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Universal Credit: A Primer

Understanding the United Kingdom's New Welfare System and Its Implications for the United States

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The United Kingdom is currently in the process of implementing the Universal Credit, a major overhaul of its social safety net. First proposed in 2010 and enacted in 2012, the Universal Credit is now being rolled out in four geographic areas, with six additional pilot sites expected between October 2013 and spring 2014.[1] Meanwhile, some policymakers in the United States are already calling the Universal Credit a success and advocating it as a model for reform.

This issue brief provides a concise explanation of the Universal Credit, including its stated goals and the various concerns raised in the United Kingdom about its rollout, barriers, and effectiveness. It concludes with some preliminary thoughts about the limited relevance of the Universal Credit for U.S. policy and practice, given the major differences between the U.S. and U.K. social safety nets.

What is the Universal Credit?

The Universal Credit merges six means-tested programs in the United Kingdom—including tax credits, cash benefits, and housing subsidies—into a single means-tested credit. It does not include health benefits, which are provided through the National Health Service, the United Kingdom's publicly funded health system. It also does not include the tax credit for child care costs, which reimburses low- and moderate-income working families for 70 percent of qualified child care costs up to a maximum of £175—approximately $243.41—per week for one child and £300—approximately $417.27—per week for two or more children.[2] However, when the Universal Credit is applied to families with children, parents working less than 16 hours per week will be newly eligible for the tax credit for child care costs.

For families who are now eligible for more than one program, the Universal Credit will combine those benefits and provide a single monthly payment to the individual or household. One of the major selling points of the system is that individuals who move between unemployment and low-wage work will continue to receive benefits and will not need to reapply for assistance.

As participants earn more in the workforce, their amount of Universal Credit will decrease at a rate of 65 pence for every additional £1 earned, so that workers will not face sudden "cliffs" when their earnings increase and they lose eligibility for benefits. However, they will face a 65 percent tax rate on earnings for any family member who works; unearned income will reduce benefits pound for pound.

A key part of the plan is for the U.K. Department for Work and Pensions, or DWP, to automatically adjust the payments to benefits recipients each month to reflect their current earnings. For this to happen, employers must submit real-time information on earnings each pay period to Her Majesty's Revenue & Customs, or HMRC—the U.K. equivalent of the Internal Revenue Service—through Pay As You Earn, or PAYE, the system that HMRC uses to collect income tax and national insurance contributions from employers. DWP will access this information and adjust the payments to benefit recipients as their earnings change. All employers were supposed to start providing this information in April 2013, but the deadline has been extended for small employers.[9]

The six programs the Universal Credit merges are:

- The **Working Tax Credit**, which supports low-income workers who regularly work a minimum number of hours per week, including those on temporary leave from work[3]
- The **Child Tax Credit**, which supports low- and moderate-income families who have children under age 16 or, alternatively, children under age 20 who are in an approved education or training program[4]
- The **Housing Benefit**, a locally administered housing allowance to help low-income families afford rent, paid directly to landlords[5]
- **Income Support**, which provides financial assistance to individuals with no or low incomes who are not expected to be working due to disability or parental responsibilities[6]
- Income-based **Jobseeker's Allowance**, which supports low-income individuals who are out of work and looking for work[7]
- Income-related **Employment and Support Allowance**, which supports those whose illness or disability limits their ability to work and who do not qualify for other types of insurance benefits[8]

The Universal Credit was originally designed to be accessed exclusively online in order to reduce overhead costs. This was a major change from previous policy, in which most applicants received assistance from in-person caseworkers known as "personal advisers" or "benefits advisers." DPW has since acknowledged that some recipients will require more support in applying for benefits and has put out a "Local Support Services Framework" to address these needs.[10] However, the expectation is still that most people will access benefits online, with limited telephone assistance and no paper application available.[11] The government argues that this is appropriate in a world where digital literacy is needed for many job opportunities.

One of the stated goals of the Universal Credit is to promote work. In addition to improving the work incentives through the consolidated phaseout, the Universal Credit expands job-search requirements, or "conditionality," to recipients, even those who already work part time. There are four broad conditionality levels:[12]

- **Full conditionality.** Those subject to full conditionality will be required to look for work and be available immediately for full-time work.

- **Work preparation.** This stipulation applies to those who have a disability or a health condition that limits them from working.

- **Keeping in touch with the labor market.** Single parents or lead caretakers in a household where a child is over age 1 but under age 5 will be required to attend periodic interviews to discuss plans for returning to work. This is in line with the current requirements for single parents to qualify for Income Support.[13]

- **No conditionality.** This level applies to individuals who have a disability or health condition that prevents them from working, as well as to primary caregivers and single parents with a child under age 1. Apprentices and those earning more than £212.80—or $294.26—per week before taxes also are exempt from job-search requirements.

The first pilots of the Universal Credit were implemented in select locations during spring and summer 2013 and initially limited to individuals without children. Over time, the Universal Credit will be spread to more locations and more types of recipients, starting with new applicants. The goal is for the Universal Credit to be fully implemented throughout the United Kingdom by 2017.[14]

Finally, the Universal Credit is being implemented in the context of a set of wide-ranging cuts to benefit programs that have been estimated to reduce these programs by £22 billion, or more than $36 billion, per year by 2014.[15] The most relevant of these is the benefits cap implemented in 2013, which limits the total benefits—not including tax credits for child care or the value of health insurance—for working-age people at £500, which is approximately $685.75, per week for a household and £350, or approximately $480.02, per week for a single person.[16] The cap is now being applied through reductions in the housing benefit; it will be applied to the Universal Credit as people are transitioned to the new system.

Concerns raised in the United Kingdom about the Universal Credit

The concept of the Universal Credit offers potential opportunities for families: Instead of navigating multiple programs with different eligibility rules and points of application, low-income families will face one point of access and will not need to reapply as their employment situation changes. As designed, however, the Universal Credit could present significant challenges to families struggling to overcome poverty and to taxpayers who want an accountable system of work supports that is responsive to economic trends.

Benefit caps

One major concern relates to benefit caps. A July 2012 DWP equality impact assessment found that the cap alone will reduce the benefit receipt of at least 56,000 households in 2013 and 2014 and slightly more households—58,000—in 2014 and 2015. While this is a small proportion of out-of-work benefit recipients in the United Kingdom, it will have a significant impact on families with the most need. DWP estimates that of these families, 89 percent will have children, 60 percent will be single women, and approximately 40 percent will be ethnic minorities.[17] The mean benefit reduction is expected to amount to approximately £93, or $154.97, per week per household, with 33 percent of households expected to experience a loss of more than £100, or $166.63, per week.[18]

Benefit caps can create hardships for households that live in high-cost areas, large families, and those who have special needs such as a disabled family member. According to DWP, the cap is designed to ensure that out-of-work households will never receive more in benefits than the average weekly wage for working households. However, this does not reflect the fact that workers at that income level are themselves also eligible for benefits and therefore have higher net incomes than their nonworking counterparts.

Nonresponsiveness to housing and commodity markets

The benefit cap also reduces the responsiveness of the Universal Credit to variations in need, particularly between areas with low and high housing costs and to economic changes over time. Using the average weekly wage as the basis for comparison can be problematic because it does not take into account the dramatic disparities in the cost of housing between urban and rural areas and from region to region. The effects of the caps are also likely to grow over time because they create a separation between the value of the housing benefit and the actual cost of housing in local markets. If costs go up suddenly, the credit will not respond to rising need and will leave families with impossible choices in meeting basic needs for their children.

In addition, once benefits are separated from the actual costs of meeting basic needs, it is likely that they will fall further behind over time, especially if there are spikes in the cost of energy, housing, or food. For several years already, the U.K. government has capped nominal benefit increases at 1 percent, even though inflation has increased costs by more than that.[19] Moreover, once the Universal Credit is implemented, it will be more difficult to see the connection between benefit levels and real costs for specific needs such as housing and food and to quantify the ways in which benefits are falling short of meeting families' needs.

Work incentives

Although the Universal Credit is promoted as increasing the incentives to work, these effects vary greatly across family type and current employment status. While the Universal Credit strengthens the incentive for unemployed individuals to accept a part-time job—one with a workweek of less than 16 hours—it increases the implicit tax rate on other households, especially two-earner households. A second earner in a family that receives benefits through the Universal Credit will lose benefits equal to 65 pence of each £1 they earn rather than the 41 pence they lose under the current tax credit system.[20] Therefore, it could weaken the incentives for couples to have two people in the workforce rather than one.[21]

Technological challenges and online applications

Even though the government has eased off its initial plan to provide applications solely online, there remain concerns that many low-income households will have difficulty accessing the system in order to apply or report changes in employment or household circumstances. It is not clear whether there will be sufficient support for those who may need in-person assistance and whether only certain populations will be permitted to access these services. The emphasis on online applications places a burden on those with less access to computers and the Internet, as well as those who are not computer literate. Early reports on the systems indicated that users were not able to save their applications along the way, which places a particular burden on those using low-bandwidth Internet and those accessing the system from public computers.[22]

Having the opportunity to speak to a customer service worker or navigator is an important support for many poor and low-income families who might require more intensive case management. This support is particularly important for households consisting of English language learners, who may benefit from language interpretation and translation services; households that have adults with low levels of literacy, who may struggle with navigating rules associated with benefit eligibility; and senior citizens, who may struggle with the technology required to access benefits through an entirely online system.[23] Requiring benefits to be drawn down only through a formal bank account will affect individuals and families who are less likely to have access to a bank account because they have limited access or are unfamiliar with using the formal banking system.

In addition, newspaper reports indicate problems with the technology needed to adjust benefits to reflect fluctuating earnings in real time, with the project running behind schedule and over budget.[24] The deadline for small employers to report real-time earnings has been postponed several times, and the initial pilots have been limited to the simplest cases: unmarried, childless workers. It is highly likely that as the Universal Credit is rolled out, at least some families will receive the wrong amount of benefits—or no benefits at all—due to technological problems. It is therefore critical that recipients have access to caseworkers who can address these issues and ensure they receive the correct benefits.

Conversion of the Housing Benefit

The one in-kind benefit included in the Universal Credit is the Housing Benefit. There are concerns that this will make landlords less willing to rent to low-income tenants. Under the old system, the benefit went directly to the landlords who provided housing in turn to recipients. Now under the Universal Credit, the housing subsidy will go directly to the tenants who are responsible for making rental payments and budgeting the benefit given to them in one lump-sum monthly payment. With low-income households balancing a variety of competing needs from food to utilities to rent, landlords are concerned that they will not be paid regularly and on time, and, thus, they may be resistant to leasing to tenants receiving the subsidy.[25]

Implications for the United States

The underlying systems of social support in the United States and the United Kingdom are very different. First, many of the United Kingdom's benefits are already administered through its tax system, which provides payments on a monthly basis. In the United States, the tax-based cash benefits—the Earned Income Tax Credit and Child Tax Credit—are limited to workers and are paid on an annual basis when individuals file their returns. We do not have a tax-based system that would allow for monthly payments to meet the basic needs of those who are not working.

The United States is also much larger than the United Kingdom, with a great deal more variation in social programs at the state level due to federalism. This poses large technical challenges to a combined approach because the framework for federal and state policy roles and financing differs widely among safety net programs. Among many variations, states may have total control of policy and eligibility standards while receiving capped federal dollars, such as the Temporary Assistance for Needy Families, or TANF, program and child care subsidies; set major elements of policy and eligibility within a federal framework and matching federal funding, such as Medicaid; deliver a program whose policy and funding are almost entirely federal, such as the Supplemental Nutrition Assistance Program, or SNAP, formerly known as food stamps; or provide supplements at the choice of their own taxpayers to federally funded programs, such as Supplemental Security Income, or SSI, on the expenditure side and the Earned Income Tax Credit, or EITC, on the tax side. In this context, any consolidation will have effects on the state and federal shares and will almost certainly create winners and losers among the states and the families who live in them.

In addition, the United States already has much stronger financial incentives for work over nonwork due to the combination of the EITC—a tax credit for low-wage working families that phases in starting with the first $1 of earnings—and much more meager support for unemployed individuals. Unemployment Insurance, our bedrock social insurance program for unemployed workers, is currently reaching a historically low

share of jobless workers.[26] And the United States provides essentially no cash support to unemployed people who do not have children and do not qualify for or have exhausted Unemployment Insurance. In order to receive even meager cash support from TANF, families with children—even infants—are already subjected to a stringent work requirement and time limits. In contrast, the United Kingdom provides income support for unemployed individuals without children, as well as for parents. Also, the condition for receipt of help in the United Kingdom is searching for a job, a much more reasonable standard in a tough economy, and those caring for young children are exempted.[27] This means that the primary problem that the Universal Credit is supposed to address in the United Kingdom—the lack of incentive for jobless workers to enter the labor force—is far less of an issue in the United States. It is also important to note that key parts of our safety net are targeted to achieve specific purposes and are most often not provided in the form of cash or tax credits. SNAP, for example, provides benefits that can only be used to purchase food and is intended to reduce hunger.

Another difference is the lack of supports for low-income families with young children in the United States, which creates enormous barriers to work. The United States lags far behind its peers in the developed world in providing access to high-quality, affordable child care for working parents. Addressing this gap would require significant new investments, without which low-wage parents with young children—a population that is disproportionately in poverty in the United States—will continue to struggle to move into the middle class even if they have streamlined access to other benefits. Similarly, the United States stands alone among developed nations in having neither paid maternity leave[28] nor some form of paid sick leave,[29] creating enormous conflicts for workers both trying to parent and to provide for their families. Finally, the United States has no equivalent to the United Kingdom's child benefit, which provides a basic level of income support to all families with children, regardless of family income.[30] Because this benefit is not means tested, it expands economic security for families without creating a work disincentive.

In addition, the United Kingdom's benefit system is significantly more generous overall, particularly to the poorest individuals and families. The benefits that were merged into the Universal Credit are available to everyone who meets the eligibility criteria. By contrast, the United States caps spending on both child care subsidies and housing assistance at levels far below what is needed to provide assistance to all eligible families.

If consolidation were combined with a large increase in federal resources, it could potentially help families living in low-benefit states, particularly states in the South and Southwest that have large shares of the nation's low-income children and a history of lack of investment in family support and safety net programs. But consolidation without added resources could lock these counterproductive policies in place or, alternatively, pit states and the families who live in them against each other for scarce resources.

Finally, trade-offs among states are not the only trade-offs created by combining benefits into one credit. As shown by the U.K. experience, it is not simply a mathematical exercise to fix problems of the phaseout of benefits and cliffs that low-income workers experience. Any effort to reduce the phase-out rate means that relatively better-off households will receive more benefits. This either increases the total costs of a benefit program or forces cuts to benefits for other families if total spending is capped. Similarly, if a combined benefit averages out the families with high needs for one benefit—for example, food or housing—with those who have high needs for another—such as health care or energy—it will be less responsive to variations in need and changes over time and will create winners and losers. Thus, in any reform proposal, it is essential to pay attention to who benefits and who is disadvantaged by changes to the current system.

Conclusion

In short, streamlining access to public benefits is not a goal in itself; it is a strategy in a broader goal to reduce poverty and pave the pathway to the middle class. Simplifying benefit access is desirable when it reduces administrative costs, removes burdens from low-income families who need assistance, and promotes work. It is not a substitute for investments and reforms necessary to provide greater economic opportunities and supports to help low-income families achieve better outcomes.

One practical approach is to align service delivery of existing programs, keeping their responsiveness to need and avoiding merging programs together as the Universal Credit does. Fortunately, there are successful models we can build upon that are already working in several states and communities to improve access to work and income supports. These models include policies that align eligibility rules and procedures across different programs and use existing program data to confer eligibility for other programs in order to improve enrollment and retention.[31] Such approaches systemically use existing data sources and information technology to lower administrative costs for states, reduce burdens on applicants, improve access to benefits, and strengthen program integrity. One specific effort to take these approaches to scale is Work Support Strategies, or WSS, a multiyear, multistate demonstration project supported through philanthropic funding. The project provides a select group of states with the opportunity to design, test, and implement more effective, streamlined, and integrated approaches to delivering key supports such as health coverage, nutrition benefits, and child care subsidies for low-income working families. Recognizing the important role states play in providing services and delivering critical programs, participating states are given resources and support to streamline and modernize their benefits access processes to help families access and keep the benefits for which they are eligible. Most participating states reported early successes not only on the front end in reducing barriers for families but also improvements on the administrative end.

In addition, while good policy should reduce the number of doors that low-income people have to walk through to access services, it should maintain a "no wrong door" policy so that families have multiple channels of access to the services they need. This includes having in-person assistance and phone and online resources available so that even as agencies streamline access to services, people who need extra assistance can find it.

While there are aspects of the United Kingdom's benefits system that can inform efforts to streamline access in the United States—including the United Kingdom's breadth of income and health support for low-income people and families, as well as its efforts to effectively coordinate those programs—there are also some cautionary lessons. In particular, implementation of the Universal Credit is happening amid significant benefit cuts. To make successful reforms in the United States, it is important to do so in a way that protects important benefits from reductions, both immediately and over time, and does not reduce support to families facing the greatest barriers to financial stability. These reforms should be done in service of the broader goal of addressing poverty and increasing economic opportunities.

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Endnotes

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