TUC

Benefit Cuts by Household Type

Who has been hit by the Government's benefits cuts?

Introduction

The big cuts in social security spending taking place over the course of this parliament – around £30.5bn a year (in today's prices) by 2016/17 – are supposedly targeted at unemployed people as a way to encourage them to find work.

But this TUC-commissioned analysis shows that the reality behind the government's rhetoric is very different. The majority of welfare cuts taking place between 2010 and 2016 fall on people already in work. Even after the introduction of Universal Credit (UC) the majority of cuts will hit working families with twice as many cuts hitting those in work as those of working age who are not employed.

The welfare cut that ministers like to talk about most is the benefit cap – which targets around 65,000 mainly workless households. However, the savings from the cap – projected to be around £500m – are far less than the welfare cuts targeted at those who are in low-paid jobs. Cuts to tax credits will reduce support for low-paid working families by over £12bn a year by 2016, while the real terms reduction of child benefit will cost working families a further £3.4bn annually.

Working people have seen an unprecedented squeeze on their incomes over the course of this parliament, and the number of working people living in poverty has grown. The social security safety net is supposed to help people who fall on hard times. Instead cuts to tax credits, child benefit, housing benefit and other key areas of support for those in work will leave many working families thousands of pounds a year worse off by 2016, on top of their shrinking wages.

Cutting support for low-paid hard-working families isn't the only area of welfare reform where ministers have been largely silent. There is a perception that pensioners have been spared any pain from welfare cuts. Over half of the DWP's annual spending on benefits goes to support pensioner households, and the Prime Minister pledged to protect pensioner benefits in the run-up the last election.

But the TUC's analysis shows that this pledge has been broken. Over a fifth of all social security cuts will fall on pensioner families, once Universal Credit is rolled out. The total cost of cuts to pensioner benefits (£6.38bn – principally reductions in Pension Credit, but also the state pension and Attendance Allowance) is more than ten times more than the benefit cap and yet these changes are barely mentioned, either by ministers or the media.

The range of people affected by the government's welfare cuts goes far wider than the so-called scroungers that ministers claim to be targeting. Across our economy the social security safety net is being removed from all sorts of people who need help. Low-paid working parents, partners of pensioners who are approaching retirement themselves and disabled people in paid work are just some of those who are set to lose out substantially in the years ahead. This analysis sets out the scale of the cuts working and pensioner families across the UK are set to endure.

About this analysis

This analysis considers the full set of social security spending changes announced by the government since 2010. The analysis also considers how the picture will change as UC is introduced (taking into account recent changes in UC such as freezes in the value of work allowances). The study looks at the annual impact of all changes to state benefits and tax credits, presented in February 2014 prices. To enable a comparison to be made with the previous system (the position in 2010) the analysis looks at all changes the government has fully announced to welfare payments (which are set to be fully rolled out by 2016/17), and considers how working, out of work and pensioner households would fare under previous and new government rules.[1] As the purpose of the analysis is to look broadly at how new claimants would fare under each system the analysis does not take account of transitional protection. A full list of the changes included is presented in the Annex of this report.

The analysis has been undertaken for the TUC by Landman Economics whose tax/benefit model uses the Family Resources Survey (FRS) to consider how families across the UK will be affected by social security changes. It considers all of the tax and social security changes using data from the FRS to model impacts for different types of families. Where the FRS does not contain adequate information to model the impacts of the cuts (for example in relation to some disability benefits and housing benefit[2]) estimates of the cumulative costs of the cuts have been taken from Treasury Budget documentation and allocated among families in proportion to receipt of those benefits in the 2010/11 FRS data.

Families in the analysis are grouped as follows:

- Working age families with no one in paid work: couple or single adult families where no adult is in paid work.
- Working age families in paid employment: couple or single adult families where at least one adult is in paid work.
- Pensioner families: single or couple pensioner families where at least one adult is above state pension age (but where one adult may be workless and below state pension age).

Families are considered in the same way as would be the case under current benefit rules.

[1] Our analysis looks at all changes that have been announced and for which it is possible to undertake a financial assessment. For example as we don't know yet know the rate of the new single-tier state pension that change has been excluded, but as we do know much of the detail around the values of different aspects of UC those changes are included.

[2] For example on disability benefits the FRS does not give enough information on severity of disability to model which individuals would lose ESA, IB and/or DLA as a results of the reassessments of these benefits. On Housing Benefit the FRS does not provide adequate information on local authority, local reference rents or number of bedrooms– so it is not possible to model reductions in LHA or bedroom tax accurately. In these cases informed assumptions have been made as to how the distribution of cuts would be applied to households across the sample so that their impacts can be included in the analysis.

Key findings

The report shows that by the next parliament £36bn a year will have been cut from social security spending.

Annual impact of cuts by household type by 2016-17 (Feb 2014 prices)

Cuts to benefits excluding UC	£30.47bn
Cuts to benefits including UC	£35.64bn

It is particularly concerning that under UC families across the distribution are set to lose just over £5bn a year more compared to the position they would have been in under the system before UC is introduced (although these estimates may be slightly overstated as we have not assumed any increase in take up of UC compared with the benefits and tax credits it replaces, which is included in government modelling). Despite increased generosity for some groups, significant changes under UC (including erosions in the value of work allowances and removal of entitlements for those currently claiming Pension Credit) have meant that overall its introduction represents another net cut in expenditure (unless take up increases substantially).

Working age families

Despite government rhetoric it is not those who are out of work who have been the main target of social security cuts (although some families in this group have seen substantial income reductions). In fact the majority of cuts fall on people of working age who are in employment (58.6 per cent of cuts overall).[3] Just over a fifth of spending reductions have hit those who are of working age and out of work.

If pensioners are removed from the analysis and only spending reductions that affect those of working age are considered, the extent to which cuts are focused on those on work becomes even clearer with 74.2 per cent of all cuts have fallen on those in work (with 25.8 per cent hitting out of work working age families).

The picture remains similar even when Universal Credit, the benefit reform which the government claims will make work pay for millions, is considered. Despite Universal Credit bringing benefits for some when these changes are included (which by latest estimates are unlikely to benefit many working families until

[3] There is a small variation between the spending cuts identified in the model and the total spending cuts identified by HMT budget documentation, which is accounted for the Landman Economics model assuming full take up among eligible households for tax credits and means tested benefits.

2016[4] at the earliest) more than half of the government's cuts (50.8 per cent) still fall on working families, even after UC's introduction.[5]

Annual impact of cuts by household type by 2016-17 (Feb 2014 prices)

Group	Total cuts	Proportion of cuts	Proportion of cuts (working age only)	Total cuts including UC	Proportion of cuts (including UC)	Proportion of cuts (including UC and working age only)
Working age families, out of work	£6.22bn	20.4%	25.8%	£8.78bn	24.6%	32.7%
Working age families, in-work	£17.87bn	58.6%	74.2%	£18.11bn	50.8%	67.3%

The following tables set out changes in particular benefits expenditure for different types of families. They show that the vast majority of tax credit cuts hit working families, as to most cuts in child benefit, over half of cuts to bereavement benefits and 32 per cent of housing benefit cuts.

Proportion of cuts in particular benefit groups by household type (Feb 2014 prices)

Group	Tax credits	Child benefit	Housing benefit	Council tax benefit
Working age families, out of work	£0.22bn (1.6%)	£0.35bn (9.4%)	£1.32bn (57.4%)	£0.78bn (79.5%)
Working age families, in-work	£12.61bn (91.6%)	£3.41bn (90.2%)	£0.75bn (32.6%)	£0.2bn (20.5%)

While some cuts mainly affect pensioner families, some working age families are affected by cuts in benefits that are often presented as being targeted at

[4] The current UC migration timetable is set out in the OBR's December 2013 economic and fiscal outlook http://cdn.budgetresponsibility.independent.gov.uk/Economic-and-fiscal-outlook-December-2013.pdf.

[5] Spending reductions under UC occur primarily because couples where one partner is under pension credit age (which is linked to women's state pension age) and the other is over pension credit age will be required to claim UC instead of Pension Credit (which is the case under the current rules) but are accounted for by reductions in the real terms value of work allowances, the self-employed minimum earnings floor and reductions in amounts being paid to disabled children in some cases. In addition UC is less generous for many lone parents than the old tax credit system (primarily those working more than 16 hours a week).

pensioners. This is because some men under the state pension age are eligible for Pension Credit, which has been reduced in generosity.

Proportion of cuts in particular benefit groups by household type (Feb 2014 prices)

Group	Disability benefits[6]	Out of work benefits[7]	Pensioner benefits[8]	TOTAL
Working age families, out of work	£1.84bn (64.7%)	£1.58bn (89.4%)	£0.14bn (2.7%)	£6.22bn (20.4%)
Working age families, in-work	£0.66bn (23.4%)	£0.19bn (10.5%)	£0.05bn (0.9%)	£17.87bn (58.6%)

Group	Pension Credit		Carers Allowance		Bereavement Benefits	
	PC	PC (%)	CA	CA (%)	BB	BB (%)
Working age families, out of work	£0.14bn	3.4%	£0.034bn	66.7%	£0.004bn	30.8%
Working age families, in-work	£0.05bn	1.1%	£0.013bn	25.5%	£0.007bn	53.8%

A further breakdown of these cuts shows that people of working age face the vast majority of the government's cuts in Disability Living Allowance (DLA) – as those aged 65 and over are excluded from the introduction of the new personal independent payment (PIP) – and in Employment Support Allowance (ESA) / Incapacity Benefit (IB). While most families affected by these changes are out of work, a substantial number of working households are affected. This is because many DLA recipients are in work, and as many ESA/IB recipients have working partners.

[6] This column includes Attendance Allowance (AA), Disability Living Allowance (DLA), Incapacity Benefit (IB), Employment and Support Allowance (ESA) and historic claims for Severe Disablement Allowance (SDA).

[7] This column includes Jobseekers Allowance (JSA) and Income Support (IS).

[8] This column includes changes to the state pension along with cuts to Pension Credit, with the latter responsible for cuts in benefit spending among the working age group.

Proportion of cuts in particular benefit groups by household type (Feb 2014 prices)[9]

Group	DLA		ESA/IB	
	DLA	DLA(%)	IB/ESA	IB/ESA (%)
Working age families, out of work	£0.106bn	73.6%	£0.415bn	73.8%
Working age families, in-work	£0.021bn	14.6%	£0.116bn	20.6%

Pensioner families

Much of the government's narrative has focused on providing relative protection for those above state pension age. But it transpires that pensioners have in fact faced substantial reductions in benefit entitlements, with just 20.9 per cent of all cuts (over £6bn of reductions) affecting those in this age group. After the introduction of Universal Credit, this position becomes worse, with 24.5 per cent of cuts affecting pensioners (an annual spending reduction of £8.75bn).

Annual impact of cuts by household type by 2016-17 (Feb 2014 prices)

Group	Total cuts	Proportion of cuts	Total cuts including UC	Proportion of cuts (including UC)
Pensioner families	£6.38bn	20.9%	£8.75bn	24.5%

The particular cuts that pensioners face as a result of the introduction of UC (£2.37bn, 45.8 per cent of all spending reductions that are introduced as a result of UC) are a result of changes in eligibility which mean pensioner families who

[9] Please note that the cash values in this table slightly underestimate the scale of DLA and ESA/IB cuts as some changes which cannot be modelled but which have been allocated are not included in these totals.

would previously have been supported under Pension Credit will in future be entitled to less generous working age benefits.[10]

Proportion of cuts in particular benefit groups on pensioner households (Feb 2014 prices)

Group	Tax credits	Child benefit	Housing benefit
Pensioner families	£0.94bn (6.8%)	£0.02bn (0.4%)	£0.23bn (10%)

Group	Disability benefits	Out of work benefits	Pensioner benefits[11]	TOTAL
Pensioner families	£0.34bn (11.92%)	£0.002bn (0.1%)	£4.85bn (96.4%)	£6.38bn (20.9%)

The impacts of cuts to disability benefits for pensioner households, along with cuts to benefits which are particularly targeted at pensioner families, are set out below. While DLA and ESA/IB changes are mainly set to impact on working age families, some pensioner families are affected. This is because the change from RPI to CPI uprating of DLA affects some pensioners directly, and also some pensioners have a workless partner who is under state pension age claiming DLA, IB or ESA who is affected by the change from RPI to CPI uprating of these benefits. In addition, the cuts in some benefits targeted at pensioners are substantial. For example, despite the government's assertions as to the generosity of the triple lock, changes to the state pension are set to cost pensioners £1bn by 2016/17 as a result of the loss of RPI uprating (although if a very generous single tier state pension is introduced this may change for some pensioners) and cuts to Pension Credit (the Pension Credit Guarantee being uprated by less than was the case under previous policy and also the reduction in the Savings Credit element) will be costing pensioner families £3.85bn a year.

[10] Under current rules couple households where one adult is under Pension Credit age and the other is beyond pension credit age ('mixed age couples') are eligible for Pension Credit, an income-related benefit. PC is made up of two components: Guarantee Credit and Savings Credit. Guarantee Credit tops up weekly family income if it's below £148.35 (for single people) or £226.50 (for couples). Savings Credit is an extra payment for people who saved some money towards their retirement, and means that those on modest incomes with small savings pots do not lose out relative to those with no savings at all. There is no conditionality attached to Pension Credit. From 2016 the single tier state pension will replace the current pension system for new claimants. Pension Credit Guarantee will continue but people reaching state pension age in the new system will not be able to claim Savings Credit. Under the 2010 rules couple households with one person at or above Pension Credit age would have been eligible for Pension Credit rather than being required to rely on JSA or ESA. In the future for new claims couples will have to claim Universal Credit instead. The modelling is based on the position once this change is fully implemented.

[11] This column includes changes to the state pension along with cuts to Pension Credit.

Proportion of cuts in particular benefit groups on pensioner households (Feb 2014 prices)[12]

Group	Attendance Allowance		DLA		ESA/IB	
Pensioner families	£0.138bn	100.0%	£0.017bn[13]	11.8%	£0.031bn	5.5%

Group	Pension Credit		Carers Allowance		Bereavement Benefits		Retirement Pension	
Pensioner families	£3.854bn	95.5%	£0.004bn	7.8%	£0.002bn	15.4%	£1.00bn[14]	100.0%

Conclusion

The government continue to claim that the main target of their welfare cuts is those who are unemployed. But this analysis sets out just how misleading their rhetoric is. The majority of cuts fall on people in work, and far from being exempt from benefit reductions pensioners have been the target of a substantial proportion of cuts. Although the government says it is on the side of hardworking families, the facts show that they are taking more than £17bn of spending from this group and that after the introduction of Universal Credit the cuts will remain for working families, totalling over £18bn. It's time for ministers to stop pretending that it's making work pay and take real action address the UK's ongoing living standards crisis.

[12] Please note that the cash values in this table slightly underestimate the scale of DLA and ESA/IB cuts as some changes which cannot be modelled but which have been allocated are not included in these totals.

[13] The upper age cut-off for DLA reassessment is 65, not pension age not pension age. This means that women of pension age but under 65 are not affected by the reassessment of the DLA caseload. However, they are affected by the switch from RPI to CPI for the uprating of DLA, which accounts for this cut.

[14] This small reduction is the consequence of the triple lock, which has generated a slightly less generous state pension than would have been the case had the state pension been uprated by RPI.

Annex

Benefit and tax credit changes included in the analysis

Measure	Fiscal impact (£m)				
Budget June 2010	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Switch to CPI indexation from 2011-12	1170	2240	3900	5840	7900
DLA gateway reform	0	0	140	660	1190
lone parent benefits: extend conditionality to those with children aged 5 and above	0	50	150	180	210
Abolish Health in Pregnancy Grant	150	150	150	150	150
Sure Start Maternity Grant: first child only	75	75	75	75	75
Income Support Mortgage interest: payments at average mortgage rate	-75	-10	40	65	75
Savings Gateway: never introduced	0	75	110	115	120
Housing Benefit:					
LHA set at 30th percentile of rents from 2011-12	65	365	415	425	435
NDDs: reverse uprating freeze and maintain link with prices from 2011-12	125	225	320	340	360
Social sector: entitlements reflect size of family ("bedroom tax")	0	0	465	465	470
CPI indexation for LHA	0	0	300	390	480
Reduce awards to 90% after 12 months for JSA claimants					
additional bedroom for carers	-15	-15	-15	-15	-15
LHA caps on maximum rates (4-bed limit)	55	65	70	65	65
additional discretionary housing payments	-10	-40	-40	-40	-40
Tax credits:					
2nd income threshold: reduce to £40,000	1180	2860	3110	3220	3300
Withdrawal rate increased to 41%	140	145	155	145	150
CTC: taper family element immediately after child element	0	510	515	480	480
CTC: remove baby element	295	275	270	275	280
WTC: remove 50-plus element	0	35	40	40	45
CTC: reverse supplement for children aged 1 and 2	0	180	180	180	180
reduction of income disregard to £5000	105	140	340	420	500
introduction of disregard for falls in income	0	550	560	585	600

changes of circumstances: reduce backdating to 1 month	0	315	320	330	340
CTC: increase child element above inflation in 2011-12 and again in 2012-13	-1200	-1845	-1930	-1995	-2050
Child Benefit: freeze rates for 3 years from 2011-12	365	695	940	975	1000
State pension triple guarantee	0	-195	-420	-450	-480
Pension Credit MIG: matching basic State Pension cash increase in 2011-12	-415	-535	-535	-535	-535
Child Trust Funds: abolition of govt contributions	540	550	560	560	565
Spending Review Autumn 2010					
Contributory ESA: time limit for those in the Work Related Activity Group to one year	0	330	835	1230	1475
HB: increase age limit for shared room rate from 25 to 35	0	130	225	215	215
Benefit cap	0	0	110	185	185
DLA: remove mobility component for claimants in residential care	0	60	155	160	160
Savings Credit: freeze maximum award for 4 years from 2011-12	165	215	260	270	280
ISMI: extend temporary changes to capital limit to Jan 2012	-70	-20	0	0	0
Cold weather payments: increase rate to £25	-50	-50	-50	-50	-50
Council Tax Benefit: 10% reduction in expenditure and localisation	0	0	475	475	475
Child Benefit: remove from families with a higher rate taxpayer	0	590	2420	2500	2580
WTC: freeze basic and 30 hour elements	195	415	575	625	675
WTC: reduce payable costs through childcare element from 80% to 70%	270	320	350	385	410
CTC: additional increase in child elements	-190	-510	-545	-560	-575
WTC: increase working hours requirement for couples with children to 24 hours	0	380	385	390	395
CTC and WTC: real time information	0	0	0	260	190
Budget 2011					
ISMI: one year extension from Jan 2012	-10	-110	-15	0	0
HB: cancel reductions for long					

term jobseekers					
DLA: mobility components for claimants in residential care	0	-75	0	0	0
LHA: transitional protection	30	-30	0	0	0
ESA youth: abolish NI concession	0	10	10	15	15
Benefit fraud: sanctions and debt recovery	0	25	45	65	65
Autumn Statement 2011					
Housing Benefit changes	0	-10	-15	-15	-15
CTC: remove 2012 over indexation	0	975	955	1020	995
WTC: freeze	0	265	275	285	295
Pension Credit changes	0	0	-5	-10	-10
Budget 2012					
child benefit: threshold at £50,000 and taper to £60,000		185	690	630	630
WTC: extend exemptions for carers allowance		-5	-5	-5	-5
DWP fraud and error initiatives		140	105	80	80
welfare reform bill: amendments		90	-80	20	0
Autumn Statement 2012					
Working age discretionary benefits and tax credits: increase by 1% for 3 years from 2013-14		0	515	1685	2680
Child Benefit: increase by 1% for 2 years from 2014-15		0	0	220	360
HB: increase LHA by 1% for 2 years		0	0	135	280
UC: increase disregards by 1% for 2 years from 2014-15		0	0	170	680
extension of support for ISMI		-10	-95	-90	-20
tax credits: error and fraud		0	0	315	185
tax credits: debt recovery		5	80	205	125
Budget 2013					
UC: exempt from Income Tax		0	0	0	-35
Childcare: additional funding		0	0	0	-400
Autumn Statement 2013					
Tax credits: improving collection and admin		-5	355	615	75
Tax Credits: annual entitlement		0	0	65	5