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This time is different – Universal Credit's first recession

Assessing the welfare system and its effect on living standards during the coronavirus epidemic

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Executive Summary

The UK is in the grip of an extraordinary crisis, one that is having and will continue to have a profound impact on the labour market. The Government's initial strategy for protecting jobs and family incomes relied on the Coronavirus Job Retention Scheme (JRS), which pays up to 80 per cent of the earnings of furloughed workers, alongside the Self-Employment Income Support Scheme (SEISS), which will pay a one-off grant to most self-employed workers. But even with eight million jobs having been supported by the JRS as of 17 May, unemployment is still rising at unprecedented rates: claimant measures of unemployment rose by 850,000 to hit 2.1 million, the fastest monthly rise in a generation. This means that the third, and vital, component of the Government's strategy for protecting incomes is the social security system, with Universal Credit (UC) at its heart. UC is the crucial safety net benefit for those who have lost their jobs or businesses and who are not able to benefit from the JRS and the SEISS. It is also helping top up incomes for families who have seen their incomes fall even if they remain in work.

Although it was always intended as a benefit to support the unemployed, UC is now facing its first experience of a major economic downturn, and one that has hit faster and struck deeper than any in modern economic history. It is therefore vital to evaluate how well UC is coping with the crisis, and how well families are coping on UC. This means looking at the overall policy blueprint, the system's design, and its operational delivery.

We do this drawing on: new evidence from a survey of over 6,005 working-age adults (250 of whom had recently claimed UC); in-depth interviews with people who had recently made a claim for Universal Credit; tax and benefit microsimulation modelling; and official statistics and publicly available management information published by the Department for Work and Pensions (DWP) and Office for National Statistics (ONS).

UC was hit by avalanche of claims, but its systems coped

Claims for UC began to grow on 17 March, the day after the Government advised people not to go to pubs or restaurants, to work from home and to avoid non-essential travel. A week later, the lockdown was announced, and UC claims ran at nine times their pre-crisis rate. The rate of claims has fallen since, but was, as of 12 May, still running at twice the pre-crisis average. The number of excess new starts on UC in the first four weeks of the crisis is equivalent to the number of excess Jobseeker's Allowance claims over the first nine months of the previous recession. Although DWP's initial estimate of the volume of claims have not all led to a new start on UC, the number of people in receipt of UC rose by 40 per cent, or 1.2 million, in just four weeks.

To DWP's huge credit, its systems are generally performing well. The new IT system means UC could be claimed online, consigning queues outside jobcentres to the past. And it's because of this system – and the hard work of thousands of civil servants completing these claims online or over the phone – that UC was able to accept so many new claims in such a short space of time. Over 90 per cent of payments due – including those made during the period when claim volumes were at their highest – were paid in full and on time, and the DWP says that vast majority of advance payments are paid with 72 hours. Although there remain issues with the identification verification systems, 74 per cent of claimants in our survey reported they were satisfied or very satisfied with the way DWP handled their claim. Overall, the system has coped well, and DWP deserves applauding for this. It's almost certain that, without the capacity of the new digital-based systems, families would have waited longer for a payment and suffered as a result. However, even those happy to claim online appreciated the phone calls with DWP staff, something that DWP should maintain to ensure UC is accessible to claimants.

One area that remains contentious is the five-week wait for the first payment in UC. This is baked into the design of UC, due to its monthly assessment period and lack of tax credit-style end-of-year reconciliations. Many who claim UC, though, need support immediately, and in the short term, advances are the Government's means to address this problem. Just over one-third of recent new claims to UC claimed an advance, and 38 per cent of UC claimants surveyed by us who did not ask for an advance said that this was because they were unwilling to claim one for fear of falling into debt. This notion that 'advances equal debt' is unhelpful, wrongly discouraging claimants from getting the support they need.

UC is supporting those in work and on low earnings, as well as the newly unemployed, and self-employed people awaiting grants

UC is not just an unemployment benefit: it is also an in-work benefit, replacing the old tax credits system. The DWP estimates that 30 per cent of UC recipients in April were in work. From our survey, we estimate that, of those who were in work before the crisis and have newly claimed UC, 46 per cent were still actively working and earning in May while receiving UC, with another 12 per cent furloughed. This gives new context to the two million new claims to UC during this crisis: they are not all unemployed. It shows that UC is playing a much broader role than Jobseeker's Allowance used to do: it is providing crucial financial support to those with no job, or whose self-employment business has dried up. But it is also topping up the incomes of those on low pay, or whose earnings have fallen following cuts to their working hours, or due to being furloughed. 27 per cent of the new UC claimants we surveyed were self-employed before the crisis began, consistent with other work that suggests that there is relatively high take-up of UC among this group. This is entirely sensible given that the SEISS grants are not paid until June.

Although the Government strengthened the safety net as the crisis began, gaps still remain

Coming into the crisis, the UK's social security system provided fairly low levels of income replacement: if made unemployed, half of employees in the UK would end up with a disposable income out of work that was at most 50 per cent of their disposable income in work. The logic behind these low 'replacement rates' was that, given the UK's fast-moving jobs market, jobseekers would be able to find work quickly, and indeed would have a strong incentive to do so. The coronavirus has upended that assumption, and so the emergency boost to UC, tax credits and housing support that was announced on 20 March – which the Government has costed at £7 billion for the current financial year – has provided an important bolstering of the safety net. This is especially the case for single people, and renters in high-cost areas. These measures increase the median replacement rate across all employees from 50 to 53 per cent, and among single people from 23 to 30 per cent. They also provide a welcome boost to existing low-income families – they increase the incomes of families in the poorest quarter by 5 per cent, on average. However, the heavy reliance on means-tested support in our social security system means that those not able to access Universal Credit – because of a partner's earnings, or because they have savings of over £16,000, for example – still face very low replacement rates in the event of job loss. A single person with average earnings and with £16,000 of savings would face an out-of-work income of just 16 per cent of their income when in work.

There is a great deal of focus on how long the JRS should continue for, and at what level of generosity. The JRS is certainly generous in comparison to UC: the amount of income protection it provides is significantly greater than that provided by UC and the social security system. Under the JRS, if someone is moved to 80 per cent of their past earnings, then the median fall in disposable income across all employees is just 9 per cent; that figure is 47 per cent if people instead lose their jobs and fall on to UC. As well as raising questions of fairness, this means that, as the JRS scheme is reformed during the second half of this year, any workers who are then made redundant may experience large falls in their family income. It also highlights the increasingly important role that UC will play in supporting family finances during the long road back to more normal times.

Having passed the first test, new challenges await UC

It is clear that the UK economy is not going to have a rapid V-shaped recovery, and that the economic crisis and labour market disruption will continue well into the second half of 2020. This brings several new challenges for DWP, and we focus on three.

First, although the rate of new claims had settled down by early May (albeit at twice its pre-crisis rate), there is likely to be a second peak, as the JRS is phased out. However, the timing and extent of any second wave of UC claims should be easier for DWP to anticipate that the surge that hit in late March.

Second, the DWP has to decide when and how to provide back-to-work support. Very sensibly, DWP suspended all work-search activities in Jobcentre Plus when the crisis hit, allowing its staff to focus on claims, but also consistent with the lockdown and working from home guidance. At some point, the DWP will need to transition fully to supporting claimants with work search. But the speed of that shift should depend entirely on how quickly the labour market starts to return to normal – with a particular focus on when vacancies pick up. That in turn will depend on when the Government loosens up restrictions on economic activity, which should only happen when it is safe to do so. What the DWP should do will be the subject of future Resolution Foundation work, but simply returning to the light-touch conditionality regime in UC will be completely inadequate. A major challenge for DWP is to devise a new suite of active labour market programmes that can cope with the volume of unemployed people, and whatever labour market conditions we find ourselves in.

Third, it's clear that for some, the move to UC represents a significant shock to living standards. Although new UC claimants in our survey have, on average, higher earnings and more savings than existing benefit recipients, 34 per cent are having trouble keeping up with bill payments, 42 per cent have cut back on spending to prioritise housing costs, and over half have already dipped into their savings. They are also more likely to face high housing costs due to renting in the private sector. We are no longer in a world where a worker made redundant can expect to find work quickly, and DWP will need to monitor carefully how new and existing UC recipients are coping in the medium to long run with the hit to their family finances.

With the right changes, UC will be will prepared for the next phase of this crisis

Our view on how the Government should adapt UC to cope with the challenges that lie ahead reflects the fact that it has handled the exceptionally large volume of claims that this crisis has brought well, where predecessor benefit systems would have struggled. UC will be the key programme protecting families' incomes throughout and beyond the coronavirus crisis. To put it in the best position to overcome future challenges, we make the following recommendations.

In order to make accessing UC as easy as possible, we recommend that DWP should:

- Continue to prioritise the processing of new claims, using whatever means are necessary, recognising that the option of a phone call can be very reassuring, even for those who find digital systems easy;
- Continue to make advances as easy to claim as possible, and delay the repayment of advances by six months; and,
- Consider how to give claimants a more realistic expectation of the value of future awards, thereby helping them budget under their reduced means.

To strengthen the safety net further, the Government should:

- Limit or temporarily suspend the capital rules in UC that prevent those with more than £16,000 from receiving any means-tested benefits;
- Extend the emergency £20 a week increase to the 'new style', contributory Jobseeker's Allowance and Employment and Support Allowance, as well as to the legacy benefits that are being subsumed into UC; and,
- Return to the pre-2012 system for tax credits, so that any reduction in a claimant's earnings will lead to higher tax credit awards.

To prepare for the challenge of helping millions back into work, the Government should:

- Provide additional job-search support for all claimants, an expanded offer of training and advice, and job guarantees targeted at young people;
- Roll out this support – and re-introduce conditionality for claimants – in line with the path of the labour market recovery and the easing of government restrictions; and,
- Ensure that both this package and the processing of new claims – that will likely increase as the JRS scheme is adapted – are fully funded and appropriately resourced, with significantly-increased staffing levels in Jobcentres.

To protect family finances through the current crisis, the Government should:

- Suspend the benefit cap for the duration of the crisis, or at least increase its value in line with the increase in UC entitlement, so that all families on UC benefit from the emergency measures; and,
- Commit to continuing the enhanced UC and Local Housing Allowance entitlements, rather than letting them expire at the end of the current financial year, given that the impact of the crisis is going to last beyond March 2021 for many families; and,

- Provide a further increase to UC entitlements for couples and those with children, reflecting their greater needs over single adults, if the length of the crisis means this is needed to avoid widespread hardship.

When the crisis has passed, there should be a broad debate about the nature of the UK's welfare state, that looks at its generosity and the amount of income protection provided to different groups, alongside a re-examination of the different amounts of tax paid by employees and the self-employed. But we must address the current crisis using the tools we have available now. The analysis here has shown the vital role that UC has played and will continue to play in preventing the coronavirus crisis from turning into a widespread living standards crisis.

Section 1

The shock of a lifetime

Not since the Great Frost of 1709 has the UK economy contracted by as much as it is expected to this year, and not since the demobilisation at the end of the second world war has the labour market suffered such a rapid or deep shock. Although the Job Retention Scheme and the Self-Employment Income Support Scheme are supporting millions of workers to stay attached to their employer and protecting them against the worst of the hit to family finances, Universal Credit has also been thrust into the frontline.

This is Universal Credit's first experience of an economic crisis and the UK's first experience of going through a recession with Universal Credit as our key safety-net benefit. Given this relatively new benefit's huge importance in the Government's strategy to protect family incomes, and given the millions of families now dependent on it, this report presents new evidence to assess how well Universal Credit is coping with the onslaught of new claims, and how families are coping on Universal Credit.

We are currently in the depths of the deepest recession in modern economic history

The UK is in the midst of the biggest shock to economic activity that it has experienced for hundreds of years. Forecasts for the path of GDP vary, but all are terrible. The Bank of England is expecting the economy to shrink by 25 per cent in the second quarter of 2020 (and a contraction of 14 per cent for the year as a whole).[1] The Office for Budget Responsibility is expecting a 35 per cent GDP fall in the second quarter.[2]

The shock caused by coronavirus is rooted in the labour market, driven by the shutting down of certain sectors of our economy, and social distancing rules. Despite eight million jobs being protected directly by the Government through the Coronavirus Job Retention Scheme (JRS),[3] the claimant count measure of unemployment-related benefit recipients

1 Bank of England, Monetary Policy Report and Interim Financial Stability Report, May 2020.
2 https://obr.uk/coronavirus-analysis, accessed 22 May 2020.
3 https://twitter.com/HMRCgovuk/status/1262661807250051074?s=20, accessed 22 May 2020.

jumped by 850,000 in April to hit 2.1 million. This figure is already 0.5 million higher than in the depths of the recession that followed the financial crisis in 2009.[4] Evidence from HM Revenue and Customs suggest that employment fell by 450,000 in April.[5] So far, the labour market shock has acted to increase underlying inequalities, with the incidence of unemployment and earnings falls being greater for lower earners, the young, and those in non-standard employment.[6]

Although the crisis is notable for the speed at which it hit, we could be some way from the turning point. The Office for National Statistics (ONS) estimates that vacancies in April were at half their usual level.[7] At the start of May – after the initial labour market shock – one-in-eight workers still thought it was at least fairly likely that they would lose their job in the next three months, and just under a quarter expected their hours of work to be reduced, according to Resolution Foundation's survey of 6,005 working-age adults in the UK.[8]

Universal Credit is playing a vital role in the Government's strategy to protect family incomes – a role that will grow in the months ahead

The Government's initial strategy to protect family incomes directly had three components: the JRS, which pays up to 80 per cent of the earnings of furloughed workers; the Self-Employment Income Support Scheme (SEISS), which will pay a one-off grant to most self-employed workers; and the social security system, with Universal Credit (UC) at its heart.

In the short run, UC is playing the vital role as the safety net benefit for those who have lost their jobs or businesses, particularly those who are not able to benefit from the JRS and the SEISS. Because it is also an in-work benefit, it is helping top up incomes for families in work on low earnings. But unlike the JRS, which the Treasury does not intend be in place in its current form for many more months, UC's role in this crisis is set to grow. As the JRS is phased out, UC will be the key mechanism for protecting families' incomes throughout the coronavirus crisis, the impacts of which will last well beyond the end of 2020. It will continue to be there for both unemployed people and those in work but on low earnings.

4 Source: ONS, Claimant Count.
5 Source: ONS, Pay As You Earn Real Time Information.
6 For example, see: L Gardiner & H Slaughter, The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020; M Gustafsson, Young workers in the coronavirus crisis: Findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020; A Adams-Prassl et al., Inequality in the Impact of the Coronavirus Shock: New Survey Evidence for the UK, Cambridge-INET Working Paper Series No: 2020/10, April 2020.
7 Source: ONS, Vacancies and jobs in the UK.
8 L Gardiner & H Slaughter, The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020.

So far, Universal Credit has handled the onslaught of new claims well

In the past 10 weeks, Universal Credit has been subject to an unprecedented set of stresses and demands. Claims for UC began to grow on 17 March, the day after the Government advised people not to go to pubs or restaurants, to work from home and to avoid non-essential travel. A week later the lockdown was announced, and UC claims ran at nine times their pre-crisis rate. The rate of claims has fallen since, but was, as of 12 May, running at twice the pre-crisis average. The Department for Work and Pensions' (DWP's) management information systems recorded 2.6 million claims for UC in eight weeks.

In the face of this unprecedented volume of claims, UC has held up well. This success should not be taken for granted. The recent experience shows the advantages of a decision to move the service online: it seems very unlikely that the systems in place for Jobseeker's Allowance (JSA) a decade ago would have coped with these claim volumes. Experience from some states of the United States shows the hardship and health risks that can arise when systems are unable to cope with high claimant inflows.[9]

Although that does not mean families are not experiencing hardship

UC has broadly coped so far, but there have of course been problems, and more generally it is clear that the coronavirus crisis is causing hardship. One limitation of this report is that, given the evidence we draw on, it may not reflect the experiences of those facing the worst disadvantage, or those who find it difficult to cope with a digital service. It seems likely that such individuals will be finding things tougher than before, given the increased demand on advice services at this time, and that face-to-face advice will have all but stopped. We know that the fact that schools and nurseries have been closed for two months now is causing problems for many, but particularly those on Universal Credit or legacy benefits who relied on free school meals.[10] The Trussell Trust reported that its food banks helped 88,000 people in the final two weeks of March, 81 per cent more than the same weeks in 2019 (figures for April are not yet available).[11] And attention has rightly been drawn to the situation of those whose incomes have disappeared because of the crisis but who are unable to claim UC or other benefits because of their migration status (those with 'no recourse to public funds').[12]

Finally, this report focuses on the large rise in UC claimants and the circumstances and experiences of these new claimants. However, we do not want this focus to downplay

9 Ella Nilsen, Getting unemployment has been a nightmare for millions of people across the country, Vox, April 2020.
10 M Buchanan & J Burns, Coronavirus: Families still waiting for free school meal vouchers, BBC, April 2020.
11 https://www.trusselltrust.org/food-banks-report-record-spike, accessed 22 May 2020.
12 See: M Gower & S Kennedy, Coronavirus: Calls to ease No Recourse to Public Funds conditions, House of Commons Library Briefing Paper CBP-8888, April 2020.

the problems faced by the existing UC caseload, who might be considered to be more disadvantaged, and who we have analysed in previous Resolution Foundation reports.[13]

This report examines how UC has coped with the onslaught of new claims, and how families are coping on UC

Although UC was always intended to be the UK's key safety-net benefit, it was designed for a world in which there were labour market opportunities, and unemployed people could typically find new work within a few months. The world has changed, and this is UC's first experience of an economic crisis. Given its new-found importance in the Government's strategy to protect family incomes, and given the millions of families now dependent on it, it is vital that we assess how well UC is coping with the onslaught of new claims, and how families are coping on UC.

In time, a broader debate about the nature of the UK's welfare state is likely to be needed, including the amount of income protection provided to different groups by social security (alongside, as the Chancellor has promised, a re-examination of the different amounts of tax paid by employees and the self-employed). However, we must tackle the crisis using the tools we have available now, and so the current focus must be on the vital role that UC is playing supporting family finances, and whether it is up to the task. This report provides that evidence-based assessment, focusing on four aspects:

- Section 2 assesses how well, operationally and administratively, the DWP's systems and processes have coped with the unprecedented volumes of claims for UC. It reports on how the new UC claimants have found the experience of claiming UC, including getting advances. It also shows new evidence on the characteristics of those newly claiming UC.
- Section 3 considers UC's role as the core of the social security safety net, showing how the emergency measures announced in late March – the JRS, the SEISS and the increased entitlements to social security – have strengthened it. It also assesses where the remaining gaps are.
- Section 4 sets out the future challenges that await DWP and UC as the crisis continues through 2020, including an assessment of how families are coping with the (sometimes much-reduced) resources that come with moving onto UC.
- Section 5 lists our recommendations to Government for action it can take immediately, so that UC can best support family incomes and help unemployed people find work as we move from crisis to the recovery phase.

13 Most recently in: L Gardiner & D Finch, The Long and Winding Road: The introduction and impact of Universal Credit in Liverpool City Region and the UK, The Resolution Foundation, January 2020.

Our report is based on four main sources of evidence: a survey of 6,005 working-age adults (250 of whom had recently claimed UC) that was commissioned by the Resolution Foundation, conducted by YouGov, and was supported by the Health Foundation;[14] in-depth interviews with people who had recently made a claim for Universal Credit or a contributory out-of-work benefit; tax and benefit microsimulation modelling; and official statistics and publicly available management information published by the DWP and ONS. Further details of all these can be found in the Annex.

14 The survey is representative of the working-age population by region, sex and age. It was not designed to be a random sample of the population of new UC claimants.

Section 2

Trial by fire: how is the UC system coping?

A week after the UK's lockdown was announced, UC claims were running at nine times their pre-crisis rate, and the volume of excess new starts to UC in the first four weeks of the crisis equalled those to JSA over nine months in the previous recession. Although claims have fallen since, the number of people in receipt of UC rose by 40 per cent, or 1.2 million, in the four weeks to 9 April. Drawing on new survey evidence from several hundred UC claimants, and detailed interviews, this section assesses how UC's systems and processes managed their first experience of an economic crisis. It also presents new evidence on the characteristics of the new UC claimants.

To DWP's huge credit, its systems are generally performing well. Over 90 per cent of payments due – including those made to people who claimed when claim volumes were at their highest – were paid in full and on time, and the vast majority of advance payments have been paid within 72 hours. Although issues with the identification verification systems remain, and the system does not detail the payment people will receive until three days before payment, 74 per cent of new UC claimants in our survey reported that they were satisfied or very satisfied with the way DWP handled their claim. Awareness of advance payments is high, but, worryingly, 38 per cent of survey respondents who did not ask for an advance said that they did not because of fear of benefits debt, rather than because they have other resources to fall back on.

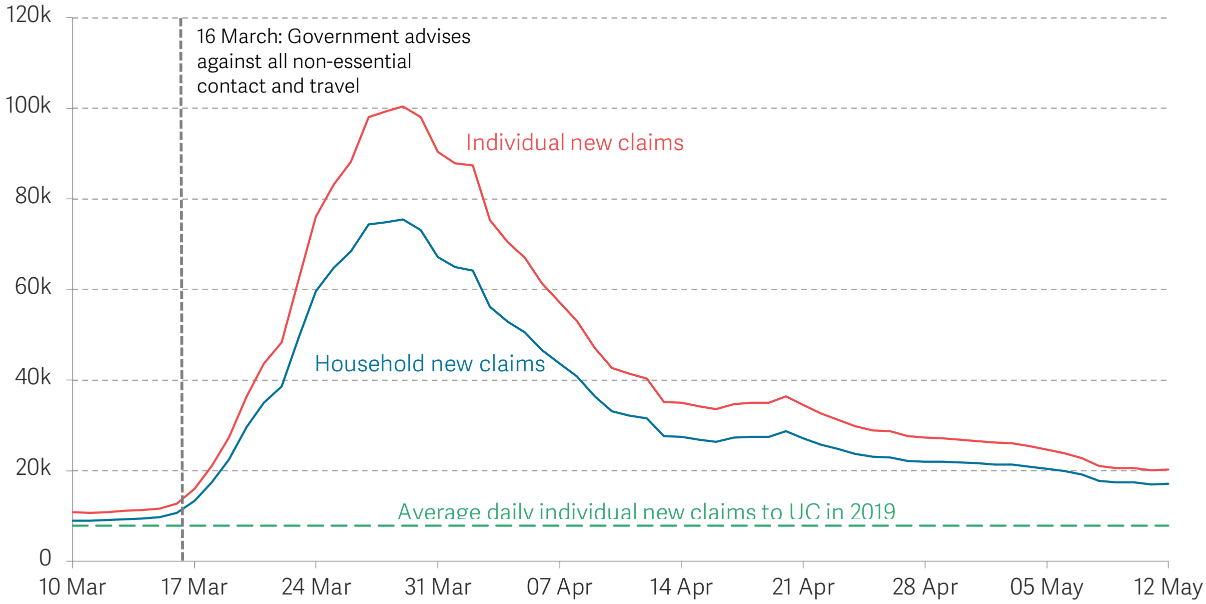
Reflecting UC's role as an in-work benefit as well as an unemployment benefit, 46 per cent of new claimants that we surveyed were still working, and 12 per cent were earning while furloughed. 27 per cent of all new UC claimants were self-employed, perhaps reflecting that the Government's scheme to support the self-employed will not make its one-off payments until June. New UC claimants also had higher earnings before the coronavirus outbreak than existing in-work benefit claimants that we surveyed: 58 per cent of new UC claimants who were previously working reported earnings that would put them in the bottom 40 per cent of weekly earnings in our sample, compared with 71 per cent of existing benefit recipients who were in work. Although this cohort of new Universal Credit claimants typically had lower pre-crisis earnings than all workers, they look more similar to society as a whole than the existing benefit-recipient population.

The last two months have seen an unprecedented surge in new UC claims

Figure 1 shows the daily number of claims for UC from 10 March. (As we explain below, this measure is different from the number of new UC starts.) The number of claims to UC began to grow on 17 March, the day after the Government advised people not to go to pubs or restaurants, and to work from home and avoid non-essential travel. A week later the lockdown was announced, and UC claims ran at nine times their pre-crisis rate (claims may also have been encouraged by the emergency £7 billion package of increases to social security benefits; we discuss this more in the next section). The rate of claims has fallen since, but was, as of 12 May, still twice the pre-crisis average.

FIGURE 1: **New claims to Universal Credit have surged to unprecedented levels**

Daily new claims to Universal Credit, rolling weekly average: GB, 2020

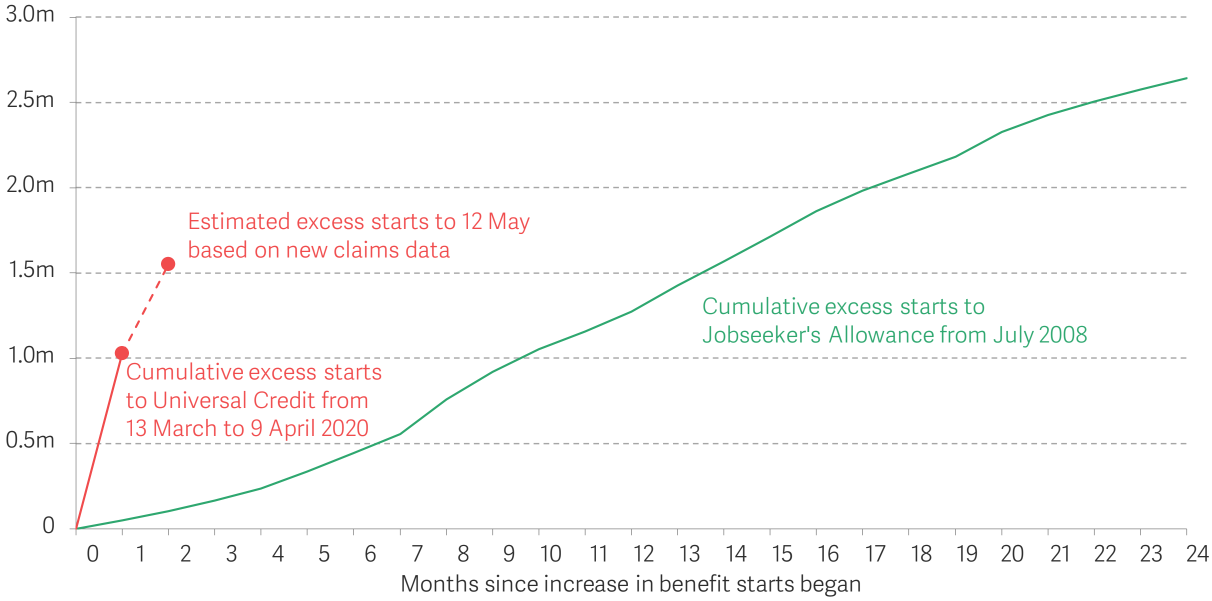


NOTES: Rolling average calculated as average of preceding seven calendar days.
SOURCE: DWP, Management Information.

This huge spike in claims – 2.6 million in eight weeks according to DWP's early estimates from its management information – is completely unprecedented. Figure 2 compares the total number of 'excess' claims to UC with the equivalent for JSA in 2008, the last economic downturn (we define 'excess' as the number of claims above the previous year's average). In the first month, there were as many excess new claims to UC as there were to JSA during the first nine months of the financial crisis. We estimate that for two months, UC's excess claims figure will equal 13 months of excess claims to JSA during the previous crisis. The two benefits are not directly comparable because UC can also be claimed by those in work, as we discuss below. Nonetheless, these figures underline the scale of the demands put on DWP's systems since mid-March.

FIGURE 2: **The number of additional new starts on UC has surpassed 12 months of JSA additional starts during the financial crisis**

Additional Universal Credit new starts and Jobseeker's Allowance starts (over and above average levels): GB



NOTES: Starts to UC official statistics are only published for the period to 9 April. We have extrapolated using the ratio to new claims as per DWP Management Information through to 12 May. This is to be as consistent with the definition of new starts to Jobseeker's Allowance as possible.
SOURCE: DWP, Stat Xplore; DWP, Management Information; ONS, Nomis.

Although not all of these claims turn into UC awards

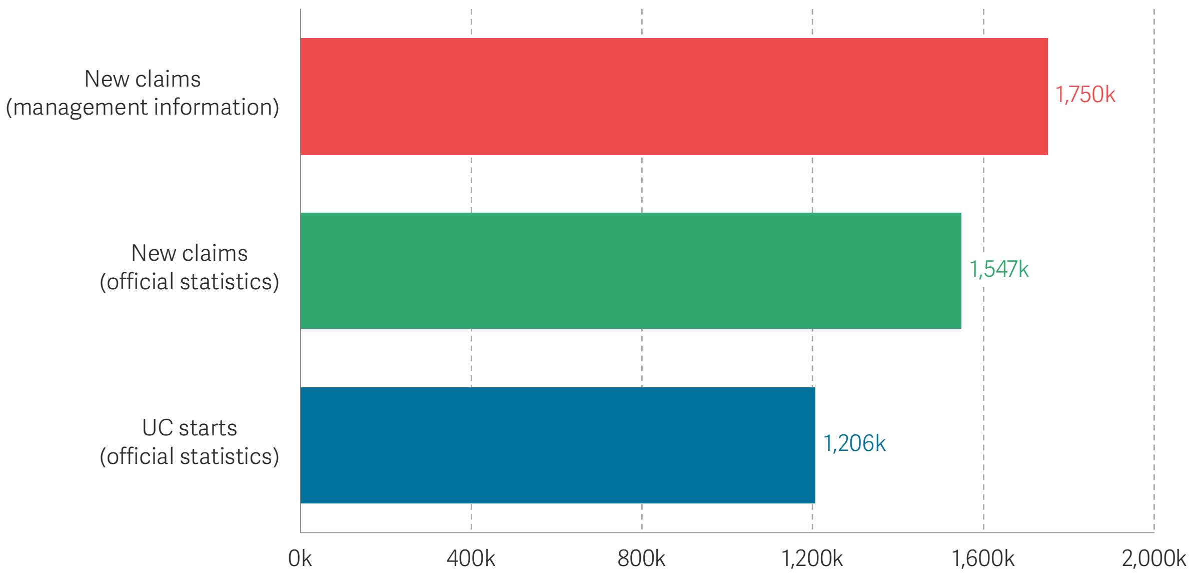
The data shown in the previous two charts comes from DWP's management information system. It is now released on a weekly cycle, partly in response to pressure – including from the Resolution Foundation – for DWP be more open about the scale of the demands on its systems, and the extent of the shock to the labour market. This management information records the number of UC claims each day, and is released with a lag of just a week.

But it is now clear that the management information may overstate the number of new claims, and that not all of the claims turn into successful and new UC awards. DWP's revised estimates for the period 13 March to 9 April are shown in Figure 3, alongside the initial estimates of claims based on the management information data. The revised estimates suggest that there were 1.55 million claims over this period, rather than the original 1.75 million figure. The reasons for this gap provided by DWP do not clarify matters much, although one difference is that the revised estimates strip out repeated claims made by the same individual.[15]

The DWP recommends (and we agree) that the revised estimates should be used as the definitive measure of how many families are claiming UC. However, the management information is useful as it is timelier, and provides a clearer insight into the volume of claim processing that the DWP is handling.

FIGURE 3: **Claims, revised claims, and starts to Universal Credit all tell a different story**

New claims and starts to Universal Credit, official statistics and management information: GB, 13 March-9 April 2020



SOURCE: DWP, Stat Xplore; DWP, Management Information.

Figure 3 also shows that not all claims to UC turn into awards of UC (or what DWP calls 'UC starts'; see Box 1), and it seems that about 350,000 of the 1.55 million claims did not turn into starts in the period 13 March to 9 April.

15 For further details see: Department for Work and Pensions, Universal Credit statistics: background information and methodology, May 2020.

BOX 1: Claims, awards, cases – the lexicon of UC statistics

The DWP is now publishing a significant amount of data, drawn from the administrative systems on which UC runs. Understanding this data is key to interpreting it correctly. It includes the following:

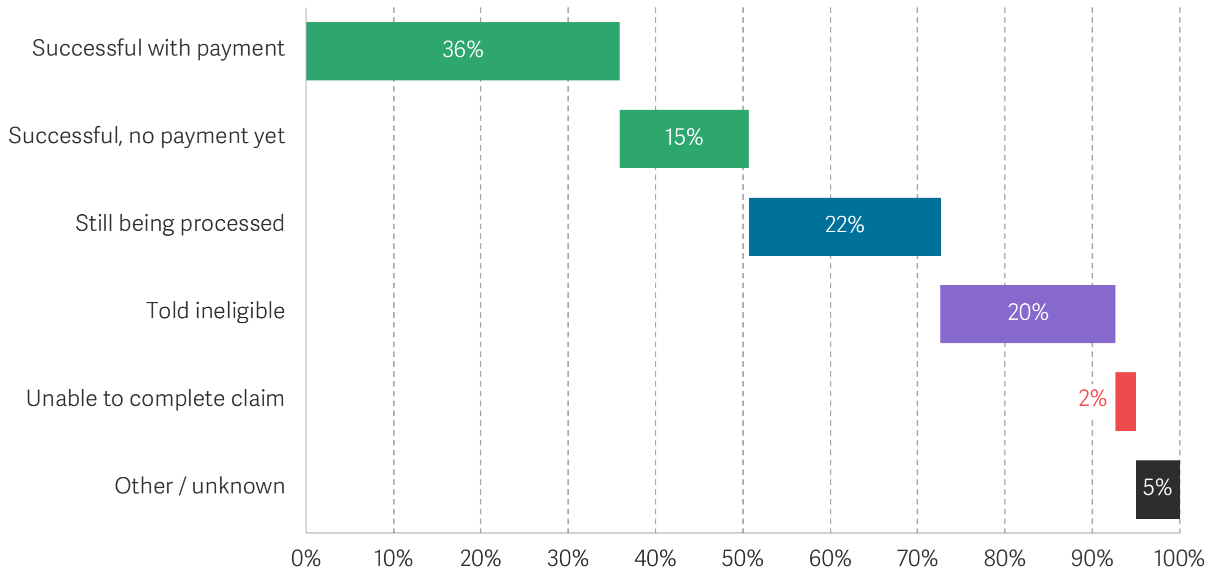
- Claims to Universal Credit is a flow measure of adult individuals who have made a new claim, regardless of whether it is successful or not.
- The timelier management information DWP publishes uses raw figures that do not make any adjustments for duplication, or for whether a claimant is moving from one claim to another (this might happen when someone leaves a relationship and needs to make a separate UC claim). The revised estimates of new claims for UC, above, account for these changes.
- UC starts refers to the number of successful UC claims (by individuals) that go on to receive a UC award. There are many reasons why an individual may not go onto to receive an award: they might be ineligible due to savings, or they may receive income during their assessment period that reduces their award to nil, for example.
- People on UC is the stock of adult claimants who are receiving UC at a single point in time, namely on the second Thursday of each month.
- Households on UC refers to how many families are receiving UC, as UC is awarded jointly to adults and their partners.

Finally, we note that all the numbers in Figure 3, above, are flow measures – specifically only inflows to UC. The stock of UC recipients also changed by 1.2 million over the same period, meaning that very few claimants left UC. In general, while the number of new claims to UC is an excellent measure of the pressure that DWP is under, it is not always a good proxy for the state of the labour market, and we will need to monitor all the above information for a holistic analysis. DWP is developing further statistics on UC claimants, including off-flow measures, flows between being in work and out of work while on UC, and detailed statistics about claimants' duration on UC. The current suite of statistics is significantly short of what was previously available for Jobseeker's Allowance, and a more comprehensive package will be essential for complete picture of how the labour market and welfare system are interacting.

The data from DWP on new claims and new starts is in line with the evidence from our survey, shown in Figure 4, where one-in-seven respondents who had claimed UC as a result of the crisis had already found out that that they were ineligible for it.

FIGURE 4: **Of those who had made a claim to UC during the crisis, one-in-six have found they were ineligible**

Outcome of new Universal Credit applications during the crisis: UK, 6-11 May 2020



NOTES: Base = those who have started a UC claim recently.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

UC had built up slowly over just over six years to get to 2.8 million live recipients – about a third of the expected final total. The coronavirus crisis has increased that by about 40 per cent – 1.2 million more – in just four weeks.

Despite this herculean challenge, UC has performed extremely well

In response to the crisis, the DWP made several key decisions to allow it to cope with the surge of claims for UC, all while trying to keep its own staff safe from coronavirus. We summarise these in Box 2.

BOX 2: Operational changes the DWP has made in the past ten weeks to help manage the high volume of claims

To cope with the huge number of claims to Universal Credit, the DWP has modified how it handles new claims.[16] Although some of these changes carry other risk, for example around fraud and error, it was entirely right to make these changes to help process new claims quickly. The changes included:

- Redeploying 8,500 civil servants, and asking its staff to do evening and weekend working;
- Deploying 10,000 computers to enable home-working;
- Suspending all face-to-face meetings and assessments (with exceptions for claimants who need face-to-face meetings to receive support);
- Increasing the capacity of the externally provided online GOV.UK Verify system;
- Introducing 'Don't Call Us, We'll Call You', thereby reducing the time claimants have to wait on the phone; and,
- Introducing a new online rent payment system for landlords to protect those who struggle to manage their finances from rent arrears.

Our survey evidence shows that new claimants to UC were mostly positive about the claim process and the service they received from DWP. Figure 5 shows levels of satisfaction among UC claimants in our survey, and compares this to the views of existing UC recipients. 74 per cent of new claimants were satisfied with the way that DWP handled their claim, and 73 per cent satisfied with the service they received.

This positive view was echoed by the majority of our interviewees, where there was support for the online system, although some recognised it would not be appropriate for everyone:

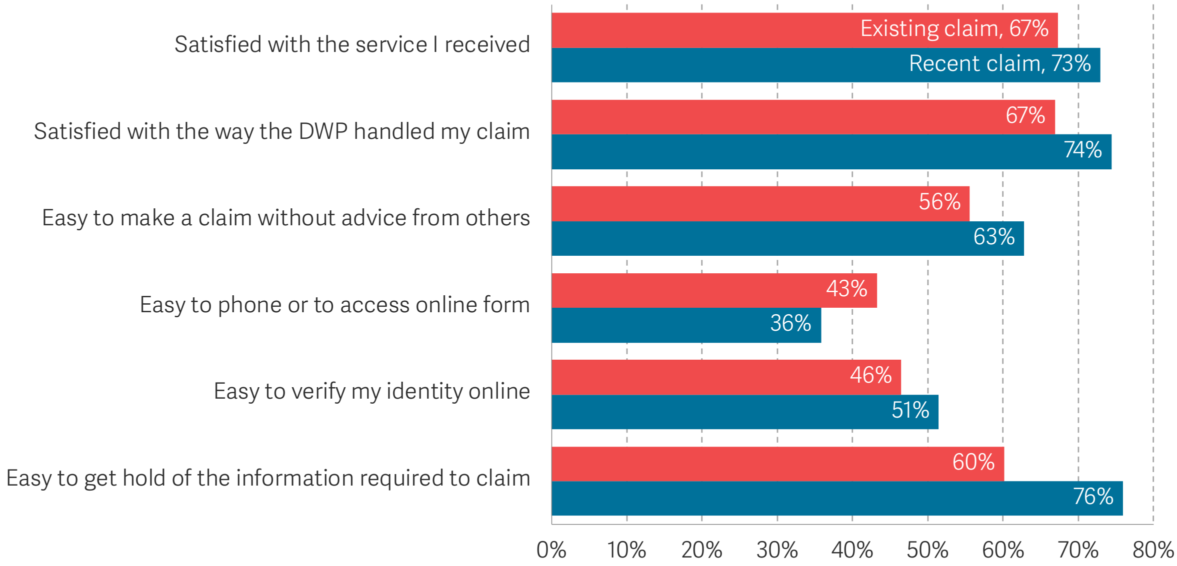
> *"I think it worked out quicker to do it online, it was pages and pages of paperwork before, like a booklet to fill in. And it's more instant than the old one where I had claimed it before so I'd say better this time."*

Female, living with partner

16 Secretary of State for Work and Pensions, Oral statement to Parliament: DWP's response to coronavirus (COVID-19), May 2020.

FIGURE 5: **New UC claimants on the whole had more positive views on claiming compared to existing UC claimants**

Universal Credit claimants' views on the application process for recent claims and pre-existing claims: UK, 6-11 May 2020



NOTES: Base = those who have started a UC claim recently or had an existing UC claim, excluding those who were deemed ineligible in their recent UC application. The responses 'very satisfied' and 'satisfied', and 'very easy' and 'easy', have been combined in the figures reported here.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

"It was pretty simple. I just went online, filled out the form, registered and then I got an appointment a couple of days later."

Male, living with partner and children

"For myself it wasn't too bad... My husband was unable to do it but he's not very computer literate...I don't know how someone older would get on with the process, because at the moment the way things are it's not like they can go to someone to help them."

Female, living with partner

Our qualitative research also found evidence that the operational changes set out in Box 2 were appreciated by new claimants, and helped ensure claims were processed on time. Although some claimants we interviewed found the online system straight forward, others found contact through the journal and by phone helpful – showing that efforts to continue to prioritise human contact with claimants were well received by some:

"I got a message on my journal saying someone would be in touch that weekend, and I was quite impressed by that because it was only two days after I submitted the application."

Single male

"I did find the journal thing good where you message someone and they get back to you quite soon rather than you phoning someone and waiting three hours to get through."

Female, living with partner

Overall, Universal Credit's online system appears to be an improvement, delivering a more efficient public service, and is something that many claimants appreciate. However, there is also a significant demand for communication with a human agent – even among those happy to claim online – something that DWP should maintain to ensure UC is accessible to claimants.

DWP has not yet published statistics on the accuracy and timeliness of UC payments during the coronavirus outbreak, but it reported on 6 May that over 90 per cent of payments due – including those made during the period when claim volumes were at their highest – were paid in full and on time.[17] The Government has also reported that the vast majority of advances have been paid with 72 hours.[18] This is good news, but the DWP must not rest on its laurels given the financial hardship that can be caused by not receiving benefits when expected.[19] The DWP should also publish more up-to-date data on payment timeliness (the latest statistics for this are for January 2020[20]), along with some form of breakdown of why payments were not made on time.

The design of UC means many new claimants are still in work

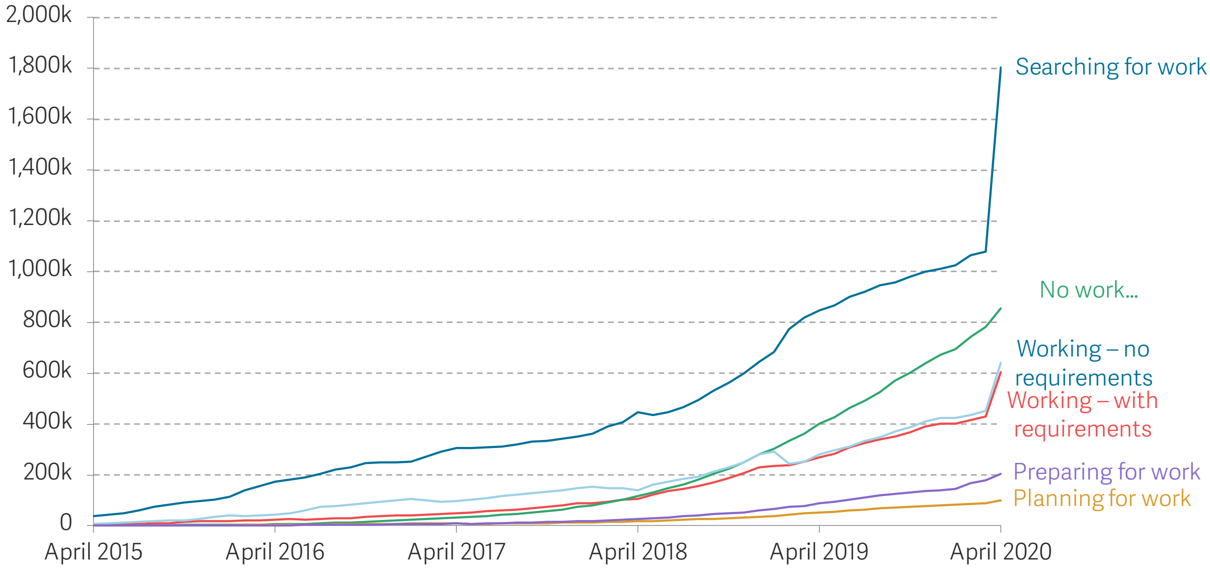
UC is, of course, not just an unemployment benefit: it is also an in-work benefit, replacing the old tax credits system. Figure 6 sets out how the stock of recipients of UC fits into different groups, depending on their earnings, family and personal circumstances, with data running up to April 2020. Of the 1.2 million rise in the stock of UC recipients between 12 March and 9 April, 700,000 are in the 'searching for work' group: these are, essentially, the unemployed. There have also been increases of over 350,000 in the two main groups of recipients who are classified as 'working' (however, because this classification is done

17 Department for Work and Pensions, Biggest number of new Universal Credit claims paid in a single day, May 2020.
18 See: Secretary of State for Work and Pensions, Oral Statement to Parliament: DWP's response to coronavirus (COVID-19), May 2020.
19 For a discussion of previous issues relating to payment timeliness, see: National Audit Office, Rolling out Universal Credit, June 2018.
20 Source: DWP, Stat Xplore, Households on Universal Credit.

at the level of the family, not all of the 350,000 adults will be in work themselves; some will have working partners).

FIGURE 6: **The recent increase in UC claims is concentrated among those not in work, but not exclusively**

People claiming Universal Credit by conditionality group: GB



SOURCE: DWP, Stat Xplore.

The rest of the increase is in groups containing claimants with poor health, disabilities, or who are the single parent of a young child (see Box 3 for a full explanation of these different conditionality groups).

BOX 3: **Conditionality groups for Universal Credit claimants**

The conditionality group statistics for UC claimants published each month give a sense of the work-search expectations each claimant is facing at that point in time. There are six different groups, each of which have a multitude of criteria for qualification. Individual adults in the same UC household are separately classified in their own group, but earnings from partners may determine the conditionality applied. The conditionality groups are applied in a hierarchical order (the highest condition satisfied means a claimant is subject to that conditionality):[21]

21 We have, for brevity, not included all conditions considered; for example, there are exceptions for those who have a terminal illness, and domestic violence victims. See: https://stat-xplore.dwp.gov.uk/webapi/metadata/UC_Monthly/Conditionality%20Regime.html, accessed 23 March 2020, for some further detail.

- No work requirements: If the claimant has been found to have limited capability for work-related activity at their work capability assessment (those with more severe health conditions); or they are the primary carer for a child aged under one.
- Working – no requirements: If the claimant is earning at least the equivalent of the minimum wage level that applies to them for 35 hours a week. These hours expectations may be reduced for those with primary caring responsibilities (e.g. to 20 hours for those with children aged five). If in a joint claim, a partner's earnings over and above their 35-hour requirement can be used to help the other claimant meet their UC earnings requirement.
- Planning for work: If the claimant is the primary carer for a child aged one, then they are expected to complete some work planning activities, but not to apply for and accept work.
- Preparing for work: If the claimant is the primary carer for a child aged two, or they have been found to have limited capability for work at their work capability assessment (the less severe health condition level), then they are expected to complete some work preparation activities. Again, they are not expected to apply for and accept work.
- Working – with requirements: If the claimant (earning less than their 'no requirements' level) is earning more than the lower-earnings threshold (around £350 per month[22]). Again, it is possible to be included in this group due to a partner's earnings alone, so some claimants themselves may not be working at all.
- Searching for work: If the claimant does not fulfil any of the conditions above, they are expected to search for and take up work. However, this group includes claimants who are awaiting their work capability (health) assessment, and work coaches are also permitted to allow easements from work search conditions when appropriate.

We think these groups can be somewhat confusing – particularly when those with health conditions are included in the same group as those without, and those not working are included in the same group as those that do. Ideally, DWP would publish statistics broken down more completely by claimants' work, health, and caring statuses (alongside flows data between all combinations of those groups and off UC).

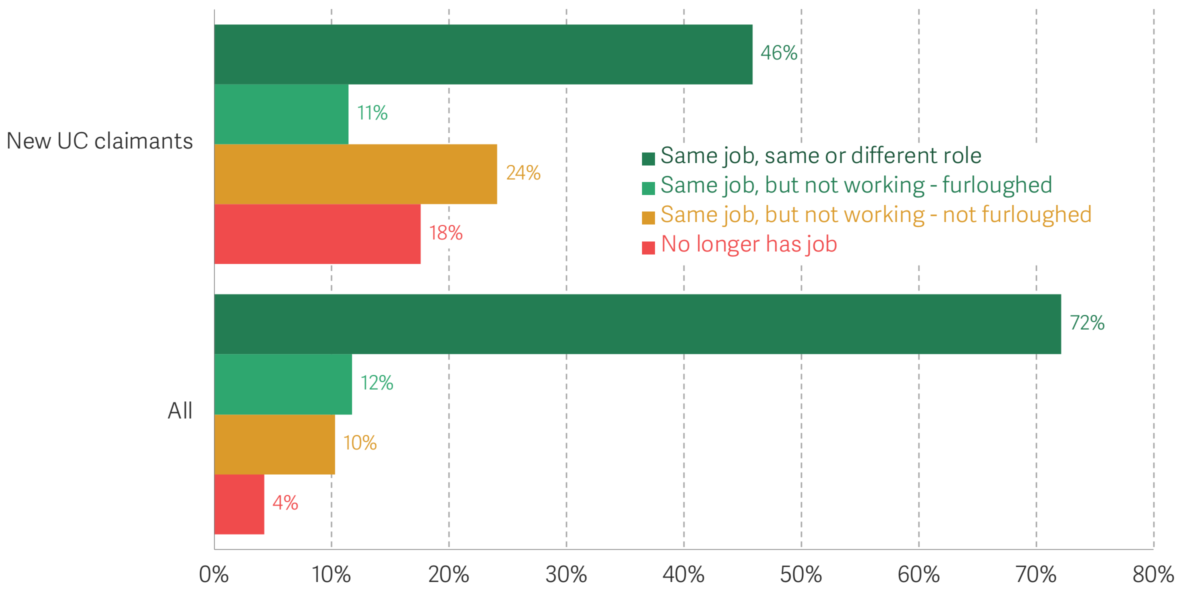
22 This figure is not routinely published.

Data from our survey can also tell us about the characteristics of new UC claimants. Figure 7 shows that, among those new UC claimants we surveyed who were in work before the crisis hit (which is around four-in-five of all new UC claimants surveyed), 58 per cent were still working or on furlough in early May. 24 per cent of our survey respondents that had newly claimed UC still had the same job, but were not furloughed. This situation may relate to self-employed individuals, employees on casual or zero-hours contracts, or it may reflect the fact that some employers had not yet got around to registering their employees on the JRS. But it may also reflect a situation described to us by one interviewee, who was made redundant before the furlough scheme was announced, but then later re-employed for the furlough payment:

> *"When I got made redundant I signed up to an agency but then literally two days later everything closed down so that was when I decided I needed to get some money from somewhere so claimed Universal Credit."*
>
> Male, living with partner and children

FIGURE 7: **The majority of new claimants to Universal Credit who were previously in work still have a job, but more than half have stopped working**

Current working and furlough status of those in work before coronavirus, by whether claimed UC or not: UK, 6-11 May 2020



NOTES: Base = all UK adults aged 18-65 who were in work before the coronavirus and responded to question on current employment situation.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

We also found a relatively high prevalence of self-employed people among those who had newly claimed UC: they make up over one-in-four (27 per cent) of those new UC claimants that we sampled, much higher than their prevalence among the working-age population (around 12 per cent). This is consistent with other research, which also finds that a relatively high proportion of all self-employed people have recently claimed Universal Credit.[23] This may well reflect the fact that the SEISS (which we discuss more in the next section) will not make payments until June. Until then, it is sensible for self-employed people who have experienced hits to their earnings to claim UC. As one interviewee described:

> *"Everyone else was getting furloughed and as someone who was self-employed – it's not going to match up to before so it is a bit of a let-down but it's better than nothing."*

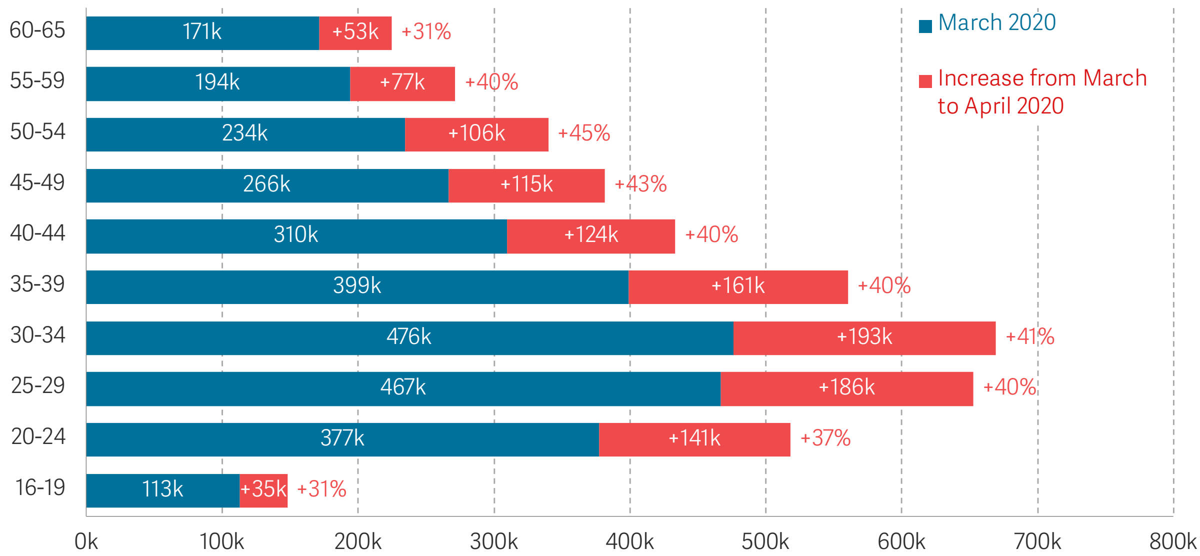
Male, living with partner

New UC claimants are diverse

Figure 8 shows that the recent growth in UC recipients broadly reflects the age distribution of those already receiving, with those aged 20 to 40 making up the bulk of the UC population.

FIGURE 8: **The increase in UC claimants has happened across the age range – but is particularly concentrated among those aged 20 to 40**

Individuals claiming Universal Credit by age group: GB



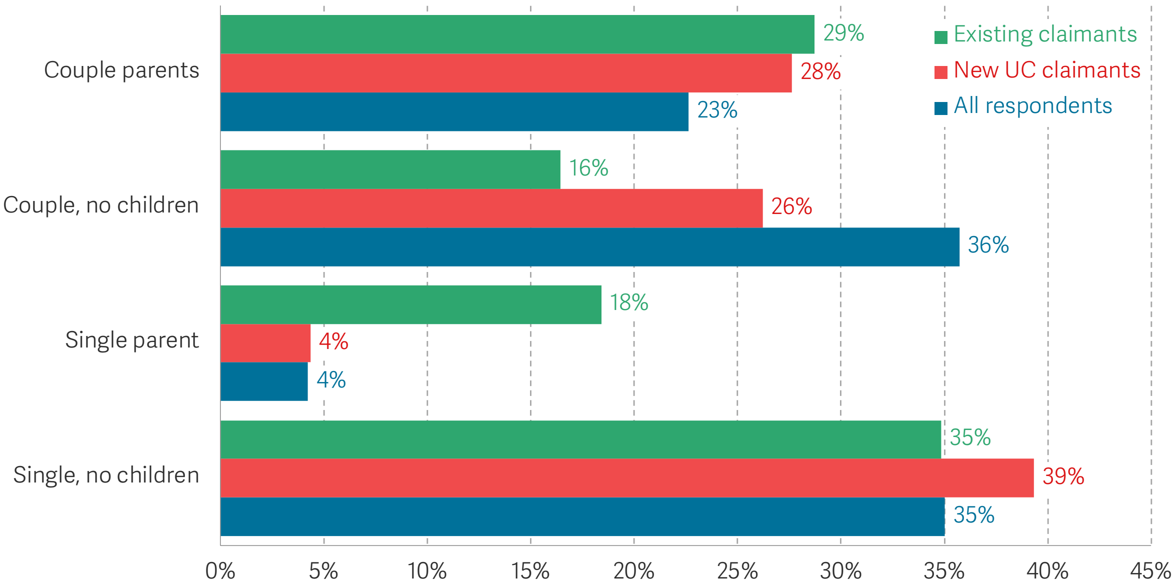
NOTES: Data captures the stock of UC claimants on the second Thursday of each month.
SOURCE: DWP, Stat Xplore.

23 See: J Blundell & S Machin, Self-employment in the Covid-19 crisis, Centre for Economic Performance Covid-19 analysis, paper No. 003, London School of Economics and Political Science, May 2020, who estimate that 27 per cent of self-employed workers had claimed UC.

Statistics from DWP on the family circumstances of UC recipients do not yet cover the period after the crisis began, but our survey data (Figure 9) shows that single adults without children made up the highest group of new Universal Credit claimants. Single parents made up the smallest group, probably because they are likely to already be receiving UC or one of the benefits it is replacing.

FIGURE 9: **Single people without children were more likely to have recently claimed Universal Credit in our survey**

Survey respondents by family type and whether a recent or existing UC/benefit claimant: UK, 6-11 May 2020



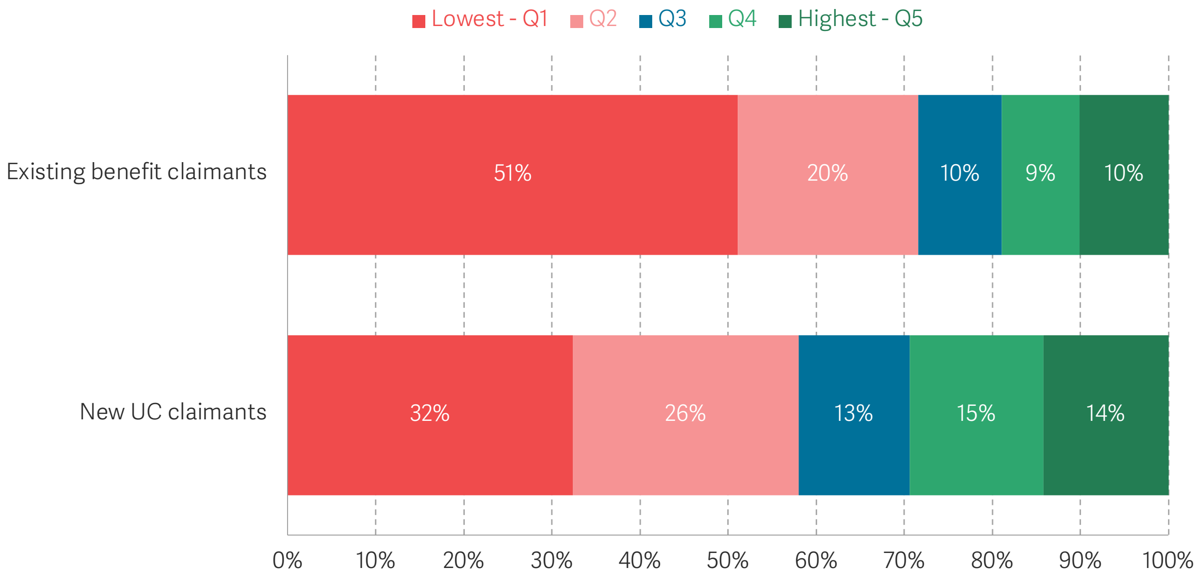
NOTES: Base = all UK adults aged 18-65 who responded to questions about marital status and number of children. If individual has both recently claimed UC and is an existing claimant they are included in the recently claimed UC category. Existing claimants include those claiming UC and the legacy benefits that will in part be replaced by UC, including: Employment Support Allowance, Housing Benefit, Income Support, Jobseeker's Allowance, Working Tax Credit and Child Tax Credit.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Figure 10 shows that new UC claimants in our survey tended to have lower earnings prior to the crisis, with 58 per cent in the bottom two quintiles of weekly earnings. However, these new UC claimants had considerably higher pre-crisis earnings than existing benefit claimants, where 71 per cent of those in work reported earnings in the bottom 40 per cent of the distribution.[24] Because UC is awarded based on need – and not previous earnings levels – higher earners are likely to experience a larger fall in total incomes when job loss or earnings falls necessitate a benefit claim, as we go on to discuss in Section 3.

24 We have included claimants of all legacy benefits as well as UC claimants – see notes of Figure 10.

FIGURE 10: **New UC claimants were more likely to have had lower-paid jobs before coronavirus**

Survey respondents in work before coronavirus, by earnings quintile and whether a recent or existing UC/benefit claimant: UK, 6-11 May 2020



NOTES: Base = all UK adults aged 18-65 who were in work prior to the coronavirus outbreak, provided information on their usual earnings prior to the coronavirus outbreak, and were either an existing benefit claimant or recent UC claimant. Earnings quintiles are based on net (take-home) usual pay prior to the coronavirus outbreak, for all those in work. Existing claimants include those claiming UC and legacy benefits that will in part be replaced by UC, including: Employment Support Allowance, Housing Benefit, Income Support, Jobseeker's Allowance, Working Tax Credit and Child Tax Credit.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

New UC claimants are also much more likely to be renting privately or to be home owners compared to existing benefit claimants (see Figure 11; and note that the large proportion of claimants in the 'other' category may be living in a property where another family member or friend else is responsible for the housing costs).

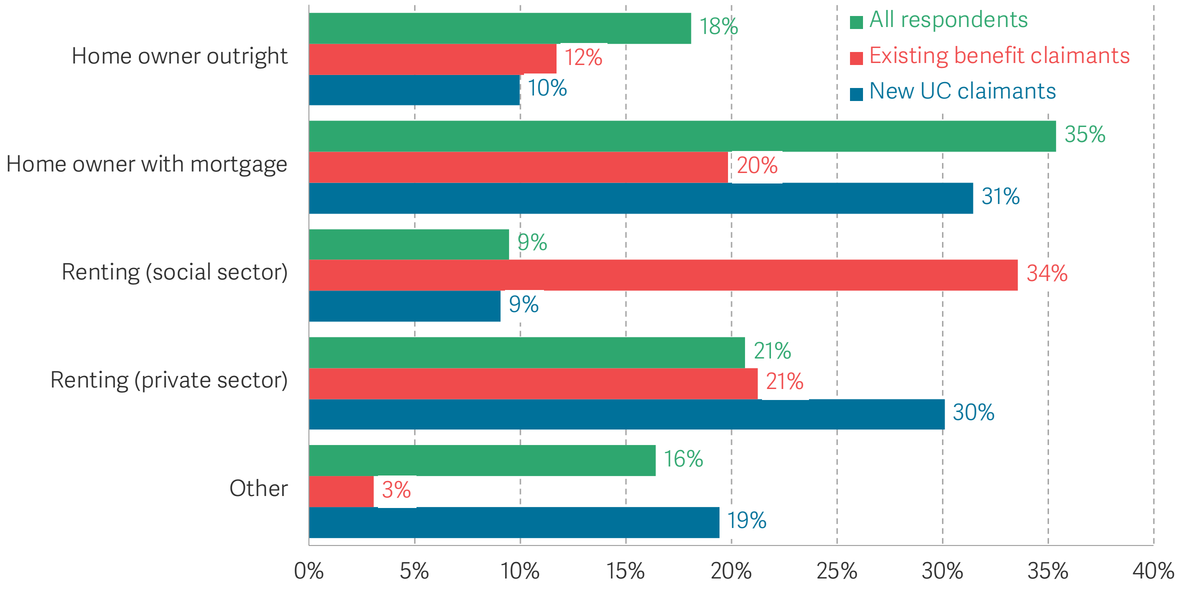
In general, then, the new UC claimants in our survey look like a broad cross-section of working families – in fact, they come from a broader range of backgrounds than the existing benefit claimants we surveyed. This reflects the nature of the coronavirus shock that has brought unemployment or labour market insecurity to many people who had no expectation of becoming suddenly unemployed. Several of our interviewees expressed that, although they appreciated the safety net now they found themselves in need of it, they had never before claimed benefits, and never expected that they would need to:

> *"This is something I never wanted to do in my life, but I had to because I had no other support because you have things to pay – rent and bills – if you can't work you need some kind of support."*

Male, living with partner

FIGURE 11: **New UC claimants are more likely to live in the private-rented sector or be a home owner compared to existing benefit claimants**

Survey respondents by housing situation and whether recently claimed UC: UK, 6-11 May 2020



NOTES: Base = all UK adults aged 18-65 who responded to tenure questions. 'Other' includes living in a home owned by a family member. Existing claimants include those claiming UC and legacy benefits that will in part be replaced by UC, including: Employment Support Allowance, Housing Benefit, Income Support, Jobseeker's Allowance, Working Tax Credit and Child Tax Credit.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Concerns remain, though, around advances, verification, and payment transparency

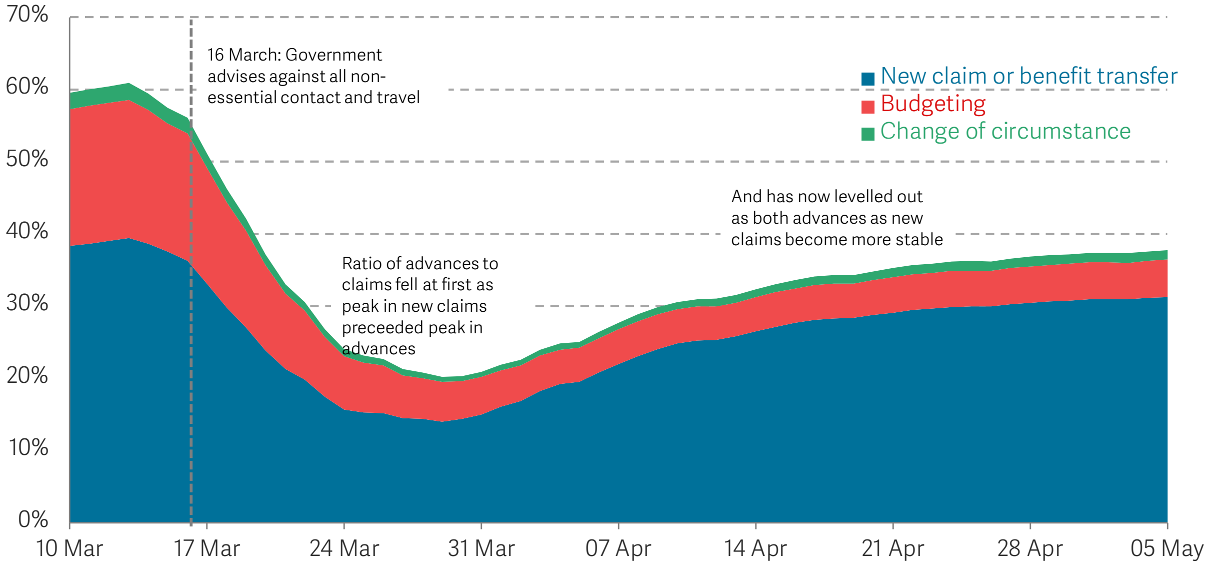
Although DWP's process appeared to work well for the majority of claimants, there remain some rough edges around advances, verifying your identity, and understanding the amount of UC that will be paid.

The five-week wait for the first payment of UC, something that is baked into the design of a benefit that has a monthly assessment period and does not have tax credit-style end-of-year reconciliations, has come under sustained criticism throughout the UC roll-out. Many who claim UC, though, need support immediately, and in the short term, advances are the DWP's approach to addressing this problem (an advance payment is effectively a loan of the first expected UC award, which is then offset with lower awards over the following 12 months).

DWP statistics suggest that the rough proportion of new claimants who also asked for an advance is just over 30 per cent, slightly lower than it was before the crisis (see Figure 12). Our survey data found that a similar proportion (27 per cent) of new claimants to UC took out an advance.

FIGURE 12: **Only a minority of new UC claimants have taken out an advance, despite them being widely publicised**

Cumulative advances as a percentage of new claims to UC: GB



NOTES: As advances are processed later than new claims, any large peak in claims will cause the ratio of advances to claims to fall initially.
SOURCE: DWP, UC Management Information.

DWP has been widely promoting the existence of advance payments, and its step-by-step guide to claiming UC lists asking for an advance as one of the steps. Our interviewees reported that advances were widely advertised and available:

> *"I put on my journal that I needed money, that I had no food left. And he rang me back that day and got me an advance the next day."*

Male, living with partner

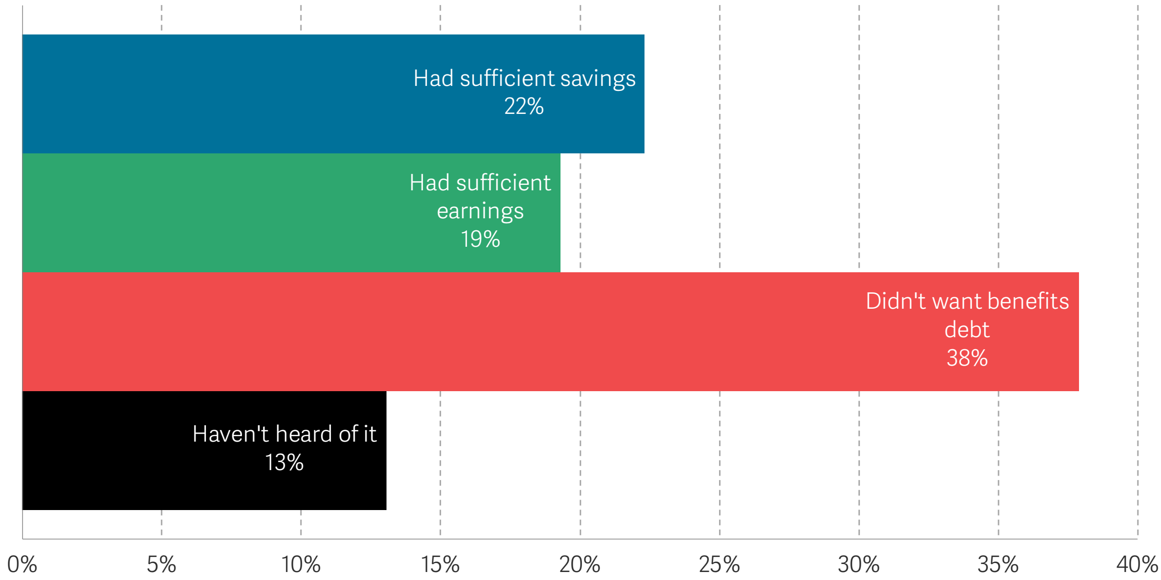
> *"I was made well aware of it, but I didn't go for it because it wasn't necessary. I'd never get myself in a position where I'd need that."*

Single male

The main reason that take-up of advances appears to be so much lower than the volume of new claims, according to our survey, is that people didn't need or want them. Figure 13 shows that, of those in our survey who did not get an advance, just over 40 per cent had other sources of income or savings, reflecting the fact that the majority of new claimants in our survey were still receiving earnings from their job. More worrying, though, is that fear of getting into debt was a barrier mentioned by another 40 per cent of respondents. This raises concerns that these families may be enduring unnecessary hardship while waiting for their first UC payment.

FIGURE 13: **41 per cent of new UC claimants who didn't take out an advance said they didn't want to fall into benefits debt**

Main reason individual or their partner did claim a UC advance, new UC claimants: UK, 6-11 May 2020



NOTES: Base = all UK adults aged 18-65 who made a new claim for Universal Credit since the coronavirus outbreak and did not claim a UC advance.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Our in-depth interviews also revealed that, for some, the idea that an advance payment means a debt to pay back is a barrier to taking one. In particular, interviewees seemed unsure what the advance would mean for future UC payments:

> *"All the horror stories were the ones that put me off applying – I didn't quite understand, when they say you'll get x amount but your claims will be less, it says it will be clawed back – I don't want to be in that situation where I'll be worrying about a debt."*
>
> Male, living with partner

> *[Did you take an advance?] "No, I didn't, I wanted to avoid that because I thought it would just mess me up for the following month...you never seem to get straight then do you."*
>
> Female, living with partner

We also found evidence of issues with the verification system for some, although others found it very straightforward. The verification system is put in place to prevent fraudulent benefit claims, but has been fraught with issues since UC's introduction.[25] It appears that some of these issues are continuing – although the Cabinet Office (which runs the GOV.UK Verify service) has increased capacity. We understand that, in some cases, the DWP is circumventing the service to ensure that some claimants are given the support they need. Given that not all UC claimants will have straightforward lives, it is understandable that verifying identities is not always easy. However, it appears to continue to be an area where the Government can do better, as our interviewees described:

> *"If you didn't have a driving licence or a passport then you've got a problem."*
>
> Single male

> *"The biggest challenge I had originally is when I set it up and you had to do the verification of who you are... because I kept trying to sign into it on the tablet and it kept saying you've not been verified and I'm like 'oh god what do you do now'... that bit I'd say was the worst bit."*
>
> Female, lives with partner

> *"The initial part was OK, it's just when I got to the verify your identity bit that it was really hard and counterintuitive."*
>
> Single male

> *"It was a bit complicated because they want the ins and outs of everything. And then I had to do a verify with the Post Office and that took quite a while. The website was really slow. I think it took three or four days for them to verify."*
>
> Female, lives with partner and children

We also spoke to a number of recipients who either did not like the monthly payment because it made it harder to plan financially, or found the length of time between applying and knowing what you are entitled to and will receive too long:

> *"The thing that I don't like with it is that you don't know what you're going to get from month to month."*
>
> Female, lives with partner

25 For a recent discussion and history on Verify, see: B Glick, After Universal Credit delays, GDS's silence over Gov.uk Verify is embarrassing and shameful, Computer Weekly, April 2020.

> *"The first thing [I would change] would be the amount of time taken from doing your form to getting notice about whether you'll get anything."*
>
> Male, lives with partner

> *"It was a bit lower than what we [expected]. We knew it wasn't the full amount because I'd got this payment just the month or so before...you don't know exactly what you're going to get until they tell you but they don't tell you until a few days before you get the payment."*
>
> Female, lives with partner

For individuals who have just experienced a significant shock to their income, this uncertainty over their benefit payment level creates additional worry. Because of the way that UC works – in that it calculates a monthly award based on earnings during that month – it is not possible to know the final award until these earnings are taken into account. However, it would be relatively straightforward to automatically provide claimants with an indication of what that can expect to receive based on earnings to date or earnings from the previous month.

The strict monthly assessment period also means that the exact timing of a claim can have a large effect on people's first award, but this is not made clear during the claim process, as one interviewee found out:

> *"I got my final pay a few days after making a claim, I didn't know that would affect how much I would get until they explained on the phone."*
>
> Single Female

This woman's first award was reduced because it was assessed against her final pay check. In this case, it will take until the second UC award – around nine weeks from claiming – before her benefit award reflects the fact that she has no sources of earnings.

This section has shown that UC's systems and processes have performed well during its first experience of an economic crisis. But, to fulfil its objective as the safety net part of our social security system, UC also has to protect families from the financial consequences of unemployment or a loss of earnings. How well it does that is the subject of the next section.

Section 3

The state of the safety net

The previous section showed that Universal Credit broadly passed its first big operational and delivery challenge. But we also need to know whether it is fulfilling its policy challenge: of acting as the safety-net part of the social security system to protect families' incomes when they are hit by shocks. Using microsimulation methods, this section analyses the state of the safety net provided by the tax and benefit system both as we came into the crisis, and after the emergency benefit uplifts.

Coming into the crisis, the UK provided fairly low levels of income replacement for those facing unemployment: half of employees in the UK would end up with a disposable income out of work that was at most 50 per cent of their disposable income in work. The emergency boost to UC and housing support announced on 20 March strengthened the safety net for many, especially for single people and renters in high-cost areas (as well as providing a 5 per cent boost to household incomes for the lowest-income quarter of the population). These measures increased the median replacement rate from 50 to 53 per cent, and that among single people from 23 to 30 per cent. But the heavy reliance on means-tested support and the fact that contributory benefits were not increased in line with UC, means that those not able to access Universal Credit – because of a partner's earnings or because they have savings of over £16,000 – still face very low replacement rates in the event of job loss.

Replacement rates provided through the social security system are also much lower than those provided through the Job Retention Scheme (JRS), where typical replacement rates among all employees is 91 per cent. As well as raising important questions of fairness, this means that any workers who are made redundant as the JRS is reformed during the second half of this year will be likely to experience large falls in their family income. Nonetheless, the fact that the JRS won't and should not continue indefinitely highlights the increasingly important role that UC will play in supporting family finances during the long road back to more normal times.

Coming into the crisis, our safety net gave the most protection to those with the lowest incomes and those with the greatest need

The most important task of the social security system is to provide support to the most vulnerable, acting as the so-called 'safety net' when families are hit by shocks to their work, their health or their family (Box 4 gives an overview of the benefits available to those who lose their job). As the current economic crisis is rooted in the labour market, it is critical to understand how well the UK's social security system provides income replacement for those hit by unemployment.

BOX 4: **The main social security benefits for those who lose their job**

The two most important benefits for those who are made unemployed are 'contributory' or 'new style' Jobseeker's Allowance (JSA), and Universal Credit.

'New style' JSA is available to former employees who have made sufficient National Insurance contributions, and is payable without a means-test (i.e. regardless of how much savings an individual has or whether they are living with a partner with their own earnings). But it is also paid at a low flat rate that does not try to reflect any additional needs that a person might have, including the presence of a partner or children. Those formerly self-employed are not able to claim.

Universal Credit, like all means-tested benefits in the UK, does not require someone to have made sufficient National Insurance contributions, and usually does reflect the additional needs that a person might have (by paying more to families with children or health or disability needs, for example). But entitlements are means tested against the total income of the family and any savings.

Different benefits are available to those who cannot work through ill-health or disability, and we do not discuss those further.

One way to understand systematically the support that the social security system offers to those experiencing income shocks is to calculate 'replacement rates'. As explained in Box 5, a replacement rate reports how much income someone would have if they lost their job as a proportion of the income they had when in work. Higher replacement rates (closer to one) mean that a worker has a greater degree of protection from the financial consequences of unemployment.

BOX 5: Using replacement rates to measure the strength of the safety net

Our focus in this report is the ability of the social security system to protect people from labour market shocks. To measure this, we calculate replacement rates for working-age adults who are currently in work. A replacement rate shows how much income (after taxes and benefits) a person would have if they were out of work, expressed as a proportion of the income that person had when they were in work. For example, a value of 60 per cent would mean that someone's out-of-work income would be 60 per cent of their in-work income (alternatively, one minus the replacement rate tells you by how much net income falls when someone loses their job: in this case, it falls by 40 per cent).

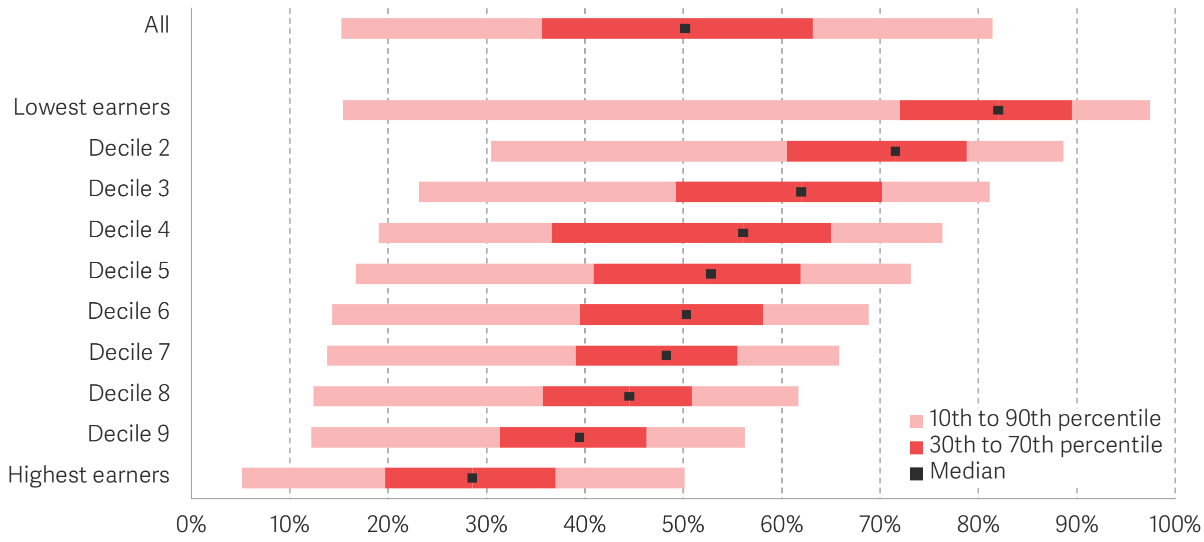
When making the calculation, we include all sources of income from earnings and the social security system, and we also measure the combined income of the family, including that coming from any partner (we do not subtract housing or childcare costs). This means that a replacement rate is affected by whether a person has a partner, and what that person is earning, and so it is not just a measure of the protection provided by the tax and benefit system. As is usual, when calculating replacement rates for individuals in a couple, we hold constant the earnings of the other partner. This reflects the fact that, in normal times, the income of a partner can provide a cushion that protects against the financial impact of unemployment.

Figure 14 shows how these replacement rates varied across the population of workers as we came into the crisis (i.e. under the tax and benefit system that we were due to have from April 2020, before the emergency benefit increases announced by the Chancellor on 20 March). One striking point is that that there is a great deal of variation in the extent to which the social security system protects people from the financial shock of unemployment. The median replacement rate is just over 50 per cent, meaning that someone would have about half their in-work income if they lost their job (although, as we explain in Box 1, for those in couples, this assessment includes the income of the partner and assumes that the partner does not lose their job). However, one-in-ten workers have a replacement rate below 15 per cent, and another one-in-ten have a replacement rate above 81 per cent.

Figure 14 also shows that replacement rates tend to be higher for low earners than high earners, but also that there is a great deal of variation among those with similar levels of earnings (shown by the ranges depicted by the pink and red bars).

FIGURE 14: **The flat-rate benefits system provides higher replacements rates to those on lower incomes**

Family income replacement rates when earner stops working, by individual earnings deciles, pre-Budget policy: UK, 2020-21



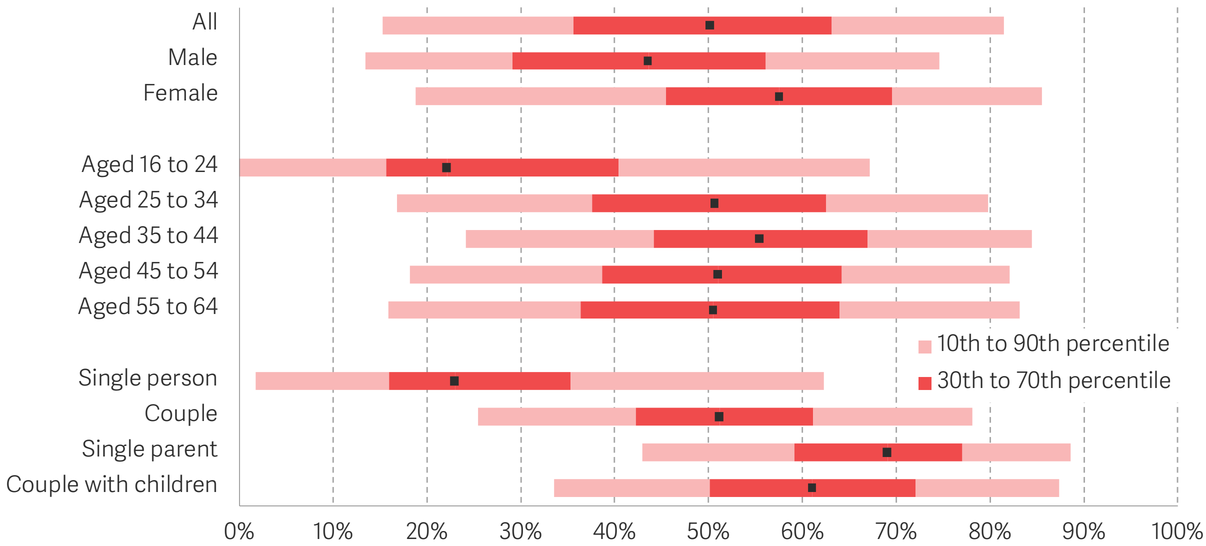
NOTES: Replacement rates shown for whole benefit unit income before housing costs, for adults aged 16-64 who stop working and then claim benefits as entitled. Partner income held constant. Full roll-out of Universal Credit and full take-up of benefits assumed.
SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

Part of this variation arises because the means-tested parts of our social security system try to direct support to those whose needs are greater. Figure 15 shows how replacement rates vary by personal and family characteristics. Single people with no children tend to face the lowest replacement rates. This is partly because they cannot count on the income brought in by a partner acting as a cushion, but it also reflects the fact that the benefit system is not very generous to single people with no additional needs. Coming into the crisis, rates of UC or Jobseekers' Allowance (JSA) for a single person were due to be £74.35 a week in this financial year. Figure 16 shows that the value of unemployment benefit has declined over decades from over 30 per cent of average earnings to 14 per cent in 2019.

The other striking feature of Figure 15 is the low replacement rates for those aged under 25. This is a direct reflection of the lower rates of benefit available to them if they are unemployed (£58.90 a week) before the emergency measures announced on 20 March.

FIGURE 15: **The reliance on means-tested support helps the system to target those with greater needs**

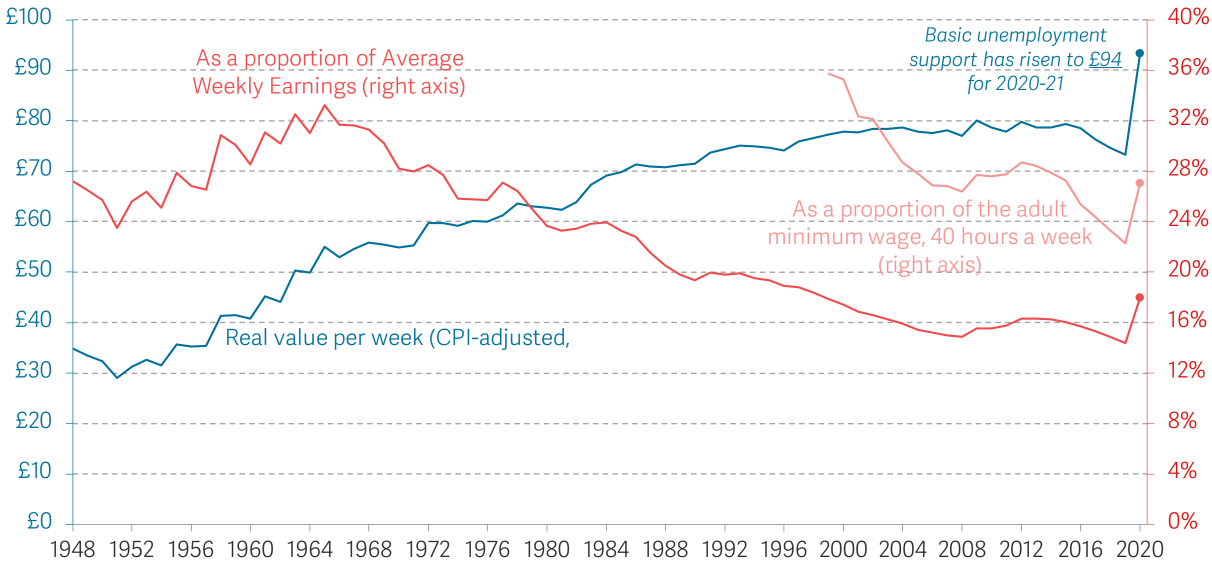
Family income replacement rates when earner stops working, by selected characteristics, pre-Budget policy: UK, 2020-21



NOTES: Replacement rates shown for whole benefit unit income before housing costs, for adults aged 16-64 who stop working and then claim benefits as entitled. Partner income held constant. Full roll-out of UC and full take-up of benefits assumed.
SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

FIGURE 16: **As a fraction of average earnings, unemployment benefit for a single adult had fallen to its lowest level before the crisis hit**

The value of the main rate of unemployment-related benefit over time for a single adult



NOTES: Full-time earnings on the minimum wage calculated based on a 40-hour week.
SOURCE: RF analysis of IFS, Fiscal Facts; ONS; Bank of England.

International comparisons of replacement rates are difficult and can depend on family circumstances and the duration of unemployment, but Organisation for Economic Co-operation and Development comparisons do show that the UK ranks towards the bottom of international league tables in terms of the amount of income protection provided by benefits in the event of unemployment.[26]

The emergency changes to the social security system have helped a bit, especially for renters and single people

As the scale of the coronavirus crisis became clearer during the second half of March, the Government made a number of changes to social security benefits. The most important were a £20 a week increase in the standard allowance of Universal Credit – which, as Figure 16 shows, puts the main adult rate of unemployment benefits at its highest ever level in real terms, and at its highest level relative to average earnings since 1998-99 – and a change to Local Housing Allowance (LHA) rates that particularly favoured areas in which rents have grown rapidly since 2012 (as explained in Box 6). As we shall discuss, although the change to UC was mirrored in Working Tax Credits (WTC) for those families who remain on it, it was not mirrored in the contributory benefits, including 'new style' JSA and Employment and Support Allowance (ESA), that some families will rely on during this crisis.

BOX 6: **The post-Budget emergency UC and welfare changes**

On 20 March, the Chancellor announced major changes to Universal Credit and Local Housing Allowance (LHA), to take effect initially only during the 2020-21 financial year.[27] At the time, the Government said that these would have an estimated cost of £7 billion a year, although it is not clear what this assumed about the UC caseload in 2020-21.

The standard allowance in UC was increased by £20 a week, or £1,040 per year, which will benefit all those receiving UC, including working families. The changes to LHA effectively reverse the cuts to LHA made since 2012. They mean that housing support from the benefits system is now sufficient to cover 30 per cent of all rental properties in the local area. In 2012, LHA rates were also set at levels

26 See: https://data.oecd.org/benwage/benefits-in-unemployment-share-of-previous-income.htm#indicator-chart, accessed 22 May 2020, for example, which looks at replacement rates for single adults without children paid at 67 per cent of the national average.
27 This draws on: M Brewer & L Gardiner, Key take-aways from the Chancellor's package of measures to support workers in the coronavirus crisis, Resolution Foundation, March 2020.

equivalent to 30 per cent of all rental properties in the local area. Since then, they increased with inflation until 2015, and then were subject to the four-year nominal freeze that affected most means-tested benefits. Relinking LHA rates to 30th percentile rents in the area means that housing support will rise the most in areas where rents have risen fastest since 2012. In areas where rents have risen by very little, the change will have little or no impact (it will also have no impact in inner London, where a separate national ceiling on LHA rates still binds[28]).

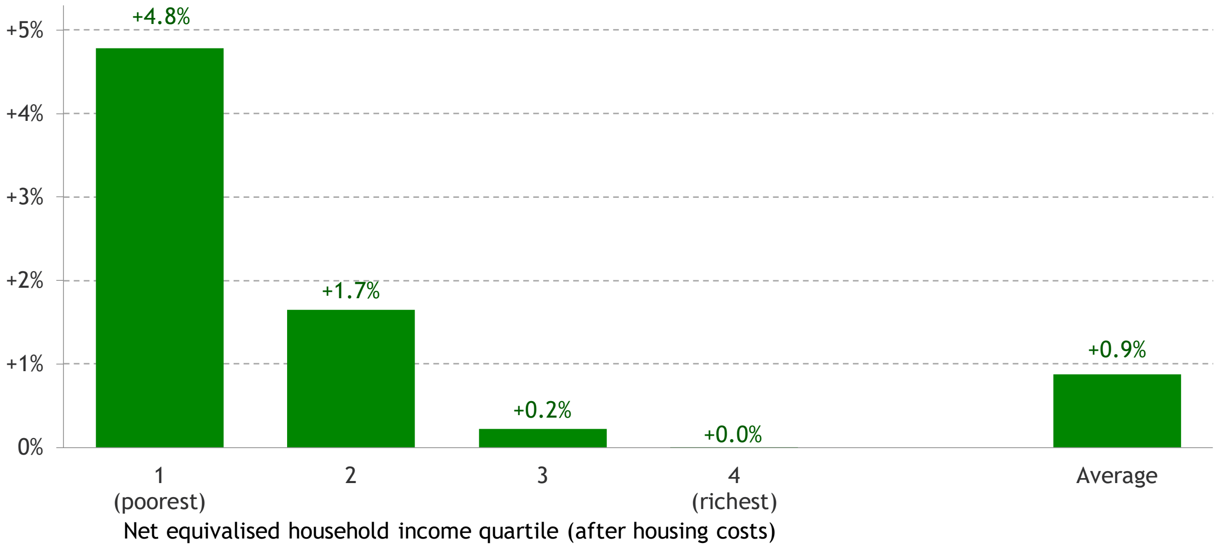
The £7 billion package built on a set of changes announced in the Spring 2020 Budget that were intended to make it easier for self-employed workers to get help from the social security system should they fall ill or see their business decline.[29] Historically, the self-employed have not been entitled to Statutory Sick Pay or the same social security benefits as employees. In return, the self-employed pay lower National Insurance contributions (and other taxes on labour income, if incorporated). In addition, Universal Credit's minimum income floor (MIF) meant that low-earning self-employed people received less support than in the tax credits system. In order to prevent fraud and avoid the state subsidising unprofitable instances of self-employment, the MIF used to mean that, when assessing the circumstances of the self-employed, UC assumed that anyone whose business had been operating for more than a year earned an amount at least equivalent to 35 hours of work per week on the National Living Wage. Such a policy is wholly inappropriate during the current crisis, which is why the MIF policy has been temporarily scrapped. This means that self-employed people whose businesses have collapsed can claim UC and potentially be entitled to a full award, equalising the treatment of employees losing jobs and self-employed people whose work has dried up. This change follows the removal of the seven-day waiting period for entitlement to contributory ESA. This affects both self-employed people and eligible employees, but was specifically targeted to allow the self-employed to better use this benefit as a substitute for Statutory Sick Pay (SSP) in the current crisis, albeit at reduced generosity (£74.35 for adults aged 25 and over, compared to the SSP rate of £95.85).

28 This is explained in more detail in L Judge & C Pacitti, Housing Outlook Q2 2020: Housing and the coronavirus income shock, Resolution Foundation, April 2020.
29 For complete detail see: T Bell, M Brewer, L Gardiner, K Handscomb, & D Tomlinson, Next steps to support family incomes in the face of the coronavirus crisis, Resolution Foundation, March 2020.

Figure 17 shows the distributional impact of these changes on a static basis. As would be expected from an increase in means-tested support, the majority of the beneficiaries are in the bottom half of the income distribution. On average, these changes provide a boost to family incomes of nearly 5 per cent in the bottom quartile.

FIGURE 17: **The emergency welfare changes provided a welcome boost to low-income families, in and out of work**

Impact of changes to Universal Credit and tax credits announced in the Budget and the Chancellor's 20 March coronavirus package on net household income (after housing costs): UK, 2020-21

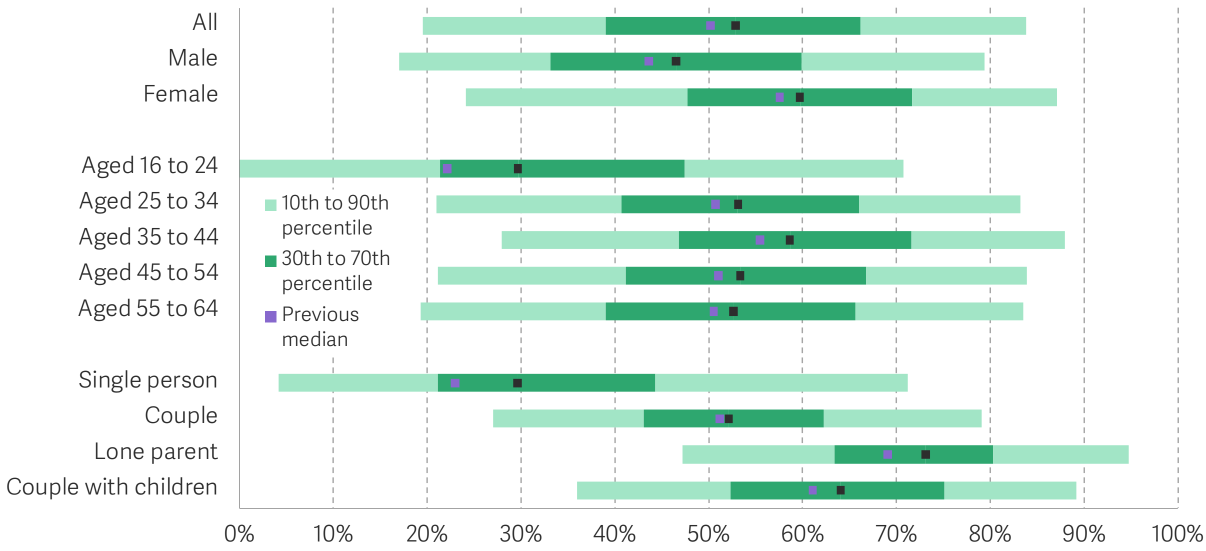


NOTES: Assumes partial roll-out of UC and accounts for partial benefit take-up. Assumes 2017-18 levels of earnings and employment. Modelling includes changes to UC and tax credit allowances, and the UC minimum income floor for the self-employed.
SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

Although recent benefit uplifts will benefit both low-income working and out-of-work families, a major consequence has been to strengthen the safety net's ability to protect people from the financial consequences of unemployment. Figure 18 shows how replacement rates have been strengthened by these measures. The median replacement rate shifts up by a few percentage points (e.g. from 50 to 53 per cent at the median across all workers), with somewhat larger increases for single adults without children, and especially those aged under 25. This is because the increase to UC was a flat-rate £20 for all family types: this means that the maximum UC entitlement for a single adult under 25 rose by 36 per cent on its 2019 value, but the rate for a couple with two children rose by just 11 per cent.

FIGURE 18: **The latest changes have increased replacement rates for all, but less so for couples**

Family income replacement rates when earner stops working and claims benefits by selected characteristics, latest policy: UK, 2020-21



NOTES: Replacement rates shown for whole benefit unit income before housing costs, for adults aged 16-64 who stop working and then claim benefits as entitled. Partner income held constant. Full roll-out of UC and full take-up of benefits assumed.
SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

Box 7 compares how the UK Government's approach to protecting family incomes compares to that taken in the US.

BOX 7: **The welfare policy response to coronavirus in the UK and US compared**

There have been a wide range of policies implemented globally in response to the impact of this crisis on the labour market. Here we consider what we can learn from looking at policies implemented in the US, where the applied policy levers have been quite different to those in the UK.

In the UK, the objective of the Job Retention Scheme (JRS) is to maximise the chances that a worker stays in their pre-crisis job. Any private-sector employee furloughed by their employer is eligible for the JRS and can receive up to 80 per cent of their usual pay via the scheme while furloughed. This has led to high take-up of the scheme, with over three-in-ten (eight million) jobs having been supported so far. The equivalent scheme for the self-employed, which provides a grant of up to £7,500 to those whose business has been negatively affected by coronavirus, is also proving popular – with two million successful claims in the Self-Employment Income Support Scheme's (SEISS's) first five days of operation. These two schemes have left a (still very large) minority of those affected by the crisis falling back on the benefits system.

In contrast to the UK approach, support in the US has primarily come through the benefit system. In particular, Pandemic Unemployment Compensation of $600 per week has been provided to those who lose their jobs or who are furloughed. This is in addition to the existing Unemployment Insurance (UI) support, which provided average awards of $378 a week prior to coronavirus.[30] Many of those now relying on UI are in practice furloughed by their employer, but the strength of their relationship to that employer is weaker than under the JRS. In the UK, such employees still receive their – in most cases, reduced – pay check from their firm, while in the US they must apply to the Government for UI. This difference in the primary policy response suggests less weight is being placed on keeping firms and workers matched together in the US than in the UK.

Although job retention in the US is supported via the new Paycheck Protection Programme (PPP), this is more limited than that provided by the JRS. The PPP provides loans which are converted to grants if firms maintain headcount and spend at least 75 per cent of the loan on staff wages. These are only available to businesses with fewer than 500 employees, and there are also detailed eligibility criteria. Further, the support provided is just for an initial eight-week period. All of these limitations have hampered its effectiveness.[31]

Although the $600 boost to out-of-work benefits is set to come to an end on 31 July 2020, the length of time for which an individual can claim the usual level of support has been increased by the Federal Government from 26 to 39 weeks, although states are not mandated to provide support for this length of time – some provide more but many others provide less.[32] Further, a Pandemic Unemployment Assistance programme has been implemented to support those working few hours or who are self-employed.

This massive increase in the generosity of the UI system means that an estimated 68 per cent of unemployed workers eligible for UI are set to receive more in benefits than their previous

30 Centre on Budget and Policy Priorities, Policy Basics: Unemployment Insurance, May 2020.
31 See: M Cerullo & S Gandel, Many small businesses say Paycheck Protection Program is deeply flawed, CBS News, April 2020.
32 Centre on Budget and Policy Priorities, Policy Basics: How Many Weeks of Unemployment Compensation Are Available?, May 2020.

earnings, with a typical replacement rate of 134 per cent.[33] The sharp increase in support for those out of work contrasts sharply with the UK Government's increase in out-of-work benefits by £20 a week, which, as we show in Figure 18, increases replacement rates only slightly in most cases.

Despite this generosity, there are significant differences in support across states, as well as large variation in how swiftly claims have been processed – with some states, such as Florida, struggling to process and make payments quickly. From an administrative perspective, the UK benefit system appears to have performed better in terms of provision of support, with little evidence of delays in payment processing for either the JRS, the SEISS or Universal Credit.

Because the US approach prioritises help for those on lower pay – indeed, many lower-paid workers will be better off being unemployed or furloughed than if they were still in work – it is likely that it will do more to boost the economy in aggregate than the UK approach. This is especially the case because those towards the bottom of the income distribution tend to spend a higher proportion of their income.[34] But there is a risk that this high level of support will disincentivise workers from taking new jobs in growing parts of the economy in the months ahead. If that proves to be the case, US policy makers will need to find ways to re-design this support as the economy starts to open up.

There are, though, some issues with the emergency package of welfare reforms introduced by the UK Government in recent months. First, as mentioned above, the rise in UC (and WTC) is a flat-rate £20 a week to all regardless of family size, and so is worth considerably less per person for couples or those with children than to single adults (although it remains the case that replacement rates are still considerably lower for single people without children, even after the £20 a week rise).

Second, the increases in UC and LHA will not be felt in full by UC recipients who are affected by the benefit cap (which stands at £20,000 a year outside of London, or £13,400 for a single person), and the increases in LHA do not benefit renters in those parts of

33 See: P Ganong, P Noel & J Vavra, US Unemployment Insurance Replacement Rates During the Pandemic, Becker Friedman Institute, May 2020.
34 For a discussion of some of the mechanisms involved, see: A McKay & R Reis, The role of automatic stabilizers in the US business cycle, Econometrica 84, January 2016; J Heathcote, K Storesletten & G L Violante, The Macroeconomic Implications of Rising Wage Inequality in the United States, Journal of Political Economy 118, August 2010.

London that are affected by a national cap on LHA rates.[35] Although there is a nine-month grace period before the benefit cap takes effect for some new claimants who have been in work, it is hard to justify why UC claimants with the greatest needs – whether that be through having children, or living in high-housing-cost areas – do not get the full value of the additional support the Government has seen fit to announce. We return to this issue in Section 5.

Third, coming into the crisis, a number of working families were still on the legacy system of tax credits. Some of those hit by this crisis whose earnings fall, or who lose their jobs but whose partner remains in work, will find that they remain within the tax credits system and that their tax credit entitlements do not increase in the face of even quite significant income falls. For this reason, we have previously recommended that the Government return to the pre-2012 approach of not having a threshold for how much someone's income must fall before their tax credits start to rise to compensate.[36] As it stands, the first £2,500 of any fall in income between 2020-21 and 2019-20 will not lead to any rise in tax credit entitlement (although this group should benefit from the £20 a week rise in WTC entitlements).

However, replacement rates remain very low for those not entitled to means-tested benefits, who have to use the contributory benefits system

The discussion in Box 1 drew attention to the distinction between the contributory and means-tested parts of our social security system. Clearly, the emergency welfare measures are of little help to those who are not entitled to Universal Credit (or Working Tax Credits, if they are in a couple) if they fall out of work.

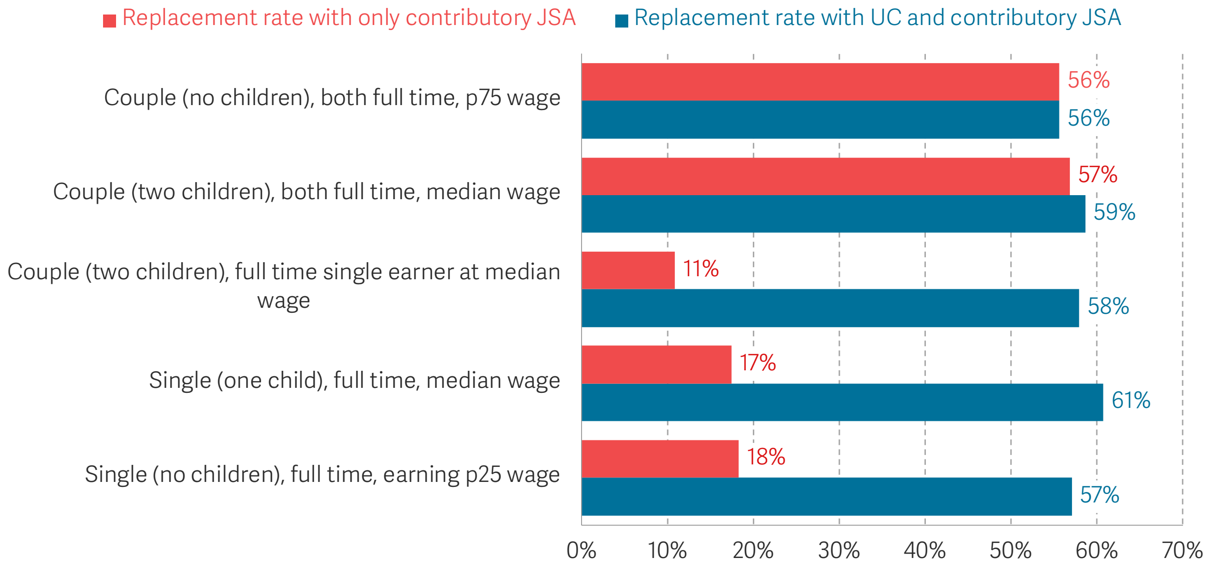
Some of the key groups falling into this category will be those whose savings mean they are not entitled to any UC at all, and those people living in couples where the earnings of the other partner are too high to allow for an entitlement to UC. For these people, all that will be available is the contributory benefit, new style Jobseeker's Allowance. Figure 19 shows replacement rates for some specimen individuals falling out of work and onto contributory JSA, with the examples specifically chosen to illustrate how certain combinations of circumstances can lead to very low replacement rates. In the case of the couple family examples who are both working full time, the family almost entirely supported by the other earner – and these earnings result in a very limited UC award. F

35 Work by the Resolution Foundation estimates that couples with two children living in a three-bedroom home will now fall foul of the benefit cap in 107 out of 152 local areas, see: L Judge & C Pacitti, Housing Outlook Q2 2020: Housing and the coronavirus income shock, Resolution Foundation, April 2020.
36 Resolution Foundation, Doing what it takes: Protecting firms and families from the economic impact of coronavirus, March 2020.

or the single person examples, eligibility for UC has a significant effect on the income replacement rate – as much as 40 percentage points in our single parent example.

FIGURE 19: **Contributory benefits alone provide very low levels of support in the event of unemployment**

Household income replacement rates for main earner losing their job, when family has entitlement to Universal Credit, and when it is only eligible for contributory Jobseeker's Allowance: UK, 2020-21



NOTES: Assumes that for couples only one person in couple is made unemployed and is eligible and claims contributory JSA, and the other person's employment circumstance doesn't change. Full-time workers assumed to work 37.5 hours per week. High earners assumed to earn a wage at the 75th percentile, median earners at the median wage, low earners at the 25th wage percentile. Child benefit included as income. No housing costs are included in benefit awards. Council tax support is included for the UC scenario, but not for the JSA only scenario. Replacement rates are calculated based on incomes net of council tax.
SOURCE: RF case study model.

The degree of protection provided by the JRS is significantly greater than that provided by our social security system, so there are income losses in store if the phase-out of the JRS means new redundancies

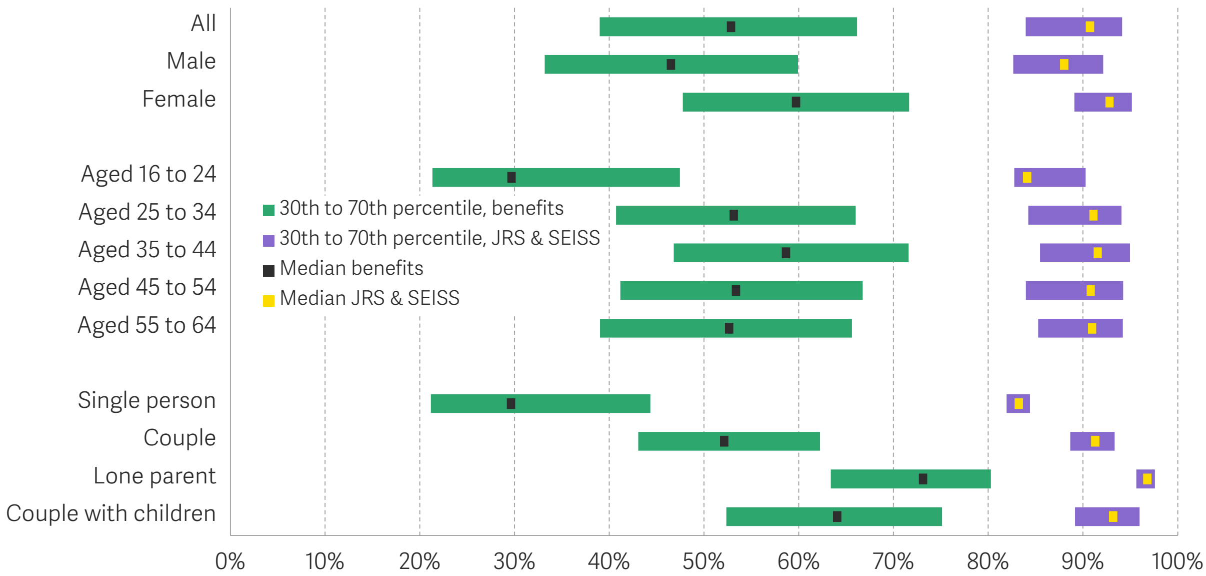
Alongside the emergency welfare changes, the Government also introduced the Job Retention Scheme. Until at least August, the JRS allows employers to furlough their employees and receive grants from HM Revenue and Customs that cover up to 80 per cent of these furloughed employees' pre-crisis earnings.[37] The Government also announced a scheme for the self-employed – the Self-Employment Income Support Scheme – that provides most self-employed people with a one-off grant of 80 per cent of their earnings in previous tax years.

37 See: D Tomlinson, Launching an economic lifeboat: The impact of the Coronavirus Job Retention Scheme, Resolution Foundation, April 2020; T Bell, L Gardiner & D Tomlinson, Getting Britain working (safely) again: The next phase of the Coronavirus Job Retention Scheme, Resolution Foundation, May 2020.

The rationale for the JRS goes beyond protecting family finances: by allowing employers to hang on to their employees when the alternative might have been mass redundancies, it is also intended to allow firms – and the economy as a whole – to bounce back relatively quickly when public health guidance and general levels of economic activity allow. The JRS will not act as a permanent earnings replacement for workers whose jobs have disappeared because of the crisis, given the Government's intention to phase it out in the months ahead. But, although the JRS is not an integral part of the social security system, it is very noticeable that employees who have been furloughed typically experience much higher replacement rates than those not on the scheme. Figure 20 shows this very clearly, by comparing replacement rates among all workers under two scenarios: one where all employees are placed on the JRS (and assuming that employers do not provide any top-up beyond the 80 per cent) and all self-employed workers receive the SEISS; and one where none are placed on the JRS or receive the SEISS.

FIGURE 20: **The Job Retention Scheme and the Self-Employment Income Support Scheme provide much higher effective replacement rates**

Family income replacement rates when earner stops working, is furloughed or claims a self-employed grant by selected characteristics, latest policy: UK, 2020-21



NOTES: Replacement rates shown for whole benefit unit income before housing costs, for adults aged 16-64 who stop working and then claim benefits as entitled. Job Retention and Self-Employment Support Schemes assume only full take-up of government support subject to cap. Support for self-employed assumed to be continuous. Partner income held constant. Full roll-out of UC and full take-up of benefits assumed.
SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

It is clear that the degree of income protection provided by the JRS and SEISS is significantly greater than that provided by the social security system. Under the JRS, the median replacement rate is actually over 90 per cent (it is greater than 80 per cent partly because many people will pay lower effective tax rates after a 20 per cent fall in earnings, but also because some people on the JRS can also claim means-tested support through UC), compared to 53 per cent without it.[38] In fact, the SEISS is actually more generous than this analysis suggests because it is paid in a lump-sum. This means that a self-employed person whose business has stopped altogether could claim UC and be treated as if they had no earnings in April and May, and then treated as if they had a SEISS grant in June. This would usually give them greater UC entitlement than if they had received one-third of the SEISS in each of April, May and June, which is implicitly what we have assumed in our calculations.[39]

This highlights a very important issue of fairness: that those former employees who are not currently benefiting from the JRS – perhaps because they were made redundant, or were ineligible because they had only just started a new job as the crisis hit, or because their employer went bust or chose not to make use of the scheme – will be typically experiencing a far greater hit to their incomes than those (relatively) lucky enough to be furloughed.[40] But it also warns us that, as the JRS scheme is reformed during the second half of this year, workers who are moved off the JRS and made redundant may experience large falls in their family income.

However, neither of these critiques represent an argument to continue the JRS in its current form for as long as the crisis continues. As the Resolution Foundation has argued elsewhere, when the lockdown begins to be lifted we will actively want some economic activity to take place if it can be done safely.[41] Instead, these points highlight the key role that UC will continue to play in supporting family finances, not just as the coronavirus shock first hit, but during the long road back to more normal times.

38 The JRS has a £2,500 a month cap, and this will mean that workers paid more than that could experience a replacement rate below 80 per cent. This is fully accounted for in our model, but does not show up in Figure 20 because it affects only replacement rates below the 30th percentile of the distribution for each of the groups we show (it affects approximately the highest-paid fifth of employees).

39 This is set out in full in S Adam, H Miller & T Waters, Income protection for the self-employed and employees during the coronavirus crisis, Institute for Fiscal Studies, April 2020.

40 Although we don't yet have official statistics on who is being furloughed, our own survey shows that those aged under 25 – who face much lower levels of support from UC – are, conditional on having their job disappear, less likely to be furloughed. See: M Gustafsson, Young workers in the coronavirus crisis: Findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020.

41 See: T Bell, L Gardiner, D Tomlinson, Getting Britain working (safely) again: The next phase of the Coronavirus Job Retention Scheme, Resolution Foundation, May 2020.

Section 4

Having passed its first test, new challenges await Universal Credit

It is clear that the UK economy is not going to have a rapid V-shaped recovery, and that the economic crisis and labour market disruption will continue well beyond the hard-lockdown phase of this crisis. Although Universal Credit (UC) passed its first test and is now supporting several million in-work and out-of-work families, it now faces more challenges. This section considers three.

First, although the rate of new claims had settled down by early May, we should expect a second surge, as the Government phases out the JRS.

Second, having suspended all work-search activities in Jobcentre Plus when the crisis hit, the Department for Work and Pensions (DWP) not only has to decide when and how to provide its previous offering of back-to-work support and conditionality; but also how to provide a more extensive range of labour market interventions in response to the large number of unemployed workers now on UC amid very different labour market conditions than have prevailed over recent years of record employment.

Third, it's clear that the move to UC represents, for some, a significant shock to living standards. Although new UC claimants in our survey have, on average, higher earnings and more savings than existing UC recipients, 34 per cent of new UC claimants we surveyed are having trouble keeping up with bill payments, 42 per cent have cut back on spending to prioritise housing costs, and over half have already dipped into their savings. We are no longer in a world where a worker made redundant can expect to find work quickly, and DWP will need to monitor carefully how new and existing UC recipients are coping with the hit to their family finances in the medium to long run.

There is a high risk of a second peak of UC claims as the Job Retention Scheme winds down

At the time of writing, full decisions about the future of the Job Retention Scheme (JRS) have yet to be taken, although the Government has announced that it will be extended into July in its current form and exist in a modified form to at least the end of October. Crucially, from August onwards employers will be asked to contribute towards the costs of furloughed workers' wages.

At the time of writing, full decisions about the future of the JRS had yet to be taken, although the Government has announced that it will be extended into July in its current form, and exist in a modified form to at least the end of October. Crucially, from August onwards employers will be asked to contribute towards the costs of furloughed workers' wages.

Depending on the exact rules for the scheme from August, there could well be another surge of claims for UC if employers decide to, or are forced to, take employees off furlough and make them redundant. This by itself is not a reason to continue the JRS indefinitely – as the Resolution Foundation has set out elsewhere[42] – but it does mean that final decision making on the phasing out of the JRS needs to pay close attention to how swiftly economic activity returns as the lockdown is lifted. But even if the phasing out of the JRS is well handled, the DWP should expect further significant claims for UC from those flowing off the JRS but not returning to their previous jobs.

At some point, UC will need to shift from income maintenance to helping people get back to work, and protecting against fraud

When the Government ordered a lockdown and UC claims began to surge, the DWP very sensibly suspended all work-search activities in Jobcentre Plus (JCP), allowing even more focus on ensuring new claims are processed and paid on time. The roles of work coaches in Jobcentre Plus and benefit processors in service centres had purposefully been blurred under Universal Credit to enable a more joined-up service. With hindsight, this has turned out to have given DWP much needed flexibility when it needed it most.

At some point, the DWP will need to pivot from focusing almost exclusively on processing UC claims to also delivering support for people to move into work, to help reduce the scarring effects of long periods of worklessness. This will be an extremely challenging task because the DWP has, to a significant degree, moved out of the business of providing assistance with work search in recent years. The prolonged period of record employment has meant less advisor capacity devoted to this task, and the amount

42 See: T Bell, L Gardiner, D Tomlinson, Getting Britain working (safely) again: The next phase of the coronavirus job retention scheme, Resolution Foundation, May 2020.

spent on contracted-out employment programmes fell by more than 90 per cent between 2010 and 2019.[43] The task is made all the more challenging by the sheer number of unemployed claimants, and the difficulty in finding work in what is likely to be an exceptionally challenging labour market.

What the DWP should do in practice will be the subject of future Resolution Foundation work, but simply returning to the light-touch regime in UC – which was much more focused on the 'stick' of conditionality than the 'carrots' of work search assistance and work preparation activities – will be completely inadequate. A major challenge for DWP, and for UC in its first recession, is to devise a new suite of active labour market programmes for UC recipients appropriate for the scale of the current challenge.

As set out in previous Resolution Foundation research, the broad contours of the offer should encompass job-search support for all unemployed claimants, including in the earliest phases of a claim; an expanded offer of training, advice and guidance; and job guarantees, particularly targeted at young people.[44] A successful (supply-side) activation approach of this nature should also be joined up with demand-side stimulus, including the expansion of green industries.[45] Finally, as others have set out given the reduction in JCP capacity and increase in its workload, delivering against such policy objectives rapidly enough will require effectively partnering with local government, charities, housing associations and the wider recruitment and employment services sector.[46]

Determining how quickly this should happen, or when the DWP should switch on the old conditionality regime, is difficult. Making the transition to supporting claimants with searching for work should be driven by how quickly the labour market picks up, with particular reference to how well vacancy rates recover. But that should not mean waiting for 'normality' to return: there are merits to 're-activating' claimants towards job search even while economic activity is still somewhat constrained. The UK's high-turnover jobs market means many thousands of opportunities remain available (not least in care and food retail), and there are negative behavioural effects from workless people being out of the job-search habit for too long.

43 Source: Institute for Employment Studies analysis of DWP accounts.
44 R Hughes et al., Doing more of what it takes: Next steps in the economic response to coronavirus, Resolution Foundation, April 2020.
45 T Bell, L Gardiner & D Tomlinson, Getting Britain working (safely) again: The next phase of the Coronavirus Job Retention Scheme, Resolution Foundation, May 2020.
46 T Wilson et al., Getting Back to Work: Dealing with the labour market impacts of the Covid-19 recession, Institute for Employment Studies, April 2020.

At some point, the DWP will also need to look carefully at its processes to ensure it is doing what it can to minimise fraud and error. Here, UC came into the crisis with a fairly poor record – the proportion of UC cases with fraud overpayments stood at 17 in 100 cases in 2019-20 with a fraud overpayment rate of 7.6 per cent – higher than the rate for Jobseeker's Allowance ever was, although comparable to tax credits.[47] We won't know until new statistics are published, but it is possible that the changes made to ease the new claims process may have inadvertently resulted in higher rates of fraud and error. That does not mean they were the wrong thing to do, but does mean adjustments will be needed as the sole focus on processing unprecedented volumes of new claims eases.

Finally, all these decisions must be made in the context of funding and staffing. In the past eight years, the DWP has experienced a reduction in headcount of almost a third.[48] That partly reflects a falling number of jobseekers, but was also achieved by increasing the number of claimants each work coach has had to manage. With the advent of this crisis, the DWP has sensibly bolstered its UC workforce to deal with the new claims, with reportedly up to 20,000 staff being repurposed from across government, and with plans to hire up to 5,000 new staff.[49] History shows that significant increases in DWP staffing numbers will be needed, not just in the depths of this crisis but for some time to come.

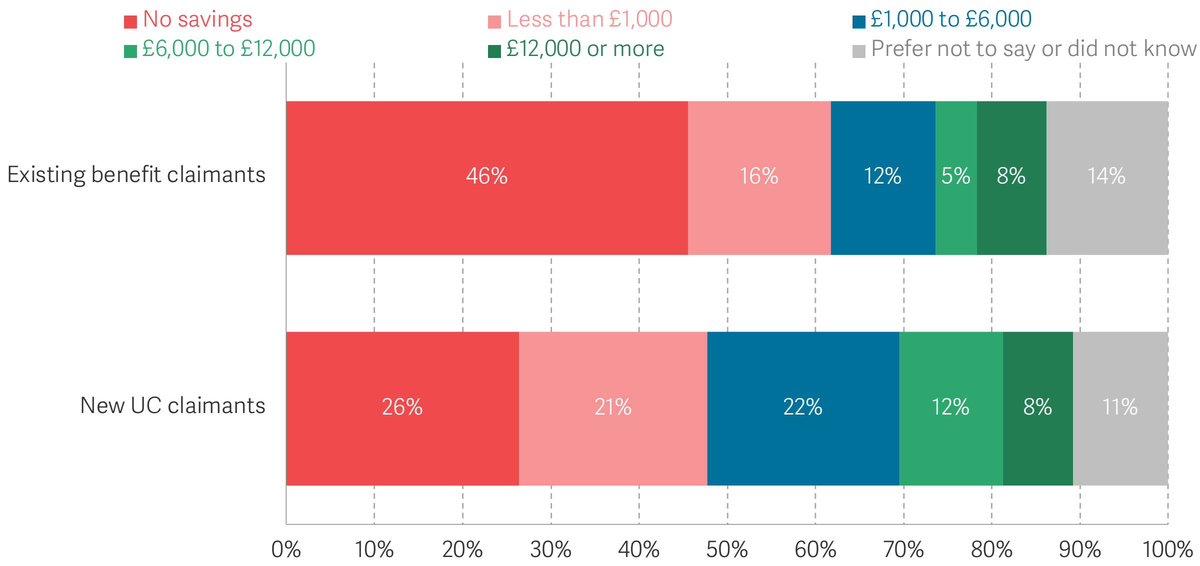
Some UC claimants are already finding it difficult to adjust, and have fears for the future

A key part of our survey work and in-depth interviews sought to establish how well UC claimants were coping with the lower standard of living that moving onto the benefit has brought. We showed in Section 2 that the majority of new UC claimants in our survey were still in work or receiving earnings while furloughed, and that before the crisis they had higher earnings, on average, than the pre-existing UC recipients who were in work. Figure 21 shows that 54 per cent of those in our survey who claimed UC had less than £1,000 of savings, although this figure is 72 per cent among pre-existing UC recipients.

47 See: DWP, Fraud and error in the benefit system statistics, multiple years.
48 See: L Gardiner, The shifting shape of social security: Charting the changing size and shape of the British welfare system, Resolution Foundation, November 2020.
49 J Johnston, Coronavirus: DWP looking to recruit 5,000 benefits claimants to handle surge in Universal Credit claims, Politics Home, April 2020.

FIGURE 21: **New UC claimants had lower savings on average, reflecting the UC capital rules**

Recent or existing UC/benefit claimants by level of all savings excluding pensions before coronavirus: UK, 6-11 May 2020



NOTES: Base = all UK adults aged 18-65 in work before coronavirus and were either an existing benefit claimant or recent UC claimant. Those who did not divulge savings level were excluded. Existing claimants include those claiming UC and legacy benefits that will in part be replaced by UC, including: Employment Support Allowance, Housing Benefit, Income Support, Jobseeker's Allowance, Working Tax Credit and Child Tax Credit.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Some interviewees mentioned that UC did not cover existing debts and payment commitments (for example, for a car or items needed for a self-employment business). In some cases, they were able to temporarily suspend these payments, but were worried about what will happen if circumstances do not improve:

> *"I get a wage but it doesn't cover everything once you pay out your other bills... I think they could look into people's personal situations a bit better."*

Single parent

> *"I've got just about enough money to pay my bills and get food shopping in for the month."*

Female, living with partner and children

> *"I think it's a small amount to live on in normal circumstances... I think it's enough to live on in our circumstances but I think if you have children, if you have other outgoings, I can imagine it would be really tight to live on."*
>
> Male, living with partner

> *"I'm grateful it's there, but we couldn't live on it once things go back to normal. We can't afford any of the things we normally do."*
>
> Female, living with partner and children

On the other hand, there was also recognition that during lockdown, claimants were less likely to spend money, and some were managing for now:

> *"Nothing much to do now is there, it's not like you can go anywhere even if you've got all this money, it's not like you can go out and treat yourself."*
>
> Female, living with partner

Others who we interviewed were quite happy with the support they were entitled to:

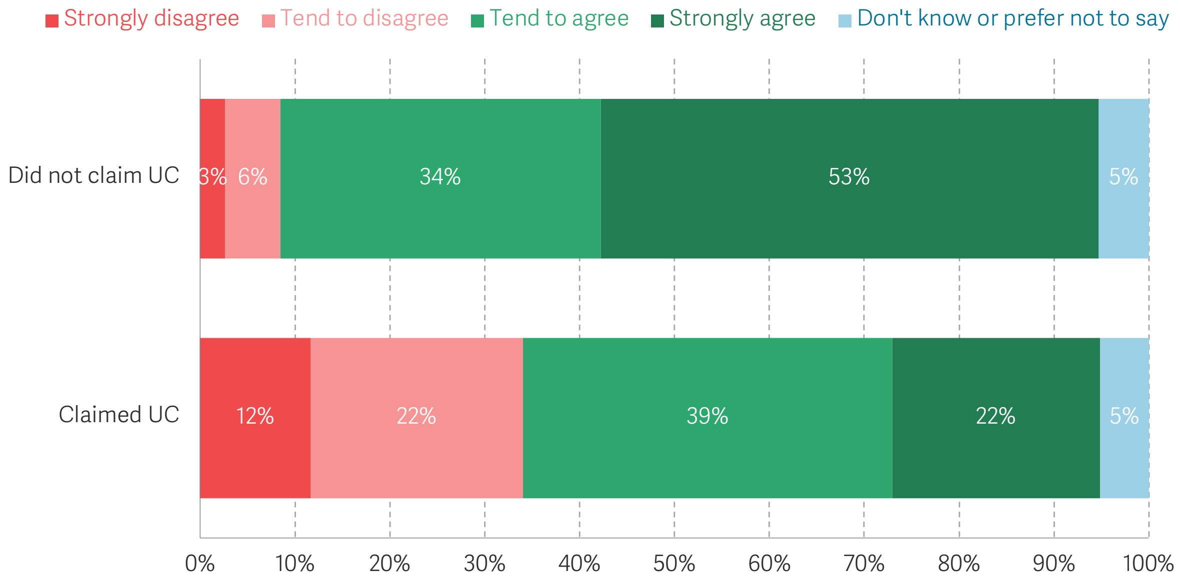
> *"Now that I've had to do it and seen the maximum you can get and that, I think it's doable."*
>
> Female, living with partner

> *"It will be enough for me I think. It's not a salary, but it's not supposed to be."*
>
> Single male

The more challenging aspects of managing on UC mentioned by interviewees are backed up by evidence from our survey, in which despite new claimants generally being better off than existing claimants, 36 per cent reported that they were already having difficulties in keeping up with bill payments (Figure 22), and 42 per cent said they had cut back on other spending to prioritise being able to cover housing costs (Figure 23).

FIGURE 22: **36 per cent of new UC claimants disagree that they can currently keep up with bill payments**

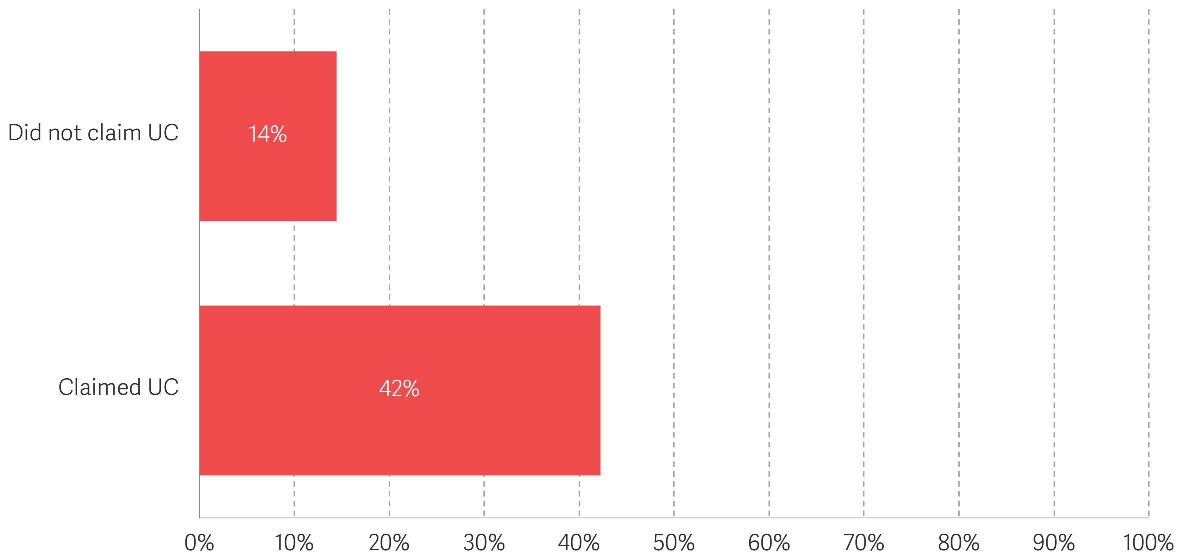
Survey respondents by whether they agree they can keep up with bill payments and whether recently claimed UC: UK, 6-11 May 2020



NOTES: Base = all UK adults aged 18-65 in work before coronavirus.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

FIGURE 23: **42 per cent of UC claimants had to cut back on other spending to afford their housing costs**

Survey respondents by whether they have cut back on other spending to afford their housing costs and whether recently claimed UC: UK, 6-11 May 2020

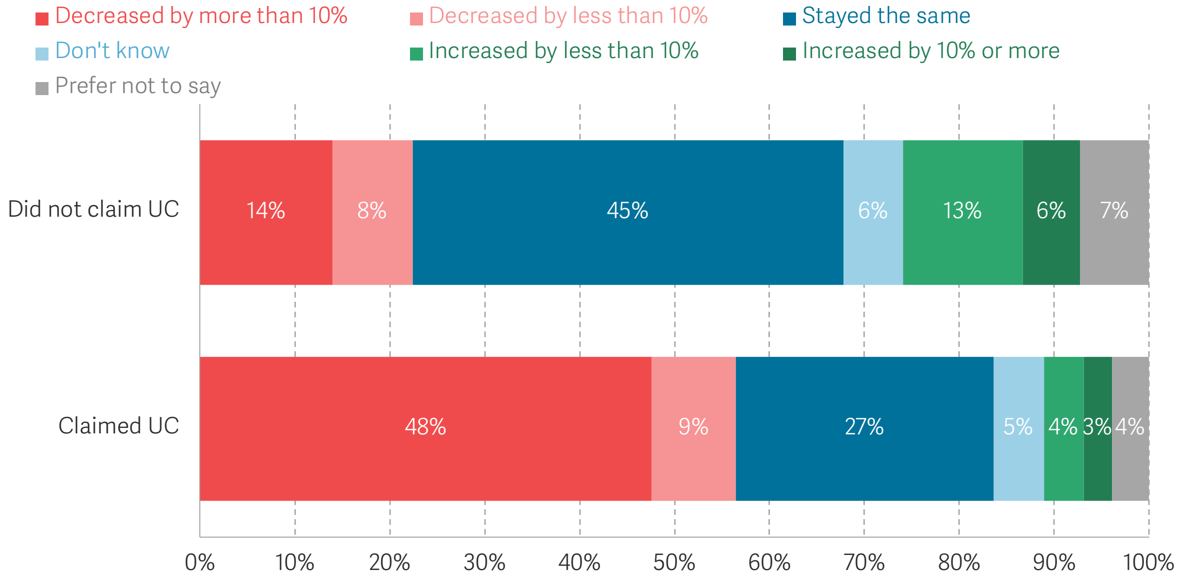


NOTES: Base = all UK adults aged 18-65 in work before coronavirus.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Unsurprisingly, half of new UC claimants in our survey reported that they had dipped into their savings during the crisis (Figure 24). By contrast, across the rest of the working-age population in our survey, savings were only slightly more likely to have fallen than risen.

FIGURE 24: **Half of UC claimants have seen their savings fall by more than 10%**

Survey respondents by change in their savings and whether recently claimed UC: UK, 6-11 May 2020

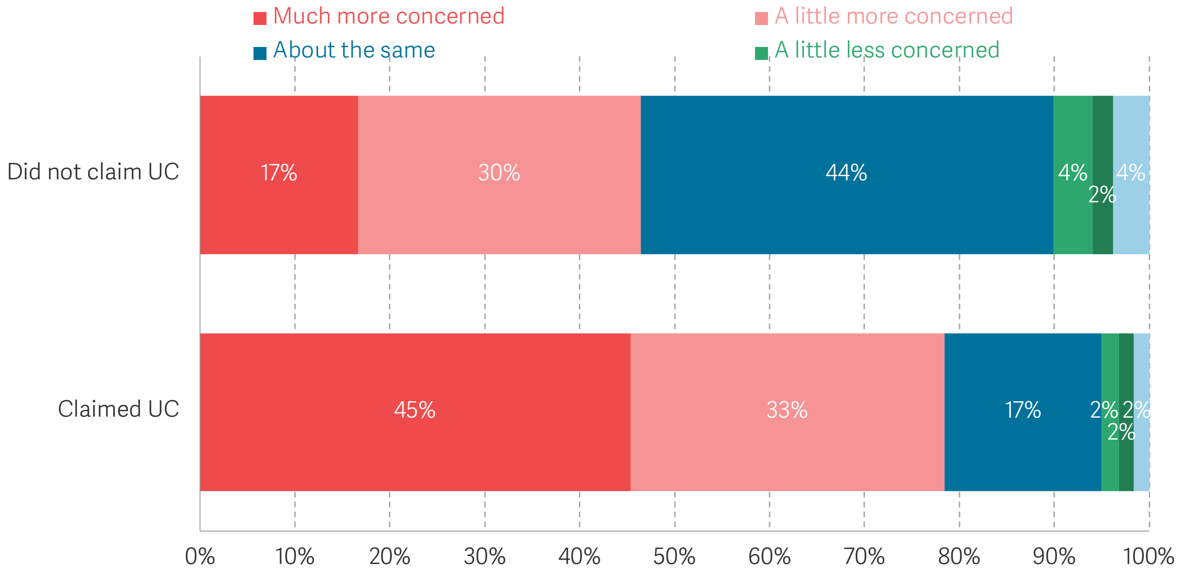


NOTES: Base = all UK adults aged 18-65 in work before coronavirus.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

When asked to look forward, new UC claimants in our survey were pessimistic about the future, with 80 per cent having got more concerned about their family finances; this compares to 48 per cent across the rest of the working-age sample (Figure 25).

FIGURE 25: **The majority of UC claimants are now more concerned about their finances compared to before the coronavirus outbreak**

Survey respondents by how concerned they are about their family finances compared to before the coronavirus outbreak, and whether recently claimed UC: UK, 6-11 May 2020



NOTES: Base = all UK adults aged 18-65 in work before coronavirus.
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Many of the claimants we spoke to were concerned about their longer-term finances. Some were able to rely on savings in the shorter term, but uncertain about the future if they remained out of work. Concerns about the future will reflect the fact that despite currently having resources to draw on in some cases, new UC recipients coming from the top half of earners will be facing low replacement rates as the previous section showed. And as set out in Section 2, a high volume of private renters and mortgagors among the new UC claimant population will mean many have come into this crisis with high housing costs:

> *"We'll be able to manage it at the moment, two-to-three months I reckon. If we have to cut down more than we have then we will. We haven't taken a deferment on car finance or mortgage or anything because we are managing fine from that perspective."*

Male, living with partner and children

> *[How long could you manage?] "I don't know really – not sure how long it goes on – long term, I am not sure whether UC will be enough."*

Male, living with partner

> *"Our standard of living is possibly going to have to go down if things don't improve in terms of work going forwards."*
>
> Female, living with partner

> *"We're not going out so there's a lot that we're not spending, travel and going out generally, all that we are spending money on is utilities and food. I suppose we are trying to make food stretch as far as possible. Within about two months from now we'll be in serious trouble. I think that's when we would need to try and get more Housing Benefit and Council Tax Benefit, things like that."*
>
> Female, living with partner

This section has presented a snapshot of how some new UC claimants are coping financially. Necessarily, our findings are based on a relatively small sample and are intended to serve as rapid, initial evidence. It is not yet clear how long social distancing rules will last, and so it is very hard to know how long families are likely to be dependent on UC. But the longer the health crisis goes on for and economic activity is depressed, the tougher it will be for UC recipients to avoid financial difficulties. Although further work in this area is planned by academics,[50] a key task for the DWP will be to monitor itself how families on UC are coping as the crisis continues.

50 See, for example, the projects announced at: https://beta.salford.ac.uk/news/funding-awarded-investigate-benefits-support-during-covid-19-crisis, accessed 22 May 2020, and: https://www.nuffieldfoundation.org/project/poverty-covid-19-families-low-income, accessed 22 May 2020.

Section 5

Conclusions and recommendations

As our response to coronavirus shuts down parts of economy, social distancing puts a constraint on many others. The social security system, with Universal Credit (UC) at its heart, is playing a key role in the Government's strategy to make sure that the coronavirus crisis doesn't become a living standards crisis.

But although UC was always intended to be the UK's key safety-net benefit, this is its first experience of an economic crisis. Given that millions of families are depending on it, this report has assessed how UC is coping, and how families on UC are managing. In this final section we bring together our conclusions and key recommendations for the Government.

Universal Credit has passed its initial test

By most standards, the Department for Work and Pensions and UC's systems passed their first big test. The IT systems were not overloaded, and millions of payments were made during April and May, with the DWP reporting that the vast majority of advance payments were made within 72 hours, and over nine-in-ten first payments made in full and on time. This is testament to the digital design of UC, as well as sensible, tactical decisions taken after the crisis began, including pausing conditionality, removing the need for a face-to-face interview, and redeploying DWP staff as required.

Ultimately, 74 per cent of new claimants in our survey reported they were satisfied or very satisfied with the way DWP handled their claim, and this was backed up by our in-depth interviews. There will, of course, be many individual examples of hardship and poor administration and the nature of the evidence we drew for this report means that we will have missed out on groups who find the digital service hard to deal with.

Awareness of advances seems high, but some still fear getting into debt, and budgeting can be hard when payments are confirmed only three days in advance

One aspect of UC that has been contentious for years is the five-week wait for the first payment – something that is baked into the design of a benefit that has a monthly assessment period and does not have tax credit-style end-of-year reconciliations.

Our survey and interviews found that awareness of advance payments – the DWP's answer to the five-week wait challenge – is high. However, while most UC claimants we surveyed who did not ask for an advance said that they did not need one thanks to savings or other income, two-in-five mentioned fear of debt as their main reason for not taking one. The idea that 'advances mean more debt' is not a helpful way to think about the main mechanism for getting claimants money quickly, especially if an advance can prevent claimants getting into more serious arrears elsewhere.

In order to improve the claimant experience of UC, and to enable UC to help families manage their finances as best they can, we recommend that the DWP should:

- Continue to prioritise the processing of new claims, using whatever means are necessary, recognising that the option of a phone call can be very reassuring, even for those who find digital systems easy;
- Continue to make advances as easy to claim as possible, while suspending the repayment of advances for the first six months of new claims to encourage take-up among those who would benefit; and,
- Consider how to give claimants a more realistic expectation of the value of future awards, thereby helping them to budget under their reduced means.

UC is not just for the unemployed, it is playing an important role supporting workers whose hours are cut, or who lose earnings

From our survey, of those new UC claimants who were in work before the crisis we estimate that 46 per cent were still actively working and earning in May while receiving UC, with another 12 per cent furloughed. This is broadly in line with the DWP's statistics that show 30 per cent of the stock of UC recipients in April were in one of its 'in-work' categories (although not all of the adults will be in work).

This shows that UC is playing a much broader role than Jobseeker's Allowance used to do. It is providing crucial financial support to those with no job, or whose self-employed business has dried up, and is also topping up the incomes of those on low pay, or whose earnings have fallen following cuts in their working hours, or due to being furloughed.

We also found that one-in-four new UC claimants were self-employed before the crisis began, consistent with other work that suggests relatively high take-up of UC among this group.

DWP has some tough decisions to make about when to return to conditionality and ramp up work-search support

When the coronavirus crisis hit, the DWP very sensibly suspended all work-search activities in Jobcentre Plus, both because of social distancing rules but also to allow more focus on ensuring new claims were paid on time. However, the DWP will need to shift at some point from a focus on processing claims, to supporting the large number of unemployed claimants in what could be an exceptionally weak labour market.

How the DWP transitions to supporting claimants with searching for work will be the subject of future Resolution Foundation work. The pace of that change will need to depend on how quickly labour market activity returns, and any change in approach should be consistent with the public health response to coronavirus. The DWP's approach to returning to a work-search focus will also need to reflect the way in which the JRS is reformed in the second half of 2020.

To prepare for the challenge of helping millions back into work, the Government should:

- Be prepared to provide additional job-search support for all claimants, an expanded offer of training and advice, and job guarantees targeted at young people;
- Roll out this support – and re-introduce conditionality for claimants – in line with the path of the labour market recovery and the easing of government restrictions; and,
- Ensure that both this package and the processing of new claims – that will likely increase as the JRS scheme is adapted – are fully funded and appropriately resourced, with significantly-increased staffing levels in Jobcentres.

Even after the Job Retention Scheme and extra spending on benefits, gaps remain in the UK's safety net

The extra spending on UC and Local Housing Allowance (LHA) announced on 20 March has helped to strengthen the social security safety net that protects family finances in the event of unemployment. But gaps remain, particularly for those whose savings mean they are not entitled to any UC at all, and people living in couples where the earnings of the other partner are too high to allow for an entitlement to UC.

In stark contrast to those in similar situations but furloughed, these individuals are left claiming the contributory version of Jobseeker's Allowance, which didn't get increased by £20 a week, and remains at just £74.35 a week. Additionally, those whose earnings have fallen because of the crisis but remain on tax credits will find that they get no additional support for the initial £2,500 fall in income, which undermines the role that tax credits can play in cushioning earnings falls.

More fundamentally, the amount of income protection provided by the social security system is typically much less than that provided by the JRS. This means that as the JRS scheme is reformed during the second half of this year, workers who are moved off the JRS and made redundant may experience large income falls. The JRS is an important part of the Government's strategy to reduce the economic impact of coronavirus, but it must not overshadow the role that UC is playing right now in supporting family incomes and the expanded role that it will play after the JRS has been phased out.

To strengthen the safety net further, the Government should:

- Limit or temporarily suspend the capital rules in UC that prevent those with more than £16,000 from receiving any means-tested benefits;
- Extend the emergency £20 a week increase to the 'new style', contributory Jobseeker's Allowance and Employment and Support Allowance, as well as to the legacy benefits that are being subsumed into UC; and,
- Return to the pre-2012 system for tax credits, so that any reduction in a claimant's earnings will lead to higher tax credit awards.

We must make sure the coronavirus crisis does not become a living standards crisis

It's clear that, for some, the move to UC represents a significant shock to living standards. Although new UC claimants in our survey have, on average, higher earnings and more savings than existing UC recipients, 34 per cent of new UC claimants we surveyed are having trouble keeping up with bill payments, 42 per cent have cut back on spending to prioritise housing costs, and over half have already dipped into their savings.

We are no longer in a world where a worker made redundant can expect to find work quickly, and the DWP will need to monitor carefully how new and existing UC recipients are coping in the medium to long run with the hit to their family finances. This raises the question about whether UC at current levels is sufficient to get by on for several months in what will be a weak labour market.

And aspects of the way that the emergency £20 a week UC increase was brought in mean that not all families are benefiting equally. First, the £20 week increase in UC and the extra generosity of LHA mean that more UC recipients find themselves hitting the overall benefit cap. Although there is a nine-month grace period from the benefit cap for some new claimants who have been in work, it is hard to justify why UC claimants with the greatest needs – whether that be due to having children, or living in high-housing-cost areas – do not (or will not, when the nine months is over) get the full value of the additional support that the Government has seen fit to announce.

Second, the £20 a week increase in UC did not vary by family size. For those getting full UC, awards increased by 36 per cent between 2019 and 2020 for an adult aged under 25, but by only 8 per cent for a couple with two children.

To ensure that UC can protect family finances effectively for however long the crisis lasts, the Government should:

- Suspend the benefit cap for the duration of the crisis, or at least increase its value in line with the increase in UC entitlement, so that all families on UC benefit from the emergency measures;
- Commit to continuing the enhanced UC and LHA entitlements rather than letting them expire at the end of the current financial year, given that the impact of the crisis is going to last beyond March 2021 for many families; and,
- Provide a further increase to UC entitlements for couples and those with children if the length of the crisis means that a further increase in entitlements is needed to avoid widespread hardship, reflecting the fact that the initial £20-a-week boost was worth less to them than to single adults.

UC is the key programme protecting families' incomes throughout and beyond the coronavirus crisis. It has successfully handled the exceptionally large volume of claims that this crisis has brought so far, and our recommendations aim to put it in the best position to overcome future challenges.

Annex

This annex provides further details of some of the sources of evidence drawn on in this report: our online survey data, in-depth interviews, and tax and benefit microsimulation modelling.

'Adults aged 18-65 and the coronavirus (COVID-19)': An online survey

The survey was designed and commissioned by the Resolution Foundation, in partnership with the Health Foundation (although the views in this note are not necessarily those of the Heath Foundation).

It was conducted using an online interview administered to members of the YouGov Plc UK panel, which is made up of 800,000+ individuals who have agreed to take part in surveys. The total sample size was 6,005 adults aged 18-65. Fieldwork was undertaken during 6-11 May 2020. The survey was carried out online. The figures presented here have been weighted and are representative of all GB adults (aged 18+) according to age, gender, and region. The figures have been analysed independently by the Resolution Foundation and are not reflective of YouGov statistics.

In-depth interviews with new UC claimants

We conducted 20 in-depth telephone interviews with individuals receiving UC. Participants came from across the UK and were selected on the basis of having made a new claim of UC since February 2020. The interviews were conducted by Karl Handscomb, Laura Gardiner, Lindsay Judge and Fahmida Rahman. Each interview took about 45 minutes, and participants received a small incentive payment. Recruitment was handled by Acumen.

Tax and benefit microsimulation modelling

We used the IPPR model, version 2.03, which uses the Family Resources Survey from 2017-18. The simulations in Section 2 were performed under the 2020-21 tax and benefit system and variants on that, using data that had been uprated to 2020-21 prices. Because the modelling aimed to identify the extent of protection against unemployment among those in work before the crisis, no attempt was made to make the distribution of employment or earnings reflective of their likely outturns in 2020-21.

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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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