

# In credit?

Assessing where Universal Credit's long roll-out has left the benefit system and the country

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Figure 22 has been updated in this version to more accurately represent the trend in the health-related caseload since 2013, thanks to helpful comments from Ben Baumberg Geiger. A previous version showed the caseload for income-based Employment and Support Allowance and Universal Credit with a limited capability for work or limited capability for work related activity element only.

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## Summary

2024 is a critical juncture for Universal Credit. 'Managed migration', the long-delayed process by which claimants of the soon-to-be-phased out 'legacy' benefits are moved onto Universal Credit, is picking up in earnest. And, with neither of the main parties wanting to scrap Universal Credit, whoever wins the election will be governing a 'Universal Credit Britain', as the final stage of what has been the biggest benefit reform in a generation is due to end with a system covering 7 million families by 2029.

The next government will need to understand how Universal Credit has radically restructured the benefit system, but also the country they will be governing. It is nearly 14 years since Universal Credit was first proposed, and over a decade since its first claimants. Universal Credit has seen big changes during this extended rollout, first with a series of real-terms cuts and more recently with changes to reward work, so we cannot rely on thinking from its introduction to understand the system we have. There have also been big changes in the country since Universal Credit was conceived – with record low levels of unemployment and increasing numbers of people who are inactive due to ill-health – some of which bring new challenges, and which must not be overlooked. This note therefore takes a step back to assess how the current Universal Credit system compares to the legacy benefit system it is replacing, and how changes in the country over the last decade have altered its impact.

Universal Credit has changed who the benefit system is for

Today's social security system for working-age adults is significantly less generous than it was when Universal Credit was introduced in 2013. Seven-in-ten (71 per cent) of the 9.8 million families who are eligible for either Universal Credit or legacy benefits are worse off in real terms on Universal Credit in 2024-25 than they would have been under the legacy system in 2013-14, with an average difference among all eligible families of -£1,400 per year. But this is largely due to cuts in overall levels of working-age support, rather than the design of Universal Credit itself. Multiple years of freezes and below-inflation uprating of benefit levels mean the base rate of out-of-work support is 6.7 per cent lower in real terms in April 2024 than it was in April 2013.

The impact of the Universal Credit reform in isolation is more nuanced, and has created a complex mix of winners and losers compared to the legacy benefits system it is replacing. Some of this was inevitable – the six different benefits or tax credits replaced by Universal Credit interacted and overlapped with each other in complicated and often unintended ways – but some reflects deliberate choices made when designing Universal Credit.

Working renters are the biggest winners, on average, from Universal Credit's restructuring of the benefit system. A single parent renter with a Local Housing Allowance of £150 per week, working 30 hours per week at the National Living Wage will be nearly £3,800 per year better off on Universal Credit than on legacy benefits in 2024-25, but a single parent who does not rent on the same earnings will be £1,700 per year worse off on Universal Credit. This is mostly due to Universal Credit having a single withdrawal rate, whereas legacy benefits withdraw support at a faster rate for working families receiving support for their rent than for other families. Additional gains for workers come from Universal Credit's extension of benefit support to people working short hours, as well as providing support to younger workers, who are excluded from Working Tax Credit if they do not have dependent children or a disability.

Universal Credit also shifted the make-up of support for people with ill-health and disability, with the result that disabled people are among the biggest losers, on average, from the reform. Single people with a disability that prevents them from working and who do not have a full-time carer – those who would previously have been in the Employment and Support Allowance (ESA) support group and in receipt of Personal Independence Payment (PIP) – are around £2,800 per year worse off on Universal Credit in 2024-25 than on legacy benefits, once any transitional protection has been eroded or lost. This is because the element of Universal Credit covering ill-health is set at a lower rate than the combination of ill-health support and disability premiums in ESA. However, single ESA claimants not receiving PIP – a group who are out of work because of a disability or health condition, but who do not receive extra support to help with the extra living costs associated with having a health condition or disability – are £1,400 better off on Universal Credit, as are those who receive ESA and PIP and have a full-time carer or live with a non-disabled adult, as they are not eligible for the severe disability premium in ESA.

Gains for workers, on average, and losses for those with a disability drive a complex pattern of winners and losers

These two big changes to entitlements for working families and those out-of-work because of poor health or a disability drive the differences in the impact of Universal Credit on different groups. When fully-rolled out, families who would previously have been eligible for ESA will be, on average, £2,100 per year worse off on Universal Credit. Groups that are more likely to contain people out-of-work because of poor health will also be worse off: among those eligible for either Universal Credit or a legacy benefit, single people lose £1,400, on average, and families where nobody works are £1,600 worse off under Universal Credit than legacy benefits. On the other hand, working families are £800 better off, on average, with gains concentrated among the 2.7 million private renter families who are an average of £1,200 better off; couples with children, most of whom

have someone in work, gain an average of £1,400. But the Universal Credit reform still represents a net saving for the Exchequer – and so a net loss to claimants – compared to legacy benefits. The total modelled cost of Universal Credit at full roll-out and full take-up, at £85 billion per year in 2024-25, represents a significant saving over both the legacy system in 2013-14 (£100 billion in current prices) and the legacy system in 2024-25 (£90 billion).

The skewing of support towards working renters, and away from disabled recipients who are not in work, has wider impacts on our country

Universal Credit's creation of winners and losers is significant enough to shift the composition of the bottom end of the income distribution, making disabled people much more likely to be among the poorest, and workers less likely. Compared to the current set of legacy benefits, the full roll-out of Universal Credit would move 470,000 people from families that were previously entitled to ESA into the bottom income decile, while 570,000 people from working families would move out of the bottom decile.

Higher-income renters also benefit from Universal Credit, as entitlement for renters extends to much higher earnings levels than it does for legacy benefits. A couple with two children paying rent at the average Local Housing Allowance on a two-bedroom property will be entitled to Universal Credit up to gross annual earnings of £67,000 in 2024-25, compared to £42,000 for legacy benefits. This gap between where entitlement to Universal Credit and legacy benefits run out is the largest it has ever been, following cuts in the rate at which Universal Credit is withdrawn in 2017 and 2021. But, if we adjust for earnings growth, Universal Credit in 2024-25 is available to fewer families than was the Tax Credit system of 2010-11, prior to reforms to how the family element of Child Tax Credit was withdrawn.

Universal Credit's higher support for working renters and lower support for disabled people will eventually contribute to a £2.1 billion shift in benefit entitlement towards London and the South East and away from the rest of the country, compared to a world where the regional breakdown of spending remained as it was under legacy benefits. We are already seeing moves in this direction as the Universal Credit rollout progresses. The proportion of expenditure on Universal Credit and working-age legacy benefits that goes to London and the South East increased from 28 per cent in 2017-18 to 31 per cent in 2022-23, with a corresponding fall across the rest of the country, but especially in regions including the North East, North West, and Yorkshire and the Humber, which also have some of the highest concentrations of ill-health.



Universal Credit has eliminated the weakest financial work incentives, but compliance requirements have also been increased and extended

As well as seeking to simplify the benefit system, the design of Universal Credit was intended to strengthen financial work incentives. The legacy set of out-of-work benefits created very weak incentives due to an initial pound-for-pound reduction in awards as earnings rose, and as a consequence of having multiple, overlapping tapers – most obviously when additional earnings simultaneously reduced entitlement to Tax Credits and to Housing Benefit. Universal Credit has got rid of both of these features, which has reduced the number of people facing very weak incentives to work and earn more, but at the cost of having more people facing what would still be thought of as weak incentives. In particular, the switch from legacy benefits to Universal Credit reduces the number of workers experiencing marginal deduction rates (MDRs: the proportion of an additional £1 in gross earnings lost to tax or benefit withdrawal) above 70 per cent from 1.4 million to just 165,000, but leads to an increase in the number of workers with MDRs above 50 per cent, from 3.7 million to 4.3 million. It has also tended to weaken incentives to work for second earners in couples: median participation tax rates (the total proportion of gross earnings lost to tax and benefit withdrawal) are 14 percentage points higher for second earners on Universal Credit than legacy benefits.

As well as the 'carrot' of a higher income in work, incentives to work can be strengthened with a 'stick' of requiring claimants to undertake job search or similar activities. Such 'conditionality' has been a part of the system of out-of-work benefits since the mid-1990s, but Universal Credit has extended conditionality in two ways. First, some of the legacy benefits absorbed into Universal Credit never had work- or work-search-related requirements (such as Tax Credits or Housing Benefit), and Universal Credit extends conditionality to these groups. Second, the legacy system focused conditionality on non-workers, but Universal Credit has extended it to some families where people are in work. As a result, there are now 2.7 million people on Universal Credit subject to some form of conditionality – including 840,000 in work – compared to 1.1 million out-of-work Jobseekers Allowance (JSA) claimants in 2013-14. Conditionality in Universal Credit and the legacy system is also stricter now than it has historically been, requiring claimants to accept any job offer within a 90-minute commute after the first four weeks of claiming.

The incidence of sanctions has also been consistently higher for people receiving Universal Credit than those receiving JSA, but this is almost entirely driven by Universal Credit claimants receiving sanctions for failure to attend a mandatory work coach interview, whereas JSA claimants in the same situation would instead have had their claims closed. The average proportion of sanctionable claimants (i.e. those that are expected to work and do not earn above a threshold exempting them from conditionality)

that received a sanction each month between 2016-17 and 2018-19 was 1.0 per cent on JSA and 4.2 per cent on Universal Credit, but if we exclude interview-related sanctions then the Universal Credit figure is 1.1 per cent.

The key question, though, is whether Universal Credit has succeeded in encouraging work. There is clear evidence that unemployed single people and lone parents claiming Universal Credit move into work more quickly than those on JSA, but this is not a comprehensive assessment. Whether the changes to withdrawal rates alone have made a difference is not clear, but we can see a clear impact of abolishing some of the steep cliff-edges in the legacy system. In particular, the proportion of lone parents in low-skilled jobs working exactly 16 hours per week (as incentivised by Working Tax Credit) has declined from 25 per cent in 2013 to 12 per cent in 2023, while the proportion working 15 or fewer hours has increased from 10 per cent to 15 per cent. It's not clear whether these changes are due to previously out-of-work households taking on short-hours jobs (although there has been a fall in the proportion of lone parents not in work), or households that were previously working longer reducing their hours, but it is a strong reminder that financial incentives matter for work decisions for some groups.

### Universal Credit has modernised the benefit system

A design principle behind Universal Credit has been to pursue a simpler and more consistent system than the legacy benefits, but this has sometimes come at the cost of being one with less flexibility to accommodate more complex cases. These trade-offs show how the impacts of Universal Credit's restructuring of the mechanics of the benefit system go beyond changes in entitlement to affect the overall experience of claiming.

The most widely reported issue comes from the decision to pay Universal Credit monthly in arrears – which is what leads to the 'five-week wait' from application to the first payment. The (well-meaning) intention behind this is to prevent the overpayments that frequently occurred in the Tax Credit system. However, around four in ten workers on Universal Credit are not paid monthly, and these and some other workers will find that monthly assessments will at best exacerbate income volatility – when receiving different numbers of payments or different amounts from work in a given assessment period acts to reduce or raise that next month's Universal Credit payment – and at worst can lead to lower levels of entitlement on average. This is a good example – along with the fact that Universal Credit is a single household payment – where the clean design principles (i.e. payments are monthly in arrears) can significantly affect the experience of receiving benefits.

Universal Credit has also been designed so that application and administration is digital by default. The payoff to this decision was clear during the Covid-19 pandemic, when the

Universal Credit system coped with a surge of claims in April 2020, and the Government was able to implement the £20 a week increase at very short notice. But one less desirable outcome for claimants is that it is much easier for the Department for Work and Pensions (DWP) to deduct money from awards to pay for past debts. As of February 2023, 45 per cent of households on Universal Credit had some form of deduction from their award, either to repay debts to the government, such as budgeting advances or historic tax credit debt, or to repay debts to third-parties, such as energy bills, Council Tax arrears, court fines, child maintenance or rent arrears.

### But changes in the country are also changing who needs support from Universal Credit

Universal Credit has clearly changed the sort of families that can claim means-tested support, but wider changes to the UK over the last decade have also altered the make-up of the working-age population that needs to access the benefit system. In particular, although the total number of working-age families claiming either a legacy benefit or Universal Credit has declined from around 8.4 million in April 2013 to 7.0 million in August 2023, there has been a steep rise in the number of claimants who are unable to work due to ill-health or disability. In May 2019, there were 2.3 million families claiming Universal Credit with a health element, or an equivalent legacy benefit, but, mirroring the more general rise in the number of people claiming disability benefits, this had risen to 2.8 million by August 2023, with more recent data for Universal Credit suggesting the upward trend is continuing. As a consequence, the Universal Credit caseload has also become older and more likely to be single.

This is a significant challenge for Universal Credit: the labour market context of Universal Credit's second decade will be very different from the one it was designed for. A large part of Universal Credit's design was focused on getting claimants into work through the carrot of boosting financial work incentives and the stick of extending and tightening work-search conditionality. But record low unemployment means that concerns about healthy people choosing not to work are less relevant, and the proportion of the total Universal Credit caseload subject to conditionality rules has fallen from 65 per cent in April 2019 to 44 per cent in November 2023. Instead, the rise in the proportion of claimants with health issues is one reason why the largest single Universal Credit group is now 'no work requirements', at 36 per cent of the total caseload. Although the Government has announced reforms to the test for ill-health in Universal Credit, policy makers should not assume that Universal Credit alone can shoulder the burden of dealing with the UK's challenge of rising inactivity through ill-health.



The next government will need to use Universal Credit to deal with the challenges of the late 2020s, not the late 2000s

Whoever wins the upcoming election will oversee the final rollout of what has been Britain's biggest benefit reform in generations. But austerity and broader changes in approach mean that the benefit system has changed dramatically since Universal Credit was first implemented in terms of eligibility, levels of entitlement, the rules that claimants must follow, and their experience of interacting with the system. And Universal Credit itself has also led to huge shifts in the generosity of the system, away from those too ill to work and towards working renters.

The next government needs to understand both the Universal Credit mechanism through which they will be delivering a significant part of their labour market and living standards agenda, and the make-up of low-income families that rely on its support. Policy makers must also figure out how to adapt Universal Credit to address the labour market challenges of the 2020s, recognising that the system is operating in a different country from the one that was foreseen when Universal Credit was announced: one that is older and sicker, and where the stereotype of younger people making choices not to work is no longer pertinent. We must not use thinking from the late 2000s to drive policy decisions in the late 2020s.

## Fourteen years after being announced, Universal Credit's rollout is into the final straight

Universal Credit has been a rollercoaster for the past decade or so (Annex 1 lists some key dates in its timeline). Its early years were beset by major teething problems with the IT infrastructure underpinning it, and a reputation that was harmed by its implementation alongside large social security spending cuts. But the system garnered praise during the pandemic for its ability to cope with a huge increase in claimant numbers with minimal delays, and few people now argue for a return of the legacy system's weak and inconsistent work incentives, and poor take-up rates among working families.<sup>1</sup>

Critics will point out that we are now seven years past the date that was initially set for all claimants of 'legacy benefits' (we define these exactly in Box 1) to move over to Universal Credit – originally set to be completed by October 2017, then December 2023, then September 2024, and now 2028 – but Figure 1 shows that, by mid-2023, about three quarters of claimant families of the key working-age means-tested benefits and Tax Credits were now on Universal Credit.<sup>2</sup>

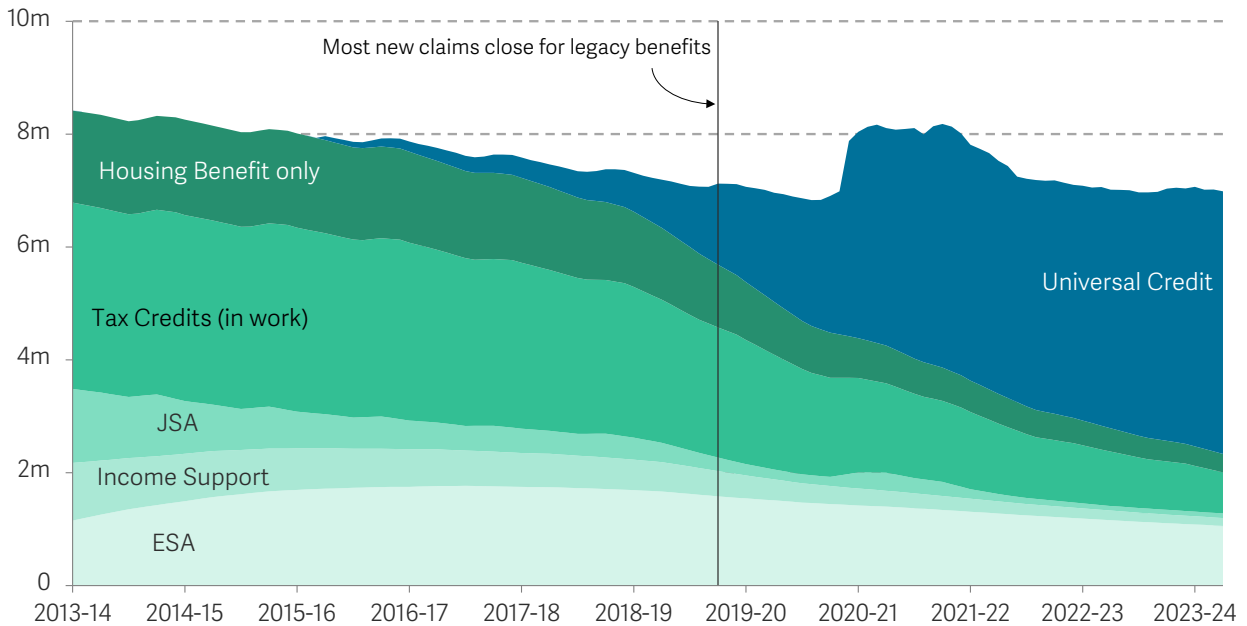
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<sup>1</sup> M Brewer and K Handscomb, 'This time is different – Universal Credit's First Recession', Resolution Foundation, 2020

<sup>2</sup> Throughout this note, we use 'family' to refer to a benefit unit, the family grouping used for assessing benefit entitlement. The DWP defines a benefit unit as 'a single adult or couple living as married or cohabiting and any dependent children'. See Annex 2 for a more in-depth discussion of the difficulties in comparing legacy benefit and Universal Credit caseloads.

FIGURE 1: The Universal Credit rollout accelerated from 2019 after new legacy claims were closed, and the caseload increased sharply in the pandemic

Number of families claiming a working-age legacy benefit or Universal Credit: GB



NOTES: JSA = Jobseekers Allowance. ESA = Employment and Support Allowance. Tax Credits excludes families who are out of work (and who are likely claiming JSA, ESA or Income Support as well). JSA, ESA and Income Support figures are claims. JSA and ESA figures are income-based only. Excludes cases with nil payments for JSA, ESA, Income Support and Universal Credit. Data on nil payments is unavailable for the other benefits and Tax Credits. 'Housing Benefit only' cases use DWP benefit combinations data, which is available by adult rather than family, and applies an 'adult-to-family' ratio based on the 'adult-to-family' ratio of the entire HB caseload in that month to estimate the number of families.

SOURCE: RF analysis of DWP, Stat-Xplore; HMRC, Child and Working Tax Credit statistics: Provisional awards, December 2023.

And 2024 will be an important year for Universal Credit. Managed migration, the process by which legacy benefit claimants are systematically moved to Universal Credit, is now up and running in earnest, with claimants of a wide range of legacy benefit combinations expected to be moved to Universal Credit this year. Whoever wins the next election will oversee the completion of the full rollout and the closure of all legacy benefits and will be governing a 'Universal Credit Britain'.

## BOX 1: What are 'legacy benefits' and why did Universal Credit seek to replace them?

Before Universal Credit was introduced, the main system of working-age means-tested benefit support was made up of six benefits: Jobseekers Allowance (JSA), Employment and Support Allowance (ESA), Income Support, Housing Benefit, Child Tax Credit, and Working Tax Credit. These benefits were designed to cover specific needs, such as unemployment, inability to work due to ill health, disability or caring needs, support with rent, support for children, and support for those in low-paid work. This meant that eligibility for the different benefits overlapped; many families needed to claim more than one at a time, and would need to claim different benefits as their circumstances changed.

The Universal Credit reform was motivated by the related ideas that this system (which we now call the 'legacy benefit system', or 'legacy benefits') was too complex, and was actively preventing people from moving into work.

The key element of the reform was to create a new benefit that rolled six

existing 'legacy' benefits into one single application and payment for working-age families. Policy makers singled out the legacy system's treatment of working households as particularly problematic, with Iain Duncan Smith, former Secretary of State for Work and Pensions and Universal Credit's chief architect, declaring that "the biggest barrier to those entering work for the first time was the benefit system itself".<sup>3</sup> In particular, under the legacy system, those entering work saw no immediate financial gain due to a pound-for-pound reduction to out-of-work support as their earnings increased, meaning short-hours work was not a viable option for those in low-income households. And the legacy benefits' interaction with each other could create confusing and arbitrary effects for claimants, particularly in their treatment of people in work, where multiple overlapping withdrawal rates created very high marginal tax rates at certain levels of earnings and weekly hours, creating financial disincentives to work.<sup>4</sup>

<sup>3</sup> [Dynamic Benefits – towards welfare that works](#), Centre for Social Justice, September 2009.

<sup>4</sup> For more on the initial aims for Universal Credit, see: DWP, [Universal Credit: Welfare that Works](#), November 2010; M Brewer, J Browne & W Jin, [Universal Credit: A Preliminary Analysis of Its Impact on Incomes and Work Incentives](#), Fiscal Studies Volume 33 Issue 1, 2012.

However, important changes since Universal Credit was launched in 2013, within both the benefit and the country as a whole, mean that we cannot rely on thinking from the time of its implementation to understand the system that the next government will be working with. So this note takes stock of the Universal Credit system that will be covering 7 million families by 2029.<sup>5</sup> We look at:

- how the deliberate structural changes to Universal Credit have changed who the benefit system is for, who is in poverty, and even which parts of the country are receiving the most support;
- how well Universal Credit has addressed the issue of weak work incentives;
- what some of Universal Credit's design features and operational parameters mean for how Universal Credit is perceived by its recipients; and,
- how changes in the country since Universal Credit was designed are bringing new challenges for it.

## Universal Credit has changed who the benefit system is for

Understanding whether Universal Credit is more or less generous than the legacy benefits it is replacing is complicated by wider cuts to working-age benefits since 2010

It is undeniable that Universal Credit in 2024-25 is significantly less generous than the legacy system of 2013-14, the year when Universal Credit was first introduced. 71 per cent of eligible families are worse off in real terms on Universal Credit now than they would have been under the legacy system in 2013-14, and the losses are significant.<sup>6</sup> Eligible families are £1,400 per year worse off on average, but among families losing out this figure is £3,100. The total modelled cost of Universal Credit in 2024-25 at full rollout and full take up represents a £14 billion per year saving in real terms compared to the 2013-14 legacy system at full take up.

But the comparison of how Universal Credit in 2024-25 is different from the benefit and tax credit system it replaces is complicated by the fact that there have been significant cuts across the working-age social security system as a whole, largely through a nominal freeze in core entitlements to many benefits from 2015 to 2020. As shown in Figure 2, the standard allowance for Universal Credit is now £90.55 a week, rather than the £97.03 a week that it stood at in April 2013 (in today's prices), a real-terms cut of 6.7 per cent.<sup>7</sup>

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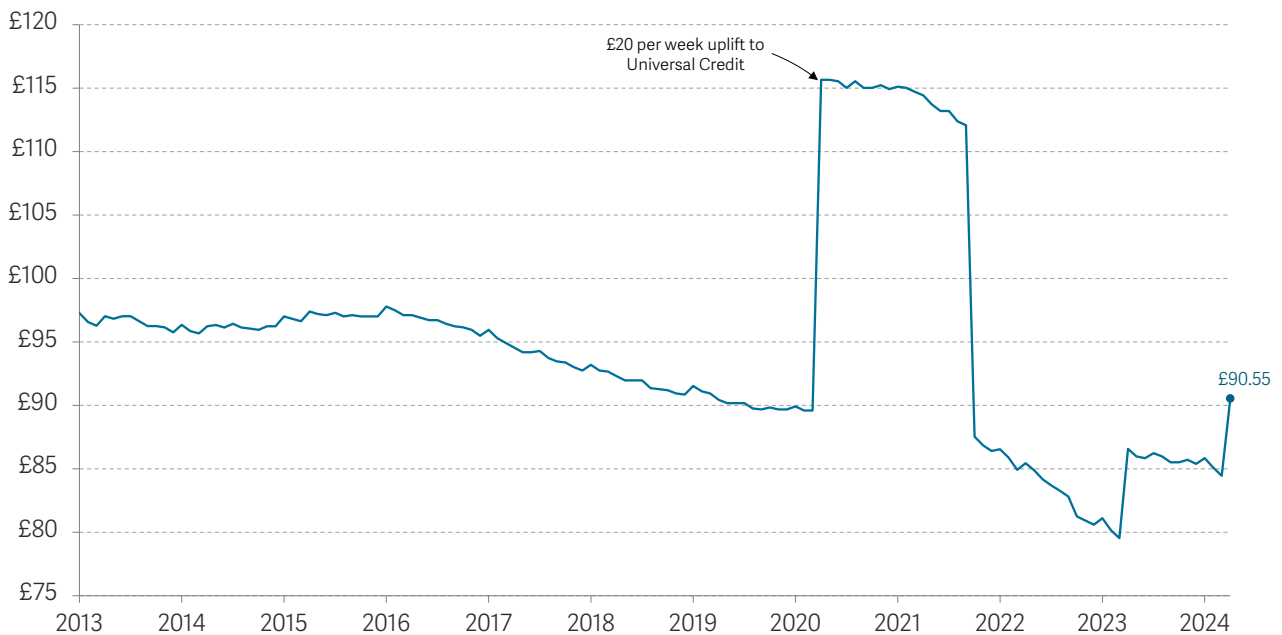
<sup>5</sup> DWP, *Benefit expenditure and caseload tables, Autumn statement 2023*, April 2024.

<sup>6</sup> In this and other comparisons, we use 'eligible families' as a shorthand for 'families who would have been eligible either to legacy benefits or to Universal Credit'.

<sup>7</sup> As Figure 2 shows, the real value of the Universal Credit standard allowance in April 2024 is actually higher than it has been since early 2019, thanks to the combination of the high rates of inflation in the cost of living crisis and benefits being uprated in line with lagged inflation.

**FIGURE 2: The post-2015 freeze to working-age benefits means that Universal Credit is worth less than when it was introduced**

Weekly value of the Universal Credit standard allowance for single people aged over 25, in 2024-25 prices: UK



NOTES: Deflated by CPI.

SOURCE: RF analysis of DWP, Abstract of Benefit Statistics; OBR, Economic and Fiscal Outlook March 2024.

This means that comparing the current Universal Credit to the current (2024-25) set of legacy benefits makes Universal Credit look relatively more generous than if we compare the current Universal Credit to the 2013-14 (or 2010-11) set of legacy benefits. 61 per cent of eligible families are still worse off on the current Universal Credit than the current legacy benefits, and the average difference is a loss of £350 per year under Universal Credit, but, as we show below, there are some key winners as well as losers.

So, in order to focus on the impact of Universal Credit's radical

figuration of the shape of social security, below we show the consequences of three deliberate policy choices taken when designing Universal Credit: changes (compared with legacy benefits) to how support was withdrawn from working families; changes to how much support is paid to people with disabilities; and changes to how capital and unearned income are treated in the means test.

Universal Credit is relatively more generous to most workers than legacy benefits

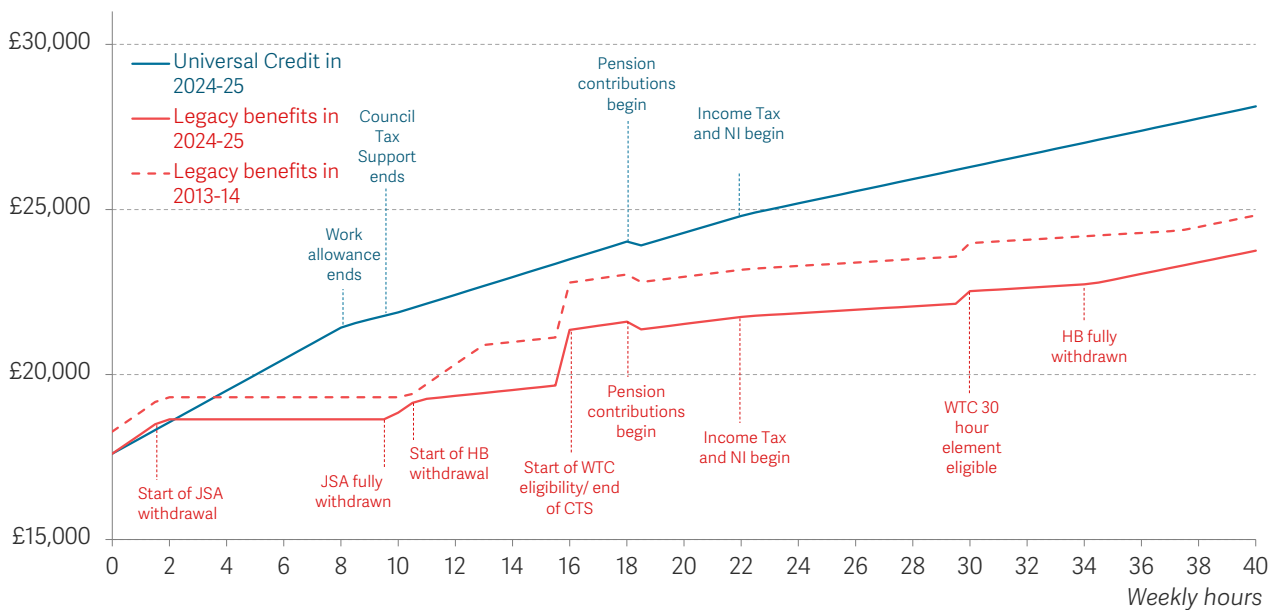
Two key changes to the treatment of households in work were implemented in Universal Credit to address the legacy system's issues of weak and inconsistent work incentives.

First, Universal Credit abolishes the minimum-hours-worked thresholds that existed for determining entitlement to Working Tax Credit (WTC), extending benefit support to people working short hours.<sup>8</sup> Second, Universal Credit introduced a single taper rate, replacing the multiple, overlapping rates of withdrawal from different benefits in the legacy system.

Working renters are the biggest winners from these changes, as they receive higher levels of support at short hours of work, and at longer hours they are no longer subject to the simultaneous withdrawal of Housing Benefit and Working Tax Credit. A single parent renter working 30 hours per week at the National Living Wage will be nearly £3,800 per year better off on Universal Credit than on legacy benefits in 2024-25, and will even be better off in real terms than they would have been on legacy benefits in 2013-14 (Figure 3).

**FIGURE 3: Working renters are the biggest winners from the move to Universal Credit**

Annual income for a privately renting lone parent, by weekly hours worked at the National Living Wage: GB 2024-25



NOTES: Annual income is disposable family income before housing costs. The 2013-14 legacy system has been updated to 2024-25 prices using the Consumer Price Index as if standard benefit uprating had occurred in each year. Council Tax at £34 per week and Council Tax Support under the default scheme. Eligible rent at £150 per week. Pension contributions at 5 per cent.

SOURCE: RF case study model.

This complicates the narrative that policy measures in recent years have been harsh on low-income renters. It is undoubtedly true that non-working renters have been hit hard, first by the move to peg the Local Housing Allowance (LHA) to the 30th rather than

<sup>8</sup> Universal Credit also provides support to workers aged under 25, who are excluded from Tax Credits if they do not have dependent children or a disability.

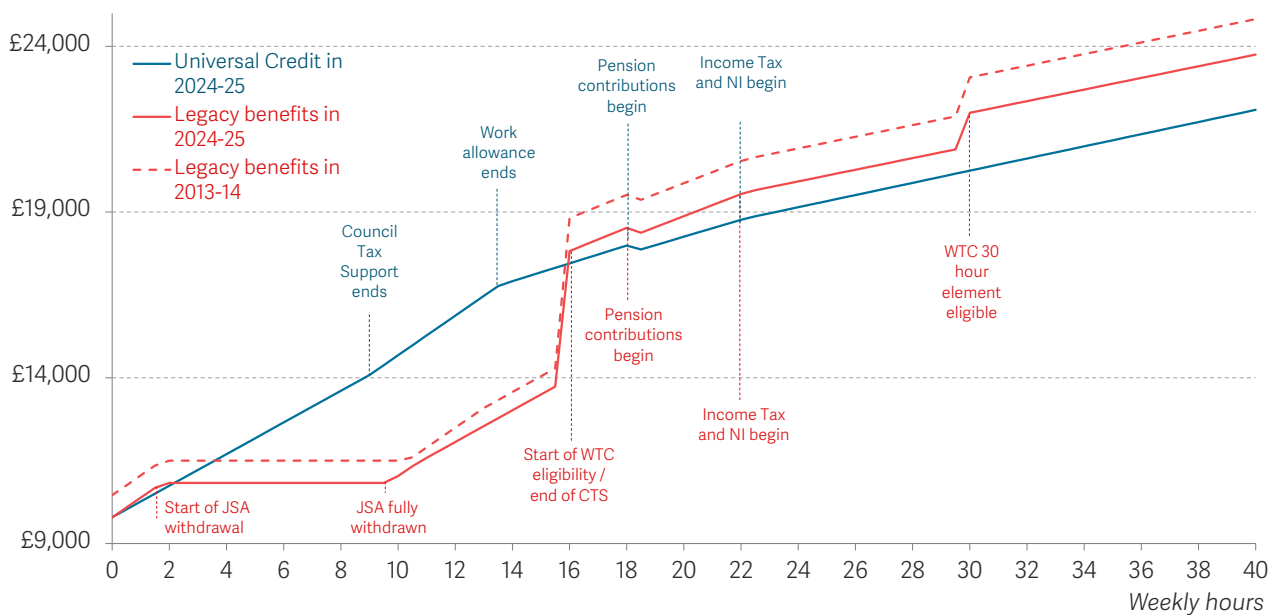


the 50th percentile of local rents in 2011 and then by nominal freezes in LHA rates from 2015 to 2020 and 2020 to 2024.<sup>9</sup> But the slower rate of withdrawal of housing support in Universal Credit than that of Housing Benefit means that many working renters will be significantly better off after moving from Housing Benefit to Universal Credit.

For families that are not renting, whether they gain or lose from moving to Universal Credit is more complex, depending on household size and how many hours they work a week. For example, a single parent who is not renting is better off under Universal Credit than legacy benefits if they are working short hours, but will be worse off (than under legacy benefits) once their earnings cross the threshold for Working Tax Credit eligibility (see Figure 4).

FIGURE 4: ...but non-renting single parents working more than 16 hours lose out

Annual income for a non-renting lone parent, by weekly hours worked at the National Living Wage: UK, 2024-25



NOTES: Annual income is disposable family income before housing costs. The 2013-14 legacy system has been uprated to 2024-25 prices using the Consumer Price Index as if standard benefit uprating had occurred in each year. Council Tax at £34 per week and Council Tax Support under the default scheme. Pension contributions at 5 per cent. SOURCE: RF case study model.

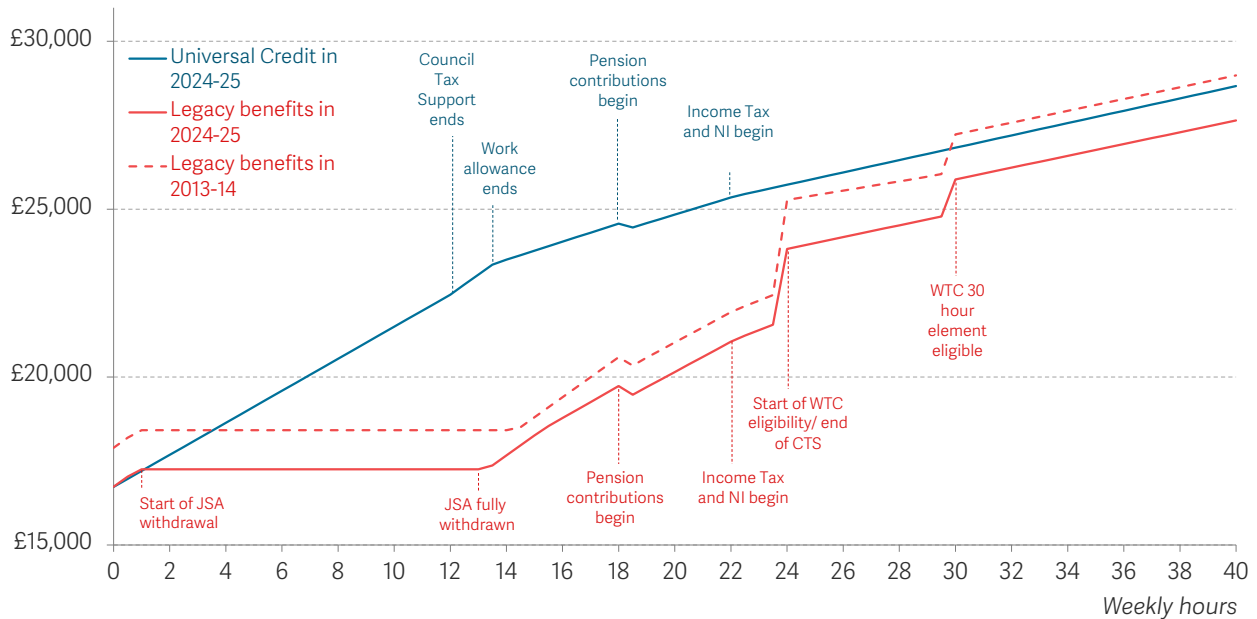
A non-renting single parent working 10 hours a week at the NLW will be £3,600 better off on Universal Credit in 2024-25 than under the legacy system, as they would not be eligible for any legacy benefit support, but at 30 hours a week they will be £1,700 per year worse off on Universal Credit (than Working Tax Credit). However, a non-renting couple with two

<sup>9</sup> The Local Housing Allowance (LHA) sets the maximum level of Housing Benefit or Universal Credit support for private rents in an area. See: A Clegg, *A temporary thaw: An analysis of Local Housing Allowance uprating over time*, Resolution Foundation, December 2023.

children will be consistently better off on Universal Credit (than the legacy benefits) once one of them has worked for more than couple of hours a week (see Figure 5).

**FIGURE 5: Working couples with children tend to be better off on Universal Credit, even when not renting**

Annual income for a couple with two children who are not renting, by weekly hours worked for a single earner at the National Living Wage: GB, 2024-25



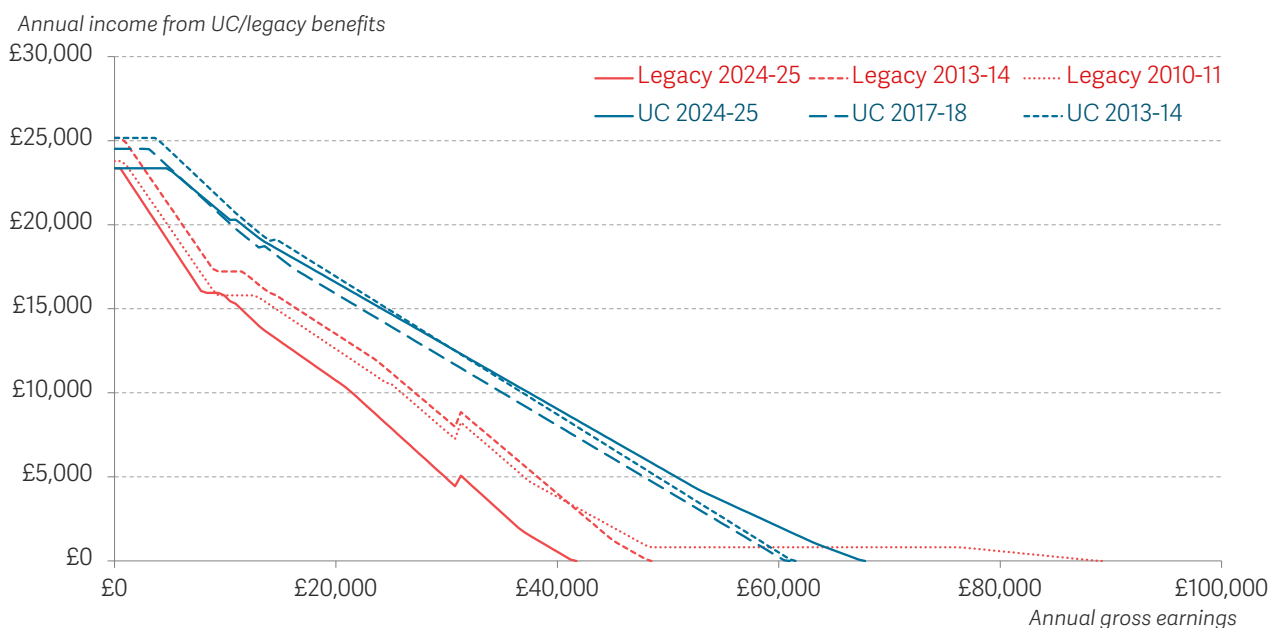
NOTES: Annual income is disposable family income before housing costs. The 2013-14 legacy system has been uprated to 2024-25 prices using the Consumer Price Index as if standard benefit uprating had occurred in each year. Council Tax at £34 per week and Council Tax Support under the default scheme. Pension contributions at 5 per cent. Weekly hours are for a single adult worker; the second adult is not working.  
SOURCE: RF case study model.

The combination of Universal Credit's single taper rate and work allowances also means Universal Credit entitlement for renters extends much further up the earnings distribution than the legacy benefits system does, creating winners among higher-earning households. This extension of entitlement has grown over time, as Universal Credit's initial taper rate of 65 per cent was lowered to 63 per cent in April 2017 and then 55 per cent in April 2021. This means that the current gap in maximum earnings for Universal Credit and legacy benefit entitlement is the largest it has ever been. Figure 6 shows Universal Credit and legacy benefit entitlement at different levels of earnings and in different years for a privately renting couple with two children. In 2024-25, this family would be entitled to Universal Credit until their gross earnings reached £67,000, compared to just £42,000 for legacy benefits. In 2013-14, their Universal Credit support would have ended at £62,000 and their legacy support at £48,000 (at current earnings levels). However, Universal Credit's extension of support up the income distribution does

not reach the heights that the legacy system did before reforms to Tax Credits enacted by the coalition government. The same family in 2010-11 would have been eligible for benefit support up to gross annual earnings of £89,000 (at current earnings levels). This is because a specific 'family element' of Child Tax Credit did not start to be withdrawn until earnings surpassed £50,000 (or £76,000 at current earnings levels).

**FIGURE 6: The difference between the earnings levels at which Universal Credit and legacy support ends is at its highest point ever**

Income from Universal Credit and legacy benefits at different levels of earnings for a privately renting couple with two children, selected years, in 2024-25 prices and earnings levels: UK

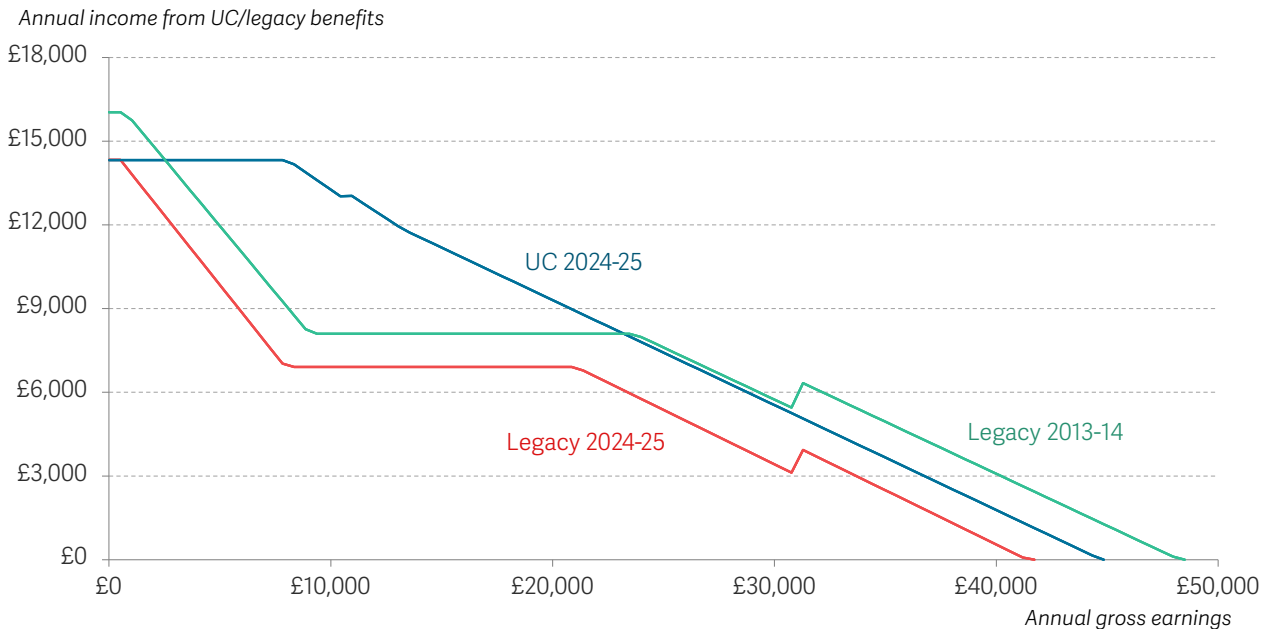


NOTES: Assumes rent at the BRMA average Local Housing Allowance for a two-bed property in each year, and variable working hours for a single earner at an hourly wage of £20 per hour in April 2024 prices. Benefit entitlements have been put in 2024-25 prices using CPI, and gross earnings using change in average weekly earnings.  
SOURCE: RF case study model; OBR, Economic and Fiscal Outlook March 2024.

For renters, then, the Universal Credit reform has undone a large portion of the drop in the maximum earnings level for benefit support between 2010-11 and 2013-14. The coalition Government's reforms were designed specifically to reduce Tax Credit spending by cutting entitlement for higher-income families, first by lowering the earnings at which withdrawal of the family element started to £40,000 from April 2011, and then by aligning this threshold with that of the rest of the Child Tax Credit award in April 2012. If we compare to 2013-14, when these reforms were fully in place, we can see that this reform has only achieved its aim for non-renters, for whom Universal Credit support now runs out at lower real earnings than legacy support did in 2013-14, albeit at higher levels than current legacy support runs out (see Figure 7).

**FIGURE 7: For non-renters, Universal Credit support in 2024-25 runs out at lower earnings than legacy support in 2013-14**

Income from Universal Credit and legacy benefits at different levels of earnings for a non-renting couple with two children, selected years, in 2024-25 prices and earnings levels: UK



NOTES: Variable working hours for a single earner at an hourly wage of £20 per hour in April 2024. Benefit entitlements have been put in 2024-25 prices using CPI, and gross earnings using change in average weekly earnings.

SOURCE: RF case study model; OBR, Economic and Fiscal Outlook March 2024.

## People with disabilities can be much worse off on Universal Credit

Alongside this reconfiguration of support for working households, Universal Credit brought about another big shift that has caused significant income changes for some claimants: the reshaping of support for people with ill-health and disability. Some of those receiving the legacy benefit Employment and Support Allowance (ESA), which provides support to those who are not able to work full-time due to disability or illness, had an extra amount – the Severe Disability Premium – added to their award if they were also receiving Personal Independence Payment (PIP) or Disability Living Allowance (DLA) (benefits designed to help with extra living costs associated with disability) and if they do not live with a non-disabled adult or have a full-time carer. Universal Credit abolished disability premiums, with the rationale of simplifying support for disability, and set the level of support for inability to work due to ill-health or disability at a higher level than it was under ESA.

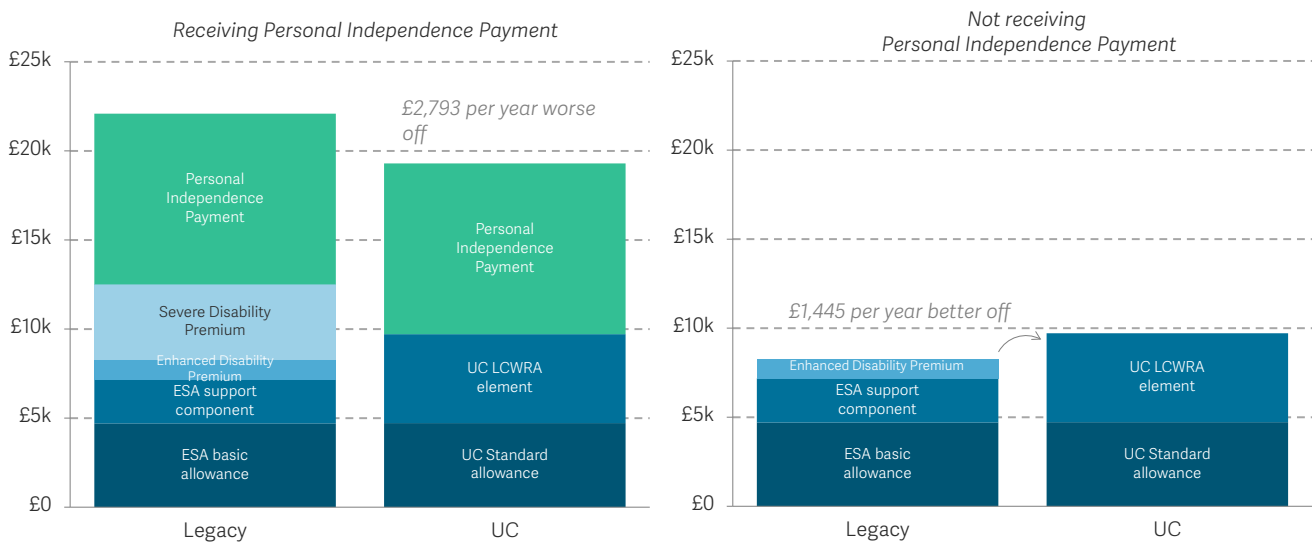
The result of this, as Figure 8 shows, is that people who were eligible for the severe disability premium are worse off on Universal Credit than legacy benefits in 2024-25, by around £2,800 per year for a single person (once any transitional protection has been

eroded or lost through a change in circumstances), and a single person previously receiving ESA but not eligible for PIP/DLA will be £1,400 better off on Universal Credit. Overall this is far from a net neutral trade-off: as we show later in this note, families who would be eligible for ESA in the legacy system on average lose significantly from this reform to disability premiums.

This result tends to be overlooked in current debates around disability support, which have been focused on the potential for future changes to the benefit system in response to rapidly rising caseload numbers and expenditure, without acknowledging the sizeable cuts that have already been enacted through Universal Credit's abolition of the disability premiums.

**FIGURE 8: People receiving the severe disability premium under the legacy system are worse off on Universal Credit**

Annual income for a single person in receipt of ESA (support group) or Universal Credit with limited capability for work related activity (LCWRA) element: UK, 2024-25



SOURCE: Author's calculation.

NOTES: A recipient of Personal Independence Payment would not be eligible for the Severe Disability Premium if they have a non-disabled adult living with them or if somebody receives Carer's Allowance or the carer element of Universal Credit for caring for them.

Finally, Universal Credit treats some non-earned income differently from the legacy system of Tax Credits, and this can lead to financial losses for some families. The biggest impact is for those with savings over £16,000, who lose Universal Credit entitlement entirely; under Tax Credits, only the income from savings is taken into account, and is subject to the standard taper rate. Other income sources, including occupational

pensions, spousal maintenance payments, and contributory benefits, that are either ignored entirely in Tax Credits or subject to the standard 41 per cent taper, reduce Universal Credit entitlement pound for pound.

These changes to support for working families and people with disabilities mean the impact of moving to Universal Credit varies widely across family types

If we look across all families eligible for Universal Credit or a legacy benefit, as we do below, then the move to Universal Credit leads to a complicated pattern of gains and losses for different family types, which are largely driven by the changes in support for working families and those with disabilities described above.

Overall, the Universal Credit system of 2024-25 still represents a net loss for claimants compared to the legacy systems of 2024-25. The total modelled cost of Universal Credit at full roll-out and full take-up is estimated to be around £86 billion in 2024-25, a significant saving over both the legacy system in 2013-14 (£100 billion in current prices) and the legacy system in 2024-25 (£90 billion). This turns into an average difference across all eligible families of a loss of £350 per year.

Figure 9 shows the average difference in entitlements between legacy benefits and Universal Credit in April 2024 by different family characteristics.<sup>10</sup> As would be expected, given the discussion above, the 3 million families previously eligible for ESA are significantly worse off on average under Universal Credit than legacy benefits, by £2,100 per year, whereas all other families are £420 better off, on average. Non-working households are £1,600 worse off on average – driven by the losses for those with a disability – but working households are £760 better off, as the gains for short-hours and renter working households outweigh the losses for other working households.

The changes by family type are then largely driven by the gains for working households, and the losses for households with a more serious disability. For example, single people lose out on average when moving to Universal Credit, as single people who are entitled to legacy benefits or Universal Credit are disproportionately likely to be claiming a sickness or disability benefit, but couples with children gain, on average, as they are more likely to be in work and renting than other groups. The 2.7 million private renters eligible for Universal Credit gain £1,200 on average.<sup>11</sup>

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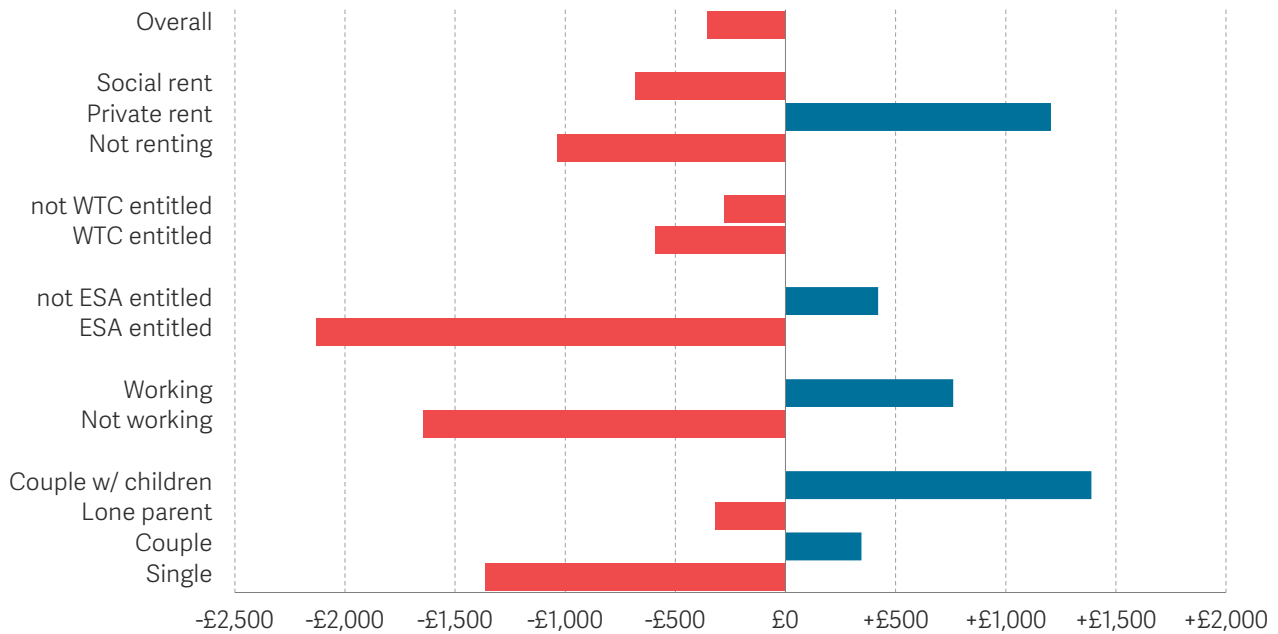
<sup>10</sup> The analysis shows a comparison of entitlements under the two systems. This is not necessarily the same as the amount by which families will win or lose when they move to Universal Credit because families who would lose out when they move to Universal Credit will initially receive an extra element of transitional protection to make up the difference (although this will be eroded by inflation, and is lost entirely following a change in circumstances).

<sup>11</sup> This modelling includes the increase to the Local Housing Allowance in April 2024, which benefits private renters. Note that private renters have been affected by multiple years of freezes to housing support, which is set to be frozen again from April 2024. See: A Clegg, *A temporary thaw: An analysis of Local Housing Allowance uprating over time*, Resolution Foundation, December 2023.



**FIGURE 9: The move from legacy benefits to Universal Credit creates some significant gains and losses for different family types**

Average change in annual family benefit entitlement when moving from legacy benefits to Universal Credit, all families eligible for a legacy benefit or Universal Credit, by demographic, employment and benefit entitlement groups: GB, 2024-25



NOTES: Assumes 100 per cent benefit take-up and full Universal Credit migration. Does not include transitional protection.

SOURCE: RF analysis of DWP Family Resources Survey using the IPPR tax-benefit model.

Figure 9 shows the impact of Universal Credit on specific groups, but another key question is whether the introduction of Universal Credit was a progressive reform, in the sense of whether the gains were of most help to those on the lowest incomes. As we explain in Box 2, answering this question precisely is difficult, as Universal Credit has changed who are the poorest, rather than lifted the incomes of the poorest generally.

### BOX 2: Is Universal Credit a progressive reform?

A standard way to assess whether a reform is progressive is to show how the income gains vary across the household income distribution. Figure 10 shows this analysis when conducted in the standard way, where households

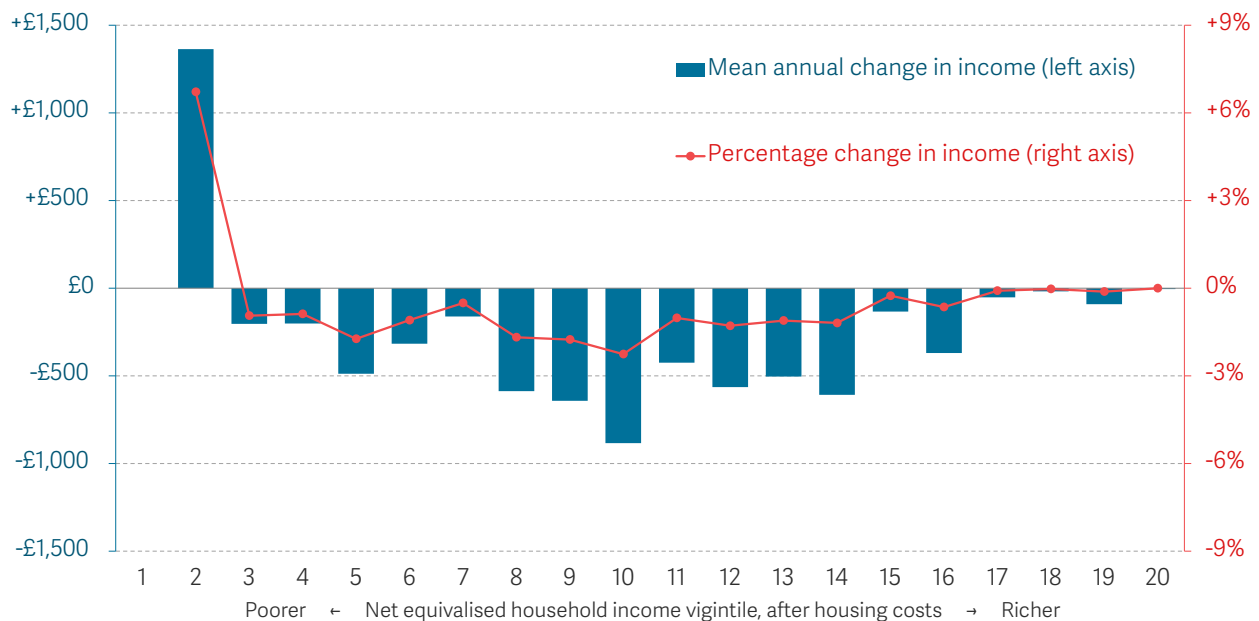
are ranked according to their pre-reform income (i.e. income under the legacy benefits). This shows that the move to Universal Credit results in a large income boost for the very bottom end of the distribution, driven by

households working short hours who were not eligible for WTC but become eligible for Universal Credit. But

nearly all other parts of the income distribution lose out, on average.<sup>12</sup>

**FIGURE 10: Universal Credit changes the shape of the income distribution**

Annual impact of moving from the 2024-25 legacy benefits to Universal Credit, by income quintiles defined under legacy benefits: UK, 2024-25



NOTES: Assumes 100 per cent benefit take-up and full Universal Credit migration. Income quintiles are defined on the entire eligible population under the legacy benefits system. Income quintiles are based on equivalised household income after housing costs.

SOURCE: RF analysis of DWP Family Resources Survey using the IPPR tax-benefit model.

But there is an alternative way to conduct this analysis, which is to rank households according to their post-reform income (i.e. income under Universal Credit). Usually, these two different ways of undertaking a distributional assessment give similar answers, but that is not the case when assessing the introduction of Universal Credit. This is because the Universal

Credit reform involves an extensive pattern of gains and losses, some of which are very large, and this leads to many households being moved up and down the income distribution. We can see this by comparing Figure 10 to Figure 11, in which income quintiles are allocated after the move to Universal Credit. This highlights that the introduction of Universal Credit

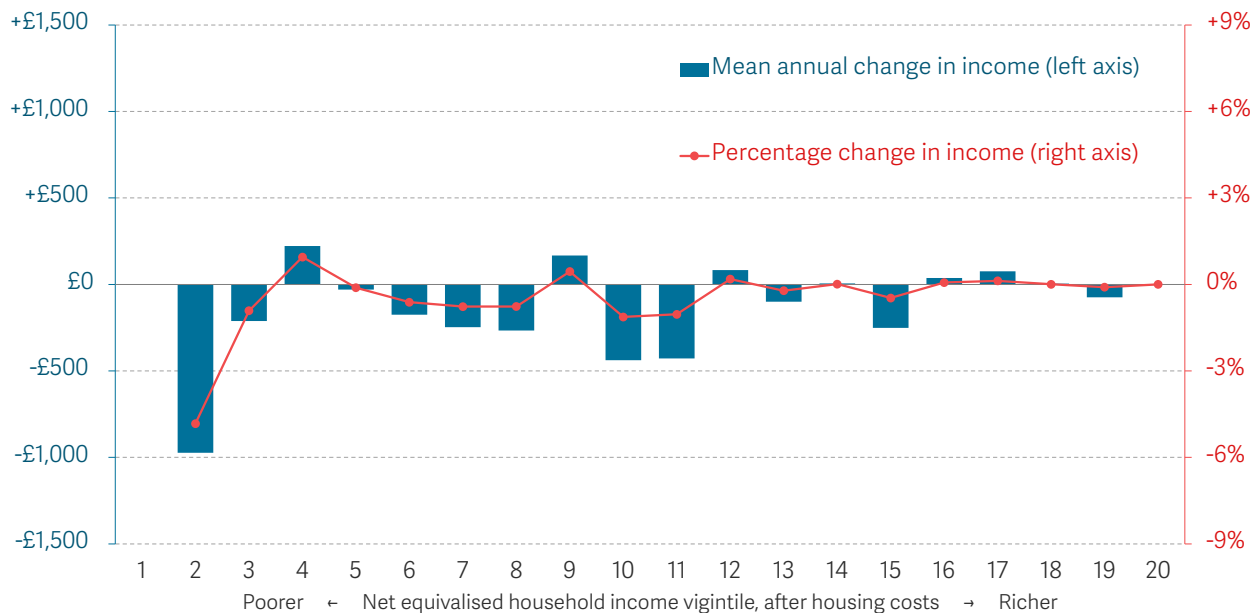
<sup>12</sup> Another approach to understanding the impact of Universal Credit relates the gains to households' long-run, or average, income. See, for example, M Brewer et al., *Universal credit and its impact on household incomes: the long and the short of it*, Institute for Fiscal Studies, IFS BN 248, 2019; and: M Brewer et al., *A method for decomposing the impact of reforms on the long-run income distribution, with an application to universal credit*, *Economics Letters*, 192.

involves large falls in incomes for some households who end up towards the bottom of the income distribution (and so were presumably originally in slightly higher income vigintiles). This (on average) fall in income at the bottom end of the distribution is driven by households previously receiving ESA,

who see a fall in their income following the loss of disability premiums under Universal Credit; the average increases in income at higher vigintiles are driven by gains for working households who are moved out of the poorest vigintiles.<sup>13</sup>

**FIGURE 11: Universal Credit looks less progressive if we arrange the income distribution post-Universal Credit roll-out**

Annual impact of moving from the 2024-25 legacy benefits to Universal Credit, by income vigintiles defined under Universal Credit: UK, 2024-25



NOTES: Assumes 100 per cent benefit take-up and full Universal Credit migration. Income vigintiles are defined on the entire eligible population under the Universal Credit system. Income vigintiles are based on equivalised household income after housing costs.

SOURCE: RF analysis of DWP Family Resources Survey using the IPPR tax-benefit model.

<sup>13</sup> The shape of the effect is similar when we compare the current Universal Credit to the 2013-14 legacy benefits. All vigintiles lose out when moving from 2013-14 legacy benefits to 2024-25 Universal Credit, but the poorest vigintiles lose more when vigintiles are calculated after the move to Universal Credit.

## The skewing of support towards working renters, and away from disabled recipients who are not in work, has had? wider impacts on our country

The gains and losses from the move to Universal Credit described above can represent a meaningful part of a family's income. As we show below, they can have noticeable implications on the composition of the poorest income decile, and to the geographical distribution of benefit spending.

### Universal Credit changes who are the poorest in the UK

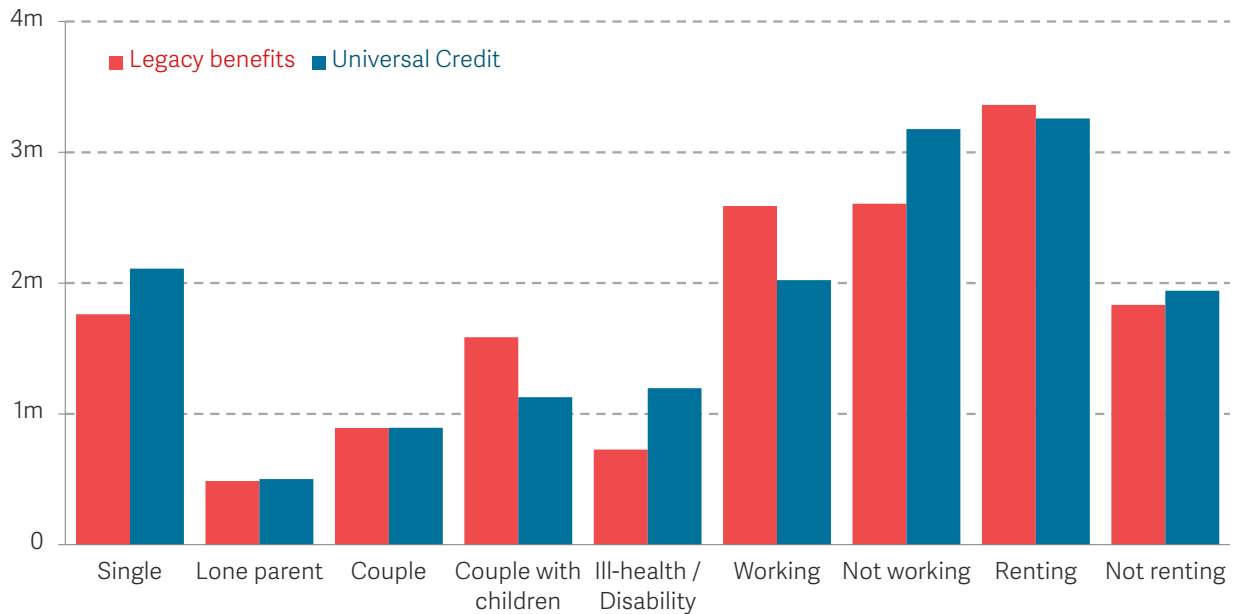
If we undertake a theoretical simulation that compares the income distribution under a fully-rolled-out Universal Credit to one under the current system of legacy benefits, then there is a marked shift in the income distribution that is significant enough to change the make-up of who are the poorest in the UK.

Replacing legacy benefits with Universal Credit in this simulation moves around a million individuals out of the poorest tenth of the income distribution, with (by definition) the same number falling into the poorest tenth from higher deciles. The changes in who is in the bottom income decile are in line with the structural changes to Universal Credit that we described earlier: working families are less likely to be among the poorest after moving to Universal Credit, while families in receipt of ill-health or disability benefits are more likely to be. Nearly 9 in 10 (87 per cent) moving out of the poorest tenth are in families where somebody works, the majority of whom (81 per cent) were not previously eligible for Working Tax Credit. In the opposite direction, around half (51 per cent) of those falling into the bottom decile come from families previously eligible for ESA. The remainder is dominated by families in work but who are owner occupiers (31 per cent of the total).

Figure 12 shows the number of people in different categories who are in the poorest tenth of the income distribution at zero and full UC rollout (the categories are not mutually exclusive). Under the legacy benefit system, the bottom income decile is dominated by single people without children, and this concentration increases following the move to Universal Credit (from 34 to 41 per cent). The number of people in families where someone is eligible for ESA or in receipt of PIP/DLA in the bottom decile increases from 730,000 to 1.2 million following the move to Universal Credit.

FIGURE 12: Universal Credit changes who are the poorest

Number of individuals in the bottom income decile after moving from zero to full Universal Credit roll-out, by characteristic: UK, 2024-25



NOTES: Categories refer to the family unit and are not mutually exclusive. The bottom decile refers to individuals in the bottom tenth of the income distribution based on equivalised household income after housing costs. Ill-health/Disability refers to families eligible for ESA or in receipt of PIP/DLA. Assumes 100 per cent benefit take-up and full Universal Credit migration.

SOURCE: RF analysis of DWP Family Resources Survey using the IPPR tax-benefit model.

### Universal Credit shifts the geographical concentration of benefit expenditure towards London and the South East

As well as changing the configuration of the income distribution, Universal Credit's creation of winners and losers also alters the geographical concentration of benefit expenditure. This is not due to any rules that explicitly link Universal Credit entitlement to where people live, but comes about because of the pattern of winners and losers described above. The structural changes in Universal Credit that (in relative terms) direct resources to working renters, in particular, are worth more in areas with relatively high levels of rents, and the losses for disabled claimants will have greater impacts in areas where a higher fraction of working-age adults claim PIP.<sup>14</sup>

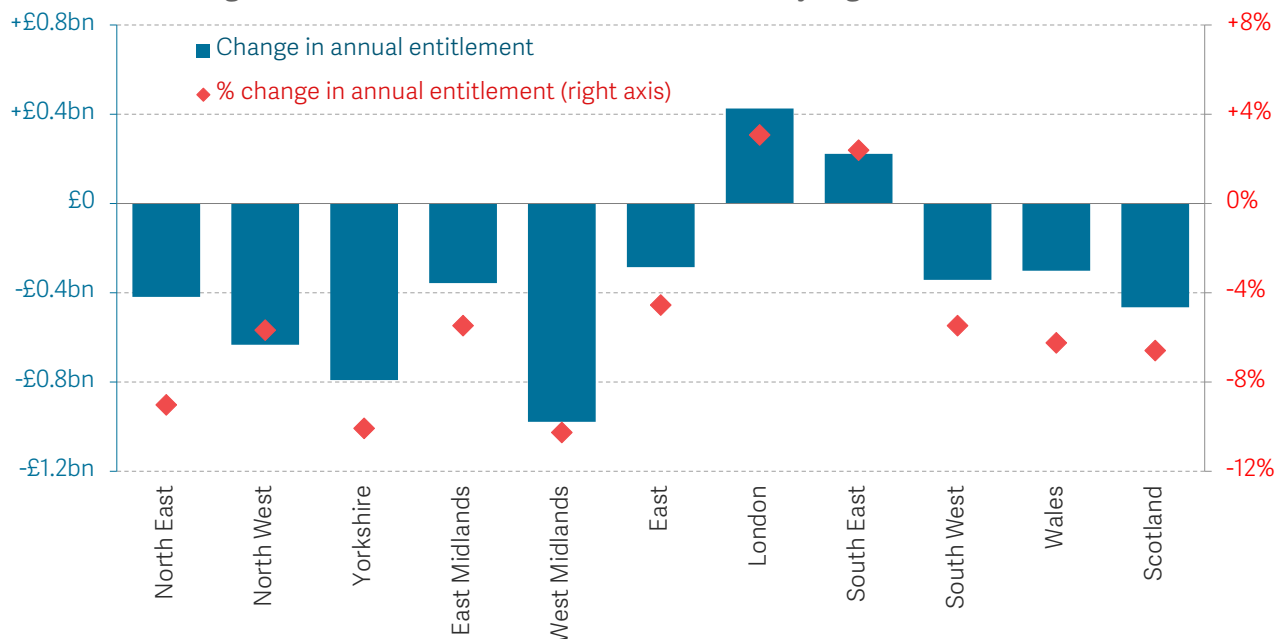
The estimated outcome of shifting from legacy benefits to Universal Credit is that total benefit entitlement increases in London and the South East and declines across the rest of the country. Figure 13 shows the modelled change in total Universal Credit or legacy benefits entitlement after moving from zero to full Universal Credit roll-out (and assuming full take-up under both systems). Entitlements in London and the South East increase by 3 per cent (£650 million) compared with spending if all eligible households

<sup>14</sup> L Judge and C McCurdy, *Income Outcomes*, Resolution Foundation, 2022.

were on legacy benefits. Meanwhile, other regions experience significant drops in entitlement following the move to Universal Credit: entitlement falls by £980 million per year in the West Midlands (-10 per cent), £790 million per year in Yorkshire and the Humber (-10 per cent), by £420 million in the North East (-9 per cent), and by £470 million in Scotland (-7 per cent). Overall, the proportional increase for London and the South East is worth £2.1 billion per year in current prices.<sup>15</sup>

**FIGURE 13: The full rollout of UC will shift £2.1 billion of benefit entitlement to London and the South East and away from the rest of the country'**

Change in total annual entitlement for the current legacy benefits and Universal Credit after moving from zero to full Universal Credit roll-out, by region: GB, 2024-25



NOTES: Assumes 100 per cent take-up of legacy benefits or Universal Credit in each scenario.  
SOURCE: RF analysis of DWP Family Resources Survey using the IPPR tax-benefit model.

The analysis above is based on modelled simulations, but we can also see these shifts in administrative data as Universal Credit's roll-out progresses. Since the Universal Credit caseload began to reach significant numbers in 2017-18, the proportion of total expenditure on Universal Credit and legacy benefits that goes to London and the South East has increased from 28 to 31 per cent, with a corresponding fall across the rest of the country (see Figure 14).<sup>16</sup> Regions that have seen some of the largest proportional declines in expenditure, such as the North East and Yorkshire and the Humber, are also those that have high proportions of the population claiming ESA or Universal Credit with a health element (6.6 per cent and 5.7 per cent of the total working-age population in the

<sup>15</sup> Total modelled entitlement for Universal Credit at full roll-out in London and the South East is £2.1 billion per year higher than if the regional proportions of total entitlement for legacy benefits is applied to the total Universal Credit entitlement.

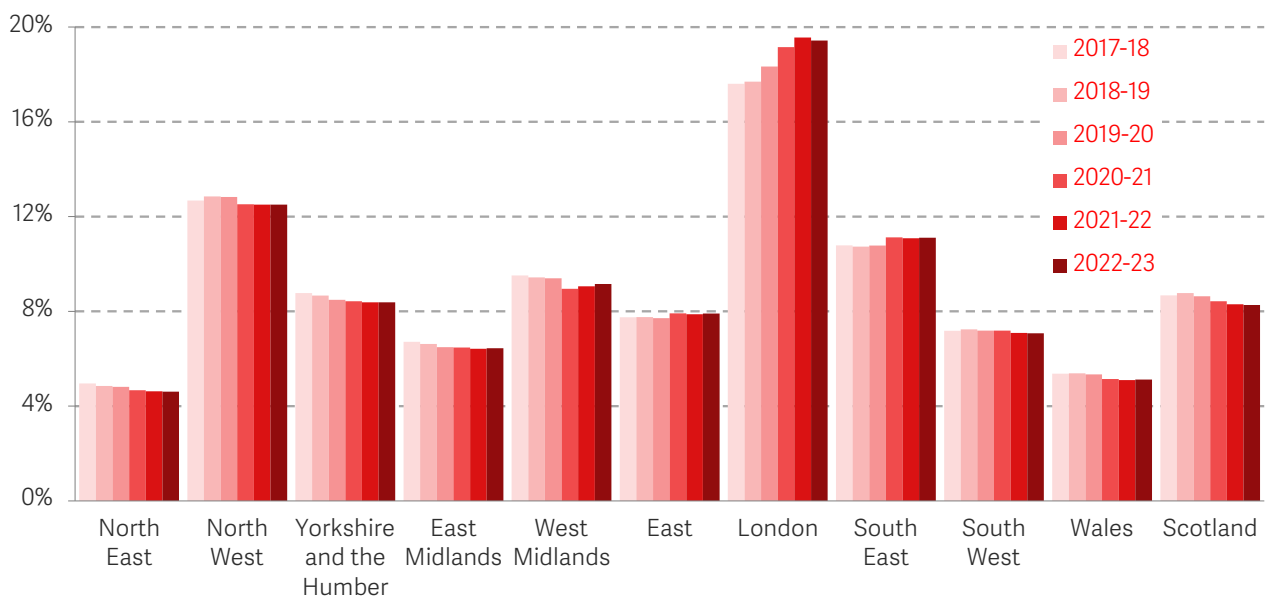
<sup>16</sup> Some of this will also have been driven by a rising population in London. The London population has risen from 8.2 million in 2011 to 8.9 million in 2022. See <https://trustforlondon.org.uk/data/population-over-time/>



North East and Yorkshire and the Humber, compared with 4.0 per cent in London and the South East). This shift in spending away from some of the poorer and sicker regions of the UK is likely to continue because most ESA claimants, typically the biggest losers from the move to Universal Credit, have not yet been migrated to Universal Credit (although transitional protection will offset some of these notional losses).

**FIGURE 14: Universal Credit has already shifted benefit expenditure towards London and the South East**

Proportion of actual national expenditure on legacy benefits and Universal Credit, by region of England and nation of Great Britain



SOURCE: DWP, Benefit expenditure and caseload tables; HMRC, Child and working tax credits provisional awards geographical analysis.

## Universal Credit changes financial work incentives, and has increased the use of conditionality

As well as seeking to simplify the benefit system, the design of Universal Credit was intended to strengthen financial work incentives. As we discussed earlier, the legacy set of out-of-work benefits created very weak incentives for claimants to enter work if they were working fewer hours than required to be eligible for WTC, and could have very high marginal withdrawal rates for people in work if they were on the Tax Credit and Housing Benefit tapers at the same time. Universal Credit has addressed these by getting rid of the initial pound-for-pound reduction in award as earnings rise, by scrapping all hours rules, and by replacing the multiple overlapping withdrawal rates in the legacy system with a single taper rate. As a consequence, , Universal Credit has been largely successful

in reducing the number of people facing very weak incentives to work and earn more, but at the cost of having more people facing what would still be thought of as weak incentives.

Universal Credit has mostly eliminated instances of very weak financial incentives to work

We can assess the extent to which benefits disincentivise working or earning more by looking at marginal deduction rates (MDR) for the 5.3 million working people eligible for Universal Credit or a legacy benefit. This measures how much of an additional pound of gross earnings is lost to taxes and benefit withdrawals.

Under Universal Credit, working recipients will typically have an MDR of 0 per cent if they earn below their relevant work allowance, 55 per cent for those on a Universal Credit taper but below the income tax and National Insurance threshold, or 68 per cent for those also paying income tax and NI. As we can see in Figure 15, MDRs under the legacy system have much more variation: the most common rate is 69 per cent, corresponding to someone who is on a Tax Credit withdrawal and paying Income tax and NI, but they will exceed this if the family is also facing a withdrawal of Housing Benefit, and can even reach 100 per cent if JSA or ESA are being withdrawn. On the other hand, for those on a Tax Credit taper and not paying Income Tax or NI (such as low-earning second earners), the withdrawal rate will be only 41 per cent, rather than Universal Credit's 55 per cent.<sup>17</sup>

Overall, as shown in Figure 15, the switch from legacy benefits to Universal Credit reduces the number of workers experiencing MDRs above 70 per cent – i.e. those with very weak financial incentives to earn more – from 1.4 million to just 165,000, but the Universal Credit reform leads to an increase in the number of workers with MDRs above 50 per cent, from 3.7 million to 4.3 million.<sup>18</sup>

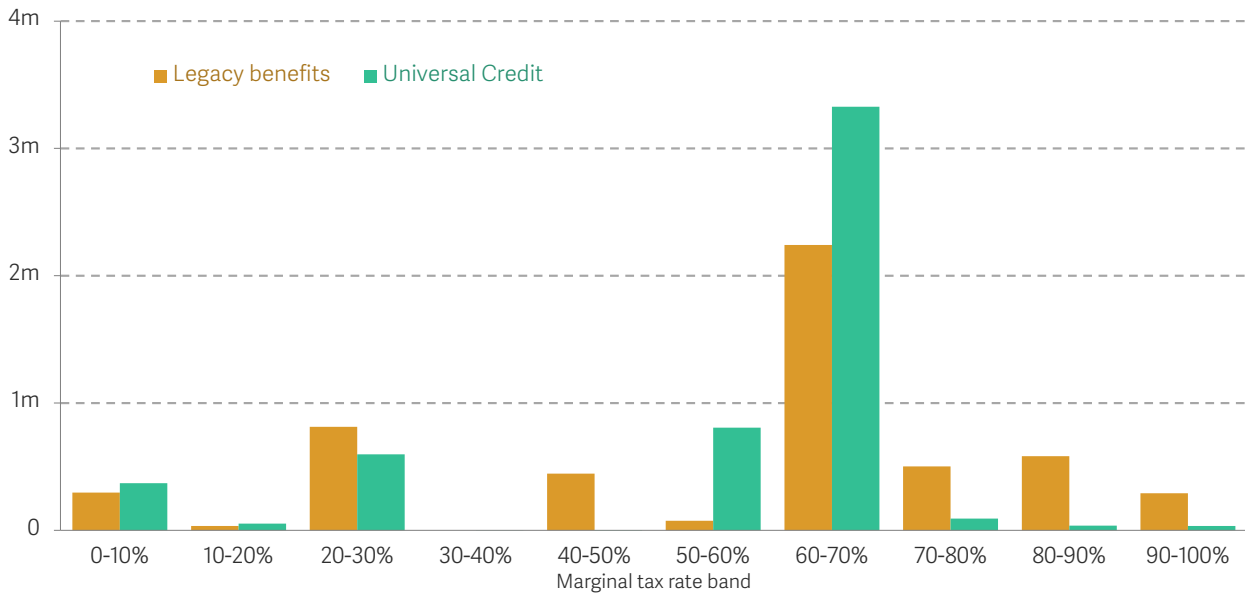
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<sup>17</sup> This is because the Tax Credits are tapered away against gross earnings, whereas the Universal Credit taper is against net earnings; the Universal Credit taper rates was originally set to be broadly identical to the overall withdrawal rate for someone paying Income Tax and NI and receiving Tax Credits, but this means that Universal Credit has a higher withdrawal rate for someone who does not pay Income Tax and NI. Since then, the Government has cut the Universal Credit withdrawal rate but not the Tax Credit rate.

<sup>18</sup> This Figure and those that follow in this sub-section look at all workers who are in families that would be entitled either to legacy benefits of Universal Credit in 2024-25.

**FIGURE 15: Universal Credit consolidates marginal deduction rates at 60 to 70 per cent**

Number of workers eligible for a legacy benefit or Universal Credit, by marginal deduction rate band, under the legacy system and Universal Credit: UK, 2024-25

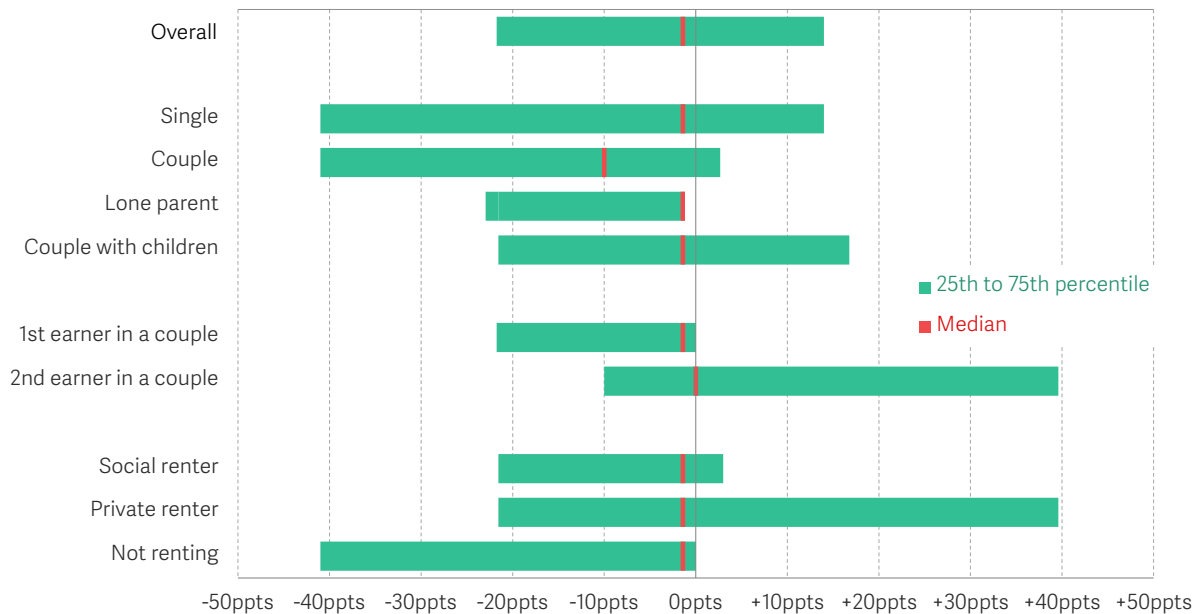


NOTES: Assumes 100 per cent Universal Credit roll-out and full take up.  
SOURCE: RF analysis of DWP Family Resources Survey using the IPPR tax-benefit model.

As shown in Figure 16, typical (median) MDRs are lower for all groups on Universal Credit than Tax Credits (meaning people have stronger financial incentives to earn more), other than second earners in a couple. The biggest rises in MDRs are for families who become newly-entitled to Universal Credit: this is most likely for working renter families, and second earners in workers in couples. In these cases, their marginal deduction rate might rise from 28 per cent to 68 per cent (if they were paying Income Tax and NI), or even from 0 to 55 per cent for some low-earning second earners. Conversely, those seeing large falls in MDRs will typically be in families that are not entitled to Universal Credit but would have been entitled to legacy benefits.

FIGURE 16: Typical marginal deduction rates are slightly lower for all family types on Universal Credit than on legacy benefits

Change in marginal deduction rate when moving from legacy benefits to Universal Credit among workers eligible for a legacy benefit or Universal Credit, by various characteristics: UK, 2024-25



NOTES: Assumes 100 per cent Universal Credit roll-out and full take up.

SOURCE: RF analysis of Family Resources Survey using the IPPR tax-benefit model.

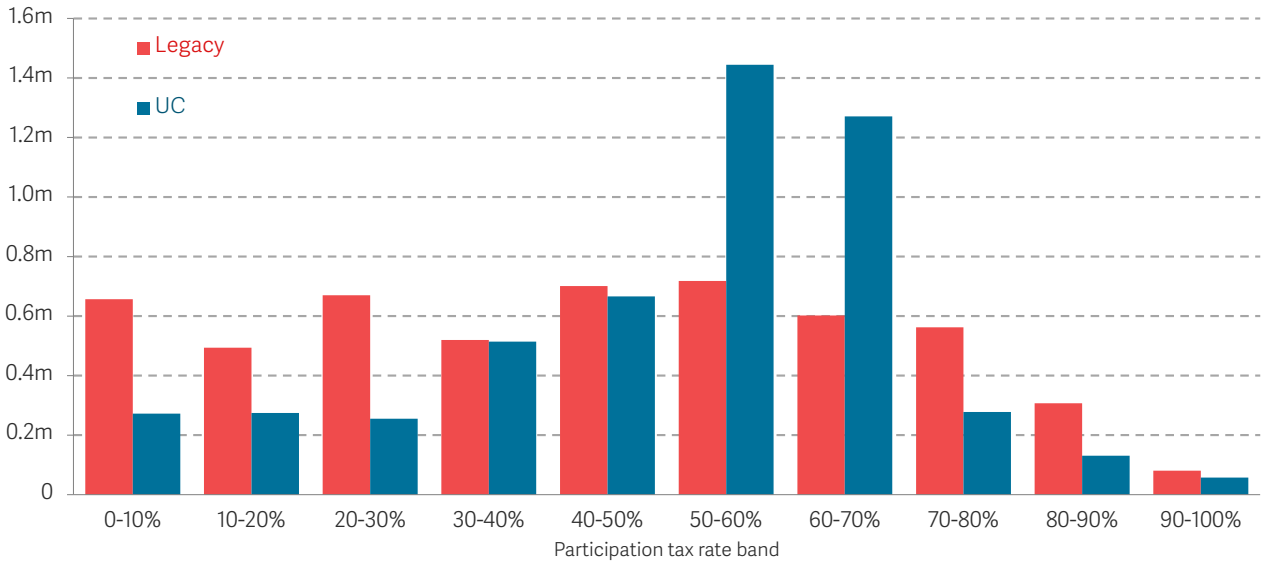
Similarly, we can look at how the benefit system discourages claimants from working at all by looking at their participation tax rate (PTR), which measures how much of a worker's total gross earnings is lost to taxes or benefit withdrawals. High PTRs in the legacy system were identified as "the main disincentive to work" at the time of Universal Credit's announcement.<sup>19</sup>

Universal Credit's impact on PTRs is similar to its impact on MDRs: as we can see in Figure 17, Universal Credit substantially reduces the number of workers facing very high PTRs, but in the process, it has meant more workers will face PTRs that could still be considered high. In particular, moving all eligible workers from legacy benefits to Universal Credit causes the number of households facing PTRs above 70 per cent to fall from around 950,000 to 470,000, but the total number facing PTRs above 50 per cent increases from 2.3 million to 3.2 million. PTRs will rise for the first earner in some working non-renting families, and also for the second earner in most working families entitled to Universal Credit, as those previously receiving Tax Credits move from a 41 per cent to a 55 per cent taper.

<sup>19</sup> Dynamic Benefits – towards welfare that works, Centre for Social Justice, September 2009.

**FIGURE 17: Universal Credit consolidates participation tax rates between 50 and 70 per cent**

Number of workers eligible for a legacy benefit or Universal Credit, by participation tax rate band, under the legacy system and Universal Credit: UK, 2024-25

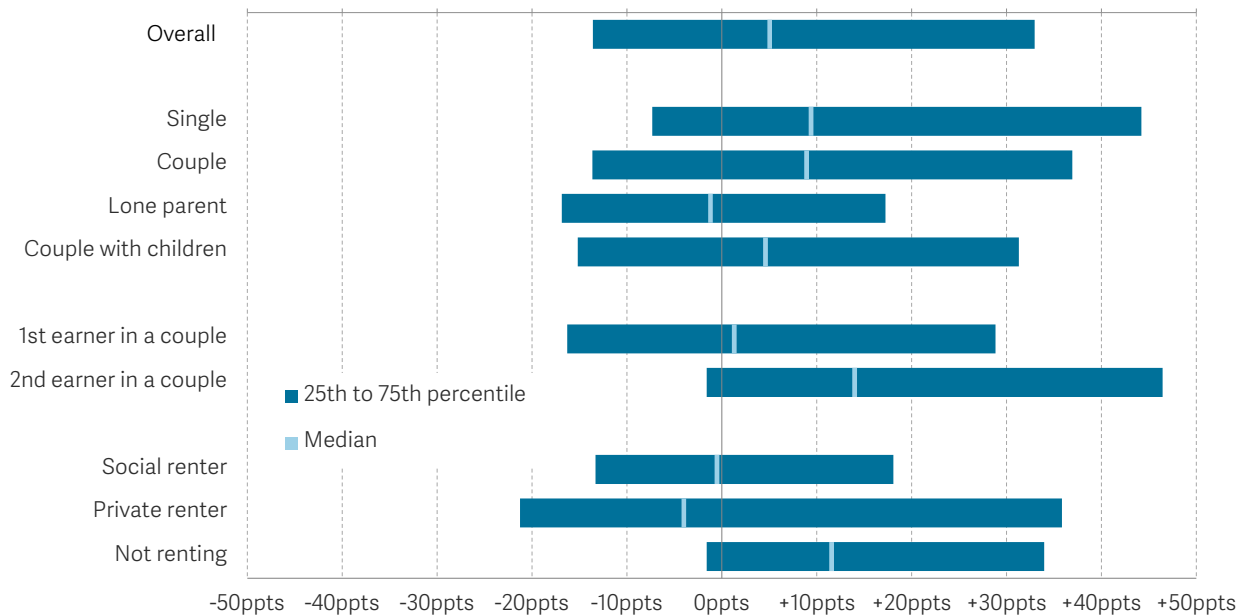


NOTES: Assumes 100 per cent Universal Credit roll-out and full take up.  
 SOURCE: RF analysis of DWP Family Resources Survey using the IPPR tax-benefit model.

Out of all workers in families eligible for Universal Credit or Tax Credits, Figure 18 shows that median PTRs are actually higher (meaning weaker financial incentives to work compared to not working) for nearly all household types when they claim Universal Credit, with only lone parents and renters seeing falls. Among the set of families eligible for either Universal Credit or legacy benefits, non-renters and second earners in couples see especially large increases in PTRs when moving from legacy benefits to Universal Credit; this will correspond to families who were not eligible to legacy benefits when in work, but who are eligible for Universal Credit.

**FIGURE 18: Median participation tax rates are higher for most family types on Universal Credit than on legacy benefits**

Change in participation tax rate when moving from legacy benefits to Universal Credit among workers eligible for a legacy benefit or Universal Credit, by various characteristics: UK, 2024-25



NOTES: Assumes 100 per cent Universal Credit roll-out and full take up.  
SOURCE: RF analysis of Family Resources Survey using the IPPR tax-benefit model.

### Universal Credit increases and extends compliance requirements

Universal Credit has not only increased the size of the carrot to encourage people into work by allowing working claimants to keep more of their earnings, it has also increased the size of the stick, by implementing more stringent compliance requirements for those who are un- or under-employed than the legacy benefits designed for people who are out of work (i.e. JSA, ESA and Income Support for lone parents). There are three aspects to this.

First, conditionality has been a part of the system of out-of-work benefits since the mid-1990s, but it is now stricter in Universal Credit and legacy benefits than it has historically been, requiring claimants spend up to 35 hours per week searching for and applying for jobs, to accept any job offer within a 90-minute commute after the first four weeks of claiming, and issuing sanctions for missing single work-coach appointments. The Government has justified these rules on the basis that claimants are better off in work, and that they are consistent with Universal Credit's principle of eradicating the features of the legacy system that could trap people in unemployment and benefit receipt. But there may be unintended consequences that have come with the intensification of these

job search rules; for example, some employers have blamed the requirements placed on claimants to be seen to be applying for a large volume of jobs for producing a deluge of job applications from unsuitable or unmotivated candidates.<sup>20</sup>

Second, under the legacy system, large groups have been entitled to receive support without any conditionality, principally those on Tax Credits or Housing Benefit only. By bringing these payments into Universal Credit, more people are now receiving a benefit to which conditions can be attached.

Third, Universal Credit has extended conditionality from those who are not working to some people who are in work. In particular, Universal Credit claimants earning below the Administrative Earnings Threshold (AET) (equivalent to 15 hours per week at the NLW for singles and 24 hours per week for couples) are required to search for and be available for work that pays more, and those earning above the AET but below the Conditionality Earnings Threshold (CET) (35 hours per week at the NLW) are placed in a 'light touch' regime, requiring tasks such as work-focused interviews with Jobcentre work coaches.

As a result of all three changes, there are now 2.7 million people on Universal Credit subject to some form of conditionality, including 840,000 in work, compared to 1.1 million JSA claimants in 2013-14.

### Universal Credit has a higher incidence of sanctions

One controversial aspect of Universal Credit and the legacy benefits is that recipients can be sanctioned for not complying with certain conditions related to searching for work. Conditions vary based on a claimant's circumstances, but typically include failing to apply for or accept a job without good reason, leaving a job without good reason, not being available for work, failing to attend a mandatory work placement or training, and failing to attend an interview with a work coach. The length of a sanction depends on the reason it is given; they range from the time until the claimant complies with a requirement, up to a maximum of 182 days. The amount of a sanction is determined by a claimant's circumstances. The standard rate is 100 per cent of the standard allowance for single people and 50 per cent of the standard allowance for couples for each day that the sanction lasts (with reduced rates of 40 per cent for singles and 20 per cent for members of a couple who are main carers of a child under one or pregnant women who are within 11 weeks of their due date).<sup>21</sup> It is beyond the scope of this briefing note to assess the efficacy of sanctions and conditionality. However, many researchers have highlighted

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<sup>20</sup> K Jones & C Carson, *Universal Credit and Employers: Exploring the Demand Side of UK Active Labour Market Policy*, Manchester Metropolitan University, January 2023.

<sup>21</sup> DWP, *Universal Credit and You*, updated 8 April 2024.



the inconclusive evidence of the efficacy of conditionality and the threat of sanctions in helping claimants into work and ultimately out of benefit receipt, and the frequent negative outcomes that inevitably come with sanctions.<sup>22</sup>

Figure 19 shows sanction rates (defined as the proportion of claimants who could be sanctioned that received a sanction each month) over time under Universal Credit and legacy benefits. Overall, sanction rates have fluctuated over the last 10 years, peaking in 2013 for legacy benefits and 2016 for Universal Credit, then falling to nothing in the Covid-19 pandemic, during which all conditionality was suspended, but then picking up since conditionality was reinstated in April 2021. In 2023, the average proportion of Universal Credit households in a sanctionable regime that received a sanction each month was 2.4 per cent.

Sanction rates under Universal Credit in its initial years were also artificially high as the early caseload was disproportionately made up of out-of-work single people without a disability, who are more likely to be sanctioned. Even after this period, though, the incidence of sanctions on Universal Credit has been consistently higher than for JSA. However, this is largely driven by Universal Credit claimants receiving sanctions for failure to attend a mandatory work coach interview. Arguably, this is not a fair like-for-like comparison, as JSA claims would simply be closed five days after a missed appointment if there was no contact (this cannot be done under Universal Credit, as Universal Credit may also be covering other support for, e.g., housing or children, and so closing a claim could leave a claimant with no income). Between January and October 2023, 96 per cent of Universal Credit sanctions were given for failure to comply with an interview requirement, compared to just 23 per cent of JSA sanctions between 2013 and 2019. If we remove these types of sanctions, then the incidence of sanctions for people on Universal Credit closely follows those for people on JSA (see Figure 19), suggesting that, outside of this change, the approach to issuing sanctions is similar under Universal Credit and JSA. For example, the average proportion of sanctionable claimants that received a sanction each month from 2016-17 to 2018-19 was 1.0 per cent on JSA and 4.2 per cent on Universal Credit, but if we exclude interview-related sanctions the Universal Credit figure is a very similar 1.1 per cent. However, there is also some evidence that the duration of Universal Credit sanctions is increasing, as the proportion of completed sanctions lasting 5 to 13 weeks increased from 44 per cent in 2019 to 51 per cent in 2023, although the proportion of sanctions over 13 weeks remained at 12 per cent.<sup>23</sup>

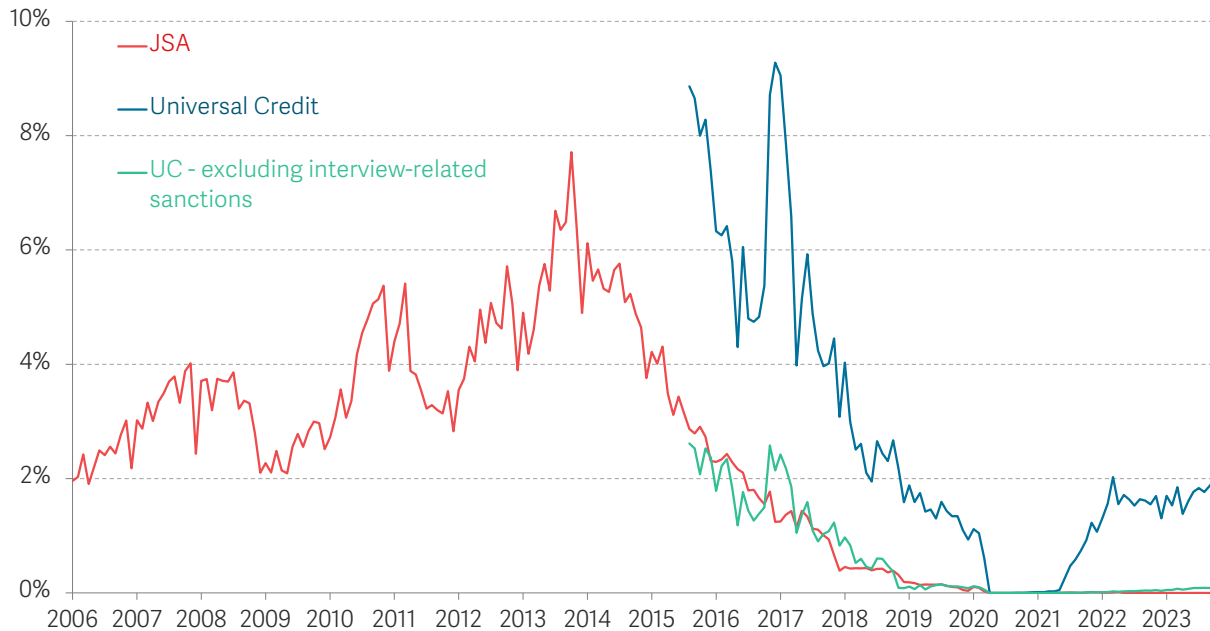
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<sup>22</sup> These issues are discussed further in this summary of a comprehensive research project on the impact of conditionality and sanctions: P Dwyer et al., *The Impact of Welfare Conditionality*, Policy Press, November 2022. Since that work concluded, DWP released their own preliminary research that suggested that “a sanction leads the average claimant to exit less quickly into PAYE earnings and to earn less upon exiting.” (See: DWP, *The Impact of Benefit Sanctions on Employment Outcomes*, April 2023). However, the methods used in that report may have overstated the negative impacts of sanctions (as explained by: T Waters, *New DWP study on sanctions may not be all it seems*, Institute for Fiscal Studies, 6 April 2023), and the research looked only at the direct impact of being sanctioned, not any wider deterrent effect.

<sup>23</sup> DWP StatXplore.

**FIGURE 19: Universal Credit has a higher incidence of sanctions than Jobseekers Allowance, driven by sanctions related to failure to attend a work interview**

Proportion of sanctionable claimants receiving a negative sanction decision each month, Universal Credit and Jobseekers Allowance: GB



SOURCE: DWP StatXplore.

Universal Credit’s impact on employment isn’t clear, but changes to hours rules are affecting work patterns for some

The key question, of course, is whether Universal Credit has succeeded in encouraging work.

There is clear evidence from DWP evaluations that unemployed single people and lone parents claiming Universal Credit are more likely to move into work than those who claim JSA.<sup>24</sup> This is clearly a positive result, but it is not a comprehensive assessment of Universal Credit’s impact on employment rates of the labour market. Whether the changes to withdrawal rates alone have made a difference is not yet clear, but we can see a clear impact of abolishing some of the steep cliff-edges in the legacy system.

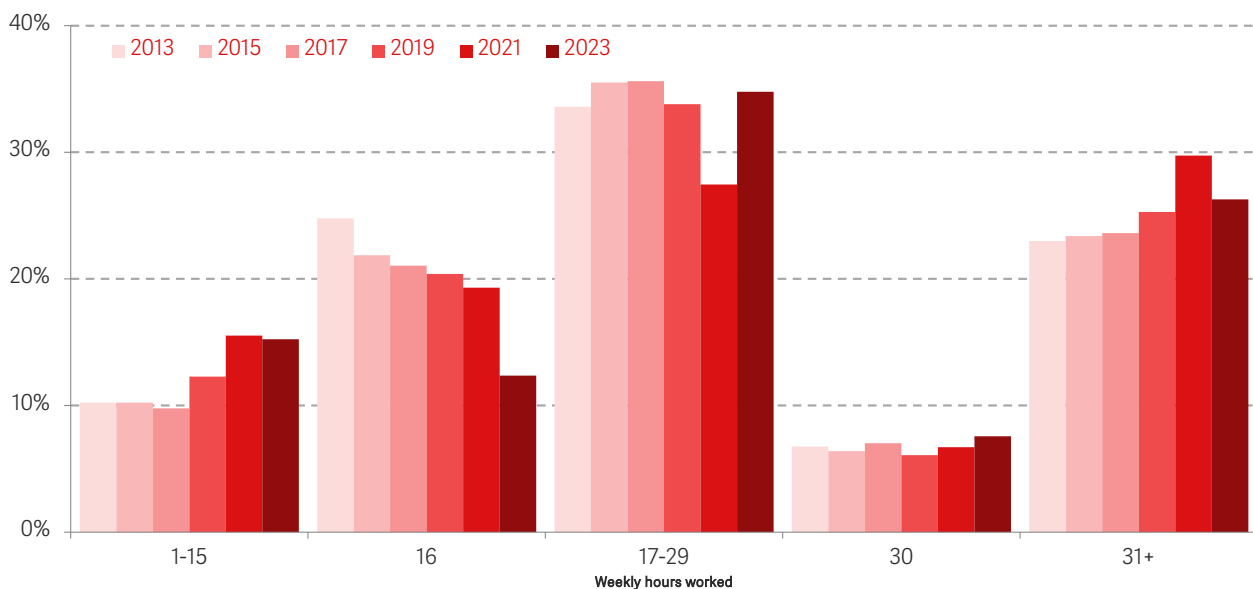
Under the legacy Working Tax Credit, lone parents had a very strong incentive to work at least 16 hours a week compared to working slightly fewer hours, but Universal Credit has removed this cliff-edge. As we show in Figure 20, the proportion of lone parents working

<sup>24</sup> DWP has undertaken several projects that look at how quickly new claimants of Universal Credit move into work compared to otherwise-identical claimants of legacy benefits. Three of these looked at single unemployed claimants, and one looked at lone parent claimants, and all relate to a period of time where new claimants would receive Universal Credit in some parts of the country and legacy benefits in others (the latest research draws on claims made in early 2018). All find that new claimants of Universal Credit move into work more quickly compared to otherwise-identical claimants of legacy benefits. See: DWP, [Universal Credit: estimating the early labour market impacts](#), February 2015; DWP, [Universal Credit: estimating the early labour market impacts: updated analysis](#), December 2015; DWP, [Universal Credit employment impact analysis: update](#), September 2017; DWP, [Estimating the employment impact of Universal Credit among single parents](#), February 2024.

in low-skilled jobs who work for exactly 16 hours a week has declined from 25 per cent in 2013 to 12 per cent in 2023, while the proportion working 15 or fewer hours has increased from 10 per cent to 15 per cent.<sup>25</sup> Our analysis cannot tell us whether these changes are due to previously out-of-work households taking on short-hours jobs – although there has been a fall in the proportion of lone parents not in work over the same period – or parents that were previously working longer reducing their hours. But it is clear that the abolition of these so-called hours rules in legacy benefits has had little impact on working patterns for groups other than lone parents, perhaps reflecting that other sorts of workers are less likely to respond to financial work incentives.

**FIGURE 20: There has been a decline in the proportion of lone parents in low-skilled jobs working exactly 16 hours per week, and an increase in those working shorter hours**

Proportion of lone parents in low-skilled jobs working different weekly hours: UK



NOTES: Data is from quarter 2 of each year. Low-skilled jobs are defined as those in the following groups according to the Labour Force Survey: caring, leisure and other service occupations; sales and customer service occupations; process, plant and machine operatives; elementary occupations.  
SOURCE: RF analysis of Labour Force Survey.

## Universal Credit changes the experience of claiming benefits

In parallel with its reconfiguration of entitlement and support levels, Universal Credit has dramatically changed the overall experience that claimants go through in interacting with the benefit system. Much of this follows from the design principle behind Universal Credit to pursue a simpler and more consistent system than legacy benefits. But in some cases, this has come at the cost of being a system with less flexibility to accommodate

<sup>25</sup> We define 'low-skilled jobs' as those in the following groups according to the Labour Force Survey: caring, leisure and other service occupations; sales and customer service occupations; process, plant and machine operatives; elementary occupations.

more complex cases. These trade-offs show how the impacts of Universal Credit's restructuring of the mechanics of the benefit system go beyond changes in entitlement to affect the overall experience of claiming. We focus on two significant changes: an increase in deductions from benefits to pay for debts, and trade-offs between simplicity and flexibility that have consequences for more complex cases.

## Nearly half of Universal Credit recipients have had some of the entitlement held back to repay past debts

The DWP has long had the power to deduct amounts from benefit awards to pay back debts to the government, such as budgeting advances and overpayments, or debts on behalf of third parties, such as energy bills, Council Tax arrears, court fines, child maintenance and rent arrears.<sup>26</sup> Universal Credit's fully digital system allows the Department to collect debts with administrative efficiency, and as of February 2023, 45 per cent of households on Universal Credit had some form of deduction from their award.<sup>27</sup>

Under Universal Credit, the maximum deduction is 25 per cent of the Universal Credit standard allowance, similar to the maximum deduction under legacy benefits. However, two specific changes between legacy benefits and Universal Credit mean that deductions are more common under Universal Credit. First, around half of new Universal Credit claimants take out an advance during the five-week wait for their first payment, which is typically recovered in instalments over 24 months.<sup>28</sup> Under Universal Credit, claimants can have a budgeting advance immediately, rather than only after six months on JSA, ESA and IS (and not at all under HB). Second, when someone migrates to, or makes, a new claim for Universal Credit, DWP will attempt to recover any past Tax Credit overpayment debt. In February 2023, at least 18 per cent of Universal Credit recipients were having a deduction made because of old tax credit debt.<sup>29</sup>

Universal Credit has simplified the benefit system, but in some instances it has proven frustratingly inflexible

Universal Credit was motivated as a simplification of the benefit system by combining six different benefits, administered by three different parts of government, into a single programme. For a large number of claimants, Universal Credit's six-benefits-in-one application, online case management, monthly assessment period and single

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<sup>26</sup> The impact of deductions is discussed in, for example: A Graven, [Universal Credit and Third Party Deductions: The Rules and Their Impact on Claimants](#), Social Policy and Society, 2021; D Ben-Galim, [Deductions: Driver of Poverty - The case for reform of deductions from Universal Credit payments](#), Lloyds Bank Foundation, May 2022; R Griffiths & R Cain, [Universal Credit, deductions and 'sexually transmitted' debt](#), Journal of Social Welfare and Family Law, 2022. A case for (explicitly or implicitly) writing off Tax Credit debt is made in: N Timmins, [Universal Credit: Getting it to work better](#), Institute for Government, March 2020.

<sup>27</sup> G Opperman, [Universal Credit: Deductions](#), UK Parliament: Written answer UIN 191819, 28 June 2023.

<sup>28</sup> S Kennedy et al., [Universal Credit Deductions](#), House of Commons Library, July 2023.

<sup>29</sup> G Opperman, [Universal Credit: Deductions](#), UK Parliament: Written answer UIN 191730, 29 June 2023.

administrator are indeed simpler than managing claims for multiple benefits. And the advantages of moving to 'digital by default' and the construction of a modern IT system were seen during the Covid-19 pandemic, when DWP was able to increase entitlements by £20 a week at very short notice, and the system coped with a surge of claims in April 2020.<sup>30</sup> However, for claimants with less simple cases, the simplicity of Universal Credit can be experienced as rigidity. Here, we highlight two: the move to monthly assessment and payment in arrears, and the use of family-level payments.

The decision to pay Universal Credit monthly in arrears – which is what leads to the 'five week wait' – was taken in part to prevent the overpayments that frequently occurred in the Tax Credit system, in which payments were based either on the previous year's earnings or an estimate of the current year's, and then re-calculated after the end of the tax year. Here, the policy intent should definitely be commended. As we noted above, as of 2023, DWP estimated that it will have had over £6 billion of tax credit transferred to it by the end of the Universal Credit roll-out, so it's easy to understand why the Government would want to have a Universal Credit system that designed out most of the instances of overpayment.<sup>31</sup> The Government also said that paying Universal Credit monthly would make being on Universal Credit feel more similar to being in work, and help claimants become accustomed to the budgeting requirements that come with monthly pay packets.<sup>32</sup> However, the extent to which this reflects experiences of working is debatable, and around four-in-ten workers on Universal Credit are not paid monthly.<sup>33</sup>

But the implication of a strict monthly assessment period is that Universal Credit can act to cause or exacerbate income volatility for claimants whose monthly earnings varies, as receiving different numbers of payments or different amounts from work in an assessment period can reduce or raise that month's Universal Credit award.<sup>34</sup> Indeed, it can lead not only to cash-flow issues, but also to an overall loss of entitlement (compared to a situation where earnings are spread equally over 12 months), as awards often do not 'even out' in future months if work allowances are lost.

A second issue is that Universal Credit's design as a single household payment means that separate elements are not paid to different members of a household as standard, such as elements to support children to the main caregiver, which can leave victims of financial abuse with no protected income of their own.<sup>35</sup> This is a change from Child Tax

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<sup>30</sup> M Brewer & K Handscomb, *This time is different – Universal Credit's first recession: Assessing the welfare system and its effect on living standards during the coronavirus epidemic*, Resolution Foundation, May 2020.

<sup>31</sup> DWP, *Annual report and accounts 2022-23*, July 2023.

<sup>32</sup> DWP, *Universal Credit: welfare that works*, November 2010.

<sup>33</sup> F Bennett & J Millar, *Universal Credit: Assumptions, Contradictions and Virtual Reality*, Social Policy and Society, 2017.

<sup>34</sup> For a discussion of how Universal Credit affects the volatility of claimants' income, see: R Griffiths & M Wood, *Coping and Hoping: Monthly Assessment and Universal Credit*, University of Bath, April 2024.

<sup>35</sup> F Bennett & J Millar, *Inflexibility in an integrated system? Policy challenges posed by the design of Universal Credit*, Barnett Papers in Social Research, WP 22-01, January 2022.

Credit, which is generally paid to the main caregiver. Special arrangements can be made in Universal Credit to split household payments, but this is seldom done in practice.

## Changes in the country have changed who claims benefits

Earlier in this note, we showed how deliberate policy changes to who is entitled to Universal Credit, and to how much, have had significant impacts on who can claim benefits in the UK. But changes in the country since 2013 have also altered who needs to access the benefit system. In some cases, this brings unanticipated challenges for the Universal Credit system.

Claimants of Universal Credit or a legacy benefit are now more likely to be single and more likely to be older than in 2013

Comparisons between the current Universal Credit caseload and the legacy benefit caseload from previous years are difficult, and DWP and HMRC do not publish a single set of statistics of claimants of legacy benefits and Universal Credit that can be broken down by characteristics such as age, family type or labour market status. In the absence of this, we have turned to household survey data for additional information on how the legacy benefit/Universal Credit caseload has changed since Universal Credit was introduced.

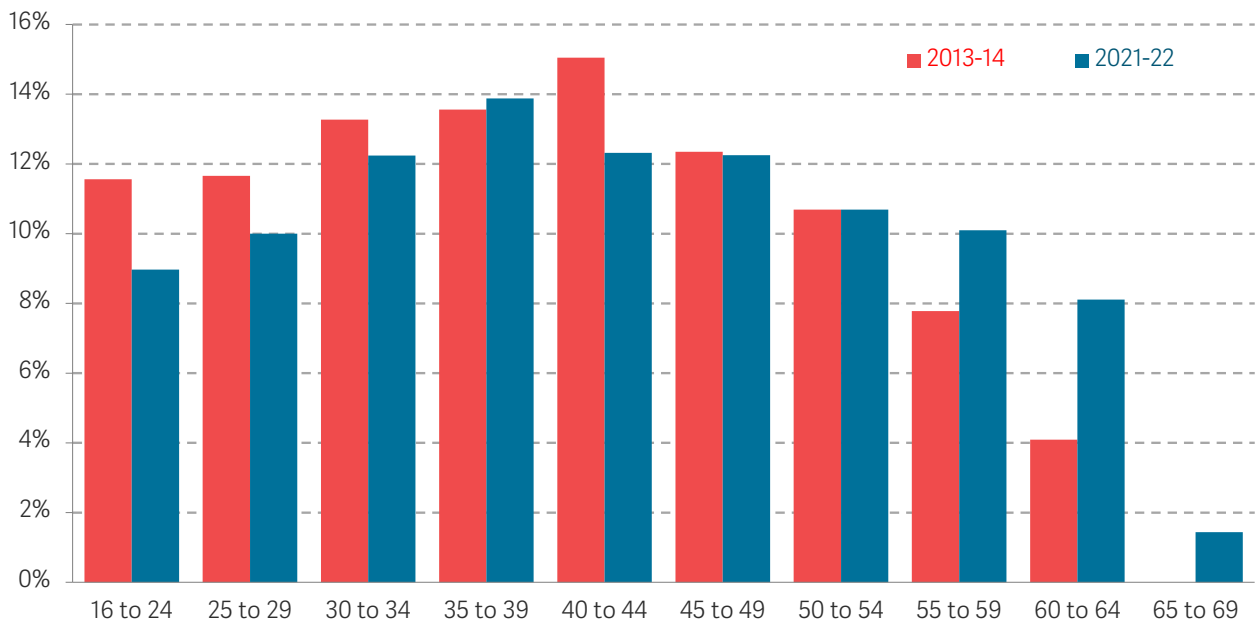
This data shows two trends that are unlikely to have been driven by any changes in entitlement rules between legacy benefits and Universal Credit: a shift towards single adult families, rather than couples, receiving Universal Credit or legacy benefits, and an aging of the caseload. In particular, the fraction of households receiving either Universal Credit or a legacy benefit that are either single adults or lone parents rose by 6 percentage points between 2013 and 2021, from 61 per cent to 68 per cent, (and single adults and lone parents together make up 5 in every 6 households (84 per cent) currently receiving Universal Credit). This is related to the rise in the ill-health and disability caseload, discussed in the next sub-section, as such claimants are more likely to be single than live in a couple.

The working-age benefit caseload has also shifted older as Universal Credit has rolled out: 30 per cent of recipients of Universal Credit or a legacy benefit in 2021 were aged 55 or older, compared with 23 per cent in 2013, while the proportion aged under 35 has declined from 36 per cent to 31 per cent in the same period (as shown in Figure 21). This is partly due to rules that mean mixed-age couples claim Universal Credit instead of

pension-age benefits, and increases in the women's state pension age in recent years. It is also likely to in part be driven by an ageing population, and also by a higher proportion of older working-age people claiming health-related support.<sup>36</sup>

**FIGURE 21: People claiming a legacy benefit or Universal Credit have shifted older**

Proportion of recipients of a legacy benefit or Universal Credit, by age group: GB



SOURCE: RF analysis of Family Resources Survey.

### The rise in people claiming health-related benefits represents a significant policy challenge

The two trends above are related to what is a striking trend in recent years: the sustained rise in the number of working-age families receiving means-tested support due to ill-health.<sup>37</sup> In May 2013, there were 2.3 million families receiving ESA, Incapacity Benefit, or Universal Credit with an equivalent health element, but this had risen to 2.8 million by August 2023, and more recent caseload data for Universal Credit suggests the upward trend is continuing (see Figure 22).<sup>38</sup> This has been driven in part by a steep rise in young people with mental health conditions in recent years, as well as more older people receiving Universal Credit due to changes in the state pension age and rules for mixed-age couples.<sup>39</sup> This is in line with broader welfare trends: real-terms spending on ill-health

<sup>36</sup> <https://www.resolutionfoundation.org/publications/a-u-shaped-legacy/>

<sup>37</sup> There has also been a concurrent rise in the number of people receiving support to cover the cost of disability. See L Murphy, *A U-shaped legacy*, Resolution Foundation, March 2024.

<sup>38</sup> This chart has been updated following helpful comments from Ben Baumberg Geiger. An earlier version showed income-based ESA and Universal Credit with LCW/LCWRA only.

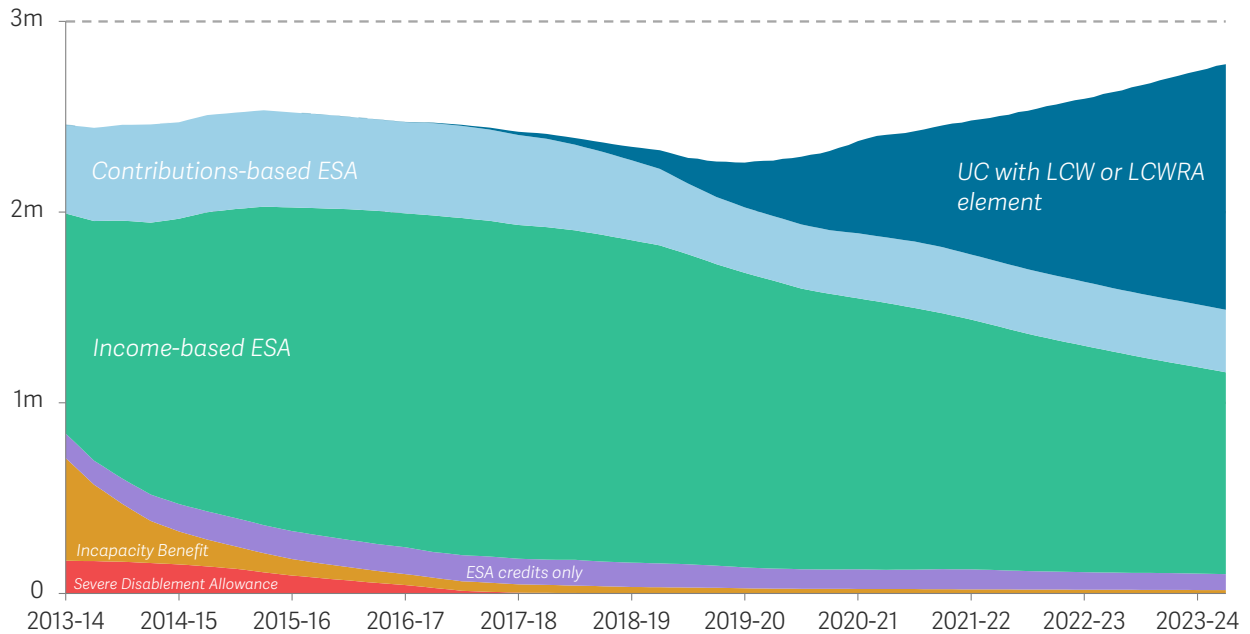
<sup>39</sup> See C McCurdy and L Murphy, *We've only just begun*, Resolution Foundation, February 2024; L Murphy, *A U-shaped legacy*, Resolution Foundation, March 2024.



and disability benefits is currently set to be £98 billion in 2028-29 (in current prices), £34 billion (51 per cent) higher than it was in 2019-20.<sup>40</sup>

**FIGURE 22: There has been a sustained rise in the health-related benefit caseload since 2019**

Number of families claiming a health-related benefit: GB



NOTES: Number of families shown for Universal Credit and number of claimants shown for other benefits (see Annex 2). Claims of Universal Credit with LCW or LCWRA and contributions-based or credits only ESA together have been removed from the ESA count. A small number of Universal Credit with LCW or LCWRA recipients will be in work and would have previously claimed Tax Credits rather than ESA. Tax Credits claims with a disability element are excluded to avoid double counting.

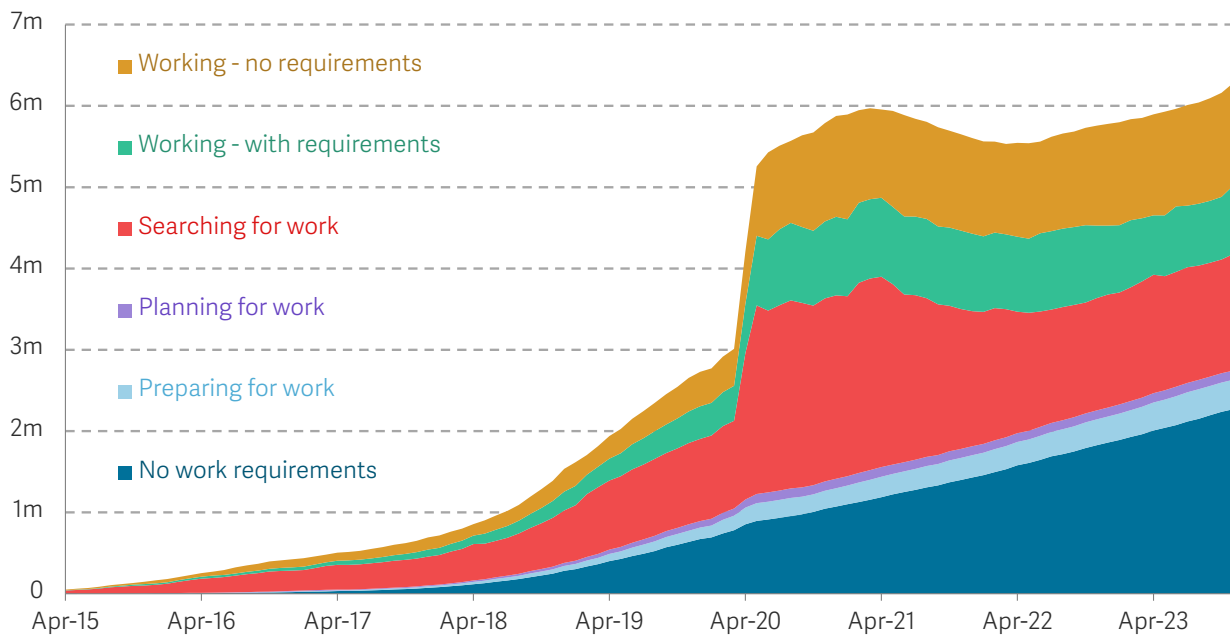
SOURCE: DWP StatXplore.

Partly because of this rise in the proportion of Universal Credit claimants with temporary or permanent health issues, only 44 per cent of the total Universal Credit caseload are currently subject to the conditionality rules, down from 65 per cent in April 2019, and the largest Universal Credit group is now 'no work requirements', at 36 per cent of the total caseload (Figure 23).

<sup>40</sup> DWP, Autumn Statement 2023 Expenditure and Caseload Forecasts.

FIGURE 23: 'No work requirements' is now the largest Universal Credit conditionality group

Number of people in each Universal Credit conditionality group: GB



SOURCE: DWP Stat-Xplore

This represents a significant challenge for the next government, and one that Universal Credit is arguably not well equipped to address in its current format. Universal Credit was motivated by the idea that the legacy benefit system was holding unemployed people back from moving into work, but this is no longer the key policy challenge in the labour market. Unemployment has fallen from 8.5 per cent in 2011 to 3.8 per cent at the end of 2023, and for some groups it is virtually non-existent: there are only 35,000 couples with children who are workless and at least one member is unemployed. Instead, the increasing number of claimants with health issues is highlighting a new undesirable feature of Universal Credit: that it may be preventing people from moving out of economic inactivity. This is because claimants assessed as having limited capability for work (LCW) or limited capability for work related activity (LCWRA) have little or no work-search conditionality applied, and claimants with LCWRA receive an additional element worth £5,000 per year, which creates incentives for claimants to be placed in this group.

It is broadly acknowledged that the current method used in the benefit system for assessing whether someone is too unwell to be expected to work is not well aligned with this rise in health-related inactivity. The Government published a Health and Disability White Paper in March 2023, which set out plans to abolish the Work Capability Assessment and create a new Universal Credit health element, for which eligibility would be determined through the existing PIP assessment.<sup>41</sup> Under these plans, claimants

<sup>41</sup> DWP, *Transforming Support: The Health and Disability White Paper*, March 2023.

would not need to be found to have limited capability for work to receive health-related support in Universal Credit (although they would need to go through an assessment process and be found eligible for PIP), so they could take on work without risking losing support. However, without changes to the PIP assessment, some of the 650,000 people currently receiving support for ill-health but not receiving PIP would be ineligible for the extra health element.<sup>42</sup> The Government has also announced shorter-term plans to remove certain mobility-related criteria from the Work Capability Assessment from 2025, with the rationale that people affected by mobility issues are now more capable of working due to shifts towards home working since the pandemic.<sup>43</sup>

The policy response required to address the ballooning health-related benefits caseload must be more holistic, however, with interventions needed in healthcare, education, and labour market policy to address the drivers of ill-health, as well as in the benefit system. It would be foolish for policy makers to expect that tweaks to Universal Credit, most of which are designed to pay out less money to sick and disabled people, on their own will solve Britain's problem of health-related labour market inactivity.

## Conclusion

Whoever wins the upcoming election will oversee the final rollout of what has been Britain's biggest benefit reform in generations. But austerity and broader changes in approach mean that the benefit system has changed dramatically since Universal Credit was first implemented in terms of eligibility, levels of entitlement, the rules that claimants must follow, and their experience of interacting with the system. Universal Credit itself has also led to huge shifts in the generosity of the system, away from those too ill to work and towards working renters.

The next government needs to understand both the Universal Credit mechanism through which they will be delivering a significant part of their policy agenda, and the make-up of low-income families that rely on its support. Policy makers must also figure out how to adapt Universal Credit to address today's labour market challenges. Universal Credit is operating in a different country from the one that was foreseen when Universal Credit was announced: one that is older and sicker, and where the stereotype of younger people making choices not to work is less relevant. We must not use the thinking from the late 2000s to drive policy decisions in the late 2020s.

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<sup>42</sup> T Bell et al., *We're going on a growth hunt*, Resolution Foundation, March 2023. See also S Ray-Chaudhuri & T Waters, *The effects of reforms to the Work Capability Assessment for incapacity benefits*, IFS, October 2023.

<sup>43</sup> DWP, *New 'Chance to Work Guarantee' will remove barriers to work for millions*, 22 November 2023.

## Annex 1: A Universal Credit timeline

2009: A report by the Centre for Social Justice thinktank, first outlines the Universal Credit concept.<sup>44</sup>

2010: Iain Duncan Smith announces Universal Credit at the Conservative party conference. Two DWP white papers further develop the concept.<sup>45</sup>

2012: The Welfare Reform Act outlines the Universal Credit reform in legislation.

April 2013: Universal Credit Regulation 2013 comes into force. The benefit cap comes into force (at £26,000 per year nationwide).

2013: The first four Universal Credit pilots are launched in Tameside, Bolton, Wigan and Warrington, followed by Brecon in Wales. All but one are delayed.

2013-16: Universal Credit roll-out begins, initially limited to new, single, non-disabled claimants in the North West of England. It is later extended to couples, then families, in the same area, reflecting the gradual maturing of different aspects of the IT system. Once the North West rollout is largely complete, the Government gradually extends Universal Credit to new, single, non-disabled claimants in the rest of the British mainland, nearly completing this roll-out as of March 2016.

2015: The Government announces a £3.2 billion a year overall cut to the Universal Credit budget.

April 2016: Universal Credit work allowances reduced and all benefit rates are frozen.

November 2016: The Universal Credit taper rate is reduced from 65 to 63 per cent. The benefit cap is lowered to £20k nationally and £23k in London.

April 2017: The two-child limit is introduced for new claims and births after April 2017 and the higher child element for the first child is removed for new claims. The extra element covering limited capability to work is removed, alongside the work-related activity component of Employment and Support Allowance.

September 2017: Rollout begins in Northern Ireland.

October 2017: Original target date for full rollout

April 2019: The Government increases Universal Credit work allowances (but they are lower than they were before 2016).

April 2020: Working-age benefits, including Universal Credit, are uprated by CPI for the

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<sup>44</sup> [Dynamic Benefits – towards welfare that works](#), Centre for Social Justice, September 2009.

<sup>45</sup> DWP, 21st Century Welfare, 2010; DWP, Universal Credit: welfare that works, November 2010.

first time since 2015. A £20 a week uplift to the Universal Credit standard allowance is implemented due to the Covid-19 pandemic, and remains in place until September 2021. The Local Housing Allowance is re-matched to 30th percentile rents (but then re-frozen until April 2024).

October 2021: The Government increases work allowances, and the taper is reduced from 63 to 55 per cent.

April 2023: The benefit cap is updated for the first time. Managed migration picks up, focused on Tax Credit claimants.

April 2024: The Local Housing Allowance is repegged to 30th percentile of local rents. Managed migration will begin this year for all benefit combinations except ESA only and ESA and HB.

2028: Current plan for managed migration to be complete.

## Annex 2: Difficulties in comparing Universal Credit and legacy benefit caseloads

There are two major caveats when we compare Universal Credit with legacy benefit caseloads. First, most legacy benefits were paid to individual claimants (although assessed on family income), whereas Universal Credit is paid and assessed at the family level. The DWP publish Universal Credit caseload data at the family and person level, but data covering DWP legacy benefits is only published at the claimant level and Tax Credit caseload data is published by HMRC at the family level. Second, a family may claim multiple legacy benefits, and so will be counted multiple times in the data, but the same family on Universal Credit will have a single claim and will only be counted once.

To mitigate against these, we compare the count of families on Universal Credit with the count of families on Tax Credits and claimants of other legacy benefits, with the rationale that legacy benefits received by an individual will benefit that individual's family in a similar way to Universal Credit. We also only count Tax Credit families that are in work, as those not working will likely also be claiming JSA, ESA or IS, and so will be counted in the data for those benefits. The number of Housing Benefit only families are estimated using DWP benefit combinations data, which is available by adult rather than family. We apply an 'adult-to-family' ratio based on the 'adult-to-family' ratio of the entire HB caseload in each month to estimate the number of families.

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

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

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