Hindrance or help? Social security and work

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In-work poverty has been on the rise in the UK. Just before the pandemic hit, three-quarters of children living in poverty had at least one parent in work. What role does the social security system, and in particular universal credit, play in helping or hindering low-income working families?

We often hear statements like 'the best way out of poverty is a job'. In recent years this framing, which has always been misleading, has become highly inaccurate. In reality, being in a working family is one of the defining features of contemporary poverty in the UK.

In the early 90s, the majority of people in poverty lived in workless families, but that is no longer the case. The proportion of people in poverty who live in a working family has steadily risen over the past two decades. Immediately before the pandemic (the most recent statistics available), 61 per cent of working-age adults in poverty lived in a family in which someone was in work. The level was even higher for children living in poverty – 75 per cent were in a family with someone working.

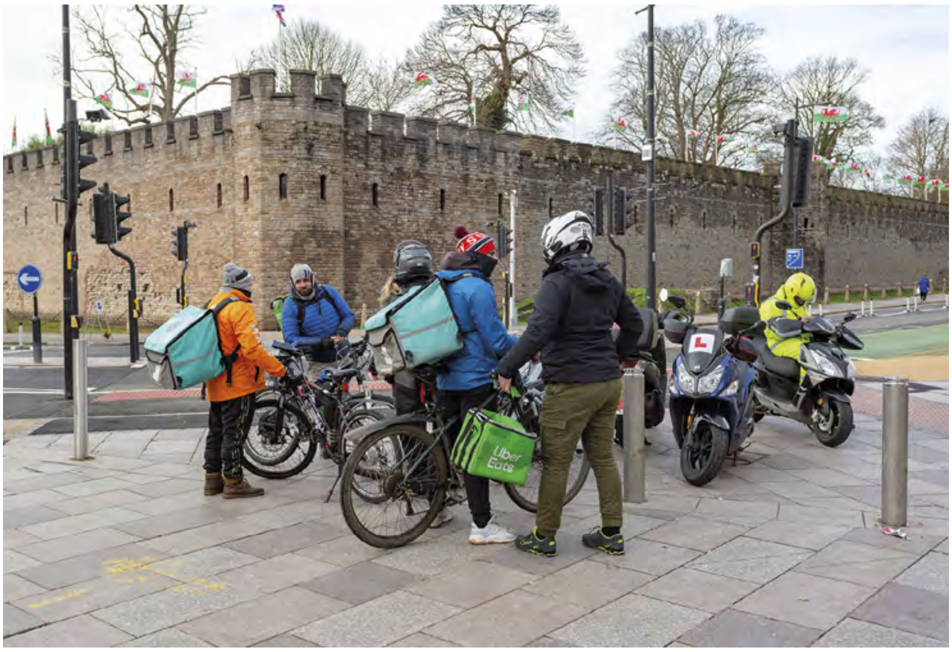
Why is in-work poverty rising?

One of the reasons for the rise in in-work poverty has simply been that, pandemic notwithstanding, there are many more people in work than ever before. Over the 2010s, the employment rate increased and, by the end of the decade, it reached a record high. Mothers in particular have been driving the rise. While employment among all groups has increased, the employment rate for mothers has increased by more than the employment rate for women without children and men.

Over the same time period, however, we have seen the link between employment and economic wellbeing weaken. Wages have stagnated, jobs offer fewer hours (eg, part-time and zero-hour contracts) and often they are insecure (eg, temporary jobs). Meanwhile the cost of living, particularly rent, has increased for poorer families. This squeeze is magnified for parents who face the additional costs of raising a child and may be more constrained in their employment options due to caring responsibilities.

> **Taken together, even though more people were in work at the end of the 2010s, this work became less effective at lifting people out of poverty. As a result, in-work poverty reached record levels.**

Takeaway food deliverers gather in Cardiff, Wales. Since the UK Supreme Court decided in February that Uber drivers cannot be considered self-employed, Uber has given its UK drivers basic employment protections, such as sick pay and holiday leave, but such conditions still do not apply to Uber Eats riders.

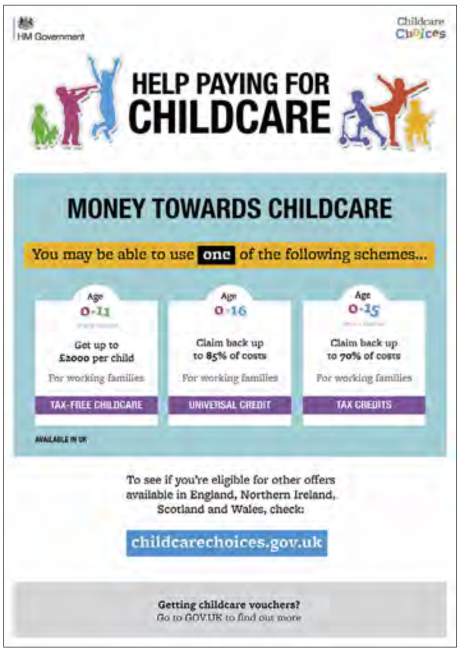


How does social security help people in work?

Social security has a long-standing role in supporting people in work. One way it does this is by supporting families who face additional living costs. For example, an employer is not expected to pay an employee more because they face the additional cost of raising a child or have disability-related expenses. Such an expectation would be undesirable because it could deter employers from hiring those individuals in the first place. Instead, the state plays this role. For example, it provides support through child benefit and personal independence payment, both of which are available regardless of employment status. These top-ups help people both in work and out of work with their additional living costs.

The social security system also plays a key role in helping low-income families cover the costs associated with being in work, such as commuting and childcare. In doing so, the state aims to ensure that people are able to take up employment opportunities. For example, working tax credit was designed to provide a top-up to families who worked a required number of hours but continued to have a low income. Meanwhile, childcare allowances, alongside free childcare schemes for younger children, support parents with the costs of caring for their children while the parents themselves are at work.

The various governmental childcare schemes differ in England, Wales and Scotland and many workers find them hard to understand and navigate.



It is important to remember that working and non-working families are not static groups; people often move in and out of work, especially those in insecure jobs and parents of young children who adapt their employment patterns as the caring needs of their children shift. This is the other role that the social security system plays in supporting people in work – it aims to withdraw support gradually and smoothly as earnings increase.

Finding the optimum way of withdrawing support as earnings rise has been a subject of debate for decades. In 1971 Frank Field and David Piachaud coined the phrase 'poverty trap', describing how families in receipt of support from the social security system saw minimal or no benefit when their earnings increased slightly, because the financial gain was lost through income taxes and national insurance contributions combined with the withdrawal of various types of state support.

Successive governments have grappled with this issue and it was one of the primary reasons for the introduction of universal credit (UC). UC combined six benefits into one and is now the main benefit in the UK for working and non-working adults alike. Its aim was to simplify the system of financial support, making it easier for families to transition in to work and thus address the poverty trap. In a foreword to the government's 2010 *Universal Credit: welfare that works report*, Ian Duncan Smith, then Secretary of State for Work and Pensions, declared: "At its heart, universal credit is very simple and will ensure that work always pays and is seen to pay." The reality, however, has been different.

Three ways UC struggles to support working families

1) The design of UC makes it difficult for families to move into work or increase their hours.

2) The design of UC makes it onerous for people in non-standard work to claim.

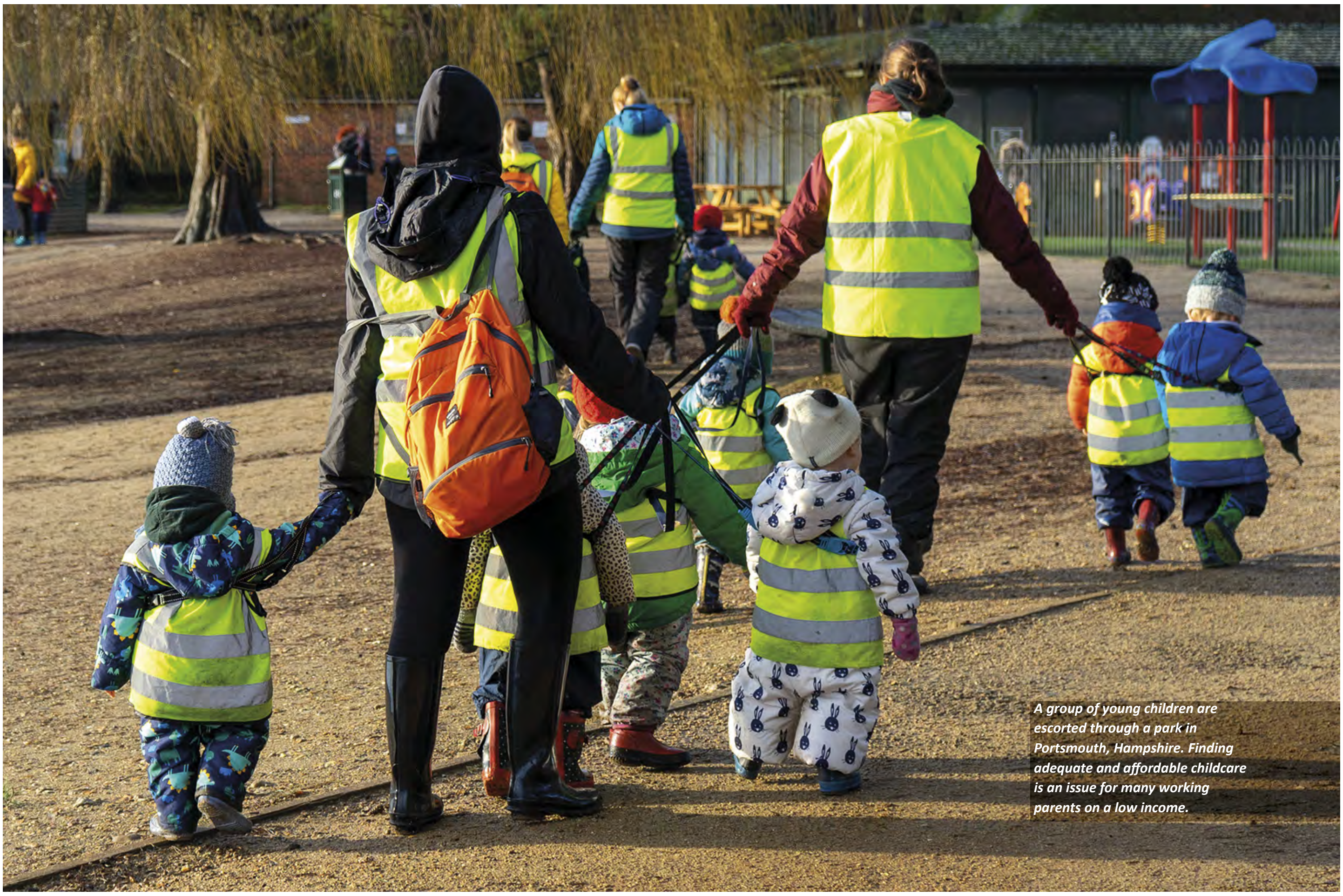
3) Value of benefits for working and workless families has fallen in recent years.

1. The design of UC makes it difficult for families to move into work or increase their hours.

One of the ways UC aims to help people transition into work is by withdrawing support gradually and consistently as earnings increase. The rate that a benefit is withdrawn is called the 'taper rate'. When UC was originally conceived, the taper rate was 55 per cent, meaning that for every extra pound someone earned they would lose 55p in UC, making them 45p better-off overall. The version of UC that was introduced, however, had a much higher taper rate of 65 per cent, subsequently lowered to 63 per cent.

UC also provides a 'work allowance' to certain families. A family with children in rented accommodation, for example, can earn £293 a month before their UC is tapered away. This leeway supports families to enter work and manage some of those additional costs, such as commuting. There is only one work allowance per family, however. If one person in a couple enters work when their partner is already earning at least £293, any of the second partner's earnings are instantly tapered away. That is particularly hard on parents and can discourage the second parent – often the mother – from working, because having a second earner often means having to find and pay for childcare.

UC does provide some support towards the cost of childcare for working families. Parents in work can claim back 85 per cent of their childcare costs up to a certain limit. Again, the way this support is provided makes it more difficult for people to enter work. By default, childcare support is paid in arrears, with parents typically paying upfront out of their own pocket, and then claiming back eligible costs afterwards. In practice, when a parent on a low income enters work they are expected to find a suitable childcare placement, and a way to pay for it, before UC will support them and before they



A group of young children are escorted through a park in Portsmouth, Hampshire. Finding adequate and affordable childcare is an issue for many working parents on a low income.

receive their first pay cheque. While parents may get help with upfront childcare costs via the flexible support scheme, it is a discretionary fund and entitlement is not guaranteed.

A gradual taper rate, work allowances and more adequate childcare support combined can make it much easier for a family to enter work. The way that UC is designed, however, fails to make the most of these opportunities and instead reinforces the poverty trap, particularly for parents.

Financial gain for a family with children from having two earners

One person in a couple works 30 hours a week at minimum wage and earns £1,091.13 a month after tax. The other person in the couple looks after their two children, aged four and seven. They rent a two-bedroom home costing £650 a month. They have a UC award of £1,263.34 a month (including the temporary UC uplift) and receive £152.32 a month in child benefit. The family's net income after housing costs is £1,856.79.

The primary carer of the children takes a part time retail job of 16 hours a week at minimum wage and earns £617.76 a month after tax. They now pay for childcare, which costs £329 a month. The family's additional earnings cause their UC award to fall to £1,153.80 a month; this drop is somewhat countered by additional help towards childcare costs. The family's net income after housing and childcare costs is £2,036.01.

Outcome: the family does 70 hours more work in a month, earns £617.76 after tax, but is only £179.22 better off.

2. The design of UC makes it onerous for people in non-standard work to claim

UC was designed to replicate the payment cycle of a monthly salaried job. According to the architects of UC, this has three advantages:

1) ensures that people are used to managing on a monthly budget paid in arrears;

2) ensures that benefits taper away at the same time that earnings increase; *and*

3) helps smooth out fluctuating earnings by providing responsive income top-ups.

In practice, however, UC's monthly payment cycle does not mirror the earnings pattern of those paid weekly, fortnightly or four-weekly who are much more likely to be in need of UC (around half of those earning less than £10,000 a year are paid weekly).[1] In these cases, UC's rigid process of monthly assessments is highly problematic.

UC's payment approach requires a family's earnings to be assessed every month to determine their UC award. This approach can cause issues for people paid monthly when, due to a bank holiday or a pay date falling at the weekend perhaps, they are paid earlier than their usual pay date and receive two lots of wages in the same month. To the UC computer system, the family's earned income appears to double, causing their UC award to reduce substantially, in some cases to nothing.

The legality of this specific policy has been successfully challenged in court.[2] Correcting this issue has been problematic, however, because the computer system that administers UC was built around a rigid monthly assessment approach. Typically, this issue is only manually corrected after a recipient gets a lower amount, which can create budgeting problems and cause recipients to fall into arrears with essentials like rent, and the recipient challenges the decision. While many earners may be disadvantaged by this issue, however, not all would challenge the decision.

Meanwhile, the Department for Work and Pensions has failed to find a way to smooth out the UC awards of people paid weekly, fortnightly or four-weekly. Despite these earners being paid on a regular cycle, UC's monthly assessment process makes their earnings appear volatile, which in turn makes it almost impossible for recipients to anticipate how much UC they will receive each month.

UC's 'simplified' system is only simple for those able to find work with a pay date that never moves.

3. Value of benefits for working and workless families has fallen in recent years.

The other way that UC has failed to fulfil its promise is that the amount of support it provides has eroded through active cuts and benefit freezes. Pre-pandemic, £36 billion had been cut from the annual social security budget as a result of government policies since 2010. These cuts have affected working and non-working recipients alike, and can be directly linked to the rise of in-work poverty because low-income families are left with little protection to cope with low earnings growth and rising housing costs.[3]

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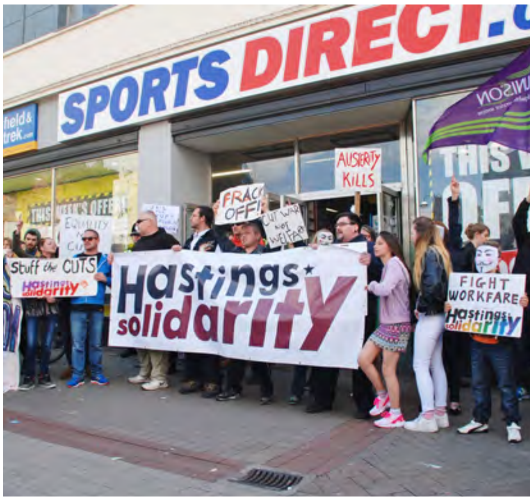

Protestors demonstrate against zero-hour contracts outside a branch of Sports Direct after an anti-austerity march through Hastings, England, in 2015.

What needs to change?

In the immediate term, levels of in-work poverty are likely to fall as people lose work due to pandemic-related economic shutdowns, which have disproportionately affected those in less secure, lower-paid jobs. Unemployment is forecast to peak at the end of 2021,[4] and, as a result, the number of people in out-of-work poverty will inevitably rise. As the economy recovers, we need to avoid a return to record levels of in-work poverty by ensuring that secure, well-paid jobs are widely available.

Yet we cannot solely look to the labour market to address in-work poverty. Our social security system has long had a role to play in supporting people in work. Without attention, UC will continue to compound in-work poverty. The system needs to be better designed to support people with the realities of being in work, such as the cost of working when you have young children who require childcare, and the fact that many lower-income workers are not paid monthly.

The social security system is not just there for us if we are unable to work or when a crisis strikes, it is a platform to help people find work and to help working and non-working families manage additional costs. When UC was first designed, it had a legitimate aim, to better support low-income families to increase their earnings. A few key changes could make a big difference towards achieving this aim.

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Footnotes

1. N Timmins, *Universal Credit: getting it to work better*, Institute for Government, 2020
2. *R (Johnson, Woods, Barrett & Stewart) v SSWP* [2019] EWHC23 (Admin); *SSWP v Johnson, Woods, Barrett & Stewart* [2020] EWCA Civ788
3. D Innes, *What has driven the rise of in-work poverty?*, JRF, 2020
4. OBR, *Economic and fiscal outlook – March 2021*, 2021