

# **Universal Credit and Modern Employment: Work incentives**



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## Summary

Universal Credit (UC) is the biggest reform of the welfare system ever undertaken. While changes to the benefit system have, in the past, tended to have the biggest impact on those who are not working, that is not the case with UC. By the time it is fully rolled out, more than half of all those claiming UC - 3.9 million families - will be working households.

However, despite stating it as a clear aim, UC will no longer be able to deliver stronger work incentives for all thanks to the changes that have been made since its inception. While some will gain, estimates suggest that 2.1 million working households will get less in benefits, with an average loss of £1,600 a year.<sup>1</sup>

The cuts to benefit support for working families are likely to leave many in a precarious financial position. We surveyed current working claimants of UC and tax credits and found many were already struggling financially, with 7 in 10 reporting they would find a loss of £100 per month in income difficult to cope with. If faced with such a cut, only half felt they would be able to increase their employment income. 1 in 4 said they could not increase their income from employment, even though they might need to.

Looking at how they could make up for losses, people generally focused on increasing the amount of hours they worked, rather than their rate of pay. Those in circumstances where increasing working hours was not an option - such as those with caring responsibilities or a disability - will face a significant financial hit, increasing their risk of serious hardship or debt.

Predicting how these changes will affect the impact of UC is very difficult. Benefit calculations alone do not determine real-world work incentives - there are other costs to working. Two thirds of our survey respondents were earning less than £15 per hour. This was set against average travel costs of £6.50 per day and childcare costs (after funded hours) of nearly £75 per week. Many UC claimants also struggle with the administrative processes around offsetting costs like childcare under UC.

Ignoring these issues risks undermining several key aims of Universal Credit: to provide low-income households with financial stability and prevent them falling into problem debt, and to offer clear incentives to enter work and increase earnings. Cuts for working claimants are now beginning to take effect, as the OBR predicts the number of UC claimants will double over the next year, increasing by 1.2 million.<sup>2</sup> This report therefore makes a number of

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<sup>1</sup> IFS, [Green Budget](#), 2016, 232.

<sup>2</sup> OBR, [Welfare Trends Report - January 2018](#), 130.

recommendations to improve UC's work incentives, and ensure the new benefit works for everyone.

## Introduction

Universal Credit (UC) is the biggest reform of the welfare system ever undertaken. While changes to the benefit system have, in the past, tended to have the biggest impact on those who are not working, that is not the case with UC. By the time it is fully rolled out, 7.2 million families will be receiving it - equivalent to more than one in four of the UK's working age households. More than half of all those claiming UC - 3.9 million families - will be in working households.

This is partly because in-work benefits have become an increasingly significant element of the benefit system. As the labour market has shifted, becoming increasingly flexible in the last few decades, labour market opportunities have opened up. But there are also more jobs with low pay. While the employment rate stands at around 75% - the highest level since records began in 1971 - more than half of families living below the poverty line are now in working households.<sup>3</sup>

The introduction of Universal Credit therefore means big changes for people in work. Many of these changes are designed to improve the way the benefit system supports working people - many of whom currently rely on tax credits. Introduced in 1999, tax credits were intended to help people on low incomes achieve greater financial stability and see the monetary benefits of work. However, the system has been criticised for its lack of flexibility. For example, the rigid hours rules - usually a requirement to work 16, 24 or 30 hours, depending on a claimant's circumstances - often fail to offer strong incentives to work more than those hours.<sup>4</sup>

As such, one of the key aims behind the introduction of Universal Credit was to 'make work pay'. This meant ensuring that people who moved into work or increased their hours would see a financial reward for doing so. The Government's 2010 White Paper on UC clearly stated that the changes "will improve financial work incentives... People will generally keep more of their earnings for themselves and their families than is currently the case."<sup>5</sup> Strong financial work incentives were therefore an integral part of the original design of the new benefit.

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<sup>3</sup> ONS, [UK Employment Rate \(seasonally adjusted\)](#), October - December 2017; Department for Work and Pensions, [Households Below Average Income, 2015-16](#), March 2017.

<sup>4</sup> See LITRG et al, [Benefits, tax credits and moving into work](#), 2007, 20.

<sup>5</sup> Department for Work and Pensions, [Universal Credit: Welfare that Works](#), 2010

However, the design of UC has changed significantly since then. As part of the previous Government's measures to reduce spending on benefits, millions of working people will now face significant financial losses as they move onto UC. While those who are automatically moved on to UC towards the end of the benefit roll-out will see some short-term protection from these losses, this is a temporary measure applying to a fairly limited group. Many more will face reduced benefit payments.

This report looks at the effect these changes are likely to have on working people, including exploring the the current financial situation for working households receiving benefits, and their ability to increase their income from work. We also look at the likely impact on employment outcomes.

Our analysis relies on data from a number of sources, including a new YouGov survey of 877 working Tax Credit and Universal Credit claimants, carried out between January 25th and February 7th 2018. This survey explored their household circumstances, their experiences of work and the benefit system, and how they might cope following changes made to UC.

We have also drawn on our own experiences. Last year, Citizens Advice helped more than 50,000 people with 94,000 issues related to UC. We also use findings from an ongoing survey of people seeking our help with UC in full service areas. Our evidence offers some of the clearest early insights into how benefit reforms affect working people and the experiences of some of those who come to us are set out in case studies in this report.

## How have work incentives changed in Universal Credit?

As part of a plan to reduce benefit spending after 2015, major changes were made to the financial support on offer for working people receiving Universal Credit. Table 1, below, sets out the main changes which have affected working families claiming - or set to claim - UC.

**Table 1**

Measure	When?	Details
Work allowances frozen	April 2014 - April 2018	Froze the amount claimants can earn from work before UC starts to be withdrawn, rather than uprating in line with inflation. The first 3% uprating took place in April 2018 to reflect CPI.
Work allowances reduced	April 2016	Reduced the amount which claimants can earn from work before UC starts to be withdrawn. This fell from £222 to £192 for families with

		children who rent their homes (receiving housing support through UC) and from £536 to £397 for those who do not. Work allowances were removed altogether for non-disabled adults without children, meaning benefits are reduced as soon as they begin to earn.
Four year freeze of most UC rates (and other working-age benefits)	April 2016	Froze the value of some of the main elements of UC (such as the standard allowance, child element, lower-rate disabled child element and limited capability for work element) rather than uprating in line with inflation.
Childcare subsidy increased	April 2016	Increased the proportion of childcare costs which can be claimed back through UC from 70% to 85%.
Higher rate child element for first child abolished	April 2017	Removed the £545 annual premium paid for the first child (equivalent to the family element in tax credits).
Child element restricted to two children per family	April 2017	Only two children per family eligible for child element (meaning third or subsequent children born after April 2017 are ineligible), unless very limited exceptions apply.
Taper rate reduced	April 2017	Reduced the rate at which UC is withdrawn when earnings exceed the work allowance, from 65p to 63p per pound.

Sources: [Autumn Statement 2013](#), [Autumn Statement 2014](#), [Summer Budget 2015](#), [Autumn Statement 2016](#).

There will be winners and losers as a result of these changes. Those likely to gain include low-earning households in rented accommodation, and one-earner couples with children. Yet the IFS estimates that 3.2 million households will lose out from the move to UC. This includes 2.1 million working households, who will see an average loss of £1,600 a year due to the introduction of UC, with working lone parents and two-earner couples most likely to experience losses.<sup>6</sup>

### **The impact of changes to work allowances**

One of the most significant aspects of these changes has been a reduction in the amount of money you are allowed to earn before your benefit payment starts to be reduced - known as 'work allowances'.

In the Budget of 2015, the then-Chancellor George Osborne announced that reductions would be made to work allowances across both tax credits and UC.

<sup>6</sup> IFS, [Green Budget](#), 2016, 232.

Following political pressure, the Government subsequently reversed the policy as it related to tax credits at the spending review in November 2015. However, these changes still apply to Universal Credit. As roll-out of full service UC continues<sup>7</sup>, the impact of this decision is now starting to affect increasing numbers of low-income working households.

According to the Office for Budget Responsibility's (OBR) projections, changes to the work allowances built into UC are set to save around £2.3 billion per year from 2017/18.<sup>8</sup> For example, prior to April 2016, a single parent who received support for housing costs would have been able to earn £263 per month before their benefit payments began to be reduced. This has now fallen to £192 per month.

Some households moving onto UC should be temporarily protected from the work allowance cuts through the 'transitional protection' measures which the Government has pledged to introduce. This provision means that those who are automatically moved onto UC through 'managed migration' - rather than switching to UC because of a new claim or a change in circumstances<sup>9</sup> - will not lose out financially.

However, the proportion of the overall UC caseload who will receive transitional protection is likely to be fairly small. The OBR estimates that, at its peak in 2022-23, just over 400,000 households previously in receipt of tax credits will be subject to transitional protections.<sup>10</sup> The additional support they will gain is also likely to end as soon as their circumstances change. The Resolution Foundation estimates that less than a fifth of working families set to lose out from the move to UC will receive transitional protection.<sup>11</sup>

Concern around the potential losses experienced by low-income households, and the possible impact on work incentives, has already led to some changes. First, in January 2018, new regulations led to the first uprating in work allowances since 2013, reflecting the consumer price index rate of 3%.<sup>12</sup> Second, government has made some adjustments to the taper rate - the rate at which benefits are withdrawn from earnings above the work allowance. Before April

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<sup>7</sup> Full service UC is gradually replacing the original 'live' service across the country. Unlike the old version, full service UC is available to all groups of claimants and claims must be made and managed online for the first time.

<sup>8</sup> OBR, [Welfare Trends Report - January 2018](#), 121.

<sup>9</sup> Changes in circumstances which end entitlement to transitional protection are: a partner leaving or joining the household; one person on the claim leaving work; a UC award ending (due to higher earnings for example); a drop in earnings below level expected in claimant commitment for more than 3 months.

<sup>10</sup> OBR, [Welfare Trends Report - January 2018](#), Chart 6.3

<sup>11</sup> M. Brewer, [Universal Remedy: Ensuring Universal Credit is fit for purpose](#), 2017, 33.

<sup>12</sup> DWP, [The Universal Credit \(Miscellaneous amendments, saving and transitional provision\) Regulations 2018](#), No.65

2017, this was set at 65% - meaning for each additional pound earned above the work allowance, the claimant kept 35p of their Universal Credit if they did not pay income tax and National Insurance, or 24p if they did (effectively a 76% taper rate). The 2016 Autumn Statement reduced the taper rate by 2 percentage points, to 63%. This change will cost £0.6 billion per year by 2020. However, after tax and National Insurance, it amounts to around a penny improvement on the previous rate - with people keeping 25p for every pound earned.

While this is a welcome improvement, these taper rates still leave low income households on UC significantly worse off than households on legacy benefits, who keep 59p of every additional pound they earn after tax and National Insurance.<sup>13</sup>

While the government committed to keeping the UC taper rate under review at the Autumn Budget of 2017<sup>14</sup>, any gains from taper rate changes are likely to be far offset by the losses associated with work allowance cuts. They are also less targeted, as work allowances are able to offer stronger incentives to particular groups facing larger barriers to work. In contrast, the taper rate spreads additional resources across all UC claimants in work.

The result of all of these changes is that moving out of the tax credit system into Universal Credit will present significant financial challenges for many working families. While the assumption may be that low-income families who lose out will be motivated to increase their employment income to make up the shortfall, our research has found that this is not a realistic prospect for many low-income workers in the current labour market.

## Adapting to changes in income

### ***What is the current financial situation for working households receiving benefits?***

The transition to Universal Credit already poses financial and administrative challenges for many seeking to claim the new benefit.<sup>15</sup> However, families who stand to lose out from the changes to work allowances are likely to face even greater hurdles. To explore some of these issues in more detail, in January 2018 we worked with YouGov on a representative survey of working people in receipt of in-work benefits about their employment situation and their finances.<sup>16</sup>

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<sup>13</sup> M. Brewer, [Universal Remedy: Ensuring Universal Credit is fit for purpose](#), 2017

<sup>14</sup> HM Treasury, [Autumn Budget 2017](#), 67.

<sup>15</sup> Citizens Advice, [Delivering on Universal Credit](#) and [Universal Credit and Debt](#), 2017.

<sup>16</sup> YouGov surveyed 877 working Tax Credit and Universal Credit claimants between January 25th and February 7th 2018.



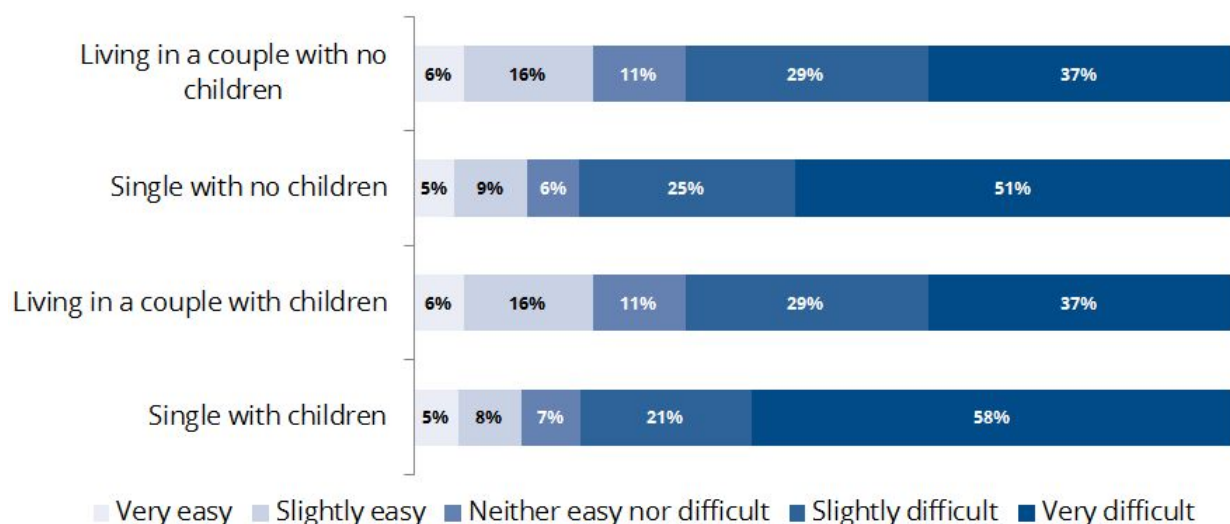
Unsurprisingly, the survey revealed many were already struggling financially. When asked about finances in an average month:

- 43% said they were 'never' able to put some money aside as savings, and only 17% were able to do so regularly.
- Two thirds of respondents already felt burdened by their bills (73%) and housing costs (68%), while three in five (61%) said debt repayments and interest were a burden.
- Half (51%) agreed they were unable to borrow any more money because of existing debts.

The survey suggested that these financial challenges were particularly severe for working disabled tax credit and Universal Credit claimants, and those with a long term health condition.

We asked survey respondents how they would cope if their current household income were to fall by £100 per month. This is a rough approximation of the IFS's estimates of the average annual loss - £1,600 - for working families who lose out under UC. Seven in ten reported they would find this 'very' or 'fairly' difficult to cope with. 40% felt they would need to borrow money to get by. The survey also suggested that single people - particularly lone parents, who will face some of the largest financial losses - would struggle with income shocks to a greater extent than those living with partners. See Figure 1 for a more detail on how different types of households said they could cope with a reduction in income.

**Figure 1: How different families think they could cope with a £100 reduction in their monthly household budget**

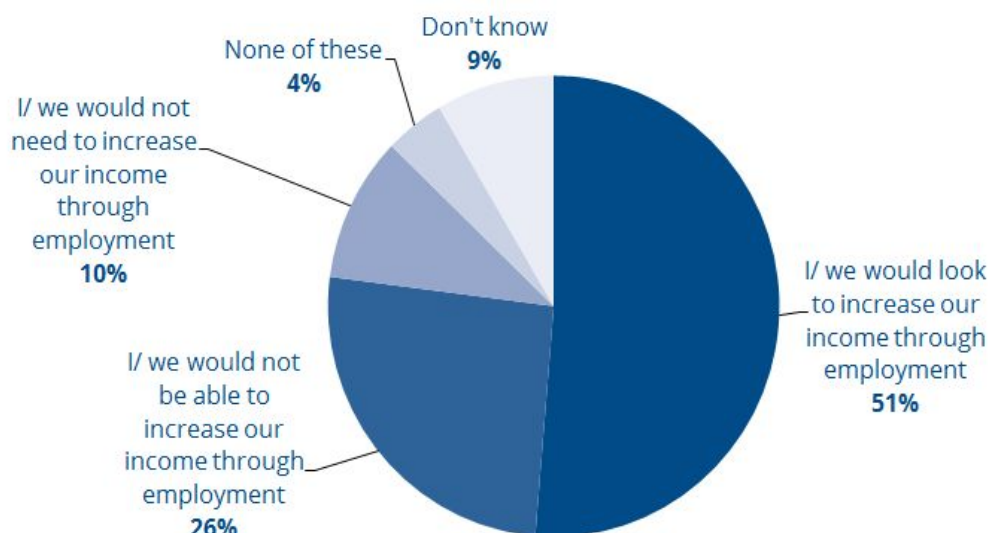


### **Can working households receiving benefits increase their income from work?**

When the cuts to work allowances were announced, the Government said it expected that affected families would be able to make up for losses through the tax system and earnings growth.<sup>17</sup> Some of this was intended to be achieved through the introduction and raising of the National Living Wage (NLW). Yet the IFS pointed out it was ‘arithmetically impossible’ for the NLW to offset all of the losses for families on tax credits.<sup>18</sup>

Another option around earnings would be for affected families to increase their income from work - the Government claimed tax credits were too often “subsidising low pay”.<sup>19</sup> However, when we asked survey respondents about their options to increase their earnings from work, only half (51%) said they would definitely look to increase their employment income, with one in four (26%) saying they couldn’t look to increase their income from employment even though they might need to. If 3.9m working households are receiving UC by 2022, this would equate to around 1 million working households being unable to make up any benefit losses by increasing their employment income, and sustaining significant drops in income as a result.

**Figure 2: How people would look to change their employment income in response to a negative income shock of £100 a month:**



When asked how they might increase their income, respondents were generally focused on increasing the *amount of time* they worked, rather than the *rate of*

<sup>17</sup> HM Treasury, [Summer Budget 2015](#), 37.

<sup>18</sup> IFS, [Summer Post-Budget Briefing 2015](#), 3.

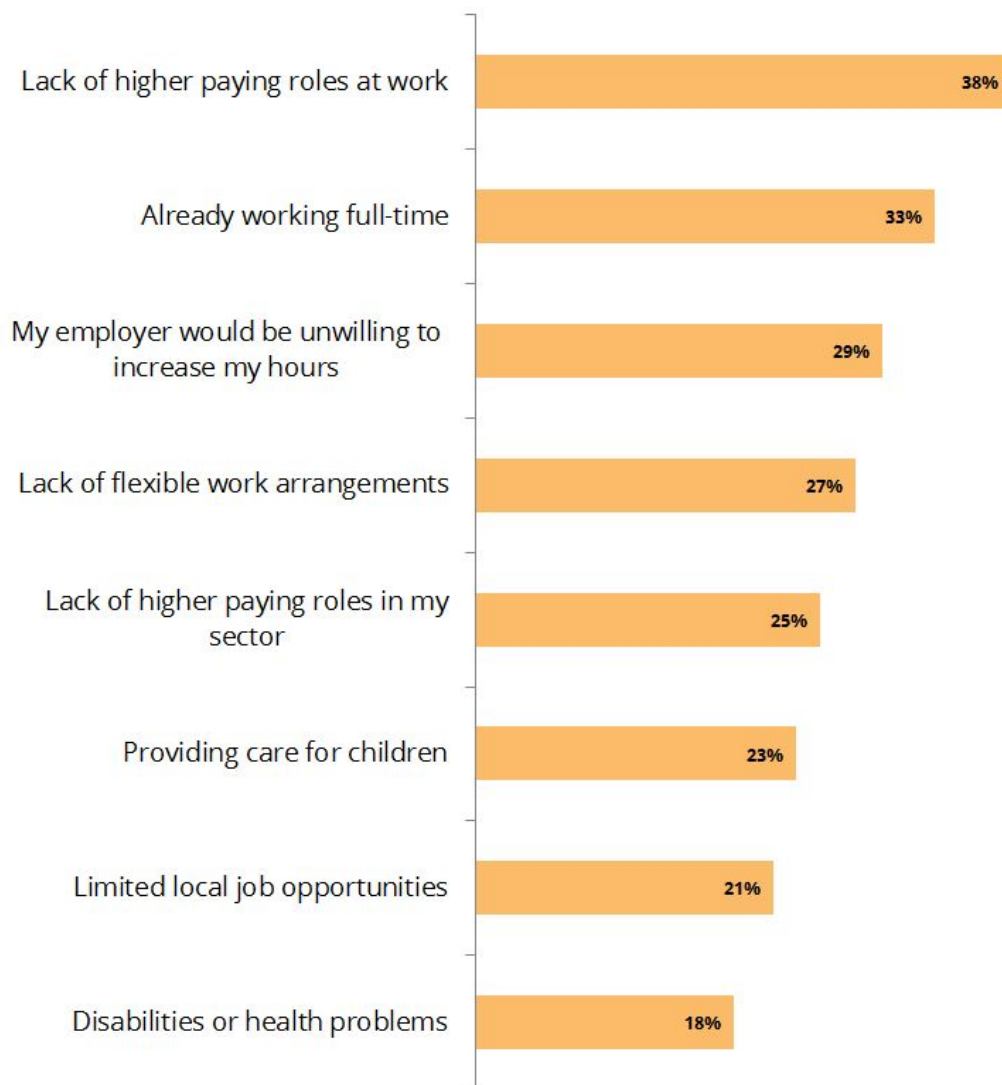
<sup>19</sup> HM Treasury, [Summer Budget 2015](#), 37.

*pay* of their existing work. The actions most commonly mentioned involved increasing working hours in their current job, which 46% felt they could do immediately or within six months. 40% said they could also take on an alternative or additional job in the same timeframe. By contrast, people were less confident about increasing their rate of pay, which only 19% believed they could do within six months.

The main reasons given by those who felt they would *not* be able to increase their income from work revealed that both employment constraints and personal circumstances are likely to prevent people earning more. For many people, increasing what they earn at work was seen as difficult with their current employer. Common issues given were not being able to progress into better paid work with a current employer (38%) or increase hours (29%). This suggests that, for a significant proportion of claimants, the jobs they do and the sectors they work in lack prospects for progression.

Obligations outside work (27%), child caring responsibilities (23%), and disabilities and health conditions (18%) are also significant barriers to people increasing their income. For people who describe themselves as having a limiting disability or long term health condition, almost half (47%) state that this constrains their ability to increase their income from work.

**Figure 3: Reasons given by those who felt they would not be able to increase their income from work:**



These findings indicate a labour market in which those without constraints would look to fill the financial shortfall by increasing the amount that they work. However, for the significant numbers for whom this is not an option, increasing their earnings via pay progression, rather than extra hours, is often not seen as a possibility. Supporting benefit claimants with this is a new challenge for Jobcentre staff.

**Case study: Financial losses for working households on Universal Credit**

Omar first claimed UC when he lost his job. He lives with his partner and their two children, aged one and ten. Omar came to Citizens Advice after he had once again found full-time work. He works 40 hours per week and earns around £16,000 a year, with some commission on top. After his first month's wages, Omar looked online and found that, while his family were likely to receive £60-80 per week on UC, they would have been entitled to around £130 per week if they were on tax credits. He wanted to know whether they could

end their UC claim and move onto tax credits instead, as the family was struggling with their essential costs.

### **Claimant perspectives: The impact of financial losses on work incentives for working households on Universal Credit**

"Despite working I am worse off than when I was on Income Support, which means there is no incentive to work. I just really enjoy my job." *Carly, 24*

"I've lost £250 a month as a result of the changes. I was told there were "winners" and "losers" as a result of the changes which doesn't seem fair to us who have lost out." *Monika, 33*

"We are worse off now. They expect too much and don't take into account we both work and have a child." *Lee, 26*

*Source: From survey of people coming to Citizens Advice about Universal Credit in full service areas as of January 2018*

### **Recommendations for next steps:**

- **Reassess the work allowance cuts.** Work allowances are a vital part of supporting the government's ambition of improving work incentives and encouraging Universal Credit claimants who are able to, to enter the workforce or increase their income from work. We are concerned about the weakening of work incentives for certain groups, such as households without children, and the financial losses sustained by others, who may not be in a position to increase employment income. Greater consideration needs to be given to the structure of the benefit for working claimants, ideally before the 3 million working households currently claiming tax credits begin to migrate to UC. Investing in work allowances - as opposed to changes to the taper rate - offers targeted help to improve work incentives for those groups who need it most, as well as reducing rates of in-work poverty and the problems with debt and financial insecurity. All of this will pay dividends for the economy in the longer-term.

## **The impact on employment outcomes**

A clear aim of Universal Credit was that it would strengthen the financial incentives for claimants both to move into, and to progress in, work - meaning families would increase their income from work. Following the cuts to work allowances, UC now leaves many claimants with worse financial incentives to increase their income from work. Yet, despite this, the IFS calculates that - on a

cost-benefit basis based on effective marginal tax rates - UC does in fact still strengthen work incentives when its impact is assessed spread across the entire claimant population.<sup>20</sup>

However, in the real world, it is very hard to predict the impact that changes to effective tax rates on UC will have on employment outcomes. Previous studies have focused on a limited group, and taken place prior to work allowance reductions.<sup>21</sup> There are also significant limitations to any models that are designed to predict employment outcomes, particularly given the heavy emphasis on financial incentives, which people often respond to in unpredictable ways.

Insight gathered from our advice work with thousands of benefit claimants shows that, in the real world, a huge number of factors come into play when people make decisions about work - not only financial gains, but caring responsibilities, location, and factors related to the job itself. For example, our previous research on the modern labour market found people considered the stability of their income to be as important as the amount.<sup>22</sup>

There are also other financial considerations which may make built-in incentives less likely to change behaviour than predicted. Our survey of current in-work benefit recipients revealed there are many other costs they needed to weigh up before taking on additional work. For example, average travel costs were around £6.50 per day.

Childcare was also a major factor for working parents on tax credits; after funded hours, average childcare costs were nearly £75 per week. While in financial terms UC should alleviate some of the financial burden of childcare (in 2014 it was announced that families on UC would be able to claim up to 85% of their childcare costs back, as opposed to 70% under tax credits) even this higher rate will not fully alleviate the financial burden. As OBR's recent report on UC pointed out, "for parents who need to pay for more childcare in order to increase their own pay, the gains in terms of disposable income after childcare costs would be lower still."<sup>23</sup>

The way we think about work incentives is also too often based on a steady-state situation, when in reality administration issues, errors, delays and fluctuating wages form part of these calculations. Insight from our advice work suggests these practical considerations all have an impact on decisions about work.

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<sup>20</sup> IFS, [Green Budget](#), 2016, 232.

<sup>21</sup> Department for Work and Pensions, [Universal Credit Employment Impact Analysis](#), 2017.

<sup>22</sup> Citizens Advice, [The importance of income security](#), 2016.

<sup>23</sup> OBR, [Welfare Trends Report - January 2018](#), 68

In UC, for example, we are already seeing people experiencing practical challenges in receiving support for childcare costs - with potential risks attached. Claimants must be able to pay their childcare costs upfront, then report the costs to the Department for Work and Pensions (DWP) in every assessment period for reimbursement. If they are late reporting, they may not receive the support in their monthly payment. This involves significant administration, and creates particular challenges for people whose childcare bills fall very close to the end of their assessment period, creating risks that they miss the reporting deadline.

Although the timing of assessment periods relative to income and outgoings like childcare costs can have a large impact on people's budgets month to month, they are set arbitrarily, based on the date someone filed a UC claim. There are also issues for people who are likely to experience challenges with fluctuations in the income recorded during their assessment period - such as people on non-standard contracts or those not paid monthly. This can in turn affect the predictability of their childcare payments. The impact of fluctuating incomes is something we explore further in our report on Universal Credit and non-traditional work.<sup>24</sup>

### **Case study: Administrative problems and childcare costs on Universal Credit**

Denise is a lone parent with a five-year-old daughter. She works full time, earning around £1300 per month.

Denise came to Citizens Advice after her employer had filed two of her payslips during a single assessment period. The following month, the support she normally received for childcare costs had stopped.

Denise had made numerous attempts to sort the issue out. She had called DWP several times, spoken to HMRC to check her net earnings on their systems and contacted her employer's payroll division to work out if they had made an error. Her employer had sent her a certified copy of her payslip, with a stamped cover note. She had taken this to her work coach at the Jobcentre, but had been told they were not able to use this to address the problem.

### **Case study: Childcare costs on Universal Credit**

Becky is a 24-year-old lone parent, with a three-year-old child. In her previous job she had received tax credits, which included a childcare element. However, when she left this job she was moved onto Universal Credit.

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<sup>24</sup> See Citizens Advice, *Universal Credit and Modern Employment: Non-traditional work*, 2018.

Becky has since moved back into work and is earning around £1250 per month. However, now she is on UC she has to inform DWP of her childcare costs each month. Her income also fluctuates as she regularly takes on overtime. The result is that her UC entitlement - and therefore the support she is receiving for her childcare costs - varies widely each month and she is finding that she is paying significantly more for childcare than she was when receiving tax credits.

Becky came to Citizens Advice to find out whether she could reclaim tax credits, but was told this was not possible. She is now often reliant on support from her parents to cover her childcare costs and was considering whether it would be easier to give up work altogether.

The ability to arrange and finance childcare, organise and pay for travel to work, to understand benefit eligibility and, crucially, be able to rely on the administration of this support all factors into people's calculations of their work incentives. We will be exploring further the realities of people's decision-making processes about work later this year. The challenge now for UC is to ensure that support systems operate as smoothly as possible - particularly for those families for whom cuts to work allowances already reduce their work incentives.

### ***Recommendations for next steps***

- **Given the complexity and variety of relevant factors, further research and evaluation of the employment impact of UC is needed to inform the policy response.** Recent studies, which were focused on claimants in live service areas (a much more limited group than those eligible for full service) and took place prior to the reduction in work allowances, provide only very limited and insufficient conclusions.
- **DWP should focus on developing UC in a way that reduces the risks and burden of administration, ensuring it works for all modern jobs.** On childcare for example, we previously recommended developing a centralised system to help claimants evidence their childcare costs, potentially as part of the Government's new online childcare service.<sup>25</sup> While administrative challenges around timing of childcare bills relative to assessment periods remain an issue in the short-term, there could also be a form of advance specifically for childcare costs.
- **DWP should explore allowing people greater flexibility in the timing of their assessment periods, including potentially allowing people to**

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<sup>25</sup> See Citizens Advice, [Fixing Universal Credit](#), 2017. For more information on new childcare service: <https://childcare-support.tax.service.gov.uk/>



**align payment dates with wages or possibly childcare and housing payments.** This would ensure UC meets its aim of responding to real-time changes in circumstances, as well as reflecting the realities of how people actually work in the modern labour market.

## Conclusion

On current timetables, by 2022 Universal Credit will have fully replaced tax credits as the primary in-work benefit. Its original aims in doing so were to offer claimants stronger incentives to move into and progress in work - something that was incorporated into the original design of the benefit.

However, the numerous changes and reductions to the generosity of UC mean that it no longer delivers stronger work incentives for all working claimants. As the roll-out of the benefit speeds up, and with over a million new claimants predicted to move onto UC next year, a significant group of in-work benefit recipients are starting to experience cuts to the support they would have received under the tax credit system. With a roll-out period that has now been extended several times, transitional protection for those moved over automatically is now only projected to help a relatively small group of households for a temporary period.

Working households who lose out as they move to UC will face significant challenges. Many are already struggling financially. While some may seek to increase their incomes from work, for a significant group this is not possible. For these households, the risk is that - despite working to the extent they are able to - they are pushed towards serious hardship or debt.

There is also an outstanding question on the impact these changes will have on work incentives in UC. While these are often calculated on a pure cost-benefit basis, our advice work with benefit claimants suggests a range of other costs and administrative factors that come into play. We believe further research and evaluation is needed on the real-world employment impact of UC is needed, based on the full range of claimants who are now eligible. We will also be carrying out additional research into the realities of people's decision-making processes about work later this year.

Ignoring these issues risks undermining many of the key aims of Universal Credit; to better support low-income households and make work and extra hours of work pay. This report therefore makes a number of recommendations to improve the support and work incentives offered by UC, ensuring the new benefit works for everyone.