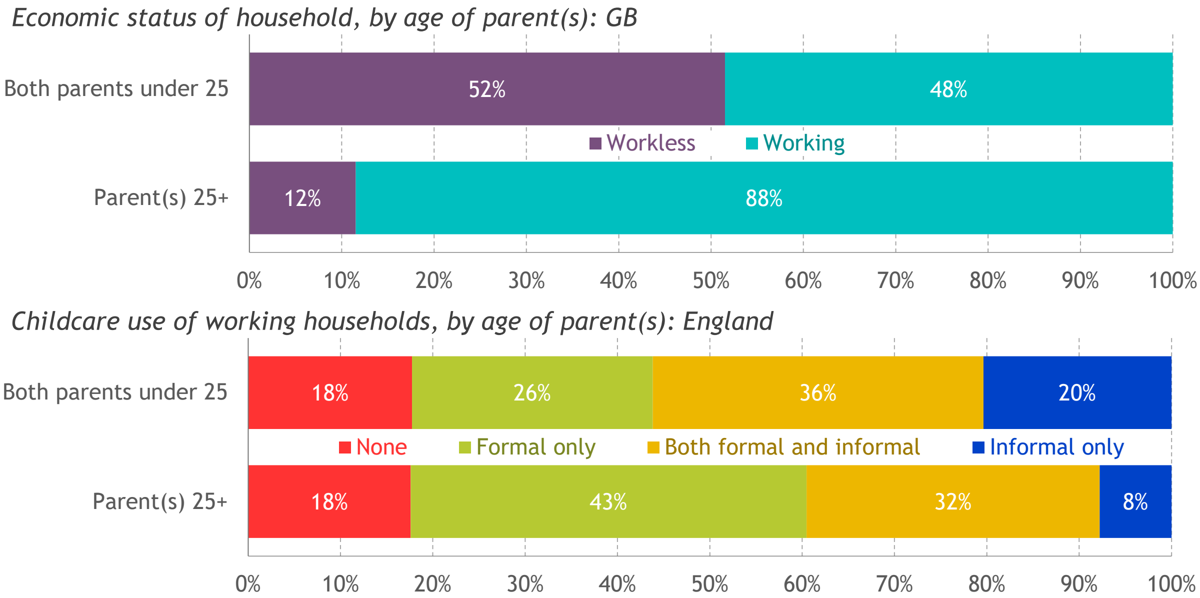
- From 2016, UC has provided more support towards childcare costs than the legacy system: 85 per cent of costs are covered, rather than 70 per cent (although the fact that claimants have to cover costs in full and then reclaim 85 per cent in arrears creates administrative challenges).
- From 2017, tax-free childcare offers working families 20 per cent off childcare costs (up to £2,000 per year), a system that is more generous than the legacy vouchers scheme it replaces.
- From 2017, the 'early years entitlement' to free childcare was extended from 15 to 30 hours for three and four year olds with working parent(s).

41 G Whitham, The decline of crisis support in England, Greater Manchester Poverty Action, September 2018

As such – and particularly given the impact of welfare cuts and the switch to UC on 16-24 year old single parents, discussed above – it could be argued that a fuller picture of changes to the welfare state that are underway is a less concerning one. The main caveat from the perspective of young adults is evidence that they are much less likely to make use of this childcare support than older adults. The evidence for this is presented in Figure 12. First, young parents of young children are much less likely to be in work (and so be making use of increased childcare support from the state) than older ones – 48 per cent were working during 2014-18 compared to 88 per cent of parents of young children aged 25 and over. And second, the bottom panel of Figure 12 shows that when young parents are in work, they are less likely to make use of formal childcare than older parents – 62 per cent do, compared to 75 per cent of older parents.

FIGURE 12: **Young parents of young kids are much less likely to work, and more likely to rely on informal childcare when they do**

Economic status and childcare use of households with children aged under five: 2014-18



NOTES: For simplicity, HBAI analysis of economic status includes single 'benefit unit' households only.

SOURCE: RF analysis of DWP, *Households Below Average Income*; DfE, *Childcare and Early Years Survey of Parents*

To some extent, working young parents' greater reliance on informal childcare (likely to be provided by family) represents something of a truism. They are younger, so their parents and grandparents will be younger too and therefore more capable of providing support, to the extent that they are not working themselves. And younger parents are also more likely to live in the same area as their older family members. Beyond this, both the lower likelihood of being in work, and the higher likelihood of using informal childcare when working, may be related to perceived or actual formal childcare constraints for young parents. In our policy roundtable, young people said that they are more likely to be in insecure work or have irregular hours but childcare provision is normally designed to suit standard office hours, meaning it doesn't provide the support when young parents actually need it. And the insecurity of work means that young people are more likely to need support at short notice, which traditional providers are also less likely to cater for.

Whatever the drivers, alongside the fact that 16-24 year olds are much less likely to be parents in the first place, the clear conclusion is that they benefit less from this area of welfare state expansion than older adults do.

Young people also receive more support in the form of support towards university study

Another area of state support that has expanded in recent decades – and one that relates specifically to young people – is spending on higher education. Government spending on higher education has risen via three mechanisms:

- Rising student numbers: While just 14 per cent of 25-28 year-olds were qualified to degree level or higher in 1996, 42 per cent of 25-28 year-olds has these qualifications in 2018.[42]
- Rising resource per student: The total resource per student in higher education rose by 55 per cent between 1990-91 and 2016-17, from £5,900 to £9,200, in 2017 prices. By contrast, resource per further-education student rose by just 10 per cent (from £5,200 to £5,600).[43]
- The fact that a significant proportion of that resource is still expected to be met by the state, even after the introduction and ramping up of student fees, due to the substantial proportion of loans that are unlikely to be repaid on current terms.[44]

Rising higher educational participation has meant that many more young adults living independently today are at university. In these circumstances, financial support from the state comes mainly in the form of student grants and loans that sit outside of the benefit system. This changing composition and source of state support will be one of the drivers of the declining share of income that 16-24 year old households derive from benefits, shown in Figure 2.[45]

42 RF analysis of ONS, Labour Force Survey

43 C Belfield, C Crawford & L Sibieta, Long-run comparisons of spending per pupil across different stages of education, Institute for Fiscal Studies, February 2017

44 Graduates will, in the long term, repay a larger amount of the money that the government has spent on their education upfront, and a growing one through different iterations of the student loans system (40 per cent under the 2011 system, rising to 49 per cent under the 2018 system). However, because the total amount of upfront government spending has risen so much (from £43,700 under the 2011 system to £52,300 under the 2018 system), the amount of cash that the taxpayer eventually contributes for each higher education student (teaching grants + unpaid loans) has been roughly maintained (it was £26,100 under the 2011 system, and is £25,600 under the 2018 system). Source: C Belfield, C Crawford & L Sibieta, Long-run comparisons of spending per pupil across different stages of education, Institute for Fiscal Studies, February 2017

45 However, the Households Below Average Income sampling approach means that only those students not living in halls of

As a counterpoint to the conclusions throughout much of this paper, higher education is clearly an area where state financial support (and other spending) going to young adults has risen. This is a positive development from the perspective of young people, but state financial support for young people being increasingly channelled through student funding rather than welfare support has implications for the distribution of state spending within younger cohorts. While it makes sense to channel resource into education and training for younger people, and despite the fact that the graduate repayment system for student fees is itself progressive within the graduate population, this shift is likely to be a regressive development. This is due to the different profiles of those young adults who go to university compared to those most reliant on benefits.

The lack of any similar increase in resource for further education, the route often taken by young people who do not go to university, doubles down on the regressive nature of this shift. We can characterise this situation by saying that rising educational participation has meant that the state has increasingly considered young people less in need of financial support from the benefits system due to their life stage. But this conclusion is somewhat undermined by a consistent failure to provide the practical and financial support necessary to build qualifications and progress into careers outside of the university route. The parallel project as part of this Health Foundation series covering further education, conducted by the Education Policy Institute, provides more detail on these trends.[46]

These changes to the benefit system have run alongside further age differentiation in the UK's minimum wage architecture

The pay that people receive is central to their living standards and so, although minimum wages aren't traditionally considered part of the 'safety net', they arguably form a crucial part of the package of 'financial support' that is at least partly determined by the state. In this respect, age differentiation in the minimum wage architecture, particularly with the introduction of the National Living Wage (NLW) for those aged over 25 in 2016, means lower earnings for younger workers at the same time as the benefit system (increasingly) marks them out for lower awards. The current minimum wage rates are set as follows:

- 25 and over: £8.21
- 21 to 24: £7.70
- 18 to 20: £6.15
- Under 18: £4.35

residence will be captured in Figure 2.
46 See: Health Foundation, Young people's future health inquiry

- Apprentice: £3.90

In our policy roundtable with young people and the Health Foundation's wider engagement work, there was a strong consensus in favour of bringing youth minimum wage rates up to the 25 and over rate. The young people felt that, in being paid less to do the same job, they were being valued less by the employer for doing the same work as older colleagues. In light of this, raising youth rates is a good ambition for policy makers to have. So it is welcome that both parties have committed to such an ambition, with Labour proposing to abolish youth rates, and the Conservatives proposing to bring 21+ year olds into the NLW by 2024.

However, caution towards a move in this direction is warranted. There are sound justifications for at least some minimum wage rate differentiation by age. While there is no evidence that the UK minimum wage has had much of an effect on employment, there is evidence minimum wages are most likely to have employment effects for younger and less experienced workers.[47] Concerns about the 'scarring' effects of youth unemployment, plus the fact that less-experienced workers are likely to be less productive on average (due to lower qualifications and less employment experience, for example), mean that the Low Pay Commission has maintained a strong consensus in favour of youth rates.[48]

In other words, there is a danger than youth minimum wages set at too high a level, while increasing the pay of some, will reduce the incomes of other young people (because some employers would opt for older and more experienced workers instead or just reduce the number of jobs overall). This would potentially make young people as a group financially worse off overall as it would reduce the number that are employed. And the implications of this are likely to last due to evidence of 'scarring' effects from youth unemployment.

Any progress on reducing the complexity of the UK's minimum wage architecture by merging or abolishing youth rates would need to balance the desire to boost young adults' incomes with caution against pushing youth minimum wage rates higher than the labour market can bear without causing negative employment effects for young adults. The current Dube review of the future of the minimum represents a good chance to test the feasibility of lowering age thresholds, reducing the number of rates, and closing the gaps to the 25 and over rate.[49] In doing so – because we don't know the minimum wage levels or age thresholds at which the costs to young people (fewer jobs available to them) of minimum wages outweigh the benefits (higher earnings) – a guiding principle should

47 Hafner et al., The impact of the National Minimum Wage on employment, Rand Corporation, 2016
48 Low Pay Commission, 20 years of the National Minimum Wage: A history of the UK minimum wage and its effects, April 2019
49 See: S Clarke & C D'Arcy, The kids aren't alright: A new approach to tackling the challenges face by young people in the UK labour market, Resolution Foundation, February 2018

be that the pace of change is modest enough to row back within a year or two should adverse outcomes, or economic shocks, occur.[50]

Young people are one of the groups that benefit most from minimum wages, even at lower rates. They experienced some of the largest earnings increases when the minimum wage was first introduced in 1999, and are the age group most likely to be on the minimum wage (suggesting that if it didn't exist, their earnings would fall most).[51] And it's worth noting that almost as many employers use the 25 and over National Living Wage rate for young adults as use the age-specific rate: while 6 per cent of 21-24 year olds were paid their age-specific minimum wage rate in 2018, a further 4 per cent were paid the NLW (with everyone else paid above that level).[52] It's possible that 'soft' measures could encourage more to do so, or to go even further via the voluntary Living Wage (which applies to all workers aged 18+).

Overall, ambition to reduce the complexity of the UK's minimum wage architecture by reducing the number of youth rates and closing the gap to the 25 and over rate is welcome. But caution is required in order to avoid making young people worse off overall by reducing the number of jobs available.

Conclusion and policy discussion

The state safety net forms a crucial part of the financial and practical support that young people may call upon as they make the transition into healthy adulthood by stepping in to provide an incredibly wide range of support to the many people that need it. For instance, it can support young parents to meet the costs of childcare, or people experiencing ill health or disabilities to meet the additional costs that arise as a result. It also steps in to provide an income when people face joblessness or are unable to work due to their personal circumstances. And most importantly, it provides support to those who struggle to find it elsewhere.

The benefit system is one of the largest components of the state safety net. It provides cash benefits that prop up people's incomes and enable them to live healthy and fulfilled lives when faced with difficult circumstances. This is especially important for young people in the transition to adulthood, a period that is often characterised by uncertainty and, increasingly, insecurity. Over decades, a range of reforms by successive governments have deprioritised welfare support for younger people relative to older adults. And more recently, the levels of support provided by the state safety net for people of all ages have been pared back, with young people facing some of the biggest

50 For a discussion of how such a pace might be set (in relation to increasing the main NLW rate, but the same principles apply to increasing or abolishing youth rates, or lowering age thresholds), see: N Cominetti, S Clarke & K Henehan, Low Pay Britain 2019, Resolution Foundation, May 2019

51 N Cominetti, S Clarke & K Henehan, Low Pay Britain 2019, Resolution Foundation, May 2019

52 Low Pay Commission, National Minimum Wage: Low Pay Commission 2018 Report, November 2018

proportional losses. Moreover, even bigger losses for older parents are likely to bear down on teenagers in those households. For young single parents in particular, the switch to UC adds to this concerning picture.

However, UC also offers some benefits. The new system was designed to simplify a complex system making it easier for people to navigate and understand what is available to them, and to therefore increase benefit take-up. If it achieves its hoped-for take-up boost, young people will be among the biggest beneficiaries. If it is to do this, it is essential that young people are aware of its benefits, and the wider support available to them, financial and otherwise. Young adults participating in our policy roundtable too often were not:

"I wouldn't know where to get financial support outside home."

- Young adult speaking at July 2019 policy roundtable

In order to address some of the challenges that the research in this paper has raised, we offer some suggestions of how policy can help:

- Broader benefit cuts that affect all working-age adults have borne down on young people's incomes. To ensure that the safety net continues to provide adequate support to those on low income in the future, as well as incentives to enter and progress in work, this retrenchment of welfare support should be halted. This might include:
  - Reversing the outsized effects of the benefits freeze in recent years due to higher-than-expected inflation. Higher-than-forecast inflation in 2017 and 2018 meant that the four-year benefits freeze reduced real incomes over its lifetime by 6.1 per cent, rather than the 4.6 per cent originally expected. Overall it saved the government £4.4 billion a year, more than originally forecast.[53] A portion of these savings could be invested in uprating benefits faster than inflation in future.
  - Investing further in UC work allowances, particularly for single parents.

- Young people face lower benefit awards than older adults with otherwise-similar circumstances as a result of the creep of age distinctions through the benefit system. To ensure that young people, particularly the most vulnerable young people, have access to an effective safety net, efforts should be made to minimise the cash penalties that certain young people face. This might include:
  - Removing the penalty that young single parents experience in the switch to UC.

53 A Corlett, Despite 'the end of austerity', April promises another deep benefit cut, Resolution Foundation, October 2018

This could be done within the current system by awarding them the 25 year old and over basic allowance rather than the 18-24 year old one, effectively recognising that the presence of a child makes them more similar to older adults than non-parents their own age.

- Reducing the restrictions on housing benefit by reducing the age cut-off of the SAR. We propose reducing this to 30 as a minimum, in reflection of the fact that although norms in the wider housing market have shifted, it is not the norm to be a renter-sharer into ones 30s.[54] And in recognition of the fact that some young people will have greater needs than others there is a case for widening and simplifying the exemptions. For example, anyone receiving ESA (or the equivalent element in UC) could be exempt, rather than just those who qualify for severe disability allowances. In the longer term, the broader effects and efficacy of the SAR should be reviewed.

- Our roundtable discussion including young people highlighted the increased insecurity that they face, often as a result of being more likely to be in insecure work or housing. They are also much less likely than older adults to have savings to fall back on in hard times. Efforts should be made to ensure that young people have the financial resilience to cope with difficult circumstances when they arise. This might include:
    - Reinstating some form of asset-based welfare, like the Child Trust Fund that was abolished in 2011. The Intergenerational Commission's recommendation of a 'citizen's inheritance' for all young adults provides the blueprint for a more radical approach, for example.[55]
    - Re-evaluating the cuts to funding offered to councils to provide some discretionary support to people in difficult circumstances, and reinstating a requirement that every local council offers some form of discretionary cash scheme.

- For young people entering work, the wages that they receive are an important determinant of their living standards. The minimum wage architecture sets out to balance the need to incentivise business to take on younger, less experienced workers with the aim of boosting wages for young adults. We support the current political consensus around taking steps to reduce the number of rates or narrow

54 L Judge & D Tomlinson, Home improvements: action to address the housing challenges faced by young people, Resolution Foundation, April 2018
55 Resolution Foundation, A new generational contract: The final report of the Intergenerational Commission, May 2018

- the gap between youth rates and the 25 and over rate, proceeding at a modest enough pace to be able to row back relatively quickly should clear negative employment effects for young people become evident.
- While simplifying the benefit system through UC is likely to deliver increased benefit take-up, which would deliver particularly large benefits to young adults, many young people still report not knowing what help is available and where to go for support. And our analysis suggests that working young parents are less likely to make use of entitlements to formal childcare. As such, the services, advice and guidance that sit around and support the safety net should be maximised and joined up such that all young people are aware of and accessing the support to which they are entitled.

Via steps such as these, policy makers can ensure that the financial safety net available to young adults today balances priorities including a sense of fairness in relation to norms in the wider young adult population, and overall costs to the taxpayer, against the need to ensure that all young adults have the tools to transition to an independent and healthy future.

The 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 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.

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