Welfare Reform Bill Universal Credit

Equality impact assessment

March 2011

DWP Department for Work and Pensions

Universal Credit equality impact assessment

1. Brief outline of the policy

1. This is an Equality Impact Assessment (EIA) for the Universal Credit measures in the 2011 Welfare Reform Bill. With respect to Universal Credit the Bill is an enabling Bill which takes a number of regulations in order to implement Universal Credit. Therefore the assessment of impact relates to the regulation making powers rather than to the Bill itself.

2. Universal Credit is an integrated working-age credit that will provide a standard allowance with additional elements for children, housing and other particular needs or circumstance such as caring and disability. It will support people both in *and* out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. Disability Living Allowance and Carers Allowance will not be affected by the introduction of Universal Credit. It will primarily support working age adults and children, up to an upper age limit that will generally be the age at which someone becomes eligible for Pension Credit.

3. The policy rationale of Universal Credit is to remove the financial and administrative barriers to work inherent in the current welfare system. The reform is designed to ensure that work always pays and to encourage more people to see work as the best route out of poverty.

4. As an integrated in and out-of-work benefit, Universal Credit will mean that people will no longer have to take a risk by moving from one system of benefits to another, addressing the legitimate concern that many people have that they could fall into financial difficulties once their out of work claim ends but before their in-work support begins.

5. The aim of Universal Credit is to ensure that work pays. This is to be achieved through a combination of earnings disregards, whereby earnings are not included in award calculations until they reach a certain point, followed by a simple 'taper' whereby benefits are reduced by a set amount (currently assumed to be 65p) for each additional £1 of post-tax income earned above the disregard.

6. The Universal Credit will substantially improve incentives to work in three ways:

- It will improve the incentives to move into work. For example, for those who go into 10 hours of work, the number of households facing PTRs of over 70 per cent falls by around 1.1 million under Universal Credit.
- It will improve the incentives to increase hours of work. At present some 0.7m of households in low paid work lose 80% or more of any increase in earnings. Under the current system MDRs are 100% for many people working while on IS/ESA/JSA. For people simultaneously in receipt of Housing Benefit, Council Tax Benefit and Tax Credits, MDRs can be as high as 96%. By replacing the multiplicity of tapers for in-work support with a consistent taper of around 65%, and removing the 100% taper for out of work benefits, the Universal Credit will reduce the overall level of MDRs. Under Universal Credit, virtually no households will have deduction rates above 76%[1],
- It will be a simpler system which removes some of the risks associated with moves into work, and makes much clearer the actual financial gains from working. The current system has a complex array of benefits which interact in complicated ways, creating perverse incentives and penalties, confusion about the gains to work. Universal Credit will make the financial gains for work clearer by introducing a smoother and more transparent reduction of benefits when individuals enter work and see increase their earnings. It will reduce the number of benefits and the number of agencies that people have to interact with as they move into work. This will make it easier for customers to understand their entitlements and gains from work.

7. Overall administration of the new benefit will be managed by a single delivery agency in one department – the Department for Work and Pensions. This will be radically simpler than current arrangements where delivery of benefits is through the different agencies of the Department for Work and Pensions, HM Revenue and Customs and Local Authorities.

8. The Welfare Reform Bill will enable Government to introduce and deliver Universal Credit. It provides for claims to be made individually by single people or jointly by each member of a couple. Most Universal Credit claims will be made online – consistent with our aim to transform our services to claimants by putting digital services at the centre of the business.

9. Universal Credit will be more responsive to changes in income and other circumstances than the annual reconciliation as currently used in tax credits. The new system will adjust payments according to income reported through an upgraded real-time information version of the Pay-As-You-Earn tax system[2]. The system will reduce the need for claimants to inform the

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[1] DWP Policy Simulation Model (based on 2008-09 Family Resources Survey).
[2] HM Revenue and Customs is currently consulting on *Improving the operation of PAYE: Collecting Real Time Information*. The consultation opened on 3 December 2010 and will close on 28 February 2011.

Government of changes in their income and will be more dynamically responsive to those changes so as to ensure that people receive additional help quickly should their incomes fall; it will tackle the problems people have experienced with the annual, retrospective, calculation of Tax Credits. As a result people will be much clearer about their entitlements and the beneficial effects of increasing their earnings, for example by taking on more hours or overtime.

10. Universal Credit will be supported by a system of conditionality that will reflect an individual's circumstances – the majority of people will be expected to work toward full-time employment while some will only be expected to seek part-time employment. Others will only be expected to prepare for work or attend work-focussed interviews while people with substantial caring responsibilities, severe disabilities or illness will not have any work related conditions placed upon them (Bill provisions covering conditionality will be covered in a separate EIA).

11. As set out in the Bill Impact Assessment for Universal Credit[3], the move to a simpler system will change the level of entitlements for some households. Although there will be some notional reductions in entitlement (for example where capital rules are extended), it is important to emphasise that no households will experience a cash loss at the point of transition to Universal Credit.

12. In the steady-state[4], once all existing claims have been migrated to Universal Credit, some 2.7m households will have higher entitlements than they would have done under the current system, while 1.7m would receive less[5]. People who would receive less under Universal Credit will be entitled to transitional protection at the point of change. As set out in the Impact Assessment some of the notional reductions in entitlement will be offset due to people taking up entitlements for the first time.

2. Consultation and involvement

13. In July 2010 we published the consultation document *21st Century Welfare* (Cm 7913). This laid out the problems of poor work incentives and complexity in the benefits and Tax Credits systems, the principles for reform and some broad models for reform. The consultation period ran from 30th July to 1st October. We received 1668 responses via telephone, post, email and through our online consultation site (including replies from

[3] http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf
[4] The phrase steady-state describes the situation when there are no longer any households on current benefits/Tax Credits and when transitional protection is no longer in payment.
[5] DWP Policy Simulation Model (based on 2008-09 Family Resources Survey).

over 300 organisations representing the private, voluntary and public sectors and nearly 600 from DWP staff).

14. Respondents overwhelmingly agree that the benefit system needs to be simpler to understand, while providing stronger positive incentives for people to leave benefits for work.

15. Of those expressing a specific preference for one of the models of reform outlined in the White Paper a majority preferred Universal Credit. People also welcomed the more generous disregards and single taper. A formal summary report of the responses received to *21st Century Welfare,* including the Government's responses to the points raised, is available at www.dwp.gov.uk/consultations/2010/21st-century-welfare/

16. We also invited respondents to send us their views on the potential equality impacts of reform, and on how best to design a system so as to meet our duties to have due regard to equality.

17. Some detailed policy decisions have yet to be taken which will impact on the overall equality assessment and further Equality Impact Assessments will be published as part of the delivery of Universal Credit. Meanwhile, we will continue to examine the evidence, and consult with stakeholders through DWP forums such as the Policy and Strategy Stakeholder Forum and DWP Customer Insight programmes.

3. Impact of the Universal Credit

Purpose of Universal Credit

18. The policy intention of Universal Credit is to remove the financial and administrative barriers to work inherent in the current welfare system. The reform is designed to ensure that work always pays and to encourage more people to see work as the best route out of poverty. In the longer-term, we expect that it will reduce the economic costs of worklessness and reduce the number of children and adults living in poverty.

19. Universal Credit removes many of the complexities and inconsistencies of the current benefit and Tax Credit system and replaces it with increased support for low-income families and consistency in support as income rises. In particular, it moves away from the current system which discourages people from working below 16 hours, and encourages people to work particular levels of hours (for example 16 and 30).

20. In doing so it significantly expands the range of opportunity to all households. Its design consciously tries to mimic that of wages to complement any wages a household might earn and to create a "work culture". All people now have the opportunity to work more flexibly, and not only at particular points in the income distribution.

21. In this section we briefly outline the relative impact of Universal Credit on the different groups as defined by equality legislation. We have provided assessment of the static impacts on work incentives, household entitlement, and poverty. In addition the increase in work incentives will have dynamic impacts which will particularly benefit those with greater barriers to work. Although harder to quantify they represent real gains, over and above the positive impacts identified in the static analysis

22. The department estimates a reduction in the number of workless households of around 300,000 as a result of Universal Credit. Estimating behavioural impacts of policy change will always be subject to uncertainty, but based on the evidence the Department believes this is a plausible estimate based on reasonable assumptions, and reflects the enormous improvements in work incentives and gains from simplicity and reduced risk that Universal Credit will deliver. The Department believes that there is no reason why this increase should not be brought about within two to three years of implementation.

Impact on Work Incentives

23. Universal Credit removes many of the complexities and inconsistencies of the current benefit and Tax Credit system and replaces them with a smoother progression of support. It removes some of the barriers to moving into work, and reduces the incentives to work particular hours (e.g. 16 and 30) in the current system, whilst increasing the incentives to work a broader range of hours. In doing so it will substantially expand the opportunity to work, and lead to increases in the number of households in employment.

24. The improvements to work incentives can be captured in three key ways:

- It will increase the incentive to start work by increasing the proportion of earnings which people keep when they move into work – this is measured through changes in the **participation tax rates (PTRs),** which are calculated as the proportion of earnings which are lost in tax, national insurance or reduced benefit payments. A higher PTR translates to a weaker financial incentive to take a job. Some 1.1m households will benefit from a reduction of PTRs below 70%.
- It will increase the incentive to increase hours of work and progress through the labour market by reducing the proportion of any increase in earnings which is lost due to tax or reduced benefit payments – this is measured through the **marginal deduction rates (MDRs),** which are calculated as the proportion of an increase in earnings which is lost in increased tax, national insurance or reduced benefit payments. Because Universal Credit has a single taper of 65% it removes the highest MDRs in the current system while increasing some of the lower MDRs. Some 1.46m households currently in work will have lower

MDRs, with some 0.7m households benefiting from a reduction of MDRs below 80%. Around 2.11m households will have higher MDRs, although the median increase will be comparatively small at four percentage points.

- It will be a simpler system which removes some of the risks associated with moves into work and makes much clearer the actual financial gain from working.

25. The PTRs and MDRs changes are a key measure of the improvement in work incentives brought about by Universal Credit. Because they are based on a static comparison of the current system and Universal Credit, they do not, in themselves, quantify the potential increase in employment as a result of Universal Credit.

Impact on individual welfare

26. Universal credit will impact on the welfare of individuals by increasing the likelihood that they will be able to move into work, or work a level of hours which is not constrained by the complexities of the current system.

27. Separate from these dynamic effects, there will also be ‘static effects’ which will impact on individual welfare. The simplification of the entitlement rules means that, in the long term, some households will be entitled to less under Universal Credit while some will be entitled to more. Some 2.7m households will have higher entitlement than under the current system, and 1.7m will have lower. Transitional protection will ensure that there are no cash losers at the point of change as a direct result of the move to Universal Credit. 3.5m households, who are mostly workless, would experience no change.

28. The changes in entitlement, along with increases in take-up, are anticipated to substantially reduce the level of poverty. Some 950,000 individuals including 350,000 children and 600,000 working age adults will be lifted out of poverty[6], even before we allow for potential dynamic effects due to greater moves into employment.

Definition of the pool

29. We have defined a pool for the purposes of assessing whether Universal Credit has a differential impact on different groups. Guidance from the Equality and Human Rights Commission (EHRC) states that the EIA should define the pool as being those people who maybe affected by the policy (adversely or otherwise) and that the pool should not be defined too widely.

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[6] Based on modelling from the DWP Policy Simulation Model (using data from 2008/09 Family Resources Survey),

30. We have defined the pool as all households who would otherwise have been on the legacy benefits or Tax Credits[7] which are replaced by Universal Credit, people who are claiming contributory JSA or ESA, and those who become newly entitled as a result of the Universal Credit payment rules. Unless stated otherwise, the analysis in this EIA is consistent with this definition of the pool

3.1 Disability

31. The definition of disability for the purposes of equality law is now contained in the Equality Act 2010, previously defined by the Disability Discrimination Act (DDA).[8] Over a third of the potential Universal Credit caseload is likely to be a household with a disabled person.

3.1.1. Impact on incentives to move into work

32. Table 1 shows the positive impact of Universal Credit on the distribution of PTRs for people moving into 10 hours of work a week at the minimum wage. This improvement is seen for disabled people as well as those who are not disabled:

- The proportion of disabled people who have a PTR of below 60% increases to 71% under Universal Credit from 15% under the current system; 10% of disabled people would face a PTR above 70% under Universal Credit compared to 34% under the current system.
- For people without a disability the proportion with a PTR below 60% increases from 43% to 74%; and 2% of people without a disability would face a PTR above 70% under Universal Credit compared to 33% under the current system.

33. These improvements are due to key aspects of the policy design of Universal Credit, including the higher earnings disregard in Universal Credit (particularly for disabled households) and the single rate of withdrawal.

Table 1 : Distribution of PTRs for first earners in a workless household at ten hours a week.

	Current		**Universal Credit**	
	Disabled	**Non Disabled**	**Disabled**	**Non Disabled**
Below 60%	15%	43%	71%	74%
60% to 70%	51%	23%	20%	24%
70% to 80%	6%	2%	7%	1%
80% to 90%	18%	12%	2%	*
0ver 90%	10%	19%	1%	*
Total	1,590,000	2,280,000	1,800,000	2,300,000

[7] Includes Income Support, income-based Jobseekers Allowance; income-related Employment and Support Allowance; Housing Benefit; Council Tax Benefit; Working Tax Credit and Child Tax Credit.
[8] The Equality Act definition is wider than eligibility for specific disability related benefits.

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Percentages are rounded to the nearest percentage point,

Bottom row contains the total number of households in each column,

'*' denotes fewer than 50,000 people.

3.1.2 – Impacts on incentives to increase hours of work

34. Table 2 shows the impact of Universal Credit on MDRs for people currently in work. The table shows that Universal Credit virtually eliminates the highest MDRs of more than 80% for both disabled and non-disabled households. The distribution of MDRs is broadly similar for disabled and non-disabled people both before and after the introduction of Universal Credit.

Table 2 : Distribution of MDRs for Universal Credit households in work (working age only)

	Current		Universal Credit	
	Disabled	Non Disabled	Disabled	Non Disabled
Below 60%	33%	34%	25%	22%
60% to 70%	5%	5%	25%	22%
70% to 80%	43%	44%	50%	54%
80% to 90%	13%	12%	*	*
0ver 90%	8%	5%	*	*
Total	400,000	3,370,000	400,000	3,380,000

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Percentages are rounded to the nearest percentage point,

Bottom row contains the total number of households in each column,

'*' denotes fewer than 50,000 people.

3.1.3 – Overall impact on incentives to work

35. Under Universal Credit, disabled people will see significant improvements in their incentives to work. They will no longer face the punitively high PTRs or MDRs which characterise the current system. As well as the complexities of today, disabled people will for the first time now face broadly the same profile of PTRs as non-disabled households.

36. In addition, Universal Credit will help address many of the other significant barriers to work faced by disabled people. A 2005 report by the Prime Minister's Strategy Unit (PMSU) cited several key reasons why the transition to work for disabled people is a risky and complicated process:

- Incapacity Benefit claimants worry that looking for work will trigger benefit reviews,

- The financial incentives of employment are not strong enough, many disability benefit claimants experience no change or a loss of income from entering employment,
- Awareness of Working Tax Credit is low,
- Claimants are wary of having to reclaim their entire benefits package should their job not work out.

37. The integration of in-work and out-of-work support will reduce many of these risks and in doing so significantly reduce the administrative barriers to work faced by disabled people.

3.1.4 – Impact on individual welfare and incomes

38. By removing the complexities and perverse incentives inherent in the current system, Universal Credit simplifies the distribution of entitlements. Under a static analysis, some households will have higher entitlement than they otherwise would have done while some will have lower. This section analyses the pattern of entitlement changes for disabled people and people without a disability, and then assesses the impacts of these changes on poverty.

39. Transitional Protection will mean that there are no cash losers at the point of change as a direct result of the move to Universal Credit.

40. Table 3 shows the impact of Universal Credit on entitlement in the steady-state i.e. after transitional protection has ended. It is segmented into disability status and shows the number of households who see an increase, reduction or no change in their entitlement along with the proportion in each group and the average weekly change. The key points are as follows:

    - Households with a disabled person are considerably less likely to see a change in their entitlement compared to non-disabled households (65% compared with 32%).
    - For those households who do see an increase in their entitlement, the average change is broadly the same for both disabled people and non-disabled people (£25.60 per week and £25 respectively).
    - For households who would experience a notional reduction in entitlement, the average change is £13.60 for disabled people and £17.20 for those without a disability.
    - Overall the average change is lower for disabled people (£4.20 per week for disabled people and £6 for people without a disability) reflecting the fact that a much higher proportion of the disabled people experience no change in entitlement.

Table 3: Entitlement changes for Universal Credit households: segmented by disability status.

		Higher Entitlement	Lower Entitlement	No Change	Total
Disabled	**Households**	0.6m	0.4m	2.0m	3.0m
	% Change	21%	13%	65%	
	Average Change (£pw)	£25.60	-£13.60	£0.0	£4.20
Not Disabled	**Households**	2.0m	1.3m	1.6m	4.9m
	% Change	42%	26%	32%	
	Average Change (£pw)	£25.00	-£17.20	£0.00	£6.00
All Households	**Households**	2.7m	1.7m	3.5m	7.8m
	% Change	34%	21%	45%	
	Average Change (£pw)	£25.20	-£16.10	£0.00	£5.30

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Caseloads are in millions and are rounded to the nearest 0.1m households. Entitlement changes are rounded to the nearest 10p. Percentages are rounded to the nearest percentage point.

41. The reason why disabled households are less likely to experience a change in their entitlement is because Universal Credit is designed to improve work incentives while also ensuring that the most vulnerable do not lose out as a result of the reform. The structural changes from Universal Credit primarily affect the profile of in-work support (particularly for people on low levels of hours). Because 70% of disabled households on Universal Credit do not have an earned income compared with 34% who are not disabled, disabled households are considerably less likely to see a change in their entitlement as a result of the structural changes.

42. Although some disabled households experience reductions in entitlement in steady-state, there will be a scheme of transitional protection which will ensure that there are no cash losers at the point of transition as a direct result of Universal Credit. Households who would see a reduction in their entitlement because of Universal Credit will receive protection at the point of the transition if their circumstances remain unchanged.

43. The current support for disabled people includes a range of disability payments (for example Employment Support Allowance, disability premiums and disability elements within Tax Credits). The Government is considering how these payments can be simplified under Universal Credit and focussed on the most severely disabled people. Any change to disability-related support will clearly have a further impact that is not reflected in these figures. The impact of any changes to disability payments within Universal Credit will be assessed in future iterations of this Equality Impact Assessment.

Impacts on Poverty

44. Universal Credit will have a substantial impact on poverty in the steady-state. As outlined in paragraph 22, the Department estimates the combined impact of take-up and higher entitlement might lift around 950,000 individuals out of poverty, including over 350,000 children and more than 600,000 working-age adults. The static impact of Universal Credit reduces poverty for disabled and non-disabled households. Some 250,000 households with a disabled person will be lifted out of poverty.

45. On this purely static analysis, disabled people are slightly less likely to be moved out of poverty. This reflects the fact that disabled people on Universal Credit are more likely to be out of work and so are less likely to see a change in their entitlement. This analysis of poverty impacts does not capture the potential impacts of greater employment as a result of the improvements in work incentives.

3.1.5 Assessment of impact

<u>Opportunities to promote equality</u>

Improved taper and disregards

46. There should be an opportunity to promote equality for disabled people through improving work incentives and smoothing the transition into work. For example the single taper and a higher disregard for disabled people should support a greater number of disabled people to work a few hours (especially those with fluctuating capacity to earn, for example, because of mental health problems). The taper and disregard will replace the current Employment and Support Allowance permitted work rules which allow people to undertake some work whilst retaining their ESA. The permitted work lower limit allows someone to earn less than £20 a week indefinitely, whilst the permitted work higher limit allows someone to work for less than 16 hours a week, earning below £93 a week, for up to 52 weeks (indefinitely for those in the support group). 'Supported work' is also allowed if working for no more than £93 a week. Universal Credit should enable people to make a smoother transition into work than now.

A simpler system

47. The simplicity of the new system will also help reduce the risk and uncertainty felt by those moving into work, including disabled people. The system will be simpler for claimants to interact with as it will be possible to carry out most transactions online. Uncertainty will be reduced both through the increased transparency of an integrated system, managed online, and also through removing the need to apply for, and juggle, separate in and out-of-work benefits.

Risks of negative impact

Online access

48. The aim is that most people will access Universal Credit online. However there is a risk that not everyone has access to the internet or can use particular sites, which may include groups covered by equality laws (for example disabled and older people).[9] To mitigate the risk that some disabled people may not be able to make claims online we will offer alternative access routes, predominantly by phone but also face to face for those who really need to. We expect these channels to be reserved for the minority who cannot use, or be helped to use, online services and therefore the use of alternative services will be kept to a minimum. However Universal Credit also presents us with an opportunity to improve internet access for people who are currently digitally excluded. For face-to-face help in particular, we will consider how best to work with partners to meet this need. (A separate EIA on digital services will be published in due course).

Transition to Universal Credit

49. The majority of disabled households will receive comparable or higher amounts of support under Universal Credit compared to the current system, and stand to lose, on average, a lower notional amount than non-disabled households.

50. However, as Universal Credit will remove existing complexities and inconsistencies across the benefits and Tax Credits systems, some people could be entitled to less under Universal Credit than under the current system, including 13% of disabled households. In particular, the Government believes that the existing structure of overlapping disability payments causes confusion, and thus simplification is justified in order to remove unnecessary complexity and cliff edges in order to ensure that disabled people can benefit from improved work incentives and a smoother transition into work. As explained above, transitional protection will mitigate the impact on existing cases.

Frequency of assessment and payment

51. Currently people can receive Tax Credits, benefits and earnings in different cycles and combinations (e.g. annually, monthly, fortnightly, four weekly and weekly). Universal Credit will have a single set of rules on assessment and payment periods. We are currently examining a range of options, including whether to use the flexibility to set different assessment and

[9] FDS international, 2009, *Segmentation of Autumn 2009 Customer Insight Data based on Internet usage;* Dutton W et al, 2009, *The internet in Britain 2009*, Oxford Internet Institute; Whitfield G et al, 2010, *Literature review to inform the future digitisation of Jobcentre Plus Service Delivery*, research report 679.

payment periods in some cases, and carefully considering the claimant welfare implications of each of these.

Overall assessment of impact on disabled people

52. Universal Credit improves financial incentives to work for disabled people to approximately the same degree as for non-disabled households. It has less impact on the level of entitlement than for other groups because (subject to any changes to disability payments) disabled people on Universal Credit are more likely, in a static analysis, to be out of work. Universal Credit will have strong positive impacts on poverty rates amongst disabled people.

53. The design of Universal Credit helps ease some of the barriers to work faced by disabled people. They benefit from the reduction in PTRs and MDRs, and they also have the potential to benefit from the removal of non-financial barriers to work. The integration of in-work and out-of-work support considerably reduces the risk of employment for disabled people who can only do small or fluctuating amounts of work. There will be some areas, such as on-line access and frequency of payment, where more support may be needed and we will examine how policy and delivery can mitigate these issues.

3.2 Gender

54. In this section we assess the impact of Universal Credit on gender. Unless otherwise stated we have segmented the analysis into single males, single females, and couples.

3.2.1 Impacts on incentives to move into work

55. Table 4 shows the positive impact of Universal Credit on the distribution of PTRs for people moving into 10 hours of work a week at the minimum wage. This improvement is seen for both men and women:

- After Universal Credit some 79% of women out of work would have a PTR of below 60%, compared to 67% of men; and
- 5% of women would face a PTR above 70% under Universal Credit compared to 32% before reform. 4% of men would face a PTR above 70% under Universal Credit compared to 35% under reform.

56. These improvements are due to key aspects of the policy design of Universal Credit, including the higher earnings disregard in Universal Credit and the single rate of withdrawal.

Table 4 : Distribution of PTRs for first earners in a workless household at ten hours a week.

	Current		Universal Credit	
	Male	Female	Male	Female
Below 60%	39%	24%	67%	79%
60% to 70%	26%	44%	29%	16%
70% to 80%	3%	5%	3%	4%
80% to 90%	13%	16%	1%	1%
0ver 90%	20%	11%	*	*
Total	1,980,000	1,890,000	2,100,000	2,010,000

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Percentages are rounded to the nearest percentage point,

Bottom row contains the total number of households in each column,

'*' denotes fewer than 50,000 people.

3.2.2 Impacts on incentives to increase hours of work

57. Table 5 shows the impact of Universal Credit on MDRs for people currently in work. The table shows that Universal Credit virtually eliminates the highest MDRs of more than 80% for both male and female earners. Table 5 shows:

- That there is an increase in MDRs to the middle bands: 16% of male earners have MDRs of between 60% and 70% compared to 27% of women; and
- 61% of male earners have MDRs between 70% and 80% compared to 49% of women.

Table 5 : Distribution of MDRs for Universal Credit households in work (working age only)

	Current		Universal Credit	
	Male	Female	Male	Female
Below 60%	31%	36%	22%	23%
60% to 70%	4%	6%	16%	27%
70% to 80%	48%	41%	61%	49%
80% to 90%	12%	12%	1%	*
0ver 90%	6%	5%	1%	*
Total	1,600,000	2,180,000	1,610,000	2,170,000

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Percentages are rounded to the nearest percentage point,

Bottom row contains the total number of households in each column,

'*' denotes fewer than 50,000 people.

3.2.3 – Overall impact on incentives to work

58. Under Universal Credit, both men and women will see significant improvements in their incentives to work. They will no longer face the punitively high PTRs or MDRs which characterise the current system.

59. In addition, Universal Credit will provide greater stability of income and consistency of support, and so will significantly reduce the risks associated with moving in to work. These changes will be of benefit to both men and women.

3.2.4 Impact on welfare and individual incomes

60. This section analyses the pattern of entitlement changes for single men, single women and for couples: it then assesses the impacts of these changes on poverty.

61. Table 6 shows the impact of Universal Credit on the level of entitlement in the steady-state i.e. after transitional protection has been fully eroded. It is segmented by gender and family type and shows the number of households who see an increase, reduction or no change in their entitlement along with the proportion in each group and the average weekly change. The key points are:

    - Single people, whether male of female, are considerably less likely to see a change in their entitlement than couples. 63% of single men and 50% of single women experience no change in their entitlement compared with 25% of couples;
    - Couples are more likely to see an increase in their entitlement (49%) compared with single females (31%) and single males (18%);
    - Single males and females have the same likelihood of receiving lower entitlement (19%) compared to couples (26%).

Table 6: Entitlement changes for Universal Credit households: segmented by gender and family type.

		Higher Entitlement	Lower Entitlement	No Change	Total
Single Male	Households	0.4m	0.4m	1.2m	2.0m
	% Change	18%	19%	63%	
	Average Change (£pw)	£18.50	-£12.00	£0.00	£1.10
Single Female	Households	1.0m	0.6m	1.6m	3.1m
	% Change	31%	19%	50%	
	Average Change (£pw)	£16.50	-£13.50	£0.00	£2.40
Couples	Households	1.4m	0.7m	0.7m	2.7m
	% Change	49%	26%	25%	
	Average Change (£pw)	£34.20	-£21.60	£0.00	£11.80
All Households	Households	2.7m	1.7m	3.5m	7.8m
	% Change	34%	22%	45%	
	Average Change (£pw)	£25.20	-£16.10	£0.00	£5.30

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Caseloads are in millions and are rounded to the nearest 0.1m households. Entitlement changes are rounded to the nearest 10p. Percentages are rounded to the nearest percentage point.

62. Single people are less likely to see a change in their entitlement as this group is considerably less likely to have an earned income. 68% of single males and 54% of single females on Universal Credit are workless compared to only 22% of couples: as outlined in the Disability section, the design of Universal Credit is such that workless households are less likely to see changes in their entitlement - until they enter work and benefit from incremental income.

63. 49% of couples and 31% of single females see increases in their entitlements compared to 18% of men. This is partly because couples and single females are more likely to be in the groups who are receiving Tax Credits and other benefits. As a result they will benefit from the lower taper and also, if they have children, from the higher earnings disregard.

64. Of those with lower notional entitlements, the majority tend to be households with higher incomes who see an increase in their taper under Universal Credit. Couples are more likely to fall into this group and so are more likely to experience lower entitlements. There is also a smaller group of workless households who see reductions in their notional entitlements because Universal Credit brings non-earned income fully to account.

65. Overall the average change in entitlement is considerably higher for couples (£11.80) than for single females (£2.40) and single males (£1.10). In part this is because couples are considerably more likely to see increases in their entitlement: where they do see increases, they are larger than for single people. Around 68 percent of couples are in families with children. In addition, a higher proportion of households with children and

particularly couples with children experience higher entitlements under Universal Credit than households without children. Couples with children are more likely to experience higher entitlements under Universal Credit then any other type of household. Therefore, couples tend to experience higher average gains under Universal Credit in comparison to single males and single females.

3.2.5 Impacts on poverty

66. Universal Credit will have a substantial impact on poverty in the steady-state. On reasonable assumptions, the combined impact of take-up and higher average entitlement might lift around 950,000 individuals out of poverty, including over 350,000 children and more than 600,000 working-age adults. The number of male and female adults who are lifted out of poverty is approximately equal. Of the 350,000 children lifted out of poverty, about 70,000 are in female lone parent households with the remainder being in couple households.

67. As explained in the disability section, this analysis of poverty impacts does not capture the impacts such as greater employment as a result of the improvements in work incentives.

3.2.6 Assessment of gender impact

Opportunities to promote equality

68. The majority of lone parents are women and the employment rate for lone parents, at 57% is 15 percentage points lower than the average[10]. Of those not in employment, the majority are looking for work or would like to work. Of those not working most are not doing so because they prefer to be with their children or because of childcare costs.[11] Of all lone parents, around 80% are either in employment, looking for a job, or would like to work. Universal Credit presents an opportunity to promote equality with respect to employment and narrow the employment gap.

69. Universal Credit is designed to help improve the incentive for individuals to enter work, reflecting the Government's view that work is a more sustainable route out of poverty than simply increasing cash transfers. Earnings disregards and a reduced taper will help ensure that work pays; improved simplicity and transparency of the system will reduce the uncertainty and risk felt by those making the transition into work.

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[10] DWP analysis of the Labour Force Survey for April - June 2010. They cover men aged 16-64 and women aged 16-59 in Great Britain, and are not seasonally adjusted.

[11] Philo D et al, 2008, *Families with children in Britain: findings from the 2007 Families and children study;* DWP research report 578

70. We expect the new system to be particularly helpful to lone parents, including those who wish to work a small number of hours (under 16 hours a week). Evidence suggests that most lone parents looking for work want work that will fit in with their children's schooling, so are looking predominantly for work that is part-time and preferably within school hours[12]. Universal Credit should support lone parents to undertake this kind of work, perhaps helping them to gain the confidence they need after being out of the labour market, enabling them to fit work around childcare arrangements more flexibly than under the current system.

71. The Government recognises the importance of supporting low income families with the costs of childcare in helping people move into and remain in work. Universal Credit will continue to help parents with the costs of childcare. We wish to simplify current arrangements and we are working with key stakeholders to establish the best and most affordable way of delivering childcare support to families. The Government is considering replacing the current child care element within Working Tax Credit with a specific component within Universal Credit. Current thinking is that support should be incorporated into Universal Credit and its taper – to protect work incentives and ensure it is targeted towards low earning families. Impact Assessments will be updated as policy details are developed.

Risks of negative impact

Incentives for second earners

72. Universal Credit will be calculated to incentivise work at a household level, and is expected to reduce the number of households in which there is no-one working by 300,000. Because the reward is for the first earner into work, there is some second earners might choose to reduce or rebalance their hours of work more in line with their families needs.

73. The Government believes that any such risk of decreased work incentives for women in couples is justified. The focus of Universal Credit is to help workless households into work, since having no parent in work has been shown to have an impact on young people's lives and attitudes to work.[13] Helping at least one person into work could help break the cycle of worklessness in a family.

Payments for children and potential for 'purse to wallet' income transfers

74. Universal Credit involves integrating in and out-of-work payments that can currently go to both members of a couple. A single payment of combined

[12] See for instance '*Lone Parent Obligations:destinations of lone parents after Income Support eligibility ends'* Casebourne et al, DWP RR710, 2010 and '*A question of balance: lone parents, childcare and work'* Bell et al, DWP RR230, 2005

[13] Prince's Trust report (2010), 'Destined for the Dole? Breaking the cycle of worklessness in the UK'; D. Page (2000), 'Communities in the Balance: the reality of social exclusion on housing estates', Joseph Rowntree Foundation Research Report, p.26

benefit to a household, mimicking wages or a salary, can then be tapered away at a constant rate as earnings increase, making it much easier for couples to understand how their work decisions directly affect their benefit payments.

75. In recognition of the fact that different households budget and handle their finances in different ways, we are allowing couples to choose which of them should receive the Universal Credit payment. The Government believes that in the majority of cases decisions over allocation of household resources to pay for rent, food, costs associated with bringing up children and so on are best made by members of the household themselves as they are for non-Universal Credit claiming households.

76. Rather than allocation by the state choice over payment of joint claims will also create a level starting point for all couple claimants and in making a joint claim, both partners will be aware of and agree to the terms.

77. The Government intends to retain power to override nomination by members of a couple and to guide payments if required. For example, where there is proven misuse of money by one partner, we do already and aim to continue to have power to direct payment of benefit to the other partner, offering safeguards.

Gender reassignment

78. No data is collected on the gender reassignment of potential recipients. However, we believe that there are no grounds to suggest Universal Credit will have a differential impact based on gender reassignment.

Overall assessment of gender impact

79. Universal Credit improves financial incentives to work for women to approximately the same degree as for men. The changes in entitlement, and increases in take-up will have strong positive impacts on poverty rates for women and on their employment rate.

80. The single taper and the higher disregards expand the range of opportunity to all claimants irrespective of gender; all people now have the opportunity to work much more flexibly and not only at particular points in the hours distribution.

81. The design of Universal Credit helps ease some of the non-financial barriers to work. There will be some areas where we will monitor the on-going impact, such as childcare and the distribution of income within households. We will continue to assess how policy and delivery can mitigate any potential risks, for example, by helping claimants to understand what information is required of them, and by ensuring that notifications of entitlement and award are clear.

82. In all, this may have dynamic results of improving family life. It is possible that in some families, second earners may choose to reduce or rebalance their hours or to leave work. In these cases, the improved ability of the main earner to support his or her family will increase options available for families to strike their preferred work/life balance.

3.3 Race

83. Around 15% of the potential Universal Credit caseload are from an ethnic minority background, which is larger than in the population as a whole.

3.3.1. Impact on incentives to move into work

84. Table 7 shows the positive impact of Universal Credit on the distribution of PTRs for people moving into 10 hours of work a week at the minimum wage. Under Universal Credit 73% of white and ethnic minority households will now have the lowest PTRs of under 60%, compared with 33% and 31% under the current system. Both white and ethnic minority households benefit from the virtual elimination of the highest PTRs of above 80%.

85. This substantial improvement in PTRs is a function of key features of the policy design such as the higher earnings disregard in Universal Credit and the single taper.

Table 7 : Percentage distribution of PTRs for first earners in a workless household at ten hours a week.

	Current		Universal Credit	
	Ethnic Minority	White	Ethnic Minority	White
Below 60%	33%	31%	73%	73%
60% to 70%	35%	35%	23%	22%
70% to 80%	2%	4%	4%	3%
80% to 90%	13%	15%	*	1%
0ver 90%	17%	15%	*	1%
Total	540,000	3,320,000	560,000	3,540,000

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Percentages are rounded to the nearest percentage point,

Bottom row contains the total number of households in each column,

'*' denotes fewer than 50,000 people.

3.3.2 – Impacts on incentives to increase hours of work

86. Table 8 shows the impact of Universal Credit on the financial incentive to increase hours of work, as measured by MDRs. The table shows that Universal Credit virtually eliminates the highest MDRs of more than 80% for both white and ethnic minority households. As a higher proportion of households with someone from an ethnic minority background are on lower income, so they are tend to be on the highest taper (a combination of

NI/Tax, Tax Credits and Council Tax and Housing Benefit). Therefore they are more likely to have MDRs of over 80% under the current system, so they benefit from the virtual elimination of MDRs in this band.

87. Table 8 shows:

- Under Universal Credit there is an increase in MDRs in the middle bands: around 34% of ethnic minorities now have MDRs of between 60% and 70% compared to 20% of white households; and
- 52% of ethnic minorities have MDRs of between 70% and 80% compared to 55% of white households.

Table 8 : MDRs for Universal Credit households in work (working age only),

	Current		Universal Credit	
	Ethnic Minority	White	Ethnic Minority	White
Below 60%	32%	34%	14%	24%
60% to 70%	8%	4%	34%	20%
70% to 80%	34%	45%	52%	55%
80% to 90%	19%	11%	*	*
0ver 90%	7%	5%	*	1%
Total	590,000	3,190,000	580,000	3,190,000

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Percentages are rounded to the nearest percentage point,

Bottom row contains the total number of households in each column,

'*' denotes fewer than 50,000 people.

3.3.3 – Overall impact on incentives to work

88. Under Universal Credit, both white people and ethnic minorities will see significant improvements in their incentives to work. They will no longer face the punitively high PTRs or MDRs which characterise the current system. The employment rate of ethnic minorities should improve.

89. In addition, Universal Credit will address many of the other significant barriers to work. Universal Credit will provide greater stability of income and consistency of support, and so will significantly reduce the risks associated with moving in to work. These changes will be of benefit to both white and ethnic minority households.

3.3.4 – Impact on individual welfare and incomes

90. This section analyses the pattern of entitlement changes for white and ethnic minority households, and then assesses the impacts of these changes on poverty.

91. Transitional protection will mean that there are no cash losers at the point of change as a direct result of the introduction of Universal Credit. Table 9 shows the impact of Universal Credit on the level of entitlement in the steady-state. It is segmented by ethnicity and shows the number of households who see an increase, reduction or no change in their entitlement along with the proportion in each group and the average weekly change. The key points are as follows:

- Ethnic minority households are more likely to see an increase in their entitlement compared to white households (46% compared with 32%).
- For those households who do see an increase in their entitlement, the average change is slightly higher for ethnic minorities (£27.30 per week against £24.60).
- Ethnic minority households are less likely to see a reduction in their entitlement (13% compared to 23%) although their average reduction is likely to be slightly higher (£18.50 v £15.80).
- Overall the average change is higher for ethnic minority households and is about £10.50 per week, compared to £4.40 for white households.

Table 9: Entitlement changes for Universal Credit households: segmented by ethnic background.

		Higher Entitlement	Lower Entitlement	No Change	Total
White	**Households**	2.1m	1.5m	3.0m	6.6m
	% Change	32%	23%	45%	
	Average Change (£pw)	£24.60	-£15.80	£0.00	£4.40
Non-white	**Households**	0.6m	0.2m	0.5m	1.2m
	% Change	46%	13%	41%	
	Average Change (£pw)	£27.30	-£18.50	£0.00	£10.50
All Households	**Households**	2.7m	1.7m	3.5m	7.8m
	% Change	34%	21%	45%	
	Average Change (£pw)	£25.20	-£16.10	£0.00	£5.30

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Caseloads are in millions and are rounded to the nearest 0.01m households. Entitlement changes are rounded to the nearest 10p. Percentages are rounded to the nearest percentage point.

92. As outlined above, ethnic minorities are more likely to see increases in their entitlement than white households. This is largely because a higher proportion of ethnic minorities on Universal Credit are in couple families (36% of ethnic minorities are in couple families, compared to 21% of white households). Couples tend to benefit more from the increase in disregards set in Universal Credit.

93. Although some households experience reductions in entitlement in steady-state, there will be a scheme of transitional protection which will ensure that there are no cash losers from Universal Credit. At the point of transition to Universal Credit, households who see a reduction in their entitlement will receive full protection against the reduction in their income.

3.3.5 - Impacts on Poverty

94. Universal Credit will have a substantial impact on poverty in the steady-state. On reasonable assumptions, the combined impact of take-up and higher average entitlement might lift around 350,000 individuals (200,000 adults and 150,000 children) in households with at least one member from an ethnic minority background out of poverty.

3.3.6 Assessment of impact

Opportunities to promote equality

Improved taper and disregards

95. The single taper and reduced disregards in Universal Credit will improve work incentives, enabling us to promote equality of opportunity through increased employment. To maximise the opportunities for work we will ensure that communications about this are appropriately targeted to ethnic minority groups.

A simpler system

96. Households from certain ethnic minority groups may experience difficulties navigating the benefits system, for example language difficulties can compound the challenges posed by a very complicated system. This is evidenced by the lower take-up rates for some benefits amongst households from certain minority backgrounds; under the current system people may claim one benefit but not be aware they are also entitled to claim others. As a result of creating a single, integrated benefit, Universal Credit awards will include all the elements to which a household is entitled. People from ethnic minority groups currently experiencing difficulties with claiming should gain from the greater simplicity and automation within Universal Credit.

Risks of negative impact

Online access

97. As we have noted above in relation to disability, there will be alternative access routes for people who cannot use online channels. The evidence suggests there is little difference in internet usage across ethnic groups –

though some claimants may encounter problems accessing digital services because of difficulties reading and writing English.[14] We also know that ethnic minority claimants prefer face-to-face contact to a greater extent than white British claimants as this is thought to lead to a better outcome.[15] Ethnic minority claimants who had limited confidence in their language ability had the greatest preference for face-to-face contact. We are committed to ensuring equality of access for all claimants regardless of race so we aim to **mitigate** this risk through ensuring that claimants who have difficulty with reading and writing English will still be able to access our services as they do now. We will continue to offer a translation service through the Big Word[16]. We therefore believe that introducing online access will have little negative impact upon ethnic minority claimants.

Overall assessment of impact on ethnic minorities

98. Universal Credit improves financial and non financial incentives to work for ethnic minorities to approximately the same degree as for other households in the pool. Ethnic minority households are more likely to see increases in their level of entitlement because of Universal Credit. And they also benefit from the strong positive impacts on poverty rates.

99. The design of Universal Credit helps ease some of the non-financial barriers to work. There will be some areas where there are risks of adverse outcomes, such as online access.

3.4 Age

100. In this section we consider age. However the issues faced by particular age groups can reflect their particular stage in the lifecycle and so may also be picked up in different sections of this assessment. For example, as we note below, around two thirds of 25-49 year olds are in households with children

3.4.1. Impact on incentives to move into work

101. Table 10 shows the positive impact of Universal Credit on the distribution of PTRs for people moving into 10 hours of work a week at the minimum

[14] Whitfield G et al, 2010, *Literature review to inform the future digitisation of Jobcentre Plus Service Delivery*, research report 679.
[15] Marangozov, R, Bellis, A, Barnes, H, forthcoming, Using Jobcentre Plus services – views and experiences of ethnic minority customers.
[16] 'DWP currently uses translation services provided by thebigword to communicate professionally over the phone with customers who do not speak English. DWP staff can conduct a secure three-way call between a customer and a translator to ensure customer enquiries are effectively handled.'

wage. The table is segmented by the age of the head of the household[17], and shows that the improvement is seen across all age groups:

- After Universal Credit some 69% of households headed by a person under 25 would have a PTR of below 60%, compared to 43% under the current system. The proportion with the highest PTRs of over 90% falls from 18% to 0%.
- After Universal Credit some 72% of households headed by a person aged 25 to 49 would have a PTR of below 60%, compared to 20% under the current system. The proportion with the highest PTRs of over 90% falls from 17% to 1%.
- After Universal Credit some 75% of households headed by a person aged 50 or over would have a PTR of below 60%, compared to 40% under the current system. The proportion with the highest PTRs of over 90% falls from 12% to 1%.

102. As with the other protected groups, this substantial improvement in PTRs is a function of key features of the policy design such as the higher earnings disregard in Universal Credit and the single taper.

Table 10 : Percentage distribution of PTRs for first earners in a workless household at ten hours a week.

	Current			Universal Credit		
	Under 25	**25-49**	**Over 50**	**Under 25**	**25-49**	**50+**
Below 60%	43%	20%	40%	69%	72%	75%
60% to 70%	21%	45%	31%	29%	22%	18%
70% to 80%	3%	4%	4%	1%	4%	5%
80% to 90%	16%	14%	13%	1%	1%	2%
0ver 90%	18%	17%	12%	*	1%	1%
Total	960,000	1,660,000	1,190,000	980,000	1,810,000	1,310,000

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Percentages are rounded to the nearest percentage point,

Bottom row contains the total number of households in each column,

'*' denotes fewer than 50,000 people.

3.4.2 – Impacts on incentives to increase hours of work

103. Table 11 shows the impact of Universal Credit on the financial incentive to increase hours of work, as measured by MDRs. The table shows that Universal Credit virtually eliminates the highest MDRs of more than 80% across all age groups:

[17] The terminology 'head of household' relates to the Family Resources Survey, but does not pre-empt joint claims in Universal Credit.

- After Universal Credit some 55% of households headed by a person under 25 now have MDRs in the middle bands of 60% to 70%; and 33% have MDRs of 70% to 80%.
- After Universal Credit some 17% of households headed by a person aged 25 to 49 now have MDRs in the middle bands of 60% to 70%; and 61% have MDRs of 70% to 80%.
- After Universal Credit some 18% of households headed by a person aged 50 or over would now have MDRs in the middle bands of 60% to 70%; and 42% MDRs of 70% to 80%.

Table 11 : MDRs for Universal Credit households in work (working age only),

	Current			Universal Credit		
	Under 25	**25-49**	**Over 50**	**Under 25**	**25-49**	**Over 50**
Below 60%	50%	28%	47%	12%	21%	40%
60% to 70%	8%	4%	4%	55%	17%	18%
70% to 80%	18%	50%	35%	33%	61%	42%
80% to 90%	20%	11%	9%	*	*	*
0ver 90%	4%	6%	5%	*	1%	*
Total	500,000	2,710,000	550,000	510,000	2,710,000	550,000

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Percentages are rounded to the nearest percentage point,

Bottom row contains the total number of households in each column,

'*' denotes fewer than 50,000 people.

3.4.3 – Overall impact on incentives to work

104. Under Universal Credit, households of all ages will see significant improvements in their incentives to work. They will no longer face the punitively high PTRs or MDRs which characterise the current system.

105. In addition, Universal Credit will address many of the other significant barriers to work. Universal Credit will provide greater stability of income and consistency of support, and so will significantly reduce the risks associated with moving in to work.

3.4.4 Impact on welfare and individual incomes

106. This section analyses the pattern of entitlement changes for different age groups, and then assesses the impacts of these changes on poverty.

107. Table 12 shows the impact of Universal Credit on the level of entitlement in the steady-state i.e. after transitional protection has been fully eroded. It is segmented by age of the head of the household and shows the number of households who see an increase, reduction or no change in their

entitlement along with the proportion in each group and the average weekly change. The key points are as follows:

- Those under 25 and over 50 are less likely to see a change in their entitlements in comparison to those aged 25-49. 57% of under 25s and 51% of over 50s experience no change in their entitlement compared with 39% of 25-49 year olds;
- Those aged 25-49 are more likely to see an increase in their entitlement (39%) compared with under 25s (37%) and over 50 (22%);
- Those under 25 are considerably less likely to experience lower entitlements (6%) compared to over 50s (28%) and 25-49 year olds (23%).

Table 12: Entitlement changes for Universal Credit households: segmented by age of the head of the household[18].

		Higher Entitlement	Lower Entitlement	No Change	Total
Under 25	Households	0.4m	0.1m	0.7m	1.2m
	% Change	37%	6%	57%	
	Average Change (£pw)	£21.30	-£10.30	£0.00	£7.40
25-49	Households	1.8m	1.1m	1.8m	4.7m
	% Change	39%	23%	39%	
	Average Change (£pw)	£25.30	-£16.70	£0.00	£6.30
Over 50	Households	0.4m	0.5m	1.0m	2.0m
	% Change	22%	28%	51%	
	Average Change (£pw)	£28.40	-£16.20	£0.00	£1.80
All Households	Households	2.7m	1.7m	3.5m	7.8m
	% Change	34%	21%	45%	
	Average Change (£pw)	£25.20	-£16.10	£0.00	£5.30

Source: DWP Policy Simulation Model (based on FRS 2008/9),

Caseloads are in millions and are rounded to the nearest 0.1m households. Entitlement changes are rounded to the nearest 10p. Percentages are rounded to the nearest percentage point.

108. The majority of the changes are due to compositional effects of the population. Those aged 25-49 are more likely to be in groups that are affected by Universal Credit. For example, 64 percent of 25-49 year olds are in households with children. This compares to 37 percent of under 25s and 17 percent of over 50s. As a result those aged 25-49 are more likely to experience a change than the other groups and they are more likely to see an increase in entitlements.

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[18] On the Family Resources Survey, the head of household is defined as the person with the highest income. Where more than one person in the household are in receipt of benefit, then the oldest person is defined as the head of household.

109. We expect to continue with age-related benefit rates within Universal Credit (e.g. different rates for young people under age 25 compared to those over that age). We believe that continuing this broad policy direction is justified as younger claimants have an expectation of lower earnings and are more likely to live at home, so it is appropriate for Universal Credit to provide proportionate levels of support to these groups.

Impacts on Poverty

110. Universal Credit will have a substantial impact on poverty in the steady-state. On reasonable assumptions, the combined impact of take-up and higher average entitlement might lift around 700,000 individuals out of poverty in households where the head of household is aged between 25 and 49; 150,000 will be in households with a head aged below 25 and around 100,000 individuals out of poverty in households with a head aged over 50[19].

Opportunities to promote equality

111. Currently Working Tax Credit is not available to those under 25 unless they have children or are disabled so younger people should benefit particularly from the reduced taper and integration of in- and out-of-work support. This should help to promote employment incentives and opportunities for younger people.

Risks of negative impact

Online access for older people

112. As noted above, if most claims and notifications are to be dealt with online this could in theory disadvantage older people. Older people are less familiar with the internet; and age is one of the important factors determining 'digital exclusion'.[20] This may present a risk that older people may find it harder to take up Universal Credit than the other benefits it replaces. However we can **mitigate** this risk through ensuring we take up the opportunity to help improve internet access for older people who are digitally excluded and to provide off-line routes for those for whom using online services is not possible. (A separate EIA on digital services will be published shortly).

Gender Reassignment

113. The Department does not hold information on transgender claimants and it is not likely that this will be available in the future. However the Government does not envisage an adverse impact on these grounds.

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[19] Please note this is the number of individuals, therefore, includes both children and adults.

[20] Whitfield G et al, 2010, *Literature review to inform the future digitisation of Jobcentre Plus Service Delivery*, research report 679.

Sexual Orientation

114. The Department does not hold information on sexual orientation of claimants and it is not likely that this will be available in the future. However the Government does not envisage an adverse impact on these grounds.

Religion or Belief

115. The Department does not hold information on the religion or beliefs of claimants and it is not likely that this will be available in the future. However the Government does not envisage an adverse impact on these grounds.

Pregnancy and Maternity

116. The Department only holds information on pregnancy and maternity where it is the primary reason for incapacity. It cannot therefore be used to accurately assess the equality impacts; however, the Government does not envisage an adverse impact on these grounds.

6. Monitoring and evaluation

117. DWP is committed to monitoring the impacts of its policies and we will use evidence from a number of sources on the experiences and outcomes of the protected groups.

    - We will use administrative datasets to monitor trends in the benefit caseloads for the protected groups and in the level and distribution of benefit entitlements. The administrative data will provide robust material for age and gender although not, as a rule, for the other protected groups.
    - We will use survey data (for example the Family Resources Survey and Labour Force Survey) to assess trends in the incomes of the protected groups and in the employment outcomes.
    - We will use qualitative research and feedback from stakeholder groups to assess whether there are unintended consequences for the protected groups, and whether the policy is resulting in adverse consequences for particular groups.
    - We will utilise feedback from Departmental employee networks and internal management information. For example we will monitor the level of appeals and complaints in order to assess the broader impact of the policy.
    - We will draw on broader DWP research where appropriate, as well as any research commissioned specifically as part of the evaluation of the measure.

118. The material in this Equality Impact Assessment covers the equality groups currently covered by the equality legislation, i.e. age, disability, gender

(transgender), and ethnicity. For the age and gender strands we have good quality information from both the administrative and survey data, while for ethnicity and disability we have reasonable information from the survey data. From 2011 sexual orientation, religion and pregnancy/maternity will also be covered by the equality legislation; with the exception of maternity, these groups will not be captured in the Departmental administrative information. We have requested for information on religion and sexual orientation to be included in the main survey used for low income and poverty analysis from April 2011. Also, as part of our actions in the context of the data requirements under the Equality Act, we are looking across DWP activities to identify and address further gaps in data provision wherever reasonable.

Modelling Note

119. The Universal Credit White Paper, ‘Universal Credit: Welfare that Works’, sets out the Government’s intended overall design for Universal Credit. This Impact Assessment presents analysis of the impacts of Universal Credit based on that design. It includes analysis of changes in entitlements, distributional impacts and changes to work incentives. The analysis compares Universal Credit to the current benefits and Tax Credits system, assuming the current system incorporates all of the changes announced up to and including the 2010 Spending Review.

120. The government has announced that Local Authorities will be given a greater say in decisions on helping people on low incomes pay council tax. However, there is more work to be done on the practicalities of the new approach and the Department for Work and Pensions (DWP) and the Department for Communities and Local Government (DCLG) will work closely together with local government and devolved administrators to develop detailed proposals. The Department will incorporate the impact of these policy decisions into subsequent iterations of the Impact Assessment. Council Tax Benefit has been included in its current form in the baseline and included as part of Universal Credit for the purposes of the analysis in this assessment.

121. Unless otherwise stated, the modelling in this Impact Assessment is based on the DWP Policy Simulation Model which draws on data from the 2008/09 Family Resources Survey. All costs and benefits are reported in 2010/11 prices. We have also used data from government administrative statistics and from social research.

122. It is important to emphasise that the nature of the datasets and models means that it is not always possible to fully assess the potential impacts for all of the protected groups. We have explained in the EIA where this is the case, and what alternative methods could be used.

7. Next steps

123. We expect to revise this EIA as the Bill goes through its Parliamentary stages and in more detail as the policy develops in regulations.

8. Contact details

For further details about this assessment please contact us:

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