

## Couples, Universal Credit and in-work progression: Response to call for evidence to the In-Work Progression Commission, 2020.

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We are responding as individual academic colleagues collaborating on the same ESRC-funded research project - ***Couples balancing work, money and care under the shifting landscape of Universal Credit (2018-2021)***, ESRC ES/R004811/1 - a three-year (2018 - 2021), two phase, longitudinal qualitative research study being conducted by the Institute for Policy Research (IPR) at the University of Bath, and the University of Oxford<sup>1</sup>.

We are happy to be contacted for further information and for our response to be made publicly available.

Our response addresses the following questions:

- Women, younger workers, older workers, ethnic minority background workers, and disabled workers are identified as most at risk of staying in low pay. What are the reasons for this? At what stages would interventions help each of these types of workers seek out and avail progression opportunities?
- What are the barriers to people in low pay from progressing by changing jobs and/or sectors? What interventions would best empower people to overcome these?
- How could [Jobcentres] build trusted relationships and high engagement with low paid workers? How could they support workers to have the confidence needed to pursue progression opportunities?

It is often assumed that the barriers to in-work progression amongst people in low-paid work, and the interventions needed to overcome them, rest solely or mainly with employers and

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<sup>1</sup> ***Couples balancing work, money and care under the shifting landscape of Universal Credit (2018-2021)*** ES/R004811/1 <https://www.bath.ac.uk/projects/couples-balancing-work-money-and-care-exploring-the-shifting-landscape-under-universal-credit/>

affected workers themselves. But this ignores an important structural constraint which can impede earnings progression among low-income workers - the benefit system. Focusing only on people who are already in the labour market also ignores the fact that some of the lowest-paid people cycle between different, insecure, poorly-paid jobs interspersed with periods of unemployment and claiming benefits.

Approximately a third of Universal Credit claimants are currently in paid work at any one time. The majority are employed in (or cycle between) low-paid jobs and sectors of the economy in which the opportunities to increase earnings and progress are very limited. An increasing number are also self-employed. Our research, which is exploring the decisions low-income couples make around work and care, suggests that the barriers to in-work progression among Universal Credit claimants can be as much to do with the way in which the benefit system works as they are to do with low-paying employers or the motivations and aspirations of low-paid people 'to seek out and avail themselves of progression opportunities'. Indeed, the constraints imposed by the nature and structure of the benefit system are a highly significant but often overlooked part of the overall picture.

Our research highlighted a number of structural barriers to in-work progression arising directly from the design and delivery of Universal Credit. The findings are based on face-to-face interviews conducted in 2018 and 2019 with 90 people who were currently claiming or had formerly claimed Universal Credit jointly. Further details about the research can be found in the summary<sup>2</sup> and main phase 1 report entitled, *Uncharted Territory: Universal Credit, Couples and Money*.<sup>3</sup> Wave 2 follow-up telephone interviews, which took place in October and November 2020, tracked our research participants to find out what has happened to them in relation to work and caring in the intervening period. The interviews are currently being analysed and findings will be reported early in 2021.

Here we highlight three key areas which emerged from our wave 1 interviews and which are elaborated in our phase 1 report:

1. Universal Credit's incentive structure
2. The childcare element of Universal Credit
3. The Universal Credit conditionality regime

## **1. Universal Credit's incentive structure (incorporating monthly assessment, the 63% taper and work allowance for couples with children)**

The aim of adjusting Universal Credit monthly using one withdrawal rate (taper) is to make the financial gains from paid work more transparent, with the intention of incentivising claimants to enter work and earn more. In our research, contrary to this policy intent, some

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<sup>2</sup> <https://www.bath.ac.uk/publications/uncharted-territory-universal-credit-couples-and-money-summary/attachments/Uncharted-Territory-Summary.pdf>

<sup>3</sup> <https://www.bath.ac.uk/publications/uncharted-territory-universal-credit-couples-and-money/attachments/Uncharted-Territory-Universal-Credit.pdf>

claimants found the 63 per cent taper ‘demotivating’, seeming to penalise rather than reward additional hours and earnings. Among those with children, if the net increase in monthly household income from working longer hours was relatively small (which it usually was), extra time spent with children often trumped higher earnings. The taper was found to be particularly demotivating for second earners in couples (a majority of whom were women) because, with only one work allowance between them, the Universal Credit payment is usually reduced by 63 pence for every pound of net earnings for the second earner, as the first earner has already used up the work allowance<sup>4</sup>. (It is important to remember that, in addition, payments of council tax support is also means-tested and might also be reduced by earnings. At some earnings levels, access to free school meals and help with prescription charges, for example, can also be lost.

In couples, the non-waged or lower-earning partner - generally the woman - tended to also be the payee for Universal Credit. (There were few joint accounts.) It was therefore often women’s incomes that fell when (their partner’s) earnings rose. Knowing that the Universal Credit payment received by their partner would be reduced or might cease altogether if they earned more could also disincentivise the main earner from working additional hours. Month to month fluctuations in the Universal Credit payment in response to changes in earnings could also be hard to predict and to budget. It was often difficult to anticipate drops in the payment and to set aside ‘surplus’ earnings, and even harder to cope with in dual-earner couples with two sets of wages to contend with. The fear of a reduced payment in future months or of losing entitlement to Universal Credit altogether meant that some wage-earners in families were reluctant to work more hours, take on extra shifts or accept offers of overtime. In these different ways, super-responsive means testing - resulting in benefit being adjusted immediately at the end of each month on receipt of earnings - could undermine Universal Credit’s policy goal of incentivising higher earnings, thereby impeding in-work progression, particularly among mothers. A stable floor on which to build without an immediate reduction of benefit income would be more motivating.

## 2. Childcare element of Universal Credit

The childcare element of Universal Credit (available to lone parents as well as couples with two earners) also proved to be a potential barrier to increased earnings and career progression, particularly for women, for the relatively few families in our research who claimed it. Childcare costs must be paid upfront and later reclaimed, which is difficult enough for low-income parents to manage; indeed, many were put off accessing the financial help on offer for this very reason. Having to evidence childcare costs each month was a significant administrative burden on the working parent with responsibility for organising and paying for child care – who was typically the female partner. The maximum contribution of 85 per cent (subject to monthly cost caps) was also considered to be insufficient in some cases, given that 15 per cent still needed to be paid from net earnings, a not inconsiderable

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<sup>4</sup> Single claimants and couples without children generally have no access to a work allowance.

sum given the high cost of child care and the additional cost (of travel, for example) of longer hours.

Contributions towards childcare costs are also included as part of the monthly assessment, something which parents found difficult to understand or manage in practice. With childcare contributions absorbed within the monthly payment and tapered away as earnings rose, some working mothers were unable to pay their childcare fees and got into debt with their childcare provider. Such issues led some working mothers to reduce their hours of work or give up jobs altogether, hampering their ability to progress in work and their careers.

One mother in our research got into debt with her nursery because of the inconsistency and unpredictability of the childcare contribution she received, due to both her and her partner working variable hours. Unable to pay the nursery fees, and with no one available to look after her children, she was obliged to give up her full-time job. Once unemployed, she found that the Universal Credit payment stabilised. Several months later she returned to work; but she had given up on using paid child care, preferring instead to work part time.

Those with experience of claiming childcare costs under tax credits contrasted Universal Credit's complexity with the simplicity of the legacy system, which did not require the monthly evidencing of payment and reclaiming of fees via benefit, and could be relied on to pay a consistent monthly amount for a year.

### 3. The Universal Credit conditionality regime

Conditionality rules for couples claiming Universal Credit jointly are fiendishly complex - being based on the personal circumstances and individual earnings of each partner but at the same time taking into account the couple's combined monthly earnings (using what the DWP terms an individual 'conditionality earnings threshold' (ICET) and 'administrative earnings threshold', and a household earnings and administrative conditionality threshold).<sup>5</sup> This raises particular issues regarding work conditionality. In couples in which the earnings of one partner are sufficient to take the couple above the household conditionality earnings threshold (HCET), they are considered to be 'working enough' and both will be in the 'no work-related requirements regime', even if one partner has no or very low earnings. If household earnings are above the HCET, but one partner earns below their individual earnings threshold, then they will both be placed in the 'light touch' group. In these instances, even though one partner is not working, or is earning below their ICET, there is no requirement for either partner to attend mandatory face to face interviews with a Jobcentre work coach. In our research, the lower-earning or non-working partner in dual-earner couples (typically the woman) often had little or no contact with a work coach. Some who

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<sup>5</sup> For a more detailed explanation of conditionality rules for couples, see 'In-work progression and Universal Credit: A study by the Social Security Advisory Committee, Occasional Paper No. 19, DWP, November 2017':

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/657842/ssac-occasional-paper-19-in-work-progression-and-universal-credit.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/657842/ssac-occasional-paper-19-in-work-progression-and-universal-credit.pdf)

would have liked to access support to help them to obtain a different job and/or progress in their careers were unable to do so. This tended to affect women more than men, as they were less likely to be in (well)-paid and full-time work than their partners.

A further barrier to in-work progression among claimants, many of whom cycled between different insecure, low-paid and part-time jobs, was the lack of opportunities and flexibility in the conditionality regime to enable them to take up high quality training courses. Getting a qualification which gave them access to better-paid jobs and sectors offering progression opportunities was often the only realistic way for low-paid workers in our research to secure higher earnings, a finding reflected in other research.

The Universal Credit model of employment support also relies on establishing trust between work coaches and claimants. However, work coaches' responsibility for ensuring that conditionality requirements are met can place considerable barriers in building a good relationship. In our study, those who were subject to conditionality felt that Jobcentre meetings were largely taken-up with reviewing actions in their claimant commitment, and some were very worried about receiving a sanction. This was the case even for people who broadly spoke of their work coach in positive terms, as there were concerns that work coaches needed to abide by regulations. Staff turnover also meant that claimants' work coach could often change to someone less understanding of their personal circumstances. The onus on work coaches to enforce conditionality requirements and to deliver employment support with limited tools and resources was an obstacle in creating confidence in jobcentre services.

Supporting in-work progression is a laudable goal for Universal Credit. But certain features in the design may make such progression, and indeed job retention, more difficult for some. Universal Credit was designed to improve work incentives to reduce the number of workless households and this meant not so much attention was paid to the 'second' earner in a couple. It is important to be aware of what might support, or hinder, work progression for both partners, not just one.

9<sup>th</sup> November 2020