

Limited ambition?

An assessment of the rumoured options for easing the two-child limit

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Abolishing the two-child limit would be the most cost-effective way to reduce child poverty; if it is not scrapped, we project that 4.8 million children (34 per cent) will be in poverty by 2029-30, including half of all children in large families. There has been speculation in recent weeks that the Government is considering measures that would reduce the impact of the two-child limit, but fall short of fully scrapping it, either to reduce the cost to the Government (which we estimate to be £3.5 billion in 2029-30, or £4.5 billion if the benefit cap is also scrapped) or so that the Government can say that there is still a limit on how much Universal Credit is paid to families with children. Of the suggested compromise options, either moving to a three-child limit or paying lower amounts for third and subsequent children would both be preferable to other options that introduce problematic incentives, cliff-edges or distortions.

But none of the options that are rumoured to be on the table is an acceptable long-term solution. They would leave between 120,000 and 350,000 more children in poverty compared to fully scrapping the two-child limit to save between £0.9 billion and £2.3 billion per year; an ambitious Child Poverty Strategy should not make such compromises. Under any of these compromise options, child poverty would likely be at or above its current rate of 31 per cent by the end of the Parliament, and all measures are less cost-effective in lifting children out of poverty than full abolition.

Step one of the Government's forthcoming Child Poverty Strategy should be straightforward. The scope of the strategy will rightly be broad, and the Government is undertaking [learning and engagement](#) with a wide range of experts and stakeholders as it develops its approach. But there is a single policy lever the Government can pull [to lift half a million children out of poverty](#) almost overnight. This is, of course, the removal of the two-child limit, a policy that breaks the link between need and benefit entitlement for families with some of the highest needs, and is thus uniquely effective in pushing children below the poverty line. Our [updated projections](#) show that 4.8 million children are set to be in poverty in 2029-30 under current

policy and, if the two-child limit is not abolished, [we forecast](#) that half of children in large families could be in relative poverty by 2029-30.

Recently, [rumours have emerged](#) that the Government is considering pulling this lever, but perhaps only partway. Instead of abolishing the two-child limit, it has been suggested that the Department for Work and Pensions (DWP) is considering compromise options that would exempt children under five from the operation of the limit, or exempt families where the adults are in paid work, or exempt families with disabled children. [Other reports](#) have mentioned the idea of relaxing the rule to a 'three-child limit'.

These compromises are clearly a way of reducing some of the pain of the two-child limit without spending the full £3.5 billion (in 2029-30) that it would cost to remove it entirely, but with the drawback of dampening the poverty-reducing impact compared to scrapping the two-child limit entirely. Below, we show the costs and expected impacts of these alternatives, and discuss issues that might arise from their implementation (in doing the modelling, we assumed the overall benefit cap remains in place to show the impact of the two-child limit options in isolation, but we have previously argued that the benefit cap should be abolished alongside the two-child limit).

Exempting parents of under-fives

Compared to the status quo, exempting children aged under five from the two-child limit would cost an estimated £1.6 billion in 2029-30 and would lift 195,000 children out of poverty. Compared to full abolition, there would be 155,000 more children in poverty for a saving of £1.9 billion.²

This change would ensure that families received an additional child element when they had a third or subsequent child, but they would then experience an income shock of £3,800 (in 2029-30) when each child after their second turns five. Although this would be better than never getting any additional UC for their third child at all, it would likely have significant destabilising effects on families' budgeting and lifestyles.³

Exempting families with a disabled child

We estimate that exempting all families with a disabled child receiving Disability Living Allowance (DLA) or Personal Independence Payment (PIP) from the two-child limit would cost £1.2 billion in 2029-30 and would lift 120,000 children out of poverty (or there would be 350,000 more children in poverty than if the limit were fully abolished, to save £2.3 billion).

This option would be effective in helping a particularly vulnerable group. But the drawback would be further increasing the difference in support going to families who do or do not receive disability benefits, thus raising the stakes of children's DLA assessments even higher than they already are. As such, it would increase the financial incentive for families with

three or more children to claim disability benefits on behalf of one of their children. It is also the least cost-effective of the options discussed here, at a cost of £10,300 per child lifted out of poverty (with the rest between £7,500 and £9,600 per child lifted out of poverty; see Table 1 later in this spotlight).

Exempting families where at least one adult works

Compared to the status quo, applying the two-child limit only to out-of-work families would cost an estimated £2.6 billion in 2029-30 and would lift 350,000 children out of poverty (there would be 120,000 more children in poverty than if the limit were abolished, to save £0.9 billion).⁴

This would exempt the [59 per cent of families affected by the two-child limit](#) who have someone in work. Compared to the status quo, this option would clearly strengthen financial work incentives for large families. But a strong drawback would be that it would fail to help the most disadvantaged families, and would increase the income loss if a large family no longer met the working conditions (such as if someone were to lose their job).

Moving to a three-child limit

As discussed in [our recent report](#), we estimate that easing the two-child limit so that families received support for the first three children in a family would cost £2.4 billion in 2029-30 and would lift 280,000 children out of poverty. This is around two-thirds of the cost and two-thirds of the child poverty impact of scrapping the policy entirely (so, compared to full abolition, there would be nearly 200,000 more children in poverty for a saving of just over £1 billion).

Moving to a three-child limit would mean every family affected by the two-child limit would see their maximum UC entitlement raised by around £3,800 in 2029-30. Unlike the other rumoured options, this does not introduce problematic incentives, cliff-edges or distortions into the system, as it benefits all affected families equally. Unlike the two-child limit, a three-child limit would also have at least some international precedent: the federal Earned Income Tax Credit [in the US](#) pays the same maximum regardless of child numbers beyond three; child tax allowances in [Bulgaria](#) are limited to three children; and support in [Spain](#) is limited to four dependents including adults. Nevertheless, moving to a three-child limit would retain the problematic disconnect between need and entitlement in the system for families with four or more children.

Introducing a lower child element for third and subsequent children

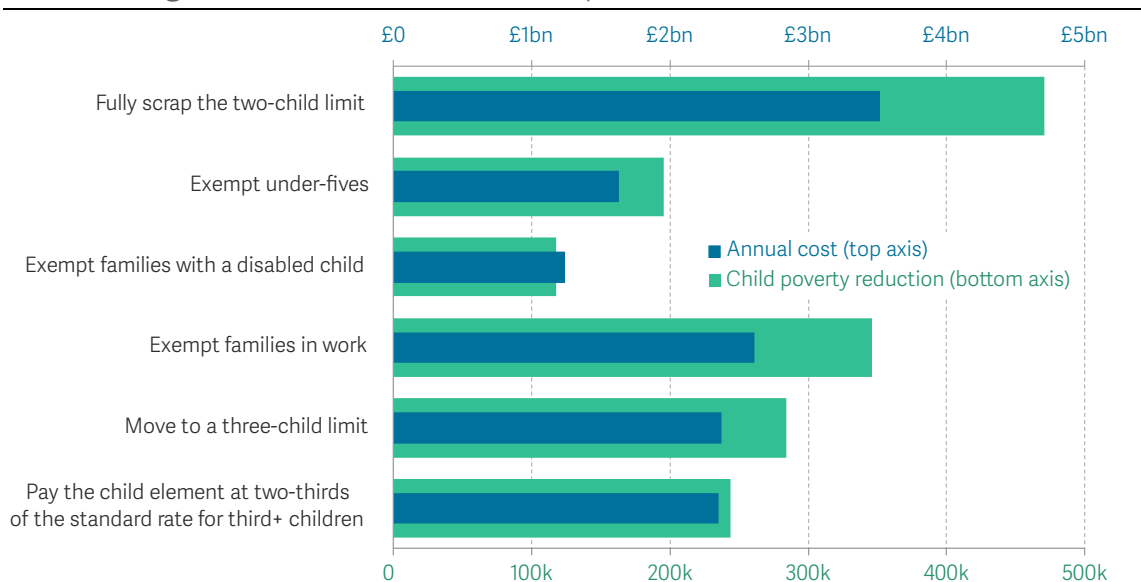
An alternative to moving to a three-child limit would be to scrap the two-child limit but introduce a lower child element in UC for third and subsequent children. This could be scaled to meet a certain cost (for example, setting the third child element at two-thirds of

the standard child element would mean the policy would cost two-thirds of the cost of full abolition); would not introduce any perverse incentives or distortions; and would re-establish some link between need and entitlement. The Government could point to economies of scale to justify such an approach (the additional costs of many aspects of raising a child are lower for subsequent children than the first). And a structure that was skewed towards the first child would not be completely novel: the legacy benefit system has always paid higher rates for the first child; this was mirrored in Child Tax Credits and Universal Credit until the Family Element was abolished from 2017; and the first child rate of Child Benefit is still higher than it is for subsequent children.

Setting the third and subsequent child element at two-thirds of the standard child element would cost £2.3 billion in 2029-30 and would lift 240,000 children out of poverty (so there would be 230,000 more children in poverty than with full abolition, to save £1.2 billion). Compared with a three-child limit, this policy would benefit families with four or more children at the expense of those with three children: the [62 per cent](#) of families affected by the two-child limit who have three children would be worse off by around £1,280 in 2029-30, while the 25 per cent of affected families who have four children would be £1,280 better off and the 12 per cent who have five or more children would be at least £3,800 better off.

The costs and poverty impacts of each of these policies are shown in Figure 1.

Figure 1 **Compromise options on the two-child limit would mean 190,000 to 350,000 more children in poverty compared to fully scrapping the policy**
Estimated annual cost and reduction in the number of children in relative poverty after housing costs, various two-child limit options, 2029-30: UK



Notes: Costs shown in 2029-30 prices. Relative poverty is defined as having an income below 60 per cent of the median income in a given year.
Source: RF analysis of DWP, Family Resources Survey using the IPPR Tax Benefit Model; ONS, various; OBR, Economic and Fiscal Outlook, October 2024.

Table 1 shows the cost per child lifted out of poverty for fully scrapping the two-child limit and each of the floated options. The only option that has a similar cost-effectiveness to full abolition is exempting families who are in work, at £7,540 per child lifted out of poverty, (compared to £7,480 for full abolition). The lower cost-effectiveness of the other options should be considered alongside the issues outlined above that each option would introduce.

Table 1 **None of the proposed two-child limit options are as efficient in lifting children out of poverty as fully scrapping the policy**

Estimated annual cost and reduction in the number of children in relative poverty after housing costs, various two-child limit options, 2029-30: UK

	Annual cost (£bn)	Child poverty reduction	Cost per child lifted out of poverty
Fully scrap the two-child limit	£3.5	471,000	£7,480
Exempt under-fives	£1.6	195,000	£8,350
Exempt families with a disabled child	£1.2	118,000	£10,520
Exempt families in work	£2.6	346,000	£7,540
Move to a three-child limit	£2.4	284,000	£8,360
Pay the child element at two-thirds of the standard rate for third+ children	£2.3	244,000	£9,630

Notes: Costs shown in 2029-30 prices. Relative poverty is defined as having an income below 60 per cent of the median income in a given year.

Source: RF analysis of DWP, Family Resources Survey using the IPPR Tax Benefit Model; ONS, various; OBR, Economic and Fiscal Outlook, October 2024.

What about the benefit cap?

The two-child limit isn't the only policy that places a cap on benefit support or delinks need and entitlement. The benefit cap limits the total amount of benefit support a family can receive, and so disproportionately impacts large families. If measures are taken to abolish or ease the two-child limit but the benefit cap is not abolished, then some out-of-work, non-disabled, families with three or more children will see little or no benefit. This would lead to similar issues to two of the options described above: the difference in support between disabled and non-disabled large families would grow further, and the income shocks that occur when families move out of work would rise. We estimate that fully removing the benefit cap alongside scrapping the two-child limit would cost an additional £1 billion in 2029-30.

Conclusion

Abolishing the two-child limit should be just the starting point of a successful Child Poverty Strategy, so rumours the Government may not even go that far are worrying. Scrapping the

two-child limit outright would be the most cost-effective way to reduce child poverty; none of the floated alternatives would be as efficient. And scrapping the two-child limit along with the benefit cap would remove an unjustified part of the benefit system that breaks the link between need and entitlement. We argued previously that finding the £4.5 billion that it would cost to do so would be worth most trade-offs the Government could choose to make. If the DWP is given a limited budget to spend on the Child Poverty Strategy (an outcome [we have argued](#) would not be compatible with a credible strategy), then a compromise option that eases the pain of the two-child limit (ideally alongside action on the benefit cap) would be better than leaving the policy as it is. But the Government should make it clear that any such measures would be temporary and set out a timeline to fully scrap the policy. Of the potential options that have been discussed in recent weeks, either moving to a three-child limit or introducing a lower child element for third and subsequent children would be preferable to the other options that introduce cliff edges, sudden income shocks and counter-productive distortions. But none of the rumoured options is an acceptable permanent solution: there would be between 120,000 and 350,000 more children in poverty than if the policy were scrapped, and we forecast that, if one of these were the limits of the Government's ambitions on child poverty, then the child poverty rate in 2029-30 would likely be at or above its [current \(estimated\) rate](#) of 31 per cent. The two-child limit must be scrapped outright.

¹ We are grateful for conversations with Mike Brewer and Ruth Curtice from the Resolution Foundation, and with Meghan Meek-O'Connor from Save the Children.

² It is currently unclear whether the option on the table is to fully exempt families with an under-five, so they receive a child element for all of their children, or to exempt children under five only, so that, for example, a family with four children where only one is under five would receive only one additional child element relative to the current policy. The former would lead to income shocks of £7,700 when the youngest child in a four-child family turns five, and more than £11,000 when the youngest child in a five-child family turns five, so is unlikely to be considered credible. We therefore modelled the latter.

³ It is unlikely that this loss of income would be offset by a reduction in childcare costs for these families when children start school, given that under-fives are entitled to 15 or 30 hours a week of free childcare, and there is considerable support for childcare costs in Universal Credit.

⁴ We modelled exempting families from the two-child limit using the same earnings threshold that exists for the benefit cap. In a sense, we can think of this option as being similar to scrapping the two-child limit altogether but tightening up the benefit cap so that workless families would not benefit.

⁵ Data citation: Department for Work and Pensions, NatCen Social Research. (2021). Family Resources Survey. [data series]. 4th Release. UK Data Service. SN: 200017, DOI: <http://doi.org/10.5255/UKDA-Series-200017>.