

Working claimants navigating the ups and downs of monthly assessments in Universal Credit

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Main findings

This policy brief summarises the findings of research by the Institute for Policy Research (IPR) which tracked month-to-month changes in earnings and household income, in real time, between 2022 and 2023, among 61 Universal Credit (UC) claimants in 42 working households with one or two earners in paid work or self-employment. A key focus was the system of monthly assessment, in particular the monthly means test, in which the UC payment is automatically adjusted upwards or downwards based on reported changes in a household's income in the previous month. There is a separate [research report](#) and an [executive summary](#) which accompany this policy brief.

Findings show that monthly assessment has made Universal Credit (UC) a much more unreliable and, for many, less manageable benefit than its predecessors. A large majority of households in this research experienced significant month-to-month income volatility; very few had monthly incomes that were consistently stable. The higher the household income, the more stable it was. The lower the monthly income, the more volatile it was. Variable earnings were the principal driver of changes in monthly income, but it was the interaction over time between changing earnings and the UC payment that lay at the core of the income volatility and budgeting difficulties experienced by participants.

For households whose earnings and circumstances did not change during the period of the study, UC generally functioned well, as intended. However, for many others, fluctuations in the UC payment, and in overall monthly income, were large, hard to predict and difficult to manage. That households with the most volatile incomes also generally had the lowest incomes mattered a great deal. This was because low levels of monthly disposable income reduced people's capacity to save or set aside money, undermining their ability to manage month-to-month payment fluctuations.

Low levels of monthly household income were due to the combination of low earnings, UC payments reduced by deductions and other policies which cut entitlement, high housing costs and ever-rising living expenses. The high rate of benefit withdrawal as earnings rose and the knock-on effects in terms of the loss of entitlement for other means-tested support, together with the large contribution most participants had to make towards their housing costs, were also significant factors in reducing monthly disposable income in working households.

How monthly assessment in Universal Credit works

Universal Credit (UC) is the UK's main means-tested, working-age benefit for supplementing low household income among people both in work and out of work. As a dynamic, digitalised, largely automated benefit, UC has been designed to be highly responsive to changes in income and circumstances monthly, 'in real time.' Unlike tax credits – assessed annually, based on a self-completed form – assessment in UC is automated. Nor are earnings averaged out over the year, as was the case with tax credits, using the previous year's income. Rather, the UC payment reflects net monthly earnings for the month just gone, as reported by employers to HMRC's RTI (Real Time Information) system and captured within a claimant's assessment period – a fixed calendar month which runs from the date the claim started. Self-employed claimants and those with earnings under the PAYE threshold must self-report their earnings online each month. Any earnings or other income received in the previous month (by both partners in a couple), together with any reported changes of circumstance, are automatically taken into account when the monthly UC award is calculated.

A single taper – currently 55 per cent – gradually reduces entitlement as earnings rise. Claimants with children or limited capacity for work may be eligible for a ‘work allowance’ which disregards an amount of earnings each month before the taper is applied. Working families may also be eligible for a contribution of up to 85 per cent towards their childcare costs (although this help is means-tested against monthly earnings). On top of reductions for earnings, policies such as the two-child limit¹, benefit cap², second bedroom subsidy³ and non-dependent adult deduction⁴ can further lower entitlement. Monthly payments may also be reduced by deductions for debts – automated amounts taken at source from the UC award before payment is made to repay any benefit and tax credit overpayments, advance loans or arrears of rent, council tax or utility bills that claimants may owe. With entitlement means-tested and recalculated monthly, claimants only receive seven days’ notice of the amount they will get paid. Tax credits, in comparison, generally remained fixed for a year.

If monthly income, earnings and household circumstances remain the same, then the UC payment should too, but if they change, the payment is automatically programmed to rise or fall in response. Claimants are advised to prepare in advance and budget for a potential change in the monthly UC payment, saving or setting aside money in the months when earnings rise and using this ‘buffer’ to compensate for the months when earnings fall and the UC payment reduces. Designed to reduce errors and overpayments and to smooth and stabilise household income, monthly assessment is also intended to make the financial impact of additional hours and higher earnings more immediate and motivating to claimants. Or at least that’s the theory. In fact, there has been no systematic research into UC claimants who are working. Little is known about the way in which changes in earnings interact with UC, how stable or volatile this makes household income, nor the effects on budgeting or work-related decisions. This is what new research by the Institute for Policy Research (IPR) at the University of Bath set out to discover.

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- 1 The two-child limit limits the child element of Universal Credit to a maximum of two children for children born after 17 April 2017 unless special circumstances apply such as a multiple birth.
 - 2 The benefit cap limits the maximum amount of working-age benefits (including Child Benefit) that a household can receive. In 2023/24, the benefit cap was £25,323 per annum in London and £22,020 per annum elsewhere.
 - 3 The ‘second bedroom subsidy’ uses a formula for assessing entitlement to help with housing costs for working-age social tenants. Those with one ‘spare’ bedroom lose 14 per cent of their eligible housing costs and those with two or more lose 25 per cent.
 - 4 The ‘non-dependent adult deduction’ reduces the UC housing element by £85.73 (2023/24) per month for each adult aged 21 or over living in the household who could, in theory, contribute to the rent and council tax (regardless of whether they can or do).

Research into the effects of monthly assessment on working claimants

Funded by abrdn Financial Fairness Trust, the research explored the lived experiences of UC claimants in paid work or self-employment. Qualitative and quantitative data was collected from regular monthly interviews from a sample of 61 claimants in 42 households with and without children, with one or two earners. Household income and earnings data were collected in real time for 13 months, between February 2022 and March 2023. In total, 256 interviews were conducted (55 face to face and 201 by telephone) and 491 UC monthly statements were collected. Sufficient data was collected to track monthly income and earnings over time in 37 households.

Characteristics of the sample

Of 50 claimants in work when the research started, 13 were paid between £9.50⁵ and £9.99 an hour, ten were paid between £10 and £10.99 an hour, eight were paid between £11 and £14.99 an hour and three were paid over £16 an hour, including one who was paid £27 an hour. Sixteen were not sure of the hourly rate⁶. Half of those with earnings (25) were paid monthly. The other half were paid weekly (nine), four-weekly (seven) or, fortnightly (two), or at different frequencies due to being self-employed (six) or on flexible pay (one). For the sample as a whole, earnings made up just under half of household income (49 per cent) and UC made up just over a third (34 per cent). Other benefits made up ten per cent of household income, and other income, such as child maintenance, made up four per cent. The Government's cost of living payments – an additional £650 paid in two separate payments to eligible households in receipt of UC and other means-tested benefits during 2022 – made up the final three per cent.

5 £9.50 per hour was the minimum hourly rate in 2022/23.

6 Mainly, it was their partner's earnings whose hourly rate they were unsure of.

What did the research find?

Monthly household incomes among UC claimants with earnings were highly volatile.

A large majority of households in this research experienced significant month-to-month income volatility. Few had monthly incomes that were consistently stable:

- 26 out of 37 households (70 per cent) had monthly incomes that were highly erratic or falling (19) or erratic (seven).
- Only 11 out of 37 households (30) had monthly incomes that were broadly stable or rising.

The higher the monthly household income, the more stable it was. The lower the monthly income, the more volatile it was.

Variable earnings were the principal driver of changes in monthly income but it was the interaction between changing earnings and the UC payment that lay at the core of income volatility.

Earnings which changed month to month were surprisingly common and unexpectedly large. Indeed, fluctuations in earnings were the norm for the majority of participants, including those with a steady job and monthly pay:

- For 22 of 37 households, earnings varied month to month by an average of £200 or more.
- For 16 of 37 households, earnings varied month to month by an average of £300 or more.
- For 28 of 37 households, earnings varied by £500 or more from one month to the next at least once.
- For 16 of 37 households, earnings varied by £1,000 or more from one month to the next at least once.

The Government's cost of living payments had little overall effect on income variability. Other social security benefits, such as Child Benefit, Personal Independence Payment (PIP) and Disability Living Allowance (DLA), which are disregarded for the purposes of UC assessment, had a small stabilising effect on household income for those that received them.

Monthly earnings varied due to both actual changes in earnings – where monthly pay increased or decreased – and reported changes – in which underlying earnings remained unchanged.

Variability in actual earnings was mainly due to changes in working hours and shift patterns, periods of unemployment between jobs and unpaid sick leave, which more commonly affected participants working in low paid, temporary and agency jobs, those with zero-hour contracts and the self-employed. More unexpected was the extent of monthly earnings variability among people with higher pay and in more secure forms of employment.

Here, it was generally due to one-off, unconsolidated pay awards, performance bonuses and backdated pay increases. These spikes in pay could elevate monthly earnings by hundreds, sometimes thousands of pounds, causing UC payments to plunge or fall to nil the following month.

Earnings variability was also due to pay frequency and the way in which earnings data reported by employers to HMRC's RTI system interacted with a claimant's assessment period. At certain times of the year, participants paid weekly, fortnightly or four-weekly would have more than one pay packet captured in their assessment period, causing the UC payment to fall, sometimes to nil. Had they been paid the same earnings calendar monthly, they would not have been affected in this way.

Monthly-paid employees could be impacted too, if their regular pay date was close to the start or end of their UC assessment period, or if they were paid early. Late and incorrect RTI earnings submissions by employers, together with payroll and tax code errors, could also cause variability in reported monthly earnings. Under- or over-reporting of earnings meant an under- or overpayment of UC which would later need adjusting. Employers seemed mostly unaware of, or unable to mitigate, the detrimental financial effects on employees that could unwittingly be caused by payroll systems and remuneration policies.

Monthly assessment could accentuate rather than dampen income volatility.

Monthly changes in earnings (whether actual or reported), in turn, drove changes in the UC payment. Monthly fluctuations in UC were ubiquitous, frequent and sometimes very large:

- For 23 of the 37 households, UC payments varied month to month by an average of £100 or more.
- For eight of the 37 households, UC payments varied month to month by an average of £200 or more.
- For 20 of the 37 households, UC payments varied by £400 or more at least once during the year.
- For ten of the 37 households, UC payments varied by £600 or more at least once during the year.

The way in which the UC payment rose and fell, moreover, did not necessarily reflect changes in earnings in a timely way that helped smooth peaks and troughs in household income. It was not uncommon for there to be a time lag of two months between working more or fewer hours and receipt of a lower or higher UC award. The arrears payment of both wages and Universal Credit meant that higher earnings could sometimes coincide with an increased UC payment, while lower pay could correspond with a lower or even nil UC payment:

"[The UC] it's just not necessarily there when you need it ... You have one month where you ... have no UC and only one wage ... when it's not like you've got like a whole other load of money you can draw upon ... and then you could have another month where you could have two full wages and UC. It doesn't make sense ... They say, 'oh look on a calendar,' but until you've actually sort of lived a year on UC, you don't get it."

Zoe, working lone parent with one child

When this happened, UC could accentuate, rather than dampen, monthly income volatility.

Complex algorithms underpinning the payment calculation, and large oscillations in the award from one payment cycle to the next, made it hard for claimants to predict when, or by how much, the UC payment would rise or fall, or to know if the amount received was correct.

Raising earnings disputes with employers and/or UC was burdensome for those in work and challenging payment decisions was time-consuming. Financial losses caused by pay(roll)-related errors and benefit calculations claimants suspected were incorrect would sometimes be absorbed through lack of time and attrition. Participants contrasted the unpredictability of UC with the reliability of tax credits and the consistency of other benefits they currently received:

"It's a good job we get other benefits because we wouldn't be able to manage... I rely on those more than I do UC because I don't know what UC's going to be every month. I know what my DLA's going to be, I know what my Carers [Allowance] is, and what my Child Benefit is. They're exact every month ... I don't know what Universal Credit we're getting from month to month."

Angela, single-earner couple with three children

A significant reduction in UC, moreover, was not easily absorbed by the lowest-income households. Only a little over a quarter of households had any savings they could draw on in the event of a domestic emergency or to cover assessment periods when the UC payment reduced or was nil. Higher earnings from extra hours or lump sum pay awards were often spent on essential household expenditure soon after receipt, leaving little or nothing to set aside.

Kate and Neil were both employed as cleaners on zero-hour contracts. No longer entitled to a local authority school uniform grant, they got into serious financial difficulty after they both worked additional hours to buy school uniforms for their two children. When their hours and earnings dipped back the following month, they received no UC payment due to their higher earnings the previous month. However, the extra money earned had already been spent on the children's uniforms, leaving them unable to pay their housing costs. It began a cycle of rent and council tax arrears which, three years later, they only had just managed to extricate themselves from:

"[You're] not able to budget in advance because you don't know what you're going to get... you couldn't save, you couldn't think, oh well I'm going to have this much for shopping this week, so I can pay this, so I can pay that ... you were robbing Peter to pay Paul ... We ended up going to court over an eviction ... and it was just that one month... It's just amazing with UC how things can change just like that ...If you earn a little bit more one month and don't earn anything the next month, you're not going to get UC because you've earned more [previously]."

Kate, dual-earner couple with two children

A reduction in or loss of UC could mean loss of entitlement for other means-tested help.

Alongside budgeting difficulties, variable entitlement for UC could have serious knock-on effects in terms of the loss of entitlement for work allowances and other means-tested and discretionary support including (but not limited to) reduced council tax, free prescriptions and other NHS health charges, and in Scotland, the Scottish Child Payment, potentially reducing household income by hundreds of pounds over the year. A nil UC award in the qualifying period for the Government's cost of living payments could also mean claimants losing out on this extra financial help.

Household income was too low to allow people to generate a savings buffer.

For most participants, levels of earnings and benefit payments were simply too low to generate the savings buffer needed to manage monthly dips in income and to fund rising and unexpected household bills. Average monthly income after housing and childcare costs was below the Minimum Income Standard (MIS) for all but five households in our sample. Overall, 32 of the 37 households had average incomes below the MIS despite 32 households having at least one earner throughout the study. The high rate of benefit withdrawal as earnings rose, together with reductions due to the two-child limit and other policies which cut entitlement, and monthly deductions for debts, were also important factors contributing to low household income. Self-employed⁸ claimants whose income was calculated using Minimum Income Floor (MIF) could have their UC entitlement reduced by hundreds of pounds each month. Monthly income was also sometimes lower than it should have been as a result of UC errors and underpayments. Bridging the often sizeable gap between the contribution they received towards their housing costs and their rent (or mortgage) and council tax, and between the UC childcare element and their actual childcare costs, were other factors which could reduce monthly disposable income.

Low disposable household income and no savings buffer, in turn, fuelled borrowing and debt.

The combination of low earnings, low benefit payments, high housing costs and ever-rising living expenses meant that even though someone in the household was working, few participants in this research had levels of disposable income that stayed high enough for long enough to allow them to save or set aside funds. Having no monthly surplus or savings on which to draw, in turn, obliged many to borrow, if they could, to fill the gap.

7 The Minimum Income Standard (MIS), developed by Loughborough University, is the amount of money different types of households are considered to require to achieve a socially acceptable standard of living.

8 The MIF, generally applied to self-employed claimants after a 12-month test-trading period, is broadly equivalent to the national minimum wage for each hour the claimant is expected to work as set out in their claimant commitment. If they earn more than the MIF, then their UC entitlement is calculated using their actual income but if it is less, the MIF is used.

Few participants were eligible for an interest-free 'budgeting advance' because they earned too much⁹. On the other hand, many were ineligible for the Government's Help to Save scheme because they earned too little¹⁰. 'Change of circumstance' advances were only available to claimants whose UC entitlement had increased. Months in which earnings and the UC payment fell could sometimes lead to a deficit between income and essential outgoings, generating arrears and fuelling borrowing and debt. Few were able to meet the policy demands of predicting and managing changes in the UC payment and setting aside money to cover variability in household income and expenditure month to month.

Monthly assessment could disincentivise work and higher earnings.

Part of the policy rationale of monthly assessment is to allow claimants to see and benefit from an immediate financial reward such that they are motivated to work and earn more. Few research participants responded in this way. Subject to marginal effective tax rates (METR)¹¹ sometimes in excess of 75 per cent, most found the high rate of benefit withdrawal and loss of entitlement to other means-tested help demotivating. Small increases in earnings actually made some participants financially worse off, discouraging them from working longer hours.

When Sarah returned to work after maternity leave, the increase in monthly household income triggered an immediate loss of entitlement across several different means-tested schemes including council tax support, free school meals, a school uniform grant and Healthy Start vouchers. This meant that even with UC contributing towards her childcare costs, the family was worse off when Sarah was working than when she was not. Along with several other mothers whose partners were earning, she questioned whether it was worth her working at all until her youngest child started school, and she subsequently gave up her job:

"I had three letters from the council all at once, one was saying my eldest was no longer entitled to free school meals. Then the next letter said that we no longer get discount for our council tax. And then the third letter, they do a uniform grant every year, then they said that I earned too much to receive that. Oh, and then there was a fourth one saying that I no longer get the Healthy Start vouchers. It was absolutely ridiculous ... It just works out better if I'm not in work, for the minute anyway ... When I put all that together, it worked out that we'd have more outgoings than we do incoming, with me being in work... So I've just decided ... I'm going to wait until my little one's in full-time [school]."

Sarah, single-earner couple with two children

9 To get a Budgeting Advance (sometimes called a budgeting loan), claimants must have been getting UC for six months or more and have earned less than £2,600 (£3,600 jointly for couples) in the past six months.

10 Help to Save is a government-backed savings account for low-income people with net monthly earnings of at least £722.45.

11 The marginal effective tax rate (METR) measures how much a small increase in gross earnings is lost to tax, national insurance and reduced entitlement to means-tested benefits.

Policy Recommendations

Allow working claimants to keep more of their earnings.

The relative costs and benefits of reducing the taper rate, increasing the work allowance and extending it to a wider group of claimants should be assessed. Further research is also needed into UC claimants who are self-employed and subject to the minimum income floor.

Increase the level of UC allowances and elements.

Findings here support calls from the Joseph Rowntree Foundation (JRF) and the Trussell Trust for an ‘essentials guarantee’¹². Working-age benefits should also be annually uprated in line with earnings, as suggested by the Resolution Foundation¹³. Restoring benefits to previous historical levels would help claimants to generate a savings buffer – essential for managing dips in monthly household income when earnings and/or UC payments may fall.

Reform monthly assessment to increase income security for working claimants.

Reform monthly assessment to increase income security for working claimants: Monthly-paid claimants adversely affected by the multiple counting of wages can now have one wage treated as though paid in a different assessment period. The feasibility of extending these rules to those paid fortnightly and four-weekly should be explored. Another option which could potentially encourage claimants to increase their working hours would be to provide longer-term fixed UC awards of three or six months. More upfront information and advice should also be communicated to new UC applicants about the significance of the date a claim is made, giving them the option to defer the start date. Claimants already in work, or who move to a job with a different pay frequency or pay date, should similarly be given the option of changing their assessment period.

Revise the rules and earnings thresholds governing other means-tested and discretionary help.

If the policy intent of UC to always make work pay is to be achieved, the loss of passported benefits and other means-tested help as earnings rise and UC entitlement falls – including council tax support, free school meals and free prescriptions – is in need of urgent review. Cliff edges should be removed, earnings thresholds increased and greater standardisation introduced to reduce inconsistency and geographic variability in entitlement.

12 <https://www.jrf.org.uk/report/guarantee-our-essentials>

13 <https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/07/Sharing-the-benefits.pdf>

Minimise deductions for debt and other reductions in entitlement.

The maximum amount of deductions should be further reduced and historical overpayments and social fund debts written off. Higher and variable deductions for households with earnings should also end. We would also endorse calls for the two-child limit, benefit cap, spare room subsidy and non-dependent adult deduction to be abolished. The lower standard allowance paid to the under 25s should also be reviewed.

Reform the childcare element of UC.

Notwithstanding recent changes to the Government's childcare offer, to reduce the financial difficulties caused by upfront childcare payments for working claimants and the uncertainty of variations in fees refunded in arrears, and to prevent the undermining of incentives to work or earn more, particularly among 'second earners' in couples, the UC childcare element requires further reform.

Reform eligibility criteria for Budgeting and Change of Circumstance Advances and the Help to Save scheme.

Eligibility criteria for budgeting advances should be revised to allow those with earnings above the current threshold (£2,600 for a single claimant and £3,600 for a couple) to apply. Eligibility criteria for change of circumstances advances should also be reviewed. The minimum net monthly earnings of £722.45 needed to open a 'Help to Save' account should also be reduced to allow lower-earning claimants to benefit.

Increase employer engagement to minimise adverse financial effects for employees in receipt of UC.

The Department for Work and Pensions (DWP) should make efforts to raise awareness among employers about the way in which pay(roll) systems, RTI submissions and remuneration policies and practices can affect UC entitlement. Their engagement should be sought as to the best way of mitigating the adverse financial effects that can arise for employees on UC.

Ensure UC claimants receive all the elements and exceptions to which they are entitled.

Data matching technologies which underpin UC's automated processes operate highly efficiently in the recovery of benefit overpayments and collection of third-party debts. A similar zeal should drive efforts to ensure that claimants receive all the financial support to which they are legally entitled.

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