Policy in Practice

EVIDENCE SUBMISSION

NATURAL MIGRATION TO UNIVERSAL CREDIT

The Work and Pensions Select Committee is examining the impact of natural migration onto Universal Credit. The Committee has launched an inquiry and invited submissions by Monday 18 February 2019.

Prior to the call for evidence, Policy in Practice was asked to provide case studies of households moving to Universal Credit under natural migration. The Committee was specifically interested in those who lose support under natural migration. We are delighted to assist the Committee and to provide these case studies using our Benefit and Budgeting Calculator. The results are presented in this paper and address the Committee's concern that "the absence of transitional protection means people might have to cope suddenly with a drop in income".

BACKGROUND

Alongside managed migration onto Universal Credit, where households claiming legacy benefits will be gradually moved onto Universal Credit between 2019 and 2023, some households will 'naturally' migrate onto Universal Credit due to changes in circumstances. The changes that trigger a move to Universal Credit are prescribed by the DWP[1]. Affected households cannot retain legacy benefits but must make a new claim for Universal Credit instead. Amber Rudd, The Secretary of State for Work and Pensions, announced in January 2019 that 1.6 million people are expected to naturally migrate onto Universal Credit in the next year alone. [2] Indeed, the OBR estimates that 73% of households who will move onto Universal Credit will do so under natural migration.[3]

Unlike managed migration, there is no transitional protection offered to households who 'naturally' migrate onto Universal Credit. From the point that these households make a new claim for Universal Credit they are subject to the administrative processes of Universal Credit and any benefit award is calculated in accordance with the Universal Credit regulations. The absence of transitional protection to cushion any change in income is why the Committee seeks to fully understand the impact on household income.

Under both the legacy benefits system and Universal Credit, the treatment of different types of income is set down in regulations. The Committee is particularly concerned about the impact of natural migration on households in receipt of unearned income that is treated differently under the legacy system and Universal Credit. Namely;

- Student grants and loans (particularly with reference to student single parents)
- Industrial Disability Disablement Benefit (IDDB)
- Spousal Maintenance [4]

This report looks at the impact on households with the specific types of income of concern to the Committee. It then examines cases in which households may be worse off, or better off, under natural migration.

[1] https://www.gov.uk/government/publications/housing-benefit-adjudication-circulars-2018/a72018-universal-credit-full-service-areas-guidance-for-local-authorities
2 https://hansard.parliament.uk/Commons/2019-01-07/debates/329ADE07-8849-46C0-8F2C-04571D568FAA/UniversalCreditTransition
[3] https://obr.uk/docs/dlm_uploads/WelfareTrends2018cm9562.pdf
[4] From our dataset of low-income Londoners, we have found that there are 5,786 student single parents (0.72% of all households in our database), 592 households in receipt of IDDB (0.07% of households in our database) and 3,326 households in receipt of spousal maintenance (0.42% of households in our database). Our database contains information about low-income households in 18 London Boroughs; it is intended to be a useful indication of the number of households affected by these changes rather than a nationally representative sample.

KEY FINDINGS

IMPACT OF NATURAL MIGRATION ON HOUSEHOLDS WITH SPECIFIC TYPES OF UNEARNED INCOME

The Committee requested examination of households with the following income types:

- Grants and loans for student single parents
- Industrial Disability Disablement Benefit (IDDB)
- Spousal Maintenance

All these types of income are either partially or fully disregarded for assessment purposes under legacy benefits but taken fully into account for assessment of Universal Credit. Our case studies show that households with these types of income were likely to be worse off as a result of moving onto Universal Credit.

GENERAL IMPACT OF NATURAL MIGRATION ON HOUSEHOLD INCOME

The impact of changes in circumstances on household income for those moving to Universal Credit were compared to the impact of the same change of circumstances if they remained within the legacy system. This isolates the impact of migration to Universal Credit.

NATURAL MIGRATION CHANGES LEADING TO NO CHANGE IN HOUSEHOLD INCOME

- A single person who becomes responsible for a child and moves out of work
- A lone parent on Income Support whose youngest child turns five
- A person who moves from being in work to unemployed
- A person who was unemployed and becomes ill with limited capability for work
- A person who was ill with limited capability for work who is assessed as being able to seek work

NATURAL MIGRATION CHANGES LEADING TO LESS INCOME UNDER UNIVERSAL CREDIT

- A disabled person (claiming PIP only) who increases their hours from 15 to 20 hours per week
- A person who is unemployed and becomes disabled and ill with limited capability for work related activity and qualifies for PIP
- A single parent who starts working over 16 hours per week
- Someone with savings over £16,000 who increases their working hours from 15 to 20 hours per week

NATURAL MIGRATION CHANGES LEADING TO GREATER INCOME UNDER UNIVERSAL CREDIT

- A person who is unemployed and becomes ill with limited capability for work related activity (and does not qualify for PIP)
- A couple with one adult in work who becomes responsible for a child
- A person who starts working over 30 hours per week
- A person who starts working over 16 hours per week
- A person whose working hours fall from 20 to 15 hours per week

INTRODUCTION

Given that a household must have gone through a change in circumstances to undergo natural migration, it is to be expected that there will be some resulting change to their take-home income. As such, the impact of the change in circumstances itself must be separated from the impact of differences between benefit systems.

In order to isolate income changes that are directly attributable to Universal Credit, Policy in Practice has compared the change in household income that would occur under natural migration (i.e. with a migration to Universal Credit) to that which would occur if the household remained in receipt of legacy benefits. This allows us to understand the isolated impact of natural migration to Universal Credit.

This report firstly examines the impact of natural migration on households in receipt of income that is treated differently by the two benefit systems. Namely:

- Grants and loans for student lone parents
- Industrial Disability Disablement Benefit (IDDB)
- Spousal Maintenance

The report then examines the impact of natural migration caused by specific changes in circumstances, these are:

- Becoming responsible for a child
- Failing a Work Capability Assessment (WCA) and becoming a jobseeker
- Being a lone parent whose youngest child turns 5
- Moving from being in work to becoming a jobseeker
- Moving from being a jobseeker to having limited capability for work
- Increasing hours above the Working Tax Credit threshold
- Decreasing hours below the Working Tax Credit threshold

This is not a full list of the circumstances that trigger a move to Universal Credit. Other triggers include households moving local authorities, or partners leaving or joining the household. Furthermore, no exhaustive list of natural migration triggers has been published by the DWP. The official guidance advises that 'it is important that the individual circumstances of the existing benefit claimant are taken into account when deciding whether a move to UC is applicable.' In light of this, Policy in Practice has selected to examine a range of the more usual triggers to Universal Credit.

Limitations to the methodology are set out in the appendix.

THE IMPACT OF NATURAL MIGRATION ON HOUSEHOLDS WITH SPECIFIC TYPES OF UNEARNED INCOME

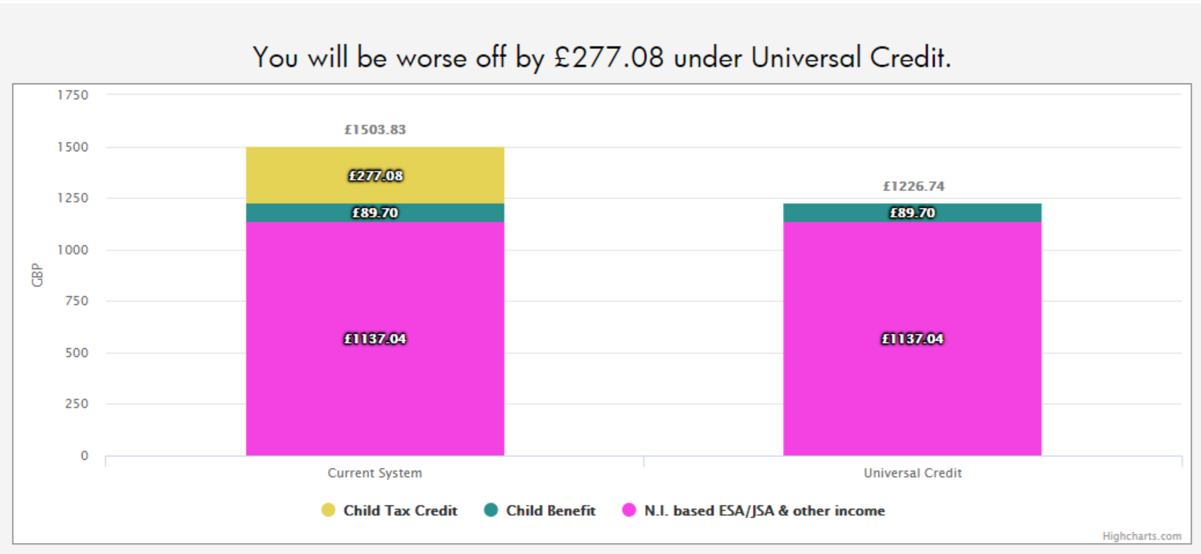
The following case studies are households with non-earned income that is treated differently under Universal Credit than under the legacy benefits system. For these cases, no change in circumstance has been applied as the different treatment of income would occur for the majority of changes triggering natural migration. Income types examined are student grants and loans for single parent students, Industrial Disability Disablement Benefit (IDDB) and spousal maintenance.

GRANTS AND STUDENT LOANS FOR LONE PARENT STUDENT

Under legacy benefits, students with children are eligible for Child Tax Credit. Student loan income and some grant income is ignored for tax credit assessment purposes. Under Universal Credit, the majority of student loans and grants are treated as relevant non-earned income and so reduce the Universal Credit award. Student single parents are therefore likely to be worse off under Universal Credit. Indeed, given that income from student loans and grants is likely to be greater than any Universal Credit award, and this income is averaged out across the whole year, most student single parents will receive no Universal Credit at all.

Case study

- UK full-time student with one child
- Not living with parents and living outside London
- Receiving tuition fee loan of £9000/year, maintenance loan of £8700/year, childcare grant of £164.70/week and parents' learning allowance of £1669/year (the maximum amounts).
- Paying for 30 hours of childcare per week at £4.06/hour (the local average)



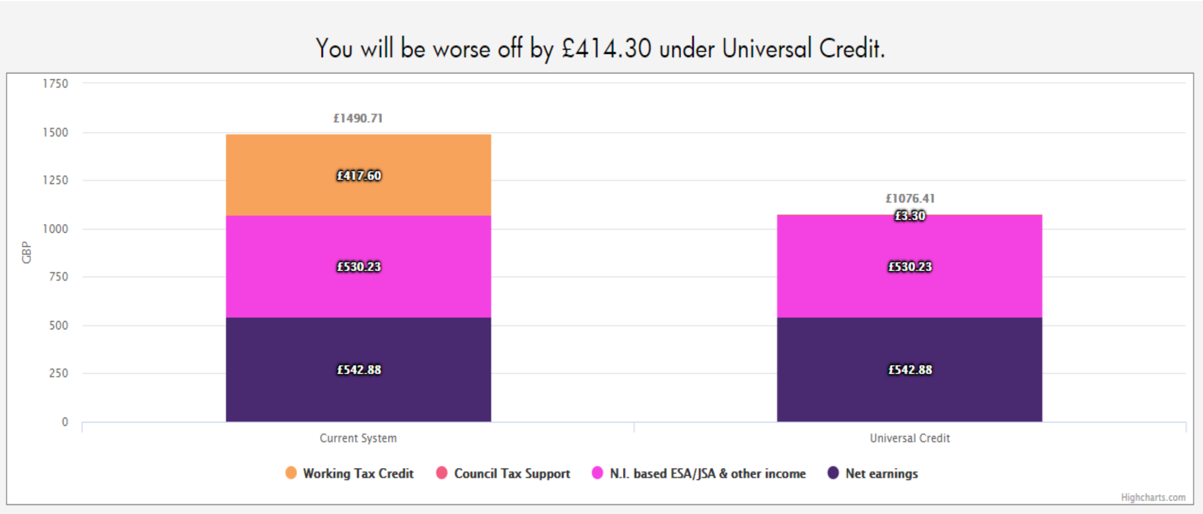
In this case study the household is £277.08 /month worse off.

INDUSTRIAL DISABILITIES DISABLEMENT BENEFIT (IDDB)

Under the legacy benefits system, Industrial Disabilities Disablement Benefit (IDDB) is ignored for assessment purposes. Under Universal Credit, IDDB is treated as non-earned income and causes a reduction in Universal Credit equal to the IDDB amount. People in receipt of IDDB are therefore likely to be worse off under the Universal Credit system.

Case study

- Single person living alone
- Working for 16 hours per week
- Receiving £122.36 per week of IDDB (70% assessed level of disability)



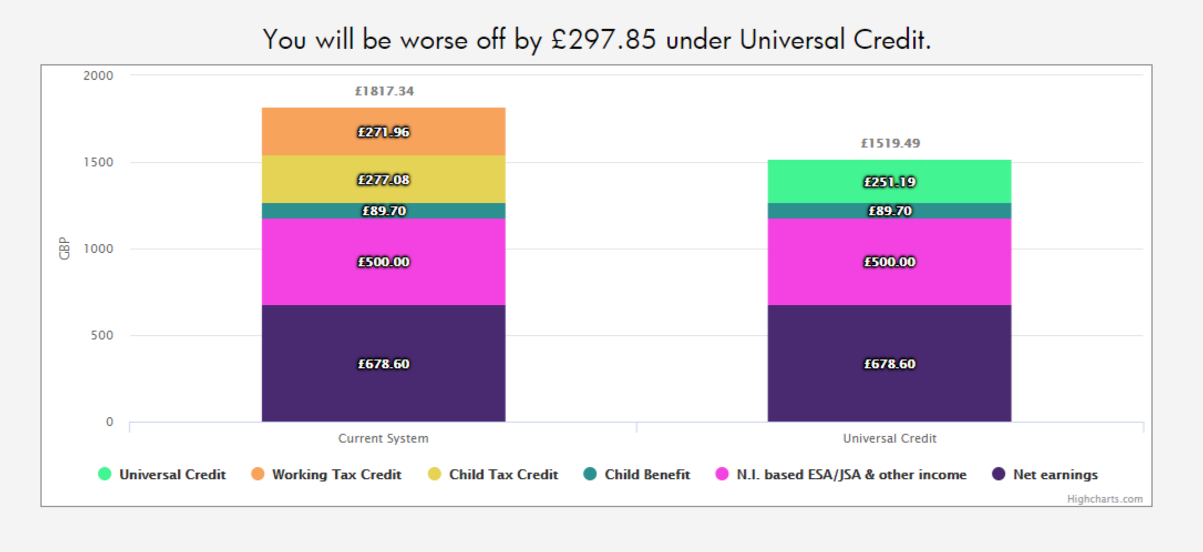
In this case, the household does not qualify for Universal Credit, and they are worse off by £414.30/month.

SPOUSAL MAINTENANCE

Spousal Maintenance is ignored for the assessment of tax credits but included as non-earned income under Universal Credit. Households in receipt of Spousal Maintenance are therefore likely to be worse off under Universal Credit.

Case study

- Working 20 hours per week at NLW
- Lone parent living with one child in a two-bedroom property
- Receiving £450 spousal maintenance per month
- Receiving £500 child maintenance per month



In this case, the household is £297.85/month worse off under Universal Credit. This is despite being a working household and so benefitting from the higher retention of earnings under Universal Credit. This increased retention of earnings is not sufficient to offset the reduction in Universal Credit equal to the amount of spousal maintenance.

GENERAL IMPACT OF NATURAL MIGRATION ON HOUSEHOLD INCOME

NATURAL MIGRATION CHANGES THAT WILL BE UNAFFECTED BY BENEFIT SYSTEM

The following changes in circumstances trigger natural migration onto Universal Credit and result in similar levels of income as if the household remained in receipt of legacy benefits. Household income may change but the amount of change is the same level for both benefit systems.

- A single person who became responsible for a child and moves out of work
- A single parent on Income Support whose youngest child turns five
- A person who moved from being in work to unemployed
- A person who was unemployed and becomes ill with limited capability for work
- A person who was ill with limited capability for work who was assessed as being able to seek work

NATURAL MIGRATION CHANGES LEADING TO LESS INCOME UNDER UNIVERSAL CREDIT

The following are examples of changes in circumstances trigger natural migration onto Universal Credit and result in less income than if the household remained in receipt of legacy benefits.

- A disabled person (claiming PIP only) who increases their hours from 15 to 20 hours per week
- A person who is unemployed and becomes disabled and ill with limited capability for work related activity and qualifies for PIP
- A single parent who starts working over 16 hours per week
- Someone with savings over £16,000 who increases their working hours from 15 to 20 hours per week

The Committee is particularly interested in households that may be worse off due to natural migration to Universal Credit. Case studies of these changes are therefore included below. When looking at the effects of natural migration, the change in circumstance under the legacy system (the trigger) needs to be considered alongside the move to Universal Credit itself. The comparison between the change in income under the legacy system and under Universal Credit are shown in the charts in this section.

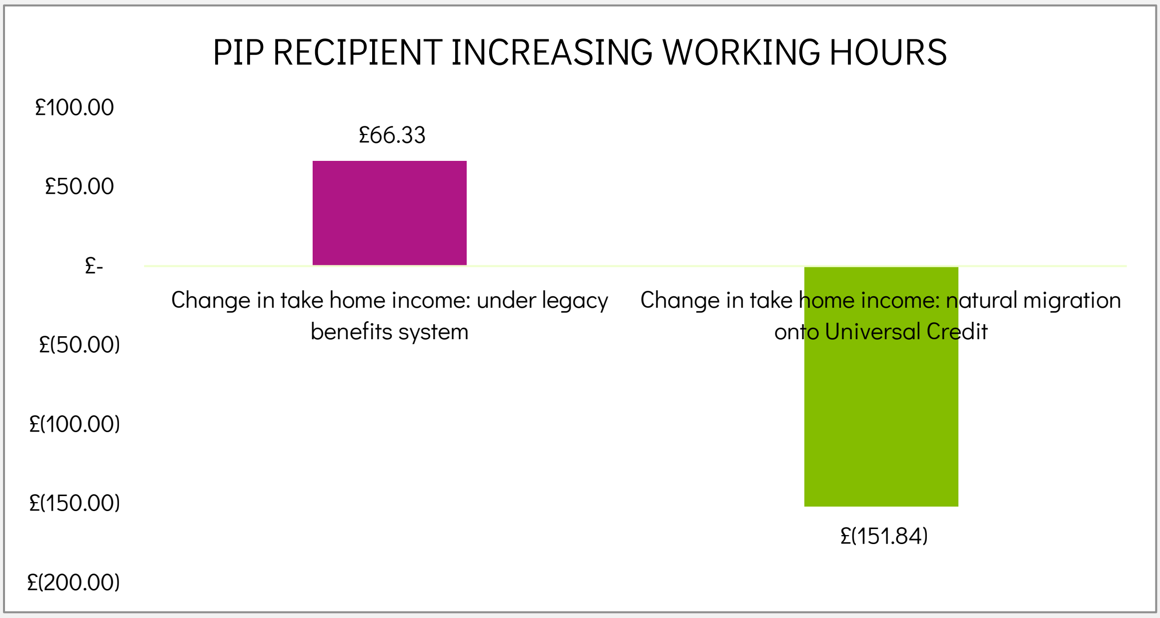
PIP RECIPIENT INCREASING WORKING HOURS

Universal Credit does not replicate the disability premiums present in the legacy benefits system. This means that some people living with disability are likely to see reduced income under Universal Credit.

It should be noted that since 16 January 2019, those living with disability who qualify for the Severe Disability Premium have not been subject to natural migration. However, those who qualify for other disability premiums will still undergo natural migration and may be worse off as a result.

Case study

- A couple: one adult is a jobseeker, the other is working and increases their hours from 15 to 20 hours per week. This triggers a move onto Universal Credit.
- The working adult is claiming PIP (standard daily living and mobility components) before and after the change in circumstances. They do not qualify for the Severe Disability Premium but do qualify for other disability premiums.



In this case, even though the claimant increases their hours (thus benefiting from the 63% taper rate), because this increase in hours triggers a move onto Universal Credit, they are worse off overall.

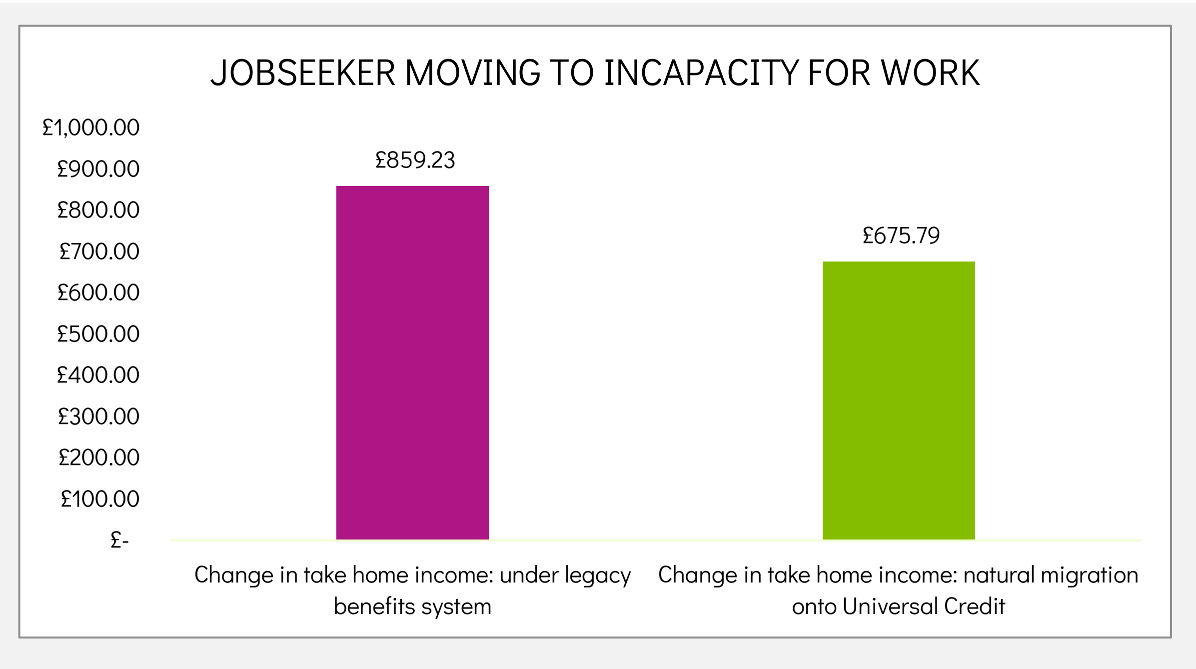
JOBSEEKER MOVING TO INCAPACITY FOR WORK

Universal Credit tends to benefit those who are too ill to work, since the limited capability for work related activity (LCWRA) element of Universal Credit is higher than the equivalent under the legacy benefits system (ESA Support component). However, for those who are also in receipt of PIP, the removal of disability premiums outweighs any gains from the more generous LCWRA element.

Those in receipt of Severe Disability Premium under legacy benefits are protected and, since January 2019, will not naturally migrate onto Universal Credit. However, those that make a new claim for Universal Credit, but would have been eligible for the Severe Disability Premium if they had remained on legacy benefits system are not protected. They are therefore likely to lose out as a result of Universal Credit.

Case study

- A single person living alone previously in receipt of JSA.
- The person becomes ill and receives the standard daily living and mobility components of PIP. They are assessed as having Limited Capability for Work Related Activity, and subsequently move onto Universal Credit.



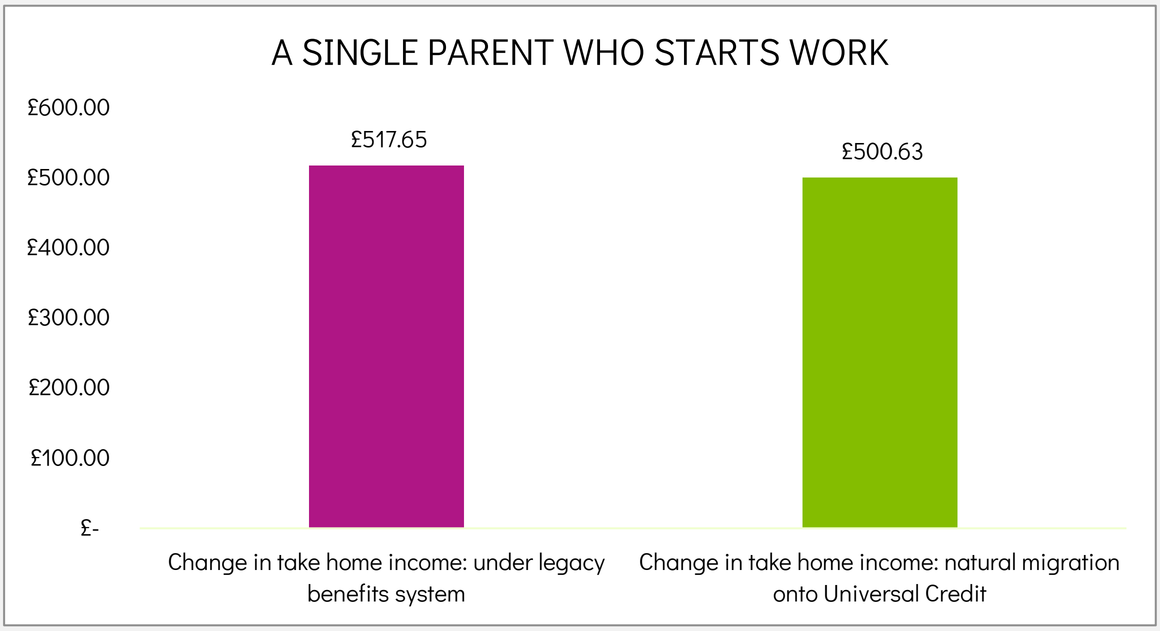
In this case, the household is £675.79/month better off after their change of circumstances, but £183.44/month worse off than they would be if they experienced the same change of circumstances and remained within the legacy system.

A SINGLE PARENT WHO STARTS WORK

Working single parents are treated differently under Universal Credit compared to the legacy benefits system. The two systems have different levels of personal allowance and disregards. For example, under tax credits, single parents receive the same personal allowance as a couple but under Universal Credit, they receive the same personal allowance as a single person. The differences between the two systems result in some single parents being worse off under Universal Credit whilst others will gain.

Case study

- Single adult living with one child and living in a two-bedroom property.
- The person moves from being in receipt of JSA to working 16 hours per week and claiming Universal Credit.



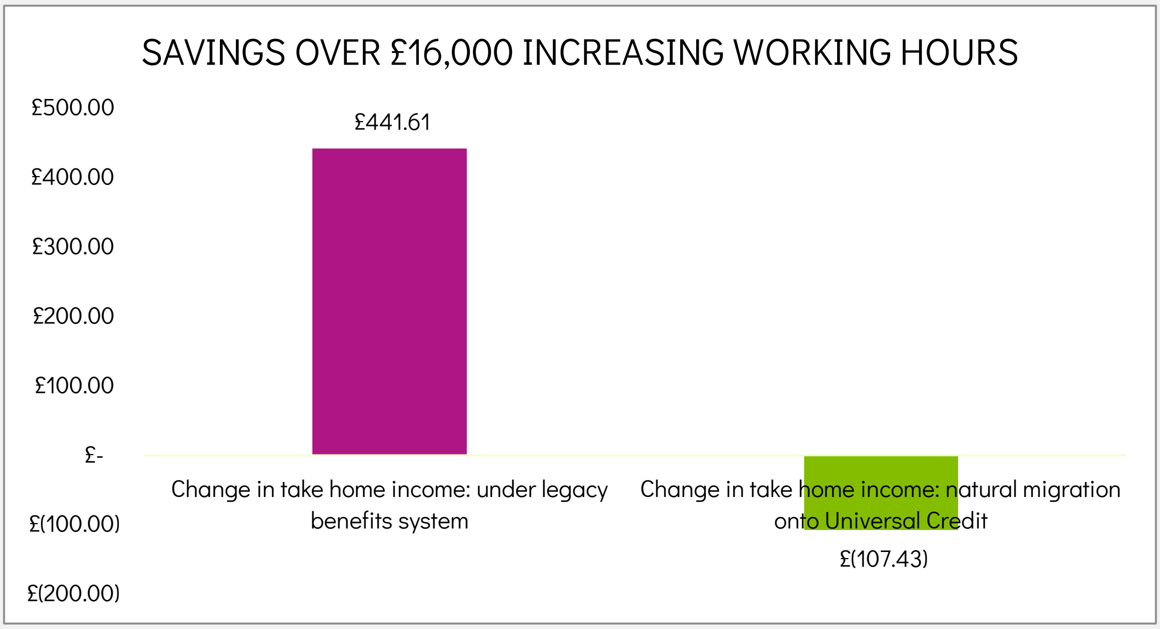
The household is £500.63/month better off after the move from JSA to work but is £17.02/month worse off than if the same change in circumstances occurred under the legacy benefits system.

SAVINGS OVER £16,000 INCREASING WORKING HOURS

Under the legacy benefits system, households with savings over £16,000 are eligible for tax credits. Under Universal Credit those with savings above this level are not eligible for support. Transitional protection has been introduced to protect those with over £16,000 who will move to Universal Credit under managed migration. However, those who move to Universal Credit under natural migration are not afforded this protection.

Case study

- Single adult living with one child in a two-bedroom property.
- Savings of £17,000.
- Working hours increase from 15 hours/week to 20 hours/week, triggering a move onto Universal Credit.



The household is worse off by £107.43/month after the change in circumstances, and £549.04/month worse off than it would be if it experienced the same change of circumstances under the legacy benefits system.

NATURAL MIGRATION CHANGES LEADING TO MORE INCOME UNDER UNIVERSAL CREDIT

The following are examples of changes in circumstances trigger natural migration onto Universal Credit and result in higher levels of income than if the household remained in receipt of legacy benefits.

- A person who is unemployed and becomes ill with limited capability for work related activity (and does not qualify for PIP)
- A couple with one adult in work who become responsible for a child
- A person who starts working over 30 hours per week
- A person who starts working over 16 hours per week
- A person whose working hours fall from 20 to 15 hours per week

JOBSEEKER BECOMES ILL AND IS ASSESSED AS HAVING LIMITED CAPABILITY FOR WORK RELATED ACTIVITY (DOES NOT QUALIFY FOR PIP)

Universal Credit includes an additional element for claimants with LCWRA, similar to the ESA Support component. The Universal Credit amount for those in the LCWRA group is higher than the equivalent component in ESA. Many households who are out of work due to illness are likely to be better off under Universal Credit. However, this excludes those who would previously have been eligible for disability premiums who may be worse off.

Case study

- Single person living alone.
- Moving from JSA due to illness. They are assessed as having limited capability for work and work related activity (LCWRA) and move onto Universal Credit. They are not receiving DLA/PIP or new-style ESA.

After the change in circumstances, the household is £239.37 better off, and £5.17 better off than it would be if it experienced the same change in circumstances under the legacy system.

COUPLE BECOMING RESPONSIBLE FOR A CHILD

For working households, Universal Credit tends to be more generous than legacy benefits due to a taper rate of 63% resulting in higher retention of earned income. In addition, for most claimants, the work allowance is higher than the equivalent earnings disregards under legacy benefits. Work allowances are only applicable to the earnings of households with children or with limited capability for work. Where a household becomes responsible for their first child, the level of earnings taken into account for assessment is reduced by the work allowance. These households are likely to be better off under Universal Credit.

Case study

- One adult works 30 hours per week both before and after the couple become responsible for the child; the other adult is out of work both before and after. After becoming responsible for the child, they move onto Universal Credit.
- The family live in a one bedroom property before becoming responsible for the child, and in a two bedroom property after becoming responsible for the child.

After the change in circumstances, the household is £595.60 better off, and £136.66 better off than it would be if they experienced the same change in circumstances and remained on legacy benefits.

STARTING WORK OVER 30 HOURS PER WEEK

A higher proportion of earnings is retained under Universal Credit. This results in most full-time workers being better off, even if they do not qualify for a work allowance.

Case study

- Single adult living alone.
- Starts working 30 hours per week and moves from JSA onto Universal Credit.

The claimant is £289.36 better off after the change in circumstances, and £59.36 better off than if they experienced the same change in circumstances and remained on the legacy benefits system.

STARTING PART-TIME WORK

The higher retention of earnings under Universal Credit means that even those starting part-time work may be better off migrating to Universal Credit.

Case study

- Adult, living alone, starting part-time work (16 hours/week), triggering a move onto Universal Credit

This claimant is £161.74 better off after the change in circumstances, and £85.39 better off than they would be if they experienced the same change in circumstances and remained in receipt of legacy benefits.

REDUCTION IN HOURS (FROM 20 TO 15 HOURS)

This case illustrates how some households are better off due to the removal of the 'hours rules' that exist within legacy benefits. Under the legacy benefits system, a person working less than 16 hours/week would see their benefit reduced pound for pound. A household working 20 hours per week is neither eligible for IB-JSA (for which you must work less than 16 hours per week) or Working Tax Credit (for which people aged 25-69 must work 30 hours per week or more). However, households are eligible for Universal Credit regardless of hours worked and will also retain 37% of earnings irrespective of hours.

Case study

- Single adult living alone.
- Reduces working hours from 20 hours/week to 15 hours/week and moves onto Universal Credit.

The household is £79.01/month better off after the change in circumstances, and £104.46/month better off than it would be with the same change in circumstances and retention of legacy benefits.

CONCLUSION

Natural migration results in households moving to Universal Credit through changes in their circumstances. For some, this will result in higher awards, but others could lose significantly compared to if they remained on legacy benefits after the change in circumstances. This is particularly the case for those with income that is treated less favourably under Universal Credit assessment rules.

Under managed migration households receive transitional protection to ensure that they don't lose benefit as they migrate. If these households have certain changes in circumstances that would cause a loss of income under natural migration, they may still retain their transitional protection if they move to Universal Credit under managed migration. The changes in circumstance that would result in loss of transitional protection for those moved to Universal Credit under managed migration are a change in relationship status, no longer working, ending of the claim, or earned income dropping below claimant commitment levels for over 3 months.

This means that there are significantly fewer changes that lead to a loss of transitional protection under managed migration than the myriad that lead to natural migration with no protection of benefit levels For example, the change in working hours that triggers natural migration to Universal Credit would not cause a loss of transitional protection.

In effect, some households will lose benefit support due to the timing of the change in their circumstances.

APPENDIX

MODELLING ASSUMPTIONS

In order to make accurate benefits assessments for each of the examples included in our research, we have made several assumptions about household circumstances:

- If anyone in the household is in work, wages were set at the National Living Wage (NLW) (£7.83/hour)
- We used a random postcode – SA1 8NQ in Swansea
- We assumed that the households were renting privately, and used the local LHA rate as rent amount:
    - For a one-bedroom property, this mean that rent was £402.88/month
    - For a two-bedroom property, this meant that rent was £459.07/month
- Council tax was calculated for a Band B property (as is correct for the chosen postcode), at £73.78/month over 12 months

ABOUT POLICY IN PRACTICE

Government policy is complex, confusing and difficult to navigate. It tends to focus on the impact of individual policies in isolation, rather than the overall impact it has on each individual citizen.

Policy in Practice is a policy-led software and analytics business founded by one of the architects of Universal Credit. We help people toward independence by making government policy and the benefit system easier to understand and navigate.

Our policy engine models over 4,000 pieces of legislation, updated in real-time, across four government departments. This helps people to understand the combined impact of policy changes on them, and they can identify the choices they can make to become better off, and to lead more fulfilling lives.

We help over 150 local organisations, and over 10,000 people each day to navigate the benefit system, to take control steps toward independence. We have built an analytics platform that tracks the living standards and the changing lives of over a million low-income households over the past two years.

Our analysis shows how each individual household is affected by all policy changes, now and in the future. Our work has had an impact on national policy, and is helping local authorities to target resources, meet their statutory obligations and spend money more effectively. A scientific approach to data visualisation drills down from national analysis to individual households, and links into engaging, tailored support to help people to take control and become better off.

We believe that administrative data is the future of social policy analysis, and can help the public sector to deliver more with less. We look forward to working with you to make this vision a reality.

FURTHER INFORMATION

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