

Illustrations of the Impact of Universal Credit

Universal Credit will replace a large number of benefits and tax credits with one system. Its impact on household incomes will vary depending on family type and size, and by housing and childcare costs. Some low income working families and single people will have increased incomes and work incentives. However, other families will be hit hard, especially lone parent families.

Overall, 2.8 million households will be better off under Universal Credit, 2.7 million households will see no change and 2 million households including 1.1 million households with children will be worse off (after transitional payments), according to DWP impact assessment of November 2011. Existing claimants who are worse off will receive extra payments for a transitional period.

Impact on Families

The general impact of Universal Credit on families will be most beneficial to couples with children where at least one partner works. Workless lone parents and couple families will tend to lose out after transitional payments end. Depending on their circumstances, some working lone parents will be better off but others will be worse off.

- A lone parent with three children, working full time on the minimum wage, could be over £3,500 per year (£68 per week) worse off. Assuming weekly rent of £65 and childcare cost of £95, their annual income would fall from £19,240 to £15,704 (18% decrease);
- A lone parent with two children, working full time on the minimum wage, could be as much as £2,500 per year (£48 per week) worse off;
- As well as hitting lone parents working longer hours, Universal Credit will support single earner couple families at the expense of couples where both parents work part-time on a low income.
- A low income couple with three children where one parent works 24 hours a week and the other works a few hours on low pay could lose as much as £1,800 a year (£35 per week) under the new system;
- Some working lone parents will be better off because Universal Credit is likely to boost the incomes of those working less than 16 hours a week on low pay. However, there will be less of an incentive for this group to work more than 16 hours compared to the current system.

Impact on Single People

- A single person without children working 40 hours a week earning £300 (£244 after tax) with housing costs of £85 per week and council tax of £15 per week, would gain £6 per week under Universal Credit. A single person earning £150 per week would be £35 per week better off, with annual income rising from £9,412 to £11,232 (19% increase).

Treatment of Savings

Savings in Universal Credit are to be treated in the same way as in means tested benefits. Savings below £6,000 will have no impact. An income of £1 per week will be assumed for every £250 of savings over £6,000 up to a maximum savings level of £16,000. People with savings above £16,000 will not be eligible for Universal Credit.

Local Housing Allowance

The impact of changes to Local Housing Allowance entitlement will vary according to household composition and type of accommodation. A typical single person aged 25-35 living in a one bedroom flat will face a loss of £38 per week if they do not move to shared accommodation.

The Local Housing Allowance for a 3 bed house in Rotherham is £103.85 per week but if a single person or adult occupies the house their LHA is only £78.46 based on need for 1 bedroom. The difference of £25.39 has to be made up by the tenant if they wish to remain in the 3 bed house. The annual additional cost to the tenant in this case would be £1,320.